Santander Consumer Finance, S.A. and Companies composing the Santander Consumer Finance Group (Consolidated)

Consolidated Financial Statements
and Consolidated Directors' Report
for the year ended 31 December 2013,
together with the Auditors' Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Santander Consumer Finance, S.A.:

We have audited the consolidated financial statements of Santander Consumer Finance, S.A. ("the Bank", which is part of the Santander Group - see Note 24 to the accompanying consolidated financial statements) and of the Companies composing, together with the Bank, the Santander Consumer Finance Group ("the Group"), which comprise the consolidated balance sheet at 31 December 2013 and the related consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in total equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended. As indicated in Note 1-b to the accompanying consolidated financial statements, the directors of the Bank are responsible for the preparation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

In our opinion, the accompanying consolidated financial statements for 2013 present fairly, in all material respects, the consolidated equity and consolidated financial position of the Santander Consumer Finance Group at 31 December 2013, and the consolidated results of its operations and the consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

The accompanying consolidated directors' report for 2013 contains the explanations which the directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2013. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Santander Consumer Finance, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692

I. Gutierrez

Ignacio Gutiérrez

1 April 2014

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2013 AND 2012

(Thousands of Euros)

ASSETS	Note	2013	2012 (*)
CASH AND BALANCES WITH CENTRAL BANKS		1,656,199	1,387,071
FINANCIAL ASSETS HELD FOR TRADING:		94,801	92,573
Trading derivatives	9	94,801	92,573
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS:		469,913	216,990
Debt instruments	7	464,394	213,849
Equity instruments	8	5,519	3,141
LOANS AND RECEIVABLES:		64,919,789	64,485,783
Loans and advances to credit institutions	6	8,682,746	6,452,616
Loans and advances to customers	10	55,928,205	56,613,224
Debt instruments	7	308,838	1,419,943
HELD-TO-MATURITY INVESTMENTS		-	-
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	31	314,286	542,432
HEDGING DERIVATIVES	11	174,109	118,632
NON-CURRENT ASSETS HELD FOR SALE	12	62,469	89,958
INVESTMENTS:	13	306,915	238,705
Associates		269,277	228,582
Jointly controlled entities		37,638	10,123
INSURANCE CONTRACTS LINKED TO PENSIONS		-	-
REINSURANCE ASSETS		-	-
TANGIBLE ASSETS:	14	328,246	359,160
Property, plant and equipment-		328,166	359,079
For own use		164,731	172,344
Leased out under an operating lease		163,435	186,735
Investment property		80	81
INTANGIBLE ASSETS:	15	2,045,179	2,100,565
Goodwill		1,522,760	1,539,252
Other intangible assets		522,419	561,313
TAX ASSETS:	23	991,018	968,749
Current		147,548	136,435
Deferred		843,470	832,314
OTHER ASSETS:	16	740,364	555,138
Inventories		5,367	7,562
Other		734,997	547,576
TOTAL ASSETS		**72,103,288**	**71,155,756**
CONTINGENT LIABILITIES	29	231,502	264,016
CONTINGENT COMMITMENTS	29	7,661,153	8,818,731

LIABILITIES AND EQUITY	Note	2013	2012 (*)
LIABILITIES			
FINANCIAL LIABILITIES HELD FOR TRADING:		103,011	98,684
Trading derivatives	9	103,011	98,684
OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
FINANCIAL LIABILITIES AT AMORTISED COST:		62,048,840	61,540,015
Deposits from central banks	17	2,805,496	2,233,215
Deposits from credit institutions	17	14,009,904	17,320,939
Customer deposits	18	30,929,880	32,114,140
Marketable debt securities	19	12,713,651	7,700,971
Subordinated liabilities	20	1,343,818	1,524,555
Other financial liabilities	21	246,091	646,195
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		-	-
HEDGING DERIVATIVES	11	453,072	721,955
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	12	1,056	859
LIABILITIES UNDER INSURANCE CONTRACTS		-	-
PROVISIONS:	22	642,704	694,811
Provisions for pensions and similar obligations		453,323	439,855
Provisions for taxes and other legal contingencies		82,971	82,367
Provisions for contingent liabilities and commitments		7,233	6,222
Other provisions		99,177	166,367
TAX LIABILITIES:	23	587,473	547,085
Current		213,488	163,969
Deferred		373,985	383,116
OTHER LIABILITIES	16	982,274	823,758
TOTAL LIABILITIES		**64,818,430**	**64,427,167**
EQUITY			
SHAREHOLDERS' EQUITY:		7,392,392	6,537,311
Registered share capital	24	4,963,639	4,663,639
Share premium	25	1,139,990	1,139,990
Reserves-	26	679,409	552,482
Accumulated reserves		668,752	539,918
Reserves of entities accounted for using the equity method		10,657	12,564
Less- Treasury shares		-	-
Profit for the year attributable to the Parent		609,354	281,204
Less- Dividends and remuneration		-	(100,004)
VALUATION ADJUSTMENTS:	27	(111,753)	(1,944)
Available-for-sale financial assets		(1,145)	642
Cash flow hedges		(12,502)	(48,064)
Exchange differences		(25,451)	105,591
Entities accounted for using the equity method		(1,869)	(339)
Other valuation adjustments		(70,786)	(59,774)
NON-CONTROLLING INTERESTS:	28	4,219	193,222
Valuation adjustments		-	2,700
Other		4,219	190,522
TOTAL EQUITY		**7,284,858**	**6,728,589**
TOTAL LIABILITIES AND EQUITY		**72,103,288**	**71,155,756**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 50 and Appendices I to IV are an integral part of the consolidated balance sheet at 31 December 2013.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

(Thousands of Euros)

		Income/(Expenses)	
	Note	2013	2012 (*)
INTEREST AND SIMILAR INCOME	31	3,503,802	3,931,817
INTEREST EXPENSE AND SIMILAR CHARGES	32	(1,400,050)	(1,788,292)
NET INTEREST INCOME		**2,103,752**	**2,143,525**
INCOME FROM EQUITY INSTRUMENTS		47	45
SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	13 & 33	10,163	11,587
FEE AND COMMISSION INCOME	34	1,044,377	1,035,225
FEE AND COMMISSION EXPENSE	35	(250,672)	(251,647)
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES (net):	36	(6,864)	(10,041)
Held for trading		(8,088)	16,526
Other financial instruments at fair value through profit or loss		-	(1,353)
Financial instruments not measured at fair value through profit or loss		437	4,564
Other		787	(29,778)
EXCHANGE DIFFERENCES (net)	37	(6,391)	4,132
OTHER OPERATING INCOME:	38	125,617	98,272
Sales and income from the provision of non-financial services		73,277	42,395
Other		52,340	55,877
OTHER OPERATING EXPENSES:	39	(136,027)	(109,180)
Changes in inventories		(61,473)	(28,924)
Other		(74,554)	(80,256)
GROSS INCOME		**2,884,002**	**2,921,918**
ADMINISTRATIVE EXPENSES:		(1,189,250)	(1,221,292)
Staff costs	40	(517,522)	(515,092)
Other general administrative expenses	41	(671,728)	(706,200)
DEPRECIATION AND AMORTISATION CHARGE	14 & 15	(174,724)	(128,434)
PROVISIONS (net)	22	(27,980)	(91,934)
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (net):		(577,411)	(781,018)
Loans and receivables	10	(577,411)	(781,018)
PROFIT FROM OPERATIONS		**914,637**	**699,240**
IMPAIRMENT LOSSES ON OTHER ASSETS (net):	42	(3,781)	(249,208)
Goodwill and other intangible assets		(1,460)	(249,062)
Other assets		(2,321)	(146)
GAINS (LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE	43	(4,771)	(2,362)
GAINS FROM BARGAIN PURCHASES ARISING IN BUSINESS COMBINATIONS		-	-
GAINS (LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS	44	(12,003)	(13,969)
PROFIT BEFORE TAX		**894,082**	**433,701**
INCOME TAX	23	(253,413)	(111,459)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**640,669**	**322,242**
LOSS FROM DISCONTINUED OPERATIONS (net)	45	(5,904)	(6,944)
CONSOLIDATED PROFIT FOR THE YEAR		**634,765**	**315,298**
PROFIT ATTRIBUTABLE TO THE PARENT		609,354	281,204
PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	28	25,411	34,094
BASIC AND DILUTED EARNINGS PER SHARE			
From continuing and discontinued operations	4	*0.39*	*0.18*
From continuing operations		*0.39*	*0.19*

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 50 and Appendices I to IV are an integral part of the consolidated income statement for 2013.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE

FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

(Thousands of Euros)

	2013	2012 (*)
CONSOLIDATED PROFIT FOR THE YEAR	**634,765**	**315,298**
OTHER RECOGNISED INCOME AND EXPENSE	**(112,509)**	**59,028**
Items that will not be reclassified to profit or loss	**(11,012)**	**(36,568)**
Actuarial gains and losses on defined benefit pension plans	(14,075)	(53,621)
Non-current assets held for sale	-	-
Income tax relating to items that will not be reclassified to profit or loss	3,063	17,053
Items that may be reclassified subsequently to profit or loss	**(101,497)**	**95,596**
Available-for-sale financial assets:	(2,343)	502
Revaluation gains (losses)	*(3,328)*	*2,210*
Amounts transferred to income statement	*985*	*(1,708)*
Cash flow hedges:	48,107	15,821
Revaluation gains (losses)	*7,751*	*(12,823)*
Amounts transferred to income statement	*40,356*	*28,644*
Hedges of net investments in foreign operations	-	-
Exchange differences:	(134,118)	85,420
Revaluation gains (losses)	*(134,118)*	*85,420*
Amounts transferred to income statement	-	-
Non-current assets held for sale	-	-
Entities accounted for using the equity method:	(1,545)	(551)
Revaluation gains (losses)	*(1,545)*	*(551)*
Other recognised income and expense	-	-
Income tax relating to items that may be reclassified subsequently to profit or loss	(11,598)	(5,596)
TOTAL RECOGNISED INCOME AND EXPENSE	**522,256**	**374,326**
Attributable to the Parent	499,545	325,159
Attributable to non-controlling interests	22,711	49,167

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 50 and Appendices I to IV are an integral part of the consolidated statement of recognised income and expense for 2013.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

(Thousands of Euros)

	2013												
	EQUITY ATTRIBUTABLE TO THE PARENT												
	SHAREHOLDERS' EQUITY												
			RESERVES										
	Share Capital	Share Premium	Accumulated Reserves (Losses)	Reserves (Losses) of Entities Accounted for Using the Equity Method	Other Equity Instruments	Less: Treasury Shares	Profit for the Year Attributable to the Parent	Less: Dividends and Remuneration	Total Shareholders' Equity	Valuation Adjustments	Total	Non-Controlling Interests	Total Equity
Ending balance at 31 December 2012	**4,663,639**	**1,139,990**	**539,918**	**12,564**	**-**	**-**	**279,983**	**(100,004)**	**6,536,090**	**57,830**	**6,593,920**	**193,222**	**6,787,142**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	1,221	-	1,221	(59,774)	(58,553)	-	(58,553)
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**4,663,639**	**1,139,990**	**539,918**	**12,564**	**-**	**-**	**281,204**	**(100,004)**	**6,537,311**	**(1,944)**	**6,535,367**	**193,222**	**6,728,589**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**609,354**	**-**	**609,354**	**(109,809)**	**499,545**	**22,711**	**522,256**
Other changes in equity	**300,000**	**-**	**128,834**	**(1,907)**	**-**	**-**	**(281,204)**	**100,004**	**245,727**	**-**	**245,727**	**(211,714)**	**34,013**
Capital increases	300,000	-	(17)	-	-	-	-	-	299,983	-	299,983	-	299,983
Distribution of dividends	-	-	-	-	-	-	-	-	-	-	-	(47,686)	(47,686)
Transfers between equity items	-	-	183,107	(1,907)	-	-	(281,204)	100,004	-	-	-	-	-
Other increases (decreases) in equity	-	-	(54,256)	-	-	-	-	-	(54,256)	-	(54,256)	(164,028)	(218,284)
Ending balance at 31 December 2013	**4,963,639**	**1,139,990**	**668,752**	**10,657**	**-**	**-**	**609,354**	**-**	**7,392,392**	**(111,753)**	**7,280,639**	**4,219**	**7,284,858**

The accompanying Notes 1 to 50 and Appendices I to IV are an integral part of the consolidated statement of changes in total equity for 2013.

SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012 (CONTINUED)

(Thousands of Euros)

	2012 (*)												
	EQUITY ATTRIBUTABLE TO THE PARENT												
	SHAREHOLDERS' EQUITY												
			RESERVES										
	Share Capital	Share Premium	Accumulated Reserves (Losses)	Reserves (Losses) of Entities Accounted for Using the Equity Method	Other Equity Instruments	Less: Treasury Shares	Profit for the Year Attributable to the Parent	Less: Dividends and Remuneration	Total Shareholders' Equity	Valuation Adjustments	Total	Non-Controlling Interests	Total Equity
Ending balance at 31 December 2011	**4,353,639**	**1,139,990**	**709,808**	**15,016**	**-**	**-**	**435,394**	**-**	**6,653,847**	**(22,693)**	**6,631,154**	**130,529**	**6,761,683**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	6	-	6	(23,206)	(23,200)	-	(23,200)
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**4,353,639**	**1,139,990**	**709,808**	**15,016**	**-**	**-**	**435,400**	**-**	**6,653,853**	**(45,899)**	**6,607,954**	**130,529**	**6,738,483**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**281,204**	**-**	**281,204**	**43,955**	**325,159**	**49,167**	**374,326**
Other changes in equity	**310,000**	**-**	**(169,890)**	**(2,452)**	**-**	**-**	**(435,400)**	**(100,004)**	**(397,746)**	**-**	**(397,746)**	**13,526**	**(384,220)**
Capital increases	310,000	-	(15)	-	-	-	-	-	309,985	-	309,985	-	309,985
Distribution of dividends	-	-	(300,027)	-	-	-	(310,008)	(100,004)	(710,039)	-	(710,039)	-	(710,039)
Transfers between equity items	-	-	127,844	(2,452)	-	-	(125,392)	-	-	-	-	-	-
Other increases (decreases) in equity	-	-	2,308	-	-	-	-	-	2,308	-	2,308	13,526	15,834
Ending balance at 31 December 2012	**4,663,639**	**1,139,990**	**539,918**	**12,564**	**-**	**-**	**281,204**	**(100,004)**	**6,537,311**	**(1,944)**	**6,535,367**	**193,222**	**6,728,589**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 50 and Appendices I to IV are an integral part of the consolidated statement of changes in total equity for 2013.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

(Thousands of Euros)

	2013	2012 (*)
CASH FLOWS FROM OPERATING ACTIVITIES	**1,771,957**	**(1,271,267)**
Consolidated profit for the year	*634,765*	*315,298*
Adjustments made to obtain the cash flows from operating activities:	*1,043,919*	*1,366,797*
Depreciation and amortisation charge	174,724	128,434
Other adjustments	869,195	1,238,363
Net increase/decrease in operating assets:	*598,784*	*403,787*
Financial assets held for trading	3,529	(29,750)
Available-for-sale financial assets	291,384	8,218
Loans and receivables	871,623	258,808
Other operating assets	(567,752)	166,511
Net increase/decrease in operating liabilities:	*909,331*	*(2,361,544)*
Financial liabilities held for trading	4,327	(36,500)
Financial liabilities at amortised cost	725,159	(880,939)
Other operating liabilities	179,845	(1,444,105)
Income tax recovered/paid	*(217,274)*	*(188,031)*
CASH FLOWS FROM INVESTING ACTIVITIES	**(383,216)**	**(141,417)**
Payments-	*452,537*	*275,149*
Tangible assets	58,350	33,362
Intangible assets	109,485	236,082
Investments	70,931	3,250
Subsidiaries and other business units	213,771	2,455
Proceeds-	*69,321*	*133,732*
Tangible assets	41,465	13,242
Intangible assets	423	-
Non-current assets held for sale and associated liabilities	27,433	120,490
CASH FLOWS FROM FINANCING ACTIVITIES	**(317,834)**	**(7,665)**
Payments-	*617,834*	*330,503*
Dividends	447,717	310,008
Subordinated liabilities	170,100	20,481
Other payments related to financing activities	17	14
Proceeds-	*300,000*	*322,838*
Issuance of own equity instruments	300,000	310,000
Other proceeds related to financing activities	-	12,838
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(812)**	**7,733**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,070,095**	**(1,412,616)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,541,777**	**2,954,393**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**2,611,872**	**1,541,777**
MEMORANDUM ITEMS:		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	162,197	209,601
Cash equivalents at central banks	1,494,002	1,177,470
Other financial assets	955,673	154,706
Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year	**2,611,872**	**1,541,777**
of which: held by consolidated entities but not drawable by the Group	-	-

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 50 and Appendices I to IV are an integral part of the consolidated statement of cash flows for 2013.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

Santander Consumer Finance, S.A. and Companies composing the Santander Consumer Finance Group (Consolidated)

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

1. Introduction, basis of presentation of the consolidated financial statements, basis of consolidation and other information

a) Introduction

Santander Consumer Finance, S.A. ("the Bank") was incorporated in 1963 under the name of Banco de Fomento, S.A. It is a private-law entity subject to the rules and regulations applicable to banks operating in Spain, which has its headquarters at Avenida de Cantabria s/n, Edificio Dehesa, Boadilla del Monte, Madrid, where the bylaws and other public information on the Bank can be consulted.

The Bank's object is to receive funds from the public in the form of deposits, loans, repos or other similar transactions entailing the obligation to refund them, and to use these funds for its own account to grant loans and credits or to perform similar transactions. Also, as the holding company of a finance group (the Santander Consumer Finance Group, "the Group"), the Bank manages and handles the investments in its subsidiaries.

The Bank is part of the Santander Group, the parent entity of which (Banco Santander, S.A.) had a 100% direct and indirect ownership interest in the share capital of the Bank at 31 December 2013 and 2012 (see Note 24). Banco Santander, S.A. has its registered office at Paseo de Pereda 9-12, Santander. The consolidated financial statements for 2012 of the Santander Group were authorised for issue by the directors of Banco Santander, S.A. at its Board of Directors Meeting on 28 January 2013, were approved by the shareholders at the Annual General Meeting on 22 March 2013 and were filed at the Santander Mercantile Registry. The Bank has one branch (Madrid), is not listed and, in 2013, it carried on most of its business activities in Spain.

Additionally, since December 2002 the Bank has been the head of a European corporate group, consisting mainly of financial institutions, which engages in commercial banking, consumer finance, operating and finance leasing, full-service leasing and other activities. The Group has 610 branches distributed throughout Europe (70 of which are located in Spain).

As required by Bank of Spain Circular 4/2010, of 30 July, the accompanying Appendix IV lists the agents of the Group at 31 December 2013.

The relationship between the Bank and the other Group companies sometimes gives rise to transactions which respond to the Group's global strategy (see Note 48).

b) Basis of presentation of the consolidated financial statements

Under Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, all companies governed by the law of an EU Member State and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after 1 January 2005 in conformity with the International Financial Reporting Standards ("IFRSs") previously adopted by the European Union.

In order to adapt the accounting system of Spanish credit institutions to the new standards, the Bank of Spain issued Circular 4/2004, of 22 December, on Public and Confidential Financial Reporting Rules and Formats.

The Group's consolidated financial statements for 2013 were formally prepared by the directors of the Bank, as Parent (at the Board Meeting on 20 March 2014), in accordance with the regulatory financial reporting framework applicable to the Group (which consists of the Spanish Commercial Code and all other Spanish corporate law, International Financial Reporting Standards as adopted by the European Union, taking into account Bank of Spain Circular 4/2004, of 22 December, and successive amendments thereto, and other mandatory rules approved by the Bank of Spain), using the basis of consolidation, accounting policies and measurement bases set forth in Note 2 and, accordingly, they present fairly the Group's consolidated equity and consolidated financial position at 31 December 2013, and the consolidated results of its operations, the changes in consolidated equity and its consolidated cash flows in the year then ended. These consolidated financial statements were prepared from the individual accounting records of the Bank and of each of the other companies composing the Group, and include the adjustments and reclassifications required to unify the accounting policies and measurement bases used by each of the Group companies with those used by the Parent.

The notes to the consolidated financial statements contain supplementary information to that presented in the consolidated balance sheet, consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in total equity and consolidated statement of cash flows. The notes provide, in a clear, relevant, reliable and comparable manner, narrative descriptions and breakdowns of these financial statements.

The Group's consolidated financial statements for 2012 were approved by the shareholders at the Annual General Meeting of the Bank on 11 April 2013 and filed at the Madrid Mercantile Registry. The 2013 consolidated financial statements of the Group and the 2013 financial statements of the Bank and of substantially all the Group entities have not yet been approved by their shareholders at the respective Annual General Meetings. However, the Bank's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

All the figures relating to 2012 included in these notes to the consolidated financial statements are presented for comparison purposes only.

Adoption of new standards and interpretations issued

The following standards came into force and were adopted by the European Union in 2013:

- Amendments to IAS 1, Presentation of Items of Other Comprehensive Income: the amendments require items to be classified into items that will be reclassified (recycled) to profit or loss in subsequent periods and items that will not be reclassified.

- Amendments to IAS 19, Employee Benefits: these amendments eliminate the corridor under which until 1 January 2013 entities were permitted to opt not to recognise at the end of the reporting period a certain portion of the actuarial gains and losses disclosed on measurement of pension obligations and to defer said recognition (see Note 2-q to the consolidated financial statements for the year ended 31 December 2012). Since these amendments came into effect, all actuarial gains and losses have been recognised immediately. The amendments also include significant changes in the presentation of cost components, as a result of which the service cost relating to post-employment benefit obligations (past service cost and plan curtailments and settlements) and net interest cost will be recognised in profit or loss and the remeasurement component (comprising basically actuarial gains and losses) will be recognised in "Equity - Valuation Adjustments" and may not be reclassified to profit or loss.

- IFRS 13, Fair Value Measurement: this IFRS replaces the previous rules concerning fair value contained in various standards with a single standard. It does not modify the criteria set out in other standards for measuring assets and liabilities at fair value, but rather contains more extensive guidance about how fair value should be determined. IFRS 13 is applicable to the measurement of both financial and non-financial items and it introduces new disclosure requirements.

- Amendments to IFRS 7, Offsetting Financial Assets and Financial Liabilities: these amendments introduce new disclosures to be included in the annual financial information for financial assets and financial liabilities that are presented net in the balance sheet and for other instruments subject to an enforceable netting arrangement.

Additionally, the Group opted to apply the following IFRSs early, as permitted by said standards:

- IFRS 10, Consolidated Financial Statements: this standard supersedes the previous IAS 27 and SIC 12, and introduces a single control-based consolidation model, irrespective of the nature of the investee. IFRS 10 modifies the previous definition of control. The new definition of control sets out the following three elements of control: power over the investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect the amount of the investor's returns.

- IFRS 11, Joint Arrangements: this standard supersedes the previous IAS 31. The fundamental change introduced by IFRS 11 is the elimination of the option of proportionate consolidation for jointly controlled entities, which begin to be accounted for using the equity method.

- IFRS 12, Disclosure of Interests in Other Entities: this standard groups together all the disclosure requirements for interests in other entities (whether these be subsidiaries, associates, joint arrangements or other interests) and includes new disclosure requirements. The objective of this standard is to require an entity to disclose information that enables users of its financial statements to evaluate the nature of its interests in other entities (control), the possible restrictions on its ability to access or use assets and settle liabilities, the risks associated with its interests in unconsolidated structured entities, etc.

- Amendments to IAS 27 and IAS 28 (revised): these amendments reflect the changes arising from the new IFRS 10 and IFRS 11 described above.

The application of the aforementioned accounting standards and interpretations did not have any material effects on the Group's consolidated financial statements, except for the application of the amendments to IAS 19, the impact of which is detailed in Note 1-d.

Also, the following standards whose effective dates are after 31 December 2013 were in force at the date of preparation of these consolidated financial statements:

- Amendments to IAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (obligatory for reporting periods beginning on or after 1 January 2014, early application permitted): these amendments introduce a series of additional clarifications on the requirements established by the standard for an entity to be able to offset a financial asset and a financial liability, indicating that they can only be offset when an entity currently has a legally enforceable right to set off the recognised amounts and this does not depend on the occurrence of future events.

- Amendments to IAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (obligatory for reporting periods beginning on or after 1 January 2014, early application permitted): these amendments eliminate the requirement to present certain disclosures on the recoverable amount of each cash-generating unit and introduce the obligation to disclose information on the recoverable amount of assets in relation to which an impairment loss was recognised or reversed in the year.

- Amendments to IAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (obligatory for reporting periods beginning on or after 1 January 2014, early application permitted): these amendments introduce an exception to the application of the discontinuation of hedge accounting for novations in which, as a consequence of laws or regulations, the original counterparty of the hedging instrument is replaced by one or more central counterparties, such as clearing agencies, provided that other changes to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty.

Lastly, at the date of preparation of these consolidated financial statements, the following standards and interpretations which effectively come into force after 31 December 2013 had not yet been adopted by the European Union:

- IFRS 9, Financial Instruments: Classification and Measurement and Hedge Accounting (without a defined mandatory effective date): IFRS 9 will in the future replace the part of the current IAS 39 relating to the classification and measurement of financial assets and hedge accounting. IFRS 9 presents significant differences regarding financial assets with respect to the current standard, including the approval of a new classification model based on only two categories, namely instruments measured at amortised cost and those measured at fair value, the disappearance of the current held-to-maturity investments and available-for-sale financial assets categories, impairment analyses only for assets measured at amortised cost and the non-separation of derivatives embedded in financial contracts. The main change introduced with regard to financial liabilities affects liabilities that an entity elects to measure at fair value. The portion of the change in the fair value of these liabilities attributable to changes in the entity's own credit risk must be presented in "Valuation Adjustments" instead of in the income statement. In relation to hedge accounting, the new model attempts to align the accounting rules with risk management. The three types of hedge accounting under the current standard are maintained (cash flow hedges, fair value hedges and hedges of net investments in foreign operations). However, there are very significant changes with respect to IAS 39 in several areas such as hedged items, hedging instruments, accounting for the time value of options and effectiveness assessment.

- Amendments to IAS 19, Employee Benefits: Defined Benefit Plans - Employee Contributions (obligatory for reporting periods beginning on or after 1 July 2014, early application permitted): these amendments allow employee contributions to be deducted from the service cost in the same period in which they are paid, provided certain requirements are met, without the need to make calculations to attribute the reduction to each year of service.

- IFRIC 21, Levies (obligatory for reporting periods beginning on or after 1 January 2014, early application permitted): provides clarifying guidance on when to recognise a liability to pay a fee, levy or tax that is accounted for in accordance with IAS 37 and whose timing and amount is certain. In these cases, the levy is recognised when the activity that triggers its payment occurs.

- Improvements to IFRSs, 2010-2012 cycle (obligatory for reporting periods beginning on or after 1 July 2014): these improvements introduce minor amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.

- Improvements to IFRSs, 2011-2013 cycle (obligatory for reporting periods beginning on or after 1 July 2014): these improvements introduce minor amendments to IFRS 3, IFRS 13 and IAS 40.

At the date of preparation of these consolidated financial statements the Bank's directors were analysing the possible effects of the entry into force of these new standards for the Group.

All obligatory accounting policies and measurement bases with a material effect on these consolidated financial statements were applied in their preparation. No non-obligatory accounting principles were applied.

c) Accounting estimates

The consolidated results and the determination of consolidated equity are sensitive to the accounting policies, measurement bases and estimates used by the directors of the Bank in preparing the consolidated financial statements. The information in these notes to the consolidated financial statements is the responsibility of the directors of the Bank (the Parent). In this regard it should be noted that in the Group's consolidated financial statements for 2013 estimates were occasionally made by the senior managers, subsequently ratified by the Bank's directors, in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

1. The impairment losses on certain assets (see Notes 7, 8, 10, 12, 14 and 15);

2. The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other long-term obligations to employees (see Notes 2-q, 2-r and 22);

3. The useful life of the tangible and intangible assets (see Notes 14 and 15);

4. The measurement of goodwill (see Note 15);

5. The fair value of certain unquoted assets and liabilities (see Notes 9, 11 and 13); and

6. The calculation of provisions (see Note 22).

Although these estimates were made on the basis of the best information available at 31 December 2013 on the events analysed, future events might make it necessary to change these estimates (upwards or downwards) in coming years. If required, changes in accounting estimates would be applied in accordance with current legislation (prospectively, recognising the effects of any changes in estimates in the related consolidated income statements for the years in question).

d) *Comparative information*

The information relating to 2012 contained in these notes to the consolidated financial statements is presented with the information relating to 2013 for comparison purposes only and, accordingly, it does not form part of the Group’s statutory consolidated financial statements for 2013.

In order to allow for a better comparison of information, pursuant to the applicable accounting standards, the balances relating to the year ended 31 December 2012 presented in these consolidated financial statements were adjusted with respect to the amounts shown in the consolidated financial statements for that year by the amounts indicated below in order to retroactively apply the new accounting treatment of the actuarial gains and losses on defined benefit pension obligations established by IAS 19, Employee Benefits (see Note 1-b). The positive or negative figures set forth below indicate the amounts of the increases or decreases with respect to the figures shown in the consolidated financial statements for 2012:

	Thousands of Euros
CONSOLIDATED BALANCE SHEET	
Deferred tax assets	26,660
Total assets	26,660
Provisions for pensions and similar obligations	85,213
Total liabilities	85,213
Consolidated profit for the year	1,221
Valuation adjustments	(59,774)
Total equity	(58,553)
CONSOLIDATED INCOME STATEMENT	
Provisions (net)	1,670
Income tax	(449)
Consolidated profit for the year	1,221
Of which:	
Profit attributable to the Parent	*1,221*
Profit/Loss attributable to non-controlling interests	-

The effect on equity shown above is presented in “Adjustments due to Changes in Accounting Policies” in the consolidated statement of changes in total equity for the year ended 31 December 2013. Similarly, the effect on consolidated equity for the year ended 31 December 2011, a reduction of EUR 23,200 thousand, is presented in the consolidated statement of changes in total equity for the year ended 31 December 2012.

In order to facilitate comparison of information, pursuant to the applicable legislation, changes were also made to the 2012 consolidated statement of cash flows (as a result of the adjustment of profit for 2012) and consolidated statement of recognised income and expense (in order to reflect the new method of accounting for actuarial gains and losses on defined benefit post-employment obligations with respect to the method applied in the preceding year and to adapt the format of the aforementioned statement to the model introduced by IAS 1, Presentation of Financial Statements (see Note 1-b)), which are presented for comparison purposes in these consolidated financial statements for 2013, with respect to the respective statements included in the Group's consolidated financial statements for 2012.

e) Basis of consolidation

i. Subsidiaries

“Subsidiaries” are defined as entities over which the Bank has the capacity to exercise control; the Bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are fully consolidated with those of the Bank. Accordingly, all balances and effects of the transactions between consolidated entities are eliminated on consolidation.

On acquisition of control of a subsidiary, its assets, liabilities and contingent liabilities are recognised at their acquisition-date fair values. Any positive differences between the acquisition cost and the fair values of the identifiable net assets acquired are recognised as goodwill (see Note 15). Negative differences are recognised in profit or loss on the date of acquisition.

Additionally, the share of third parties of the Group’s equity is presented under “Non-Controlling Interests” in the consolidated balance sheet (see Note 28). Their share of the profit for the year is presented under “Profit Attributable to Non-Controlling Interests” in the consolidated income statement.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition to year-end. Similarly, the results of subsidiaries disposed of during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

At 31 December 2013, there were no companies in which the Group held ownership interests of less than 50% but which were considered to be subsidiaries.

Appendix I to these notes to the consolidated financial statements contains significant information on subsidiaries.

ii. Interests in joint ventures (jointly controlled entities)

Joint ventures are deemed to be ventures that are not subsidiaries but which are jointly controlled by two or more unrelated entities. This is evidenced by contractual arrangements whereby two or more entities (venturers) acquire interests in entities (jointly controlled entities) or undertake operations or hold assets so that strategic financial and operating decisions affecting the joint venture require the unanimous consent of the venturers.

In the consolidated financial statements, investments in jointly controlled entities are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. The profits and losses resulting from transactions with a jointly controlled entity are eliminated to the extent of the Group's interest therein.

Appendix II to these notes to the consolidated financial statements contains significant information on jointly controlled entities.

iii. Associates

"Associates" are entities over which the Bank is in a position to exercise significant influence, but not control or joint control. Significant influence generally exists when the Bank holds 20% or more of the voting power of the investee.

In the consolidated financial statements, investments in associates are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. The profits and losses resulting from transactions with an associate are eliminated to the extent of the Group's interest in the associate.

Appendix II to these notes to the consolidated financial statements contains significant information on associates.

iv. Special purpose entities

Special purpose entities are those which the Group establishes, or in which it holds ownership interests, in order to provide Group customers access to certain investments, or for the transfer of risks or other purposes. In these cases, based on internal criteria and procedures and in accordance with the applicable legislation, the Group determines whether control exists, as described above, and, therefore, whether or not these entities must be consolidated. These criteria and procedures take into account, inter alia, the risks and rewards retained by the Group and, accordingly, all relevant matters are taken into consideration, including any guarantees granted or any losses associated with the collection of the related assets retained by the Group. These entities include the securitisation special purpose vehicles, which are consolidated if, based on the aforementioned analysis, it is considered that the Group continues to exercise control.

v. Business combinations

A business combination is the bringing together of two or more separate entities or economic units into one single entity or group of entities.

Business combinations whereby the Group obtains control over an entity are recognised for accounting purposes as follows:

- The Group measures the cost of the business combination, defined as the fair value of the assets given, the liabilities incurred and the equity instruments issued, if any, by the acquirer. The cost of the business combination does not include any costs related to the business combination, such as fees paid to auditors, legal advisers, investment banks and other consultants.

- The assets, liabilities and contingent liabilities of the acquired entity or business, including any intangible assets not recognised at the acquisition date, are recognised, together with the net assets of the business acquired prior to the date of the business combination, at fair value in the consolidated balance sheet.

- Non-controlling interests are recognised at the fair value of the net assets acquired, taking into consideration the percentage of the acquired business or entity held by third parties or, alternatively, at fair value.

- Any positive difference between, on the one hand, the aggregate of the cost of the business combination, the amount of any non-controlling interest and, in business combinations achieved in stages, the fair value of the net assets acquired prior to the combination and, on the other, the value at which the net assets acquired are recognised in accordance with the regulations in force, is recognised as goodwill (see Note 2-k). Any negative difference is recognised under "Gains from Bargain Purchases Arising in Business Combinations" in the consolidated income statement.

Also, any acquisitions of non-controlling interests carried out after the date on which control of the entity is obtained are accounted for as equity transactions, and, accordingly, the difference between the price paid and the carrying amount of the percentage acquired of the non-controlling interests is recognised directly with a charge or a credit to consolidated equity.

Goodwill is only measured and recognised once, when control is obtained of a business.

vi. Changes in the levels of ownership interests in subsidiaries

Acquisitions and disposals not giving rise to a change in control are recognised as equity transactions, and no gain or loss is recognised in the income statement and the initially recognised goodwill is not remeasured. The difference between the consideration transferred or received and the decrease or increase in non-controlling interests, respectively, is recognised in reserves.

Similarly, when control over a subsidiary is lost, the assets, liabilities and non-controlling interests and any other items recognised in valuation adjustments of that company are derecognised from the consolidated balance sheet, and the fair value of the consideration received and of any remaining equity interest is recognised. The difference between these amounts is recognised in profit or loss.

vii. Acquisitions and disposals

Note 3 to these consolidated financial statements provides information on the most significant acquisitions and disposals in 2013 and 2012.

f) Capital and capital management

Bank of Spain Circular 3/2008, of 22 May, on the calculation and control of minimum capital requirements regulates the minimum capital requirements for Spanish credit institutions -both as stand-alone entities and as consolidated groups- and the criteria for calculating them, as well as the various internal capital adequacy assessment processes they should have in place and the public information they should disclose to the market.

This Circular establishes the elements that are eligible for inclusion in capital for the purposes of compliance with the minimum capital requirements set forth therein. For the purposes of this Circular, capital is classified into Tier 1 and Tier 2 capital.

The minimum capital requirements are calculated by reference to the Group's exposure to credit risk and dilution risk (on the basis of the assets, obligations and other memorandum items that present these risks, having regard to their amounts, characteristics, counterparties, guarantees, etc.), to counterparty risk and position and settlement risk in the trading book, and to foreign currency risk and operational risk.

On 18 February 2011, the Spanish Cabinet approved Royal Decree 2/2011 on Strengthening the Financial System, which establishes that financial institutions and their groups that can take refundable funds from the public must have principal capital of 8% or more of their total risk-weighted exposure calculated in accordance with Law 13/1985, of 25 May, on the investment ratios, capital and reporting requirements of financial intermediaries. In accordance with Transitional Provision One of this Royal Decree-Law, the date of entry into force of the aforementioned principal capital requirements was 10 March 2011, and the basis of calculation is the risk-weighted assets at 31 December 2010. Also, Royal Decree-Law 2/2012, on the clean-up of the financial sector, was published on 3 February 2012, setting forth additional principal capital requirements to be met by entities based on certain levels of assets relating to the property industry.

Also, Law 9/2012, on restructuring and resolution of credit institutions, was published on 14 November 2012, which established, effective from 1 January 2013, a single principal capital requirement of 9%, bringing both the eligible items and the deductions into step with those used by the European Banking Authority. Law 9/2012 was partially implemented by Bank of Spain Circular 7/2012, of 30 November, on minimum principal capital requirements.

The Group is subject to the strengthening of its capital since it belongs to a consolidated group of credit institutions subject to Bank of Spain Circular 7/2012, the parent of which is Banco Santander, S.A. However, the Santander Consumer Finance Group is not in itself obliged to meet the requirements provided for in the Circular.

The application as from 1 January 2014 of the capital requirements established by Directive 2013/36/EU, known as the Capital Requirements Directive ("CRD IV"), and the related Capital Requirements Regulation ("CRR") will lead to the repeal of lower-ranking rules providing for additional capital requirements and, in particular, the principal capital requirements established in Circular 7/2012.

At 31 December 2013 and 2012, the eligible capital of the Group and of the individual Group entities subject to this requirement exceeded the minimum required under the regulations then in force.

The detail of the Group's eligible capital at 31 December 2013 and 2012 is as follows:

	Thousands of Euros	
	2013	2012
Tier 1 capital:		
Share capital	4,963,639	4,663,639
Share premium	1,139,990	1,139,990
Reserves	652,195	657,706
Non-controlling interests	(21,192)	159,503
Other deductions from Tier 1 capital	(2,039,120)	(2,050,558)
Net attributable profit (less dividends)	214,310	214,073
	4,909,822	**4,784,353**
Tier 2 capital:		
Other items and deductions	476,884	484,730
Additional capital	265,742	356,031
	742,626	**840,761**
Total eligible capital	**5,652,448**	**5,625,114**
Total minimum capital	**4,061,066**	**3,955,707**

g) Deposit Guarantee Fund

The Bank and other consolidated entities participate in the Deposit Guarantee Fund or a similar scheme in their respective countries. The contributions made to these schemes amounted to EUR 27,702 thousand in 2013 (2012: EUR 25,467 thousand) and they are recognised under “Other Operating Expenses” in the accompanying consolidated income statements (see Note 39).

h) Environmental impact

In view of the business activities carried on by the Group entities, they do not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to the Group’s consolidated equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements.

i) Events after the reporting period

In the first quarter of 2014, the acquisition of 51% of the share capital of Financiera El Corte Inglés, E.F.C, S.A. was completed (see Note 3).

The Bank and Banque PSA Finance, the car financing unit of the PSA Peugeot Citroën Group, commenced negotiations for the joint operation of the vehicle financing business in eleven European countries. Pursuant to the terms of the agreement under negotiation, in certain circumstances the Group will finance this business from the date when the transaction is completed, which is expected to be the second half of 2015. As an exception, in certain countries, the Group will purchase a portion of the current lending portfolio of Banque PSA Finance. The transaction is conditional upon the definitive conclusion of the agreement and the approval by the relevant regulatory, labour and competition authorities.

From 2013 year-end to the date on which these consolidated financial statements were authorised for issue no additional events took place significantly affecting them.

j) Customer Care Service Annual Report

In accordance with the stipulations of Article 17 of Ministry of the Economy Order ECO/734/2004, of 11 March, on Customer Care Departments and Services and Customer Ombudsmen of Financial Institutions, following is a summary of the Annual Reports submitted by the head of the Customer Care Service of each consolidated entity to the respective Board of Directors.

Santander Consumer Finance, S.A.

i. Statistical summary of claims and complaints handled

80 claims were received by the Customer Care Service in 2013 (2012: 47 claims), up 70% year-on-year. All the claims received were admitted for consideration.

88.7% of the claims (71 files) were resolved and concluded during the year (2012: 97.9%, 46 files), and 9 files were pending consideration at 2013 year-end (2012 year-end: 1 file). The detail, by type, of the claims filed is as follows:

	Number of Claims	
	2013	2012
Modus operandi	44	42
Cards	25	47
Price	19	11
Other claims	12	-

The Bank's directors state that the claims not yet resolved at 2013 year-end will not have a material effect on these consolidated financial statements.

ii. Summary of resolutions

The detail of the responses to customers is as follows:

	Percentage	
	2013	2012
In favour of claimant	44%	46%
In favour of the Bank	56%	54%

The average handling period for claims was 16 calendar days in 2013 (2012: 12 days).

The Bank paid EUR 9 thousand to its customers for claims resolved in their favour in 2013 (2012: EUR 9 thousand).

iii. Claims filed through the Bank of Spain and the Directorate-General of Insurance

The Customer Care Service received 30 claims through the Bank of Spain and the Directorate-General of Insurance in 2013 (2012: 23 claims). All claims had been resolved by year-end, as follows:

	Percentage	
	2013	2012
In favour of the customer	10%	34%
In favour of the Bank	90%	66%

The Bank paid EUR 107 to its customers for claims made through the Bank of Spain and the Directorate-General of Insurance which were resolved in the customers' favour in 2013 (2012: EUR 4 thousand).

iv. Claims received by the Customer Ombudsman

In 2013 the Customer Ombudsman received 134 claims (2012: 120 claims). These claims were resolved as follows:

	Percentage	
	2013	2012
In favour of the customer	93%	74%
In favour of the Bank	-	3%
Other claims not giving rise to any loss for the customer	7%	23%

A substantial portion of the claims received related to returned payment fees, late payment interest charges, account maintenance fees and unrecognised charges. There were also several claims relating to insurance, in terms of application of policies to outstanding balances or return premiums arising from unemployment, incapacity for work, life and home insurance claims, as well as disagreement in relation to coverage provided, cancellation of policies taken out or change of insurance company.

The Bank paid EUR 3 thousand to its customers for claims made through the Customer Ombudsman which were resolved in the customers' favour in 2013 (2012: EUR 3 thousand).

v. Recommendations or suggestions based on experience to improve customer service

Based on the files processed taken as a whole it can be considered that the Bank handles the applications received, endeavouring to give customers an appropriate response and taking corrective action in case of error, while continuing at the same time with the efforts already started in prior years to shorten the claims response time.

Santander Consumer, E.F.C., S.A.

i. Claims received by the Customer Care Services

36 claims were received by the Customer Care Services in 2013 (2012: 24 claims), up 50% year-on-year. All the claims received were admitted for consideration, and 1 file was pending consideration at 2013 year-end (2012 year-end: zero files).

The Company paid EUR 3 thousand to its customers for claims resolved in their favour in 2013 (2012: EUR 1 thousand).

ii. Claims filed through the Bank of Spain, the Directorate-General of Insurance and the Spanish National Securities Market Commission (CNMV)

The Customer Care Services of the Company received 15 claims through the Bank of Spain and the Directorate-General of Insurance in 2013 (2012: 13 claims), which had been resolved at 2013 year-end. The detail of the resolved claims is as follows:

	Percentage	
	2013	2012
In favour of the customer	40%	16%
In favour of Santander Consumer, E.F.C., S.A.	60%	84%

Santander Consumer, E.F.C., S.A. paid EUR 2 thousand to its customers for claims made through the Bank of Spain and the Directorate-General of Insurance which were resolved in the customers' favour in 2013 (2012: EUR 1 thousand).

iii. Claims received by the Customer Ombudsman

In 2013 the Customer Ombudsman received 56 claims (2012: 44 claims). These claims were resolved as follows:

	Percentage	
	2013	2012
In favour of the customer	86	59%
In favour of the Company	2	9%
Other claims not giving rise to any loss for the customer	10	30%
Claims rejected	2	2%

The Company paid approximately EUR 3 thousand to its customers for claims resolved in their favour in 2013 (2012: EUR 1 thousand).

The most common claims received relate to expenses arising from late payments or payments returned by customers for various reasons and to the application of insurance policies taken out for various eventualities. The other claims filed relate, inter alia, to rejected debt claims and requests for documentation and details about the application of amounts paid over the life of the transactions.

iv. Recommendations or suggestions based on experience to improve customer service

From the claims received taken as a whole no breach of the Bank of Spain's rules for Spanish credit institutions has been observed.

Other Spanish consolidated entities

The Customer Care Services of the other consolidated entities did not receive any claims through the Customer Ombudsman or through other supervisory bodies.

2. Accounting policies

The accounting policies applied in preparing the consolidated financial statements were as follows:

a) Foreign currency transactions

i. Functional currency

The Group's functional currency is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in "foreign currency".

ii. Translation of foreign currency to the functional currency

Foreign currency transactions performed by consolidated entities (or entities accounted for using the equity method) not located in countries whose currency is the euro are initially recognised in their respective currencies. Monetary assets and liabilities in foreign currency are subsequently translated to their functional currencies (currency of the economic environment in which the consolidated entity operates) using the closing rate, except as follows:

- Non-monetary items measured at historical cost are translated to the functional currency at the exchange rate at the date of acquisition.

- Non-monetary items measured at fair value are translated at the exchange rate at the date when the fair value was determined.

- The income and expenses arising from transactions performed in the year are translated at the average exchange rates for the year.

- The balances arising from non-hedging forward foreign currency/foreign currency and foreign currency/euro purchase and sale transactions are translated at the closing rates prevailing in the forward foreign currency market for the related maturity.

Translation of functional currencies to euros

The balances in the financial statements of consolidated entities (or entities accounted for using the equity method) whose functional currency is not the euro are translated to euros as follows:

- Assets and liabilities, at the average official exchange rates ruling on the Spanish spot foreign currency market at year-end.

- Income and expenses, at the average exchange rates for the year, for all the transactions performed in the year.

- Equity items, at the historical exchange rates.

iii. Recognition of exchange differences

The exchange differences arising on the translation of foreign currency balances to the functional currency are generally recognised at their net amount under "Exchange Differences" in the consolidated income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognised in the consolidated income statement without distinguishing them from other changes in fair value, and for exchange differences arising on non-monetary items measured at fair value through equity, which are recognised under "Valuation Adjustments - Exchange Differences" in the consolidated balance sheet.

The exchange differences arising on the translation to euros of the financial statements of the consolidated entities whose functional currency is not the euro are recognised under "Valuation Adjustments - Exchange Differences" in the consolidated balance sheet until the related item is derecognised, at which time they are recognised in the consolidated income statement.

iv. Exposure to foreign currency risk

The equivalent euro value of the total assets and liabilities in foreign currency held by the Group at 31 December 2013 amounted to EUR 11,758 million and EUR 9,624 million, respectively (2012 year-end: EUR 9,166 million and EUR 8,177 million, respectively) (see Note 46). Approximately 98.13% of the assets and 93.65% of the liabilities relate to Norwegian kroner and Polish złotys. Virtually all the remainder relate to other currencies traded in the Spanish market. The effect on the consolidated income statement and consolidated equity of variations of 1% in the various foreign currencies in which the Group holds significant balances would be scantly material.

b) Definitions and classification of financial instruments

i. Definitions

A "financial instrument" is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

An "equity instrument" is any agreement that evidences a residual interest in the assets of the issuing entity after deducting all of its liabilities.

A "financial derivative" is a financial instrument whose value changes in response to the change in an observable market variable (such as an interest rate, foreign exchange rate, financial instrument price, market index or credit rating), whose initial investment is very small compared with other financial instruments with a similar response to changes in market factors, and which is generally settled at a future date.

"Hybrid financial instruments" are contracts that simultaneously include a non-derivative host contract together with a derivative, known as an embedded derivative, that is not separately transferable and has the effect that some of the cash flows of the hybrid contract vary in a way similar to a stand-alone derivative.

The following transactions are not treated for accounting purposes as financial instruments:

- Investments in associates and jointly controlled entities (see Note 13).

- Rights and obligations under employee benefit plans (see Note 22).

ii. Classification of financial assets for measurement purposes

Financial assets are classified into the various categories used for management and measurement purposes, unless they have to be presented as “Non-Current Assets Held for Sale” or they relate to “Cash and Balances with Central Banks”, “Hedging Derivatives”, “Changes in the Fair Value of Hedged Items in Portfolio Hedges of Interest Rate Risk” (asset side) and “Investments”, which are reported separately.

Financial assets are included for measurement purposes in one of the following categories:

- Financial assets held for trading (at fair value through profit or loss): this category includes the financial assets acquired for the purpose of generating a profit in the near term from fluctuations in their prices and financial derivatives that are not designated as hedging instruments.

- Available-for-sale financial assets: this category includes debt instruments not classified as “Held-to-Maturity Investments” or as “Financial Assets at Fair Value through Profit or Loss”, and equity instruments issued by entities other than subsidiaries, associates and jointly controlled entities, provided that such instruments have not been classified as “Financial Assets Held for Trading”.

- Loans and receivables: this category includes financing granted to third parties, based on the nature thereof, irrespective of the type of borrower and the form of financing, including finance lease transactions in which the consolidated entities act as the lessors.

  The consolidated entities generally intend to hold the loans and credits granted by them until their final maturity and, therefore, they are presented in the consolidated balance sheet at their amortised cost (which includes any write-downs required to reflect the estimated losses on their recovery).

iii. Classification of financial assets for presentation purposes

Financial assets are classified by nature into the following items in the consolidated balance sheet:

- Cash and balances with central banks: cash balances and balances receivable on demand relating to deposits with the Bank of Spain and other central banks.

- Loans and advances: includes the debit balances of all credit and loans granted by the Group, other than those represented by marketable securities, as well as finance lease receivables and other debit balances of a financial nature in favour of the Group, such as cheques drawn on credit institutions, receivables from clearing houses and settlement agencies for transactions on the stock exchange and organised markets, bonds given in cash, capital calls, fees and commissions receivable for financial guarantees and debit balances arising from transactions not originating in banking operations and services, such as the collection of rentals and similar items. They are classified, depending on the institutional sector to which they belong, under:

- Loans and advances to credit institutions: credit of any nature in the name of credit institutions.

- Loans and advances to customers: includes the debit balances of all the remaining credit and loans granted by the Group, other than those represented by marketable securities, including money market operations through central counterparties.

- Debt instruments: bonds and other securities that represent a debt for their issuer, that generate an interest return, and that are in the form of certificates or book entries.

- Other equity instruments: financial instruments issued by other entities, such as shares and non-voting equity units, which have the nature of equity instruments for the issuer, unless they are investments in associates.

- Trading derivatives: includes the fair value in favour of the Group of derivatives which do not form part of hedge accounting.

- Changes in the fair value of hedged items in portfolio hedges of interest rate risk: this item is the balancing entry for the amounts credited to the consolidated income statement in respect of the measurement of the portfolios of financial instruments which are effectively hedged against interest rate risk through fair value hedging derivatives.

- Hedging derivatives: includes the fair value in favour of the Group of derivatives designated as hedging instruments in hedge accounting.

- Investments: includes the investments in the share capital of associates.

iv. Classification of financial liabilities for measurement purposes

In the consolidated balance sheet, financial liabilities are classified into the various portfolios used for management and measurement purposes, unless they have to be presented as "Liabilities Associated with Non-Current Assets Held for Sale" or they relate to "Hedging Derivatives", which are reported separately.

Financial liabilities are classified for measurement purposes into one of the following categories:

- Financial liabilities held for trading: this category includes the financial liabilities issued for the purpose of generating a profit in the near term from fluctuations in their prices, financial derivatives not considered to qualify for hedge accounting and financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements or borrowed ("short positions").

- Financial liabilities at amortised cost: financial liabilities, irrespective of their instrumentation and maturity, which are not considered to be held-for-trading financial liabilities and arise from the ordinary borrowing activities carried on by financial institutions.

v. Classification of financial liabilities for presentation purposes

Financial liabilities are classified by nature into the following items in the consolidated balance sheet:

- Deposits: includes all repayable balances received in cash by the Group entities, other than those instrumented as marketable securities and those having the substance of subordinated liabilities. This item also includes cash bonds and cash consignments received the amount of which may be invested without restriction. Deposits are classified on the basis of the creditor's institutional sector into:

- Deposits from central banks: deposits of any nature received from the Bank of Spain or other central banks.

- Deposits from credit institutions: deposits of any nature, including credit received and money market operations in the name of credit institutions.

- Customer deposits: includes the remaining deposits, including money market operations through central counterparties.

- Marketable debt securities: includes the amount of bonds and other debt represented by marketable securities, other than subordinated liabilities. This item includes the component considered to be a financial liability of issued securities that are compound financial instruments.

- Trading derivatives: includes the fair value, with a negative balance for the Group, of derivatives which do not form part of hedge accounting.

- Subordinated liabilities: amount of financing received which, for the purposes of payment priority, ranks behind ordinary debt.

- Other financial liabilities: includes the amount of payment obligations having the substance of financial liabilities not included under any other item.

- Hedging derivatives: includes the fair value of the Group's liability in respect of derivatives designated as hedging instruments in hedge accounting.

c) *Measurement and recognition of financial assets and liabilities*

Financial assets and liabilities are initially recognised at fair value which, in the absence of evidence to the contrary, is deemed to be the transaction price. In the case of financial instruments not measured at fair value through profit or loss, fair value is adjusted by the transaction costs. Financial assets and liabilities are subsequently measured at each year-end as follows:

i. Measurement of financial assets

Financial assets are measured at fair value, without deducting any transaction costs that may be incurred on their disposal, except for loans and receivables, equity instruments whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those equity instruments as their underlying and are settled by delivery of those instruments.

The fair value of a financial asset on a given date is taken to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market ("quoted price" or "market price").

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques commonly used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

Derivatives are recognised in the consolidated balance sheet at fair value from the trade date. If the fair value is positive, they are recognised as an asset and if the fair value is negative, they are recognised as a liability. The fair value on the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. The changes in the fair value of derivatives from the trade date are recognised under “Gains/Losses on Financial Assets and Liabilities” in the consolidated income statement. Specifically, the fair value of financial derivatives traded in organised markets included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement (“present value” or “theoretical close”) using valuation techniques commonly used by the financial markets: “net present value” (NPV), option pricing models and other methods.

Financial derivatives that have as their underlying equity instruments whose fair value cannot be determined in a sufficiently objective manner and are settled through delivery of those instruments are measured at cost.

“Loans and Receivables” are measured at amortised cost using the effective interest method. Amortised cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal repayments and the cumulative amortisation (taken to the consolidated income statement) of the difference between the initial cost and the maturity amount. In the case of financial assets, amortised cost furthermore includes any reductions for impairment or uncollectibility. In the case of loans and receivables hedged in fair value hedges, the changes in the fair value of these assets related to the risk or risks being hedged are recognised.

The effective interest rate is the discount rate that exactly matches the initial amount of a financial instrument to all its estimated cash flows of all kinds over its remaining life. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date plus, where applicable, the fees and transaction costs that, because of their nature, form part of their financial return. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing in all connections until the next benchmark interest reset date.

Equity instruments whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those instruments as their underlying and are settled by delivery of those instruments are measured at acquisition cost adjusted, where appropriate, by any related impairment loss.

The amounts at which the financial assets are recognised represent, in all material respects, the Group’s maximum exposure to credit risk at each reporting date. Also, the Group has received collateral and other credit enhancements to mitigate its exposure to credit risk, which consist mainly of mortgage guarantees.

ii. Measurement of financial liabilities

Financial liabilities are measured at amortised cost, as defined above, except for those included under “Financial Liabilities Held for Trading” in the consolidated balance sheet and financial liabilities designated as hedged items (or hedging instruments) in fair value hedges, which are measured at fair value.

iii. Valuation techniques

The following table shows a summary of the fair values, at 31 December 2013 and 2012, of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by the Group to determine their fair value:

	Thousands of Euros					
	31/12/13			31/12/12		
	Published Price Quotations in Active Markets	Internal Models (*)	Total	Published Price Quotations in Active Markets	Internal Models (*)	Total
Financial assets held for trading	23,810	70,991	94,801	-	92,573	92,573
Available-for-sale financial assets	469,913	-	469,913	216,990	-	216,990
Hedging derivatives (assets)	60,599	113,510	174,109	18,816	99,816	118,632
Financial liabilities held for trading	25,795	77,216	103,011	-	98,684	98,684
Hedging derivatives (liabilities)	-	453,072	453,072	599	721,356	721,955

(*) Substantially all of the main variables (inputs) used by the models are obtained from observable market data (Level 2, pursuant to IFRS 7, Financial Instruments: Disclosures).

Financial instruments at fair value, determined on the basis of published price quotations in active markets (Level 1), include government debt securities, private-sector debt securities, derivatives traded in organised markets, securitised assets, shares, short positions and fixed-income securities issued. Most of the financial instruments classified in this measurement level at 31 December 2013 relate to bonds issued by the Polish and Norwegian Treasury.

In cases where data based on market parameters cannot be observed, the Group makes its best estimate of the price that the market would set, using its own internal models. In order to make these estimates, various techniques are employed, including the extrapolation of observable market data. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, unless the fair value of the instrument can be obtained from other market transactions performed with the same or similar instruments or can be measured by using a valuation technique in which the variables used include only observable market data, mainly interest rates.

Most of the instruments recognised at fair value in the consolidated balance sheet, calculated using internal models, are interest rate swaps (IRSs) and cross currency swaps, which are measured using the present value method. This valuation method is also used to calculate the fair value of financial instruments measured at amortised cost in the consolidated balance sheet. Expected future cash flows are discounted using the yield curves of the related currencies. In general, the yield curves are observable market data and, therefore, this valuation method does not include the use of assumptions that could have a significant effect on the calculation of the fair value of these financial instruments.

The Group did not make any material transfers of financial instruments between one measurement method and another in 2013. Also, there were no changes in the valuation technique used to measure financial instruments.

General measurement bases-

The Santander Group has developed a formal process for the systematic valuation and management of financial instruments, which has been implemented worldwide across all units, including the Santander Consumer Finance Group's units. The governance scheme for this process distributes responsibilities between two independent divisions: Treasury (development, marketing and daily management of financial products and market data) and Risk (on a periodic basis, validation of pricing models and market data, computation of risk metrics, new transaction approval policies, management of market risk and implementation of fair value adjustment policies).

The approval of new products follows a sequence of steps (request, development, validation, integration in corporate systems and quality assurance) before the product is brought into production. This process ensures that pricing systems have been properly reviewed and are stable before they are used.

The following subsections set forth the most important products and families of derivatives, and the related valuation techniques and inputs, by asset class:

Fixed-income securities-

The fixed income asset class includes basic instruments such as interest rate swaps and cross currency swaps, which are valued using forward estimation of flows and calculating net present value by discounting those flows taking into account basis swap and cross currency spreads, depending on the payment frequency and currency of each leg of the derivative. Vanilla products, including interest rate options, are measured using the generally accepted Black model. More exotic derivatives are priced using more complex models which are generally accepted as standard across institutions.

These pricing models are fed with observable market data such as deposits, futures, cross currency swap and constant maturity swap rates as well as basis swap spreads. These data allow us to calculate different yield curves depending on the payment frequency and discounting curves for each currency. For derivative instruments, implied volatilities are also used as model inputs. These volatilities are observable in the market. Interpolation and extrapolation of volatilities from the quoted ranges are carried out using well-accepted industry models.

Equity and foreign exchange-

The most important products in these asset classes are forward and futures contracts, which include vanilla, listed and OTC (over-the-counter) derivatives on single underlying assets and baskets of assets. Vanilla options are priced using the standard Black-Scholes model and more exotic derivatives involving forward returns, average performance or callable features are priced using well-accepted industry models and bespoke models, as appropriate. For derivatives on illiquid stocks, hedging is facilitated by taking into account the liquidity constraints inside models.

The inputs of foreign exchange models include the interest rate curve for each currency, the spot foreign exchange price and the implied volatilities and correlation among assets of this type. Volatilities are obtained from European vanilla call and put options which are quoted in markets as at-the-money, risk reversal or butterfly options. Illiquid currency pairs are usually handled by using the data of the liquid pairs from which the illiquid currency can be derived.

Valuation adjustment for counterparty risk or default risk

The Credit Valuation Adjustment (CVA) is a valuation adjustment to OTC derivatives as a result of the risk associated with the credit exposure assumed to each counterparty.

The CVA is calculated taking into account potential exposure with each counterparty in each future period. The CVA for a specific counterparty is equal to the sum of the CVA for all periods. The following inputs are used to calculate the CVA:

- Expected exposure: including for each transaction the mark-to-market (MtM) value plus an add-on for the potential future exposure for each period. Mitigating factors such as netting and collateral agreements are taken into account, as well as temporary impairment for derivatives with interim payments.

- LGD: percentage of final loss assumed in a counterparty credit event/default.

- Probability of default: for cases where there is no market information (the CDS quoted spread curve, etc.), probabilities based on ratings, preferably internal ones, are used.

- Discount factor curve.

The Debt Valuation Adjustment (DVA) is a similar valuation adjustment to the CVA but, in this case, as a result of the own risk of the Group assumed by its counterparties in OTC derivatives.

The CVA and DVA recognised at 31 December 2013 amounted to EUR 143 thousand and EUR 113 thousand, respectively.

Fair value of financial instruments measured using internal models-

The fair value of financial instruments obtained from the aforementioned internal models takes into account, inter alia, the contract terms and observable market data, which include interest rates, credit risk, exchange rates and prepayments. The valuation models are not significantly subjective, since they can be adjusted and recalibrated, where appropriate, through the internal calculation of the fair value and the subsequent comparison with the related actively traded price.

Set forth below are the financial instruments at fair value whose measurement was based on internal models (Level 2) at 31 December 2013:

	Thousands of Euros	
	Fair Values Calculated Using Internal Models at 31/12/13	Valuation Techniques
ASSETS:		
Financial assets held for trading	**70,991**	
Trading derivatives	70,991	
Swaps	*17,708*	Present Value Method
Interest rate options	*53,283*	Black Model and advanced multi-factor interest rate models
Hedging derivatives	**113,510**	
Swaps	*67,818*	Present Value Method
Other	*45,692*	Present Value Method
LIABILITIES:		
Financial liabilities held for trading	**77,216**	
Trading derivatives	*77,216*	
Swaps	*26,013*	Present Value Method
Interest rate options	*51,203*	Black Model and advanced multi-factor interest rate models
Hedging derivatives	**453,072**	
Swaps	*453,072*	Present Value Method

iv. Recognition of fair value changes

As a general rule, changes in the carrying amount of financial assets and liabilities are recognised in the consolidated income statement. A distinction is made between the changes resulting from the accrual of interest and similar items, which are recognised under “Interest and Similar Income” or “Interest Expense and Similar Charges”, as appropriate, and those arising for other reasons, which are recognised at their net amount under “Gains/Losses on Financial Assets and Liabilities”.

Adjustments due to changes in fair value arising from:

- “Available-for-Sale Financial Assets” are recognised temporarily under “Valuation Adjustments - Available-for-Sale Financial Assets”, unless they relate to exchange differences, in which case they are recognised in “Valuation Adjustments - Exchange Differences” in the consolidated balance sheet (exchange differences arising on monetary financial assets are recognised under “Exchange Differences” in the consolidated income statement).

- Items charged or credited to “Valuation Adjustments - Available-for-Sale Financial Assets” and “Valuation Adjustments - Exchange Differences” in the consolidated balance sheet remain in the Group’s consolidated equity until the asset giving rise to them is derecognised, at which time they are recognised in the consolidated income statement.

v. Hedging transactions

The consolidated entities use financial derivatives to manage the risks of the Group entities’ own positions and assets and liabilities (“hedging derivatives”) or for the purpose of obtaining gains from changes in the prices of these derivatives.

Financial derivatives that do not qualify for hedge accounting are treated for accounting purposes as trading derivatives.

A derivative qualifies for hedge accounting if all the following conditions are met:

1. The derivative hedges one of the following three types of exposure:

   - Changes in the fair value of assets and liabilities due to fluctuations, among others, in the interest rate and/or exchange rate to which the position or balance to be hedged is subject ("fair value hedge");

   - Changes in the estimated cash flows arising from financial assets and liabilities, commitments and highly probable forecast transactions ("cash flow hedge");

   - The net investment in a foreign operation ("hedge of a net investment in a foreign operation").

2. It is effective in offsetting exposure inherent in the hedged item or position throughout the expected term of the hedge, which means that:

   - At the date of arrangement the hedge is expected, under normal conditions, to be highly effective ("prospective effectiveness").

   - There is sufficient evidence that the hedge was actually effective during the whole life of the hedged item or position ("retrospective effectiveness"). To this end, the Group checks that the results of the hedge were within a range of 80% to 125% of the hedged item.

   The Group ascertains the prospective and retrospective effectiveness of its hedges as follows:

   - In the case of fair value hedges, the ratio of the change in the fair value of the hedged item during the measurement period to the change in the fair value of the hedging instrument during the same period is calculated retrospectively. Prospective effectiveness is calculated by comparing the sensitivity of the hedged item (to changes in the yield curve) with the sensitivity of the hedging instrument. The hedge is deemed to be effective if this comparison shows that the two sensitivities offset each other.

     In order to measure the effectiveness of fair value hedges of the interest rate risk of a portfolio of financial instruments, the Group compares the amount of the net asset and/or liability position with the hedged amount designated for each one. The hedge is deemed to be ineffective when the amount of this net position is less than the hedged amount, in which case the ineffective portion is recognised immediately in the consolidated income statement.

   - In cash flow hedges, retrospective effectiveness is basically assessed by calculating the ratio of the interest cash flows generated by the hedged item during the measurement period to the interest cash flows generated by the hedging instrument during the same period. Prospective effectiveness is calculated by comparing the future interest cash flows (obtained from the related market yield curve) of the hedged item and the hedging instrument. The hedge is deemed to be effective if the related cash flows offset each other.

3. There must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this hedge was expected to be achieved and measured, provided that this is consistent with the Group's management of own risks.

The changes in value of financial instruments qualifying for hedge accounting are recognised as follows:

- In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items attributable to the type of risk being hedged are recognised directly in the consolidated income statement.

  In fair value hedges of interest rate risk on a portfolio of financial instruments, the gains or losses that arise on measuring the hedging instruments are recognised directly in the consolidated income statement, whereas the gains or losses due to changes in the fair value of the hedged amount (attributable to the hedged risk) are recognised in the consolidated income statement with a balancing entry under “Changes in the Fair Value of Hedged Items in Portfolio Hedges of Interest Rate Risk” on the asset or liability side of the consolidated balance sheet, as appropriate.

- In cash flow hedges, the effective portion of the change in value of the hedging instrument is recognised temporarily under “Valuation Adjustments - Cash Flow Hedges” in the consolidated balance sheet until the forecast transactions occur, when it is recognised in the consolidated income statement, unless, if the forecast transactions result in the recognition of non-financial assets or liabilities, it is included in the cost of the non-financial asset or liability. The ineffective portion of the change in value of hedging derivatives is recognised under “Gains/Losses on Financial Assets and Liabilities (Net)” in the consolidated income statement. In cash flow hedges, the gains or losses on the ineffective portion of the hedging instruments are recognised directly under “Gains/Losses on Financial Assets and Liabilities (Net)” in the consolidated income statement.

When fair value hedge accounting is discontinued, the adjustments previously recognised on the hedged item under “Valuation Adjustments” are transferred to profit or loss at the effective interest rate re-calculated at the date of hedge discontinuation. The adjustments must be fully amortised at maturity.

When cash flow hedges are discontinued, any cumulative gain or loss on the hedging instrument recognised under “Valuation Adjustments” in the consolidated balance sheet (from the period when the hedge was effective) remains in this equity item until the forecast transaction occurs, at which time it is recognised in profit or loss, unless the transaction is no longer expected to occur, in which case the cumulative gain or loss is recognised immediately in profit or loss.

Derivatives embedded in other financial instruments or in other host contracts are accounted for separately as derivatives if their risks and characteristics are not closely related to those of the host contracts, provided that the host contracts are not classified as “Other Financial Assets/Liabilities at Fair Value through Profit or Loss” or as “Financial Assets/Liabilities Held for Trading”.

d) Derecognition of financial assets and liabilities

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with the transferred assets are transferred to third parties:

- If the Group transfers substantially all the risks and rewards to third parties -unconditional sale of financial assets, sale of financial assets under an agreement to repurchase them at their fair value at the date of repurchase, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitisation of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to the new holders, and other similar cases-, the transferred financial asset is derecognised and any rights or obligations retained or created in the transfer are recognised simultaneously.

- If the Group retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, and other similar cases-, the transferred financial asset is not derecognised and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognised:

    - An associated financial liability, for an amount equal to the consideration received; this liability is subsequently measured at amortised cost.

    - The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability.

- If the Group neither transfers nor retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitisation of assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, and other similar cases- the following distinction is made:

    - If the transferor does not retain control of the transferred financial asset, the asset is derecognised and any rights or obligations retained or created in the transfer are recognised.

    - If the transferor retains control of the transferred financial asset, it continues to recognise it for an amount equal to its exposure to changes in value and recognises a financial liability associated with the transferred financial asset. The carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained, if the transferred asset is measured at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognised when the rights to the cash flows they generate have expired or when substantially all the inherent risks and rewards have been transferred to third parties. Similarly, financial liabilities are only derecognised when the obligations they generate have been extinguished or when they are acquired (with the intention either to cancel them or to resell them).

The Group habitually performs financial asset securitisation transactions in which it retains substantially all the risks and rewards of ownership of the assets. The detail, by consolidated entity, of the securitised assets retained on the consolidated balance sheets at 31 December 2013 and 2012 is included in Note 10 to the accompanying consolidated financial statements.

e) Offsetting of financial instruments

Financial asset and liability balances are offset, i.e. reported in the consolidated balance sheet at their net amount, only if the consolidated entities currently have a legally enforceable right to set off the recognised amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

No material financial assets and liabilities were offset in the consolidated balance sheet at 31 December 2013.

f) *Impairment of financial assets*

i. Definitions

A financial asset is considered to be impaired -and therefore its carrying amount is adjusted to reflect the effect of impairment- when there is objective evidence that events have occurred which:

- In the case of debt instruments (loans and debt securities), give rise to an adverse impact on the future cash flows that were estimated at the transaction date.

- In the case of equity instruments, mean that their carrying amount may not be fully recovered.

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the consolidated income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognised impairment losses is recognised in the consolidated income statement for the period in which the impairment is reversed or reduced.

Balances are deemed to be impaired, and the interest accrual is suspended, when there are reasonable doubts as to their full recovery and/or the collection of the related interest for the amounts and on the dates initially agreed upon, after taking into account the guarantees received by the consolidated entities to secure (fully or partially) collection of the related balances. Collections relating to impaired loans and advances are used to recognise the accrued interest and the remainder, if any, to reduce the principal amount outstanding.

Transactions classified as doubtful due to arrears are reclassified as standard if, as a result of the collection of a portion or the sum of the unpaid instalments, the reasons for classifying such transactions as doubtful cease to exist, i.e. they no longer have any amount more than three months past due, unless other subjective reasons remain for classifying them as doubtful. The refinancing of doubtful loans does not result in their reclassification to standard unless: there is certainty that the customer can make payment in accordance with the new schedule; the customer provides effective guarantees or collateral; the customer pays the current interest receivable; and the customer complies with the established cure period (see Note 49).

The following constitute effective guarantees or collateral: collateral in the form of cash deposits; quoted equity instruments and debt securities issued by creditworthy issuers; mortgages on completed housing, offices and multi-purpose premises and on rural property, net of any prior charges; and personal guarantees (bank guarantees, inclusion of new obligors, etc.) which entail the direct and joint liability of the new guarantors to the customer, these being persons or entities whose solvency is sufficiently demonstrated so as to ensure the full repayment of the transaction on the agreed terms.

The balances relating to impaired transactions continue to be recognised on the balance sheet, for their full amounts, until the Group considers that the recovery of those amounts is remote.

The Group considers recovery to be remote when there has been a substantial and irreversible deterioration of the borrower's solvency, when commencement of the liquidation phase of insolvency proceedings has been ordered or when more than four years have elapsed since the borrower's transaction was classified as doubtful due to arrears (the maximum period established by the Bank of Spain).

When the recovery of a financial asset is considered unlikely, it is written off, together with the related allowance, without prejudice to any actions that the consolidated entities may initiate to seek collection until their contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause.

ii. Debt instruments carried at amortised cost

For the purpose of determining impairment losses, the Group monitors its debtors as described below:

- Individually, for significant debt instruments and for instruments which, although not material, are not susceptible to being classified in a group of financial assets with similar credit risk characteristics -customers classified by the Group as "individualised". This category includes wholesale banking enterprises, financial institutions and certain retail banking enterprises.

- Collectively, in all other cases -customers classified by the Group as "standardised"-, by grouping together instruments having similar credit risk characteristics indicative of the debtors' ability to pay all principal and interest amounts in accordance with the contractual terms. The credit risk characteristics considered for the purpose of grouping the assets are, inter alia, instrument type, debtor's industry and geographical location, type of guarantee or collateral, age of past-due amounts and any other relevant factor for the estimation of future cash flows. This category includes exposures to individuals, individual traders and retail banking enterprises not classified as individualised customers.

As regards impairment losses resulting from materialisation of the insolvency risk of the obligors (credit risk), a debt instrument is impaired due to insolvency when there is evidence of a deterioration of the obligor's ability to pay, either because it is in arrears or for other reasons.

The Group has certain policies, methods and procedures for covering its credit risk arising both from insolvency allocable to counterparties and from country risk. These policies, methods and procedures are applied in the granting, examination and documentation of debt instruments and contingent liabilities and commitments, and in the identification of their impairment and the calculation of the amounts required to cover the related credit risk.

With respect to the coverage of loss arising from credit risk, the Group must meet the Bank of Spain requirements, which establish that, until the Spanish regulatory authority has verified and approved the internal models for the calculation of the allowance for losses arising from credit risk (to date it has only approved the internal models to be used to calculate regulatory capital), entities must calculate their credit risk coverage as set forth below:

a. Specific allowance (individuals):

   The allowance for debt instruments not measured at fair value through profit or loss that are classified as doubtful is generally recognised in accordance with the criteria set forth below:

   i. Assets classified as doubtful due to counterparty arrears:

   Debt instruments, whoever the obligor and whatever the guarantee or collateral, with amounts more than three months past due are assessed individually, taking into account the age of the past-due amounts, the guarantees or collateral provided and the financial situation of the counterparty and the guarantors.

ii. Assets classified as doubtful for reasons other than counterparty arrears:

Debt instruments which are not classifiable as doubtful due to arrears but for which there are reasonable doubts as to their repayment under the contractual terms are assessed individually, and their allowance is the difference between the amount recognised in assets and the present value of the cash flows expected to be received.

b. General allowance for inherent losses (collective):

Based on its experience and on the information available to it on the Spanish banking industry, the Bank of Spain has established various categories of debt instruments and contingent liabilities, classified as standard risk, which are recognised at Spanish entities or relate to transactions performed on behalf of residents in Spain which are recognised in the accounting records of foreign subsidiaries, and has applied a range of required allowances to each category.

However, the coverage of the Group's losses arising from credit risk must also meet the regulatory requirements of IFRSs and, therefore, the Group checks the allowances calculated as described above with those obtained from internal models for the calculation of the coverage of losses arising from credit risk in order to confirm that there are no material differences.

The Group's internal models determine the impairment losses on debt instruments not measured at fair value through profit or loss and on contingent liabilities taking into account the historical experience of impairment and other circumstances known at the time of assessment. For these purposes, impairment losses on loans are losses incurred at the reporting date, calculated using statistical methods.

The amount of an impairment loss incurred on these debt instruments is equal to the difference between their carrying amount and the present value of their estimated future cash flows, and is presented as a reduction of the balance of the asset adjusted. In estimating the future cash flows of debt instruments the following factors are taken into account:

- All the amounts that are expected to be obtained over the remaining life of the instrument, including, where appropriate, those which may result from the collateral provided for the instrument (less the costs for obtaining and subsequently selling the collateral). The impairment loss takes into account the likelihood of collecting accrued past-due interest receivable;

- The various types of risk to which each instrument is subject; and

- The circumstances in which collections will foreseeably be made.

These cash flows are subsequently discounted using the instrument's effective interest rate (if its contractual rate is fixed) or the effective contractual rate at the discount date (if it is variable).

The incurred loss is the expected cost, which will be disclosed in the one-year period after the reporting date, of the credit risk of a transaction, considering the characteristics of the counterparty and the guarantees and collateral associated with the transaction.

The loss incurred is calculated by multiplying three factors: exposure at default, probability of default and loss given default.

- Exposure at default (EAD) is the amount of risk exposure at the date of default by the counterparty.

- Probability of default (PD) is the probability of the counterparty failing to meet its principal and/or interest payment obligations. The probability of default is associated with the rating/scoring of each counterparty/transaction.

  For the purpose of calculating the incurred loss, PD is measured using a time horizon of one year; i.e. it quantifies the probability of the counterparty defaulting in the coming year due to an event that had already occurred at the assessment date. The definition of default used includes amounts past due by 90 days or more and cases in which there is no default but there are doubts as to the solvency of the counterparty (subjective doubtful assets).

- Loss given default (LGD) is the loss arising in the event of default. It depends mainly on the discounting of the guarantees associated with the transaction and the future flows that are expected to be recovered.

In addition to all of the above, the calculation of the incurred loss takes into account the adjustment to the cycle of the aforementioned factors (PD and LGD) and historical experience and other specific information that reflects current conditions.

At 31 December 2013, the estimated losses arising from credit risk calculated by the Group’s internal models did not differ materially from the allowances calculated on the basis of the Bank of Spain’s requirements.

iii. Debt or equity instruments classified as available for sale

The amount of the impairment losses on these instruments is the positive difference between their acquisition cost (net of any principal repayment or amortisation in the case of debt instruments) and their fair value, less any impairment loss previously recognised in the consolidated income statement.

When there is objective evidence at the date of measurement of these instruments that the aforementioned differences are due to permanent impairment, they are no longer recognised in equity under “Valuation Adjustments - Available-for-Sale Financial Assets” and are reclassified, for the cumulative amount at that date, to the consolidated income statement.

If all or part of the impairment losses are subsequently reversed, the reversed amount is recognised, in the case of debt instruments, in the consolidated income statement for the year in which the reversal occurs (or in equity under “Valuation Adjustments - Available-for-Sale Financial Assets” in the case of equity instruments).

iv. Equity instruments carried at cost

The amount of the impairment losses on equity instruments carried at cost is the difference between the carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities.

Impairment losses are recognised in the consolidated income statement for the period in which they arise as a direct reduction of the cost of the instrument. These losses can only be reversed subsequently if the related assets are sold.

g) *Repurchase agreements and reverse repurchase agreements*

Purchases (sales) of financial assets under a non-optional resale (repurchase) agreement at a fixed price (repos) are recognised in the consolidated balance sheet as financing granted (received) based on the nature of the debtor (creditor) under "Balances with Central Banks", “Loans and Advances to Credit Institutions” or “Loans and Advances to Customers” (“Deposits from Central Banks”, “Deposits from Credit Institutions” or “Customer Deposits”).

Differences between the purchase and sale prices are recognised as interest over the contract term.

h) *Non-current assets held for sale and Liabilities associated with non-current assets held for sale*

“Non-Current Assets Held for Sale” includes the carrying amount of individual items, disposal groups or items forming part of a business unit earmarked for disposal (“discontinued operations”), whose sale in their present condition is highly likely to be completed within one year from the reporting date. Therefore, the carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably be recovered through the proceeds from their disposal. Specifically, property or other non-current assets received by the consolidated entities as total or partial settlement of their debtors’ payment obligations to them are deemed to be non-current assets held for sale, unless the consolidated entities have decided to make continuing use of these assets.

Similarly, “Liabilities Associated with Non-Current Assets Held for Sale” includes the balances payable arising from the assets held for sale or disposal groups and from discontinued operations.

Non-current assets held for sale are generally measured at the lower of fair value less costs to sell and their carrying amount at the date of classification in this category. Non-current assets held for sale are not depreciated as long as they remain in this category. The Group measures foreclosed property assets located in Spain by taking into consideration the appraisal value on the date of foreclosure and the length of time each asset has been recognised in the balance sheet.

The Group has in place a corporate policy that ensures the professional competence and the independence and objectivity of the external appraisal agencies, in accordance with the regulations, which require appraisal agencies to meet neutrality and credibility requirements, so that the use of their estimates does not reduce the reliability of its valuations. This policy establishes that all the appraisal companies and agencies with which the Group works in Spain should be registered in the Official Register of the Bank of Spain and that the appraisals performed by them should follow the methodology established in Ministry of Economy Order ECO/805/2003, of 27 March. The main appraisal companies and agencies with which the Group worked in Spain in 2013 are as follows: Ibertasa, S.A., Compañía Hispania de Tasaciones y Valoraciones, S.A., Internacional de Transacciones y Servicios, S.A., Tinsa Tasaciones Inmobiliarias, S.A.U., Eurovaloraciones, S.A., Tasiberica, S.A., Técnicos en Tasación, S.A., Tasvalor, S.A. and Arco Valoraciones, S.A. Also, the aforementioned policy establishes that the various subsidiaries abroad must work with appraisal companies that have recent experience in the area and the type of asset under appraisal and meet the independence requirements established in the corporate policy, and that they should verify, inter alia, that the appraisal company is not a party related to the Group and that its billings to the Group in the last twelve months do not exceed 15% of the appraisal company's total billings.

Impairment losses on an asset or disposal group arising from a reduction in its carrying amount to its fair value (less costs to sell) are recognised under “Losses on Non-Current Assets Held for Sale Not Classified as Discontinued Operations” in the consolidated income statement. The gains on a non-current asset held for sale resulting from subsequent increases in fair value (less costs to sell) increase its carrying amount and are recognised in the consolidated income statement up to an amount equal to the impairment losses previously recognised.

i) *Tangible assets*

"Tangible Assets" in the consolidated balance sheet includes the buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the consolidated entities or acquired under finance leases, for their own use. Tangible assets are classified by use as follows:

i. Property, plant and equipment for own use

Property, plant and equipment for own use –including tangible assets received by the consolidated entities in full or partial satisfaction of financial assets representing receivables from third parties which are intended to be held for continuing use and tangible assets acquired under finance leases– are presented at acquisition cost, less the related accumulated depreciation and any estimated impairment losses (carrying amount higher than recoverable amount).

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated. The period depreciation charge is recognised in the consolidated income statement and is calculated using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual Rate
Buildings for own use	1.5-2
Furniture	10
IT equipment	25
Other	12

The consolidated entities assess at the reporting date whether there is any indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated).

Similarly, if there is an indication of a recovery in the value of a tangible asset, the consolidated entities recognise the reversal of the impairment loss recognised in prior periods and adjust the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognised in prior years.

The estimated useful lives of the items of property, plant and equipment for own use are reviewed at least at the end of each reporting period with a view to detecting possible significant changes therein. If changes are detected, the depreciation charges relating to the new useful lives of the assets are adjusted by correcting the charge to be recognised in the consolidated income statement in future years.

Upkeep and maintenance expenses are charged to the consolidated income statement for the year in which they are incurred.

ii. Investment property

"Tangible Assets - Investment Property" reflects the net values of the land, buildings and other structures held either to earn rentals or for capital appreciation.

The criteria used to recognise the acquisition cost of investment property, to calculate its depreciation and its estimated useful life and to recognise any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use.

iii. Assets leased out under an operating lease

"Tangible Assets – Property, Plant and Equipment – Leased out under an Operating Lease" in the consolidated balance sheets includes the amount of the assets, other than land and buildings, leased out under an operating lease.

The criteria used to recognise the acquisition cost of assets leased out under operating leases, to calculate their depreciation and their respective estimated useful lives and to recognise the impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use.

j) Leases

i. Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

When the consolidated entities act as the lessors of an asset, the sum of the present value of the lease payments receivable from the lessee plus the guaranteed residual value –which is generally the exercise price of the lessee's purchase option at the end of the lease term– is recognised as lending to third parties and is therefore included under "Loans and Receivables" in the consolidated balance sheet.

When the consolidated entities act as the lessees, they present the cost of the leased assets in the consolidated balance sheet, based on the nature of the leased asset, and, simultaneously, recognise a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present value of the lease payments payable to the lessor plus, if appropriate, the exercise price of the purchase option). The depreciation policy for these assets is consistent with that for property, plant and equipment for own use.

When the consolidated entities act as the lessees, the lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to "Administrative Expenses - Other General Administrative Expenses" in the consolidated income statement.

In both cases, the finance income and finance charges arising under finance lease agreements are credited and debited, respectively, to "Interest and Similar Income" and "Interest Expense and Similar Charges" in the consolidated income statement so as to produce a constant rate of return over the lease term.

ii. Operating leases

In operating leases, ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When the consolidated entities act as the lessors, they present the acquisition cost of the leased assets under "Tangible Assets" (see Note 14) in the consolidated balance sheet. The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use (see Note 2-i), and income from operating leases is recognised on a straight-line basis under "Other Operating Income" in the consolidated income statement.

When the consolidated entities act as the lessees, the lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to "Administrative Expenses - Other General Administrative Expenses" in the consolidated income statement.

k) Intangible assets

"Intangible Assets" in the consolidated balance sheet includes identifiable non-monetary assets (separable from other assets) without physical substance which arise as a result of a legal transaction or which are developed internally by the consolidated entities. Only intangible assets whose cost can be estimated reliably and from which the consolidated entities consider it probable that future economic benefits will be generated are recognised.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

i. Goodwill

Any excess of the cost of the investments in entities accounted for using the equity method over the corresponding underlying carrying amounts at the date of acquisition, adjusted at the date of first-time consolidation, is allocated as follows:

- If it is attributable to specific assets and liabilities of the companies acquired, by increasing the value of the assets (or reducing the value of the liabilities) whose fair values were higher (lower) than the carrying amounts at which they had been recognised in the acquired entities' balance sheets.

- If it is attributable to specific intangible assets, by recognising it explicitly in the consolidated balance sheet provided that the fair value of these assets at the date of acquisition can be measured reliably.

- The remaining amount is recognised as goodwill, which is allocated to one or more cash-generating units (a cash-generating unit is the smallest identifiable group of assets that, as a result of continuing operation, generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets). The cash-generating units represent the Group's geographical and/or business segments.

Goodwill is only recognised when it has been acquired for consideration and represents, therefore, a payment made by the acquirer in anticipation of future economic benefits from assets of the acquired entity that are not capable of being individually identified and separately recognised.

At the end of each reporting period goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and, if there is any impairment, the goodwill is written down with a charge to "Impairment Losses on Other Assets (Net) – Goodwill and Other Intangible Assets" in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in a subsequent period.

ii. Other intangible assets

Intangible assets can have an indefinite useful life –when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the consolidated entities– or a finite useful life, in all other cases.

Intangible assets with indefinite useful lives are not amortised, but rather at the end of each reporting period the consolidated entities review the remaining useful lives of the assets in order to determine whether they continue to be indefinite and, if this is not the case, to take the appropriate steps.

Intangible assets with finite useful lives are amortised over those useful lives using methods similar to those used to depreciate tangible assets. The intangible asset amortisation charge is recognised under "Depreciation and Amortisation Charge" in the consolidated income statement.

In both cases the consolidated entities recognise any impairment loss on the carrying amount of these assets with a charge to "Impairment Losses on Other Assets (Net) - Goodwill and Other Intangible Assets" in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those used for tangible assets (see Note 2-i).

Internally developed computer software is recognised as an intangible asset if, among other requisites (basically the Group's ability to use or sell it), it can be identified and its ability to generate future economic benefits can be demonstrated.

Expenditure on research activities is recognised as an expense in the year in which it is incurred and cannot be subsequently capitalised.

l) Other assets and Other liabilities

"Other Assets" in the consolidated balance sheets includes the amount of assets not recorded in other items, the breakdown being as follows:

- Inventories: this item includes the amount of assets, other than financial instruments, that are held for sale in the ordinary course of business, that are in the process of production, construction or development for such purpose, or that are to be consumed in the production process or in the provision of services. "Inventories" includes the assets that have been acquired for the purpose of leasing them to third parties and for which the related operating lease agreements had not been formalised at the date of the consolidated balance sheets.

  Inventories are measured at the lower of cost and net realisable value, which is the estimated selling price of the inventories in the ordinary course of business, less the estimated costs of completion and the estimated costs required to make the sale.

Any write-downs of inventories -such as those due to damage, obsolescence or reduction of selling price- to net realisable value and other losses are recognised as expenses in the year in which the write-down or loss occurs. Subsequent reversals are recognised in the consolidated income statement for the year in which they occur.

- Other: this item includes the balance of all prepayments and accrued income (excluding accrued interest), the net amount of the difference between pension plan obligations and the value of the plan assets with a balance in the Group's favour, when this net amount is to be reported in the consolidated balance sheet, and the amount of any other assets not included in other items.

"Other Liabilities" in the consolidated balance sheets includes the balance of all accrued expenses and deferred income, excluding accrued interest, and the amount of any other liabilities not included in other categories.

m) Provisions and contingent assets and liabilities

Provisions are present obligations at the consolidated balance sheet date arising from past events which could give rise to a loss for the consolidated entities, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing, and the consolidated entities expect that an outflow of resources embodying economic benefits will be required to settle such obligations.

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated entities. They include the present obligations of the consolidated entities when it is not probable that an outflow of resources embodying economic benefits will be required to settle them and their amount cannot be measured with sufficient reliability.

The Group's consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. In accordance with current standards, contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed in the notes.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year, are used to cater for the specific obligations for which they were originally recognised. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

Provisions are classified according to the obligations covered as follows:

- Provisions for pensions and similar obligations: includes the amount of the provisions made to cover post-employment benefits, commitments to pre-retirees and similar obligations (see Note 22).

- Provisions for contingent liabilities and commitments: includes the amount of the provisions made to cover contingent liabilities –defined as those transactions in which the Group guarantees the obligations of a third party, arising as a result of financial guarantees granted or contracts of another kind– and contingent commitments –defined as irrevocable commitments that may give rise to the recognition of financial assets (see Note 22).

- Provisions for taxes and other legal contingencies: includes the amount of the provisions made to cover tax and legal contingencies and litigation (see Note 22).

- Other provisions: includes the amount of other provisions made by the consolidated entities (see Note 22).

The provisions considered necessary pursuant to the foregoing criteria are recognised with a charge or credit to “Provisions (Net)” in the consolidated income statement. The provisions for pensions and similar obligations are accounted for as described in Notes 2-q and 2-r.

Contingent assets are possible assets that arise from past events and whose existence is conditional on, and will be confirmed only by, the occurrence or non-occurrence of events beyond the control of the Group. Contingent assets are not recognised in the consolidated balance sheet or in the consolidated income statement, but rather are disclosed in the notes, provided that it is probable that these assets will give rise to an increase in resources embodying economic benefits.

n) Court proceedings and/or claims in process

At the end of 2013 and 2012 certain court proceedings and claims were in process against the consolidated entities arising from the ordinary course of their operations. The Group’s legal advisers and the Bank’s directors consider that any economic loss that might ultimately result from these court proceedings and claims has been adequately provided for (see Note 22) and, therefore, will not have a material effect on the consolidated financial statements.

o) Recognition of income and expenses

The most significant criteria used by the Group to recognise its income and expenses are summarised as follows:

i. Interest income, interest expenses and similar items

Interest income, interest expenses and similar items are generally recognised on an accrual basis using the effective interest method. Dividends received from other companies are recognised as income when the right to receive them arises.

However, the recognition of accrued interest in the consolidated income statement is suspended for debt instruments individually classified as impaired and for the instruments for which impairment losses have been assessed collectively because they have payments more than three months past due. Any interest that may have been recognised in the consolidated income statement before the corresponding debt instruments were classified as impaired, and that had not been collected at the date of that classification, is considered when determining the allowance for loan losses; accordingly, if subsequently collected, this interest is recognised as a reversal of the related impairment losses. Interest whose recognition in the consolidated income statement has been suspended is accounted for as interest income, when collected, on a cash basis.

ii. Commissions, fees and similar items

Fee and commission income and expenses are recognised in the consolidated income statement using criteria that vary according to their nature. The main criteria are as follows:

- Fee and commission income and expenses relating to financial assets and financial liabilities measured at fair value through profit or loss are recognised when paid.

- Those arising from transactions or services that are performed over a period of time are recognised over the life of these transactions or services.

- Those relating to services provided in a single act are recognised when the single act is carried out.

iii. Non-finance income and expenses

These are recognised for accounting purposes on an accrual basis.

iv. Deferred collections and payments

These are recognised for accounting purposes at the amount resulting from discounting the expected cash flows at market rates.

v. Loan arrangement fees

Loan arrangement fees, mainly loan origination and application fees, are accrued and credited to income over the term of the loan. The related direct costs incurred in the loan arrangement can be deducted from this amount.

p) Financial guarantees

"Financial guarantees" are defined as contracts whereby an entity undertakes to make specific payments on behalf of a third party if the latter fails to do so, irrespective of the various legal forms they may have, such as guarantees, insurance policies or credit derivatives.

The Group initially recognises the financial guarantees provided on the liability side of the consolidated balance sheet at fair value, which is generally the present value of the fees, commissions and interest receivable from these contracts over the term thereof, and simultaneously the Group recognises a credit in the consolidated balance sheet for the amount of the fees, commissions and similar interest received at the inception of the transactions and for the amounts receivable at the present value of the fees, commissions and interest outstanding.

Financial guarantees, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments carried at amortised cost (described in Note 2-f above).

The provisions made for these transactions are recognised under "Provisions - Provisions for Contingent Liabilities and Commitments" on the liability side of the consolidated balance sheet (see Note 22). These provisions are recognised and reversed with a charge or credit, respectively, to "Provisions (Net)" in the consolidated income statement.

If a provision is required for these financial guarantees, the unearned commissions recognised under "Other Liabilities" in the consolidated balance sheet are reclassified to the appropriate provision.

q) *Post-employment benefits*

Under the collective agreements currently in force, the Spanish banks included in the Group and certain other Spanish and foreign consolidated entities have undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability or death, and other welfare benefits.

The Group's post-employment obligations to its employees are deemed to be "defined contribution plans" when the Group makes pre-determined contributions to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as "defined benefit plans" (see Note 22).

Defined contribution plans

The Group recognises the defined contributions accrued in the year under "Administrative Expenses - Staff Costs" in the consolidated income statement. At year-end any amount not yet contributed to the external plans funding the obligations is recognised at its present value under "Provisions - Provisions for Pensions and Similar Obligations" on the liability side of the consolidated balance sheet (see Note 22).

Defined benefit plans

The Group recognises under "Provisions - Provisions for Pensions and Similar Obligations" on the liability side of the consolidated balance sheet (or under "Other Assets" on the asset side, as appropriate) the present value of its defined benefit post-employment obligations, net of the fair value of the plan assets (see Note 22).

"Plan assets" are defined as those that will be used directly to settle the obligations and that meet the following conditions:

- They are not owned by the consolidated entities, but by a legally separate third party that is not a party related to the Group.

- They are only available to pay or fund post-employment benefits and they cannot be returned to the consolidated entities unless the assets remaining in the plan are sufficient to meet all the benefit obligations of the plan and of the entity to current and former employees, or they are returned to reimburse employee benefits already paid by the Group.

If the Group can look to an insurer to pay part or all of the expenditure required to settle a defined benefit obligation, and it is practically certain that said insurer will reimburse some or all of the expenditure required to settle that obligation, but the insurance policy does not qualify as a plan asset, the Group recognises its right to reimbursement -which, in all other respects, is treated as a plan asset- under "Insurance Contracts Linked to Pensions" on the asset side of the consolidated balance sheet.

Post-employment benefits are recognised as follows:

- Service cost is recognised in the consolidated income statement and includes the following items:

  - Current service cost, i.e. the increase in the present value of the obligations resulting from employee service in the current period, is recognised under “Administrative Expenses – Staff Costs” (see Notes 22 and 40).

  - Past service cost, which arises from changes to existing post-employment benefits or from the introduction of new benefits and includes the cost of curtailments, is recognised under “Provisions (Net)” (see Note 22).

  - Any gain or loss arising from plan settlements is recognised under “Provisions (Net)” (see Note 22).

Net interest on the net defined benefit liability (asset), i.e. the change in the year in the net defined benefit liability (asset) as a result of the passage of time, is recognised under “Interest Expense and Similar Charges” (“Interest and Similar Income” if it constitutes income) in the consolidated income statement (see Notes 22 and 32).

The remeasurement of the net defined benefit liability (asset) is recognised under “Valuation Adjustments - Other Valuation Adjustments” and includes:

  - Actuarial gains and losses generated in the year, arising from the differences between the previous actuarial assumptions and what has actually occurred and from the effects of changes in actuarial assumptions.

  - The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset).

  - Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

r) Other long-term benefits and other obligations

Other long-term employee benefits, defined as obligations to pre-retirees -taken to be those who have ceased to render services at the consolidated entities but who, without being legally retired, continue to have economic rights vis-à-vis the entities until they acquire the legal status of retiree- and long-service bonuses are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that actuarial gains and losses are recognised immediately in the consolidated income statement (see Note 22).

Certain Spanish Group entities’ obligations for death or disability of current employees until they reach retirement age are covered by an internal fund with renewable temporary annual coverage and, therefore, no contributions are made to plans.

s) *Termination benefits*

Termination benefits are recognised when there is a detailed formal plan identifying the basic changes to be made, provided that implementation of the plan has begun, its main features have been publicly announced or objective facts concerning its implementation have been disclosed. At 2013 and 2012 year-end there were no objective reasons for, and circumstances had not arisen requiring, the recognition of material provisions in this connection.

t) *Income tax*

The expense for Spanish income tax and other similar taxes applicable to the foreign consolidated entities is recognised in the consolidated income statement, except when it results from a transaction recognised directly in equity, in which case the tax effect is also recognised in equity.

The current income tax expense is calculated as the tax payable on the taxable profit, adjusted by the amount of the period changes in the assets and liabilities arising from temporary differences recognised in the consolidated income statement and of any tax credit or tax loss carryforwards.

Deferred tax assets and liabilities include temporary differences, which are identified as the amounts expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their related tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

“Tax Assets” in the consolidated balance sheet includes the amount of all tax assets, which are broken down into “current” –amounts of tax to be recovered within the next twelve months– and “deferred” –amounts of tax to be recovered in future years, including those arising from tax loss and tax credit carryforwards.

“Tax Liabilities” in the consolidated balance sheet includes the amount of all tax liabilities (except provisions for taxes), which are broken down into “current” –the amount payable in respect of the income tax on the taxable profit for the year and other taxes in the next twelve months– and “deferred” –the amount of income tax payable in future years.

Deferred tax assets are recognised for temporary differences to the extent that it is considered probable that the consolidated entities will have sufficient future taxable profits against which the deferred tax assets can be utilised, and the deferred tax assets do not arise from the initial recognition (except in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit. Other deferred tax assets (tax loss and tax credit carryforwards) are only recognised if it is considered probable that the consolidated entities will have sufficient future taxable profits against which they can be utilised.

Deferred tax liabilities are recognised in respect of taxable temporary differences associated with investments in subsidiaries, associates or joint ventures, except when the Group is able to control the timing of the reversal of the temporary difference and, in addition, it is probable that the temporary difference will not reverse in the foreseeable future.

The deferred tax assets and liabilities recognised are reassessed at each reporting date in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed.

Income and expenses recognised directly in equity are accounted for as temporary differences.

On 26 June 2013, the Basel III legal framework was included in European law through Directive 2013/36 (CRD IV) and Regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR), directly applicable in every Member State as from 1 January 2014, albeit with a gradual timetable with respect to the application of, and compliance with, various requirements.

This new legislation establishes that deferred tax assets, the use of which relies on future profits being obtained, must be deducted from regulatory capital.

In this regard, pursuant to Basel III, in recent years several countries have amended their tax regimes with respect to certain deferred tax assets so that they may continue to be considered regulatory capital since their use does not rely on the future profits of the entities that generate them (referred to hereinafter as "monetisable tax assets").

Italy had a very similar regime to that described above, which was introduced by Decree-Law no. 225, of 29 December 2010, and amended by Law no. 10, of 26 February 2011.

In addition, in 2013 in Spain, through Royal Decree-Law 14/2013, of 29 November, tax regimes were established whereby certain deferred tax assets (arising from credit loss provisions and provisions for foreclosed assets and pension and pre-retirement obligations) may be converted into tax receivables in specific circumstances. As a result, their utilisation does not depend on the entities obtaining future profits and, accordingly, they are exempt from deduction from regulatory capital.

At 31 December 2013, the Group had deferred tax assets convertible into tax receivables ("monetisable tax assets") amounting to EUR 218,988 thousand (see Note 23).

u) Residual maturity periods and average interest rates

The analysis of the maturities of the balances of certain items in the consolidated balance sheets at 31 December 2013 and 2012 and of the average annual interest rates in 2013 and 2012 is provided in Note 46.

v) Consolidated statement of recognised income and expense

This statement presents the income and expenses generated by the Group as a result of its business activity in the year, and a distinction is made between the income and expenses recognised in the consolidated income statement for the year and the other income and expenses recognised directly in consolidated equity.

Accordingly, this statement presents:

a. Consolidated profit for the year.

b. The net amount of the income and expenses recognised temporarily in consolidated equity under "Valuation Adjustments".

c. The net amount of the income and expenses recognised definitively in consolidated equity.

d. The income tax incurred in respect of the items indicated in b) and c) above, except for the valuation adjustments arising from investments in associates or jointly controlled entities accounted for using the equity method, which are presented net.

e. Total consolidated recognised income and expense, calculated as the sum of a) to d) above, presenting separately the amount attributable to the Parent and the amount relating to non-controlling interests.

The amount of the income and expenses relating to entities accounted for using the equity method recognised directly in equity is presented in this statement, irrespective of the nature of the related items, under Entities accounted for using the equity method.

The statement presents the items separately by nature, grouping together items that, in accordance with the applicable accounting standards, will not be reclassified subsequently to profit and loss since the requirements established by the corresponding accounting standards are met.

w) Consolidated statement of changes in total equity

This statement presents all the changes in consolidated equity, including those arising from changes in accounting policies and from the correction of errors. Accordingly, this statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the consolidated equity items, and the changes are grouped together on the basis of their nature into the following items:

a. Adjustments due to changes in accounting policies and to errors: include the changes in consolidated equity arising as a result of the retrospective restatement of the balances in the consolidated financial statements due to changes in accounting policies or to the correction of errors.

b. Income and expense recognised in the year: includes, in aggregate form, the total of the aforementioned items recognised in the consolidated statement of recognised income and expense.

c. Other changes in equity: includes the remaining items recognised in consolidated equity, including, inter alia, increases and decreases in capital, distribution of profit, transactions involving own equity instruments, equity-instrument-based payments, transfers between equity items and any other increases or decreases in consolidated equity.

x) Consolidated statements of cash flows

The following terms are used in the consolidated statements of cash flows with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

In preparing the consolidated statement of cash flows, “cash and cash equivalents” were considered to be short-term highly liquid investments that are subject to an insignificant risk of changes in value. Accordingly, the Group considers the following financial assets to be cash and cash equivalents:

- Net cash balances and net balances with central banks, which are recognised under “Cash and Balances with Central Banks” in the consolidated balance sheet and amounted to EUR 1,656,199 thousand at 31 December 2013 (31 December 2012: EUR 1,387,071 thousand).

- Balances receivable on demand from credit institutions other than central banks, which are recognised under “Loans and Receivables - Loans and Advances to Credit Institutions” in the consolidated balance sheet and amounted to EUR 955,673 thousand at 31 December 2013 (31 December 2012: EUR 154,706 thousand) (see Note 6).

3. Santander Consumer Finance Group

a) Santander Consumer Finance, S.A.

The Bank is the parent of the Santander Consumer Finance Group (see Note 1). Following are the condensed balance sheets, income statements, statements of changes in equity and statements of cash flows of the Bank for 2013 and 2012:

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED BALANCE SHEETS AT 31 DECEMBER 2013 AND 2012

(Thousands of Euros)

ASSETS	2013	2012	LIABILITIES AND EQUITY	2013	2012
CASH AND BALANCES WITH CENTRAL BANKS	35,519	9,050	**LIABILITIES**		
FINANCIAL ASSETS HELD FOR TRADING	3,866	20,349			
OTHER FINANCIAL ASSETS AT FAIR VALUE			FINANCIAL LIABILITIES HELD FOR TRADING	8,718	24,759
THROUGH PROFIT OR LOSS	-	-	OTHER FINANCIAL LIABILITIES AT FAIR		
AVAILABLE-FOR-SALE FINANCIAL ASSETS	-	-	VALUE THROUGH PROFIT OR LOSS	-	-
LOANS AND RECEIVABLES	14,775,290	18,067,544	FINANCIAL LIABILITIES AT AMORTISED COST	14,289,947	14,460,918
HELD-TO-MATURITY INVESTMENTS			CHANGES IN THE FAIR VALUE OF HEDGED		
CHANGES IN THE FAIR VALUE OF HEDGED	-	-	ITEMS IN PORTFOLIO HEDGES OF INTEREST		
ITEMS IN PORTFOLIO HEDGES OF INTEREST			RATE RISK	-	-
RATE RISK	-	-	HEDGING DERIVATIVES	32,768	50,025
HEDGING DERIVATIVES	96,119	104,131	LIABILITIES ASSOCIATED WITH NON-		
NON-CURRENT ASSETS HELD FOR SALE	10,510	9,984	CURRENT ASSETS HELD FOR SALE	-	-
INVESTMENTS	8,190,198	4,247,343	PROVISIONS	52,605	63,855
INSURANCE CONTRACTS LINKED TO			TAX LIABILITIES	274,630	252,738
PENSIONS	-	-	OTHER LIABILITIES	17,832	21,218
TANGIBLE ASSETS	40	40	**TOTAL LIABILITIES**	**14,676,500**	**14,873,513**
INTANGIBLE ASSETS	624	1,123			
TAX ASSETS	323,201	361,759	SHAREHOLDERS' EQUITY	8,773,602	7,978,496
OTHER ASSETS	2,559	1,991	VALUATION ADJUSTMENTS	(12,176)	(28,695)
			TOTAL EQUITY	**8,761,426**	**7,949,801**
TOTAL ASSETS	**23,437,926**	**22,823,314**	**TOTAL LIABILITIES AND EQUITY**	**23,437,926**	**22,823,314**
MEMORANDUM ITEMS:					
CONTINGENT LIABILITIES	835,222	716,420			
CONTINGENT COMMITMENTS	12,152,486	9,933,939			

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

(Thousands of Euros)

	Income/(Expenses)	
	2013	2012
INTEREST AND SIMILAR INCOME	475,258	578,833
INTEREST EXPENSE AND SIMILAR CHARGES	(154,250)	(277,590)
NET INTEREST INCOME	**321,008**	**301,243**
INCOME FROM EQUITY INSTRUMENTS	311,427	267,279
FEE AND COMMISSION INCOME	36,496	41,387
FEE AND COMMISSION EXPENSE	(51,282)	(52,839)
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES (net)	65,412	(432)
EXCHANGE DIFFERENCES (net)	(2,029)	193
OTHER OPERATING INCOME	945	1,725
OTHER OPERATING EXPENSES	(3,211)	(2,423)
GROSS INCOME	**678,766**	**556,133**
ADMINISTRATIVE EXPENSES	(36,818)	(35,630)
DEPRECIATION AND AMORTISATION CHARGE	(575)	(1,044)
PROVISIONS (net)	7,622	(8,262)
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (net)	780	(57,289)
PROFIT FROM OPERATIONS	**649,775**	**453,908**
IMPAIRMENT LOSSES ON OTHER ASSETS (net)	(34,168)	(399,857)
GAINS (LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE	(34,941)	-
GAINS FROM BARGAIN PURCHASES ARISING IN BUSINESS COMBINATIONS	-	-
GAINS (LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS	(9,113)	(13,175)
PROFIT BEFORE TAX	**571,553**	**40,876**
INCOME TAX	(76,430)	73,154
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**495,123**	**114,030**
PROFIT/LOSS FROM DISCONTINUED OPERATIONS (net)	-	-
PROFIT FOR THE YEAR	**495,123**	**114,030**

SANTANDER CONSUMER FINANCE, S.A.

STATEMENTS OF CHANGES IN EQUITY

CONDENSED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

(Thousands of Euros)

	2013	2012
PROFIT FOR THE YEAR	**495,123**	**114,030**
OTHER RECOGNISED INCOME AND EXPENSE	**16,519**	**627**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(932)**	**603**
ACTUARIAL GAINS AND LOSSES ON DEFINED BENEFIT PENSION PLANS	(1,331)	864
NON-CURRENT ASSETS HELD FOR SALE	-	-
INCOME TAX RELATING TO ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	399	(261)
ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS	**17,451**	**24**
AVAILABLE-FOR-SALE FINANCIAL ASSETS	-	-
CASH FLOW HEDGES	24,930	34
HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS	-	-
EXCHANGE DIFFERENCES	-	-
NON-CURRENT ASSETS HELD FOR SALE	-	-
ACTUARIAL GAINS (LOSSES) ON PENSION PLANS	-	-
OTHER RECOGNISED INCOME AND EXPENSE	-	-
INCOME TAX	(7,479)	(10)
TOTAL RECOGNISED INCOME AND EXPENSE	**511,642**	**114,657**

SANTANDER CONSUMER FINANCE, S.A.

STATEMENTS OF CHANGES IN EQUITY

CONDENSED STATEMENTS OF CHANGES IN TOTAL EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

(Thousands of Euros)

	SHAREHOLDERS' EQUITY									
	Share Capital	Share Premium	Reserves	Other Equity Instruments	Less: Treasury Shares	Profit for the Year	Less: Dividends and Remuneration	Total Shareholders' Equity	VALUATION ADJUSTMENTS	TOTAL EQUITY
Ending balance at 31 December 2012	**4,663,639**	**1,139,990**	**2,160,835**	**-**	**-**	**114,019**	**(100,004)**	**7,978,479**	**(28,420)**	**7,950,059**
Adjustments due to changes in accounting policies	-	-	6	-	-	11	-	17	(275)	(258)
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**4,663,639**	**1,139,990**	**2,160,841**	**-**	**-**	**114,030**	**(100,004)**	**7,978,496**	**(28,695)**	**7,949,801**
Total recognised income and expense	**-**	**-**	**-**	**-**		**495,123**	**-**	**495,123**	**16,519**	**511,642**
Other changes in equity	**300,000**	**-**	**14,009**	**-**	**-**	**(114,030)**	**100,004**	**299,983**	**-**	**299,983**
Capital increases	300,000	-	(17)	-	-	-	-	299,983	-	299,983
Transfers between equity items	-	-	14,026	-	-	(114,030)	100,004	-	-	-
Ending balance at 31 December 2013	**4,963,639**	**1,139,990**	**2,174,850**	**-**	**-**	**495,123**	**-**	**8,773,602**	**(12,176)**	**8,761,426**

	SHAREHOLDERS' EQUITY									
	Share Capital	Share Premium	Reserves	Other Equity Instruments	Less: Treasury Shares	Profit for the Year	Less: Dividends and Remuneration	Total Shareholders' Equity	VALUATION ADJUSTMENTS	TOTAL EQUITY
Ending balance at 31 December 2011	**4,353,639**	**1,139,990**	**2,397,786**	**-**	**-**	**373,099**	**-**	**8,264,514**	**(28,444)**	**8,236,070**
Adjustments due to changes in accounting policies	-	-	-	-	-	6	-	6	(878)	(872)
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**4,353,639**	**1,139,990**	**2,397,786**	**-**	**-**	**373,105**	**-**	**8,264,520**	**(29,322)**	**8,235,198**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**114,030**	**-**	**114,030**	**627**	**114,657**
Other changes in equity	**310,000**	**-**	**(236,945)**	**-**	**-**	**(373,105)**	**(100,004)**	**(400,054)**	**-**	**(400,054)**
Capital increases	310,000	-	(15)	-	-	-	-	309,985	-	309,985
Distribution of dividends	-	-	(300,027)	-	-	(310,008)	(100,004)	(710,039)	-	(710,039)
Transfers between equity items	-	-	63,097	-	-	(63,097)	-	-	-	-
Ending balance at 31 December 2012	**4,663,639**	**1,139,990**	**2,160,841**	**-**	**-**	**114,030**	**(100,004)**	**7,978,496**	**(28,695)**	**7,950,801**

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

(Thousands of Euros)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES	**3,972,661**	**86,112**
Profit for the year	495,123	114,030
Adjustments made to obtain the cash flows from operating activities	144,538	406,342
Net increase/decrease in operating assets	(3,279,841)	(3,181,775)
Net increase/decrease in operating liabilities	49,478	(3,616,052)
Income tax recovered/paid	3,681	17
CASH FLOWS FROM INVESTING ACTIVITIES	**(4,004,040)**	**(108,832)**
Payments	4,040,825	143,745
Proceeds	36,785	34,913
CASH FLOWS FROM FINANCING ACTIVITIES	**46,379**	**(23)**
Payments	253,621	310,023
Proceeds	300,000	310,000
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**15,000**	**(22,743)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**23,612**	**46,355**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**38,612**	**23,612**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	-	-
Cash equivalents at central banks	35,519	9,050
Other financial assets	3,093	14,562
Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year	**38,612**	**23,612**

The Appendices to these notes to the consolidated financial statements contain salient information on the consolidated entities and on the entities accounted for using the equity method.

b) Acquisitions and disposals

The most significant acquisitions and disposals of investments in Group entities and other relevant corporate transactions in 2013 and 2012 were as follows:

Fortune Auto Finance Co. Ltd. (China)

The Bank paid CNY 250 million (approximately EUR 32,550 thousand) to establish a financial institution in China, 50% owned by the Bank and by the vehicle manufacturer Anhui Jianghuai Automobile Co. Ltd. (JAC Motors), which was incorporated on 25 January 2013 under the name of Fortune Auto Finance Co. Ltd. This investment was recognised under "Investments – Jointly Controlled Entities" in the accompanying consolidated balance sheet at 31 December 2013.

Santander Consumer Bank S.A. (Poland)

On 29 December 2011, the shareholders at the Extraordinary General Meeting of the subsidiary Santander Consumer Finanse S.A. (Poland) resolved to increase capital by PLN 15 million, through the issue of 150,000 shares of PLN 100 par value each, of which 90,001 shares were subscribed and paid for by the Bank for a total of PLN 129 million (approximately EUR 29,240 thousand) and 59,999 shares were subscribed and paid for by AIG Consumer Finance Group, Inc. for a total of PLN 60 million (approximately EUR 13,600 thousand). Following this capital increase, which was registered at the corresponding Mercantile Registry on 18 January 2012, AIG Consumer Finance Group, Inc. became the owner of a 30% interest in the share capital of Santander Consumer Finanse S.A.

On 15 May 2013, the Bank sold its 70% ownership interest in the share capital of Santander Consumer Finanse S.A. to the subsidiary Santander Consumer Bank S.A. (Poland) for a total amount of PLN 120 million (approximately EUR 28,785 thousand).

In addition, on 28 June 2013, Santander Consumer Bank S.A. acquired a 30% ownership interest in the share capital of Santander Consumer Finanse S.A. from AIG Consumer Finance Group, Inc. for PLN 52 million (approximately EUR 12,129 thousand). This transaction reduced the Group's consolidated equity by approximately EUR 12 million, which were recognised as a reduction of "Non-Controlling Interests - Other" in the consolidated balance sheet at 31 December 2013.

Following these transactions, Santander Consumer Bank S.A. holds all the share capital of Santander Consumer Finanse S.A.

In addition, on 20 November 2013, the Bank acquired a 30% ownership interest in the share capital of Santander Consumer Bank S.A. from AIG Consumer Finance Group, Inc. for PLN 842 million (approximately EUR 201,642 thousand). This transaction reduced the Group's non-controlling interests by approximately EUR 148,461 thousand, which were recognised as a reduction of "Non-Controlling Interests - Other" in the consolidated balance sheet at 31 December 2013, and reduced the Group's shareholders' equity by approximately EUR 53,181 thousand, which were recognised as a reduction of "Shareholders' Equity - Reserves" in the aforementioned consolidated balance sheet.

Following this transaction, the Bank holds all the share capital of Santander Consumer Bank S.A.

Santander Consumer Bank S.p.A. (Italy)

On 18 June 2013, the shareholders at the Extraordinary General Meeting of the subsidiary Santander Consumer Bank S.p.A. (Italy) resolved to increase capital by EUR 61 million by issuing 61,000 new shares of EUR 1,000 par value each. This capital increase was fully subscribed by the Bank through a non-monetary contribution comprising the Bank's 100% ownership interest in the Italian entity Unifin S.p.A. and was registered at the corresponding Mercantile Registry on 21 June 2013. This transaction did not have a material effect on the consolidated financial statements at 31 December 2013.

Bank of Beijing Consumer Finance Company (China)

On 26 June 2013, the Bank subscribed a capital increase carried out at the Chinese consumer finance entity Bank of Beijing Consumer Finance Company for an amount of CNY 306 million (approximately EUR 38,381 thousand). Following this capital increase, the Bank holds a 20% ownership interest in the share capital of this entity.

Agreement with El Corte Inglés

On 7 October 2013, the Bank announced that it had entered into an agreement with El Corte Inglés, S.A. in the area of consumer finance, which provides for the acquisition by the Bank of 51% of the share capital of Financiera El Corte Inglés E.F.C., S.A., with El Corte Inglés, S.A. retaining the remaining 49%. Completion of this transaction was subject to, among other conditions, obtainment of the relevant regulatory and competition authorisations, which were obtained in the first quarter of 2014. On 27 February 2014, the Bank paid EUR 140,301 thousand to acquire the aforementioned ownership interest in this company.

Zagiel S.A. (Poland)

On 31 July 2012, the Polish subsidiary Santander Consumer Finanse S.A. acquired all the share capital of Zagiel S.A., a financial intermediary specialising in lending to private borrowers, from the Belgian bank KBC Bank N.V., for PLN 10 million (approximately EUR 2,455 thousand). This transaction gave rise to goodwill amounting to EUR 433 thousand, which was recognised under “Intangible Assets - Goodwill” in the accompanying consolidated balance sheet at 31 December 2012 and allocated to the Group's Polish cash-generating unit (see Note 15).

Santander Consumer Finance a.s. (Czech Republic)

On 24 September 2012, the subsidiaries Santander Consumer Bank AG and Santander Consumer Holding GmbH resolved to sell all the shares of Santander Consumer Finance a.s. (Czech Republic) to non-Group third parties for CZK 148 million (approximately EUR 5,851 thousand), giving rise to a gain of EUR 4,962 thousand for the Group which was recognised under “Loss from Discontinued Operations” in the accompanying consolidated income statement for 2012 (see Note 45).

Capital increases

In 2013 and 2012, besides the transactions described above, certain investees carried out capital increases that were fully subscribed and paid, additional to those indicated in the foregoing section. The most significant of these capital increases were as follows:

	Millions of Euros (*)	
	2013	2012
Transolver Finance, E.F.C., S.A.	-	3
Santander Consumer Bank, S.p.A. (Italy)	30	40
Unifin, S.p.A. (Italy)	-	30
Santander Consumer Bank A.S. (Norway)	78	41
Santander Consumer Finance Benelux B.V. (The Netherlands)	-	60
Santander Consumer Finance Zrt. (Hungary)	-	3
Santander Consumer Bank AG (Germany)	-	325
Santander Consumer Finanse S.A. (Poland)	-	29
Santander Consumer Holding GmbH (Germany)	3,660	-
	3,768	**531**

(*) Includes only the disbursements made by the Group in these capital increases.

The shareholders at the General Meeting of the subsidiary Santander Consumer Holding GmbH (Germany) resolved to increase capital by EUR 3,660 million. This increase was subscribed and paid in full by the Parent bank prior to 2013 year-end.

Notifications of acquisitions of investments

The notifications of acquisitions of ownership interests which must be disclosed in the notes to the consolidated financial statements in accordance with Article 155 of the Spanish Limited Liability Companies Law and Article 53 of Securities Market Law 24/1988 are included in Appendix III.

4. Distribution of the Bank’s profit and Earnings per share

a) Distribution of the Bank’s profit

The distribution of the Bank's net profit for 2013 that the Board of Directors will propose for approval by the shareholders at the Annual General Meeting is as follows:

	Thousands of Euros
To legal reserve	49,512
To voluntary reserves	445,611
Net profit for the year (Note 3-a)	**495,123**

b) Basic earnings per share

Basic earnings per share are calculated by dividing the net profit for the year attributable to the Parent by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares held in the year.

In calculating diluted earnings per share, the amount of profit attributable to ordinary shareholders and the weighted average number of shares outstanding, net of treasury shares, are adjusted to take into account all the dilutive effects inherent to potential ordinary shares (share options, warrants and convertible debt instruments).

At 31 December 2013, there were no share option plans on Bank shares or issues convertible into Bank shares conferring privileges or rights which might, due to any contingency, make them convertible into shares. Therefore, there is no dilutive effect on net profit and diluted earnings per share coincide with basic earnings per share.

Accordingly:

	Thousands of Euros
Net profit for the year attributable to the Parent (thousands of euros)	609,354
Of which:	
From discontinued operations:	*(5,904)*
Weighted average number of shares outstanding	1,555,642,062
Basic and diluted earnings per share (euros)	0.3917
Of which:	
From discontinued operations	*(0.0038)*

5. Remuneration and other benefits paid to the Bank's directors and senior managers

a) Bylaw-stipulated emoluments and other fees

In 2013 the members of the Board of Directors earned remuneration amounting to EUR 155 thousand in the form of bylaw-stipulated emoluments and attendance fees (2012: no remuneration earned by members of the Board of Directors in this connection).

In 2013 the Bank's directors received approximately EUR 15,329 thousand from Banco Santander, S.A. (2012: approximately EUR 14,273 thousand), basically in respect of fixed and variable remuneration earned by certain directors for discharging executive duties at Banco Santander, S.A. and in their capacity as members of the Boards of Directors of other Santander Group entities. Also, the Bank's directors received EUR 23 thousand in 2013 (2012: EUR 32 thousand) from a Group subsidiary in this connection. The variable remuneration of certain directors is subject to a three-year deferral period for payment thereof, as appropriate, in cash and/or in shares of Banco Santander, S.A., provided that certain conditions are met.

The remuneration in kind paid to the Bank's directors amounted to approximately EUR 545 thousand in 2013 (2012: approximately EUR 1,184 thousand) and was paid in full by other Santander Group entities.

b) *Post-employment and other long-term benefits*

The Santander Group's supplementary pension obligations to its current and retired employees include the obligations to current and former directors of the Bank who discharge (or have discharged) executive functions thereat. The total accrued pension obligations to these directors, together with the sum insured under life insurance policies and other defined benefit obligations, amounted to EUR 34,892 thousand at 31 December 2013 (31 December 2012: EUR 33,972 thousand). This amount is covered basically by provisions recorded at Santander Group entities.

The contributions made for the Bank's directors to pension plans amounted to EUR 2,160 thousand in 2013, of which EUR 3 thousand related to defined benefit plans and EUR 2,157 thousand to defined contribution plans (2012: EUR 952 thousand, of which EUR 330 thousand related to defined benefit plans and EUR 622 thousand to defined contribution plans). These contributions were made by other Santander Group entities.

The pension payments made to former members of the Bank's Board of Directors amounted to EUR 86 thousand in 2013 (2012: EUR 337 thousand).

c) *Share option plans for directors and other performance-based remuneration*

The detail of the Banco Santander, S.A. share options granted to directors of the Bank in 2013 and 2012 is as follows:

	Options at 1 January 2012	Options Granted in 2012 (number)	Shares Delivered in 2012 (number)	Options Cancelled in 2012 (number)	Options at 31 December 2012	Options Granted in 2013 (number)	Shares Delivered in 2013 (number)	Options Cancelled in 2013 (number)	Options at 31 December 2013	Grant Date	Share Delivery Deadline
Incentive Plan (I12)											
Mr José A. Álvarez Álvarez	71,530	-	(21,459)	(50,071)	-	-	-	-	-	19/06/09	31/07/12
Mr Juan Rodríguez Inciarte	60,904	-	(18,271)	(42,633)	-	-	-	-	-	19/06/09	31/07/12
Mr José María Espí Martínez	66,035	-	(19,811)	(46,224)	-	-	-	-	-	19/06/09	31/07/12
Mr Ernesto Zulueta Benito	13,800	-	(4,140)	(9,660)	-	-	-	-	-	19/06/09	31/07/12
Ms Inés Serrano González	21,000	-	(6,300)	(14,700)	-	-	-	-	-	19/06/09	31/07/12
Ms Magdalena Salarich Fernández de Valderrama	84,154	-	(25,246)	(58,908)	-	-	-	-	-	19/06/09	31/07/12
Mr David Turiel López	16,800	-	(5,040)	(11,760)	-	-	-	-	-	19/06/09	31/07/12
	334,223	**-**	**(100,267)**	**(233,956)**	**-**	**-**	**-**	**-**	**-**		
Incentive Plan (I13)											
Mr José A. Álvarez Álvarez	71,530	-	-	-	71,530	-	-	(71,530)	-	11/06/10	31/07/13
Mr Juan Rodríguez Inciarte	60,904	-	-	-	60,904	-	-	(60,904)	-	11/06/10	31/07/13
Mr José María Espí Martínez	66,035	-	-	-	66,035	-	-	(66,035)	-	11/06/10	31/07/13
Mr Ernesto Zulueta Benito	14,214	-	-	-	14,214	-	-	(14,214)	-	11/06/10	31/07/13
Ms Inés Serrano González	21,630	-	-	-	21,630	-	-	(21,630)	-	11/06/10	31/07/13
Ms Magdalena Salarich Fernández de Valderrama	84,154	-	-	-	84,154	-	-	(84,154)	-	11/06/10	31/07/13
Mr David Turiel López	17,304	-	-	-	17,304	-	-	(17,304)	-	11/06/10	31/07/13
	335,771	**-**	**-**	**-**	**335,771**	**-**	**-**	**(335,771)**	**-**		

Note 40 to the accompanying consolidated financial statements includes a brief description of these incentive plans.

The maximum limits on the number of shares to be received by the following directors under the Obligatory Investment Share Plan are as follows:

Directors	3rd Cycle 2010-2012	2nd Cycle 2009-2011
Mr Juan Rodríguez Inciarte	15,142	14,738
Mr José Antonio Álvarez Álvarez	14,653	24,590
Ms Magdalena Salarich Fdez. de Valderrama	8,869	13,843
	38,664	**53,171**

The cost of this remuneration is borne in full by other Santander Group entities.

A description of the incentive plans available to certain Santander Group executives, including certain Bank directors, is contained in the Santander Group's consolidated financial statements for 2013.

d) *Loans and deposits*

At 2013 year-end, the Group was exposed to direct risks with its directors in connection with loans, credits and guarantees provided amounting to EUR 21 thousand (2012 year-end: EUR 37 thousand) (see Note 48). At the end of 2013 and 2012, the directors did not hold any customer deposits with the Group.

All the transactions with the Group were arranged on an arm's-length basis or the related remuneration in kind was recognised.

e) *Senior managers*

For the purposes of the preparation of these consolidated financial statements, senior managers are considered to be those persons that have formed part of the Executive Committee or the Management Committee of the Bank.

The remuneration received by the Bank's non-director senior managers (ten persons in 2013 and 2012) amounted to EUR 3,897 thousand in 2013 (2012: EUR 3,240 thousand) and was paid in full by other Santander Group entities.

The remuneration in kind paid to the Bank's non-director senior managers totalled approximately EUR 51 thousand in 2013 (2012: EUR 154 thousand), which were paid by other Santander Group entities.

In 2013 contributions amounting to EUR 624 thousand (2012: EUR 199 thousand) were made to defined contribution pension plans for the Bank's non-director senior managers. These contributions were made by other Santander Group entities. No amounts were paid in this connection in 2013.

The detail, by cycle, of the share options granted to the Bank's non-director senior managers at 31 December 2013 and 2012 is as follows:

	Options at 31 December 2013	Options at 31 December 2012
Incentive Plan (I13)	-	133,686
Incentive Plan (I14)	80,528	80,528
	80,528	**214,214**

The Group's direct risk exposure with non-director senior managers amounted to EUR 6 thousand and EUR 12 thousand at 31 December 2013 and 2012, respectively, all of which was direct risk exposure with the Bank (see Note 48). It should also be noted that these senior managers held deposits at Group entities totalling EUR 257 thousand at 31 December 2013 (31 December 2012: EUR 106 thousand) (see Note 48).

All the transactions with the Group were arranged on an arm's-length basis or the related remuneration in kind was recognised.

f) Termination benefits

The employment contracts of executive directors and senior executives with Group entities have indefinite terms. Executive directors or senior executives whose contracts are terminated voluntarily or due to breach of duties are not entitled to receive any economic compensation. If the contract is terminated for any other reason, they will be entitled only to the corresponding legally-stipulated termination benefit.

Certain non-director members of the Bank's senior management have contracts which entitle them, in certain circumstances, to an extraordinary contribution to their welfare system in the event of termination for reasons other than voluntary redundancy, retirement, disability or serious breach of duties. These benefits are recognised as a provision for pensions and similar obligations and as a staff cost only when the employment relationship between the Bank and its executives is terminated before the normal retirement date.

Also, if the director Mr Juan Rodríguez Inciarte takes pre-retirement, he will receive an annual emolument of EUR 987 thousand (31 December 2012: EUR 987 thousand), in the form of an annuity or a lump sum -i.e. in a single payment- in full but not in part. The cost of this emolument would be borne by other Santander Group entities.

g) Detail of the directors' investments in companies with similar business activities and performance by directors, as independent professionals or as employees, of similar activities

In accordance with the requirements of Article 229 of the Consolidated Spanish Limited Liability Companies Law, following is a detail of the investments held by the directors and persons related to them, as defined in Article 231 of the aforementioned Law, in the share capital of entities engaging in an activity that is identical, similar or complementary to banking, financing or lending in 2013, excluding the functions they discharge at Group entities, and of the management or governing functions, if any, that they discharged thereat:

Director	Corporate Name	Line of Business	Ownership Interest	Functions
Mr Antonio Escámez Torres	Banco Santander, S.A.	Financial institution	0.008%	-
	Open Bank, S.A.	Financial institution	-	Chairman
	Banco de Valencia, S.A.	Financial institution	Less than 0.001%	-
	Attijariwafa Bank, S.A. (Morocco)	Financial institution	Less than 0.001%	Deputy Chairman
	Santander UK plc.	Financial institution	-	Director
Mr Juan Rodríguez Inciarte	Banco Santander, S.A.	Financial institution	0.013%	Director
	Banco Bilbao Vizcaya Argentaria, S.A.	Financial institution	Less than 0.001%	-
	Wells Fargo & Co.	Financial institution	Less than 0.001%	-
	Santander UK plc.	Financial institution	-	Deputy Chairman
	Banco Banif, S.A.	Financial institution	-	Director (*)
Ms Magdalena Salarich Fernández de Valderrama	Banco Santander, S.A.	Financial institution	0.002%	General Manager
	Banco Banif, S.A.	Financial institution	-	Director (*)
Mr José Antonio Álvarez Álvarez	Banco Santander, S.A.	Financial institution	0.002%	General Manager
	Banco Santander (Brasil) S.A.	Financial institution	-	Director
	Santander de Titulización, S.G.F.T.	Fund management company	-	Chairman
	Bank of Zachodni WBK S.A. (Poland)	Financial institution	-	Member of the Supervisory Board
Mr José María Espí Martínez	Banco Santander, S.A.	Financial institution	0.004%	General Manager
	Santander Lease, S.A., E.F.C.	Financial institution	-	Chairman
	Unión de Créditos Inmobiliarios, E.F.C., S.A.	Financial institution	-	Chairman
	U.C.I., S.A.	Financial institution	-	Director
Mr David Turiel López	Banco Santander, S.A.	Financial institution	Less than 0.001%	-
	Citigroup, Inc.	Financial institution	Less than 0.001%	-
	The Royal Bank of Scotland Group, Plc.	Financial institution	Less than 0.001%	-
Mr Luis Alberto Salazar-Simpson Bos	Santander Investment, S.A.	Financial institution	-	Director
	Banco Santander, S.A.	Financial institution	0.002%	-

(*) Entity absorbed by Banco Santander, S.A. in 2013.

Director	Corporate Name	Line of Business	Ownership Interest	Functions
Ms Inés Serrano González	Transolver Finance E.F.C., S.A.	Financial institution	-	Individual Representing Santander Consumer Finance, S.A.
	Banco Santander, S.A.	Financial institution	Less than 0.001%	-
Mr Ernesto Zulueta Benito	Banco Santander, S.A.	Financial institution	Less than 0.001%	-
Mr Bruno Montalvo Wilmot	Santander Consumer UK plc	Financial institution	-	Chairman
	Banco Santander, S.A.	Financial institution	Less than 0.001%	-

6. Loans and advances to credit institutions

The detail, by type and currency, of the balance of "Loans and Receivables - Loans and Advances to Credit Institutions" in the accompanying consolidated balance sheets is as follows:

	Thousands of Euros	
	2013	2012
Type:		
Reciprocal accounts (Note 2-x)	955,673	154,706
Time deposits	5,927,417	5,032,741
Reverse repurchase agreements	178	-
Other accounts	1,790,018	1,248,821
	8,673,286	6,436,268
Currency:		
Euro	8,051,022	5,982,499
Foreign currency	622,264	453,769
	8,673,286	6,436,268
Add - Valuation adjustments	9,460	16,348
Of which:		
Accrued interest	*9,522*	*16,410*
Fees and commissions	*(62)*	*(62)*
	8,682,746	**6,452,616**

Note 46 contains a detail of the terms to maturity of these assets at 31 December 2013 and 2012 and of the related average interest rates in the years then ended.

Most of the loans and advances to credit institutions relate to balances with associates and Santander Group entities (see Note 48).

7. Debt instruments

The detail, by classification, type and currency, of "Loans and Receivables - Debt Instruments" and "Available-for-Sale Financial Assets - Debt Instruments" in the accompanying consolidated balance sheets is as follows:

	Thousands of Euros	
	2013	2012
Classification:		
Loans and receivables	308,838	1,419,943
Available-for-sale financial assets	464,394	213,849
	773,232	**1,633,792**
Type:		
Foreign government debt securities	434,393	173,052
Issued by financial institutions	238,572	809,313
Other fixed-income securities	100,267	651,427
	773,232	**1,633,792**
Currency:		
Euro	340,067	1,461,976
Foreign currency	433,165	171,816
	773,232	**1,633,792**
Less - Impairment losses	-	-
	773,232	**1,633,792**

At 31 December 2013, "Foreign Government Debt Securities" in the foregoing table related mainly to Polish and Norwegian government bonds purchased by the subsidiaries Santander Consumer Bank S.A. (Poland) and Santander Consumer Bank AS (Norway), respectively.

At 31 December 2013, "Issued by Financial Institutions" in the foregoing table included commercial paper issued by Abbey National Treasury Services (UK) and purchased by the subsidiary Santander Consumer Bank S.p.A. (Italy) for EUR 206,500 thousand (31 December 2012: EUR 766,500 thousand). This commercial paper matures in 2014 and the average annual interest rate thereon was 0.18% in 2013 (2012: 0.03%).

At 31 December 2013, "Other Fixed-Income Securities" in the foregoing table included high quality bonds issued by the securitisation special-purpose vehicle Secucor Finance 2013-A1, originated by Financiera El Corte Inglés, S.A. and purchased by the Bank for EUR 100,000 thousand. These asset-backed bonds mature on 13 November 2020 and bear interest at 1-month Euribor plus 2.7%. At 31 December 2012, "Other Fixed-Income Securities" included asset-backed bonds issued by Holmes Master Issuer Plc and purchased by the subsidiary SCB AG (Germany) for EUR 650,000 thousand. These asset-backed bonds matured on 15 October 2054 and bore interest at 3-month Euribor plus 0.75%.

At 31 December 2013 and 2012, none of the debt instruments held by the Group was assigned to own or third-party commitments.

Note 46 contains a detail of the terms to maturity of these financial assets at 31 December 2013 and 2012 and of the related average interest rates in the years then ended.

8. Equity instruments

The detail, by type and currency, of "Available-for-Sale Financial Assets - Equity Instruments" in the accompanying consolidated balance sheets is as follows:

	Thousands of Euros	
	2013	2012
Classification:		
Available-for-sale financial assets	5,519	3,141
	5,519	**3,141**
Type:		
Shares of foreign companies	5,519	3,141
	5,519	**3,141**
Currency:		
Euro	5,238	2,140
Foreign currency	281	1,001
	5,519	**3,141**

The changes in 2013 and 2012 in "Available-for-Sale Financial Assets - Equity Instruments" in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2013	2012
Balance at beginning of year	3,141	1,313
Net additions (disposals)	2,804	1,441
Valuation adjustments	(426)	387
Balance at end of year	**5,519**	**3,141**

9. Trading derivatives (assets and liabilities)

The detail, by type of inherent risk, of the fair value of the trading derivatives arranged by the Group at 31 December 2013 and 2012 is as follows:

	Thousands of Euros			
	2013		2012	
	Asset Balance	Liability Balance	Asset Balance	Liability Balance
Interest rate risk	23,539	34,430	92,573	97,962
Foreign currency risk	71,262	68,581	-	722
	94,801(*)	**103,011(*)**	**92,573(*)**	**98,684(*)**

(*) Of which EUR 64,953 thousand and EUR 78,060 thousand of asset and liability balances, respectively, relate to amounts held with Santander Group companies at 31 December 2013 (31 December 2012: EUR 78,394 thousand and EUR 83,772 thousand of asset and liability balances, respectively, related to Santander Group companies) (see Note 48).

The foregoing table shows the maximum credit risk exposure of the asset balances.

10. Loans and advances to customers

Following is a detail, by loan type and status, borrower sector, geographical area of residence, interest rate formula and currency, of “Financial Assets Held for Trading - Loans and Advances to Customers” and “Loans and Receivables - Loans and Advances to Customers" in the accompanying consolidated balance sheets, which reflect the Group’s exposure to credit risk in its core business, disregarding valuation adjustments:

	Thousands of Euros	
	2013	2012
Loan type and status:		
Commercial credit	39,969	47,645
Secured loans	9,537,231	10,393,744
Other term loans	39,325,967	38,967,202
Finance leases	3,769,779	3,447,141
Receivable on demand and other	3,061,051	3,550,223
Impaired assets	2,348,338	2,312,311
	58,082,335	58,718,266
Borrower sector:		
Public sector - Spain	65	134
Individuals	49,918,627	49,523,917
Energy	8,496	162,860
Construction	343,263	272,108
Manufacturing	1,909,326	1,478,808
Services	3,901,186	4,209,726
Other sectors	2,001,372	3,070,713
	58,082,335	58,718,266
Geographical area:		
Spain and Portugal	7,280,457	7,884,450
Italy	5,651,644	6,633,469
Germany and Austria	32,125,414	31,815,948
Scandinavia	8,583,257	8,087,016
Other	4,441,563	4,297,383
	58,082,335	58,718,266
Interest rate formula:		
Fixed rate	44,185,382	45,218,990
Floating rate	13,896,953	13,499,276
	58,082,335	58,718,266
Currency:		
Euro	47,535,403	48,702,496
Foreign currency	10,546,932	10,015,770
	58,082,335	58,718,266
Less - Valuation adjustments	(2,154,130)	(2,105,042)
Of which:		
Impairment losses	*(2,466,064)*	*(2,526,116)*
Accrued interest	*55,796*	*65,801*
Other	*256,138*	*355,273*
	55,928,205	**56,613,224**

Note 46 contains a detail of the terms to maturity of loans and advances to customers at 31 December 2013 and 2012 and of the related average annual interest rates in the years then ended.

On 26 April 2012, the Bank subscribed 3,425 mortgage participation certificates issued by Banco Santander, S.A. for EUR 416,625 thousand, which were recognised under "Loans and Receivables - Loans and Advances to Customers" in the consolidated balance sheet. These mortgage participation certificates relate to loans maturing at between 1 and 38 years and earn annual interest of between 0.874% and 5.293%. The outstanding balance of these participation certificates amounted to EUR 358,548 thousand at 31 December 2013.

At 31 December 2013 and 2012, there were no loans and advances to customers for material amounts without fixed maturity dates. Loans and advances to customers assigned to own or third-party commitments totalled EUR 1,350,000 thousand at 31 December 2013 (31 December 2012: EUR 1,350,000 thousand) (see Notes 18 and 19).

Note 49 contains information relating to the restructured/refinanced loan book.

Impairment losses

The changes in “Impairment Losses” in the foregoing table in 2013 and 2012 were as follows:

	Thousands of Euros	
	2013	2012
Balance at beginning of year	2,526,116	2,574,306
Net impairment losses charged to consolidated profit for the year	705,901	920,109
Of which:		
Identified losses	*718,563*	*944,710*
Inherent losses	*(12,662)*	*(24,601)*
Changes in the scope of consolidation	-	(9,376)
Write-off of impaired balances against recorded impairment allowance	(771,380)	(947,605)
Exchange differences and other	5,427	(11,318)
Balance at end of year	**2,466,064**	**2,526,116**
Of which:		
By method of assessment-		
Identified losses	*1,710,031*	*1,662,616*
Inherent losses	*756,033*	*863,500*
By geographical location of risk-		
Spain	*374,497*	*403,566*
Other	*2,091,567*	*2,122,550*

Previously written-off assets recovered, including sales of portfolios of written-off and doubtful assets, amounted to EUR 128,490 thousand in 2013 (2012: EUR 139,091 thousand) and are presented as a deduction from “Impairment Losses on Financial Assets - Loans and Receivables” in the accompanying consolidated income statements.

In 2013, the Bank and the subsidiaries Santander Consumer E.F.C., S.A. and Santander Consumer Bank S.A. (Poland) sold portfolios of written-off loans, with a nominal value of EUR 339,309 thousand, for EUR 19,109 thousand, giving rise to a gain of this amount which was recognised under "Impairment Losses on Financial Assets (Net)" in the accompanying consolidated income statement for 2013.

Additionally, in 2013 the subsidiary Santander Consumer Bank S.p.A. (Italy) sold a portfolio of doubtful assets for EUR 11,198 thousand, the outstanding balance of which, net of allowances, amounted to EUR 20,427 thousand at the date of sale. This subsidiary incurred a loss on this sale amounting to EUR 9,229 thousand, which was recognised under "Impairment Losses on Financial Assets (Net)" in the accompanying consolidated income statement for 2013.

In 2012, the subsidiary Santander Consumer Bank S.p.A. (Italy) sold portfolios of doubtful assets for EUR 16,123 thousand, the outstanding balance of which, net of allowances, amounted to EUR 39,199 thousand at the date of sale. This subsidiary incurred a loss on this sale amounting to EUR 23,076 thousand which was recognised under "Impairment Losses on Financial Assets (Net)" in the accompanying consolidated income statement for 2012.

Impaired assets

The changes in 2013 and 2012 in the balance of the financial assets classified as loans and receivables and considered to be impaired due to credit risk at 31 December 2013 and 2012 were as follows:

	Thousands of Euros	
	2013	2012
Balance at beginning of year	2,312,311	2,359,536
Additions net of recoveries	827,103	880,553
Written-off assets	(771,380)	(947,605)
Exchange differences and other	(19,696)	19,827
Balance at end of year	**2,348,338**	**2,312,311**

Following is a detail of the financial assets classified as loans and receivables and considered to be impaired due to credit risk at 31 December 2013 and 2012, classified by geographical location of risk and by age of the oldest past-due amount:

2013						
	Thousands of Euros					
	With No Past-Due Balances or Less than 3 Months Past Due	With Balances Past Due by				
		3 to 6 Months	6 to 9 Months	9 to 12 Months	More than 12 Months	Total
Spain and Portugal	76,225	85,348	38,537	40,003	94,905	335,018
Germany and Austria	7,594	251,994	82,463	78,884	746,348	1,167,283
Italy	25,256	90,362	42,868	44,617	113,109	316,212
Scandinavia	20,080	41,649	28,032	8,560	43,987	142,308
Other	36,236	23,722	16,828	15,552	295,179	387,517
	165,391	**493,075**	**208,728**	**187,616**	**1,293,528**	**2,348,338**

2012						
	Thousands of Euros					
	With No Past-Due Balances or Less than 3 Months Past Due	With Balances Past Due by				
		3 to 6 Months	6 to 9 Months	9 to 12 Months	More than 12 Months	Total
Spain and Portugal	84,138	76,719	47,949	48,644	73,054	330,504
Germany and Austria	6,289	332,551	94,765	81,531	695,130	1,210,266
Italy	49,694	113,953	69,383	10,333	20,474	263,837
Scandinavia	18,420	44,978	40,363	42,901	91	146,753
Other	22,689	23,672	16,880	14,266	283,444	360,951
	181,230	**591,873**	**269,340**	**197,675**	**1,072,193**	**2,312,311**

The non-performing loans ratio stood at 4.04% at 31 December 2013 (31 December 2012: 3.94%).

The accrued interest receivable on impaired assets amounted to EUR 5,310 thousand at 31 December 2013 (31 December 2012: EUR 4,219 thousand). This interest has not been recognised in the accompanying consolidated income statements as there are doubts as to its collection.

Written-off assets

The changes in 2013 and 2012 in the balance of the financial assets classified as loans and receivables and considered to be written-off assets at 31 December 2013 and 2012 were as follows:

	Thousands of Euros	
	2013	2012
Balance at beginning of year	2,720,007	3,084,306
Changes in the scope of consolidation	-	(14,531)
Additions	771,380	947,605
Disposals	(1,342,151)	(1,297,373)
Balance at end of year	**2,149,236**	**2,720,007**

Loans granted to households for the acquisition of homes by the main businesses in Spain

The quantitative information on the loans granted to households for the acquisition of homes by the main businesses in Spain at 31 December 2013 and 2012 is as follows:

	Thousands of Euros	
	2013	2012
Home purchase loans:	2,278,774	2,439,032
Without mortgage guarantee	-	178,735
Of which:		
- *Doubtful*	-	3,601
With mortgage guarantee	2,278,774	2,260,297
Of which:		
- *Doubtful*	85,685	53,911

The detail, by loan-to-value ratio, of the mortgage loans to households for the acquisition of homes at 31 December 2013 and 2012 is as follows:

	2013					
	Loan-to-Value Ratio					
	Millions of Euros					
	Less than or Equal to 40%	More than 40% and Less than 60%	More than 60% and Less than 80%	More than 80% and Less than 100%	More than 100%	Total
Gross amount	*363*	*537*	*820*	*291*	*268*	*2,279*
Of which: Doubtful	*4*	*8*	*18*	*20*	*36*	*86*

	2012					
	Loan-to-Value Ratio					
	Millions of Euros					
	Less than or Equal to 40%	More than 40% and Less than 60%	More than 60% and Less than 80%	More than 80% and Less than 100%	More than 100%	Total
Gross amount	*378*	*537*	*1,147*	*149*	*49*	*2,260*
Of which: Doubtful	*2*	*2*	*5*	*16*	*29*	*54*

Securitisation

The balance of “Loans and Receivables – Loans and Advances to Customers” in the accompanying consolidated balance sheets includes, inter alia, the securitised loans transferred to third parties on which the Group has retained risks, albeit partially, and which therefore, in accordance with current accounting standards, cannot be derecognised. The breakdown of the securitised amounts, classified by the subsidiaries which originated the securitised portfolio, and on the basis of whether the requirements stipulated for derecognition had been met (see Note 2-d), is as follows:

	Thousands of Euros	
	2013	2012
Derecognised	**-**	**-**
Retained on the balance sheet:	**13,104,358**	**12,014,077**
Of which:		
Santander Consumer, E.F.C., S.A. (Spain)	*1,460,857*	*1,621,517*
Santander Consumer Bank AG (Germany)	*3,459,243*	*2,182,443*
Santander Consumer Bank S.p.A. (Italy)	*4,364,908*	*4,719,088*
Santander Consumer Bank A.S. (Norway)	*2,299,454*	*2,441,211*
Banco Santander Consumer Portugal, S.A.	*591,994*	*747,801*
Santander Consumer Finance Oy (Finland)	*572,053*	*302,017*
Santander Consumer Finance Benelux B.V. (the Netherlands)	*355,849*	-
Total	**13,104,358**	**12,014,077**

The securitised assets relate basically to vehicle financing and consumer finance.

In 2013, the subsidiaries mentioned in the foregoing table securitised receivables amounting to EUR 8,182,097 thousand (2012: EUR 4,363,762 thousand). Since substantially all the risks and rewards associated with these receivables had not been transferred, they were not derecognised.

Note 19 details the liabilities associated with these securitisation transactions.

11. Hedging derivatives

The detail, by type of risk hedged, of the fair value of the derivatives qualifying for hedge accounting is as follows:

	Thousands of Euros			
	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Fair value hedges:				
Micro-hedges	74,943	325	99,126	1,540
Portfolio hedges	1,317	409,863	690	647,895
Cash flow hedges (*):				
Micro-hedges	87,966	15,989	-	13,156
Portfolio hedges	9,883	26,895	18,816	59,364
	174,109	**453,072**	**118,632**	**721,955**

(*) Of which EUR 12,502 thousand of losses, net of tax, were recognised as a reduction of consolidated equity at 31 December 2013 (31 December 2012: EUR 48,064 thousand) (see Note 27).

Note 30 includes a description of the hedges arranged by the Group.

12. Non-current assets held for sale and Liabilities associated with non-current assets held for sale

The balance of "Non-Current Assets Held for Sale" in the accompanying consolidated balance sheets includes the amount of foreclosed assets (recovered by the consolidated entities in doubtful loans), net of impairment losses, and the assets of subsidiaries classified as discontinued operations, the detail being as follows:

	Thousands of Euros	
	2013	2012
Loans and advances to credit institutions	2,165	4,154
Loans and advances to customers	44,323	67,409
Other assets	263	359
	46,751	71,922
Foreclosed tangible assets	53,966	62,337
Other	4,410	5,339
	58,376	67,676
Less - Impairment losses	(42,658)	(49,640)
	62,469	**89,958**

The changes in “Impairment Losses” in the foregoing table in 2013 and 2012 were as follows:

	Thousands of Euros	
	2013	2012
Balances at beginning of year	49,640	63,423
Net impairment losses charged to consolidated income for the year (Note 44)	9,842	10,929
Amounts released	(16,824)	(24,712)
	42,658	**49,640**

The consolidated entities incurred a net loss of EUR 2,161 thousand in 2013 on the sale of non-current assets held for sale (2012: a net loss of EUR 3,040 thousand) (see Note 44).

The balance of “Liabilities Associated with Non-Current Assets Held for Sale” in the accompanying consolidated balance sheets includes the amount of the balances payable of the subsidiaries classified as discontinued operations, the detail being as follows:

	Thousands of Euros	
	2013	2012
Other financial liabilities	218	145
Tax liabilities	95	20
Accrued expenses and deferred income	291	292
Other liabilities	452	402
	1,056	**859**

Disclosures on assets received by the businesses in Spain in payment of debts

The detail of the assets foreclosed, based on the recipient of the loan or credit facility initially granted, at 31 December 2013 and 2012 is as follows:

	Thousands of Euros			
	31 December 2013		31 December 2012	
	Carrying Amount	Of which: Impairment Losses	Carrying Amount	Of which: Impairment Losses
Property assets arising from financing granted for construction and property development				
- Completed buildings	30	88	357	1,609
Residential	-	-	*68*	*203*
Other	*30*	*88*	*289*	*1,406*
- Buildings under construction	-	-	-	-
Residential	-	-	-	-
Other	-	-	-	-
- Land	7	20	672	2,549
Developed land	*6*	*17*	*627*	*2,417*
Other land	*1*	*3*	*45*	*132*
Property assets from home purchase mortgage financing granted to households	9,920	32,765	9,428	40,656
Other property assets received in payment of debts	1,706	4,729	410	1,296
Equity instruments of, ownership interests in and financing provided to non-consolidated companies holding these assets	-	.	-	-

13. Investments - Associates and jointly controlled entities

The detail, by company, of “Investments - Associates” and “Investments - Jointly Controlled Entities” in the accompanying consolidated balance sheets, the full amount of which is denominated in euros, is as follows:

	Thousands of Euros	
	2013	2012
Associates:		
Santander Benelux, S.A., N.V.	199,276	199,904
Bank of Beijing Consumer Finance Company	38,168	-
Konecta B.T.O., S.L.	17,995	17,458
Reintegra, S.A.	1,883	2,553
Other associates	11,955	8,667
	269,277	228,582
Of which:		
Goodwill		
Bank of Beijing Consumer Finance Company	*3,094*	-
Konecta B.T.O., S.L.	*1,619*	*1,619*
Grupo Konectanet, S.L.	*1,947*	*1,947*
Other	*340*	*340*
	7,000	*3,906*
Jointly controlled entities:		
Fortune Auto Finance Co. Ltd.	27,560	-
Transolver Finance, E.F.C., S.A.	7,331	6,912
Other jointly controlled entities	2,747	3,211
	37,638	10,123
	306,915	**238,705**

The changes in 2013 and 2012 in “Investments - Associates" and “Investments - Jointly Controlled Entities” in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2013	2012
Balance at beginning of year	238,705	229,995
Purchases and capital increases	70,931	4,291
Sales	-	(1,860)
Effect of equity accounting (Note 33)	10,163	11,587
Exchange differences and other	(12,884)	(5,308)
Balance at end of year	**306,915**	**238,705**

Impairment losses

In 2013 and 2012 there was no evidence of material impairment on the Group's investments.

The financial information on the associates and jointly controlled entities is summarised below:

	Millions of Euros	
	2013(*)	2012
Total assets	11,910	12,601
Total liabilities	(10,377)	(11,308)
Equity	(1,533)	(1,293)
Group's share of the net assets of associates	300	235
Goodwill	7	4
Total Group share	**307**	**239**
Total income	77,330	70,611
Total profit	65	60
Group's share of the profit of associates	10	12

(*) This information was obtained from the financial statements of each associate, which had not yet been approved by the respective governing bodies at the date of preparation of these consolidated financial statements. However, the Bank's directors consider that they will be approved without any changes.

14. Tangible assets

The changes in 2013 and 2012 in "Tangible Assets" in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros			
	Property, Plant and Equipment for Own Use	Other Assets Leased out under an Operating Lease	Investment Property	Total
Cost:				
Balances at 1 January 2012	492,419	280,810	-	773,229
Additions / Disposals (net)	(5,538)	(7,546)	-	(13,084)
Additions	*20,765*	12,597	-	*33,362*
Disposals	*(26,303)*	(20,143)	-	*(46,446)*
Net additions due to change in the scope of consolidation	6,653	-	93	6,746
Exchange differences	3,646	606	-	4,252
Transfers and other	3,177	(741)	-	2,436
Balances at 31 December 2012	500,357	273,129	93	773,579
Additions / Disposals (net)	(22,825)	(22,939)	-	(45,764)
Additions	*29,921*	28,429	-	*58,350*
Disposals	*(52,746)*	(51,368)	-	*(104,114)*
Exchange differences	(1,792)	(62)	(2)	(1,856)
Transfers and other	(1,204)	533	(11)	(682)
Balances at 31 December 2013	**474,536**	**250,661**	**80**	**725,277**
Accumulated depreciation:				
Balances at 1 January 2012	(317,635)	(83,456)	-	(401,091)
Net additions due to change in the scope of consolidation	(5,439)	-	-	(5,439)
Charge for the year	(20,387)	(585)	-	(20,972)
Disposals and retirements	19,443	9,901	-	29,344
Exchange differences	(1,666)	(248)	-	(1,914)
Transfers and other	(2,239)	(8,394)	(12)	(10,645)
Balances at 31 December 2012	(327,923)	(82,782)	(12)	(410,717)
Charge for the year	(27,601)	(627)	-	(28,228)
Disposals and retirements	42,367	15,002	-	57,369
Exchange differences	930	21	-	951
Transfers and other	3,316	(15,639)	12	(12,311)
Balances at 31 December 2013	**(308,911)**	**(84,025)**	**-**	**(392,936)**
Impairment losses:				
Balance at 1 January 2012	(1,164)	(4,431)	-	(5,595)
Net impairment losses (Note 42)	-	219	-	219
Disposals and retirements	-	1,498	-	1,498
Transfers and other	1,074	(898)	-	176
Balance at 31 December 2012	(90)	(3,612)	-	(3,702)
Net impairment losses (Note 42)	(94)	(418)	-	(512)
Disposals and retirements	-	509	-	509
Transfers and other	(710)	320	-	(390)
Balances at 31 December 2013	**(894)**	**(3,201)**	**-**	**(4,095)**
Net tangible assets:				
Balances at 31 December 2012	172,344	186,735	81	359,160
Balances at 31 December 2013	**164,731**	**163,435**	**80**	**328,246**

The balance of tangible assets acquired under finance leases amounted to EUR 54,303 thousand at 31 December 2013 (31 December 2012: EUR 55,431 thousand).

The Group incurred a net loss of EUR 4,771 thousand in 2013 (2012: EUR 2,362 thousand) on sales of property, plant and equipment, relating mainly to assets leased out under an operating lease (see Note 43).

The detail, by class of asset, of “Property, Plant and Equipment for Own Use” in the foregoing table is as follows:

	Thousands of Euros			
	Cost	Accumulated Depreciation	Impairment Losses	Carrying Amount
Buildings	108,387	(24,739)	-	83,648
Furniture	204,175	(155,678)	-	48,497
IT equipment	138,990	(122,152)	-	16,838
Other	48,805	(25,354)	(90)	23,361
Balances at 31 December 2012	**500,357**	**(327,923)**	**(90)**	**172,344**
Buildings	93,627	(20,076)	-	73,551
Furniture	199,488	(143,975)	-	55,513
IT equipment	131,680	(116,885)	-	14,795
Other	49,741	(27,975)	(894)	20,872
Balances at 31 December 2013	**474,536**	**(308,911)**	**(894)**	**164,731**

The net balance of “Property, Plant and Equipment for Own Use” at 31 December 2013 includes approximately EUR 162,254 thousand (31 December 2012: EUR 169,274 thousand) relating to property, plant and equipment owned by Group entities and branches located abroad.

15. Intangible assets

a) Goodwill

The detail of “Goodwill” in the accompanying consolidated balance sheets, based on the cash-generating units giving rise thereto, is as follows:

	Thousands of Euros	
	2013	2012
Germany/Austria	1,284,389	1,284,389
Nordic countries (Scandinavia)	170,479	186,332
The Netherlands	35,550	35,550
Poland	32,183	32,822
Other	159	159
Total	**1,522,760**	**1,539,252**

At least once per year (or whenever there is any indication of impairment), the Group reviews goodwill for impairment (i.e. a potential reduction in its recoverable amount to below its carrying amount). The first step that must be taken in order to perform this analysis is the identification of the cash-generating units, i.e. the Group's smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The amount to be recovered of each cash-generating unit is determined taking into consideration the carrying amount (including any fair value adjustment arising on the business combination) of all the assets and liabilities of all the independent legal entities composing the cash-generating unit, together with the related goodwill.

The amount to be recovered of the cash-generating unit is compared with its carrying amount, including any goodwill allocated to it, in order to determine whether there is any impairment.

The Group's directors assess the existence of any indication that might be considered to be evidence of impairment of the cash-generating unit by reviewing information including the following: (i) certain macroeconomic variables that might affect its investments (population data, political situation and economic situation -including bankarisation-, among others) and (ii) various microeconomic variables comparing the investments of the Group with the financial services industry of the country in which the cash-generating unit carries on most of its business activities (balance sheet composition, total funds under management, results, efficiency ratio, capital adequacy ratio and return on equity, among others).

Regardless of whether there is any indication of impairment, every year the Group calculates the recoverable amount of each cash-generating unit to which goodwill has been allocated and, to this end, it uses price quotations, if available, market references (multiples), internal estimates, and appraisals performed by independent experts.

Firstly, the Group determines the recoverable amount by calculating the fair value of each cash-generating unit on the basis of the quoted price of the cash-generating units, if available, and of the price earnings ratios of comparable local entities.

In addition, the Group performs estimates of the recoverable amounts of certain cash-generating units by calculating their value in use using discounted cash flow projections. The main assumptions used in this calculation are: (i) earnings projections based on the financial budgets approved by the directors which normally cover a five-year period (unless a longer time horizon can be justified), (ii) discount rates determined as the cost of capital taking into account the risk-free rate of return plus a risk premium in line with the market and the business in which the units operate and (iii) constant growth rates used in order to make estimates of earnings to perpetuity which do not exceed the long-term average growth rate for the market in which the cash-generating unit in question operates.

The cash flow projections used by Group management to obtain the values in use are based on the financial budgets approved by both local management of the related local units and the Group's directors. The Group's budgetary estimation process is common for all the cash-generating units. The local management teams prepare their budgets using the following key assumptions:

a) Microeconomic variables of the cash-generating unit: management takes into consideration the current balance sheet structure, the product mix on offer and the business decisions taken by local management in this regard.

b) Macroeconomic variables: growth is estimated on the basis of the changing environment, taking into consideration expected GDP growth in the unit's geographical location and forecast trends in interest and exchange rates. These data, which are based on external information sources, are provided by the Group's economic research service.

c) Past performance variables: in addition, management takes into consideration in the projection the difference (both positive and negative) between the cash-generating unit's past performance and that of the market.

Following is a detail of the main assumptions used in determining the recoverable amount, at 2013 year-end, of the most significant cash-generating unit which was valued using the discounted cash flow method:

	Projected Period	Discount Rate (*)	Nominal Perpetuity Growth Rate
Germany	5 years	9.7%	2.5%

(*) Post-tax discount rate for the purpose of consistency with the earnings projections used.

Given the degree of uncertainty of these assumptions, the Group performs a sensitivity analysis thereof using reasonable changes in the key assumptions on which the recoverable amount of the cash-generating units is based in order to confirm whether their recoverable amount still exceeds their carrying amount. The sensitivity analysis involved adjusting the discount rate by +/- 50 bp and the perpetuity growth rate by +/-50 bp. Following the sensitivity analysis performed, the value in use of this cash-generating unit still exceeds its recoverable amount.

Based on the foregoing and on the estimates, projections and sensitivity analyses available to the Bank's directors, in 2013 the Group did not recognise any impairment loss on goodwill (2012: impairment losses of EUR 249,047 thousand relating to its business in Italy were recognised under “Impairment Losses on Other Assets – Goodwill and Other Intangible Assets” in the accompanying consolidated income statement for 2012) (see Note 42). These losses were attributable to the deterioration of the key assumptions used to calculate the recoverable amount (expected profit, discount rate and perpetuity growth rate).

At 31 December 2013, none of the cash-generating units with significant goodwill had a recoverable amount approximating their carrying amount. The recoverable amount is considered to be close to the carrying amount when reasonable changes in the main assumptions used in the valuation cause the recoverable amount to be below the recoverable amount.

The changes in 2013 and 2012 in this item in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2013	2012
Balance at beginning of year	1,539,252	1,778,415
Additions (Note 3-b)	-	433
Of which:		
Zagiel, S.A. (Poland)	-	*433*
Impairment losses (Note 42)	-	(249,047)
Exchange differences and other	(16,492)	9,451
Balance at end of year	**1,522,760**	**1,539,252**

The Group has goodwill relating to cash-generating units located in non-euro currency countries (mainly Poland and Norway), which gives rise to exchange differences on the translation to euros, at closing rates, of the amounts of goodwill denominated in foreign currencies. In accordance with current legislation, these exchange differences are recognised with a charge to "Valuation Adjustments - Exchange Differences" in consolidated equity. The changes in this line item are disclosed in the accompanying consolidated statement of recognised income and expense.

b) Other intangible assets

The detail of "Other Intangible Assets" in the accompanying consolidated balance sheets is as follows:

	Estimated	Thousands of Euros	
	Useful Life	2013	2012
With finite useful life:			
Customer base	10 years	14,062	26,658
IT developments	3 years	508,265	534,636
Other		92	19
		522,419	**561,313**

The changes in 2013 and 2012 in "Other Intangible Assets" in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2013	2012
Balance at beginning of year	561,313	432,709
Net additions	109,062	236,081
Amortisation charge	(146,496)	(107,462)
Impairment losses (Note 42)	(1,460)	(15)
Balance at end of year	**522,419**	**561,313**

Most of the additions in 2013 and 2012 relate to the implementation of management and accounting software at certain Group companies in Germany for their commercial banking business.

16. Other assets and Other liabilities

The detail of "Other Assets" and "Other Liabilities" in the accompanying consolidated balance sheets is as follows:

	Thousands of Euros			
	Assets		Liabilities	
	2013	2012	2013	2012
Inventories	5,367	7,562	-	-
Prepaid expenses	44,919	41,711	-	-
Accrued expenses	-	-	368,545	346,829
Transactions in transit	16,889	12,903	39,071	32,219
Other	673,189	492,962	574,658	444,710
	740,364	**555,138**	**982,274**	**823,758**

17. Deposits from central banks and Deposits from credit institutions

"Financial Liabilities at Amortised Cost - Deposits from Central Banks" in the accompanying consolidated balance sheets relates in full to asset-backed securities discounted at European central banks.

The detail, by type and currency, of the balance of "Financial Liabilities at Amortised Cost – Deposits from Credit Institutions" in the accompanying consolidated balance sheets is as follows:

	Thousands of Euros	
	2013	2012
Type:		
Reciprocal accounts	45,415	5,985
Time deposits	12,406,918	16,590,642
Other demand accounts	1,505,937	675,978
	13,958,270	17,272,605
Currency:		
Euro	11,363,592	12,259,477
Foreign currency	2,594,678	5,013,128
	13,958,270	17,272,605
Add - Valuation adjustments	51,634	48,334
Of which:		
Accrued interest	*52,581*	*48,440*
Other	*(947)*	*(106)*
	14,009,904	**17,320,939**

A portion of these deposits from credit institutions relates to transactions performed with Santander Group entities (see Note 48).

Note 46 contains a detail of the terms to maturity of these financial liabilities at amortised cost at 31 December 2013 and 2012 and of the related average annual interest rates in the years then ended.

At 31 December 2013, the consolidated entities had unused credit facilities amounting to EUR 3,300,950 thousand (31 December 2012: EUR 6,783,776 thousand).

18. Customer deposits

The detail, by type, geographical area and currency, of "Customer Deposits" in the accompanying consolidated balance sheets is as follows:

	Thousands of Euros	
	2013	2012
Type:		
On demand-		
Current accounts	12,910,139	10,441,143
Savings accounts	3,519,302	2,895,826
Other demand deposits	790	3,833
Time deposits-		
Fixed-term deposits	13,975,569	18,036,670
Home-purchase savings accounts	2	2
Other time deposits	150,000	150,000
	30,555,802	31,527,474
Geographical area:		
Spain and Portugal	273,979	271,790
Germany	27,069,954	29,350,277
Poland	1,591,378	1,598,009
Italy	322,648	267,347
Scandinavia	1,123,618	38,759
Other	174,225	1,292
	30,555,802	31,527,474
Currency:		
Euro	25,002,318	29,890,706
Foreign currency	5,553,484	1,636,768
	30,555,802	31,527,474
Add - Valuation adjustments	374,078	586,666
Of which:		
Accrued interest	*374,923*	*587,098*
	30,929,880	**32,114,140**

The amount recognised under “Other Time Deposits” in the foregoing table relates to single mortgage-backed bonds ("cédulas hipotecarias") issued by the Bank on 17 July 2007 for a principal amount of EUR 150,000 thousand, which mature on 20 July 2022 and are secured by mortgages registered in the Bank’s favour (see Note 10). These bonds were subscribed by Santander Investment Bolsa, Sociedad de Valores, S.A., which in turn transferred them to the securitisation special-purpose vehicle Programa Independiente de Titulización de Cédulas Hipotecarias. The annual interest rate on these bonds is 5.135%. There are no early redemption options on these bonds for the Bank or for the holder, except in the legally stipulated circumstances.

Note 46 contains a detail of the terms to maturity of these financial liabilities at amortised cost at 31 December 2013 and 2012 and of the related average annual interest rates in the years then ended.

19. Marketable debt securities

The detail, by type, of “Marketable Debt Securities” in the accompanying consolidated balance sheets is as follows:

	Thousands of Euros	
	2013	2012
Bonds and debentures outstanding	8,887,318	5,658,043
Mortgage-backed bonds	1,193,952	1,193,952
Notes and other securities	2,493,691	697,400
	12,574,961	7,549,395
Add- Valuation adjustments-	138,690	151,576
Of which:		
Accrued interest	74,455	64,087
Issue premiums/discounts	1,132	(9,355)
Micro-hedges (Note 30) (*)	69,277	101,818
Other	(6,174)	(4,974)
	12,713,651	**7,700,971**

(*) Of which EUR 17,482 thousand relate to a micro-hedge that was discontinued in 2013 (EUR 25,141 thousand relate to a micro-hedge that was discontinued in 2012). This amount is deferred with a credit to “Interest Expense and Similar Charges” in the consolidated income statement until the mortgage-backed bonds included in the foregoing table mature.

Bonds and debentures outstanding

The balance of “Bonds and Debentures Outstanding” in the foregoing table includes the outstanding balance of the bonds and debentures issued in 2013 by Group subsidiaries -Santander Consumer Bank S.A. (Poland), Santander Consumer Bank S.p.A. (Italy) and Santander Consumer Bank AS (Norway)- amounting to EUR 1,566,326 thousand at 31 December 2013 (31 December 2012: EUR 1,926,464 thousand). At 31 December 2013, “Bonds and Debentures Outstanding” also included the balance of the financing obtained by the Group in the securitisation transactions performed by Group subsidiaries (see Note 10) amounting to EUR 4,921,986 thousand (31 December 2012: EUR 2,695,875 thousand).

Also, at its meeting held on 25 April 2013, the Bank's Board of Directors resolved to launch a Euro Medium Term Notes programme with a maximum principal amount outstanding that may not exceed EUR 5,000 million. The programme was listed on the Luxembourg Stock Exchange on 26 June 2013. At 31 December 2013, the outstanding balance of these notes amounted to EUR 2,399,006 thousand (31 December 2012: EUR 1,035,704 thousand), and they mature between 20 January 2014 and 28 September 2016. The annual interest rate on these financial liabilities is between 1.2% and 3.5%.

Mortgage-backed bonds

The balance of "Mortgage-Backed Bonds" in the foregoing table includes the amount of the mortgage-backed bonds issued by the Bank on 23 March 2006. These bonds, which are listed on the Spanish AIAF fixed-income market, are secured by mortgages registered in the Bank's favour (see Note 10), have a principal amount of EUR 1,200,000 thousand and mature on 23 March 2016. The annual interest rate on these liabilities is 3.875% and there are no early redemption options on these bonds for the Bank or for the holders, except in the legally stipulated circumstances.

Notes and other securities

"Notes and Other Securities" in the foregoing table relates to issues launched by the Bank, which were admitted to trading and bore average annual interest of 1.05% in 2013 (2012: 1.19%), the detail being as follows:

- The shareholders at the Annual General Meeting of the Bank on 11 April 2013 resolved to empower the Bank's Board of Directors to issue fixed-income securities up to an amount of EUR 30,000 million. In turn, at the Board meeting held on 25 April 2013, the directors delegated these powers to the Bank's Executive Committee. At its meetings held on 12 and 26 September 2013, the Executive Committee resolved to issue a Notes Programme with a maximum principal amount outstanding that may not exceed EUR 5,000 million. These notes, whose unit nominal value is EUR 100,000, have maturities ranging from a minimum of 3 business days to a maximum of 731 calendar days (2 years and 1 day). This programme is registered in the Official Registers of the Spanish National Securities Market Commission (CNMV).

  The balance of the notes traded on the Spanish AIAF fixed-income market amounted to EUR 2,240,801 thousand at 31 December 2013 (31 December 2012: EUR 499,763 thousand).

- At its meeting held on 25 April 2013, the Bank's Board of Directors resolved to launch a Euro Commercial Paper programme with a maximum principal amount outstanding that may not exceed EUR 8,000 million. The maturities of this commercial paper range from a minimum of 1 day to a maximum of 364 days. This programme was listed on the Dublin Stock Exchange on 21 June 2013. The outstanding balance of this commercial paper amounted to EUR 252,890 thousand at 31 December 2013 (31 December 2012: 197,637 thousand).

Other information

At 31 December 2013 and 2012, none of these issues was convertible into Bank shares or granted privileges or rights which, in certain circumstances, make them convertible into shares.

Note 46 contains a detail of the terms to maturity of these financial liabilities at amortised cost at 31 December 2013 and 2012 and of the related average annual interest rates in the years then ended.

Information on issues, repurchases or redemptions of debt instruments

Following is a detail of the outstanding balance of the debt instruments issued by the Bank or by any other Group entity, at 31 December 2013 and 2012, and of the changes in this balance in 2013 and 2012:

	Thousands of Euros				
	2013				
	Outstanding Balance at 01/01/13	Issues	Repurchases or Redemptions	Exchange Rate and Other Adjustments	Outstanding Balance at 31/12/13
Debt instruments issued in an EU Member State for which it was necessary to file a prospectus	7,549,395	17,371,167	(12,323,275)	(22,326)	12,574,961
Debt instruments issued in an EU Member State for which it was not necessary to file a prospectus	-	-	-	-	-
Other debt instruments issued outside an EU Member State	-	-	-	-	-
	7,549,395	**17,371,167**	**(12,323,275)**	**(22,326)**	**12,574,961**

	Thousands of Euros				
	2012				
	Outstanding Balance at 01/01/12	Issues	Repurchases or Redemptions	Exchange Rate and Other Adjustments	Outstanding Balance at 31/12/12
Debt instruments issued in an EU Member State for which it was necessary to file a prospectus	7,611,685	9,506,006	(9,566,143)	(2,153)	7,549,395
Debt instruments issued in an EU Member State for which it was not necessary to file a prospectus	-	-	-	-	-
Other debt instruments issued outside an EU Member State	-	-	-	-	-
	7,611,685	**9,506,006**	**(9,566,143)**	**(2,153)**	**7,549,395**

Other issues guaranteed by the Group

At 31 December 2013 and 2012, there were no debt instruments issued by associates or non-Group third parties that had been guaranteed by the Bank or by any other Group entity.

Spanish mortgage-market issues

The members of the Boards of Directors of the Group entities state that the Group entities have specific policies and procedures in place to cover all activities relating to the mortgage market issues launched by the Group, which guarantee strict compliance with the mortgage market regulations applicable to these activities as provided for in Royal Decree 716/2009, of 24 April, implementing certain provisions of Mortgage Market Law 2/1981, of 25 March, and, by application thereof, in Bank of Spain Circulars 7/2010 and 5/2011, and other financial and mortgage system regulations. Also, financial management defines the Group entities' funding strategy.

The risk policies applicable to mortgage market transactions envisage maximum loan-to-value (LTV) ratios, and specific policies are also in place adapted to each mortgage product, which occasionally require the application of stricter limits.

The Bank's general policies in this respect require the repayment capacity of each potential customer (the effort ratio in loan approval) to be analysed using specific indicators that must be met. This analysis must determine whether each customer's income is sufficient to meet the repayments of the loan requested. In addition, the analysis of each customer must include a conclusion on the stability over time of the customer's income considered with respect to the life of the loan. The aforementioned indicator used to measure the repayment capacity (effort ratio) of each potential customer takes into account mainly the relationship between the potential debt and the income generated, considering on the one hand the monthly repayments of the loan requested and other transactions and, on the other, the monthly salary income and other duly supported income.

The Group entities have specialised document comparison procedures and tools for verifying customer information and solvency.

The Group entities' procedures envisage that each mortgage originated in the mortgage market must be individually valued by an appraisal company not related to the Group.

In accordance with Article 5 of Mortgage Market Law 41/2007, any appraisal company approved by the Bank of Spain may issue valid appraisal reports. However, as permitted by this same article, the Group entities perform several checks and select, from among these companies, a small group with which they enter into cooperation agreements with special conditions and automated control mechanisms. The Group's internal regulations detail the internally approved companies, the approval requirements and procedures, and the controls established to uphold them. In this connection, the regulations establish the functions of an appraisal company committee on which the various areas of the Santander Group related to these companies are represented. The aim of the committee is to regulate and adapt the internal regulations and the activities of the appraisal companies to the current market and business situation.

Essentially, the companies wishing to cooperate with the Group must have a significant level of activity in the mortgage market in the geographical area in which they operate, pass a preliminary screening process based on criteria of independence, technical capacity and solvency in order to ascertain the continuity of their business and, lastly, they must pass a series of tests prior to obtaining definitive approval.

In order to comply in full with the legislation, any appraisal provided by the customer is reviewed, irrespective of the issuing appraisal company, to verify whether the appraiser formally meets the requirements, procedures and methods established in current legislation and whether the values reported are customary in the market.

Set forth below is the information required by Bank of Spain Circulars 7/2010 and 5/2011, pursuant to the aforementioned Royal Decree 716/2009, of 24 April:

	Millions of Euros	
	2013	2012
Face value of the outstanding mortgage loans and credits that support the issuance of mortgage-backed and mortgage bonds pursuant to Royal Decree 716/2009 (excluding securitised bonds)	2,325	2,491
Of which:		
Loans eligible to cover issues of mortgage-backed securities	*1,739*	*2,136*
Transfers of assets retained on balance sheet: mortgage-backed certificates and other securitised mortgage assets	*586*	*355*

Mortgage-backed bonds

The mortgage-backed bonds ("cédulas hipotecarias") issued by the Group entities are securities the principal and interest of which are specifically secured by mortgages, there being no need for registration in the Property Register and without prejudice to the issuer's unlimited liability.

The mortgage-backed bonds include the holder’s financial claim on the issuer, secured as indicated in the preceding paragraph, and may be enforced to claim payment from the issuer after maturity. The holders of these securities have the status of special preferential creditors vis-à-vis all other creditors (established in Article 1923.3 of the Spanish Civil Code) in relation to all the mortgage loans and credits registered in the issuer's favour and, where appropriate, in relation to the cash flows generated by the derivative financial instruments associated with the issues.

In the event of insolvency, the holders of mortgage-backed bonds will enjoy the special privilege established in Article 90.1.1 of Insolvency Law 22/2003, of 9 July. Without prejudice to the foregoing, in accordance with Article 84.2.7 of the Insolvency Law, during the insolvency proceedings, the payments relating to the repayment of the principal and interest of the bonds issued and outstanding at the date of the insolvency filing will be settled up to the amount of the income received by the insolvent party from the mortgage loans and credits and, where appropriate, from the replacement assets backing the bonds and from the cash flows generated by the financial instruments associated with the issues (Final Provision 19 of the Insolvency Law).

If, due to a timing mismatch, the income received by the insolvent party is insufficient to meet the payments described in the preceding paragraph, the insolvency managers must settle them by realising the replacement assets set aside to cover the issue and, if this is not sufficient, they must obtain financing to meet the mandated payments to the holders of the mortgage-backed bonds, and the finance provider must be subrogated to the position of the bond-holders.

In the event that the measure indicated in Article 155.3 of the Insolvency Law were to be adopted, the payments to all holders of the mortgage-backed bonds issued would be made on a pro-rata basis, irrespective of the issue dates of the bonds.

The Group had a balance of mortgage-backed bonds outstanding at 31 December 2013 and 2012 amounting to EUR 1,350 million relating to issues launched by the Bank. The Bank's separate financial statements include details of the issues outstanding at 31 December 2013 and 2012.

Mortgage-backed bond issuers have an early redemption option solely for the purpose of complying with the limits on the volume of outstanding mortgage-backed bonds stipulated by mortgage market regulations.

None of the mortgage-backed bonds issued by the Group entities had replacement assets assigned to them.

Case-by-case information of certain issues, repurchases or redemptions of debt instruments

The main characteristics of the most significant issues launched by the Group in 2013 and 2012, or guaranteed by the Bank or Group entities in those years, are as follows:

Issuer Data				Data on the Issues Launched in 2013								
Name	Relationship with the Bank	Country of Origination	Issuer or Issue Credit Rating	ISIN Code	Type of Instrument	Transaction Date	Amount of the Issue (Thousands of Euros)	Balance Outstanding at 31/12/13 (Thousands of Euros)	Interest Rate	Market Where Quoted	Type of Guarantee Given	Risks Additional to the Guarantee that the Group would Assume
SC Germany Consumer 2013-1 UG (haftungsbeschränkt)	(*)	Germany	DBRS A(sf) Rating & S&P A(sf) Rating	XS0900799213	Senior debt	25/03/13	1,720,000(**)	1,024,919	1.253%	Luxembourg Stock Exchange	-	-
SC Germany Consumer 2013-1 UG (haftungsbeschränkt)	(*)	Germany	N/A	XS0900803262	Junior debt	25/03/13	180,000	180,000	1.908%	Luxembourg Stock Exchange	-	-
SC Germany Auto 2013-1 UG (haftungsbeschränkt)	(*)	Germany	Fitch AAA sf Rating & Moody's Aaa (sf) Rating & S&P AAA (sf) Rating	XS0808632680	Senior debt	21/03/13	549,000(**)	407,239	Euribor + 0.38%	Luxembourg Stock Exchange	-	-
SC Germany Auto 2013-1 UG (haftungsbeschränkt)	(*)	Germany	N/A	XS0808639180	Junior debt	21/03/13	51,000	51,000	Euribor + 0.50%	Luxembourg Stock Exchange	-	-
Dansk Auto Finansiering 1 Limited	(*)	Denmark	N/A	IE00B9HGKD62	Senior debt	26/03/13	564,225(**)	399,239	USD LIBOR + 0.9%	Irish Stock Exchange	-	-
Dansk Auto Finansiering 1 Limited	(*)	Denmark	N/A	IE00B9JL8Q83	Junior debt	26/03/13	195,810	195,810	3M CIBOR + 1%	Irish Stock Exchange	-	-
Dansk Auto Finansiering 1 Limited	(*)	Denmark	N/A	IE00B8T2LN25	Junior debt	26/03/13	40,120	40,120	3M CIBOR + 1.10%	Irish Stock Exchange	-	-

Issuer Data				Data on the Issues Launched in 2013								
Name	Relationship with the Bank	Country of Origination	Issuer or Issue Credit Rating	ISIN Code	Type of Instrument	Transaction Date	Amount of the Issue (Thousands of Euros)	Balance Outstanding at 31/12/13 (Thousands of Euros)	Interest Rate	Market Where Quoted	Type of Guarantee Given	Risks Additional to the Guarantee that the Group would Assume
SCF Rahoituspalvelut 2013 Ltd.	(*)	Ireland	Fitch AAA(sf) Rating & Moody's Aaa Rating	XS0973934192	Senior debt	08/10/13	439,000(**)	365,463	0.802%	Irish Stock Exchange	-	-
SCF Rahoituspalvelut 2013 Ltd.	(*)	Ireland	Fitch A(sf) Rating & Moody's A2(sf) Rating	XS0973934358	Junior debt	08/10/13	48,800	48,800	0.902%	Irish Stock Exchange	-	-
SCF Rahoituspalvelut 2013 Ltd.	(*)	Ireland	N/A	N/A	Junior debt	08/10/13	25,555	25,555	1.002%	N/A	-	-
SC Germany Auto 2013-2 UG (haftungsbeschränkt)	(*)	Germany	DBRS AAA(sf) Rating & Fitch AAA(sf) Rating & S&P AAA(sf) Rating	XS0952561636	Senior debt	16/07/13	549,000(**)	466,351	Euribor + 0.48%	Luxembourg Stock Exchange	-	-
SC Germany Auto 2013-2 UG (haftungsbeschränkt)	(*)	Germany	N/A	XS0952567591	Junior debt	16/07/13	51,000	51,000	Euribor + 1.50%	N/A	-	-
SC Germany Vehicles 2013-1 UG (haftungsbeschränkt)	(*)	Germany	S&P A(sf) Rating & DBRS A(sf) Rating	XS0980215825	Senior debt	21/10/13	630,000	630,000	1.593%	Luxembourg Stock Exchange	-	-
SC Germany Vehicles 2013-1 UG (haftungsbeschränkt)	(*)	Germany	N/A	XS0980216807	Junior debt	21/10/13	70,000	70,000	2.802%	N/A	-	-
Bilkreditt 4 Limited	(*)	Norway	S&P AAA(sf) Rating & Moody's Aaa(sf) Rating	XS0963557698	Senior debt	09/09/13	412,000(**)	345,201	Euribor + 0.45%	Irish Stock Exchange	-	-
Bilkreditt 4 Limited	(*)	Norway	S&P A(sf) Rating & Moody's Aa3(sf) Rating	XS0963558159	Junior debt	09/09/13	31,164	31,164	Nibor + 1.10%	Irish Stock Exchange	-	-
Bilkreditt 4 Limited	(*)	Norway	N/A	N/A	Junior debt	09/09/13	35,149	35,149	Nibor + 1.20%	N/A	-	-

Issuer Data				Data on the Issues Launched in 2013								
Name	Relationship with the Bank	Country of Origination	Issuer or Issue Credit Rating	ISIN Code	Type of Instrument	Transaction Date	Amount of the Issue (Thousands of Euros)	Balance Outstanding at 31/12/13 (Thousands of Euros)	Interest Rate	Market Where Quoted	Type of Guarantee Given	Risks Additional to the Guarantee that the Group would Assume
Bilkreditt 5 Limited	(*)	Norway	S&P AAA(sf) Rating & Moody's Aaa(sf) Rating	XS0973570053	Senior debt	18/11/13	494,000	494,000	Euribor + 0.43%	Irish Stock Exchange	-	-
Bilkreditt 5 Limited	(*)	Norway	S&P A(sf) Rating & Moody's A2(sf) Rating	XS0973570137	Junior debt	18/11/13	46,187	46,187	Nibor + 1.10%	Irish Stock Exchange	-	-
Bilkreditt 5 Limited	(*)	Norway	N/A	N/A	Junior debt	18/11/13	34,067	34,067	Nibor + 1.20%	N/A	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2013-1	(*)	Spain	Moody's A3(sf) Rating & Fitch A+(sf) Rating	ES0367395003	Senior debt	10/10/13	481,200	481,200	3%	AIAF Fixed-Income Market	-	-
BCLF 2013-1 B.V.	(*)	The Netherlands	N/A	N/A	Senior debt	26/04/13	280,000	280,000	1M Euribor + 1.92%	Private securitisation	-	-
Golden Bar Stand Alone 2013-1	(*)	Italy	N/A	N/A	Senior debt	18/11/13	1,000,000	1,000,000	1.00%	Private securitisation	-	-
Golden Bar Stand Alone 2013-2	(*)	Italy	N/A	N/A	Senior debt	18/11/13	254,820	254,820	1.00%	Private securitisation	-	-

(*) The rights acquired by these special-purpose vehicles were not derecognised since substantially all the risks and rewards associated with these collection rights were not transferred.

(**) These bonds had been redeemed in part at the end of the related year.

Issuer Data				Data on the Issues Launched in 2012								
Name	Relationship with the Bank	Country of Origination	Issuer or Issue Credit Rating	ISIN Code	Type of Instrument	Transaction Date	Amount of the Issue (Thousands of Euros)	Balance Outstanding at 31/12/12 (Thousands of Euros)	Interest Rate	Market Where Quoted	Type of Guarantee Given	Risks Additional to the Guarantee that the Group would Assume
Bilkreditt 3 Limited	(*)	Norway	Fitch AAA(sf) Rating & Moody's Aaa(sf) Rating	X0808637218	Senior debt	26/11/12	670,000(**)	620,167	Euribor + 0.52%	Irish Stock Exchange	-	-
Bilkreditt 3 Limited	(*)	Norway	Fitch AAA(sf) Rating & Moody's Aaa(sf) Rating	-	Senior debt	26/11/12	149,164(**)	143,601	NIBOR + 0.90%	Irish Stock Exchange	-	-
Bilkreditt 3 Limited	(*)	Norway	Unrated	-	Junior debt	26/11/12	144,434	144,434	NIBOR + 1.15%	-	-	-
Golden Bar (Securitisation) Series 2012-2	(*)	Italy	Moody's A3 Rating & DBRS A Rating	IT0004852452	Senior debt	30/10/12	955,360	955,360	1.5%	Irish Stock Exchange	-	-
Golden Bar (Securitisation) Series 2012-2	(*)	Italy	Moody's Ba1 Rating & DBRS BB Rating	IT0004852676	Junior debt	30/10/12	72,559	72,559	1.5%	-	-	-
Golden Bar (Securitisation) Series 2012-2	(*)	Italy	Unrated	IT0004852684	Junior debt	30/10/12	181,398	181,398	N/A	-	-	-
Svensk Autofinans 1 Limited	(*)	Sweden	Fitch AAA(sf) Rating	XS0846727690	Senior debt	17/10/12	461,786(**)	406,644	Stibor + 0.95%	Irish Stock Exchange	-	-
Svensk Autofinans 1 Limited	(*)	Sweden	Unrated	-	Senior debt	17/10/12	69,002	69,002	Stibor + 1.10%	-	-	-

Issuer Data				Data on the Issues Launched in 2012								
Name	Relationship with the Bank	Country of Origination	Issuer or Issue Credit Rating	ISIN Code	Type of Instrument	Transaction Date	Amount of the Issue (Thousands of Euros)	Balance Outstanding at 31/12/12 (Thousands of Euros)	Interest Rate	Market Where Quoted	Type of Guarantee Given	Risks Additional to the Guarantee that the Group would Assume
SCF Rahoituspalvelut Ltd.	(*)	Finland	Fitch AAA Rating & Moody's Aaa Rating	N/A	Senior debt	25/04/12	402,435(**)	256,150	1M Euribor + 1%	Irish Stock Exchange	-	-
SCF Rahoituspalvelut Ltd.	(*)	Finland	Unrated	N/A	Junior debt	25/04/12	79,524	79,524	1M Euribor + 1.1%	-	-	-
Golden Bar (Securitisation) Series 2012-1	(*)	Italy	Moody's A2(sf) Rating & DBRS A(sf) Rating	IT0004827660	Senior debt	23/07/12	527,200	527,200	1.5%	Irish Stock Exchange	-	-
Golden Bar (Securitisation) Series 2012-1	(*)	Italy	Moody's Baa3(sf) Rating & DBRS BBB(sf) Rating	IT0004827678	Senior debt	23/07/12	56,500	56,500	1.5%	Irish Stock Exchange	-	-
Golden Bar (Securitisation) Series 2012-1	(*)	Italy	Unrated	N/A	Junior debt	23/07/12	169,400	169,400	N/A	-	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2012-1	(*)	Spain	Moody's A3(sf) Rating & Fitch A-(sf) Rating	ES0364544009	Senior debt	20/11/12	425,000	425,000	3%	AIAF Fixed-Income Market	-	-

(*) The rights acquired by these special-purpose vehicles were not derecognised since substantially all the risks and rewards associated with these collection rights were not transferred.

(**) These bonds had been redeemed in part at the end of the related year.

20. Subordinated liabilities

The detail, by currency of issue, of "Subordinated Liabilities" in the accompanying consolidated balance sheets is as follows:

	Thousands of Euros		31 December 2013		31 December 2012	
Currency of Issue	2013	2012	Outstanding Issue Amount in Foreign Currency (Millions)	Annual Interest Rate at 31/12/13	Outstanding Issue Amount in Foreign Currency (Millions)	Annual Interest Rate at 31/12/12
Euro	1,260,664	1,434,070	-	3.01%	-	3.02%
Norwegian krone (*)	46,646	53,097	390	3.80%	390	4.89%
Polish zloty (**)	36,508	37,388	152	5.02%	152	6.08%
Balance at end of year	**1,343,818**	**1,524,555**				

(*) Including two subordinated loans granted to the subsidiary Santander Consumer Bank AS by a Santander Group entity for NOK 180 million and NOK 210 million, which may not be repaid early.

(**) Including two subordinated loans granted to Santander Consumer Bank S.A. (Poland) by a Santander Group entity for PLN 100 million and PLN 50 million, which may be repaid early on or after 14 December 2011 and 15 January 2014, respectively.

The detail of subordinated liabilities denominated in euros is as follows:

Company	Thousands of Euros	Counterparty	Early Redemption Date	Maturity Date
Santander Consumer E.F.C., S.A. (1)	34,000	Santander Benelux, S.A./N.V.	16/12/14	16/12/19
Santander Consumer Finance, S.A. (1)	86,000	Banco Santander, S.A.	28/11/11	28/09/16
Santander Consumer Bank S.p.A.	6,500	Open Bank Santander Consumer, S.A.	(2)	30/06/14
Santander Consumer Bank S.p.A.	6,500	Open Bank Santander Consumer, S.A.	(2)	31/10/14
Santander Consumer Bank S.p.A.	6,500	Open Bank Santander Consumer, S.A.	(2)	30/06/15
Santander Consumer Bank S.p.A.	6,500	Open Bank Santander Consumer, S.A.	(2)	31/10/15
Santander Consumer Bank S.p.A.	6,500	Open Bank Santander Consumer, S.A.	(2)	31/10/16
Santander Consumer Bank S.p.A.	6,500	Open Bank Santander Consumer, S.A.	(2)	31/10/17
Santander Consumer Bank S.p.A.	39,000	Open Bank Santander Consumer, S.A.	(2)	22/06/16
Santander Consumer Bank S.p.A.	39,000	Open Bank Santander Consumer, S.A.	(2)	31/10/18
Santander Consumer Bank AG	20,000	Open Bank Santander Consumer, S.A.	(3)	06/08/14
Santander Consumer Bank AG	25,000	Open Bank Santander Consumer, S.A.	(3)	30/11/14
Santander Consumer Bank AG	20,000	Open Bank Santander Consumer, S.A.	(3)	20/04/15
Santander Consumer Bank AG	22,000	Open Bank Santander Consumer, S.A.	(3)	20/01/16
Santander Consumer Bank S.p.A.	10,000	Santander Benelux, S.A./N.V.	(2)	30/06/14
Santander Consumer Bank S.p.A.	39,000	Santander Benelux, S.A./N.V.	(2)	22/04/15
Santander Consumer Bank S.p.A.	21,000	Santander Benelux, S.A./N.V.	(2)	30/06/14
Santander Consumer Bank S.p.A.	4,000	Santander Benelux, S.A./N.V.	(2)	31/12/15
Santander Consumer Bank S.p.A.	4,000	Santander Benelux, S.A./N.V.	(2)	31/12/16
Santander Consumer Bank S.p.A.	4,000	Santander Benelux, S.A./N.V.	(2)	31/12/17
Santander Consumer Bank S.p.A.	4,000	Santander Benelux, S.A./N.V.	(2)	31/12/18
Santander Consumer Bank S.p.A.	24,000	Santander Benelux, S.A./N.V.	(2)	31/12/19
Santander Consumer Holding GmbH	600,000	Banco Santander, S.A.	(3)	22/03/21
Santander Consumer Holding GmbH	200,000	Banco Santander, S.A.	(3)	22/03/21
Santander Consumer Bank S.p.A.	25,000	Banco Madesant, Sociedade Unipessoal, S.A.	(2)	30/09/19
	1,259,000			
Add - Valuation adjustments	1,664			
Total	**1,260,664**			

(1) May not be redeemed early without authorisation from the Bank of Spain.

(2) May be fully or partially redeemed on or after the first principal repayment date, subject to authorisation from the Bank of Italy.

(3) May not be redeemed early.

The changes in “Subordinated Liabilities” in 2013 and 2012 were as follows:

	Thousands of Euros	
	2013	2012
Balance at beginning of year	1,524,555	777,868
Additions	-	800,764
Of which:		
Germany	-	*800,764*
Redemptions	(170,100)	(55,535)
Of which:		
Spain	*(153,600)*	-
Italy	-	*(22,886)*
Germany	-	*(32,649)*
Italy	*(16,500)*	-
Exchange differences and other	(10,637)	1,458
Balance at end of year	**1,343,818**	**1,524,555**

Note 46 contains a detail of the residual maturity periods of these subordinated liabilities at 31 December 2013 and 2012 and of the related average annual interest rates in the years then ended.

21. Other financial liabilities

The detail of "Other Financial Liabilities" in the accompanying consolidated balance sheets is as follows:

	Thousands of Euros	
	2013	2012
Declared dividends payable (*)	-	400,031
Trade payables	46,277	55,220
Tax collection accounts	15,636	20,979
Unsettled financial transactions	5,387	4,276
Other financial liabilities (**)	178,791	165,689
	246,091	**646,195**

(*) This dividend was paid to the Bank's shareholders on 27 September 2013.
(**) This item includes EUR 91,198 thousand at 31 December 2013 relating to balances payable arising from tax consolidation with Banco Santander, S.A. (31 December 2012: EUR 80,380 thousand in this connection) (see Note 24).

Note 46 contains a detail of the residual maturity periods of these financial liabilities at 2013 and 2012 year-end.

22. Provisions

The detail of "Provisions" in the accompanying consolidated balance sheets is as follows:

	Thousands of Euros	
	2013	2012
Provisions for pensions and similar obligations	453,323	439,855
Provisions for taxes and other legal contingencies	82,971	82,367
Provisions for contingent liabilities and commitments	7,233	6,222
Other provisions	99,177	166,367
	642,704	**694,811**

The changes in 2013 and 2012 in the balance of this item in the accompanying consolidated balance sheets were as follows:

	2013					2012				
	Pensions and Similar Obligations	Taxes and Other Contingencies	Contingent Liabilities and Commitments	Other Provisions	Total	Pensions and Similar Obligations	Taxes and Other Contingencies	Contingent Liabilities and Commitments	Other Provisions	Total
Balances at beginning of year	439,855	82,367	6,222	166,367	694,811	394,272	23,439	3,888	95,632	517,231
Net inclusion (exclusion) of entities in (from) the Group	-	-	-	-	-	4,040	-	18	4,961	9,019
Additions charged to income:										
Interest expense and similar charges (Note 32)	14,257	-	-	-	14,257	17,644	-	-	-	17,644
Staff costs (Note 40)	11,451	-	-	-	11,451	9,022	-	-	-	9,022
Net additions to provisions (amounts used) (**)	7,408	9,083	1,090	10,399	27,980	(69)	(15,043)	2,020	105,026(*)	91,934
	33,116	9,083	1,090	10,399	53,688	30,637	(15,043)	2,038	109,987	127,619
Changes in value recognised in equity	14,075	-	-	-	14,075	53,621	-	-	-	53,621
Payments to retired employees and pre-retirees with a charge to internal provisions (***)	(24,371)	-	-	-	(24,371)	(23,607)	-	-	-	(23,607)
Insurance premiums paid and return premiums received	-	-	-	-	-	-	-	-	-	-
Payments to retired employees by insurance companies	(3,160)	-	-	-	(3,160)	(3,137)	-	-	-	(3,137)
Amounts used	-	(9,440)	-	(32,794)	(42,234)	-	(2,416)	-	(7,107)	(9,523)
Transfers, exchange differences and other changes	(6,192)	961	(79)	(44,795)	(50,105)	(11,931)	76,387	296	(32,145)	32,607
	(19,648)	(8,479)	(79)	(77,589)	(105,795)	14,946	73,971	296	(39,252)	49,961
Balances at end of year	**453,323**	**82,971**	**7,233**	**99,177**	**642,704**	**439,855**	**82,367**	**6,222**	**166,367**	**694,811**

(*) Included approximately EUR 90 million in relation to the restructuring carried out by the Group in Germany and Poland following the acquisition of the commercial banking business of SEB and Zagiel, S.A. (see Note 3).

(**) The detail of "Net Additions to Provisions (Amounts Used)" with respect to pensions and similar obligations is as follows:

	Thousands of Euros	
	2013	2012
Post-employment benefits - Spanish entities:		
Past service cost	-	302
Pre-retirements	-	-
Curtailments/settlements	-	-
Return premiums received on defined contribution pension plans	(47)	(165)
	(47)	137
Other long-term benefits - Spanish entities:		
Recognised actuarial losses/(gains) (obligations and assets)	4,119	(1,125)
Pre-retirements	4,684	-
Past service cost	-	-
Curtailments/settlements	-	-
	8,803	(1,125)
Foreign entities:		
Recognised actuarial losses/(gains) (obligations and assets)	38	1,036
Curtailments/settlements	(1,386)	(117)
	(1,348)	919
	7,408	**(69)**

(***) The detail of "Payments to Retired Employees and Pre-retirees with a Charge to Internal Provisions" is as follows:

	Thousands of Euros	
	2013	2012
Post-employment benefits - Spanish entities	2,684	2,675
Other long-term benefits - Spanish entities	12,096	12,946
Foreign entities	9,591	7,986
	24,371	**23,607**

Provisions for pensions and similar obligations

i. Post-employment benefits: Defined contribution plans - Spanish entities

The Group has classified the following obligations as defined contribution plans:

Santander Consumer Finance, S.A.

Obligations guaranteed from the date of effective retirement to employees who took pre-retirement after May 1996, which were externalised through an insurance policy taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros).

In 2013 the Bank received return premiums amounting to EUR 47 thousand from the insurance company. No premiums were paid to the insurance company in 2013 (see Note 2-q).

Santander Consumer, E.F.C., S.A.

Obligations guaranteed to employees who retired after May 1996 and the disability and surviving spouse/child benefits of employees who took pre-retirement after May 1996, which were externalised through an insurance policy taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros).

No premiums were paid to the insurance company in 2013 and 2012 (see Note 2-q).

Spanish entities

The Collective Agreement of the Group's Spanish entities entered into on 2 February 2012 established a supplementary employee welfare system for current employees meeting certain conditions, which was instrumented through a defined contribution pension plan. This pension plan covers the following contingencies: retirement, death and permanent disability (total, absolute or severe disability). The Group's Spanish entities assumed the obligation of making an annual contribution of EUR 640 for each employee participating in the plan (the amount of this contribution might be subject to review by common agreement between the parties). In 2013 contributions made in this connection amounted to EUR 343 thousand (2012: EUR 303 thousand) and were recognised with a charge to "Staff Costs - Contributions to Defined Contribution Pension Plans" in the accompanying consolidated income statement for 2013 (see Note 40).

ii. Post-employment benefits: Defined benefit plans - Spanish entities

The Group has classified the following obligations as defined benefit plans:

Santander Consumer Finance, S.A.

- Pension obligations under the Private Banking Collective Agreement to current employees, employees who took pre-retirement prior to May 1996 (including future insurance premiums for disability and surviving spouse/child benefits) and retired employees, which are funded in full by an internal provision.

- Life insurance guaranteed to retired employees from Banco de Fomento, S.A., covered by an insurance policy (that does not meet the requirements for externalisation) taken out with a non-related entity (Axa España, S.A.). The present value of future premiums is funded by an internal provision.

- Company store and coal and gas benefits guaranteed to retired employees by virtue of the Internal Regulations of Banking Company Stores, which are funded by an internal provision.

Santander Consumer, E.F.C., S.A.

Pension obligations under the Private Banking Collective Agreement to pre-retirees (including future insurance premiums for disability and surviving spouse/child benefits for employees who took pre-retirement prior to May 1996) and employees who retired prior to May 1996, which are funded in full by an internal provision.

The present value of the post-employment benefit obligations of the Spanish consolidated entities and the value of the reimbursement rights under the insurance policies linked to these obligations at 31 December 2013 and 2012 were as follows:

	Thousands of Euros	
	2013	2012
Present value of the obligations:		
To current employees	115	78
Vested obligations to retired employees and pre-retirees	31,131	30,610
Other obligations to retired employees (*)	189	189
Provisions - Provisions for pensions and similar obligations (Note 2-q)	**31,435**	**30,877**

(*) Including the life insurance obligations to retired employees formerly of Banco de Fomento, S.A., plus other welfare benefits to retired employees.

The present value of the obligations was determined by independent actuaries using the following actuarial techniques:

1. Valuation method: projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

2. Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2013	2012
Annual discount rate	2.8%	3%
Mortality tables	PERM/F-2000P	GRM/F-95
Cumulative annual CPI growth	1.5%	1.5%
Annual salary increase rate	2.5%	0% for 2 years & 2% thereafter
Annual social security pension increase rate	1.5%	1.5%

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

3. The estimated retirement age of each employee is the first at which the employee is entitled to retire or the agreed-upon age, as appropriate.

The amounts recognised in the consolidated income statement in relation to those pension obligations are as follows:

	Thousands of Euros	
	2013	2012
Current service cost (Note 40)	75	55
Net interest cost (Note 32)	872	1,236
Expected return on insurance contracts linked to pensions (Note 31)	-	(437)
Extraordinary charges		
Past service cost	-	302
Return premiums	(47)	(165)
Amount recognised in the year	**900**	**991**

In addition, in 2013 "Valuation Adjustments – Other Valuation Adjustments" decreased by EUR 1,607 million with respect to defined benefit obligations (2012: an increase of EUR 141 million).

The changes in 2013 and 2012 in the present value of the accrued defined benefit obligations were as follows:

	Thousands of Euros	
	2013	2012
Present value of the obligations at beginning of year	30,877	32,161
Current service cost (Note 40)	75	55
Interest cost (Note 32)	872	1,236
Pre-retirements	-	-
Effect of curtailments/settlements	-	-
Benefits paid	(2,684)	(2,675)
Past service cost	-	302
Actuarial (gains)/losses (Note 2-q) (*)	2,296	(201)
Other	(1)	(1)
Present value of the obligations at end of year	**31,435**	**30,877**

(*) Including in 2013 demographic actuarial losses of EUR 1,762 thousand and financial actuarial losses of EUR 534 thousand in the post-employment plans.

The changes in 2012 in the fair value of the insurance contracts linked to pensions were as follows:

	Thousands of Euros
Fair value of insurance contracts at beginning of year	27,316
Expected return on insurance contracts linked to pensions (Note 31)	437
Net actuarial gains/(losses) arising in the year	82
Premiums paid/(amounts recovered)	(27,456)
Benefits paid	(379)
Fair value of insurance contracts at end of year	**-**

iii. Other long-term benefits - Spanish entities

The long-term benefit obligations (other than post-employment benefit obligations) guaranteed by the Group and classified as defined benefit plans are as follows:

Santander Consumer Finance, S.A.

- Obligations to pre-retirees until the effective date of retirement, which are funded by an internal provision.

- Life insurance guaranteed to pre-retirees by virtue of the Group's Collective Agreement, taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). The present value of future premiums is funded by an internal provision.

- Health insurance guaranteed to pre-retirees by virtue of the Group's Collective Agreement. The present value of future premiums is funded by an internal provision.

- Long-service bonus guaranteed to current employees, by virtue of the Group's Collective Agreement, which is funded by an internal provision.

Santander Consumer, E.F.C., S.A.

- Obligations to pre-retirees until the effective date of retirement, which are funded by an internal provision.

- Life insurance guaranteed to pre-retirees by virtue of the Group's Collective Agreement, taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). The present value of future premiums is funded by an internal provision.

- Health insurance guaranteed to pre-retirees by virtue of the Group's Collective Agreement. The present value of future premiums is funded by an internal provision.

- Long-service bonus guaranteed to current employees, by virtue of the Group's Collective Agreement, which is funded by an internal provision.

- Obligations to pre-retirees until the effective date of retirement, which are funded by an internal provision.

- Life insurance guaranteed to pre-retirees by virtue of the Group's Collective Agreement, taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). The present value of future premiums is funded by an internal provision.

- Health insurance guaranteed to pre-retirees by virtue of the Group's Collective Agreement. The present value of future premiums is funded by an internal provision.

The present value of the aforementioned obligations and the fair value of the assets arising from insurance contracts linked to these obligations at 31 December 2013 and 2012 were as follows:

	Thousands of Euros	
	2013	2012
Present value of the obligations:		
To pre-retirees	72,108	73,386
Long-service bonuses	172	155
Provisions - Provisions for pensions and similar obligations (Note 2-r)	**72,280**	**73,541**

The present value of the obligations was determined by qualified independent actuaries using the following actuarial techniques:

1. Valuation method: projected unit credit method.

2. Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2013	2012
Annual discount rate	2.8%-3%	3%
Mortality tables	PERM/F-2000P	GRM/F-95
Cumulative annual CPI growth	1.5%	1.5%
Annual increase in pre-retirements	0% - 1.5%	0% - 1.5%
Annual increase in bonuses	1.5%	1.5%

   The discount rate used for the flows was determined by reference to high-quality corporate bonds.

3. The estimated retirement age of each employee is the first at which the employee is entitled to retire or the agreed-upon age, as appropriate.

The amounts recognised in the consolidated income statement in relation to those pension obligations are as follows:

	Thousands of Euros	
	2013	2012
Current service cost (Note 40)	8	9
Net interest cost (Note 32)	2,023	3,089
Expected return on insurance contracts linked to pensions (Note 31)	-	(4)
Extraordinary charges		
Actuarial (gains)/losses recognised in the year	4,119	(1,125)
Past service cost	4,684	-
Pre-retirement cost	-	-
Amount recognised in the year	**10,834**	**1,969**

The changes in 2013 and 2012 in the present value of the accrued obligations for other long-term benefits were as follows:

	Thousands of Euros	
	2013	2012
Present value of the obligations at beginning of year	73,541	83,632
Current service cost (Note 40)	8	9
Interest cost (Note 32)	2,023	3,089
Pre-retirements	-	-
Effect of curtailments/settlements	-	-
Benefits paid	(12,096)	(12,946)
Past service cost	4,684	-
Actuarial (gains)/losses recognised in the year	4,119	(243)
Exchange differences and other items	1	-
Present value of the obligations at year-end	**72,280**	**73,541**

The changes in 2012 in the fair value of the insurance contracts linked to pensions were as follows:

	Thousands of Euros
	2012
Fair value of insurance contracts at beginning of year	422
Expected return on insurance contracts linked to pensions (Note 31)	4
Actuarial gains/(losses) recognised in the year	882
Benefits paid	(46)
Premiums paid	(1,262)
Fair value of insurance contracts at end of year	**-**

iv. Post-employment benefits – Other foreign subsidiaries

Certain of the consolidated foreign entities have acquired commitments to their employees similar to post-employment benefits and other long-term employee benefits. The actuarial assumptions used by these entities (discount rates, mortality tables and cumulative annual CPI growth) are consistent with the economic and social conditions prevailing in the countries in which they are located.

	Thousands of Euros	
	2013	2012
Present value of the obligations:	379,635	360,981
Of which:		
Germany	*310,342*	*306,895*
Less-		
Plan assets	(30,027)	(25,544)
Provisions - Provisions for pensions and similar obligations (Note 2-q)	**349,608**	**335,437**

The most significant actuarial assumptions used by the entities located in Germany were as follows:

	2013	2012
Annual discount rate	3.50%	3.50%
Mortality tables	R2005G of Heubeck-Richttafeln-	R2005G of Heubeck-Richttafeln-
Cumulative annual CPI growth	-	-
Annual salary increase rate	2.75%	2.75%
Annual social security pension increase rate	2.00%	2.00%
Estimated retirement age	60/63(M/F)	60/63(M/F)

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

Also, certain foreign entities have defined contribution plans (mainly Santander Consumer Bank, S.p.A., Santander Consumer Bank AS and Santander Consumer Bank AG). The contributions made to these plans amounted to EUR 7,991 thousand in 2013 (2012: EUR 7,460 thousand) (see Note 40).

The amounts recognised in the consolidated income statement in relation to those pension obligations are as follows:

	Thousands of Euros	
	2013	2012
Current service cost (Note 40)	11,368	8,958
Net interest cost (Note 32)	12,253	14,456
Expected return on plan assets (Note 32)	(891)	(1,137)
Amount recognised in the year	**22,730**	**22,277**

In addition, in 2013 "Valuation Adjustments – Other Valuation Adjustments" decreased by EUR 7,024 thousand with respect to defined benefit obligations (2012: a decrease of EUR 40,790 thousand).

The changes in 2013 and 2012 in the present value of the accrued defined benefit obligations and in the plan assets were as follows:

	Thousands of Euros	
	2013	2012
Present value of the obligations at beginning of year	360,981	299,773
Net inclusion/(exclusion) of entities in/(from) the Group	-	4,040
Current service cost (Note 40)	11,368	8,958
Interest cost (Note 32)	12,253	14,456
Pre-retirements	-	-
Effect of curtailments/settlements	(1,386)	(117)
Benefits paid	(11,131)	(9,654)
Past service cost	-	-
Actuarial (gains)/losses (*)	13,603	55,598
Exchange differences, transfers and other items	(6,053)	(12,073)
Present value of the obligations at end of year	**379,635**	**360,981**

(*) Including in 2013 demographic actuarial losses of EUR 17,010 thousand and financial actuarial gains of EUR 3,407 thousand in the post-employment plans.

The changes in 2013 and 2012 in the fair value of the plan assets were as follows:

	Thousands of Euros	
	2013	2012
Fair value of plan assets at beginning of year	25,544	22,578
Expected return on plan assets (Note 32)	891	1,137
Net actuarial gains/(losses) arising in the year	25	(456)
Contributions	8,220	1,877
Benefits paid	(1,510)	(867)
Exchange differences and other items	(3,143)	1,275
Fair value of plan assets at end of year	**30,027**	**25,544**

v. Sensitivity analysis

Changes in the main assumptions might affect the calculation of the obligations. At 31 December 2013, if the discount rate used had been decreased or increased by 50 bp, there would have been an increase or decrease in the present value of the post-employment obligations of +/-12% and an increase or decrease in the present value of the long-term obligations of +/-2%.

vi. Funding status of pension fund in 2013 and the four preceding years

The funding status of the defined benefit obligations at the end of 2013 and the four preceding years is as follows:

Spanish companies-

	Thousands of Euros									
	Post-Employment Benefits					Other Long-Term Employee Benefits				
	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009
Present value of the obligations:										
To current employees	115	78	73	69	61	-	-	-	-	-
Vested obligations to retired employees	31,131	30,610	31,308	32,607	32,917	-	-	-	-	-
To pre-retirees	-	-	-	-	-	72,108	73,386	83,481	94,941	105,680
Long-service bonuses and other obligations	-	-	-	-	-	172	155	151	140	135
Other	189	189	780	180	978	-	-	-	-	-
Provisions - Provisions for pensions	**31,435**	**30,877**	**32,161**	**32,856**	**33,956**	**72,280**	**73,541**	**83,632**	**95,081**	**105,815**
Of which:										
Insurance contracts linked to pensions	-	-	*27,316*	*28,160*	*29,649*	-	-	*422*	*945*	*1,553*

Foreign entities-

	Thousands of Euros				
	2013	2012	2011	2010	2009
Present value of the obligations	379,635	360,981	299,773	212,749	201,224
Less-					
Fair value of plan assets	(30,027)	(25,544)	(22,578)	(21,607)	(19,278)
Provisions - Provisions for pensions	**349,608**	**335,437**	**277,195**	**191,142**	**181,946**

23. Tax matters

a) Current tax receivables and payables

The balance of “Tax Assets - Current” in the consolidated balance sheet includes basically income tax prepayments made by the consolidated entities to the public authorities of the countries in which they reside. The balance of “Tax Liabilities - Current” in the consolidated balance sheet includes the liability for the various taxes applicable to the Group.

b) Reconciliation of the accounting profit to the taxable profit

The reconciliation of the accounting profit to the estimated taxable profit for 2013 and 2012 is as follows:

	Thousands of Euros	
	2013	2012
Consolidated profit before tax	888,178	427,388
Of which:		
From continuing operations	*894,082*	*433,701*
From discontinued operations	*(5,904)*	*(6,313)*
Income tax (at 30%)	266,453	128,216
Permanent differences (*)	(13,040)	(16,126)
Current income tax recognised in consolidated books	**253,413**	**112,090**
Of which:		
From continuing operations	*253,413*	*111,459*
From discontinued operations	**-**	*631*
Effective tax rate	**28.5%**	**26.2%**

(*) These include the net tax effect of permanent differences at the consolidated entities and differences arising as a result of the existence of different tax rates in the countries in which the Group operates.

c) *Deferred taxes*

The balance of “Tax Assets - Deferred” in the consolidated balance sheets includes the balances receivable from the tax authorities in respect of deferred income tax assets. The balance of “Tax Liabilities - Deferred” in the consolidated balance sheets includes the liability for the various deferred taxes.

The detail of the two balances is as follows:

	Thousands of Euros	
	2013	2012
Tax assets:		
Credit loss allowance	143,006	142,880
Tax credit for reinvestment and double taxation of gains on disposal of investments	56,637	56,637
Pension fund	52,060	52,450
Fees and commissions	1,987	2,214
Derivatives	5,218	12,180
Germany	141,012	130,971
Italy (*)	187,279 (*)	158,171
Investments	113,976	120,715
Tax assets and tax credits recognised	68,821	129,474
Monetisable assets under Royal Decree-Law 14/2013 (Note 2-t)	51,861	-
Other:	21,613	26,622
	843,470	**832,314**
Tax liabilities:		
Fees and commissions	1,331	1,479
Goodwill	40,489	39,262
Gains on disposal of investments	139,193	139,193
Germany	130,402	130,165
Norway	56,023	63,550
Other changes	6,547	9,467
	373,985	**383,116**

(*) Of which approximately EUR 167 million are considered to be monetisable tax assets (see Note 2-t).

d) Tax recognised in equity

In addition to the income tax recognised in the consolidated income statement, in 2013 and 2012 the Group recognised the following amounts in consolidated equity:

	Thousands of Euros	
	2013	2012
Tax charged to equity:		
Actuarial gains and losses on pension plans	(966)	-
Available-for-sale financial assets	-	(155)
Cash flow hedges	(12,133)	(5,441)
Tax credited to equity:		
Available-for-sale financial assets	535	-
Actuarial gains and losses on pension plans	-	17,053
Total	**12,564**	**11,457**

e) Years open for review by the tax authorities

The Bank has all the transactions performed since 2005 open for review by the tax authorities in relation to income tax and since 2009 for the other taxes applicable to it.

The other consolidated entities have the appropriate years, based on their local tax legislation, open for review by the tax authorities.

In 2013 there were no developments with a significant impact in connection with the tax disputes at various instances which were pending resolution at 31 December 2012.

In the opinion of the Bank's directors and of the Group's tax advisers, the provisions recognised by the Group at 2013 year-end are sufficient to cover the amount of the obligations, if any, that might arise as a result of the tax audits or litigation in progress (see Note 22).

Because of the possible different interpretations which can be made of the tax regulations applicable to the Group's operations, the outcome of the tax audits in progress or of future reviews of the open years by the tax authorities might give rise to contingent tax liabilities which cannot be objectively quantified. However, the Bank's directors and the Group's tax advisers consider that the possibility of these contingent liabilities becoming actual liabilities is remote and, therefore, there would be no material effect on the consolidated financial statements.

24. Registered capital

At 31 December 2011, the Bank's share capital consisted of 1,451,212,836 fully subscribed and paid registered shares of EUR 3 par value each, all with the same voting and dividend rights.

On 16 February 2012, the shareholders at the Extraordinary General Meeting of the Bank resolved to increase capital by EUR 310,000 thousand by issuing at par 103,333,336 ordinary shares of EUR 3 par value each. This capital increase was fully subscribed and paid by the Bank's shareholders on 17 February 2012, and it was executed in a public deed on 5 March 2012 and registered in the Mercantile Register on 15 March 2012.

Accordingly, at 31 December 2012, the Bank's share capital consisted of 1,554,546,172 fully subscribed and paid registered shares of EUR 3 par value each, all with the same voting and dividend rights.

On 2 December 2013, the shareholders at the Extraordinary General Meeting of the Bank resolved to increase capital by EUR 300,000 thousand by issuing at par 100,000,000 ordinary shares of EUR 3 par value each. This capital increase was fully subscribed and paid by the Bank's shareholders on 3 December 2013, and it was executed in a public deed on 17 December 2013 and registered in the Mercantile Register on 27 December 2013.

Consequently, at 31 December 2013, the Bank's share capital, the only share capital included in the accompanying consolidated balance sheet at that date as a result of the consolidation process, consisted of 1,654,546,172 fully subscribed and paid registered shares of EUR 3 par value each, all with the same voting and dividend rights. At 31 December 2012, the Bank's shareholders were as follows:

	Ownership Interest
Banco Santander, S.A.	63.19%
Holneth, B.V. (*)	25.00%
Fomento e Inversiones, S.A. (*)	11.81%
	100.00%

(*) Santander Group companies.

At 31 December 2013, the capital increases in progress at Group companies and the additional capital authorised by their shareholders at the respective Annual General Meetings were not material at Group level.

25. Share premium

The balance of “Share Premium” in the accompanying consolidated balance sheets includes the amount paid up by the Bank's shareholders in capital issues in excess of the par value. The Consolidated Spanish Limited Liability Companies Law expressly permits the use of the share premium account balance to increase capital at the entities at which it is recognised and does not establish any specific restrictions as to its use.

26. Reserves

The balance of “Shareholders’ Equity - Reserves - Accumulated Reserves” in the accompanying consolidated balance sheets includes the net amount of the accumulated profit or loss recognised in previous years through the consolidated income statement that, in the distribution of profit, was appropriated to equity, and the own equity instrument issuance expenses and the differences between the selling price of treasury shares and the cost of acquisition thereof.

The balance of “Shareholders' Equity - Reserves - Reserves of Entities Accounted for Using the Equity Method” in the accompanying consolidated balance sheets includes the net amount of the accumulated profit or loss generated in previous years by entities accounted for using the equity method, recognised through the consolidated income statement.

The detail of “Accumulated Reserves” and “Reserves of Entities Accounted for Using the Equity Method” at 31 December 2013 and 2012 is as follows:

	Thousands of Euros	
	2013	2012
Accumulated reserves:		
Legal reserve	388,288	376,886
Unrestricted, voluntary and other reserves	1,788,164	1,786,958
Consolidation reserves attributable to the Bank	132,802	103,311
Reserves at subsidiaries	(1,640,502)	(1,727,237)
	668,752	**539,918**
Reserves of entities accounted for using the equity method:		
Associates	**10,657**	**12,564**

Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve. These transfers must be made until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

Reserves at subsidiaries

The detail, by company, of the balance of "Reserves at Subsidiaries", based on the subsidiaries' contribution to the Group (considering the effect of consolidation adjustments), is as follows:

	Thousands of Euros	
	2013	2012
Santander Consumer, E.F.C., S.A. (Spain)	(222,147)	(215,416)
Santander Consumer Holding GmbH (Germany)	(2,108,048)	(2,067,278)
Santander Consumer Bank S.p.A. (Italy)	(242,688)	(87,360)
Santander Consumer Bank AS (Norway)	57,538	45,641
Santander Consumer Finanse S.A. (Poland)	(54,601)	(38,653)
Santander Consumer Bank S.A. (Poland)	226,338	118,985
Santander Consumer Bank AG (Germany)	433,403	433,597
Other companies	269,703	83,247
	(1,640,502)	**(1,727,237)**

27. Valuation adjustments

The balances of "Valuation Adjustments" in the accompanying consolidated balance sheets include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognised temporarily in equity through the consolidated statement of changes in equity (consolidated statement of recognised income and expense) until they are extinguished or realised, when they are recognised definitively in the consolidated income statement.

"Valuation Adjustments" includes the following items:

a) Available-for-sale financial assets

The balance of this item includes the net amount of unrealised changes in the fair value of financial assets classified as available for sale.

The changes in 2013 and 2012, disregarding the valuation adjustments attributable to non-controlling interests, were as follows:

	Thousands of Euros	
	2013	2012
Balance at beginning of year	642	321
Revaluation gains/(losses)	(1,321)	2,177
Amounts transferred to income statement	(985)	(1,708)
Income tax	519	(148)
Balance at end of year	**(1,145)**	**642**
Of which:		
Equities	*(1,338)*	*204*
Fixed-income securities	*193*	*438*

b) Cash flow hedges

The balance of this item includes the net amount of the changes in value of financial derivatives designated as hedging instruments in cash flow hedges, in respect of the portion of these changes considered to be effective hedges (see Note 11).

The changes in 2013 and 2012 were as follows:

	Thousands of Euros	
	2013	2012
Balance at beginning of year	(48,064)	(58,857)
Revaluation gains / (losses)	7,242	(12,313)
Amounts transferred to income statement	40,356	28,644
Income tax	(12,036)	(5,538)
Balance at end of year (Note 30)	**(12,502)**	**(48,064)**

c) Exchange differences

The balance of “Valuation Adjustments - Exchange Differences” includes the net amount of exchange differences arising on non-monetary items whose fair value is adjusted against equity and the differences arising on the translation to euros of the balances of the consolidated entities whose functional currency is not the euro (see Note 2-a).

d) Other valuation adjustments

The balance of "Valuation Adjustments - Other Valuation Adjustments" includes the actuarial gains and losses and the return on plan assets, less the administrative expenses and taxes inherent to the plan, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Changes in "Valuation Adjustments - Other Valuation Adjustments" are recognised in the statement of recognised income and expense. The most significant changes in 2013 related mainly to the changes in the main actuarial assumptions of the Norwegian subsidiary (increase in the discount rate from 3.8% to 3.9%) and to the exchange rate fluctuations (depreciation of the Norwegian krone).

28. Non-controlling interests

“Non-Controlling Interests” in the accompanying consolidated balance sheets includes the net amount of the equity of subsidiaries attributable to equity instruments that are not held, directly or indirectly, by the Group, including the portion attributed to them of profit for the year.

The detail, by Group company, of “Non-Controlling Interests” in the accompanying consolidated balance sheets is as follows:

	Thousands of Euros	
	2013	2012
Santander Consumer Finanse, S.A. (Poland)	-	13,252
Kontacta Comunicaciones, S.A.	(10)	-
Santander Consumer Finance Media, S.r.L.	2,699	2,875
Suzuki Servicios Financieros, S.L.	1,218	830
Sánchez Ramade Santander Financiera, S.L.	33	(3)
Santander Consumer Multirent Spolka Z Ograniczona Odpowiedzialnoscia (Poland)	-	(56)
Santander Consumer Bank S.A. (Poland)	(25,132)	142,230
	(21,192)	159,128
Profit (loss) for the year attributable to non-controlling interests:		
Santander Consumer Finanse, S.A. (Poland)	-	(4,718)
Kontacta Comunicaciones, S.A.	*10*	-
Santander Consumer Finance Media, S.r.l.	-	(177)
Suzuki Servicios Financieros, S.L.	*302*	389
Sánchez Ramade Santander Financiera, S.L.	*(33)*	(60)
Santander Consumer Multirent Spolka Z Ograniczona Ograniczona Odpowiedzialnoscia (Poland)	-	55
Santander Consumer Bank, S.A. (Poland)	*25,132*	38,605
	25,411	34,094
	4,219	**193,222**

The changes in 2013 and 2012 in “Non-Controlling Interests” were as follows:

	Thousands of Euros	
	2013	2012
Balance at beginning of year	193,222	130,529
Change in proportion of ownership interest	(163,550)(*)	14,435
Dividends	(47,686)	-
Exchange differences and other	(3,178)	14,164
Profit for the year attributable to non-controlling interests	25,411	34,094
Balance at end of year	**4,219**	**193,222**

(*) Relates mainly to the effect of the Bank's purchase of 30% of the share capital of the subsidiary Santander Consumer Bank S.A. (Poland) which was held by AIG Consumer Finance Group, Inc. (see Note 3-b).

29. Memorandum items

The detail of "Memorandum Items" is as follows:

	Thousands of Euros	
	2013	2012
Contingent liabilities:		
Bank guarantees and other indemnities provided	228,328	260,115
Of which:		
Credit institutions	*98,554*	*134,155*
Other sectors	*129,774*	*125,960*
Other contingent liabilities	3,174	3,901
	231,502	**264,016**
Contingent commitments:		
Drawable by third parties	7,558,337	8,719,118
Of which:		
Drawable by credit institutions(*)	1,331,292	2,599,400
Other sectors	6,227,045	6,119,718
Other contingent commitments	102,816	99,613
	7,661,153	**8,818,731**

(*) Relates mainly to credit facilities granted to Group associates and jointly controlled entities.

a) Contingent liabilities

The balance of "Contingent Liabilities" in the accompanying consolidated balance sheets includes the amounts that would be payable by the consolidated entities on behalf of third parties as a result of the commitments assumed by those entities in the course of their ordinary business, if the parties who are originally liable to pay failed to do so.

A significant portion of these guarantees will expire without any payment obligation materialising for the consolidated entities and, therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Group to third parties.

Income from guarantee instruments is recognised under "Fee and Commission Income" in the accompanying consolidated income statements and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee.

b) Contingent commitments

"Contingent Commitments" in the accompanying consolidated balance sheets includes those irrevocable commitments that could give rise to the recognition of financial assets.

30. Notional amounts of trading and hedging derivatives

The detail of the notional and/or contractual amounts and of the market values of the trading and hedging derivatives held by the Group at 31 December 2013 and 2012 is as follows:

	Thousands of Euros			
	2013		2012	
	Notional Amount	Market Value	Notional Amount	Market Value
Trading derivatives:				
Interest rate risk-				
Forward rate agreements	-	-	-	-
Interest rate swaps	10,701,477	(10,891)	16,078,229	(4,723)
Options and futures	550,500	-	-	-
Foreign currency risk-				
Foreign currency purchases and sales	-	-	-	-
Foreign currency options	-	-	-	-
Currency swaps	1,664,447	2,681	234,144	(1,388)
Securities and commodities derivatives	-	-	-	-
	12,916,424	(8,210)	16,312,373	(6,111)
Hedging derivatives:				
Interest rate risk-				
Forward rate agreements	-	-	-	-
Interest rate swaps	17,292,917	(358,885)	17,890,790	(621,386)
Options and futures	-	-	-	-
Foreign currency risk-				
Foreign currency purchases and sales	1,154,803	70,085	-	-
Foreign currency options	-	-	-	-
Currency swaps	870,611	9,837	1,070,888	18,063
Securities and commodities derivatives	-	-	-	-
	19,318,331	(278,963)	18,961,678	(603,323)
	32,234,755	**(287,173)**	**35,274,051**	**(609,434)**

The detail, by residual maturity period, of the notional and/or contractual amounts of the trading and hedging derivatives held by the Group at 31 December 2013 is as follows:

Trading derivatives-

	Thousands of Euros				
	Less than 1 Year	1 to 5 Years	5 to 10 Years	More than 10 Years	Total
Other interest rate transactions:					
Interest rate swaps (IRSs)	1,528,904	4,460,465	2,169,127	1,992,481	10,150,977
Currency swaps	881,979	1,332,968	-	-	2,214,947
Options and futures	550,500	-	-	-	550,500
Total	**2,961,383**	**5,793,433**	**2,169,127**	**1,992,481**	**12,916,424**

Hedging derivatives-

	Thousands of Euros				
	Less than 1 Year	1 to 5 Years	5 to 10 Years	More than 10 Years	Total
Other interest rate transactions:					
Interest rate swaps (IRSs)	4,273,480	11,009,937	2,009,500	-	17,292,917
Currency swaps	1,199,891	825,523	-	-	2,025,414
Total	**5,473,371**	**11,835,460**	**2,009,500**	**-**	**19,318,331**

The notional and/or contractual amounts of the contracts entered into (shown above) do not reflect the actual risk assumed by the Group, since the net position in these financial instruments is the result of offsetting and/or combining them. This net position is used by the Group basically to hedge the interest rate, underlying asset price or foreign currency risk. The results on these financial instruments are recognised under “Gains/Losses on Financial Assets and Liabilities (Net)” in the consolidated income statements and increase or offset, as appropriate, the gains or losses on the investments hedged.

The fair value of the hedging derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement.

Following is a description of the main hedges (including the results of the hedging instrument and the hedged item attributable to the hedged risk):

i. Fair value hedges

Fair value hedges are used to reduce the changes in the fair value (attributable to interest rate risk) of the hedged items. The overall aim of these hedges is to use interest rate derivatives to convert the fixed interest rate of net hedged assets to a floating interest rate.

At 2013 year-end, the Group held IRS contracts with a nominal amount of EUR 700 million (31 December 2012: EUR 700 million), the fair value of which represented a gain of EUR 51,795 thousand at that date (31 December 2012: EUR 76,677 thousand), which was offset by the loss of the same amount on the hedged items, which is recognised under “Financial Liabilities at Amortised Cost - Marketable Debt Securities” in the consolidated balance sheet (see Note 19).

In addition, at consolidated level the Group has arranged fair value macrohedges of the interest rate risk of portfolios of financial assets granted. The adjustment to the fair value of the hedged financial assets (long-term, fixed rate loans) was recognised under “Changes in the Fair Value of Hedged Items in Portfolio Hedges of Interest Rate Risk” on the asset side of the accompanying consolidated balance sheets with a charge or credit to “Gains/Losses on Financial Assets and Liabilities (Net)” in the accompanying consolidated income statements. This adjustment is offset by an adjustment of the opposite sign -arising from the measurement of the hedging derivatives (IRSs) associated with the hedged financial assets, the notional amount of which was EUR 12,660 million at 31 December 2013- recognised in “Gains/Losses on Financial Assets and Liabilities (Net)” in the accompanying consolidated income statement.

In 2013 the Group recognised losses amounting to EUR 787 thousand under “Gains/Losses on Financial Assets and Liabilities (Net) - Other” in the accompanying consolidated income statement for 2013 (2012: losses amounting to EUR 21,024 thousand), which relate to the ineffective portions of these macrohedges (see Note 36).

ii. Cash flow hedges

Cash flow hedges are used to reduce the variability in the cash flows of the hedged transactions. These hedges use interest rate swaps to convert the variability of the interest rates at which short-term financial liabilities are repriced.

The fair value of the IRSs associated with the hedged items, discounting the portion already accrued and recognised in the consolidated income statement, amounted to EUR -12,502 thousand at 31 December 2013 (31 December 2012: EUR -48,064 thousand). This amount was recognised in the Group's consolidated equity at 31 December 2013 (see Note 27).

31. Interest and similar income

"Interest and Similar Income" in the consolidated income statements includes the interest accruing in the year on all financial assets, the implicit or explicit return on which is calculated by applying the effective interest method, irrespective of measurement at fair value; and the rectifications of income as a result of hedge accounting. Interest is recognised gross, without deducting any tax withheld at source.

The detail of the main items of interest and similar income earned by the Group in 2013 and 2012 is as follows:

	Thousands of Euros	
	2013	2012
Balances with the Bank of Spain and other central banks	2,855	5,513
Loans and advances to credit institutions	100,114	134,684
Debt instruments	22,551	15,890
Loans and advances to customers	3,342,453	3,663,800
Insurance contracts linked to pensions (*)	-	461
Doubtful assets	23,988	24,859
Rectification of income as a result of hedge accounting and other interest	11,841	86,610
	3,503,802	**3,931,817**

(*) Included the return on insurance policies of Spanish entities funding post-employment and other long-term benefits, which amounted to EUR 437 thousand and EUR 4 thousand, respectively, in 2012 (see Note 22).

Most of the interest and similar income was generated by the Group's financial assets that are measured either at amortised cost or at fair value through equity.

32. Interest expense and similar charges

"Interest Expense and Similar Charges" in the consolidated income statements includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest method, irrespective of measurement at fair value; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to provisions for pensions.

The detail of the main items of interest expense and similar charges incurred by the Group in 2013 and 2012 is as follows:

	Thousands of Euros	
	2013	2012
Balances with the Bank of Spain and other central banks	10,976	12,429
Deposits from credit institutions	238,599	382,469
Customer deposits	645,036	840,965
Marketable debt securities	200,790	182,612
Subordinated liabilities	43,194	56,636
Provisions for pensions (Notes 2-q, 2-r and 22) (*)	14,257	17,644
Rectification of expenses as a result of hedge accounting	227,834	292,108
Other interest	19,364	3,429
	1,400,050	**1,788,292**

(*) Includes the interest on post-employment and other long-term benefits of Spanish entities, amounting to EUR 872 thousand and EUR 2,023 thousand, respectively, in 2013 (2012: EUR 1,236 thousand and EUR 3,089 thousand, respectively), and of foreign entities, amounting to EUR 11,362 thousand (2012: EUR 13,319 thousand) (see Note 22).

Most of the interest expense and similar charges was generated by the Group's financial liabilities that are valued at amortised cost.

33. Share of results of entities accounted for using the equity method

“Share of Results of Entities Accounted for Using the Equity Method” in the consolidated income statements includes the amount of profit or loss attributable to the Group generated during the year by associates and jointly controlled entities.

The detail of this item is as follows (see Note 13):

	Thousands of Euros	
	2013	2012
Santander Benelux, S.A./N.V.	6,488	7,883
Konecta BTO, S.L.	4,050	2,432
Other companies	(375)	1,272
	10,163	**11,587**

34. Fee and commission income

The balance of “Fee and Commission Income” in the consolidated income statements comprises the amount of the fees and commissions earned in the year, except those that form an integral part of the effective interest rate on financial instruments, which are recognised under “Interest and Similar Income” in the accompanying consolidated income statements.

The detail of this item is as follows:

	Thousands of Euros	
	2013	2012
Collection and payment services:		
Bills	4	5
Demand accounts	16,772	16,829
Cards	68,533	71,561
Cheques and orders	51,900	45,959
	137,209	134,354
Marketing of non-banking financial products:		
Investment and pension funds	12,934	4,303
Insurance	657,285	632,499
Other	4,967	4,448
	675,186	641,250
Securities services:		
Securities trading	-	20,533
Administration and custody	4,057	4,223
Asset management	64	121
	4,121	24,877
Other:		
Financial guarantees	2,646	3,493
Other fees and commissions	225,215	231,251
	227,861	234,744
	1,044,377	**1,035,225**

35. Fee and commission expense

The balance of “Fee and Commission Expense” in the consolidated income statements shows the amount of fees and commissions paid or payable by the Group accruing in the year, except those that form an integral part of the effective interest rate on financial instruments, which are recognised under “Interest Expense and Similar Charges” in the accompanying consolidated income statements.

The detail of this item is as follows:

	Thousands of Euros	
	2013	2012
Brokerage fees on lending and deposit transactions	11,206	8,108
Fees and commissions assigned in respect of off-balance-sheet risks	372	486
Fees and commissions assigned for collection and return of bills	5,579	5,541
Fees and commissions assigned in other connections	10,449	7,966
Fees and commissions assigned for cards	30,393	29,463
Fees and commissions assigned for securities	17,406	13,123
Fees and commissions assigned to intermediaries	56,979	53,937
Other fees and commissions for placement of insurance	57,734	62,243
Other fees and commissions	60,554	70,780
	250,672	**251,647**

36. Gains/losses on financial assets and liabilities (net)

"Gains/Losses on Financial Assets and Liabilities (Net)" in the consolidated income statements includes the amount of the valuation adjustments of financial instruments, except those attributable to interest accrued as a result of application of the effective interest method and to allowances, and the gains or losses obtained from the sale and purchase thereof.

The detail of this item, by type of instrument, is as follows:

	Thousands of Euros	
	2013	2012
Held for trading	(8,088)	16,526
Other financial instruments at fair value through profit or loss	-	(1,353)
Financial instruments not measured at fair value through profit or loss	437	4,564
Other	787	(29,778)
	(6,864)	**(10,041)**

37. Exchange differences (net)

"Exchange Differences (Net)" in the consolidated income statements includes basically the gains or losses on currency trading, the differences that arise on translating monetary items in foreign currencies to the functional currency, and those disclosed on non-monetary assets in foreign currency at the time of their disposal.

38. Other operating income

The detail of "Other Operating Income" in the consolidated income statements is as follows:

	Thousands of Euros	
	2013	2012
Sales and income from the provision of non-financial services (*)	73,277	42,395
Other	52,340	55,877
	125,617	**98,272**

(*) Relates mainly to income from operating leases on vehicles

39. Other operating expenses

The detail of "Other Operating Expenses" in the consolidated income statements is as follows:

	Thousands of Euros	
	2013	2012
Contributions to Deposit Guarantee Funds (Note 1-g)	27,702	25,467
Changes in inventories	61,473	28,924
Other operating expenses	46,852	54,789
	136,027	**109,180**

40. Staff costs

The detail of "Staff Costs" in the consolidated income statements includes the remuneration accruing in the year in any respect to permanent or temporary employees on the payroll, regardless of their function or duties.

The detail of "Staff Costs" is as follows:

	Thousands of Euros	
	2013	2012
Wages and salaries	397,179	401,782
Social security costs	72,779	68,778
Additions to pension provisions (Note 22) (*)	11,451	9,022
Contributions to defined contribution pension funds (Note 22)	8,334	7,763
Contributions to plans - Spanish entities	*343*	*303*
Contributions to plans - foreign entities	*7,991*	*7,460*
Share-based payment costs	1,748	3,436
Other staff costs	23,783	22,311
Termination benefits	2,248	2,000
	517,522	**515,092**

(*) Of which:

- In 2013, EUR 75 thousand relate to "current service cost of defined benefit post-employment obligations - Spanish entities" (2012: EUR 55 thousand) (see Notes 2-q and 22).
- In 2013, EUR 11,368 thousand relate to "current service cost of defined benefit post-employment obligations - foreign entities" (2012: EUR 8,958 thousand) (see Notes 2-q and 22).
- In 2013, EUR 8 thousand relate to "current service cost of other long-term defined benefit obligations - Spanish entities" (2012: EUR 9 thousand) (see Notes 2-r and 22).

The average number of employees at the Group in 2013 and 2012, by professional category, was as follows:

	Average Number of Employees	
	2013	2012
The Bank:		
Senior executives	1	2
Middle management	-	2
Clerical staff	6	4
	7	8
Other companies (*)	10,108	10,199
	10,115	**10,207**

(*) Excluding personnel assigned to discontinued operations.

The functional breakdown, by gender, of the number of employees at the Group at 31 December 2013 and 2012 is as follows:

	2013			2012		
	Total	Men	Women	Total	Men	Women
Senior executives	113	100	13	96	88	8
Middle management	493	367	126	516	382	134
Clerical staff and other	9,266	3,782	5,484	9,811	3,963	5,848
	9,872	**4,249**	**5,623**	**10,423**	**4,433**	**5,990**

At 31 December 2013, the Board of Directors of the Bank had 10 members, of whom 2 were women (31 December 2012: 9 members, 2 women).

The labour relations between employees and the various Group companies are governed by the related collective agreements or similar regulations.

Share-based payments

In recent years the Group has set up remuneration systems tied to the performance of the stock market price of the shares of Banco Santander, S.A., based on the achievement of certain targets. The detail of these systems at 2013 and 2012 year-end is as follows:

	Number of Shares	Year Granted	Employee Group	Number of Persons	Date of Commencement of Exercise Period	Date of Expiry of Exercise Period
Plans outstanding at 1 January 2012	**2,279,799**					
Options exercised (Plan I12)	(201,582)	2009	Executives	207	19/06/09	30/06/12
Options cancelled (Plan I12)	(470,359)	2009	Executives	207	19/06/09	30/06/12
Plans outstanding at 31 December 2012	**1,607,858**					
Options cancelled (Plan I13)	(780,232)	2010	Executives	240	11/06/10	31/07/13
Plans outstanding at 31 December 2013	**827,626**					
Of which: *Plan I14*	*827,626*	*2011*	*Executives*	*221*	*17/06/11*	*31/07/14*

In 2007 the Santander Group approved a long-term incentive policy aimed at certain executive personnel of the Group companies. The plans shaping this policy include the Performance Share Plan which, since July 2007, has involved successive cycles of deliveries of shares of Banco Santander, S.A. to the plan beneficiaries. At 31 December 2013, the Santander Group had approved a total of six cycles, five of which had already been settled, one in 2013.

For each cycle a maximum number of shares is established for each beneficiary who remains in the Group's employ for the scheduled duration of the plan, which is three years, with the exception of the first cycle, which had a duration of two years. The targets, which, if met, determine the number of shares to be delivered are defined by comparing the Group's performance with that of a benchmark group of financial institutions, taking Total Shareholder Return as the reference parameter.

The ultimate number of shares to be delivered will be determined in each of the cycles by the degree of achievement of the targets on the third anniversary of commencement of each cycle, and the shares will be delivered within a maximum period of seven months from the beginning of the year in which the cycle ends.

Plan I13 matured in 2013. As established in the aforementioned plan, the number of shares received by each beneficiary was determined by the degree of achievement of the targets to which the Plan was tied and, since this fell short of the minimum level established, the unearned options were cancelled.

In relation to these plans, Banco Santander, S.A. entered into an agreement with the Group companies whereby it guarantees the delivery of the related shares at the appropriate time in exchange for a non-refundable fixed premium. The total cost of the plans (the maximum number of shares to be delivered valued at the cost of the aforementioned premium) is recognised under "Administrative Expenses - Staff Costs" in the income statement of each company over the accrual period –three years from the date of approval of each plan in force. At 31 December 2013, the expense recognised by the Group in this connection amounted to EUR 1,748 thousand (2012: EUR 3,436 thousand).

41. Other general administrative expenses

The detail of "Other General Administrative Expenses" in the consolidated income statements is as follows:

	Thousands of Euros	
	2013	2012
Property, fixtures and supplies	104,838	104,073
Other administrative expenses	36,840	36,246
Communications	44,539	43,752
Taxes other than income tax	15,868	19,792
Technology and systems	166,879	151,084
Public relations, advertising and publicity	67,918	68,825
Per diems and travel expenses	14,021	13,135
Outside services	182,660	234,903
Technical reports	34,462	29,935
Insurance premiums	2,903	3,577
Surveillance and cash courier services	800	878
	671,728	**706,200**

"Technical reports" includes the fees paid by the various Group companies (detailed in the accompanying Appendices) for the services provided by their respective auditors, the detail being as follows:

	Millions of Euros	
	2013	2012
Audit fees	4.7	3.8
Other attest services	2.7	3.2
Tax advisory services	0.5	0.4
Other	0.4	0.1
Total	**8.3**	**7.5**

The detail of the main items included in "Audit fees" is as follows:

	Millions of Euros	
	2013	2012
Audit of the financial statements of the companies audited by Deloitte	3.2	3
Other audit engagements	1.5	0.8
Of which:		
Internal control audit (SOX)	*0.6*	*0.6*
Issue of comfort letters	*0.9*	*0.2*
Total audit fees	**4.7**	**3.8**

The detail of the main items included in "Other attest services" is as follows:

	Millions of Euros	
	2013	2012
Other recurring work and reports required by the various national supervisory bodies of the countries in which the Group operates	0.7	1.0
Non-recurring reviews required by regulators	0.1	-
Due diligence reviews	1.5	-
Issue of other assurance reports	0.1	0.7
Reviews of procedures, data and controls and other services	0.3	1.5
Total other attest services	**2.7**	**3.2**

Other disclosures

The services commissioned from the Group's auditors meet the independence requirements stipulated by the consolidated Audit Law (Legislative Royal Decree 1/2011, of 31 July) and by the Sarbanes-Oxley Act of 2002, and they did not involve the performance of any work that is incompatible with the audit function.

Lastly, the Group commissioned services from audit firms other than Deloitte amounting to EUR 2.9 million (2012: EUR 5.9 million).

42. Impairment losses on other assets

The detail of "Impairment Losses on Other Assets" in the consolidated income statements is as follows:

	Thousands of Euros	
	2013	2012
Goodwill and other intangible assets:		
Goodwill (Note 15)	-	(249,047)
Other intangible assets (Note 15)	(1,460)	(15)
	(1,460)	(249,062)
Other assets:		
Other (*)	(2,321)	(146)
	(3,781)	**(249,208)**

(*) In 2013 this item included losses of EUR 512 thousand relating to the recognition of impairment losses on property, plant and equipment (2012: gains of EUR 219 thousand relating to reversals of impairment losses) (see Note 14).

43. Gains (losses) on disposal of assets not classified as non-current assets held for sale

The detail of "Gains (Losses) on Disposal of Assets Not Classified as Non-Current Assets Held for Sale" in the consolidated income statements is as follows:

	Thousands of Euros	
	2013	2012
Gains:		
Property, plant and equipment (Note 14)	1,240	1,015
	1,240	1,015
Losses:		
Property, plant and equipment (Note 14)	(6,011)	(3,377)
	(4,771)	**(2,362)**

44. Gains (losses) on non-current assets held for sale not classified as discontinued operations

The detail of "Gains (Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations" in the consolidated income statements is as follows:

	Thousands of Euros	
	2013	2012
Net gains (losses) on disposals:	(2,161)	(3,040)
Tangible assets (Note 12)	*(2,161)*	*(3,040)*
Impairment losses (net) (Note 12)	(9,842)	(10,929)
	(12,003)	**(13,969)**

45. Discontinued operations

In 2013 the Bank's directors considered the investment in the subsidiary Santander Consumer Finance Zrt. (Hungary) to be a "discontinued operation".

The results generated by discontinued operations in 2013 and 2012 are indicated below:

	Thousands of Euros	
	2013	2012
Interest and similar income	5,508	8,762
Interest expense and similar charges	(5)	(1,233)
Net interest income	5,503	7,529
Income from equity instruments	-	-
Fee and commission expense	(102)	(131)
Fee and commission income	191	308
Exchange differences	(47)	(475)
Other operating income	-	-
Other operating expenses	(1)	(1)
Gross income	5,544	7,230
Administrative expenses	(5,114)	(5,438)
Depreciation and amortisation charge	(11)	(38)
Provisions (net)	(138)	-
Impairment losses on financial assets (net)	(6,132)	(15,205)
Loss from operations	(5,851)	(13,451)
Impairment losses on other assets (net)	-	-
Gains (losses) on disposal of assets not classified as non-current assets held for sale	(53)	2,176
Loss before tax	(5,904)	(11,275)
Income tax	-	(631)
Gains on disposal of investments (Note 3-b)	-	4,962
Loss from discontinued operations	**(5,904)**	**(6,944)**

Additionally, following is a detail of the net cash flows attributable to the operating, investing and financing activities of discontinued operations in 2013 and 2012:

	Thousands of Euros	
	2013	2012
Cash and cash equivalents at beginning of year	1	5
Cash flows from operating activities	(5,406)	6,257
Cash flows from investing activities	1	10
Cash flows from financing activities	5,404	(6,271)
Cash and cash equivalents at end of year	**-**	**1**

Loss per share from discontinued operations

The loss per share from discontinued operations, which coincides with the diluted loss per share from those operations, was EUR 0.0018 in 2013 (see Note 4).

46. Other disclosures

a) Residual maturity periods and average interest rates

The detail, by maturity, of the balances of certain items in the consolidated balance sheets at 31 December 2013 and 2012 is as follows:

	2013								
	Thousands of Euros								
	On Demand	Less than 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Undetermined or Undefined Maturity	Total	Average Interest Rate in 2013
Assets:									
Cash and balances with central banks	1,656,199	-	-	-	-	-	-	1,656,199	0.06%
Available-for-sale financial assets-									
Debt instruments (Note 7)	119,110	15,882	-	33	328,403	966	-	464,394	2.06%
Loans and receivables-									
Loans and advances to credit institutions (Note 6)	3,089,122	2,653,498	1,443,766	456,401	1,029,616	10,343	-	8,682,746	1.66%
Loans and advances to customers (Note 10)	1,586,983	1,059,694	3,064,869	9,196,661	27,888,124	13,131,874	-	55,928,205	6.47%
Debt instruments (Note 7)	155	206,513	-	-	2,024	100,146	-	308,838	1.84%
	6,451,569	3,935,587	4,508,635	9,653,095	29,248,167	13,243,329	-	67,040,382	
Liabilities:									
Financial liabilities at amortised cost-									
Deposits from central banks (Note 17)	-	1,280,104	-	-	1,525,392	-	-	2,805,496	1.30%
Deposits from credit institutions (Note 17)	88,266	8,464,979	1,302,166	1,457,532	2,206,025	490,936	-	14,009,904	1.31%
Customer deposits (Note 18)	12,964,047	4,269,894	1,777,411	5,769,403	5,772,197	376,928	-	30,929,880	0.55%
Marketable debt securities (Note 19)	925	609,854	941,002	2,810,424	4,760,542	3,590,904	-	12,713,651	2.55%
Subordinated liabilities (Note 20)	464	1,040	12	68,156	363,760	910,386	-	1,343,818	3.01%
Other financial liabilities (Note 21)	75,395	24,616	6,103	1,406	9,290	129,281	-	246,091	-
	13,129,097	14,650,487	4,026,694	10,106,921	14,637,206	5,498,435	-	62,048,840	
Difference (assets less liabilities)	**(6,677,528)**	**(10,714,900)**	**481,941**	**(453,826)**	**14,610,961**	**7,744,894**	**-**	**4,991,542**	

	2012								
	Thousands of Euros								
	On Demand	Less than 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Undetermined or Undefined Maturity	Total	Average Interest Rate in 2012
Assets:									
Cash and balances with central banks	1,387,071	-	-	-	-	-	-	1,387,071	0.23%
Available-for-sale financial assets-									
Debt instruments (Note 7)	4	172,048	-	10,040	30,790	967	-	213,849	2.96%
Loans and receivables-									
Loans and advances to credit institutions (Note 6)	3,578,829	1,119,270	917,104	629,923	207,490	-	-	6,452,616	0.81%
Loans and advances to customers (Note 10)	2,510,116	2,203,812	3,690,282	9,344,095	24,516,713	14,348,206	-	56,613,224	6.27%
Debt instruments (Note 7)	-	1,417,920	-	2,023	-	-	-	1,419,943	-
	7,476,020	4,913,050	4,607,386	9,986,081	24,754,993	14,349,173	-	66,086,703	
Liabilities:									
Financial liabilities at amortised cost-									
Deposits from central banks (Note 17)	-	406,097	300,075	-	1,527,043	-	-	2,233,215	0.75%
Deposits from credit institutions (Note 17)	486,901	8,176,003	3,366,030	2,506,772	1,753,183	1,032,050	-	17,320,939	1.96%
Customer deposits (Note 18)	10,597,370	4,688,879	2,173,105	6,213,184	8,064,523	377,079	-	32,114,140	2.53%
Marketable debt securities (Note 19)	-	394,287	23,289	1,447,483	2,367,433	3,468,479	-	7,700,971	2.42%
Subordinated liabilities (Note 20)	2,336	764	-	-	430,513	1,090,942	-	1,524,555	0.30%
Other financial liabilities (Note 21)	160,127	23,593	293	410,719	8,610	42,853	-	646,195	-
	11,246,734	13,689,623	5,862,792	10,578,158	14,151,305	6,011,403	-	61,540,015	
Difference (assets less liabilities)	**(3,770,714)**	**(8,776,573)**	**(1,255,406)**	**(592,077)**	**10,603,688**	**8,337,770**	**-**	**4,546,688**	

b) Equivalent euro value of assets and liabilities

The detail of the main foreign currency balances in the accompanying consolidated balance sheets, based on the nature of the related items, is as follows:

	Equivalent Value in Millions of Euros			
	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Cash and balances with central banks	61	-	174	-
Available-for-sale financial assets	433	-	174	-
Loans and receivables	10,625	-	8,268	-
Hedging derivatives	79	-	-	-
Non-current assets held for sale	47	-	74	-
Investments	67	-	3	-
Tangible assets	21	-	27	-
Intangible assets	208	-	232	-
Financial liabilities at amortised cost	-	9,289	-	7,866
Liabilities associated with non-current assets held for sale	-	1	-	1
Other assets and liabilities	217	334	214	310
	11,758	**9,624**	**9,166**	**8,177**

c) Fair value of financial assets and liabilities not measured at fair value

The financial assets owned by the Group are measured at fair value in the accompanying consolidated balance sheet, except for cash and balances with central banks, loans and receivables, equity instruments whose market value cannot be estimated reliably and derivatives that have these instruments as their underlyings and are settled by delivery thereof.

Similarly, the Group’s financial liabilities -except for financial liabilities held for trading and derivatives- are measured at amortised cost in the accompanying consolidated balance sheets.

i. Financial assets measured at other than fair value

Following is a comparison of the carrying amounts of the Group's financial assets measured at other than fair value and their respective fair values at year-end:

Assets	Millions of Euros						
	2013					2012	
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Carrying Amount	Fair Value
Loans and receivables:							
Loans and advances to credit institutions	8,683	8,684	-	-	8,684	6,453	6,426
Loans and advances to customers	55,928	55,968	-	-	55,968	56,613	57,874
Debt instruments	309	309	-	-	309	1,420	1,420
	64,920	**64,961**	-	-	**64,961**	**64,486**	**65,720**

ii. Financial liabilities measured at other than fair value

Following is a comparison of the carrying amounts of the Group's financial liabilities measured at other than fair value and their respective fair values at year-end:

Liabilities	Millions of Euros						
	2013					2012	
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Carrying Amount	Fair Value
Financial liabilities at amortised cost:							
Deposits from central banks and credit institutions	16,815	16,815	-	14,010	2,805	19,554	19,554
Customer deposits	30,930	30,933	-	-	30,933	32,114	32,085
Marketable debt securities	12,714	12,064	-	12,064	-	7,701	7,698
Subordinated liabilities	1,344	1,344	-	1,344	-	1,525	1,525
Other financial liabilities	246	246	-	-	246	646	646
	62,049	**62,402**	-	**28,418**	**33,984**	**61,540**	**61,508**

iii. Valuation methods and inputs used

The main valuation methods and inputs used in the estimates at 31 December 2013 of the fair values of the financial assets and liabilities in the foregoing tables were as follows:

- Loans and receivables: the fair value was estimated using the present value method. The estimates were made considering factors such as the expected maturity of the portfolio, market interest rates and spreads on newly approved transactions (or market spreads where these were not available).

- Financial liabilities at amortised cost:

    i) The fair value of deposits from central banks was taken to be their carrying amount since they are mainly short-term balances.

    ii) Deposits from credit institutions: the fair value was obtained by the present value method using market interest rates and spreads.

    iii) Customer deposits: the fair value was estimated using the present value method. The estimates were made considering factors such as the expected maturity of the transactions and the Group’s current cost of funding in similar transactions.

    iv) Marketable debt securities and subordinated liabilities: the fair value was calculated based on market prices for these instruments -when available- or by the present value method using market interest rates and spreads.

In addition, the fair value of cash and balances with central banks was taken to be their carrying amount since they are mainly short-term balances.

47. Geographical and business segment reporting

a) Geographical segments

This primary level of segmentation, which is based on the Group's management structure, comprises five segments relating to five operating areas. The operating areas, which include all the business activities carried on therein by the Group, are Spain, Italy, Germany, Scandinavia, Poland and Other Areas.

The financial statements of each operating segment are prepared by aggregating the figures for the Group’s various business units. The basic information used for segment reporting comprises the accounting data of the legal units composing each segment and the data available from the management information systems. All segment financial statements have been prepared on a basis consistent with the accounting policies used by the Group. Consequently, the sum of the figures in the income statements of the various segments is equal to those in the consolidated income statements. With regard to the balance sheet, due to the required segregation of the various business units (included in a single consolidated balance sheet), the amounts lent and borrowed between the units are shown as increases in the assets and liabilities of each business. These amounts relating to intra-Group liquidity are eliminated and are shown in the “Intra-Group Eliminations” column in the table below in order to reconcile the amounts contributed by each business unit to the consolidated Group's balance sheet.

Additionally, for segment presentation purposes, the equity shown for each geographical unit is that reflected in the related separate financial statements and is offset as a capital endowment made by the Spain area, which acts as the holding unit for the other businesses and, therefore, reflects the Group's total equity.

The condensed balance sheets and income statements of the various geographical segments are as follows:

Consolidated Balance Sheet (Condensed)	2013 Spain	2013 Italy	2013 Germany	2013 Scandinavia	2013 Poland	2013 Other Areas	2013 Intra-Group Eliminations (*)	2013 Total	2012 Spain	2012 Italy	2012 Germany	2012 Scandinavia	2012 Poland	2012 Other Areas	2012 Intra-Group Eliminations (*)	2012 Total
	Thousands of Euros															
Loans and advances to customers	6,201,823	5,449,741	29,735,856	8,463,334	2,776,517	3,397,183	(96,249)	55,928,205	6,620,446	6,525,961	29,373,316	7,980,897	2,663,882	3,518,981	(70,259)	56,613,224
Financial assets held for trading	-	-	6,344	23,504	-	-	64,953	94,801	-	-	14,179	-	-	-	78,394	92,573
Debt instruments	102,342	-	30,001	119,065	314,100	1,238	206,486	773,232	2,060	-	40,802	56	171,760	1,287	1,417,827	1,633,792
Loans and advances to credit institutions	10,266,089	1,021,436	4,340,572	1,232,729	176,717	498,079	(8,852,876)	8,682,746	13,526,643	973,626	6,645,552	493,644	147,279	179,550	(15,513,678)	6,452,616
Tangible and intangible assets	205,195	18,908	543,397	102,319	31,183	26,199	1,446,224	2,373,425	224,326	20,894	568,493	104,797	43,922	29,079	1,468,214	2,459,725
Other asset accounts	426,466	313,208	2,058,120	339,624	149,862	253,901	709,698	4,250,879	406,076	334,554	1,759,770	222,131	270,549	220,176	690,570	3,903,826
Total assets	**17,201,915**	**6,803,293**	**36,714,290**	**10,280,575**	**3,448,379**	**4,176,600**	**(6,521,764)**	**72,103,288**	**20,779,551**	**7,855,035**	**38,402,112**	**8,801,525**	**3,297,392**	**3,949,073**	**(11,928,932)**	**71,155,756**
Customer deposits	236,756	290,149	27,387,030	1,122,935	1,620,928	194,753	77,329	30,929,880	226,765	227,284	29,736,595	38,759	1,635,515	26,887	222,335	32,114,140
Marketable debt securities	4,999,609	649,585	1,157,537	2,812,017	478,629	280,000	2,336,274	12,713,651	2,536,346	626,420	1,036,850	1,610,408	272,692	-	1,618,255	7,700,971
Subordinated liabilities	63,865	-	183	-	-	-	1,279,770	1,343,818	9,463	-	762	2	-	-	1,514,328	1,524,555
Deposits from central banks and credit institutions	10,747,703	5,136,143	3,572,042	5,227,547	723,092	2,984,937	(11,576,064)	16,815,400	13,406,737	6,302,147	3,126,218	6,093,076	617,602	2,713,757	(12,705,383)	19,554,154
Other liability and equity accounts	501,042	181,078	975,594	246,620	131,664	157,107	715,042	2,908,147	444,861	131,299	927,863	256,516	333,457	145,367	1,485,262	3,724,625
Equity	652,940	546,338	3,621,904	871,456	494,066	559,803	645,885	7,392,392	4,155,379	567,885	3,573,824	802,764	438,126	1,063,062	(4,063,729)	6,537,311
Total funds under management	**17,201,915**	**6,803,293**	**36,714,290**	**10,280,575**	**3,448,379**	**4,176,600**	**(6,521,764)**	**72,103,288**	**20,779,551**	**7,855,035**	**38,402,112**	**8,801,525**	**3,297,392**	**3,949,073**	**(11,928,932)**	**71,155,756**

Consolidated Income Statements (Condensed)	2013 Spain	2013 Italy	2013 Germany	2013 Scandinavia	2013 Poland	2013 Other (*)	2013 Total	2012 Spain	2012 Italy	2012 Germany	2012 Scandinavia	2012 Poland	2012 Other (*)	2012 Total
	Thousands of Euros													
NET INTEREST INCOME	**313,817**	**235,319**	**932,772**	**373,934**	**170,700**	**77,210**	**2,103,752**	**333,295**	**255,628**	**943,698**	**332,396**	**219,049**	**59,459**	**2,143,525**
Share of results of entities accounted for using the equity method	434	-	1,249	-	-	8,480	10,163	4,009	-	986	-	-	6,592	11,587
Net fee and commission income	34,705	39,509	542,174	23,278	94,917	59,122	793,705	42,485	57,413	511,593	19,402	93,839	58,846	783,578
Gains/losses on financial assets and liabilities (net)	(387)	(932)	(5,601)	(1,367)	1,351	72	(6,864)	2,656	(885)	(11,423)	(1,553)	(2,187)	3,351	(10,041)
Other operating income/(expenses)	12,771	3,577	(26,550)	8,673	(2,342)	(12,883)	(16,754)	5,540	1,714	(29,673)	10,119	(2,143)	7,712	(6,731)
GROSS INCOME	**361,340**	**277,473**	**1,444,044**	**404,518**	**264,626**	**132,001**	**2,884,002**	**387,985**	**313,870**	**1,415,181**	**360,364**	**308,558**	**135,960**	**2,921,918**
Administrative expenses	(107,689)	(79,652)	(612,373)	(144,054)	(108,312)	(137,170)	(1,189,250)	(112,025)	(86,750)	(662,081)	(128,168)	(105,873)	(126,395)	(1,221,292)
Staff costs	(52,820)	(42,826)	(343,826)	(76,377)	(57,572)	55,899	(517,522)	(55,860)	(44,723)	(328,530)	(70,625)	(56,714)	41,360	(515,092)
Other general administrative expenses	(54,869)	(36,826)	(268,547)	(67,677)	(50,740)	(193,069)	(671,728)	(56,165)	(42,027)	(333,551)	(57,543)	(49,159)	(167,755)	(706,200)
Depreciation and amortisation charge	(20,315)	(11,745)	(149,355)	(15,361)	(13,235)	35,287	(174,724)	(17,287)	(10,662)	(103,652)	(13,154)	(12,264)	28,585	(128,434)
Provisions (net)	(4,780)	(995)	(8,786)	(2,991)	(2,228)	(8,200)	(27,980)	(23,760)	1,756	(8,044)	(3,144)	(5,113)	(53,629)	(91,934)
Impairment losses on financial assets (net)	(82,628)	(197,492)	(125,743)	(65,883)	(6,505)	(99,160)	(577,411)	(96,879)	(244,964)	(178,206)	(68,827)	(38,780)	(153,362)	(781,018)
PROFIT (LOSS) FROM OPERATIONS	**145,928**	**(12,411)**	**547,787**	**176,229**	**134,346**	**(77,242)**	**914,637**	**138,034**	**(26,750)**	**463,198**	**147,071**	**146,528**	**(168,841)**	**699,240**
Other gains/(losses)	(142)	-	-	-	(3,594)	(16,819)	(20,555)	106	-	-	-	(16)	(265,629)	(265,539)
PROFIT (LOSS) BEFORE TAX	**145,786**	**(12,411)**	**547,787**	**176,229**	**130,752**	**(94,061)**	**894,082**	**138,140**	**(26,750)**	**463,198**	**147,071**	**146,512**	**(434,470)**	**433,701**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**113,326**	**(17,946)**	**423,832**	**129,565**	**101,092**	**(109,200)**	**640,669**	**103,398**	**(27,523)**	**376,133**	**106,267**	**114,795**	**(350,828)**	**322,242**
Loss from discontinued operations (net)	-	-	-	-	-	(5,904)	(5,904)	-	-	-	-	-	(6,944)	(6,944)
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**113,326**	**(17,946)**	**423,832**	**129,565**	**101,092**	**(115,104)**	**634,765**	**103,398**	**(27,523)**	**376,133**	**106,267**	**114,795**	**(357,772)**	**315,298**
Profit (Loss) attributable to the Parent	**107,949**	**(17,947)**	**423,832**	**129,565**	**75,960**	**(110,005)**	**609,354**	**103,070**	**(27,346)**	**376,133**	**106,267**	**80,852**	**(357,772)**	**281,204**

(*) Includes the reconciliation of segment reporting to the consolidated financial statements of the Group and corporate activities.

Also, pursuant to CNMV Circular 1/2008, following is a detail:

1. By the geographical areas indicated in the aforementioned Circular, of the balance of "Interest and Similar Income" recognised in the consolidated income statements for 2013 and 2012:

	Thousands of Euros	
	2013	2012
Spain	406,138	472,028
Abroad:		
European Union	2,669,633	3,002,133
OECD countries	428,031	457,656
Other countries	-	-
	3,097,664	3,459,789
Total	**3,503,802**	**3,931,817**

2. Of revenue, by the geographical segments used by the Group. For the purposes of the table below, revenue is deemed to be that recognised under "Interest and Similar Income", "Income from Equity Instruments", "Fee and Commission Income", "Gains/Losses on Financial Assets and Liabilities (Net)" and "Other Operating Income" in the consolidated income statements for 2013 and 2012:

	Revenue (Thousands of Euros)					
	Revenue from External Customers		Inter-Segment Revenue		Total Revenue	
	2013	2012	2013	2012	2013	2012
Spain and Portugal	623,546	689,629	355,984	447,528	979,530	1,137,157
Italy	483,288	540,665	2,875	3,964	486,163	544,629
Germany	2,256,639	2,511,203	140,173	257,180	2,396,812	2,768,383
Scandinavia	638,888	611,394	167,852	77,497	806,740	688,891
Other	664,618	702,427	25,225	23,230	689,843	725,657
Inter-segment revenue adjustments and eliminations	-	-	(692,109)	(809,399)	(692,109)	(809,399)
Total	**4,666,979**	**5,055,318**	**-**	**-**	**4,666,979**	**5,055,318**

b) Business segments

At the secondary level of segment reporting, the Group is structured into three businesses, one for each of the main products marketed.

The "Automotive" business comprises all the businesses related to the financing of new and used vehicles, including operating and finance leases.

The "Consumer Finance and Cards" business reflects the income from the consumer finance business not included in the Direct Finance Business and the card financing, issue and management business.

The "Direct Finance" business includes the results from the consumer finance business conducted through own channels, with no dealer intermediation.

"Other Business" includes operations that are not included in any of the aforementioned categories, mainly mortgages and the contribution to consolidated results of all the activities performed by the Group related to secured lending and the inventory credit ("crédito stock") business, which includes the contribution to the Group of all the transactions related to the "crédito stock" product.

The condensed consolidated income statements for 2013 and 2012, by business, are as follows:

	Thousands of Euros				
	2013				
Consolidated Income Statement (Condensed)	Automotive	Consumer Finance and Cards	Direct Finance	Other Business (*)	Total
NET INTEREST INCOME	**1,062,606**	**270,188**	**869,059**	**(98,101)**	**2,103,752**
Share of results of entities accounted for using the equity method	-	-	-	10,163	10,163
Net fee and commission income	276,625	116,088	311,411	89,581	793,705
Gains/losses on financial assets and liabilities (net)	-	(3)	(12)	(6,849)	(6,864)
Other operating income/(expenses)	17,433	(3,129)	1,409	(32,467)	(16,754)
GROSS INCOME	**1,356,664**	**383,144**	**1,181,867**	**(37,673)**	**2,884,002**
Administrative expenses	(370,661)	(144,261)	(271,417)	(402,911)	(1,189,250)
Staff costs	(217,135)	(71,650)	(141,551)	(87,186)	(517,522)
Other general administrative expenses	(153,526)	(72,611)	(129,866)	(315,725)	(671,728)
Depreciation and amortisation charge	(61,409)	(13,076)	(29,776)	(70,463)	(174,724)
Provisions	(3,520)	(499)	154	(24,115)	(27,980)
Impairment losses on financial assets (net)	(194,900)	(109,037)	(258,481)	(14,993)	(577,411)
PROFIT (LOSS) FROM OPERATIONS	**726,174**	**116,271**	**622,347**	**(550,155)**	**914,637**
Other gains/(losses)	-	-	-	(20,555)	(20,555)
PROFIT (LOSS) BEFORE TAX	**726,174**	**116,271**	**622,347**	**(570,710)**	**894,082**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**546,785**	**83,679**	**429,634**	**(419,429)**	**640,669**
Loss from discontinued operations (net)	-	-	-	(5,904)	(5,904)
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**546,785**	**83,679**	**429,634**	**(425,333)**	**634,765**

(*) "Other Business" includes mainly the results from the deposit and managed asset businesses, which are not individually material for the Group as a whole, and those arising from the Group's financial management activity.

Consolidated Income Statement (Condensed)	Thousands of Euros				
	2012				
	Automotive	Consumer Finance and Cards	Direct Finance	Other (*)	Total
NET INTEREST INCOME	**982,540**	**281,996**	**832,235**	**46,754**	**2,143,525**
Share of results of entities accounted for using the equity method	-	(290)	-	11,877	11,587
Net fee and commission income	268,393	107,649	302,847	104,689	783,578
Gains/losses on financial assets and liabilities (net)	-	(7)	(8)	(10,026)	(10,041)
Other operating income/(expenses)	9,775	(1,658)	1,054	(15,902)	(6,731)
GROSS INCOME	**1,260,708**	**387,690**	**1,136,128**	**137,392**	**2,921,918**
Administrative expenses	(310,020)	(118,048)	(218,463)	(574,761)	(1,221,292)
Staff costs	(172,196)	(55,797)	(114,054)	(173,045)	(515,092)
Other general administrative expenses	(137,824)	(62,251)	(104,409)	(401,716)	(706,200)
Depreciation and amortisation charge	(41,857)	(9,875)	(20,879)	(55,823)	(128,434)
Provisions	519	(864)	(428)	(91,161)	(91,934)
Impairment losses on financial assets (net)	(274,023)	(98,505)	(284,368)	(124,122)	(781,018)
PROFIT (LOSS) FROM OPERATIONS	**635,327**	**160,398**	**611,990**	**(708,475)**	**699,240**
Other gains/(losses)	-	-	-	(265,539)	(265,539)
PROFIT (LOSS) BEFORE TAX	**635,327**	**160,398**	**611,990**	**(974,014)**	**433,701**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**470,178**	**117,968**	**452,223**	**(718,127)**	**322,242**
Loss from discontinued operations (net)	-	-	-	(6,944)	(6,944)
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**470,178**	**117,968**	**452,223**	**(725,071)**	**315,298**

(*) "Other Business" includes mainly the results from the deposit and managed asset businesses, which are not individually material for the Group as a whole, and those arising from the Group's financial management activity.

48. Related parties

The Group's related parties are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, the Bank's key management personnel (the members of its Board of Directors and the General Managers, together with their close family members) and the entities over which the key management personnel may exercise significant influence or control.

Following is a detail of the transactions performed by the Group with its related parties at 31 December 2013 and 2012, distinguishing between associates, Santander Group entities, members of the Bank's Board of Directors and the Bank's senior managers, and of the income and expenses arising from the transactions with these related parties in 2013 and 2012. Related party transactions were made on terms equivalent to those prevailing in arm's-length transactions.

	Thousands of Euros							
	2013				2012			
	Associates	Santander Group Entities (*)	Members of the Board of Directors (**)	Senior Managers (**)	Associates	Santander Group Entities (**)	Members of the Board of Directors	Senior Managers (**)
Assets:								
Loans and advances to credit institutions (Note 6)	4,187,835	2,235,703	-	-	2,607,093	2,940,508	-	-
Loans and receivables-								
Loans and advances to customers	23,686	329	21	6	-	12,666	37	12
Debt instruments	-	206,486	-	-	-	1,417,827	-	-
Trading derivatives (Note 9)	-	64,953	-	-	-	78,394	-	-
Hedging derivatives	-	29,706	-	-	-	19,661	-	-
Other assets	10,846	4,773			9,225	5,544	-	-
Liabilities:								
Deposits from credit institutions (Note 17)	3,320,595	7,468,959	-	-	4,887,489	10,079,177	-	-
Customer deposits	8,243	76,110	-	257	10,381	218,169	-	106
Marketable debt securities	1,113,337	1,222,936	-	-	894,739	723,517	-	-
Subordinated liabilities (Note 20)	205,660	1,138,158	-	-	220,015	1,304,540	-	-
Other financial liabilities	99	96,254	-	-	3	481,281	-	-
Trading derivatives (Note 9)	-	78,060	-	-	-	83,772	-	-
Hedging derivatives	-	442,094	-	-	-	695,978	-	-
Other liabilities	1,036	22,043	-	-	531	9,496	-	-
Income statement:								
Interest and similar income	50,160	49,814	-	-	40,351	57,518	-	-
Interest expense and similar charges	(151,496)	(87,238)	-	(5)	(190,571)	(182,508)	-	-
Result of companies accounted for using the equity method (Note 34)	10,163	-	-	-	11,587	-	-	-
Fee and commission income	35,060	4,913	-	-	40,351	3,062	-	-
Fee and commission expense	(4,990)	(3,331)	-	-	(3,659)	(4,223)	-	-
Gains/losses on financial assets and liabilities (net)	-	131,705	-	-	-	(172,284)	-	-
Exchange differences	-	8,349	-	-	-	9,721	-	-
Other operating income	-	655	-	-	-	371	-	-
Other general administrative expenses	(6,666)	(244,600)	-	-	(4,719)	(220,834)	-	-
Memorandum items:								
Contingent liabilities	-	95,785	-	-	-	126,887	-	-
Contingent commitments	677,133	654,269	-	-	2,489,500	6,010	-	-

(*) Excluding those entities belonging to the Santander Group that were classified as associates in these notes to the consolidated financial statements.

(**) See Notes 5-d and 5-e.

49. Risk management

Corporate risk management principles

As part of the Santander Group, Santander Consumer Finance's risk management is based on the following principles:

- Involvement of senior management. Banco Santander's Risk Committee and the Group units' senior management committees are structured so as to involve management in the overall risk oversight process.

- Independence of the risk function with respect to the business. The Risk Area Manager at Santander Consumer Finance, as Deputy General Manager of the Santander Group, reports directly to the General Manager of the Group's Risk Division, who in turn reports to Mr Matías Rodríguez Inciarte who, as Third Deputy Chairman and in his capacity as Chairman of the Risk Committee, reports directly to the Executive Committee and the Board. The separation of the functions of the business areas (risk-takers) and those of the risk areas responsible for risk measurement, analysis, control and reporting provides sufficient independence and autonomy for the performance of adequate risk control.

- Decisions by consensus (even at branch level), which ensure that different opinions are taken into account and avoid situations in which individual decision-making powers are delegated.

- Decisions on credit transactions are taken jointly by the risk and commercial areas.

- Definition of responsibilities. The type of activities to be performed, segments, risks to be assumed and risk decisions to be made are clearly defined for each risk-taking unit and, where appropriate, each risk management unit, based on the powers delegated to them. How transactions should be arranged and managed and where they should be recognised for accounting purposes is also defined.

At the Group, the risk management and control process is conducted as follows:

- Risk measurement. Risk measurement takes into account all risk exposures assumed across the business spectrum and uses measures based on the components and dimensions of risk throughout its life cycle for the management of risk at any given time.

- An integrated vision, from a qualitative standpoint, which involves the use of a series of comprehensive metrics, mainly the charge for capital at risk and the return on risk-adjusted capital (RORAC).

- Risk limitation. This aims to limit, in an efficient and comprehensive manner, the maximum levels of risk that are set for the various risk measures, where the risks being incurred are known and the Group has the infrastructure required for their management, control and reporting. It also aims to ensure that undesired types of risk are not incurred and that the capital charge, by risk type, exposure and loss, does not exceed the approved maximum limits.

- Establishment of risk policies and procedures. The risk policies and procedures constitute the basic regulatory framework, consisting of circulars, frameworks and operating rules, through which risk activities and processes are regulated.

- Definition and assessment of risk methodologies. Risk methodologies provide the definitions of the internal risk models applicable by the Group, and, therefore, stipulate the risk measures, product valuation methods, yield curve and market data series building methods, calculation of risk-based capital requirements and other risk analysis methods, and the respective calibration and testing processes.

For many years the Santander Group has managed risk using a number of techniques and tools which are described in detail in various parts of this section. The most noteworthy of these techniques and tools, due to the foresight with which Santander implemented them at the time and their current significance in light of the New Basel Capital Accord (BIS II), are as follows:

- Internal ratings- and scorings-based models which, by assessing the various qualitative and quantitative risk components by customer and transaction, make it possible to estimate, firstly, the probability of default and, subsequently, the expected loss, based on LGD estimates.

- Economic capital, as a homogeneous measure of the risk assumed and a basis for the measurement of the management performed.

- RORAC, which is used both as a transaction pricing tool (bottom-up approach) and in the analysis of portfolios and units (top-down approach).

- VaR, which is used for controlling market risk and setting the market risk limits for the various trading portfolios.

- Scenario analysis and stress testing to supplement market and credit risk analyses in order to assess the impact of alternative scenarios, even on provisions and capital.

Consequently, Santander Consumer Finance's risk management fully identifies with BIS II principles, insofar as it recognises and supports the leading-edge industry practices that the Group has implemented in advance.

The Santander Group calculates the minimum regulatory capital in conformity with Bank of Spain Circular 3/2008 on the calculation and control of minimum capital requirements for credit institutions. This Circular completed the transposition into Spanish banking legislation of the Directives (2006/48/EC and 2006/49/EC) that incorporated the New Basel Capital Accord (BIS II) into European Union legislation.

As a result of the new developments in the regulatory framework, commonly referred to as BIS III, the Santander Group has taken measures to apply the future requirements of BIS III -increased levels of high-quality capital and adequate capital conservation and countercyclical buffers- sufficiently in advance.

Also, the Santander Group is preparing, per the required schedule, the two new liquidity ratios indicated in BIS III, which guarantee sufficient liquidity even in stress scenarios. These ratios are the Liquidity Coverage Ratio (LCR) for the short term (30 days) and the Net Stable Funding Ratio (NSFR), which relates to the structure of financing. Also, a project is under way to report the CRD IV-CRR liquidity ratios (the Liquidity Coverage Ratio, to be reported on a monthly basis, and the Net Stable Funding Ratio, to be reported on a quarterly basis).

Following is an analysis of the main types of risk of Santander Consumer Finance: credit risk, market risk, operational risk and compliance and reputational risk.

Credit risk-

Introduction to the treatment of credit risk

Credit risk is the possibility of loss stemming from the total or partial failure of our customers or counterparties to meet their financial obligations to the Group.

The specialisation of the risk function at Santander Consumer Finance is based on the type of customer and, accordingly, a distinction is made between individualised customers and standardised customers throughout the risk management process:

- Individualised customers are defined as those to which a risk analyst has been assigned, basically because of the risk assumed. This category includes wholesale banking customers, financial institutions and certain enterprises belonging to retail banking. Risk management is performed through expert analysis supplemented by decision-making support tools based on internal risk assessment models, supervised by an analyst.

- Standardised customers are those which have not been expressly assigned a risk analyst. This category generally includes individuals, individual traders, and retail banking enterprises not classified as individualised customers. Management of these risks is based on internal risk assessment and automatic decision-making models, supplemented subsidiarily, when the model is not comprehensive enough or is not sufficiently accurate, by teams of analysts specialising in this type of risk.

Main aggregates and variations

The profile of the credit risk assumed by Santander Consumer Finance is characterised by a diversified geographical distribution and the prevalence of retail banking operations.

a) Global credit risk map- 2013

The following table shows a detail of the Group's global credit risk map in its core business, disregarding valuation adjustments:

SCF Group - Gross Credit Risk Exposure			
	2013 (Millions of Euros)	Change on December 2012	% of Portfolio
Germany	30,590	0.93%	52.67%
The Netherlands	1,200	-1.48%	2.07%
Spain	6,402	-6.87%	11.02%
Italy	5,652	-14.79%	9.73%
Portugal	878	-13.16%	1.51%
Nordic countries	8,583	6.13%	14.78%
Poland	3,241	5.26%	5.58%
Austria	1,536	1.79%	2.64%
SCF Group	**58,082**	**-1.08%**	**100.00%**

Credit risk exposure fell by 1.08% in year-on-year terms as a result of the decline in the portfolios in Italy, the Netherlands, Spain and Portugal that was not offset by the growth in the Nordic countries, Austria, Poland and Germany.

Germany accounts for 52.67% of this exposure, followed by the Nordic countries, Spain and Italy which account for over 10%.

b) Variations in main aggregates in 2013

The changes in non-performing loans and the cost of credit reflect the impact of the deterioration of the economic environment, mitigated by prudent risk management, which generally enabled the Group to keep these data at levels below those of its competitors. As a result, Santander Consumer Finance has a significant coverage ratio and a high level of available general reserves.

The non-performing loans ratio was 4.04% at 31 December 2013 (31 December 2012: 3.90%), i.e. it increased by 14 basis points in 2013. The NPL coverage ratio stood at 105% (2012 year-end: 109%).

Following is a detail, by activity, of the loans and advances to customers at 31 December 2013:

	Thousands of Euros							
			Secured Loans. Loan-to-Value Ratio					
	Property Mortgage Guarantee	Other Collateral	Less than or Equal to 40%	More than 40% and Less than or Equal to 60%	More than 60% and Less than or Equal to 80%	More than 80% and Less than or Equal to 100%	More than 100%	Total
Public sector	-	-	-	-	-	-	-	65
Other financial institutions	-	-	-	-	-	-	-	38,241
Non-financial companies and individual traders	55,159	-	11,038	17,595	5,782	16,025	4,719	8,784,416
Of which:								
Construction and property development	-	-	-	-	-	-	-	*6,591*
Civil engineering construction	-	-	-	-	-	-	-	*70,803*
Large companies	*28,437*	-	-	*9,366*	-	*15,207*	*3,864*	*650,076*
SMEs and individual traders	*26,722*	-	*11,038*	*8,229*	*5,782*	*818*	*855*	*8,056,946*
Other households and non-profit institutions serving households	9,358,547	244,200	606,949	761,244	2,815,926	4,927,264	491,364	47,861,516
Of which:								
Residential	*9,358,547*	*244,200*	*606,949*	*761,244*	*2,815,926*	*4,927,264*	*491,364*	*9,625,421*
Consumer loans	-	-	-	-	-	-	-	*36,775,887*
Other purposes	-	-	-	-	-	-	-	*1,460,208*
Less: Impairment losses on assets not earmarked for specific transactions	-	-	-	-	-	-	-	(756,033)
Total	**9,413,706**	**244,200**	**617,987**	**778,839**	**2,821,708**	**4,943,289**	**496,083**	**55,928,205**
Memorandum item								
Refinancing, refinanced and restructured transactions	*162,018*	*101,159*	*44,539*	*61,073*	*87,599*	*36,582*	*33,384*	*788,020*

Forborne loan portfolio

The term “forborne loan portfolio” refers, for the purposes of the Group's risk management, to the concepts of “restructurings” and “refinancings” as defined in Bank of Spain Circular 6/2012, which relate to transactions in which the customer has, or might foreseeably have, financial difficulty in meeting its payment obligations under the terms and conditions of the current agreement and, accordingly, the agreement has been modified or cancelled or even a new transaction has been entered into.

The Santander Group has a detailed corporate policy for debt forbearance that is applicable to all countries, complies with the aforementioned Bank of Spain Circular 6/2012 and follows the general principles recently published by the European Banking Authority for transactions of this kind.

This corporate policy establishes strict prudential criteria for the assessment of these loans:

- The use of this practice is restricted, and any actions that might defer the recognition of impairment must be avoided.

- The main aim must be to recover the amounts owed, and any amounts deemed unrecoverable must be recognised as soon as possible.

- Forbearance must always envisage maintaining the existing guarantees and, if possible, enhance them. Not only can effective guarantees serve to mitigate losses given default, but they might also reduce the probability of default.

- This practice must not give rise to the granting of additional funding, or be used to refinance debt of other entities or as a cross-selling instrument.

- All the alternatives to forbearance and their impacts must be assessed, making sure that the results of this practice will exceed those which would foreseeably be obtained if it were not performed.

- The new transaction may not give rise to an improvement in the risk classification until such time as the experience with the customer has proven to be satisfactory. On the contrary, transactions originally classified as standard may be reclassified as doubtful if a series of circumstances prevail that recommend this.

- In addition, in the case of individualised customers, it is particularly important to conduct an individual analysis of each specific case, for both the proper identification of the transaction and its subsequent classification, monitoring and adequate provisioning.

Also, the corporate policy sets out various criteria for determining the scope of transactions qualifying as forborne exposures by defining a detailed series of objective indicators that are indicative of situations of financial difficulty.

Accordingly, transactions not classified as doubtful at the date of forbearance are generally considered to be experiencing financial difficulty if at that date they were more than one month past due. Where no payments have been missed or there are no payments more than one month past due, other indicators of financial difficulty are taken into account, including most notably the following:

  - Transactions with customers who are already experiencing difficulties in other transactions.

  - Situations where a transaction has to be modified prematurely, and the Group has not yet had a previous satisfactory experience with the customer.

  - Cases in which the necessary modifications entail the grant of special conditions, such as the establishment of a grace period, or where these new conditions are deemed to be more favourable for the customer than those which would have been granted for an ordinary loan approval.

  - Where a customer submits successive loan modification requests at unreasonable time intervals.

  - In any case, if once the modification has been made any payment irregularity arises during a given probation period (as evidenced by backtesting), even in the absence of any other symptoms, the transaction will be deemed to be within the scope of forborne exposures.

Once it has been determined that the reasons for the modification are effectively due to financial difficulties, a more precise classification is performed based on the degree of impairment and management status of the original transactions, distinguishing between the following types of forbearance:

- **Ex-ante forbearance**: where the original transaction has not been classified as a doubtful exposure and has an amount more than one month (but not more than three months) past due at the time the modification is arranged. If the transaction has an amount past due by one month or less, or even if the transaction is current in its payment, it will also be considered as a case of ex-ante forbearance if there is any sign evidencing the existence of financial difficulties.

- **Ex-post forbearance**: the ex-post concept refers to forbearance transactions in which, at the date of forbearance, the exposures have already been classified as doubtful, either due to arrears or for other reasons (i.e. for subjective reasons or reasons other than arrears).

The corporate policy also establishes different treatments that are applicable to forbearance transactions in cases of advanced impairment. The classification requirements and criteria are more stringent for transactions of this kind than for other forbearance transactions.

As regards the strategies to be applied, corporate policy requires the customer's ability and willingness to pay to be analysed and a distinction to be drawn between the severity and the estimated duration of the impairment. The results of this analysis will be used as a basis for deciding whether the debt should be forborne and the most appropriate way of doing so for each case:

- When borrowers display a severe but transitory deterioration in their ability to pay (which is expected to be recovered in a short space of time), short-term adjustment strategies are applied, such as a payment moratorium on the principal or the reduction of instalments for a short, limited period until the ability to pay is recovered.

- When borrowers display a slight deterioration in their ability to pay (an early recovery of which is not expected), more long-term strategies are applied, such as reducing instalments by deferring either the maturity date or a portion of the principal, which would be paid at the same time as the last instalment, at all times securing its payment through the provision of effective guarantees.

In any case, through a case-by-case analysis, priority is given to modifications for customers displaying a slight but prolonged deterioration, since those experiencing severe but transitory deterioration carry a higher risk, as they depend on the accuracy of the estimated time of their future recovery. Cases of severe deterioration deemed to be prolonged over time are not considered for forbearance.

Corporate policy also establishes mechanisms for the management and control of loan forbearance, which allow forborne transactions to be handled in a differentiated way, paying particular attention to the processes of:

- Planning and budgeting, including preparing the pertinent business plans, projections and limits for the most relevant items.

- Monitoring portfolio evolution and assessing the degree of compliance with the projections prepared in the planning phase.

Once forbearance measures have been adopted, transactions that have to remain classified as doubtful because at the date of forbearance they do not meet the requirements to be classified in a different category must comply with a prudential payment schedule in order to assure reasonable certainty as to the recovery of the customer's ability to pay.

If there is any (non-technical) irregularity in payments during that period, the probation period starts again.

On successful completion of the probation period, the duration of which depends on the customer's situation and the transaction features (term and guarantees provided), the transaction is no longer classified as doubtful, although it continues to be adequately monitored and managed.

The specific monitoring of the forborne transaction continues until a series of requirements have been met, including most notably: a minimum period of two years must have elapsed since commencement of the forbearance; repayment of 20% of the principal; and settlement of the amounts that were past due at the time of forbearance.

By contrast, if following arrangement of forbearance there is no improvement in the customer's payment performance, the possibility of extending new forbearance measures will be considered, with the application of more stringent classification/return-to-performing criteria.

The forbearance of a transaction classified as doubtful, irrespective of whether, as a result of the forbearance, the transaction becomes current in its payments, does not change the default date considered on determining the related provision. Also, the forbearance of a transaction classified as doubtful does not give rise to any release of the related provisions.

Quantitative information required by Bank of Spain Circular 6/2012

Set forth below is the quantitative information required by Bank of Spain Circular 6/2012 on the restructured/refinanced transactions in force at 31 December 2013. The following terms are used in Bank of Spain Circular 6/2012 with the meanings specified:

- Refinancing transaction: transaction granted or used for reasons relating to current or foreseeable financial difficulties the borrower may have in repaying one or more of the transactions granted to it, or through which the payments on such transactions are brought fully or partially up to date, in order to enable the borrowers of cancelled or refinanced transactions to repay the debt (principal and interest) because the borrower is unable, or might foreseeably become unable, to comply with the conditions thereof in due time and form.

- Restructured transaction: transaction with respect to which, for economic or legal reasons relating to current or foreseeable financial difficulties of the borrower, the financial terms and conditions are modified in order to facilitate the payment of the debt (principal and interest) because the borrower is unable, or might foreseeably become unable, to comply with the aforementioned terms and conditions in due time and form, even if such modification is envisaged in the agreement.

Set forth below is the quantitative information required by Bank of Spain Circular 4/2004 on the restructured/refinanced transactions in force at 31 December 2013, taking into consideration the above definitions:

Current restructuring balances (a)

	Thousands of Euros																						
	Standard (b)						Substandard							Doubtful							Total		
	Full Property Mortgage Guarantee		Other Collateral (c)		Without Collateral		Full Property Mortgage Guarantee		Other Collateral (c)		Without Collateral			Full Property Mortgage Guarantee		Other Collateral (c)		Without Collateral					
	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Specific Allowance	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Specific Allowance	Number of Transactions	Gross Amount	Specific Allowance
Public sector	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**	**-**
Other legal entities and individual traders	7	636	-	-	1,689	19,498	6	488	-	-	722	17,702	3,657	5	630	-	-	2,335	28,627	23,157	**4,764**	**67,581**	**26,814**
Of which: Financing for construction and property development	-	-	-	-	*115*	*1,570*	-	-	-	-	*23*	*326*	*54*	-	-	-	-	*37*	*482*	*316*	***175***	***2,378***	***370***
Other individuals	1,105	53,183	265	19,829	33,893	209,211	1,020	101,489	563	72,878	22,016	162,839	74,335	978	55,107	279	30,332	64,324	445,856	329,136	**124,443**	**1,150,724**	**403,471**
Total	**1,112**	**53,819**	**265**	**19,829**	**35,582**	**228,709**	**1,026**	**101,977**	**563**	**72,878**	**22,738**	**180,541**	**77,992**	**983**	**55,737**	**279**	**30,332**	**66,659**	**474,483**	**352,293**	**129,207**	**1,218,305**	**430,285**

(a) Including all refinancing, refinanced or restructured transactions as defined in section 1.g) of Annex IX of Bank of Spain Circular 4/2004.
(b) Standard risks classified as under special monitoring pursuant to section 7.a) of Annex IX of Bank of Spain Circular 4/2004.
(c) Including transactions without a full property mortgage guarantee, i.e. with a loan-to-value ratio of more than 1, and transactions with collateral other than a real estate mortgage, irrespective of their loan-to-value ratio.

The transactions presented in the foregoing table were classified at 31 December 2013, by nature, as follows:

- Doubtful: transactions that are in the process of being returned to performing status, those for which advantageous conditions had to be granted that would not have been granted for an ordinary loan approval or those which, having been classified as standard or substandard, have again encountered payment difficulties during the term of the transaction.

- Substandard: transactions previously classified as doubtful with respect to which, following forbearance, sustained payments have been made for a certain period, depending on the transaction features and the type of guarantee, and transactions previously classified as standard: i) which have been granted an initial grace period and will remain in this category until three monthly instalments (or the equivalent) have been paid after the grace period, or ii) that following forbearance have become non-performing (default).

- Standard: transactions previously classified as doubtful or substandard which have successfully completed the precautionary observation periods established in the corporate policy evidencing that payment capacity pursuant to the terms established has been restored, and transactions classified as standard at the date of forbearance, until they meet the requirements to cease to be subject to the special monitoring described above.

The table below shows the changes in 2013 in the forborne loan portfolio:

	Thousands of Euros
Balance at beginning of year	**466,853**
Of which:	
Portfolio classified as other than doubtful	*356,014*
Doubtful assets	*110,839*
New additions	123,520
Reductions (*)	(162,992)
Balance at end of year	**427,382**
Of which:	
Portfolio classified as other than doubtful	*293,249*
Doubtful assets	*134,132*

(*) Including, mainly, debt repayments, foreclosures and write-offs and transactions that have ceased to be subject to special monitoring because the aforementioned requirements have been met.

Metrics and measurement tools

Credit rating tools

In keeping with the Santander Group's tradition of using proprietary rating models since 1993, the credit quality of customers and transactions is also measured by internal scoring and rating systems at Santander Consumer Finance. Each rating assigned by models relates to a certain probability of default or non-payment, determined on the basis of the Group's historical experience.

Since Santander Consumer Finance focuses mainly on the retail business, assessments are primarily based on scoring models or tables which, together with other credit policy regulations, issue an automatic decision on the applications received. These tools have the dual advantage of allocating an objective appraisal of the level of risk and speeding up the response time that would be required by a purely manual analysis.

In addition to the scoring models for the approval and management of portfolios (by rating the transactions composing the portfolios in order to assess their credit quality and estimating their potential losses), other tools are available to assess existing accounts and customers which are used in the defaulted loan recovery process. This method is intended to cover the entire "loan cycle" (approval, monitoring and recovery) by means of statistical rating models based on the Bank's internal historical data.

For individualised corporates and institutions which, at Santander Consumer Finance, include mainly agents, the assessment of the level of credit risk is based on expert rating models that combine in the form of variables the most relevant factors to be taken into account in the assessment, in such a way that the allocation process generates appraisals that are consistent and comparable among customers and summarise all the relevant information. In 2013 all the units reviewed the aforementioned portfolios, with the participation of all areas of the Bank. These meetings included large exposures, companies under special surveillance and the main credit indicators of this portfolio.

Ratings assigned to customers are reviewed periodically to include any new financial information available and the experience in the banking relationship. The frequency of the reviews is increased in the case of customers that reach certain levels in the automatic warning systems and of customers classified as requiring special monitoring. The rating tools themselves are also reviewed in order to progressively fine-tune the ratings they provide.

To a lesser extent, global rating tools are also applied to certain exposures in the global wholesale banking segment. Management of this segment is centralised at the Risk Division of the Santander Group, for both rating calculation and risk monitoring purposes. These tools assign a rating to each customer, which is obtained from a quantitative or automatic module, based on balance sheet ratios or macroeconomic variables, supplemented by the analyst's expert judgement.

Santander Consumer Finance's portfolio of individualised companies is not representative of the total risks managed, which relate mainly to vehicle dealer stock financing.

Credit risk parameters

The assessment of customers or transactions using rating or scoring systems constitutes a judgement of their credit quality, which is quantified through the probability of default (PD).

In addition to customer assessment, the quantification of credit risk requires the estimation of other parameters, such as exposure at default (EAD) and the percentage of EAD that will not be recovered (loss given default or LGD). Therefore, other relevant factors are taken into account in estimating the risk involved in transactions, such as the quantification of off-balance-sheet exposures, which depends on the type of product, or the analysis of expected recoveries, which is related to the guarantees provided and other characteristics of the transaction: type of product, term, etc.

These factors are the main credit risk parameters. Their combination facilitates calculation of the probable loss or expected loss (EL). This loss is considered to be an additional cost of the activity which is reflected in the risk premium and must be charged in the transaction price.

These risk parameters also make it possible to calculate the regulatory capital in accordance with the regulations deriving from the new Basel Capital Accord (BIS II). Regulatory capital is determined as the difference between unexpected loss and expected loss.

Unexpected loss is the basis for the capital calculation and refers to a very high, albeit scantly probable, level of loss, which is not deemed to be recurring and must be catered for using capital.

For portfolios with scant internal default experience, such as banks, sovereign risk or global wholesale banking, risk parameter estimates (PD, LGD and EAD) are based on external sources: market prices or studies conducted by rating agencies gathering the shared experience of a sufficient number of entities. These portfolios are known as low default portfolios.

For all other portfolios, parameter estimates are based on the entity's internal experience. The PD is calculated by observing the cases of new arrears in relation to the final rating assigned to customers or to the scoring assigned to the related transactions.

LGD calculation is based on the observation of the recoveries of defaulted loans, taking into account not only the income and expenses associated with the recovery process, but also the timing thereof and the indirect costs arising from the recovery process.

EAD is estimated by comparing the use of committed facilities at the time of default and their use under normal (performing) circumstances, so as to identify the actual use of the facilities at the time of default.

The estimated parameters for the global portfolios are the same for all the Group's units. Therefore, a financial institution with an 8.5 rating will have the same PD, regardless of the Group unit in which its exposure is accounted for. By contrast, the retail portfolios have specific rating and scoring systems in each of the Group's units, which require separate estimates and specific assignment of parameters in each case.

The parameters are then assigned to the units' on-balance-sheet transactions in order to calculate the expected losses and the capital requirements associated with their exposure.

Observed loss: measures of cost of credit

To supplement the predictiveness provided by the advanced models described above, other habitual measures are used to facilitate prudent and effective management of credit risk based on observed loss.

As part of the Santander Group, the cost of credit risk at Santander Consumer Finance is measured using different approaches: variation in non-performing loans in the recovery process (ending doubtful assets - beginning doubtful assets + assets written off - recovery of assets written off); net credit loss provisions (gross provisions to specific allowances - recovery of assets written off); and net assets written off (assets written off - recovery of assets written off).

The three indicators measure the same reality and, consequently, converge in the long term although they represent successive moments in credit cost measurement: flows of non-performing loans (change in NPL), coverage of doubtful loans (net credit loss provisions) and classification as write-offs (net write-offs), respectively. Although they converge in the long term within the same business cycle, the three approaches show differences at certain times, which are particularly significant at the start of a change of cycle. These differences are due to the different timing of recognition of losses, which is basically determined by accounting rules (for example, mortgage loans have a longer coverage schedule and are classified as write-offs more “slowly” than consumer loans). In addition, the analysis can be complicated due to changes in the policy of coverage and classification as write-offs, the composition of the portfolio, doubtful loans of entities acquired, changes in accounting rules, sale of portfolios, etc.

Credit risk cycle

The risk management process consists of identifying, measuring, analysing, controlling, negotiating and deciding on, as appropriate, the risks incurred in the operations of Santander Consumer Finance. The parties involved in this process are the risk taking areas, senior management and the risk function.

As Santander Consumer Finance is part of the Santander Group, the process begins at senior management level, through the Board of Directors and the Risk Committee, which establishes the risk policies and procedures, and the limits and delegations of powers, and approves and supervises the scope of action of the risk function.

The risk cycle comprises three different phases: pre-sale, sale and post-sale:

- Pre-sale: this phase includes the risk planning and target setting processes, determination of the Santander Group's risk appetite, approval of new products, risk analysis and credit rating process, and limit setting.

- Sale: this is the decision-making phase for both pre-classified and specific transactions.

- Post-sale: this phase comprises the risk monitoring, measurement and control processes and the recovery process.

a) Risk limit planning and setting

Risk limit setting is a dynamic process that identifies the Santander Group’s risk appetite through the discussion of business proposals and the attitude to risk.

This process is defined in the Global Risk Limit Plan, an agreed-upon comprehensive document for the integrated management of the balance sheet and the inherent risks, which establishes risk appetite on the basis of the various factors involved.

The risk limits are founded on two basic structures: customers/segments and products.

Scenario analysis

An important aspect of the planning phase is the consideration of the volatility of the macroeconomic variables that affect the performance of the portfolios.

The Group simulates their performance in various adverse and stress scenarios (stress testing), which enables it to assess the Group's capital adequacy in the event of certain future circumstantial situations.

The scenario analysis enables senior management to gain a clearer understanding of the performance of the portfolio in response to changing market and circumstantial conditions and it is a basic tool for assessing the sufficiency of the provisions recognised to cater for stress scenarios.

b) Risk analysis and credit rating process

Risk analysis is one of the fundamental factors in the assessment of credit risk and, therefore, in the approval of loans to customers by the Santander Group. This analysis consists of examining the counterparty's ability to meet its contractual obligations to Santander Consumer Finance. This involves analysing the customer's credit quality, its risk transactions, its solvency and the return to be obtained in view of the risk assumed.

The risk analysis is conducted every time a new customer or transaction arises or with a pre-established frequency, depending on the segment involved. Additionally, the credit rating is examined and reviewed whenever a warning system is triggered or an event affecting the counterparty/transaction occurs.

c) Transaction decision-making

The purpose of the transaction decision-making process is to analyse transactions and adopt resolutions thereon, taking into account the risk appetite and any transaction elements that are important in achieving a balance between risk and return.

Since 1993 the Santander Group has been using, among others, the RORAC (return on risk-adjusted capital) methodology for risk analysis and pricing as part of the decision-making process for transactions and deals.

d) Monitoring

In order to ensure adequate credit quality control, in addition to the tasks performed by the Internal Audit Division, the Risk Unit has a specific risk monitoring function, consisting of local and global teams, to which specific resources and persons in charge have been assigned.

This monitoring function is based on an ongoing process of permanent observation to enable early detection of any incidents that might arise in the evolution of the risk, the transactions, the customers and their environment, with a view to adopting mitigating actions. The risk monitoring function is specialised by customer segment.

For this purpose a system called “companies under special surveillance” (FEVE) has been designed that distinguishes four categories based on the degree of concern raised by the circumstances observed (extinguish, secure, reduce and monitor). The inclusion of a company in the FEVE system does not mean that there has been a default, but rather that it is deemed advisable to adopt a specific policy for this company, to place a person in charge and to set the policy implementation period. Customers classified as FEVE are reviewed at least every six months, or every three months for those classified in the most severe categories. A company can be classified as FEVE as a result of the monitoring process itself, a review performed by Internal Audit, a decision made by the sales manager responsible for that company or the triggering of the automatic warning system.

Assigned ratings are reviewed at least annually, but should any weakness be detected, or depending on the rating itself, more frequent reviews are performed.

For exposures to standardised customers, the key indicators are monitored in order to detect any variance in the performance of the loan portfolio with respect to the forecasts contained in the credit management programmes.

e) Measurement and control

Supplementing the management process, the risk control function obtains a global view of Santander Consumer Finance’s loan portfolio, through the various phases of the risk cycle, with a level of detail sufficient to permit the assessment of the current position of the exposure and any changes therein.

The aim of the control model is to assess the solvency risk assumed in order to detect any areas requiring attention and to propose measures to correct any possible impairment. Therefore, it is essential that the control activity itself be accompanied by an analysis component aimed at facilitating a proactive approach to the early detection of problems and the subsequent recommendation of action plans.

Any changes in the Group’s risk exposure with respect to budgets, limits and benchmarks are controlled on an ongoing and systematic basis, and the impacts of these changes in future situations, both of an exogenous nature and those arising from strategic decisions, are assessed in order to establish measures that place the profile and amount of the loan portfolio within the parameters set by Santander Consumer Finance and the Santander Group.

The risk control function is performed by assessing risks from various complementary perspectives, the main pillar being control by geographical location, business area, management model, product and process, thus facilitating the detection of specific areas of action requiring decision-making.

In 2006, within the corporate framework established in the Santander Group for compliance with the Sarbanes-Oxley Act, a corporate tool was made available on the Group’s intranet for the documentation and certification of all the subprocesses, operational risks and related mitigating controls. The Risk Division, as part of the Group, assesses annually the efficiency of the internal control of its activities.

f) Loan recovery

As part of the Santander Group, Santander Consumer Finance considers loan recovery management to be a strategic, integral business activity.

Santander Consumer Finance has incorporated the global model of the Santander Group, combining it with a local implementation, considering the specific features of the business in each area of activity.

The main objective of loan recovery is to contribute to a reduction in the need for provisions and reduce the costs associated with risk.

Thus, the specific aims of the recovery process are as follows:

- To seek collection or regularisation of unpaid balances, so that accounts can return to the performing status; if this is not possible, the aim is to fully or partially recover the debts, regardless of their status for accounting or management purposes.

- To maintain and strengthen the relationship with customers, paying attention to their payment behaviour and offering refinancing products to meet their needs in accordance with the corporate approval and control policies carefully established by the risk areas.

In the recovery process, general or standardised customers are segregated or differentiated from individualised customers, using specific integrated management models in each case, in accordance with certain basic specialisation criteria.

Recovery management involves the use of a multichannel customer relation strategy.

The telephone channel is aimed at large-scale, standardised management and involves high levels of activity in contacting customers and monitoring their payments, with each conversation being prioritised and adapted on the basis of the status of their debts (in arrears, doubtful or non-performing), their balances and their payment commitments.

The commercial recovery management network, which complements the telephone channel, is geared towards establishing close relationships with selected customers. It consists of teams of highly commercially-oriented agents with specific training and excellent negotiating skills who carry out a personalised management of their own portfolios of high impact customers (high balances, special products and specially managed customers).

The recovery activity for advanced stages of default involves both in- and out-of-court management and the continuation of commercial and monitoring activities through the telephone channels and agent network, applying specific strategies and practices based on the particular stage of default.

The management model favours proactiveness and oriented management, achieved through ongoing recovery campaigns specifically tailored to particular groups of customers and stages of default. Predefined objectives are pursued using specific strategies and intensive actions conducted through the appropriate channels within limited time frames.

Adequate local lending and analysis of daily and monthly management information, aligned with the Bank's corporate models, were defined as the basis for the business intelligence required in order to take management-oriented decisions on an ongoing basis and to monitor the results thereof.

Since 2011 Santander Consumer Finance has consolidated the implementation of the global model in all its units.

Concentration risk

Concentration risk is a key component of credit risk management. The Santander Group continuously monitors the degree of credit risk concentration, by geographical area/country, economic sector, product and customer group.

The Risk Committee establishes the risk policies and reviews the exposure limits required to ensure adequate management of credit risk concentration.

The Group is subject to Bank of Spain regulations on large exposures (defined as those exceeding 10% of eligible capital). In accordance with Bank of Spain Circular 3/08, no exposure to a single individual or economic group, including all types of credit and equity risks, should exceed 25% of the Group’s capital. Also, the total amount of large exposures may not exceed eight times the Group’s capital. Exposures to governments and central banks belonging to the OECD are excluded from this treatment.

The Santander Group’s Risk Division works closely with the Finance Division in the active management of credit portfolios, which includes reducing the concentration of exposures through several techniques, such as the arrangement of credit derivatives for hedging purposes or the performance of securitisation transactions, in order to optimise the risk/return ratio of the total portfolio.

The detail, by activity and geographical area of the counterparty, of the concentration of the Group's risk at 31 December 2013 is as follows:

	Thousands of Euros				
	Spain	Other EU Countries	Americas	Rest of the World	Total
Credit institutions	4,371,110	4,689,026	258,246	115,162	9,433,544
Public sector	72	435,424	-	-	435,496
Of which:					
Central government	-	*433,156*	-	-	*433,156*
Other	*72*	*2,268*	-	-	*2,340*
Other financial institutions	104,486	46,791	35	27,560	178,872
Non-financial companies and individual traders	937,266	4,249,741	908	3,853,073	9,040,988
Of which:					
Construction and property development	-	6,644	-	-	6,644
Civil engineering construction	-	70,804	-	-	70,804
Large companies	211,231	438,973	-	-	650,204
SMEs and individual traders	726,035	3,733,320	908	3,853,073	8,313,336
Other households and non-profit institutions serving households	5,544,776	41,777,310	-	542,075	47,864,161
Of which:					
Residential	2,262,898	7,362,523	-	-	9,625,421
Consumer loans	3,280,501	32,955,930	-	542,075	36,778,506
Other purposes	1,377	1,458,857	-	-	1,460,234
Less: Impairment losses on assets not earmarked for specific transactions					(756,033)
Total					**66,197,028**

(*) For the purposes of this table, the definition of risk includes the following items in the public balance sheet: "Loans and Advances to Credit Institutions", "Loans and Advances to Customers", "Debt Instruments", "Trading Derivatives", "Hedging Derivatives", "Investments" and "Contingent Liabilities".

Sovereign risk

As a general rule, the Group considers sovereign risk to be the risk assumed in transactions with central banks, the issuer risk of the Treasury or Republic and the risk arising from transactions with public entities (those whose funds are obtained from fiscal income, which are legally recognised as entities included in the government sector and whose activities are of a non-commercial nature). Following is the Group's total risk exposure to the so-called peripheral countries of the euro zone, distinguishing between sovereign risk and private sector exposure based on the country of the issuer or borrower:

Sovereign Risk by Country of Issuer/Borrower at 31 December 2013 (*)								
	Thousands of Euros							
	Debt Instruments				Loans and Advances to Customers (**)	Total Net Direct Exposure	Derivatives (***)	
	Financial Assets Held for Trading and Other Financial Assets at FVTPL	Short Positions	Available-for-Sale Financial Assets	Loans and Receivables			Other than CDSs	CDSs
Spain	-	-	-	-	65	65	-	-
Italy	-	-	-	-	271	271	-	-

(*) Information prepared under EBA standards.

(**) Presented without taking into account the valuation adjustments recognised (EUR 11 thousand).

(***) “Other than CDSs” refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. “CDSs” refers to the exposure to CDSs based on the location of the underlying.

Sovereign Risk by Country of Issuer/Borrower at 31 December 2012 (*)								
	Thousands of Euros							
	Debt Instruments				Loans and Advances to Customers (**)	Total Net Direct Exposure	Derivatives (***)	
	Financial Assets Held for Trading and Other Financial Assets at FVTPL	Short Positions	Available-for-Sale Financial Assets	Loans and Receivables			Other than CDSs	CDSs
Spain	-	-	-	-	134	134	-	-
Italy	-	-	-	-	39,613	39,613	-	-

(*) Information prepared under EBA standards.

(**) Presented without taking into account the valuation adjustments recognised (EUR 2,073 thousand).

(***) “Other than CDSs” refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. “CDSs” refers to the exposure to CDSs based on the location of the underlying.

The detail of the Group's other exposure to other counterparties (private sector, central banks and other public entities that are not considered to be sovereign risks) in the aforementioned countries at 31 December 2013 and 2012 is as follows:

Exposure to Other Counterparties by Country of Issuer/Borrower at 31 December 2013 (*)									
	Thousands of Euros								
			Debt Instruments					Derivatives (***)	
	Balances with Central Banks	Reverse Repurchase Agreements	Financial Assets Held for Trading and Other Financial Assets at Fair Value through Profit or Loss	Available-for-Sale Financial Assets	Loans and Receivables	Loans and Advances to Customers (**)	Total Net Direct Exposure	Other than CDSs	CDSs
Spain	36,330	-	-	-	102,260	6,486,034	6,624,624	(92,537)	-
Portugal	-	-	-	-	-	899,746	899,746	-	-
Italy	11,454	-	-	-	-	5,696,613	5,708,067	-	-
Ireland	-	-	-	-	-	-	-	-	-

(*) Also, the Group had off-balance-sheet exposure other than derivatives –contingent liabilities and commitments– amounting to EUR 5,193,176 thousand, EUR 65,714 thousand and EUR 36,361 thousand to counterparties in Spain, Portugal and Italy, respectively.

(**) Presented excluding valuation adjustments and impairment losses recognised (EUR 679,916 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Exposure to Other Counterparties by Country of Issuer/Borrower at 31 December 2012 (*)									
	Thousands of Euros								
			Debt Instruments					Derivatives (***)	
	Balances with Central Banks	Reverse Repurchase Agreements	Financial Assets Held for Trading and Other Financial Assets at Fair Value through Profit or Loss	Available-for-Sale Financial Assets	Loans and Receivables	Loans and Advances to Customers (**)	Total Net Direct Exposure	Other than CDSs	CDSs
Spain	9,861	-	-	171,594	2,026	6,959,603	7,143,084	(720,055)	-
Portugal	-	-	-	-	-	1,034,742	1,034,742	-	-
Italy	3,473	-	-	-	-	6,661,387	6,664,860	-	-
Ireland	-	-	-	739	-	-	739	-	-

(*) Also, the Group had off-balance-sheet exposure other than derivatives –contingent liabilities and commitments– amounting to EUR 3,811,220 thousand, EUR 66,130 thousand and EUR 102,924 thousand to counterparties in Spain, Portugal and Italy, respectively.

(**) Presented excluding valuation adjustments and impairment losses recognised (EUR 633,507 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

At 31 December 2013 and 2012, the Group had not arranged any credit default swaps (CDSs).

Market risk-

The scope of measurement, control and monitoring of the Market Risk area encompasses all operations in which net worth risk is assumed. The risk arises from changes in the risk factors -interest rate, exchange rate, equities and the volatility thereof- and from the solvency and liquidity risk of the various products and markets in which the Group operates.

The activities are segmented by risk type as follows:

a) *Trading*: this item includes financial services for customers, trading operations and positioning in fixed-income, equity and foreign currency products.

The Santander Consumer Group does not carry out trading activities at local level, and the scope of its treasury operations is limited to managing and hedging its structural balance sheet risk and managing the liquidity required to finance its business activity.

b) *Balance sheet management*: interest rate risk and liquidity risk arising as a result of the maturity and repricing gaps of all assets and liabilities.

c) *Structural risks:*

- Structural foreign currency risk/hedges of results: foreign currency risk arising from the currency in which investments in consolidable and non-consolidable companies are made (structural exchange rate). This item also includes the positions taken to hedge the foreign currency risk on future results generated in currencies other than the euro (hedges of results).

  Structural foreign currency risk arises mainly from investments in banks in currencies other than euro.

- Structural equities risk: this item includes equity investments in non-consolidated financial and non-financial companies that give rise to equities risk. This risk does not apply to the Group.

The Financial Management area is responsible for managing the balance sheet management risk and structural risks centrally through the application of uniform methodologies adapted to the situation of each market in which the Group operates. The aim pursued by Financial Management is to ensure the stability and recurring nature of both the net interest margin of the commercial activity and the Group's economic value, whilst maintaining adequate liquidity and solvency levels.

The Market Risk area supports business management, defines risk measurement methodologies, assists in establishing limits and controls the structural market risks arising from the Group's operations, ensuring that the risks assumed are within the risk appetite limits established by the Risk Committee.

Decisions affecting the management of these risks are taken through the ALCO Committees in the respective countries and, ultimately, by the Parent’s ALCO Committee.

Each of these activities is measured and analysed using different tools in order to reflect their risk profiles as accurately as possible.

Methodologies

Balance-sheet management

Interest rate risk

The Group analyses the sensitivity of the net interest margin and market value of equity to changes in interest rates. This sensitivity arises from maturity and interest rate repricing gaps in the various balance sheet items.

On the basis of the balance-sheet interest rate position, and considering the market situation and outlook, the necessary financial measures are adopted to align this position with that desired by the Bank. These measures can range from the taking of positions on markets to the definition of the interest rate features of commercial products.

The measures used by the Group to control interest rate risk in these activities are the interest rate gap and the sensitivity of net interest margin and market value of equity to changes in interest rates.

- *Interest rate gap of assets and liabilities*

The interest rate gap analysis focuses on the mismatches between the interest reset periods of on-balance-sheet assets and liabilities and of off-balance-sheet items. This analysis facilitates a basic snapshot of the balance sheet structure and enables concentrations of interest rate risk in the various repricing buckets to be detected. Additionally, it is a useful tool for estimating the possible impact of potential changes in interest rates on the entity's net interest margin and market value of equity.

The flows of all the on- and off-balance-sheet aggregates must be broken down and placed at the point of repricing or maturity. The duration and sensitivity of aggregates that do not have a contractual maturity date are analysed and estimated using the Santander Group's internal model.

- *Net interest margin (NIM) sensitivity*

The sensitivity of the net interest margin measures the change in the expected net interest income for a specific period (twelve months) given a shift in the yield curve.

- *Market value of equity (MVE) sensitivity*

The sensitivity of the market value of equity is a complementary measure to the sensitivity of the net interest margin.

This sensitivity measures the interest rate risk implicit in the market value of equity based on the effect of changes in interest rates on the present values of financial assets and liabilities.

Liquidity risk

Liquidity risk is associated with the Santander Consumer Finance Group's ability to fund its commitments at reasonable market prices and to carry out its business plans with stable sources of funding. The Group permanently monitors maximum gap profiles.

The measures used to control liquidity risk in balance-sheet management are the liquidity gap, liquidity ratios, the structural liquidity table and liquidity stress tests.

- *Liquidity gap*

The liquidity gap provides information on contractual and expected cash inflows and outflows for a given period for each currency in which the Santander Consumer Finance Group operates. The gap measures net cash requirements or surpluses at a given date and reflects the liquidity level maintained under normal market conditions.

In the contractual liquidity gap, all cash-flow generating balance sheet items are analysed and placed at the point of contractual maturity. For assets and liabilities without contractual maturities, the Santander Group's internal analysis model is used, based on a statistical study of the time series of the products, and the so-called stable or unstable balance for liquidity purposes is determined.

- *Liquidity ratios*

The minimum liquidity ratio compares the liquid assets available for sale or transfer (after the relevant discounts and adjustments have been applied) and the assets maturing in less than twelve months with the liabilities maturing in twelve months or less.

- *Structural liquidity table*

The aim of this analysis is to determine the structural liquidity position on the basis of the liquidity profile (more or less stable) of the various asset and liability instruments.

- *Liquidity stress tests*

The purpose of these tests is to determine the impact of a severe liquidity crisis on the Santander Consumer Finance Group. Various warning levels are established based on the results of the tests.

<u>Structural foreign currency risk / Hedges of results / Structural equities risk</u>

Structural foreign currency risk arises mainly from investments in banks in currencies other than the euro.

Structural foreign currency risk is managed centrally at Santander Group level by applying the general corporate procedures.

Control system

Limit setting

The limit setting process is performed together with the budgeting activity and is the tool used to establish the assets and liabilities of each business activity.

Limit setting is a dynamic process that responds to the level of risk considered acceptable by senior management.

Objectives of the limits structure

The limits structure requires a process to be performed that pursues, inter alia, the following objectives:

- To identify and delimit, in an efficient and comprehensive manner, the main types of market risk incurred, so that they are consistent with business management and the defined strategy.

- To quantify and communicate to the business areas the risk levels and profile deemed acceptable by senior management so as to avoid undesired risks.

- To give flexibility to the business areas for the efficient and timely assumption of financial risks, depending on market changes, and for the implementation of the business strategies, provided that the acceptable levels of risk are not exceeded.

- To allow business makers to assume risks which, although prudent, are sufficient to obtain the budgeted results.

- To delimit the range of products and underlyings with which each Treasury unit can operate, taking into account features such as assessment model and systems, liquidity of the instruments involved, etc.

Definition and objectives

Santander Consumer Finance defines operational risk as “the risk of loss resulting from inadequate or failed internal processes, human resources or systems or from external events”. This risk generally relates to events of a purely operational nature, which differentiates it from market or credit risk, although it also includes external risks, such as natural disasters.

The basic aim pursued by Santander Consumer Finance in operational risk control and management is to identify, measure/assess, control/mitigate and inform about this risk.

The priority of Santander Consumer Finance, therefore, is to identify and eliminate any clusters of operational risk, irrespective of whether losses have been incurred. Measurement of this risk also contributes to the establishment of priorities in operational risk management.

For the purpose of calculating regulatory capital for operational risk, the Group decided to opt initially for the Standardised Approach provided for under Basel II standards. The Group is assessing the most appropriate time to shift to Advanced Measurement Approaches (AMA) taking into account, however, that: a) the short-term priority in operational risk management is focused on mitigation; and b) most of the regulatory requirements established for use of the AMA must now be incorporated in the Standardised Approach and, at the present time, these requirements have already been included in the operational risk management approach used.

Compliance with the new regulatory framework

The regulations known as Basel III, which establish new global capital and liquidity standards for financial institutions, come into force in 2014. Basel III redefines available capital, increases the minimum requirements, requires capital buffers and adds new requirements in relation to the risks considered.

For many years the Santander Group has collaborated on the impact studies for calibrating the new standards conducted by the Basel Committee and the European Banking Authority (EBA) and coordinated at local level by the Bank of Spain.

In Europe, the new standards have been implemented through Directive 2013/36/EU (“CRD IV”), and the related Capital Requirements Regulation (“CRR”).In Europe, the new standards have been implemented through Directive 2013/36/EU (“CRD IV”), and the related Capital Requirements Regulation (“CRR”).In Europe, the new standards have been implemented through Directive 2013/36/EU (“CRD IV”) and the related Capital Requirements Regulation (“CRR”). In addition, the standards are subject to Implementing Technical Standards of the European Banking Authority (EBA). These regulations entered into force on 1 January 2014, and many standards are subject to various implementation timetables which conclude at the end of 2018, except with regard to the deduction for deferred tax assets, the transition period for which lasts until 2023. Subsequent to the transposition of Basel III into European legislation, the Basel Committee has continued to issue additional standards which will entail future legal amendments.

Santander currently has robust capital ratios, in keeping with its business model and risk profile, which, coupled with its capacity to generate capital organically and the gradual implementation timetable envisaged for the new requirements in the legislation, place it in a position to comply with Basel III.

The Santander Group intends to adopt, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks, until the percentage of net exposure of the loan portfolio covered by this approach exceeds 90%. The attainment of this short-term objective also depends on the acquisitions of new entities and the need for the various supervisors to coordinate the validation processes of the internal approaches. The Group is present in geographical areas where there is a common legal framework among supervisors, as is the case in Europe through the Capital Requirements Directive. However, in other jurisdictions, the same process is subject to the framework of cooperation between the home and host country supervisors under different legislations, which in practice entails adapting to the different criteria and timetables in order to obtain authorisation to use the advanced approaches on a consolidated basis.

With regard to operational risk, the Group currently uses the standardised approach for regulatory capital calculation purposes and looking to 2014 the Group has embarked on a project to roll out AMA approaches once it has collated sufficient data using its own management model. The Group considers that the internal model should be developed primarily on the basis of the experience accumulated in managing an entity through the corporate guidelines and criteria established after assuming control, which are a distinctive feature.

Internal validation of risk models

Internal validation is a pre-requisite for the supervisory validation process. A fully-independent specialised unit of the Entity obtains an expert opinion on the adequacy of the internal models for the intended internal or regulatory purposes, and concludes on their usefulness and effectiveness.

In addition to complying with the regulatory requirement, the internal validation function provides essential support to the Risk Committee and the local and corporate risk committees in the performance of their duties to authorise the use of the models (for management and regulatory purposes) and to review them regularly.

At the Santander Group, internal validation covers all models used in the risk function, i.e. credit, market, structural and operational risk models and economic and regulatory capital models. The scope of the validation includes not only the more theoretical or methodological aspects, but also the technology systems and the data quality that facilitate and underpin the effective operation of the models and, in general, all the relevant aspects of risk management (controls, reporting, uses, involvement of senior management, etc.).

The internal validation function of Santander Consumer Finance, as part of the Santander Group, is located at corporate level within the Integrated Risk Control and Internal Risk Validation Area (CIVIR) and reports directly to the Third Deputy Chairman of the Group and Chairman of the Risk Committee.

50. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group (see Note 1-b). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Appendix I

Subsidiaries

Company	Country	Registered Office	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (c)	Line of Business	Millions of Euros (a)		
			Direct	Indirect			Capital and Reserves (a)	Net Profit (Loss) (a)	Amount of Ownership Interest (b)
AKB Marketing Services Sp. z.o.o.	Poland	Poznan/ul. Marcelinska 90, 60-324 (Poznan)	-	100.00%	100.00%	MARKETING	7	-	-
Andaluza de Inversiones, S.A.	Spain	Ciudad Grupo Santander, Av.Cantabria, 28660 (Boadilla del Monte)	100.00%	-	100.00%	HOLDING COMPANY	50	2	26
Banco Santander Consumer Portugal, S.A.	Portugal	Rua Castilho 2/4, 1269-073 (Lisbon)	80.09%	19.91%	100.00%	BANKING	126	(1)	128
BCLF 2013-1 B.V.	The Netherlands	-	-	(d)	-	SECURITISATION	-	-	-
Bilkreditt 1 Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
Bilkreditt 2 Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
Bilkreditt 3 Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
Bilkreditt 4 Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
Bilkreditt 5 Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
Dansk Auto Finansiering 1 Ltd	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
FTA Santander Consumer Spain Auto 07-1	Spain	-	-	(d)	-	SECURITISATION	-	-	-
FTA Santander Consumer Spain 09-1	Spain	-	-	(d)	-	SECURITISATION	-	-	-
FTA Santander Consumer Spain 10-1	Spain	-	-	(d)	-	SECURITISATION	-	-	-
FTA Santander Consumer Spain 11-1	Spain	-	-	(d)	-	SECURITISATION	-	-	-
FTA Santander Consumer Spain Auto 12-1	Spain	-	-	(d)	-	SECURITISATION	-	-	-
FTA Santander Consumer Spain Auto 13-1	Spain	-	-	(d)	-	SECURITISATION	-	-	-
Golden Bar (Securitisation) S.r.l.	Italy	-	-	(d)	-	SECURITISATION	-	-	-
Golden Bar Stand Alone 2011-1	Italy	-	-	(d)	-	SECURITISATION	-	-	-
Golden Bar Stand Alone 2011-2	Italy	-	-	(d)	-	SECURITISATION	-	-	-
Golden Bar Stand Alone 2011-3	Italy	-	-	(d)	-	SECURITISATION	-	-	-
Golden Bar Stand Alone 2012-1	Italy	-	-	(d)	-	SECURITISATION	-	-	-
Golden Bar Stand Alone 2012-2	Italy	-	-	(d)	-	SECURITISATION	-	-	-
Golden Bar Stand Alone 2013-1	Italy	-	-	(d)	-	SECURITISATION	-	-	-
Golden Bar Stand Alone 2013-2	Italy	-	-	(d)	-	SECURITISATION	-	-	-
Guaranty Car, S.A.	Spain	-	-	100.00%	100.00%	AUTOMOTIVE	2	(1)	1
Hispamer Renting, S.A. (Sole-Shareholder Company)	Spain	Ciudad Grupo Santander, Av. Cantabria 28660 (Boadilla del Monte) - Spain	-	100.00%	100.00%	FULL-SERVICE LEASING	12	-	1
Santander Consumer Bank AS	Norway	Strandveien 18, 1366 Lysaker, 0219 (Baerum)	100.00%	-	100.00%	FINANCE	720	97	843

Company	Country	Registered Office	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (c)	Line of Business	Millions of Euros (a)		
			Direct	Indirect			Capital and Reserves (a)	Net Profit (Loss) (a)	Amount of Ownership Interest (b)
Santander Consumer Bank AG	Germany	Santander Platz 1, 41061 (Mönchengladbach)	-	100.00%	100.00%	BANKING	3,063	466	3,147
Santander Consumer Bank GmbH	Austria	Andromeda Tower, Donau-City. Str. 6-Wien (Vienna)	-	100.00%	-	FINANCE	326	16	356
Santander Consumer Bank S.p.A.	Italy	Vía Nizza 262, I-10126 (Turin)	100.00%	-	100.00%	FINANCE	569	(47)	523
Santander Consumer Bank Spólka Akcyjna	Poland	Pl. Solny 16, 50-062 (Wroclaw)	100.00%	-	100.00%	BANKING	410	108	419
Santander Consumer Beteiligungsverwaltungsgesellschaft mbH	Germany	Santander Platz 1, 41061 (Mönchengladbach)	-	100.00%	100.00%	HOLDING COMPANY	1	16	1
Santander Consumer Finance Benelux BV.	The Netherlands	Kokermolen 10-14, NL-3994	-	100.00%	100.00%	FINANCE	87	20	93
Santander Consumer Finance Media S.r.l.	Italy	Vía Nizza 262, I-10126 (Turin)	-	65.00%	65.00%	FINANCE	8	-	5
Santander Consumer Finance Oy	Finland	Hermannin Rantatie 10, 00580 (Helsinki)	-	100.00%	100.00%	FINANCE	146	27	130
Santander Consumer Finance Zrt.	Hungary	Kapas Center, Kapas U6-12H-1027 (Budapest)	-	100.00%	100.00%	FINANCE	5	(3)	-
Santander Consumer Finanse Spólka Akcyjna	Poland	Pl. Solny 16, 50-062 (Wroclaw)	-	100.00%	100.00%	SERVICES	27	7	72
Santander Consumer Holding Austria GmbH	Austria	Rennweg 17, A 1030 (Wien)	-	100.00%	100.00%	HOLDING COMPANY	363	516	363
Santander Consumer Holding GmbH	Germany	Santander Platz 1, 41061 (Mönchengladbach)	100.00%	-	100.00%	HOLDING COMPANY	4,307	128	5,677
Santander Consumer Leasing GmbH	Germany	Santander Platz 1, 41061 (Mönchengladbach)	-	100.00%	100.00%	LEASING	20	28	20
Santander Consumer Multirent Sp. z.o.o.	Poland	Ul. Jutrzenki 183, 02-231 (Warsaw)	-	100.00%	100.00%	LEASING	8	1	6
Santander Consumer Renting, S.L.	Spain	Santa Bárbara 1, 28180 (Torrelaguna)	-	100.00%	100.00%	FULL-SERVICE LEASING	55	2	39
Santander Consumer Services GmbH	Austria	Thomas Alva Edison Str. 1 Eisendstadt	-	100.00%	100.00%	SERVICES	-	-	-
Santander Consumer, E.F.C., S.A.	Spain	Ciudad Grupo Santander, Av. Cantabria, 28660 (Boadilla del Monte)	100.00%	-	100.00%	FINANCE	310	23	505
SC Germany Auto 09-1Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
SC Germany Auto 10-1 UG (haftungsbeschränkt)	Germany	-	-	(d)	-	SECURITISATION	-	-	-
SC Germany Auto 11-1 UG (haftungsbeschränkt)	Germany	-	-	(d)	-	SECURITISATION	-	-	-
SC Germany Auto 11-2 UG (haftungsbeschränkt)	Germany	-	-	(d)	-	SECURITISATION	-	-	-

Company	Country	Registered Office	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (c)	Line of Business	Millions of Euros (a)		
			Direct	Indirect			Capital and Reserves (a)	Net Profit (Loss) (a)	Amount of Ownership Interest (b)
SC Germany Auto 13-1 UG (haftungsbeschränkt)	Germany	-	-	(d)	-	SECURITISATION	-	-	-
SC Germany Auto 13-2 UG (haftungsbeschränkt)	Germany	-	-	(d)	-	SECURITISATION	-	-	-
SC Germany Consumer 13-1 UG (haftungsbeschränkt)	Germany	-	-	(d)	-	SECURITISATION	-	-	-
SC Germany Vehicles 13-1 UG (haftungsbeschränkt)	Germany	-	-	(d)	-	SECURITISATION	-	-	-
SCF Ajoneurohallinto Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
SCF Ajoneuvohallinta Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
SCF Rahoituspalvelut 2013 Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
SCF Rahoituspalvelut Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
Silk Finance No. 3 Limited	Ireland	-	-	(d)	-	SECURITISATION	(22)	3	0
Suzuki Servicios Financieros, S.L.	Spain	C/ Carlos Sainz 35, Pol. Ciudad del Automóvil, Leganés (Madrid)	-	51.00%	51.00%	INTERMEDIATION	2	1	-
Svensk Autofinans 1 Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
Unifin, S.p.A.	Italy	Strada Maggiore 47-I, 40125 (Bologna)	-	100.00%	100.00%	FINANCE	65	-	62

(a) Data obtained from the financial statements of each subsidiary for 2013. These financial statements have not yet been approved by the respective governing bodies. However, the Bank's directors consider that they will be ratified without any changes.

(b) Carrying amount of the investments in each subsidiary per the books of the holding company, net of the related impairment allowance, if any.

(c) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September, approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other parties acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. Accordingly, the number of votes corresponding to the Parent in relation to companies in which it has an indirect interest is the number corresponding to the subsidiary holding a direct ownership interest in such companies.

(d) Vehicles over which effective control is exercised.

Appendix II

Associates and jointly controlled entities

Company	Location	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (b)	Line of Business	Millions of Euros (a)		
		Direct	Indirect			Assets	Capital and Reserves	Profit (Loss)
Bank of Beijing Consumer Finance Company	China	20.00%	-	20.00%	FINANCE	636	168	8
Fortune Auto Finance Co., Ltd	China	50.00%	-	50.00%	FINANCE	206	60	(4)
Grupo Konecta Centros Especiales de Empleo, S.L.	Spain	-	44.77%	44.77%	TELEMARKETING	-	-	-
Grupo Konecta Maroc S.A.R.L. à associé unique	Morocco	-	44.77%	44.77%	TELEMARKETING	1	-	-
Grupo Konecta UK, Ltda.	United Kingdom	-	44.77%	44.77%	FINANCE	-	-	-
Grupo Konectanet, S.L.	Spain	-	44.77%	44.77%	HOLDING COMPANY	68	6	10
Grupo Konectanet México, S.A. de C.V.	Mexico	-	44.77%	44.77%	TELEMARKETING	3	1	(1)
Hyundai Capital Germany GmbH	Germany	-	49.99%	49.99%	SERVICES	5	3	1
Konecta Activos Inmobiliarios, S.L.	Spain	-	48.83%	48.83%	PROPERTY	22	5	1
Konecta Brazil Outsourcing, Ltda.	Brazil	-	44.77%	44.77%	SERVICES	8	2	(1)
Konecta Broker, S.L.	Spain	-	44.77%	44.77%	SERVICES	-	-	-
Konecta Bto, S.L.	Spain	-	44.77%	44.77%	TELECOMMUNICATIONS	154	40	9
Konecta Chile Limitada	Chile	-	44.77%	44.77%	SERVICES	10	4	(2)
Konecta Colombia Grupo Konecta Colombia Ltda.	Colombia	-	44.77%	44.77%	TELEMARKETING	5	-	-
Konectanet Comercialización, S.L.	Spain	-	44.77%	44.77%	MARKETING	6	-	-
Konecta Field Marketing, S.A.	Spain	-	44.77%	44.77%	MARKETING	2	-	-
Konecta Gestión Integral de Procesos, S.L.	Spain	-	44.77%	44.77%	SERVICES	-	-	-
Konecta Portugal, Lda.	Portugal	-	44.77%	44.77%	MARKETING	4	-	-
Konecta Servicios Administrativos y Tecnológicos, S.L.	Spain	-	44.77%	44.77%	SERVICES	11	-	2

Company	Location	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (b)	Line of Business	Millions of Euros (a)		
		Direct	Indirect			Assets	Capital and Reserves	Profit (Loss)
Konectanet Andalucía, S.L.	Spain	-	44.77%	44.77%	SERVICES	4	-	1
Kontacta Comunicaciones, S.A.	Spain	-	44.45%	44.45%	SERVICES	12	5	-
Kontacta Servicios de BPO, S.L.	Spain	-	44.77%	44.77%	SERVICES	10	-	1
Konecta Soluciones Globales, S.L.	Spain	-	44.77%	44.77%	SERVICES	-	-	-
Omega Financial Services GmbH	Germany	-	50.00%	50.00%	SERVICES	1	-	1
Puntoform, S.L.	Spain	-	44.77%	44.77%	TRAINING	-	-	-
Reintegra, S.A.	Spain	-	45.00%	45.00%	SERVICES	16	4	-
Santander Benelux, S.A./N.V.	Belgium	-	16.80%	16.80%	BANKING	8,328	1,149	38
Santander International Products, Plc.	Ireland	-	-	-	FINANCE	2,132	-	-
Santander Mediación Operador de Banca-Seguros Vinculado, S.A.	Spain	7.00%	1.50%	8.50%	INSURANCE BROKERAGE	37	3	-
Transolver Finance E.F.C., S.A.	Spain	50.00%	-	50.00%	LEASING	224	14	1
Universal Supoprt, S.A.	Spain	-	44.77%	44.77%	TELEMARKETING	5	3	-

(a) Data obtained from the financial statements of each associate and/or jointly controlled entity for 2013. These financial statements have not yet been approved by the respective governing bodies. However, the Bank's directors consider that they will be ratified without any changes.

(b) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September, approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other parties acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. Accordingly, the number of votes corresponding to the Parent in relation to companies in which it has an indirect interest is the number corresponding to the company holding a direct ownership interest in such companies.

Appendix III

Notifications of acquisitions and disposals
of investments in 2013

(Article 155 of the Spanish Limited Liability Companies Law and Article 53 of Securities Market Law 24/1998).

Investee	Line of Business	Percentage of Net Ownership Interest		Date of Notification to Investee
		Acquired in the Year	At Year-End	
Acquisitions in 2013:				
Fortune Auto Finance Co., Ltd. (China)	Finance	50%	50%	25/01/13
Santander Consumer Bank S.A. (Poland)	Finance	30%	100%	20/11/13
Bank of Beijing Consumer Finance Company (China)	Finance	20%	20%	26/06/13

Appendix IV

List of agents to whom Bank of Spain Circular 4/2010 is applicable

Name	Registered Office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Álvarez y Garrúes Dos, S.L.	Av. de Vigo, 65 - Pontevedra	27003	B21380746	01/08/08	31/07/13	Pontevedra, Villagarcía de Arosa, O Grove, Sanxenxo, Cambados, Lalín, La Estrada, Silleda and Caldas de Rey	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
Alvarez y Garrues, S.L.	Av. A Coruña, 439 - Lugo	27003	B27274216	01/12/03	-	Lugo and its province	Mortgage loans, consumer loans, finance leases
Álvarez y Garrúes Tres, S.L.	C/ Salvador Dalí, 12 - Ourense	27003	B27412816	01/11/10	31/10/15	Ourense and its province	Consumer loans and automotive financing, leasing and full-service leasing
Antonio García Fernández Servicios Financieros, S.L.	Av. Argentina 1, Pozoblanco	14400	B14771554	01/10/06	-	Alcaracejos, Añora, Belalcazar, Belmez, Los Blázquez, Cardenas, Conquista, Dos Torres, Espiel, Fuente La Mancha, Fuenteovejuna, Elguido, Hinojosa del Duque, Pedroche, Peñarroya-Pueblonuevo, Pozoblanco, Santa Eufemia, Torrecampo, Valsequillo, Villamaría, Villanueva de Córdoba, Villanueva del Duque and Villanueva del Rey, Villarralto, Villa Viciosa de Córdoba and El Viso.	Mortgage loans, consumer loans, finance leases
Asedime Servicios Financieros, S.L.	Doctor Dorronsoro 2 - Valverde del Camino	21600	B21380746	01/04/08	31/07/13	Alajar, Almonaster la Real, Aracena, Aroche, Arroyo Molinos de León, Beas, Berrocal, Cala, Calañas, El Campillo, Campofrío, Cañaveral de León, Castaño de Robledo, Corteconcepción, Cortegana, Cortelazor, Cumbre de En Medio, Cumbres de San Bartolomé, Cumbres Mayores, Encinasola, Fuenteheridos, Galaroza, La Granada de Ríotinto, La Nava, Nerva, Puerto del Moral, Rosal de la Frontera, Santa Ana la Real, Santa Olalla del Cala, Trigueros, Valdelarco, Valverde del Camino, Zalamea la Real and Zufre.	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
Asesoramiento Financiero Toledano Cortés, S.L.	Agustín Rodríguez Sahagún, 30 Local 3 - Ávila	5003	B05182563	01/12/03	-	Province of Ávila	Mortgage loans, consumer loans, finance leases
Asesoramiento Financiero Zafra, S.L.	Andrés Pro, 18 - Zafra	6300	B06433973	03/01/05	-	Badajoz	Mortgage loans, consumer loans, finance leases

Name	Registered Office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Asesoria Financiera J. Asenjo, S.L.	Plaza de Comillas, 2 Local 7, Navalmoral de la Mata	10300	B103022279	03/01/05	-	Villanueva de la Vera, Trujillo y Miajadas, Jaraiz de la Vera, Navalmoral de la Mata	Mortgage loans, consumer loans, finance leases
Berga Gestió, S.L.	C/ Gran Vía, 46 - Berga (Barcelona)	08600	B64396476	02/01/10	01/01/15	Berguedá, Solsonès, Alt Urguell, Navàs, Cardona	Consumer loans and automotive financing, leasing and full-service leasing
Canovaca Agentes Financieros S.L.	Ancha, 2 - Palma del Río	14700	B14539290	01/04/00	-	Almodovar del Rio, Fuente Palmera, Palma del Rio, Posadas, Lora del Rio, Peñaflor, Carmona, La Campana, La Puebla de los Infantes, Mairena del Alcor, El Viso del Alcor	Loans and credits, finance leases
Carrasco Agentes, S.L.	Calle Avenida, 41 - Linares	23700	B23478704	02/01/04	-	Jaén	Mortgage loans, consumer loans, finance leases
Centro Asesor de Teruel Financiera, S.L.	Carretera de Alcañiz 3, Bajo - Teruel	44003	B44224947	02/06/08	01/06/13	Teruel and its entire province	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
Centro Financiero de Benidorm, S.L.	Av. Constitución 113 - Valencia	46009	B98050305	10/06/08	09/06/13	Alfaz del Pi, Altea, Beniarres, Benidorm, Callosa d'en Sarria, Finestrat, Guadalest, La Nucia, Polop and Villajoyosa	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
Consultoría Financiera de la Mancha, S.L.	Ramiro Ledesma - Socuéllanos	13630	B13354303	15/12/03	-	Socuéllamos, Tomelloso, Argamasilla de Alba, Pedro Muñoz, Campo de Criptana, Alcázar de San Juan, Las Pedroñeras, Monta del Cuervo, Villanueva de los Infantes	Mortgage loans, consumer loans, finance leases
Donat Finance Service, S.L.	Plaza Velázquez, 11 - Melilla	52004	B52015435	01/02/07	01/02/12	Melilla	Mortgage loans, consumer loans, finance leases
Estudios y Análisis de Riesgos, S.L. (*)	Avda. del Mediterráneo, sn - Cuenca	16004	B16156598	30/06/07	02/11/08	Cuenca	Mortgage loans, consumer loans, finance leases
Financiaceuta, S.L.U.	C/ General Aranda, 3 - Ceuta	51001	B51017101	01/07/06	-	Ceuta	Mortgage loans, consumer loans, finance leases

Name	Registered Office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Finanduero 2007, S.L.U.	Plaza Arco Isilla, 5 - Aranda de Duero	9400	B09480013	02/11/07	02/11/12	Aranda de Duero, Lerma, Huerta del Rey, Salas de los Infantes and Roa.	Mortgage loans, consumer loans, insurance and financing, automotive leasing and full-service leasing
Finangi. Cat, S.L.	Avda. de la Rápita, 33 1º Amposta (Tarragona)	43870	B43571660	01/06/99	-	Tarragona	Loans and credits, finance leases
Fromin Consultores, S.L.U.	Badia Polesina, 6 - Estepa	41560	B41969767	01/06/04	-	Aguadulce, Badolatosa, Casariche, Los Corrales, Estepa, Gilena, Herrera, La Lentejuela, Lora de Estepa, Marinaleda, Martin de la Jara, Osuna, Pedrea, La Roda de Andalucía, El Rubio, El Saucejo.	Mortgage loans, consumer loans, finance leases
García y Trinidad Asesoramiento y Financiación, S.L.	Rosario, 9 - Albox	4800	B04577383	01/10/06	-	Albox, Alcontar, Almanzorra, Armuña de Almanzorra, Bacares, Bayarque, Benitagla, Bezalon, Cantoria, Cobrar, Fines, Laroya, Lijar, Lubrin, Lucar, Macael, Olula del Rio, Partaloa, Purchena, Seron, Sierro, Somontin, Tahall, Tijola, Uleila del Campo, Urracal and Zurgena.	Mortgage loans, consumer loans, finance leases
Gestió de Financament I Inversions de Ponent	Av. De la Pau, 49 - Mollerusa	25230	B25539123	01/10/06	-	The regions of Pla D´urgell, la Noguera, L´Urgell and La Segarra. Y Lérida, Balafia; Les Basses D'Alpicat, La Bordeta, Camps D'Escorts, Cap Pont, Castel De Gardeny, Clot_Princep de Viana, Gualda; Llivia, Magraners, Mariola, Pardinyes, Raimat, Seca Sant Pere, Sucs, Suquets; Les Torres de Sanui, Abella de la Conca Les Alamus, L'Albages, Albatarrec, L'Albi, Alanco, Alcarras, Alcoletge, Alfes, Alguaire, Almatret, Almenar, Alpicat, Artessa de Lleida, Aspa, Aitona, Benavent de Segria, Bovera, Les Borges, Blanquets, Castelldans, Cervia de Garrigues, Corbins, L'Espluga Calba, La Floresta, Fulleda, La Granja D'Escarp, Gimenells i Pla de la Font, Granyera de les Garrigues, Juncosa, Juneda, Llardecans, Masalcoreig, Maials de Lleida, Els Omellons, La Pobla de Cervoles, Bellaguarda, La Portella, Puiggros, Puigverd, de Lleida; Roselló, Seros, El Soleras, Soses, Tarres, Els TOrms, Torrebesses, Torrefarrera, Torres de Segre, Torre Serona, Vilanova de Segria, El Vilosell, Vilanova de la Barca and Vinaixa.	Mortgage loans, consumer loans, finance leases

Name	Registered Office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Gestión de Servicios Financieros Artimar, S.L.	Avda. de Canarias 344 - Sta. Lucia de Tirajana	35110	B35496777	01/01/98	-	Santa Lucía de Tirajana, San Bartolomé de Tirajana	Loans and credits, finance leases
Gestión Financiera Villalba S.L.	General Luque Arenas, 16 - Ubrique (Cádiz)	11600	B11517620	01/08/01	-	Ubrique, Alcalá del Valle, Algodonales, Arcos de la Frontera, Benaocaz, Bornos, El Bosque, El Gastor, Espera, Grazalema, Olivera, Prado del Rey, Setenil, Torre Alhaquine, Villanueva del Rosario, Villa Martín, Puerto Serrano	Loans and credits, finance leases
GEYBA Servicios Financieros, S.L.	Antonio Machado, 10 - La Algaba	41980	B91385377	01/09/04	-	Arevalillo de Cega, Alacala del Rio, Alcolea del Rio, La Algaba, Almaden de la Plata, Brenes, Burguillos, Cantillana, Castilblanco de los Arroyos, El Castillo de las Guardas, Cazalla de la Sierra, Constantina, El Garrobo, Gerena, El Madroño, Las Navas de la Concepción, El Pedroso, La Roda de Andalucía, La Rinconada	Mortgage loans, consumer loans, finance leases
Graciano Vega Vidal, S.L.	C/ Del Agua, 2 - Gijón (Asturias)	33206	B33957580	02/01/10	01/01/15	Gijón, Cabrales, Cangas de Onís, Caravía, Caso, Colunga, Llanes, Nava, Onís, Parrés, Peñamerella Alta, Peñamellera Baja, Pesoz, Pilonga, Ponga, Rivadedeva, Rivadesella, Villaviciosa	Consumer loans and automotive financing, leasing and full-service leasing
Ilinium Finance, S.L.	Calle Juan de Herrera, 2 - Albacete	2400	B02466993	24/06/08	01/05/13	Hellín and Jumilla	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
Indastec Asociados, S.L.	Madrid, 20 - Ibiza	7800	B57150310	01/01/04	-	Eivissa, Sant Antoni de Portmany, Santa Eulalia del Rio San Jose Formentera	Mortgage loans, consumer loans, finance leases
Insema Inversiones, S.L.	Av. Andalucía 11 - Planta 1 - Puente Genil (Córdoba)	14500	B14499909	19/12/08	-	Aguilar, Castro del Río, Espejo, Fernan Nuñez, Montalbal de Córdoba, Montemayor, Montilla, Monturque, Moriles, Palenciana, Puente Genil, La Rambla and Santaella	Mortgage loans, consumer loans, finance leases
Intermediación y Servicios Junval, S.L.	Bebricio 54, Calahorra	26500	B26319178	01/12/03	-	Calahorra	Mortgage loans, consumer loans, finance leases
Jordi Masso Riera	C/ Bruc 52 - Igualada	8700	35036266K	01/03/08	28/02/13	Argençola, Bellprat, Bruc, Cabrera d'Igualada, Calaf, Calonge de Segarra, Capellades, Carme, Castellfollit de Riubregós, Castellolí, Capons, Hostalets de Pierola, Igualada, Jorba, Llanuca, Masquefa, Montmaneu, Òdena, Orpí, Piera, Pobla de Claramunt, Prats de Rei, Pujalt, Rubió, Sant Martí de Tous, Sant Martí Sesgueioles, Sant Pere Sallavinera, Santa Margarida de Montbui, Santa María de Miralles, Torre de Claramunt, Vallbona d'Anoia, Veciana, Vilanova del Camí, Castellví de Rosanes, Collbató, Esparreguera, Martorell and Olesa de Montserrat.	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing

Name	Registered Office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Juan Jimenez Gestión Financiera, S.L.	C/ Capitán Vigueras, local 18 - Seville	41004	B91167973	01/02/02	-	Bormujos, Coria del Río, Gelves, Gines, Pilas, Sanlucar la Mayor, Umbrete, Villamanrique de la Condesa, Villanueva del Ariscal.	Loans and credits, finance leases
KonectaNet, S.A.	Avda. de Valdeparra, 27 Edificio Alcor, 2ª Planta - Alcobendas (Madrid)	28108	A81915100	01/06/00	-	Álava, Albacete, Alicante, Almería, Ávila, Badajoz, I. Baleares, Barcelona, Burgos, Cáceres, Cádiz, Castellón, Ciudad Real, Córdoba, A Coruña, Cuenca, Girona, Granada	Loans and credits, finance leases, collection management
L'Eliana Finance, S.L.	Av. Cortes Valencianes 35 - L'Eliana	46183	B9739462	01/10/05	-	Riba-roja de Turia, Lliria, Betera, Buñol, Requena, Utiel, L'Eliana, La Pobla de Vallbona	Mortgage loans, consumer loans, finance leases
Martin & Castilla Servicios Financieros, S.L.	Fray Diego de Cádiz, 163 - Morón de la Frontera	41530	B91369231	01/06/04	-	Algamitas, Arahal, Caripe, El Coronil, Marchena, Montellano, Morón de la Frontera, Paradas, Pruna, La Puebla de Cazalla, Villanueva de San Juan	Mortgage loans, consumer loans, finance leases
Medifirent, S.L.	Vitoria, 2 - Miranda de Ebro	9200	B09410572	01/03/04	-	Miranda de Ebro	Mortgage loans, consumer loans, finance leases
Noguer Bau, S.L. (*)	Sant Fidel, 5. Vic	8500	B64018179	31/08/07	31/08/07	Aiguafreda, Alpens, El Brull, Calldetenes, Centelles, Collsuspina, Espinelves, Folgueroles, Gurb, Els Hostalets De Balenya, Lluça, Perafita, Prats De Lluçanes, Roda De Ter, Rupit-Pruit, Santa Cecilia De Voltrega, Santa Eugenia De Berga, Santa Eulalia De Riuprimer, Sant Agusti Del Lluçanes, Santa Maria De Corco L'Asquirol, Sant Bartomeu Del Grau, Sant Boi De Lluçanes, Sant Hipolit De Voltrega	Mortgage loans, consumer loans, finance leases
Ramsa Servicios Financieros y Empresariales, S.L.	Blas Infante, 7 - Lepe	21440	B21347190	02/01/04	-	Punta Umbría, Cartaya, Lepe, Isla Cristina and Ayamonte	Mortgage loans, consumer loans, finance leases
Santex Financial Services, S.L.	C/ Sancho El Sabio, 29-1º Vitoria (Álava)	1008	B01445923	02/07/08	01/07/13	Madrid	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
Servicios Específicos de Financiación, S.L.	Lealtad, 12 - Santander	28027	B83957126	05/04/04	-	Cantabria	Mortgage loans, consumer loans, finance leases
Servicios Financieros Quintanar, S.L.	General López Brea, 5 - Quintanar de la Orden (Toledo)	45800	B45545167	01/12/03	-	Quintanar de la Orden, Madridejos	Mortgage loans, consumer loans, finance leases
Servicios Financieros Sorianos, S.L.	Plaza del Salvador,1- Soria	42002	B42180927	02/01/06	-	Soria	Mortgage loans, consumer loans, finance leases
Servital Asesores S.L.	Nuestro Padre Jesús 3 - La Palma del Condado	14500	B2161177	02/11/05	-	Almonte, Bollullos Par del Condado, Bonares, Chucena, Escacena del Campo, Hinojos, Lucena del Puerto, Manzanilla, Niebla, La Palma del Condado, Paterna del Campo, Rociana del Condado, Villalba del Alcor, Villarrasa	Mortgage loans, consumer loans, finance leases
Soluciones Financieras del Este S.L.	C/ Crisol 3 - Rivas Vaciamadrid	28521	B84418904	02/11/05	-	Arganda del Rey, Rivas - Vaciamadrid	Mortgage loans, consumer loans, finance leases

Name	Registered office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Hermanos P.Q. Servicios Financieros S.L.	Calle Armonía 14 - Vélez Rubio, Vela (Almería)	4820	B04678348	01/09/09	31/07/13	Vera	Mortgage loans, consumer loans
Tudegues Tudela, S.L.	Sancho el Fuerte, 1-1º - Tudela - Navarre	31500	B31618325	23/02/10	22/02/15	Tudela	Consumer loans and automotive financing, leasing and full-service leasing
Finanroda Servicios Financieros S.L.	Calle Molino 82 - Ronda	29400	B92963388	02/01/09	01/01/14	Agatocin, Alpendeire, Arriate, Atajate, Benalid, Benalauria, Benaojan, Benarraba, El Burgo, Cañete La Real, Cartajima, Cortes de la Frontera, Cuevas del Becerro, Faraja, Gaucin, Genalquacil, Igualeja, Jimera de Libas, Jubrique, Juzcar, Montecorto, Montejaque, Parauta, Pujerra, Ronda and Yunquera.	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
European Finantial Consumer S.L.	C/ Montesinos, 42-Aranjuez	28300	B86080280	03/01/11	31/01/16	Segovia and rest of province	Mortgage loans, consumer loans, finance leases
Gestiones Sanchez Triay S.L.U	Calle Beal Joseph Castellcamps, 9 bajo Ciutadella	07760	B57394769	01/01/11	01/01/16	Alalor, Castell, Ciutadella de Menorca, Fornells, Ferreries, Mahón, Mercadal, Migjorn Gran, Sant Lluis.	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
M&G Figueres Associats S.L.	C/ Col·legi, 54 Bajo - Figueres	17600	B17673823	01/01/11	01/01/16	Agullana, Albanya, Arrentera, Bascara, Biure, Boadella i les Escaudes, Cebanes, Cantallaps, Capmany, Cistella, Escada, Empolla, Figueres, Garniguelia, Jenguera, Lladó, Masarac, Mollet de Peralado, Pont de Mollins and Crespia.	Mortgage loans, consumer loans, finance leases
Financiaciones Costa Sol Oriental, S.L.	C/ Angustias, 24 Torre del Mar	29700	B93195477	29/11/12	-	Alcaucin, Alfarnate, Algarrobo, Almachar, Archez, Arenas, Benamargosa, El Boger, Canillas de Aceituno, Canillas de Albaida, Comares, Competa, Macharaviaya, Moclinejo, Frigiliana, Nerja, Periana, Riogordo, Salares, Sayalonga, Torre del Mar, Torrox, Velez Málaga, Viñuela.	Loans and credits, finance leases
Servicios Financieros Jienenses, S.L. (*)	Plaza del Camping, 4 Local 10 - Andujar	23740	B86340767	29/11/12	01/12/14	Aldeaquemada, Andújar, Arjona, Arjonilla, Bailén, Baños de Quemada, Carboneros, La Carolina, Cazalilla, Espeluy, Higuera de Arjona, Lopera, Marmolejo, Santa Elena, Villanueva de la Reina, Villardonpardo and Villa del Río,	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending
Inversiones Financieras Bilegui, S.L. (*)	C/ Artiz Bidea, 48 - Mungía	48100	B95659579	30/11/12	01/10/16	Eibar, Mondragón, Genika and its catchment area.	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending

Name	Registered Office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Asfinza Badajoz, S.L. (*)	C/ Andrés Pro, 3 - Zafra	06300	B06580708	14/12/12	01/07/15	Badajoz capital and its catchment area	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending
Fincar Gestiones Financieras, S.L. (*)	Av. Buenos Aires, 32 - Guadix	18500	B21507751	14/12/12	01/02/15	Guadix, Baza, Huescar, Cullar, Cuevas del Campo, Iznalloz and Guadahortuna.	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending
Servicios Financieros Palentinos, S.L.U. (*)	Av. Castilla, 47-6ºA- Aranda de Duero	34005	B09525973	14/12/12	01/07/16	Palencia and the municipalities within its province.	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending
128Innova24H, S.L. (*)	C/ Oasis, 17 - El Ejido (Almería)	04700	B92999846	14/12/12	01/03/16	El Ejido, Adta and Berja	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending
Efincar Fleet Services, S.L. (*)	C/ Dr. Fleming, 1 Local. Ecija (Seville)	41940	B91958363	14/12/12	01/01/15	Écija, Fuentes de Andalucía, La Luisina, Cañada Rosal, La Carlota.	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending

(*) Contract tacitly renewable for successive periods of one year.

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Santander Consumer Finance, S.A. and Companies composing the Santander Consumer Finance Group (Consolidated)

2013 Consolidated Directors' Report

General background

The Group carried on its business activity in a context of weaker economic growth with respect to 2012, with certain geographical areas recording a fall in activity for 2013 as a whole; however, the economic scenario improved quarter on quarter on the back of the cyclical recovery of the developed economies. The eurozone has been out of recession since the second quarter and the UK and the US evidenced well-established recoveries at 2013 year-end. The emerging countries, headed by China, maintained solid growth despite the slowdown. Against this backdrop, the main central banks insisted on keeping interest rates low over a long period, thereby signalling that the monetary stimulus measures will remain in place.

At the same time, major steps were taken in the European Union towards banking union. Noteworthy are the approval of the Single Supervisory Mechanism (SSM), with a view to its entry into operation in November 2014, the first agreements on the Banking Resolution Directive and the Single Resolution Mechanism (SRM), which is expected to be approved and commence functioning in January 2015. All of the foregoing contributed to improving conditions in the wholesale markets, especially the sovereign debt markets, which led to sharp reductions in the risk premiums.

The eurozone, which has been out of recession since the second quarter, posted moderate GDP growth in the third quarter (+0.1% quarter-on-quarter; -0.4% year-on-year), boosted by less restrictive fiscal and monetary conditions and by the recovery in the peripheral countries (Portugal +0.2%, Spain +0.1%, Italy -0.1%). Noteworthy is the growth of Germany (+0.3%), which contrasts with the decline of France (-0.1%).

With inflation below 1%, the European Central Bank (ECB) reduced the official interest rate further to 0.25% (-50 bp in the year) and projected that it will keep the rate low "for an extended period of time" and will continue to provide all the liquidity that the system requires. Parallel to this, the early repayment by banks to the ECB of the three-year funds received reduced the area's excess liquidity, thereby exerting pressure on short-term money market rates and contributing to the euro's appreciation against the US dollar.

In Spain, the economy posted positive growth in the third quarter with respect to the second quarter (+0.1% quarter-on-quarter; -1.1% year-on-year) for the first time since the beginning of 2011. This change in trend can be explained by the recovery of private consumer spending and capital goods, coupled with the strength of exports. The GDP growth in the fourth quarter (+0.3% quarter-on-quarter) and the job creation data (after seasonal adjustment) obtained from the working population survey confirm the exit from the recession. Based on these figures, GDP growth for the year as a whole would be -1.2%.

In 2013 the progress made in the redressing of imbalances, the strength of the foreign trade sector, the new improvements in competitiveness due to the fall in unit labour costs, and the advances made in structural reforms, both in Spain and at European governance level, enabled the markets to relax with a sharp reduction in the risk premium, a trend which has continued in early 2014. At 2013 year-end, the Spanish bond spread over the ten-year German Bund stood at 220 bp (as compared with 395 bp at 2012 year-end and the high of 637 bp in July 2012).

The UK economy maintained its strong levels of activity in the third quarter (+0.8% quarter-on-quarter; +1.9% year-on-year), underpinned by private consumer spending and improvements in employment and lending, together with the boost from the residential sector and foreign trade. In the light of the continuation of these trends at year-end, the growth forecasts for 2013 as a whole are between 1.7% and 1.8%. With inflation nearly on target, the Bank of England did not change the official rate. However, in view of the sharp economic improvement, especially in consumer spending and housing, the Prudential Regulation Authority recommended withdrawing the Funding for Lending Scheme (FLS) for households, while maintaining the FLS for firms, which would represent a first step in reducing the monetary stimulus measures. All of this contributed to reinforcing the appreciation of the pound sterling against the US dollar in 2013 as whole and to partially correcting the depreciation of the pound sterling against the euro.

In Poland, the acceleration of GDP continued in the third quarter (+0.6% quarter-on-quarter; +1.7 year-on-year) with more balanced growth, including a greater proportional contribution of private consumer spending and investment, and a resurgent labour market, together with the continued strength of the foreign trade sector. These developments were aided by the sharp reduction in the official interest rate in the first half of 2013 (-225 bp in nine months to 2.50% in July 2013) in a context of contained inflation and the depreciation of the zloty against the euro in the first half of the year. The zloty regained part of the lost ground in the second half of 2013. Activity indicators for the fourth quarter point to a further growth acceleration, which would take GDP growth for the year as whole to around 1.5%.

The outlook for the world economy in 2014 points to a gradual revitalisation of activity led by the advanced economies, which will benefit from very expansive monetary policies, less restrictive fiscal policies and greater financial stability which, together with low inflation, could favour consumption and enable progress in private-sector balance-sheet adjustment. Although the emerging economies are still heading for a slight slowdown, current estimates suggest that they will achieve higher rates of growth than the advanced economies and, therefore, continue to step up their share in world growth.

After coming out of recession in the second half of 2013, the euro area is showing signs of gradual recovery amidst a more favourable scenario in financial, fiscal and global growth terms. In any case, the prospects are modest in view of the need for certain economies to continue with public- and private-sector deleveraging.

Decisive steps are expected to be taken in 2014 in the creation of the European Banking Union, which will contribute to the progressive reduction of financial fragmentation and the consequent consolidation of the recovery. The first of these steps will be the assumption by the European Central Bank of its role as single supervisor at the end of 2014 (Single Supervisory Mechanism), prior to which the major eurozone financial institutions must undergo a comprehensive assessment (including risk valuations, asset quality reviews and stress tests) to identify their recapitalisation requirements. The second step will be the final political negotiations for the launch of the Single Resolution Mechanism on 1 January 2015.

In the United States it is expected that the expansive phase of the economy will be consolidated at close-to-potential rates. This strength will lead the Fed, as announced, to start withdrawing the quantitative stimulus measures by winding down its monthly asset-buying program as from the beginning of the year. However, the Fed intends to keep interest rates at the present all-time lows (0%-0.25%) throughout the year in order to continue to shore up growth in light of the low risk of inflation and the continuing under-utilisation of installed capacity and an unemployment rate that is still above the long-term trend.

After the slowdown of the emerging countries in 2013, strongly influenced by the Chinese economy, which is attempting to balance far-reaching reforms (having a short-term contractionary effect) with selective expansionary measures, 2014 once again presents important challenges of a general nature. On the one hand, internal challenges relating to the need for these countries to make progress in structural changes to enable them to renew their growth potential. On the other, external challenges arising from the Fed's new monetary policy, with plans for quantitative stimulus measures for the US economy that may generate tension in the financial and currency markets, as occurred in the summer of 2013 and again in the early days of 2014.

As a result of this economic scenario, the growth and nature of banking activity in the various geographical regions and business segments will vary widely. The forecasts are for:

- Limited growth of activity in economies that are in the initial stages of recovery, such as, primarily, Spain and Portugal, where many sectors are still in the process of deleveraging, with the resulting impact on the evolution of credit. The prolongation of low interest rates, with fewer liquidity pressures, could lead to a savings preference for off-balance-sheet funds at the expense of deposits.

- In the other mature markets, lending activity is expected to pick up, albeit at a slow pace. The United States will foreseeably lead the way thanks to its advanced position on the road to recovery, and the United Kingdom could benefit from the government's stimulus schemes for SMEs. Deposits will grow slightly more than loans in the economies undergoing deleveraging, and official interest rates will remain low.

- There will be larger increases in volumes in emerging countries, particularly in loans, in environments that will display varying interest rate trends depending on each country's position in the economic cycle. Particularly noteworthy will be the renewed interest rate hikes in Brazil in order to contain inflation.

To this diversity of trends must be added the repercussions that compliance with national or international regulatory requirements aimed at strengthening banks' balance sheets, capital and liquidity -some of which come into force in 2014- will continue to have on the banking business in the different markets.

In short, all these conditioning factors once again present an extremely demanding scenario for banking management in 2014, particularly for a multinational group such as Santander that operates in all three of the economic and financial environments described.

Business performance

Attributable profit amounted to EUR 609.35 million, up 116.69% on 2012 in an environment of weak consumer spending and a fall in new vehicle registrations due to:

- Stable revenue (-1.30%) underpinned by improvements in fee and commission income (1.29%) and spread management.

- Flat costs (1.06%).

- Lower credit loss provisions (-26.07%).

High credit quality with respect to the industry standards: NPL ratio (4.04%) and coverage ratio (105.01%).

The area's strategy, penetration and diversification have given rise to further increases in the market share in terms of volume in 2013.

Strategy

The sound performance of Santander Consumer Finance is underpinned by a business model that is well suited to this environment and enables it to gain market share in profitable business. The model is based on a high level of geographical diversification with critical mass in key markets and products, higher efficiency levels than those of comparable banks and a common risk and recovery control system.

In 2013 the main focuses of management were:

- Cost management adapted to the stage in the business cycle, in particular in deleveraging markets with poor macroeconomic performance.

- A locally autonomous financing model, based on recourse to wholesale markets and retail deposits.

- Fostering new production and cross-selling in accordance with the circumstances in each market (in the peripheral countries and northern and central Europe) backed by brand agreements.

In Poland, in the framework of the agreements entered into for the acquisition of AIG Bank in 2010, SCF Poland acquired AIG's ownership interest in the last quarter of 2013, thus becoming the sole shareholder of the business.

Business activity

Gross lending stood at around EUR 58,082 million, slightly less than at 2012 year-end (-1.08%). 2013 saw growth in the central and northern European units, in particular in the Nordic countries, coupled with a downward trend in the peripheral countries due to the deleveraging of their economies.

Accumulated production increased slightly with respect to 2012 (+1%) to EUR 21,950 million at 2013 year-end. By product, noteworthy was the growth in durable goods (+6%), used vehicles (+4%) and new vehicles (+2%), in contrast to the fall in new vehicle registrations (-4%).

By unit, the growth was centred on Poland (scope of consolidation) and the Nordic countries (+18% in local currency). Germany ended 2013 with a year-on-year decline of 1%, albeit outperforming the market. In Spain and Portugal, activity levels were more affected by the economic environment, and Italy reported the sharpest decline due to the new business approach.

On the liability side, Santander Consumer Finance maintained a high volume of customer deposits (EUR 30,930 million), which sets it apart from its competitors and gives it great funding stability.

With regard to the raising of wholesale funds, in 2013 the area performed ten asset securitisation and structured transactions (private- and public-sector) in seven of the twelve countries in which it operates, through which it obtained third-party financing, with a total of more than EUR 4,200 million placed with third parties. These transactions have positioned Santander Consumer Finance as the leading vehicle loan securitisation issuer in Europe. This evidences how attractive the area's assets are to the market and the high diversification of its funding sources. In addition, around EUR 2,000 million of senior issues were launched and placed with third parties.

At 2013 year-end, customer deposits and medium- and long-term issues and securitisations in the market accounted for 78% of the area's net lending which, together with capital funds, enabled the area to achieve net self-financing.

Earnings

In terms of the cumulative figure for the year, attributable profit amounted to EUR 609.3 million, up 116.69% on 2012, with a sound performance in all income statement headings through to the bottom line and improvements in substantially all units.

Income remained stable in 2013 (-1.30%), with the decline in the portfolio and in the official interest rates being absorbed through the management of spreads, the reduction in debt costs and the improvement in fee and commission income (+1.29%).

Costs remained flat (+1.06%), absorbing the average inflation in the euro zone (+1.4%). This performance of income and expenses led to an efficiency ratio of 47.29% for the year as a whole, which represents an improvement on the beginning of 2013 (above 45%).

Credit loss provisions fell by 26.07% with respect to 2012, with a sustained quarter-on-quarter decline that caused lending costs to reach a cycle low. This trend reflects the high credit quality of the Group's portfolio with respect to the business's standards: NPL ratio of 4.04% and coverage ratio of 105.01%, in line with the ratios at December 2012.

By unit, the increase in activity and in income in the Nordic countries boosted their profit growth to over 20%. Also, Germany posted double-digit profit growth due to the improvement in fee and commission income and the drop in credit loss provisions, while profit in Spain also grew, albeit at a slower rate, due to lower write-downs. Sound contribution by Poland in like-for-like terms and weaker contributions by Italy and Portugal, in line with the situation of their economies.

Risk management

Corporate principles

Quality in risk management constitutes one of the Santander Group's distinguishing features and, therefore, represents a focal point of its activities. In its more than 150 years of history, Santander has developed a combination of prudence in risk management together with the use of advanced techniques which have proven to be crucial to obtaining recurring, healthy economic results and, in short, to creating value for shareholders.

The Santander Group's risk policy focuses on maintaining a predictable medium-low risk profile for all its risks, and its risk management model is a key factor in achieving the Group's strategic objectives.

The economic climate in recent years has put all its loan acceptance, monitoring and recovery models to the test. Against this backdrop, the management of the various risks has been positive as compared with the industry performance in these markets. This, coupled with the high international diversification of the Group's businesses, has enabled it to achieve globally satisfactory results. The experience gained from having faced this adverse economic environment will serve to reinforce the principles on which the Group's risk management model is based and to make any necessary improvements to the risk management systems to ensure their sound contribution to the Group's global results.

The Santander Group's banking business model from a risk standpoint

The Santander Group's risk management and control systems are adapted to the risk appetite framework approved by its highest governing bodies and to the established banking business model:

- Santander focuses its banking activities on the retail banking business, and ensures an internationally diversified presence characterised by major market shares (>10%) in the main markets in which it operates. The wholesale banking business is conducted mainly in the Group's core markets.

- Santander is present in the markets in which it operates through subsidiaries that are independent in terms of both capital and liquidity, and control is exercised at corporate level. The corporate structure is simple and transparent, with a very limited use of non-operating or purely instrumental companies.

- This business model enables the Group to generate highly recurring earnings, and its implementation is underpinned by a solid capital and liquidity base.

- Santander implements its operational and technological integration model through a series of corporate platforms and tools. This facilitates a swift and efficient compilation of data.

- All the Group's activities are carried out within the bounds of its social and reputational commitment, in accordance with its strategic objectives.

Santander's **risk management model** underlying the business model is based on the following principles:

- Independence of the risk function with respect to the business. The Risk Area Manager at Santander Consumer Finance, as Deputy General Manager of the Santander Group, reports directly to the General Manager of the Group's Risk Division. The head of the Group's Risk Division, as Second Deputy Chairman and as Chairman of the Risk Committee, reports directly to the Executive Committee and the Board. The segregation of functions between the business areas and the risk areas entrusted with risk acceptance, measurement, analysis, control and reporting provides sufficient independence and autonomy for proper risk control.

- Direct involvement of senior management in the decision-making process.

- Decisions by consensus, in order to ensure that different opinions are taken into account and avoid individual decision making, even at branch level. Decisions on credit transactions taken jointly by the risk and commercial areas, and the ultimate decision lies with the risk area in the event of discrepancy.

- Definition of powers. The type of activities to be performed, segments, risks to be assumed and risk decisions to be made are clearly defined for each risk approval and risk management unit, based on their delegated powers. How transactions should be arranged and managed and where they should be recognised for accounting purposes is also defined.

- Corporate control. Risk is controlled and managed in an integrated fashion through a corporate structure with Group-wide responsibilities (all risk, all businesses, and all geographical areas).

At the Santander Group, the risk management and control process is conducted as follows:

- Definition of risk appetite, the purpose of which is to delimit, concisely and explicitly, the levels and types of risk an entity is willing to assume in the performance of its business.

- Establishment of risk policies and procedures, which constitute the basic regulatory framework governing risk activities and processes. The local risk units use the mirror structures they have established to transpose the corporate risk regulations into their internal policies.

- Construction, independent validation and approval of the risk models developed pursuant to corporate methodological guidelines. These tools enable Santander to systematise the risk origination, monitoring and recovery processes, the calculation of expected loss and capital required, and the measurement of the held-for-trading portfolio.

- Implementation of a risk monitoring and control system which checks, on a daily basis and with the corresponding reports, the degree to which the Santander Group's risk profile matches the risk policies approved and the risk limits set.

Risk culture

The Santander Group's senior management pays considerable attention to risk management, and this is one of its distinguishing features. The Santander Consumer Finance Group's risk culture is based on the principles of Santander's risk management model detailed above and is transmitted to all of the organisation's business and management units, supported, inter alia, by the following levers:

- **At Santander, the risk function is independent from the business units.** This allows its criteria and opinions to be taken into account in the various spheres in which the Group's businesses are carried on.

- **The structure of the delegation of powers** at Santander requires a large number of transactions to be submitted for validation by one of the central services risk committees, namely the Global Risk Unit Committee, the Risk Committee or the Santander Group's Executive Committee. The highly frequent nature of the meetings of these risk validation and monitoring committees (twice a week in the case of the Risk Committee; once a week in the case of the Executive Committee) enables a high degree of agility in the resolution of proposals while, at the same time, ensuring the assiduous participation of senior management in the daily management of the various risks.

- Santander has detailed **action manuals and policies regarding risk management**. The risk and business teams hold periodic business orientation meetings which establish approaches that are in line with the Santander Group's risk culture. In addition, risk and business executives participate as speakers at the meetings of the various Santander Group central services transaction resolution committees mentioned above, and this facilitates the transmission of the criteria and approaches emanating from senior management to both the executives' own teams and the organisation's other risk committees. The non-assignment of personal powers requires all decisions to be taken by group bodies, which makes decision-making more rigorous and transparent.

- **Limit plan:** Santander has implemented a comprehensive risk limit system, which is updated at least once a year and encompasses both credit risk and the various trading, liquidity and structural market risk exposures (for each business unit and by risk factor). Credit risk management is supported by credit management programmes (individual customers and small businesses), rating systems (exposures to medium-sized and large companies) and pre-classifications (large corporate customers and financial counterparties). There are also limits on operational risk.

- **The exposure information and aggregation systems** in place at Santander allow it to monitor exposures on a daily basis, to check that the approved limits are complied with systematically, and to adopt, if necessary, the appropriate corrective measures.

- **The main risks are analysed not only when they are originated** or when problems arise in the ordinary recovery process, but also on an ongoing basis for all customers. In addition, in August each year the status of the Santander Group's main portfolios is systematically monitored.

- **Other procedures** supporting the transmission of the risk culture are the training activities performed at the corporate risk school, the remuneration and incentives policy -which always includes performance-based variables that take into account risk quality and the Group's long-term results-, employees' strict adherence to the general codes of conduct and systematic, independent action taken by the internal audit services.

Risk appetite

Risk appetite is defined at Santander as the amount and type of risk that it considers reasonable to assume in implementing its business strategy, in order to ensure that it can continue to operate normally if unexpected events occur. To this end, severe scenarios -which might have an adverse impact on its levels of capital or liquidity, its profits and/or its share price- are taken into account.

The Board of Directors is the body responsible for establishing and annually updating the Bank's risk appetite, for monitoring its actual risk profile and for ensuring consistency between the two. The risk appetite is determined both for the Santander Group as a whole and for each of the main business units using a corporate methodology adapted to the circumstances of each unit/market. At local level, the Boards of Directors of the related subsidiaries are responsible for approving the respective risk appetite proposals once they have been validated by the Group's Executive Committee.

Senior management is responsible for achieving the desired risk profile -which is reflected in the approved annual budget and in the medium-term strategic plan-, and for the day-to-day management of risk. Thus, it ensures that the habitual limit structures formalised for each risk are properly connected to the established risk appetite metrics.

These limit structures for each risk are complementary to the risk appetite and fundamental to the articulation of an effective management thereof on a day-to-day basis. If the established risk appetite levels are reached, the required management measures must be adopted so that the desired risk profile can be restored.

Every quarter, the Risk Committee and the Executive Committee of the Santander Group check compliance with the risk appetite at both Santander Group and business unit level.

In 2013 further progress was made in the effective application of the risk appetite framework at the Santander Group through both the related quarterly reviews referred to above and its implementation in certain of the Santander Group's main units, including the Santander Consumer Finance Group.

Corporate governance of the risk function

The Risk Committee is responsible for proposing the Santander Group's risk policy for approval by the Board within its governing and supervisory powers. Furthermore, the committee ensures that the Santander Group’s activities are consistent with its risk appetite level and, in this regard, it sets global limits for the main risk exposures, which it reviews systematically, and decides upon any transactions that exceed the powers delegated to lower-ranking bodies.

The Risk Committee, an executive body that adopts decisions within the scope of the powers delegated by the Board, is presided over by the Second Deputy Chairman of the Santander Group and also comprises a further four directors of the Bank.

In 2013 the Risk Committee held 97 meetings, evidencing the importance that the Santander Group attaches to the proper management of its risks.

The responsibilities assigned to the Risk Committee are essentially as follows:

- To propose to the Board the Group's risk policy, which will identify, in particular:

  • The various types of risk (financial, operational, technological, legal and reputational, inter alia) facing the Group.

  • The information and internal control systems to be used to control and manage these risks.

  • The level of risk deemed acceptable by the Group.

  • The measures envisaged to mitigate the impact of the identified risks in the event that they materialise.

- To conduct systematic reviews of the Group's exposure to its main customers, economic activity sectors, geographical areas and types of risk.

- To authorise the management tools and risk models, and ascertain the result of their internal validation.

- To ensure that the Group's actions are consistent with the previously defined risk appetite.

- To be informed of, assess and follow such remarks and recommendations as may periodically be made by the supervisory authorities in discharging their function.

- To decide on transactions outside the powers delegated to lower-ranking bodies and on the overall limits for pre-classified risk categories for economic groups or in relation to exposure by type of risk.

The Risk Committee has delegated certain of its powers to risk subcommittees which are structured by geographical area, business line and type of risk, all of which are defined in the corporate risk governance model.

In addition, both the Executive Committee and the Board of Directors of Banco Santander, S.A. pay particular attention to the management of the Group's risks.

The Board of Directors will propose to the shareholders at the 2014 Annual General Meeting that the Bylaws be amended to provide, in compliance with the recent CRD IV Directive, for the creation of a new committee responsible for assisting the Board on matters relating to risk policy and risk oversight. When this committee has been created, the Risk Committee will retain its competencies regarding risk management.

The Second Deputy Chairman of the Santander Group is the person ultimately responsible for risk management. He is also a member of the Board of Directors and Chairman of the Risk Committee, and two general risk units report to him. These units are independent of the business areas from both a hierarchical and functional standpoint, and their organisational and functional structure is as follows:

• **The risk unit** (“DGR”) is responsible for the executive credit risk and financial risk management functions and for the control of other risks (mainly technology, operational and compliance risk), and it is adapted to the structure of the business, both by type of customer and by activity and geographical area (global/local perspective).

The areas of the Risk Unit are divided into three blocks:

A structure for the management and control of financial risks (credit, market and structural risk) and the control of other risks. This block includes the following areas: loans to individuals, loans to companies, loan approval and monitoring, market and structural risks and non-financial risk control.

- A business structure, centred on the performance of the risk function in the Santander Group's global and local businesses. This block includes the following areas: Santander Consumer Finance risk management, global business risk management, and asset write-downs and recoveries.

- A structure for the establishment of frameworks, the development and implementation of models and information infrastructure. This block includes the following areas: risk policies, methodology and risk information management.

- As a supplement to the aforementioned structure, the Group has defined a planning and governance area responsible for the coordination of new projects and the internal management of all the units, and a risk monitoring and consolidation area responsible for the oversight of all risks.

The scope of action of these functions is global, i.e. they feature in all the units in which the risk division acts and this structure is mirrored in the local units. The fundamental elements through which the global functions are replicated in each unit are the corporate frameworks.

These are the central elements for disseminating and transferring global practices, reflecting the action policies and criteria for each area and establishing the Group’s compliance standards to be applied at all local units.

In general, it is possible to distinguish the main functions performed by the global areas of the DGR and by the units:

- The Risk Unit establishes risk policies and criteria, global limits and decision-making and control processes; it generates management schemes, systems and tools; and it adapts the best practices of both the banking industry and the various local units for their application in the Santander Group.

- The local units apply the policies and systems to the local market; they adapt the management schemes and organisation to the corporate frameworks; they contribute criticism and best practices; and they lead local projects.

• **The integrated risk control and internal risk validation unit**, with global-reaching corporate responsibilities, which provide support to the Group's governing bodies, namely:

- Internal validation of the credit and market risk and economic capital models in order to measure their suitability for management and regulatory purposes. The validation exercise envisages the review of the theoretical fundamentals of the model, the quality of the data used to build and calibrate the model, and its use and the associated corporate governance process.

- Integrated risk control, the purpose of which is to supervise the quality of the Group's risk management, seeking to ensure that the systems for the management and control of the risks inherent to its activity comply with the strictest criteria and the best practices observed in the industry and/or required by the regulators, and verifying that the risk profile actually assumed is within the guidelines laid down by senior management.

Following is an analysis of the main types of risk of Santander Consumer Finance: credit risk, market risk, operational risk and compliance and reputational risk.

Credit risk

Introduction to the treatment of credit risk

Credit risk is the possibility of loss stemming from the total or partial failure of our customers or counterparties to meet their financial obligations to the Group.

The specialisation of Santander Consumer Finance’s risk function is based on the type of customer and, accordingly, a distinction is made between individualised customers and standardised customers in the risk management process:

- Individualised customers are defined as those to which a risk analyst has been assigned, basically because of the risk assumed. This category includes wholesale banking customers and certain enterprises belonging to retail banking. Risk management is performed through expert analysis supplemented by decision-making support tools based on internal risk assessment models.

- Standardised customers are those which have not been expressly assigned a risk analyst. This category generally includes individuals, individual traders, and retail banking enterprises not classified as individualised customers. Management of these risks is based on internal risk assessment and automatic decision-making models, supplemented subsidiarily, when the model is not comprehensive enough or is not sufficiently accurate, by teams of analysts specialising in this type of risk.

Main aggregates and variations

The profile of the credit risk assumed by Santander Consumer Finance is characterised by a diversified geographical distribution and the prevalence of retail banking operations.

Global credit risk map - 2013

The following table shows a detail of the Group's global credit risk map in its core business, disregarding valuation adjustments:

SCF Group - Gross Credit Risk Exposure			
	2013 (Millions of Euros)	Change on December 2012	% of Portfolio
Germany	30,590	0.93%	52.67%
The Netherlands	1,200	-1.48%	2.07%
Spain	6,402	-6.87%	11.02%
Italy	5,652	-14.79%	9.73%
Portugal	878	-13.16%	1.51%
Nordic countries	8,583	6.13%	14.78%
Poland	3,241	5.26%	5.58%
Austria	1,536	1.79%	2.64%
SCF Group	**58,082**	**-1.08%**	**100.00%**

Credit risk exposure fell by 1.08% in year-on-year terms as a result of the decline in the portfolios in Italy, the Netherlands, Spain and Portugal that was not offset by the growth in the Nordic countries, Austria, Poland and Germany.

Germany accounts for 52.67% of this exposure, followed by the Nordic countries, Spain and Italy which account for over 10%.

Variations in main aggregates in 2013

The changes in non-performing loans and the cost of credit reflect the impact of the deterioration of the economic environment, mitigated by prudent risk management, which generally enabled the Group to keep these data at levels below those of its competitors. As a result, Santander Consumer Finance has a significant coverage ratio and a high level of available general reserves.

The non-performing loans ratio was 4.04% at 31 December 2013 (31 December 2012: 3.90%), i.e., it increased by 14 basis points in 2013. The NPL coverage ratio stood at 105.01% (2012 year-end: 109.25%).

Distribution of lending

The Group is geographically diversified, since it is present in twelve countries, and concentrates its activities on its core markets. Santander Consumer Finance has a mainly retail profile (consumer loans represent 95.1% and inventory financing for dealers 4.9%) as it engages principally in vehicle financing.

Metrics and measurement tools

Credit rating tools

In keeping with the Santander Group's tradition of using proprietary rating models since 1993, the credit quality of customers and transactions is also measured by internal scoring and rating systems at Santander Consumer Finance. Each credit rating assigned by models relates to a certain probability of default or non-payment, determined on the basis of the Group's historical experience.

Since Santander Consumer Finance focuses mainly on the retail business, assessments are primarily based on scoring models or tables which, together with other credit policy regulations, issue an automatic decision on the applications received. These tools have the dual advantage of allocating an objective appraisal of the level of risk and speeding up the response time that would be required by a purely manual analysis.

In addition to the scoring models for the approval and management of portfolios (by rating the transactions composing the portfolios in order to assess their credit quality and estimate their potential losses), other tools are available to assess existing accounts and customers which are used in the defaulted loan recovery process. Thus, an attempt is made to cover the entire "loan cycle" (approval, monitoring and recovery) by means of statistical rating models based on the Entity's internal historical data.

For individualised corporates and institutions which, at Santander Consumer Finance, include mainly agents, the assessment of the level of credit risk is based on expert rating models that combine in the form of variables the most relevant factors to be taken into account in the assessment, in such a way that the rating process generates appraisals that are consistent and comparable among customers and summarise all the relevant information. In 2013 all the units reviewed the aforementioned portfolios, with the participation of all areas of the Bank. These meetings included large exposures, companies under special surveillance and the main credit indicators of this portfolio. Ratings assigned to customers are reviewed periodically to include any new financial information available and the experience in the banking relationship. The frequency of the reviews is increased in the case of customers that reach certain levels in the automatic warning systems and of customers classified as requiring special monitoring. The rating tools themselves are also reviewed in order to progressively fine-tune the ratings they provide.

To a lesser extent, global rating tools are also applied to certain exposures in the global wholesale banking segment. Management of this segment is centralised at the Risk Division of the Santander Group, for both rating calculation and risk monitoring purposes. These tools assign a rating to each customer, which is obtained from a quantitative or automatic module, based on balance sheet ratios or macroeconomic variables, supplemented by the analyst's expert judgement.

Santander Consumer Finance's portfolio of individualised companies is scantly representative of the total risks managed, since it relates mainly to dealer inventory financing (5.8% of the total portfolio).

Credit risk parameters

The assessment of customers or transactions using rating or scoring systems constitutes a judgement of their credit quality, which is quantified through the probability of default (PD).

In addition to customer assessment, the quantification of credit risk requires the estimation of other parameters, such as exposure at default (EAD) and the percentage of EAD that will not be recovered (loss given default or LGD). Therefore, other relevant factors are taken into account in estimating the risk involved in transactions, such as the quantification of off-balance-sheet exposures, which depends on the type of product, or the analysis of expected recoveries, which is related to the guarantees provided and other characteristics of the transaction: type of product, term, etc.

These factors are the main credit risk parameters. Their combination facilitates calculation of the probable loss or expected loss (EL). This loss is considered to be an additional cost of the activity which is reflected in the risk premium and must be charged in the transaction price.

These risk parameters also make it possible to calculate the regulatory capital in accordance with the regulations deriving from the new Basel Capital Accord (BIS II). Regulatory capital is determined as the difference between unexpected loss and expected loss.

Unexpected loss is the basis for the capital calculation and refers to a very high, albeit scantly probable, level of loss, which is not deemed to be recurring and must be catered for using capital.

For portfolios with scant internal default experience, such as banks, sovereign risk or global wholesale banking, risk parameter estimates (PD, LGD and EAD) are based on external sources: market prices or studies conducted by rating agencies gathering the shared experience of a sufficient number of entities. These portfolios are known as low default portfolios.

For all other portfolios, parameter estimates are based on the entity’s internal experience. The PD is calculated by observing the cases of new arrears in relation to the final rating assigned to customers or to the scoring assigned to the related transactions.

LGD calculation is based on the observation of the recoveries of defaulted loans, taking into account not only the income and expenses associated with the recovery process, but also the timing thereof and the indirect costs arising from the recovery process.

EAD is estimated by comparing the use of committed facilities at the time of default and their use under normal (performing) circumstances, so as to identify the actual use of the facilities at the time of default.

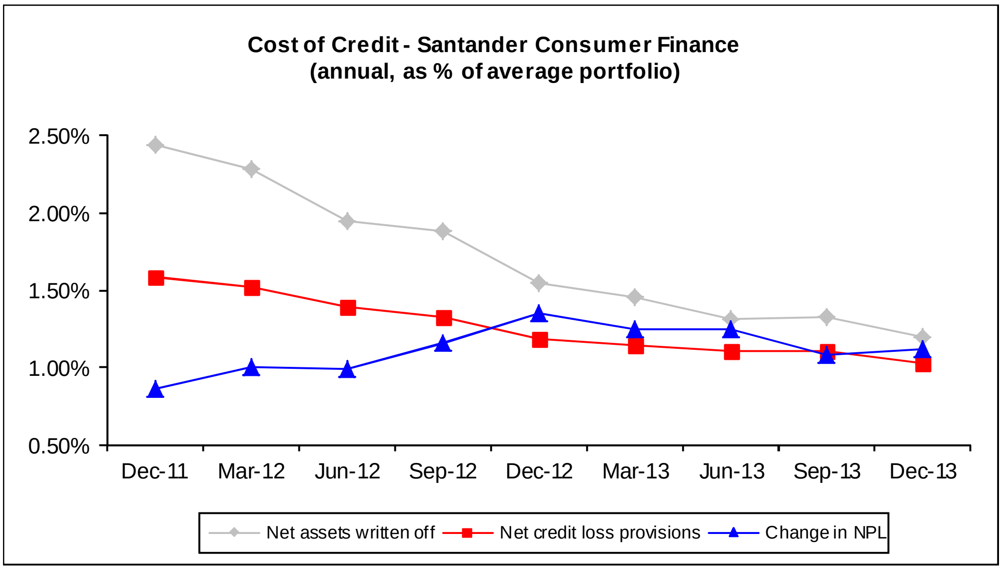
The estimated parameters for the global portfolios are the same for all the Group’s units. Therefore, a financial institution with an 8.5 rating will have the same PD, regardless of the Group unit in which its exposure is accounted for. By contrast, the retail portfolios have specific rating and scoring systems in each of the Group's units, which require separate estimates and specific assignment of parameters in each case.

The parameters are then assigned to the units' on-balance-sheet transactions in order to calculate the expected losses and the capital requirements associated with their exposure.

Observed loss: measures of cost of credit

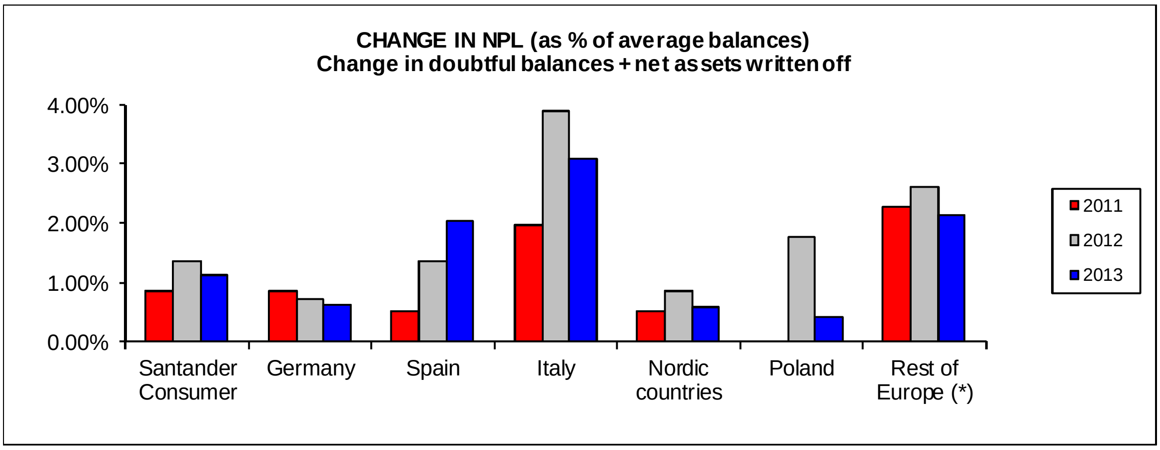
To supplement the predictiveness provided by the advanced models described above, other habitual measures are used to facilitate prudent and effective management of credit risk based on observed loss.

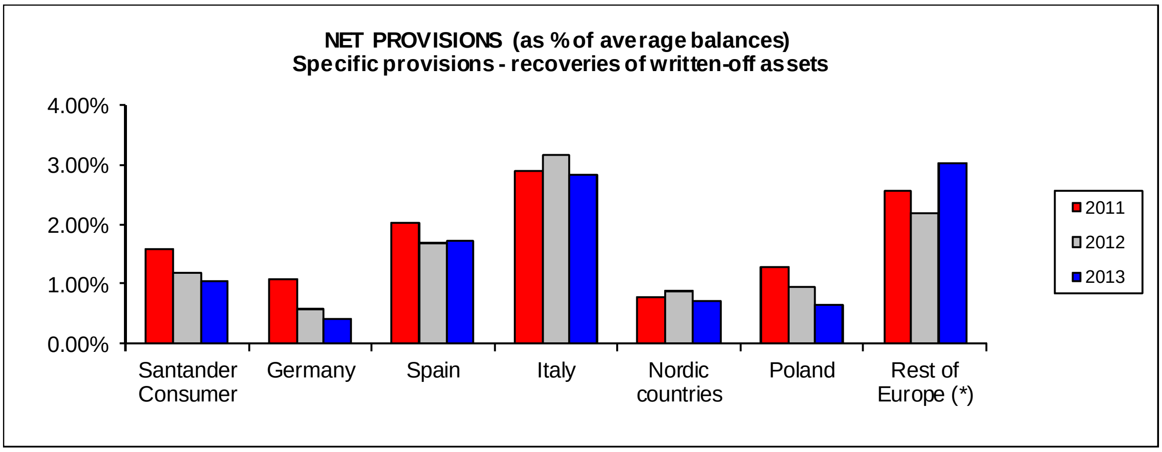
As part of the Santander Group, the cost of credit risk at Santander Consumer Finance is measured using different approaches: change in non-performing loans (ending doubtful assets - beginning doubtful assets + assets written off - recovery of assets written off); net credit loss provisions (gross provisions to specific allowances - recovery of assets written off); and net assets written off (assets written off - recovery of assets written off).

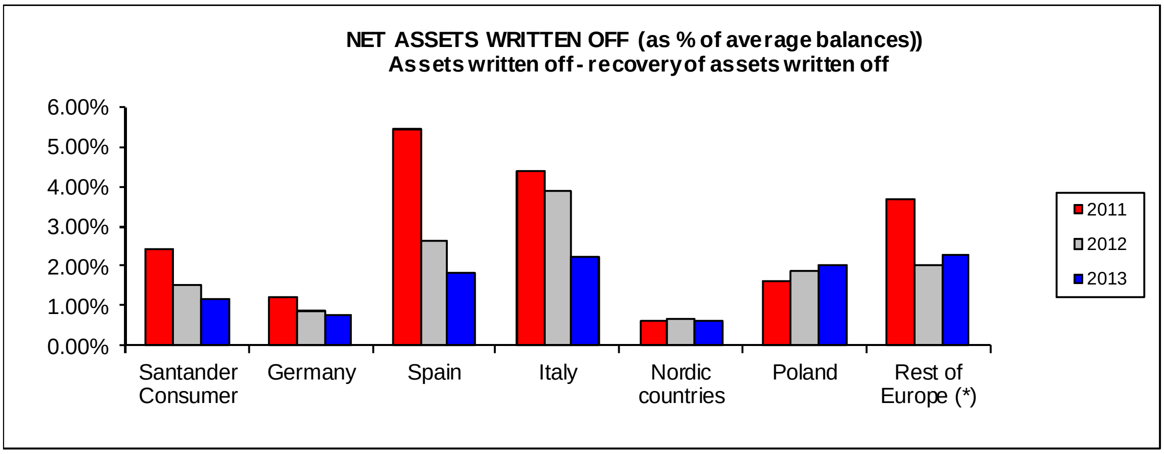


The three indicators measure the same reality and, consequently, converge in the long term although they represent successive moments in credit cost measurement: flows of non-performing loans (change in NPLs), coverage of doubtful loans (net credit loss provisions) and classification as write-offs (net write-offs), respectively. Although they converge in the long term within the same business cycle, the three approaches show differences at certain times, which are particularly significant at the start of the change of cycle. These differences are due to the different timing of recognition of losses, which is basically determined by accounting rules (for example, mortgage loans have a longer coverage schedule and are classified as write-offs more “slowly” than consumer loans). In addition, the analysis can be complicated due to changes in the policy of coverage and classification as write-offs, the composition of the portfolio, doubtful loans of entities acquired, changes in accounting rules, sale of portfolios, etc.

The following charts reflect the cost of Santander Consumer Finance’s credit risk in its main areas of activity in 2013 and prior years, measured using the different approaches:







As shown above, the general trend in recent years has been for Santander Consumer Finance to keep its cost of credit at low levels. At the end of 2013, the three indicators converge at an average value equal to the change in non-performing loans as a percentage of average loans. Over the last three years all the indicators have displayed stable or decreasing trends across all units, except for change in non-performing loans in the case of Italy and Spain, where the units' heavy deleveraging led to higher values in 2013 with respect to 2011.

Credit risk cycle

The risk management process consists of identifying, measuring, analysing, controlling, negotiating and deciding on, as appropriate, the risks incurred in the Group's operations. The parties involved in this process are the risk-taking areas, senior management and the risk function.

As Santander Consumer Finance is part of the Santander Group, the process begins at senior management level, through the Board of Directors and the Risk Committee, which establishes the risk policies and procedures, and the limits and delegations of powers, and approves and supervises the scope of action of the risk function.

The risk cycle comprises three different phases: pre-sale, sale and post-sale:

- Pre-sale: this phase includes the risk planning and target setting processes, determination of the Santander Group's risk appetite, approval of new products, risk analysis and credit rating process, and limit setting.

- Sale: this is the decision-making phase for both pre-classified and specific transactions.

- Post-sale: this phase comprises the risk monitoring, measurement and control processes and the recovery process.

Risk limit planning and setting

Risk limit setting is a dynamic process that identifies the Santander Group's risk appetite through the discussion of business proposals and the attitude to risk.

This process is defined in the Global Risk Limit Plan, an agreed-upon comprehensive document for the integrated management of the balance sheet and the inherent risks, which establishes risk appetite on the basis of the various factors involved.

The risk limits are founded on two basic structures: customers/segments and products.

Scenario analysis

An important aspect of the planning phase is the consideration of the volatility of the macroeconomic variables that affect the performance of the portfolios.

The Group simulates their performance in various adverse and stress scenarios (stress testing), which enables it to assess the Group's capital adequacy in the event of certain future circumstantial situations.

The scenario analysis enables senior management to gain a clearer understanding of the performance of the portfolio in response to changing market and circumstantial conditions and it is a basic tool for assessing the sufficiency of the provisions recognised to cater for stress scenarios.

Risk analysis and credit rating process

Risk analysis is one of the fundamental factors in the assessment of credit risk and, therefore, in the approval of loans to customers by the Santander Group. This analysis consists of examining the counterparty's ability to meet its contractual obligations to Santander Consumer Finance. This involves analysing the customer's credit quality, its risk transactions, its solvency and the return to be obtained in view of the risk assumed.

The risk analysis is conducted every time a new customer or transaction arises or with a pre-established frequency, depending on the segment involved. Additionally, the credit rating is examined and reviewed whenever a warning system is triggered or an event affecting the counterparty/transaction occurs.

Transaction decision-making

The purpose of the transaction decision-making process is to analyse transactions and adopt resolutions thereon, taking into account the risk appetite and any transaction elements that are important in achieving a balance between risk and return.

Since 1993 the Santander Group has been using, among others, the RORAC (return on risk-adjusted capital) methodology for risk analysis and pricing as part of the decision-making process for transactions and deals.

Monitoring

In order to ensure adequate credit quality control, in addition to the tasks performed by the Internal Audit Division, the Risk Unit has a specific risk monitoring function, which it performs through local and global teams, to which specific resources and persons in charge have been assigned.

This monitoring function is based on an ongoing process of permanent observation to enable early detection of any incidents that might arise in the evolution of the risk, the transactions, the customers and their environment, with a view to adopting mitigating actions. The risk monitoring function is specialised by customer segment.

For this purpose a system called “companies under special surveillance” (FEVE) has been designed that distinguishes four categories based on the degree of concern raised by the circumstances observed (extinguish, secure, reduce and monitor). The inclusion of a company in the FEVE system does not mean that there has been a default, but rather that it is deemed advisable to adopt a specific policy for this company, to place a person in charge and to set the policy implementation period. Customers classified as FEVE are reviewed at least every six months, or every three months for those classified in the most severe categories. A company can be classified as FEVE as a result of the monitoring process itself, a review performed by Internal Audit, a decision made by the sales manager responsible for that company or the triggering of the automatic warning system.

Assigned ratings are reviewed at least annually, but should any weakness be detected, or depending on the rating itself, more frequent reviews are performed.

For exposures to standardised customers, the key indicators are monitored in order to detect any variance in the performance of the loan portfolio with respect to the forecasts contained in the credit management programmes.

Measurement and control

Supplementing the management process, the risk control function obtains a global view of Santander Consumer Finance’s loan portfolio, through the various phases of the risk cycle, with a level of detail sufficient to permit the assessment of the current position of the exposure and any changes therein.

The aim of the control model is to assess the solvency risk assumed in order to detect any areas requiring attention and to propose measures to correct any possible impairment. Therefore, it is essential that the control activity itself be accompanied by an analysis component aimed at facilitating a proactive approach to the early detection of problems and the subsequent recommendation of action plans.

Any changes in the Group’s risk exposure with respect to budgets, limits and benchmarks are controlled on an ongoing and systematic basis, and the impacts of these changes in future situations, both of an exogenous nature and those arising from strategic decisions, are assessed in order to establish measures that place the profile and amount of the loan portfolio within the parameters set by Santander Consumer Finance and the Santander Group.

The risk control function is performed by assessing risks from various complementary perspectives, the main pillar being control by geographical location, business area, management model, product and process, thus facilitating the detection of specific areas of action requiring decision-making.

One of the focal points since 2010 has been to strengthen the vision of the various units from a local control perspective, obtaining in-depth knowledge of their business contexts, legislation, strategies, local regulations and changes in their portfolios. Also, the uniformity of the control model was consolidated by establishing standards in the data flow, its portfolio-based analysis and the monitoring of the main management metrics, which facilitate the ongoing measurement of the exposure of each of the business segments.

In 2006, within the corporate framework established in the Santander Group for compliance with the Sarbanes-Oxley Act, a corporate tool was made available on the Group's intranet for the documentation and certification of all the subprocesses, operational risks and related mitigating controls. The Risk Division, as part of the Group, assesses annually the efficiency of the internal control of its activities.

Recovery process

As part of the Santander Group, Santander Consumer Finance considers loan recovery management to be a strategic, integral business activity.

Santander Consumer Finance has incorporated the global model of the Santander Group, combining it with a local implementation, considering the specific features of the business in each area of activity.

The main objective of loan recovery is to contribute to a reduction in the need for provisions and reduce the costs associated with risk.

Thus, the specific aims of the recovery process are as follows:

- To seek collection or regularisation of unpaid balances, so that accounts can return to the performing status; if this is not possible, the aim is to fully or partially recover the debts, regardless of their status for accounting or management purposes.

- To maintain and strengthen the relationship with customers, paying attention to their payment behaviour and offering refinancing products to meet their needs in accordance with the corporate approval and control policies carefully established by the risk areas.

In the recovery process, general or standardised customers are segregated or differentiated from individualised customers, using specific integrated management models in each case, in accordance with certain basic specialisation criteria.

Recovery management involves the use of a multichannel customer relation strategy.

The telephone channel is aimed at large-scale, standardised management and involves high levels of activity in contacting customers and monitoring their payments, with each conversation being prioritised and adapted on the basis of the status of their debts (in arrears, doubtful or non-performing), their balances and their payment commitments.

The commercial recovery management network, which complements the telephone channel, is geared towards establishing close relationships with selected customers. It consists of teams of highly commercially-oriented agents with specific training and excellent negotiating skills who carry out a personalised management of their own portfolios of high impact customers (high balances, special products and specially managed customers).

The recovery activity for advanced stages of default involves both in- and out-of-court management and the continuation of commercial and monitoring activities through the telephone channels and agent network, applying specific strategies and practices based on the particular stage of default.

The management model favours proactiveness and oriented management, achieved through ongoing recovery campaigns specifically tailored to particular groups of customers and stages of default. Predefined objectives are pursued using specific strategies and intensive actions conducted through the appropriate channels within limited time frames.

Adequate local lending and analysis of daily and monthly management information, aligned with the Bank's corporate models, were defined as the basis for the business intelligence required in order to take management-oriented decisions on an ongoing basis and to monitor the results thereof.

Since 2011 Santander Consumer Finance has consolidated the implementation of the global model in all its units.

Concentration risk

Concentration risk is a key component of credit risk management. The Santander Group continuously monitors the degree of credit risk concentration, by geographical area/country, economic sector, product and customer group.

The Risk Committee establishes the risk policies and reviews the exposure limits required to ensure adequate management of credit risk concentration.

The Group is subject to Bank of Spain regulations on large exposures (defined as those exceeding 10% of eligible capital). In accordance with Bank of Spain Circular 3/2008, no exposure to a single individual or economic group, including all types of credit and equity risks, should exceed 25% of the Group’s capital. Also, the total amount of large exposures may not exceed eight times the Group’s capital. Exposures to governments and central banks belonging to the OECD are excluded from this treatment.

The Santander Group’s Risk Division works closely with the Finance Division in the active management of credit portfolios, which includes reducing the concentration of exposures through several techniques, such as the arrangement of credit derivatives for hedging purposes or the performance of securitisation transactions, in order to optimise the risk/return ratio of the total portfolio.

Market risk

1. Activities subject to market risk

The measurement, control and monitoring of the Market Risk area comprises all operations in which net worth risk is assumed. The risk arises from changes in the risk factors -interest rate, exchange rate, equities and the volatility thereof- and from the solvency and liquidity risk of the various products and markets in which the Santander Consumer Finance Group operates.

The activities are segmented by risk type as follows:

- Trading: this item includes financial services for customers, trading operations and positioning in fixed-income, equity and foreign currency products.

The Santander Consumer Group does not carry out trading activities at local level, and the scope of its treasury operations is limited to managing and hedging its structural balance sheet risk and managing the liquidity required to finance its business activity.

- Balance-sheet management: interest rate risk and liquidity risk arising as a result of the maturity and repricing gaps of all assets and liabilities.

- Structural risks:

  - Structural foreign currency risk/hedges of results: foreign currency risk arising from the currency in which investments in consolidable and non-consolidable companies are made (structural exchange rate). This item also includes the positions taken to hedge the foreign currency risk on future results generated in currencies other than the euro (hedges of results).

    Structural foreign currency risk at Santander Consumer arises mainly from investments in banks in currencies other than the euro.

  - Structural equities risk: this item includes equity investments in non-consolidated financial and non-financial companies that give rise to equities risk. Structural equities risk does not apply to the Group.

The Financial Management area at Santander Consumer is responsible for managing the balance-sheet management risk and structural risks centrally through the application of uniform methodologies adapted to the situation of each market in which the Group operates. The aim pursued by Financial Management is to ensure the stability and recurring nature of both the net interest margin of the commercial activity and the economic value of the Santander Consumer Group, whilst maintaining adequate levels of liquidity and capital adequacy.

The Market Risk area at Santander Consumer supports business management, defines risk measurement methodologies, assists in establishing limits and controls the structural market risks arising from the Group's operations, ensuring that the risks assumed are within the risk appetite limits established by the Risk Committee.

Decisions affecting the management of these risks are taken through the ALCO Committees in the respective countries and, ultimately, by the Parent's ALCO Committee.

Each of these activities is measured and analysed using different tools in order to reflect their risk profiles as accurately as possible.

2. Methodologies

A. Balance-sheet management

Interest rate risk

The Group analyses the sensitivity of the net interest margin and market value of equity to changes in interest rates. This sensitivity arises from maturity and interest rate repricing gaps in the various balance sheet items.

On the basis of the balance-sheet interest rate position, and considering the market situation and outlook, the necessary financial measures are adopted to align this position with that desired by the Bank. These measures can range from the taking of positions on markets to the definition of the interest rate features of commercial products.

The measures used by the Group to control interest rate risk in these activities are the interest rate gap and the sensitivity of net interest margin and market value of equity to changes in interest rates.

- *Interest rate gap of assets and liabilities*

The interest rate gap analysis focuses on the mismatches between the interest reset periods of on-balance-sheet assets and liabilities and of off-balance-sheet items. This analysis facilitates a basic snapshot of the balance sheet structure and enables concentrations of interest rate risk in the various repricing buckets to be detected. Additionally, it is a useful tool for estimating the possible impact of potential changes in interest rates on the entity's net interest margin and market value of equity.

The flows of all the on- and off-balance-sheet aggregates must be broken down and placed at the point of repricing or maturity. The duration and sensitivity of aggregates that do not have a contractual maturity date are analysed and estimated using the Santander Group's internal model.

- *Net interest margin (NIM) sensitivity*

The sensitivity of the net interest margin measures the change in the expected net interest income for a specific period (twelve months) given a shift in the yield curve.

- *Market value of equity (MVE) sensitivity*

The sensitivity of the market value of equity is a complementary measure to the sensitivity of the net interest margin.

This sensitivity measures the interest rate risk implicit in the market value of equity based on the effect of changes in interest rates on the present values of financial assets and liabilities.

Liquidity risk

Liquidity risk is associated with the Santander Consumer Finance Group's ability to fund its commitments at reasonable market prices and to carry out its business plans with stable sources of funding. The Group permanently monitors maximum gap profiles.

The measures used to control liquidity risk in balance-sheet management are the liquidity gap, liquidity ratios, the structural liquidity table and liquidity stress tests.

- *Liquidity gap*

The liquidity gap provides information on contractual and expected cash inflows and outflows for a given period for each currency in which the Santander Consumer Finance Group operates. The gap measures net cash requirements or surpluses at a given date and reflects the liquidity level maintained under normal market conditions.

In the contractual liquidity gap, all cash-flow generating balance sheet items are analysed and placed at the point of contractual maturity. For assets and liabilities without contractual maturities, the Santander Group's internal analysis model is used, based on a statistical study of the time series of the products, and the so-called stable or unstable balance for liquidity purposes is determined.

- *Liquidity ratios*

The minimum liquidity ratio compares the liquid assets available for sale or transfer (after the relevant discounts and adjustments have been applied) and the assets maturing in less than twelve months with the liabilities maturing in twelve months or less.

- *Structural liquidity table*

The aim of this analysis is to determine the structural liquidity position on the basis of the liquidity profile (more or less stable) of the various asset and liability instruments.

- *Liquidity stress tests*

The purpose of these tests is to determine the impact of a severe liquidity crisis on the Santander Consumer Finance Group. Various levels of warning are established based on the results of the tests.

B. Structural foreign currency risk / Hedges of results / Structural equities risk

Structural foreign currency risk arises mainly from investments in banks in currencies other than the euro.

Structural foreign currency risk is managed centrally at Santander Group level by applying the general corporate procedures.

3. Control system

Limit setting

The limit setting process is performed together with the budgeting activity and is the tool used to establish the assets and liabilities of each business activity.

Limit setting is a dynamic process that responds to the level of risk considered acceptable by senior management.

Objectives of the limits structure

The limits structure requires a process to be performed that pursues, inter alia, the following objectives:

- To identify and delimit, in an efficient and comprehensive manner, the main types of market risk incurred, so that they are consistent with business management and the defined strategy.

- To quantify and communicate to the business areas the risk levels and profile deemed acceptable by senior management so as to avoid undesired risks.

- To give flexibility to the business areas for the efficient and timely assumption of financial risks, depending on market changes, and for the implementation of the business strategies, provided that the acceptable levels of risk are not exceeded.

- To allow business makers to assume risks which, although prudent, are sufficient to obtain the budgeted results.

- To delimit the range of products and underlyings with which each Treasury unit can operate, taking into account features such as assessment model and systems, liquidity of the instruments involved, etc.

Risks and results in 2013

A. *Balance-sheet management*

A1. Interest rate risk

The interest rate risk limits for 2013 for the consolidated portfolios denominated in euros were set at EUR -70 million for the sensitivity of the net interest margin (NIM) at one year and at EUR -200 million for the sensitivity of the market value of equity (MVE).

In 2013 the Bank introduced a policy of comparing each limit with the sensitivity to the highest of the losses calculated for eight different scenarios (parallel increases and decreases of 25, 50, 75 and 100 basis points in the yield curve). The use of several scenarios improves interest rate risk control. In scenarios of falling interest rates, negative interest rates are not envisaged.

At 31 December 2013, the scope of consolidation comprised the units of the following countries: Germany, Austria, the Netherlands, Belgium, Spain, Italy, Portugal and Finland.

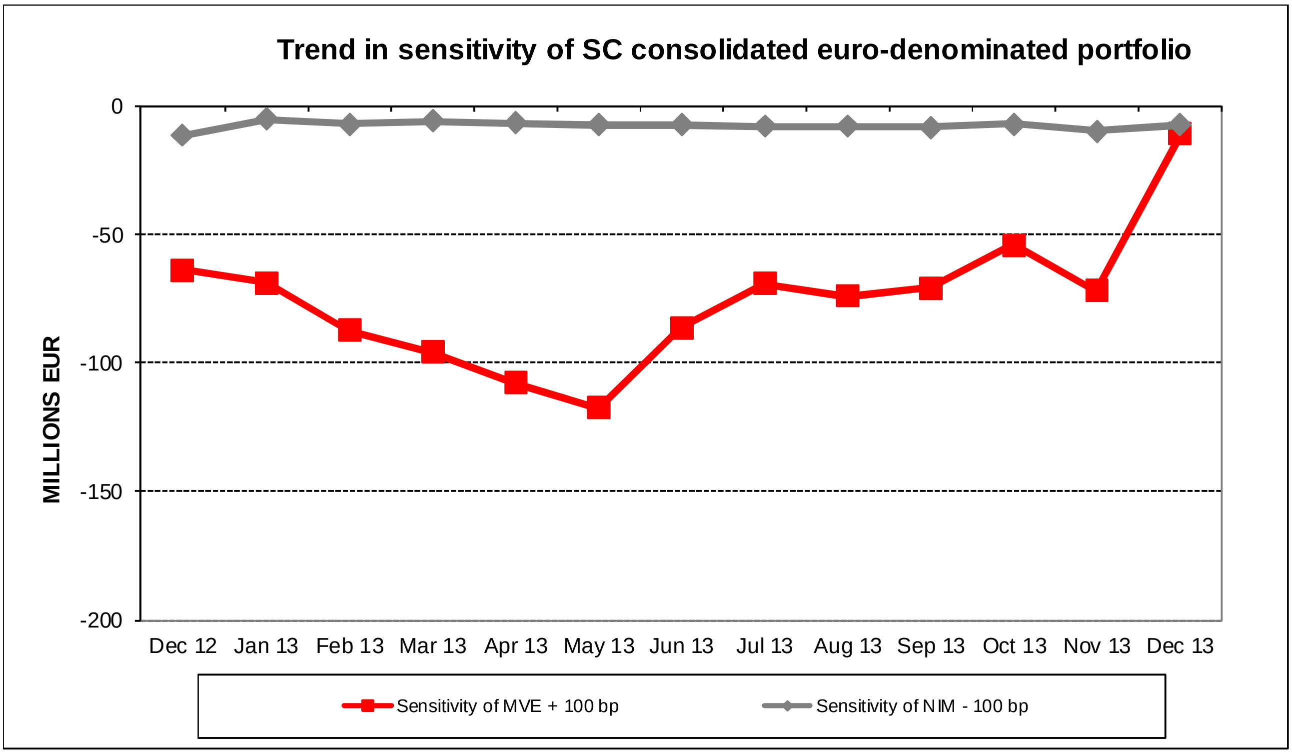
The first few months of 2013 were marked by the persistent weakness of the economic and financial situation, with interest rates not expected to rise at short term, and, accordingly, no new hedges were entered into. The absence of hedges naturally made the sensitivity of the market value of equity to rising interest rate scenarios more negative.

As from June, the Bank started to enter into new hedges due to the scant scope for downward movements in interest rates and to protect itself from possible upward pressure arising from the eventual tapering or ending of financial stimulus measures in the US. In the last quarter no further hedges were entered into, but the reduction in the exposure continued due to the fixed-rate securitisations and senior debt issues, the conversion into capital of loans granted by Santander Consumer Finance, S.A. to Santander Consumer Holding GmbH, the shorter terms of revolving assets in Germany and the longer terms of customer deposits in Germany.

At 2013 year-end, the sensitivity of the net interest margin to a parallel decrease of 100 bp in interest rates was EUR -7.2 million (although in reality the simulated decrease is smaller because interest rates are so low and no negative scenarios are envisaged). The sensitivity of the market value of equity to a parallel rise of 100 bp was EUR -10.7 million.

The sensitivity of both the net interest margin and market value of equity was within the established limits at December 2013.

The chart below shows the changes in the sensitivity of the net interest margin and of the market value of equity in 2013.



A2. Structural credit risk management

The aim of structural credit risk management is to reduce, through the sale of assets, the concentrations that arise naturally as a result of commercial activity. In view of the Group's business, its main asset is a highly atomised portfolio of consumer loans. Therefore, credit risk is analysed as part of the unit's commercial strategy.

A3. Structural liquidity management

Structural liquidity management seeks to finance the Group's business with optimal maturity and cost conditions, avoiding the need to assume undesired liquidity risks.

The Group has an increasingly active presence in a wide, diverse range of financing markets, thus limiting its dependence on specific markets and ensuring the availability of various sources of market funding.

Structural liquidity management involves planning its funding requirements, structuring the sources of financing to achieve optimum diversification in terms of maturities, instruments and markets, and defining contingency plans.

Each year, a liquidity plan is prepared on the basis of the funding needs arising from the business budgets of all the Group's subsidiaries. Based on these liquidity requirements, an analysis is made of the limits on new securitisations, considering the eligible assets available, and of the potential growth in customer deposits. This information is used to establish an issue and securitisation plan for the year. Throughout the year the Group periodically monitors the actual changes in financing requirements and updates this plan accordingly.

Set forth below are certain highlights of structural liquidity management in 2013:

Issue programmes:

AIAF NOTES PROGRAMME

Santander Consumer Finance has a EUR 5,000 million Promissory Note Issuance programme outstanding, which was registered in the Official Registers of the Spanish National Securities Market Commission (CNMV) on 17 October 2013. The notes are traded on the Spanish AIAF Bond Market, with maturities of between 3 working days and 24 months (731 calendar days). Santander Consumer Finance (which acts as an issuer on the primary market and places its issues through cooperating financial institutions) issued promissory notes for EUR 7,243 million in 265 transactions in 2013. The average outstanding balance was EUR 1,347 million and the outstanding balance at 2013 year-end was EUR 2,241 million.

ECP PROGRAMME

Santander Consumer Finance has a EUR 8,000 million multi-currency European Commercial Paper (ECP) programme outstanding, with maturities of between 1 and 364 days. In 2013 the Bank launched ECP issues for EUR 560 million (38 transactions), USD 65 million (7 transactions) and GBP 10 million (1 transaction). The average outstanding balance was EUR 178 million and the outstanding balance at 2013 year-end was EUR 253 million.

SECURITISATIONS

Note 19 to the consolidated financial statements contains a detail of the securitisations performed by the Group in 2013 (consumer and vehicle loans).

EMTN PROGRAMME

Santander Consumer Finance has a multi-currency Euro Medium Term Note (EMTN) programme outstanding, with a maximum amount of EUR 5,000 million. The outstanding balance at 2013 year-end was EUR 2,399 million, and the balance issued in 2013 was EUR 1,445 million (8 transactions). Noteworthy was the issue launched in October 2013 with a principal amount of EUR 1,000 million, maturing in April 2015.

The Group's structural liquidity position and market presence, along with the support from its parent, Banco Santander S.A., through intragroup financing facilities, have enabled Santander Consumer to conduct its lending activity normally in the current market conditions.

B. Structural foreign currency risk/hedges of results

Structural foreign currency risk arises mainly from investments in banks in currencies other than euro. At 31 December 2013, the open foreign currency position in Spain amounted to EUR 1,061 million, denominated in two currencies: the Norwegian krone (EUR 686 million) and the Polish zloty (EUR 375 million).

Structural foreign currency risk is managed centrally at Santander Group level by applying the general corporate procedures.

Operational risk

Definition and objectives

Santander Consumer Finance defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, human resources or systems or from external events". This risk generally relates to events of a purely operational nature, which differentiates it from market or credit risk, although it also includes external risks, such as natural disasters.

The basic aim pursued by the Group in operational risk control and management is to identify, measure/assess, control/mitigate and report on this risk.

The Group's priority, therefore, is to identify and eliminate any clusters of operational risk, irrespective of whether losses have been incurred. Measurement of this risk also contributes to the establishment of priorities in operational risk management.

For the purpose of calculating regulatory capital for operational risk, Santander Consumer Finance decided to opt initially for the Standardised Approach provided for under Basel II standards. Santander Consumer Finance is assessing the most appropriate time to shift to Advanced Measurement Approaches (AMA) taking into account, however, that: a) the short-term priority in operational risk management is focused on mitigation; and b) most of the regulatory requirements established for use of the AMA must now be incorporated in the Standardised Approach and, at the present time, these requirements have already been included in the operational risk management approach used by Santander Consumer Finance.

Management model

The organisational model for risk management and control is the result of the adaptation to the new Basel II environment implemented by the Group, which establishes three levels of control:

- First level: control functions performed by the Group's units.

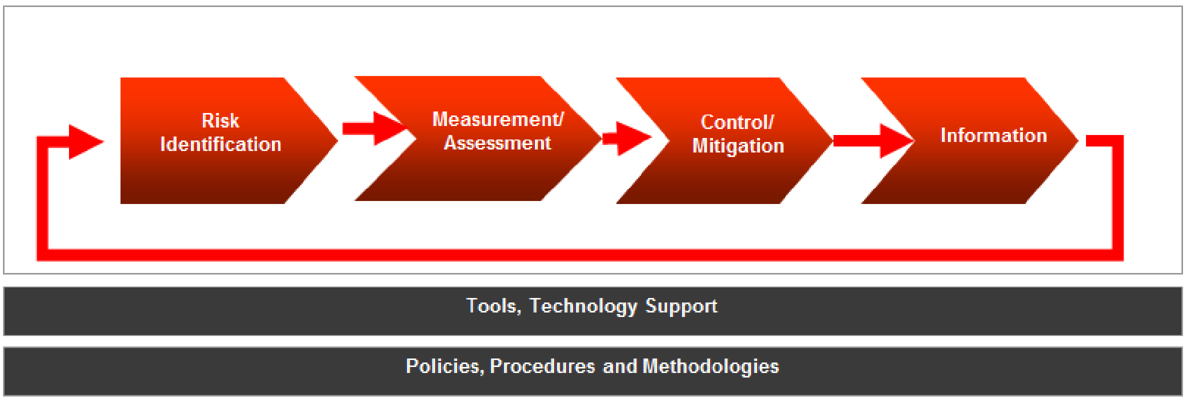
- Second level: functions performed by the corporate areas.

- Third level: integrated control functions performed by the Risk Division - Integrated Risk Control and Internal Risk Validation Area (CIVIR).

Operational risk management and control are conducted by the Technology and Operations Division. Within this division, the Corporate Technology and Operational Risk Area, created in 2009, is responsible for the definition of policies and methodology and for the management and control of technology and operational risks. The implementation, integration and local adaptation of the policies and guidelines established by this area are entrusted to the local operational risk officers identified in each unit.

This operational risk management structure is based on the knowledge and experience of the executives and professionals of the various Group units, with particular importance being attached to the role of the local operational risk officers.

The various phases of operational risk management at Santander Consumer Finance are as follows:



The objectives of the various phases of the technology and operational risk management model are as follows:

- To identify the operational risk inherent in all the Bank's activities, products, processes and systems.

- To measure and assess operational risk in an objective and continuous manner, consistent with regulatory (Basel II, Bank of Spain) and industry standards, and to set risk tolerance levels.

- To continuously monitor the exposures to operational risk in order to detect the levels of unassumed risk, implement control procedures, improve internal awareness and mitigate losses.

- To implement control procedures and improve knowledge of the causes of operational risk as well as the related implications.

- To establish mitigation measures to eliminate or minimise operational risk.

- To produce periodic reports on the exposure to operational risk and the level of control for senior management and the Group's areas/units, as well as inform the market and the regulatory authorities.

- To define and implement systems enabling the Group to monitor and control operational risk exposures. These systems are integrated into the Group's daily management, using the current technology and maximising the automation of applications.

- To define and document operational risk management policies, and to implement the related methodologies consistent with current regulations and best practices.

The benefits of the Santander Consumer Finance Group's operational risk management model are as follows:

- Integrated and effective management of operational risk (identification, measurement/assessment, control/mitigation and reporting).

- Improved knowledge of actual and potential operational risks and better assignment to business and support lines.

- The information on operational risk helps improve processes and controls and reduce losses and income volatility.

Model implementation: global initiatives and results

The corporate function for operational risk management and control was created in 2001 and has been operating since then. The main duties and activities performed and global initiatives adopted by this function are summarised as follows:

- Designation of head coordinators and creation of operational risk departments.

- Training and experience sharing: communication of best practices within the Group.

- Fostering of mitigation plans: control of both the implementation of corrective measures and projects under development.

Implementation of the operational risk management model at the various Group entities began in 2002. Substantially all the Group units are currently included in the model, with a high degree of uniformity. However, the different pace of the implementation, phases, timetables and historic depth of the respective databases gives rise to differences in the level of progress between one country and another.

In general:

- Classified databases of operational errors and incidents are received on a monthly basis. The Group's own database contains unrestricted events, i.e. with no exclusions due to amount, and includes events with accounting impacts (including positive effects) and non-accounting impacts.

- Self-assessment questionnaires completed by the main Group units are received and analysed.

- There is a corporate operational risk indicator system in place.

- The most significant and frequent events are identified and analysed, and mitigation measures are adopted and disseminated to the other Group units as best practice guidelines.

- Databases are reconciled with the accounting records.

In view of the specific features and complexity of financial markets, the Group considers it necessary to continually strengthen the operational control of its financial market activities, thus bolstering the highly stringent and conservative risk and operational principles already applied on a regular basis by the Santander Group.

In addition to monitoring all operational control-related matters, in all its units the Group placed greater emphasis on a number of aspects, the reviews conducted being validated on a monthly basis by the Management Committee of each unit. The most noteworthy of these aspects are as follows:

- Review of the valuation models and, in general, of the values of the portfolios.

- Processes for the capture and independent validation of prices.

- Adequate confirmation of transactions with counterparties.

- Review of transaction cancellations/modifications.

- Review and monitoring of the effectiveness of guarantees, collateral and risk mitigators.

Corporate reporting

The Corporate Technology and Operational Risk Control Area has an Integrated Operational Risk Management Information system (IGIRO) in place, which every quarter consolidates the information available from each country/unit in connection with operational risk and gives a global view with the following features:

- Two levels of information: consolidated corporate information and the individualised data for each country/unit.

- Dissemination of the best practices among the countries/units of the Santander Group, obtained from the combined study of the results of qualitative and quantitative analyses of operational risk.

Information is also prepared on the following aspects:

- The Santander Group's operational risk management model.
- Human resources and scope of action.
- Analysis of the database of errors and incidents.
- Operational risk cost and accounting reconciliation.
- Self-assessment questionnaires.
- Indicators.
- Mitigating measures/active management.
- Contingency plans.
- Regulatory framework: BIS II.
- Insurance.

This information is used as a basis for reporting to the Risk Committee, senior management, regulators, rating agencies, etc.

Role of insurance in operational risk management

The Santander Group was a pioneer in considering insurance as a key factor in operational risk management. Since 2004 the Operational Risk Area has worked closely with the Insurance Area in the Santander Group in all activities leading to improvements in the two areas. Some notable examples are as follows:

- Cooperation in the presentation of the Santander Group's operational risk management and control model to insurers and reinsurers.
- Analysis and follow-up of recommendations and suggestions for improving operational risks made by insurance companies, via previous audits conducted by specialised companies, and of the subsequent implementation thereof.
- Sharing of information generated in the two areas in order to strengthen the quality of error bases and the cover of insurance policies for the various operational risks.
- Close cooperation between local operational risk officers and local insurance coordinators in order to enhance operational risk mitigation.
- Regular meetings to report on specific activities, statements of position and projects in the two areas.
- Active participation of the two areas in the Global Insurance Sourcing Desk, the Group's highest technical body responsible for the definition of insurance coverage and arrangement strategies.

Reputational risk

The Santander Group's Risk Committee, in its capacity as the body ultimately responsible for global risk management and for all banking operations, assesses, with the support of the General Secretary's Division, the reputational risk within its scope of competence in areas for which it has decision-making powers.

The Audit and Compliance Committee supervises the Santander Group's reputational risk. Amongst other functions, it supervises compliance with the Group's Code of Conduct in Securities Markets, the anti-money laundering manuals and procedures and, in general, Banco Santander's governance and compliance rules, and makes any required proposals for improvement.

The Santander Group manages the reputational risk that may arise from an inadequate sale of products or an improper provision of services by the Group in accordance with the corporate policies for the management of reputational risk arising from the marketing of products and services.

These corporate policies aim to establish a single corporate framework for all regions, businesses and entities that: (i) reinforces the organisational structures; (ii) ensures that decision-making committees oversee not only the approval of products and services, but also the monitoring thereof over their whole lives; and (iii) establishes the guidelines for defining uniform Group-wide criteria and procedures for the marketing of products and services, encompassing all its phases (approval, pre-sale, sale and follow-up or post-sale).

These policies are developed and specifically adapted to the actual local situation and to local regulatory requirements through the local internal rules of the various Group units, once authorisation has been obtained from the corporate compliance and reputational risk area.

COMPLIANCE WITH THE NEW REGULATORY FRAMEWORK

The regulations known as Basel III, which establish new global capital and liquidity standards for financial institutions, come into force in 2014. Basel III redefines available capital, increases the minimum requirements, requires capital buffers and adds new requirements in relation to the risks considered.

For many years the Santander Group has collaborated on the impact studies for calibrating the new rules conducted by the Basel Committee and the European Banking Authority (EBA) and coordinated at local level by the Bank of Spain.

In Europe, the new standards have been implemented through Directive 2013/36/EU ("CRD IV"), and the related Capital Requirements Regulation ("CRR"). In addition, the standards are subject to Implementing Technical Standards of the European Banking Authority (EBA). These regulations enter into force on 1 January 2014, and many standards are subject to various implementation timetables which conclude at the end of 2018, except with regard to the deduction for deferred tax assets, the transition period for which lasts until 2023. Subsequent to the transposition of Basel III into European legislation, the Basel Committee has continued to issue additional standards which will entail future legal amendments.

Santander currently has robust capital ratios, in keeping with its business model and risk profile, which, coupled with its capacity to generate capital organically and the gradual implementation timetable envisaged for the new requirements in the legislation, place it in a position to comply with Basel III. With regard to credit risk, the Santander Group intends to adopt, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks, until the percentage of net exposure of the loan portfolio covered by this approach exceeds 90%. The attainment of this short-term objective also depends on the acquisitions of new entities and the need for the various supervisors to coordinate the validation processes of the internal approaches. The Santander Group is present in geographical areas where there is a common legal framework among supervisors, as is the case in Europe through the Capital Requirements Directive. However, in other jurisdictions, the same process is subject to the framework of cooperation between the home and host country supervisors under different legislations, which in practice entails adapting to different criteria and timetables in order to obtain authorisation to use the advanced approaches on a consolidated basis.

Accordingly, the Santander Group continued in 2013 with the project for the progressive implementation of the technology platforms and methodological improvements required for the roll-out of the AIRB approaches for regulatory capital calculation purposes at the remaining Santander Group units. To date the Santander Group has obtained authorisation from the supervisory authorities to use advanced approaches for the calculation of regulatory capital requirements for credit risk for the parent, the main subsidiaries in Spain, the United Kingdom and Portugal, certain portfolios in Mexico, Brazil and Chile, as well as for Santander Consumer Finance in Spain and the United States. The Santander Group's Basel implementation strategy is focused on obtaining authorisation for the use of AIRB approaches at the main entities in the Americas and Europe. Santander Consumer Finance has already started to implement the AIRB approach at its most significant units based on the schedule agreed upon with the Bank of Spain and communicated to the various local supervisors (Spain, Germany and the Nordic countries, in this order).

With regard to operational risk, the Santander Group currently uses the standardised approach for regulatory capital calculation purposes and looking to 2014 the Group has embarked on a project to roll out AMA approaches once it has collated sufficient data using its own management model. The Santander Group considers that the internal model should be developed primarily on the basis of the experience accumulated in managing an entity through the corporate guidelines and criteria established after assuming control, which are a distinctive feature of the Group.

With respect to Pillar II, the Santander Group uses an economic capital approach to quantify its global risk profile and its capital adequacy position as part of the internal capital adequacy assessment process (ICAAP) at consolidated level. This process includes regulatory and economic capital planning under several alternative economic scenarios, in order to ensure that the internal capital adequacy targets are met even in plausible but highly unlikely adverse scenarios. The ICAAP exercise is supplemented with a qualitative description of the risk management and internal control systems, is reviewed by internal audit and internal validation teams and is subject to a corporate governance structure that culminates in its approval by the Group's board of directors, which also establishes the strategic factors relating to risk appetite and capital adequacy targets on an annual basis.

In accordance with the capital requirements set by the European Directive and Bank of Spain rules, the Santander Group publishes its Pillar III disclosures report on an annual basis. This report comfortably meets the market transparency requirements in relation to Pillar III. The Santander Group considers the market reporting requirements to be fundamental in order to complement the minimum capital requirements of Pillar I and the supervisory review process performed through Pillar II. In this respect, its Pillar III disclosures report incorporates the recommendations made by the European Banking Authority (EBA), thus making Santander an international benchmark in terms of market transparency, as is already the case with its annual report.

Parallel to the roll-out of advanced approaches at its various units, the Santander Group is carrying out an ongoing training process on Basel at all levels of the organisation, covering a significant number of professionals from all areas and divisions, with a particular focus on those most affected by the changes arising from the adoption of the new international capital standards.

INTEGRATED RISK CONTROL AND INTERNAL RISK VALIDATION

The integrated risk control and internal risk validation functions are located, at corporate level, within the integrated risk control and internal risk validation unit, reporting directly to the Third Deputy Chairman of the Santander Group and Chairman of the Risk Committee, and provide support for the Santander Group's governing bodies in risk control and management matters.

Integrated risk control function

In 2008 the Santander Group launched the integrated risk control function in order to ensure an overview of the management of all the risks affecting the performance of the Santander Group's normal business activities. The risks taken into consideration are: credit risk (including concentration and counterparty risks); market risk (including liquidity risk and structural interest rate and foreign currency risks); operational and technology risk; and compliance and reputational risk.

The integrated risk control function is articulated in three complementary activities:

1) To guarantee that the management and control systems for the various risks inherent in the Santander Group's activities comply with the most stringent criteria and the best practices observed in the industry and/or required by regulators;

2) To ensure that senior management has an all-embracing view of the profiles of the various risks assumed at any time and that these profiles are consistent with the pre-determined risk appetite; and

3) To supervise adequate compliance, in due time and form, with any recommendations on risk management and control made as a result of inspections conducted by internal audit and by the competent supervisory authorities.

The function is characterised by having global and corporate scope and encompasses all risks, all businesses and all geographical areas. It is a third layer of control which follows the control performed in the first instance by the officer responsible for managing and controlling each risk at each business or functional unit (first layer of control) and by each officer responsible for the control of each risk at corporate level (second layer of control). This system ensures a vision and, therefore, the integrated monitoring of all the risks incurred by Santander in the performance of its business activities.

Methodology and tools

This function is performed using an internally developed methodology and a series of supporting tools with a view to systematising its operation and tailoring it to Santander's particular needs. As a result, it is possible to formalise the implementation of this methodology, making it traceable and objectifiable. Both the methodology and the tools of the three complementary activities referred to above are articulated in the following modules:

Module 1) Testing or review guidelines are in place for each risk, and are divided into control areas (e.g. corporate governance, organisational structure, management systems, management integration, technology environment, contingency plans and business continuity, etc.).

The Group performs the tests and gathers the relevant evidence assessed in the process -which enables it to standardise the control parameters of the various risks- on an annual basis, with the inclusion of new tests if required, in accordance with the most recent best practices observed in the industry and/or required by regulators. The supporting tool is a repository for the findings of each test and of the related working papers. Additionally, the situation of each risk is reviewed on a half-yearly basis, following the recommendations arising from the integrated control annual report.

Module 2) Senior management is provided with the relevant monitoring capacity in terms of an all-embracing view of the various risks assumed and their consistency with the pre-determined risk appetite.

Module 3) In order to proactively follow up the recommendations on risk management and control made by internal audit and by the supervisory authorities, the Group uses a tool which also enables the recommendations made by the integrated risk control function itself to be registered.

The Bank of Spain has unrestricted access to these tools and, accordingly, to the working papers used to perform the integrated risk control function.

Activities in 2013:

(a) The fifth review cycle of the various risks was completed in close cooperation with the corporate risk control areas, and the management and control systems in place for these risks were tested and assessed. Areas for improvement were identified, giving rise to recommendations, with the related implementation schedule agreed upon with the risk areas, together with the half-yearly follow-up of the progress made with respect to the 2012 recommendations.

(b) Periodic reports were submitted to the Board of Directors and the Executive Committee, giving an integrated view of all the risks; and reports on the function itself were submitted to the Risk Committee and the Audit and Compliance Committee.

(c) Cooperation for the extension of the risk appetite framework to the Group's main units continued, and the initiatives arising in relation to integrated control in the various countries were coordinated.

(d) The risk area, in coordination with the Public Policy area and other areas, represented the Group in forums such as the FSB, the IIF, Eurofi and the Enhanced Disclosure Task Force (EDTF, under the auspices of the FSB) on matters such as transparency in risk reporting, and subsequently promoted the Group's incorporation of the relevant improvements in this connection.

Independent internal validation of risk models

In addition to constituting a regulatory requirement, the internal risk model validation function provides essential support to the Board's Risk Committee and the local and corporate risk committees in the performance of their duties to authorise the use of the models (for management and regulatory purposes) and to review them regularly.

To this end, a sufficiently independent specialised unit issues an expert opinion on the adequacy of the internal models for the intended internal management and/or regulatory purposes (calculation of regulatory capital, level of provisions, etc.), expressing a conclusion on their robustness, usefulness and effectiveness.

At Santander, internal validation covers all models used in the risk function, i.e. credit, market, structural and operational risk models and economic and regulatory capital models. The scope of the validation includes not only the more theoretical or methodological aspects, but also the technology systems and the data quality that facilitate and underpin the effective operation of the models and, in general, all the relevant aspects of risk management (controls, reporting, uses, involvement of senior management, etc.).

This function is performed at a global and corporate level in order to ensure uniformity of application, and is implemented through four regional centres located in Madrid, London, Sao Paulo and New York. From a functional and hierarchical standpoint, these centres are fully accountable to the corporate centre, thus ensuring consistency in the performance of their activities. This system facilitates the application of a corporate methodology that is supported by a set of tools developed internally by Santander that provide a robust corporate framework to be used at all the Group's units and which automate certain verifications to ensure efficient reviews.

It should be noted that the Santander Group's corporate internal validation framework is fully consistent with the internal validation standards for advanced approaches issued by the Bank of Spain and by the competent supervisory authorities. Accordingly, the Group maintains the segregation of functions between internal validation and internal audit, which, in its role as the last layer of control at the Group, is responsible for reviewing the methodology, tools and work performed by internal validation and for giving its opinion on the degree of effective independence.

Economic capital

Economic capital is the capital required, based on an internally-developed model, to support all the risks of the business activity with a given solvency level. In the case of Santander, the solvency level is determined by the AA-/A+ long-term target rating, which results in the application of a 99.95% confidence level (higher than the regulatory 99.90%) for the purpose of calculating the required capital.

The economic capital model includes in its measurement all the significant risks incurred by the Group in its operations. Accordingly, it considers risks such as concentration risk, structural interest rate risk, business risk, pension risk and other risks outside the scope of regulatory capital requirements. Economic capital also includes the diversification effect, which in the case of Santander Consumer Finance, owing to the multinational, multibusiness nature of its operations, is of key importance in determining its overall risk and solvency profile.

The concept of diversification is fundamental for the proper measurement and understanding of the risk profile of a group with global operations such as Santander. The fact that the Group conducts its business activities in various countries through a structure of differentiated legal entities, across a broad spectrum of customer and product segments, thereby also incurring various types of risks, means that the Group's earnings are less vulnerable to any adverse situation that might arise with respect to a particular market, portfolio, customer or risk. Despite the current high level of globalisation of the world's economies, the economic cycles are not the same and do not have the same intensity in the various geographical regions. As a result, groups with global presence display more stable results and have a greater capacity to withstand possible crises affecting specific markets or portfolios, which is synonymous with a lower level of risk. In other words, the risk and the associated economic capital borne by the Group as a whole is less than the risk and the capital arising from the sum of its various components considered separately. In addition, the concentration risk for wholesale portfolios (large corporations, banks and sovereigns) is taken into consideration. Lastly, the definition of capital included in Santander's model differs from the regulatory definition and, in our opinion, it enables a better separation to be drawn between available capital and the risks to be assessed. With regard to capital adequacy, in the context of Pillar II of the Basel Capital Accord, the Group conducts the internal capital adequacy assessment process using its economic capital model. To this end, the Group plans the business performance and the capital requirements under a central scenario and under alternative stress scenarios. With this planning the Santander Group ensures that it will continue to meet its capital adequacy targets, even in adverse economic scenarios.

Analysis of the global risk profile

The Santander Group periodically assesses the level of and the changes in the value creation (VC) and return on risk-adjusted capital (RORAC) of the Group and of its main business units. The VC is the profit generated over and above the cost of the economic capital (EC) used, and is calculated using the following formula:

VC = Profit - (average EC x cost of capital)

The profit used is obtained by making the required adjustments to accounting profit in order to reflect only the recurring profit obtained by each unit from its business activity.

The minimum rate of return on capital that a transaction should achieve is determined by the cost of capital, which is the minimum remuneration required by shareholders. In order to objectively calculate this rate, the premium that shareholders demand for investing in Santander is added to the risk-free return. This premium depends essentially on the degree of volatility of the market price of the Banco Santander share in relation to the market trend. The Group's cost of capital for 2013 was 11.21%. In parallel to the annual review of the cost of capital, the Group also estimates, for internal management purposes, an individualised local cost of capital for each business unit, considering the specific features of each market, on the grounds that the subsidiaries are autonomous in capital and liquidity terms, in order to assess whether each business has the capacity to generate value independently.

If a transaction or portfolio yields a positive return, it will be contributing to the Group's profit, although it will only create shareholder value when this return exceeds the cost of capital.

2013 witnessed an uneven performance of the business units in terms of value creation, although the instances of decreasing value creation predominated. The Group's results and, therefore, the RORAC and value creation figures were shaped by the weakness of the economic cycle of various Group units in Europe and, in particular, in Spain.

Proposed distribution of profit

The distribution of the Bank's net profit for 2013, amounting to EUR 495,123 thousand, that will be proposed for approval by the Annual General Meeting is as follows:

To legal reserve: EUR 49,512 thousand.

To voluntary reserve: EUR 445,611 thousand.

Share capital and treasury shares

The Group did not perform any transactions involving treasury shares in 2013 and it did not have any treasury share balance in its balance sheet at 31 December 2013.

Research and development

In 2013 the Santander Consumer Finance Group continued with its efforts in developing and improving the technological platforms that enable it to operate in an increasingly competitive market and in the current climate of maximum structural complexity. These platforms have always been intended to provide top quality systems that make it possible to improve the units' cost structure while making progress in the creation and management of business opportunities. The most noteworthy initiatives include the following:

- The development of customer digital signature functionality at points of sale (Ficres), which improves service time in commercial transactions and minimises the cost of document handling.

- The commencement of the development of a new proprietary back-end platform with a new technical design and a comprehensive functional overhaul.

- The implementation of a new company financing management platform based on the arrangement of financing facilities for independent professionals and companies.

- The introduction of the use of mobile devices in the various processes of the solution, such as the use of tablets for the commercial management of agents.

- Optimisation of the collaborative environment infrastructure.

- The commencement of the design of a comprehensive Data Warehouse solution for the management and reporting information of all the Division's units.

Significant events after the reporting period

Significant events occurring after 2013 year-end are detailed in Note 1-i to the consolidated financial statements.

Outlook

The outlook for the world economy in 2014 points to a gradual revitalisation of activity led by the advanced economies, which will benefit from very expansive monetary policies, less restrictive fiscal policies and greater financial stability which, together with low inflation, could favour consumption and enable progress in private-sector balance-sheet adjustment. Although the emerging economies are still heading for a slight slowdown, current estimates suggest that they will achieve higher rates of growth than the advanced economies and, therefore, continue to step up their share in world growth.

After coming out of recession in the second half of 2013, the euro area is showing signs of gradual recovery amidst a more favourable scenario in financial, fiscal and global growth terms. In any case, the prospects are modest in view of the need for certain economies to continue with public- and private-sector deleveraging.

Decisive steps are expected to be taken in 2014 in the creation of the European Banking Union, which will contribute to the progressive reduction of financial fragmentation and the consequent consolidation of the recovery. The first of these steps will be the assumption by the European Central Bank of its role as single supervisor at the end of 2014 (Single Supervisory Mechanism), prior to which the major eurozone financial institutions must undergo a comprehensive assessment (including risk valuations, asset quality reviews and stress tests) to identify their recapitalisation requirements. The second step will be the final political negotiations for the launch of the Single Resolution Mechanism on 1 January 2015.

In the United States it is expected that the expansive phase of the economy will be consolidated at close-to-potential rates. This strength will lead the Fed, as announced, to start withdrawing the quantitative stimulus measures by winding down its monthly asset-buying program as from the beginning of the year. However, the Fed intends to keep interest rates at the present all-time lows (0%-0.25%) throughout the year in order to continue to shore up growth in light of the low risk of inflation and the continuing under-utilisation of installed capacity and an unemployment rate that is still above the long-term trend.

After the slowdown of the emerging countries in 2013, strongly influenced by the Chinese economy, which is attempting to balance far-reaching reforms (having a short-term contractionary effect) with selective expansionary measures, 2014 once again presents important challenges of a general nature. On the one hand, internal challenges relating to the need for these countries to make progress in structural changes to enable them to renew their growth potential. On the other, external challenges arising from the Fed's new monetary policy, with plans for quantitative stimulus measures for the US economy that may generate tension in the financial and currency markets, as occurred in the summer of 2013 and again in the early days of 2014.

To this diversity of trends must be added the repercussions that compliance with national or international regulatory requirements aimed at strengthening banks' balance sheets, capital and liquidity -some of which come into force in 2014- will continue to have on the banking business in the different markets.

In view of this economic scenario, the Santander Group is considering the following:

- Increasing market share in profitable business, with returns above those of its rivals, and fostering new production and cross-selling in accordance with the circumstances in each market, backed by brand agreements and used car market penetration.

- Performing strict cost management and maintaining efficiency levels.

- Maintaining credit quality with the support of the shared risk and loan recovery control system.

- Managing liquidity and ensuring that self-financing is maintained, on the basis of recourse to wholesale markets and retail deposits.

- Maintaining stable levels of capital that comfortably exceed the new regulatory requirements under CRD IV/CRR.

In short, all the above conditioning factors once again present an extremely demanding scenario for banking management in 2014, particularly for a multinational group such as Santander that operates in all three of the economic and financial environments described.

Annual Corporate Governance Report

The Bank, an entity registered in Spain whose voting rights correspond, directly or indirectly, to Banco Santander, S.A., in compliance with Article 9.4 of Ministry of Economy and Competitiveness Order ECC/461/2013, of 20 March, does not prepare an Annual Corporate Governance Report, since this is prepared and presented to the CNMV by Banco Santander, S.A. as the parent of the Santander Group.

Capital structure and significant holdings

Banco Santander, S.A.	1,045,557,455	Percentage of ownership 63.19%
Holneth, B.V.	413,636,543	Percentage of ownership 25.00%
Fomento e Inversiones, S.A.	195,352,174	Percentage of ownership 11.81%
Total number of shares	1,654,546,172	
Par value (euros)	3.00	
Share capital (euros)	4,963,638,516	

On 2 December 2013, the Extraordinary General Meeting of the Bank resolved to increase capital by EUR 300,000 thousand by issuing at par 100,000,000 ordinary shares of EUR 3 par value each. This capital increase was fully subscribed and paid by the shareholders on 4 December 2013, and it was executed in a public deed on 17 December 2013 and registered in the Mercantile Register on 27 December 2013.

Accordingly, at 31 December 2013, the Bank's share capital consisted of 1,654,546,172 fully subscribed and paid registered shares of EUR 3 par value each, all with the same voting and dividend rights.

Restrictions on the transferability of securities

Not applicable.

Significant direct and indirect ownership interests

The most significant transactions performed on investments in subsidiaries are described in Note 3 to the consolidated financial statements. A detail of the Group companies, jointly controlled entities and associates is included in Appendices I and II to the notes to the consolidated financial statements for the year ended 31 December 2013.

Restrictions on voting rights

The shareholders attending the Annual General Meeting will have one vote for each share that they hold or represent.

Only the holders of 20 or more shares will be entitled to attend the Annual General Meeting, provided that they are registered in their name in the corresponding share register.

Side agreements

Not applicable.

Board of Directors

Appointment and replacement of members of the Board of Directors and amendment of the bylaws

The representation of the Bank is the responsibility of the Board of Directors, which will comprise no fewer than 5 and no more than 15 members, who will be appointed by the Annual General Meeting for a period of 1 year, although they may be re-elected, as many times as may be desired, for further one-year periods.

Any vacancies arising on the Board of Directors in the interval between Annual General Meetings will be filled by the Board of Directors by co-optation between the shareholders, as provided for under current legislation.

It is not necessary to be a shareholder of the Bank in order to be a director, except as mentioned above.

Powers of the members of the Board of Directors

On 24 May 2012, the Bank granted powers of attorney to the General Managing Director Ms Inés Serrano González and to the General Managing Director Mr Bruno Montalvo Wilmot, so that either of them, acting jointly and severally, for and on behalf of the Bank, can exercise the powers detailed below:

a) To manage, control and govern all manner of properties now or hereafter owned by the principal, to perform the improvements, repairs and work thereon that they deem appropriate, to lease them for the period, price and terms they consider appropriate, to evict tenants or dwellers and approve new ones, to collect rent, interest, dividends and lease payments, and to give the corresponding receipts and invoices thereof.

   To enter into, modify, subrogate and terminate finance leases on all manner of real and movable properties, upon the terms and conditions that they may freely determine, and to acquire the properties held under such finance leases, the only limit being that when the acquisition amount exceeds EUR 300,507 it must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee, or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of his assignee.

b) To verify groupings or subdivisions of properties, demarcations and deeds of declaration of new construction.

c) To submit accounts and request them, approve them, adjust or challenge them, to provide and receive the amounts of the resulting balances and sign and receive final settlements.

d) To use, with full powers, the signature of the principal bank in all banking transactions, acts and agreements to which the principal bank is party, subject to the limits indicated for the transactions referred to in sections e) and j), and to sign all manner of correspondence.

e) To acquire and dispose of, at the price and under the terms that they may feely stipulate, including resale and repurchase agreements and by any other means permitted by law, all manner of movable and immovable property, not excluding rights in personam and rights in rem, the only limit being that when the transaction arranged in exercise of this power exceeds EUR 300,507 it must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of his assignee.

   Notwithstanding the provisions of the preceding paragraph, the limitation will not exist when the acquisition relates to loans that other financial institutions (banks, saving banks, credit cooperatives and similar entities registered with the Bank of Spain) may have granted to their customers, i.e. the loans included in the loan portfolio of the entity in question, even if the latter, in turn, had acquired the loans from another financial institution and they were not originally granted by said entity; or when the disposal relates to loans in the Bank's portfolio, whether these be loans granted to its customers or loans that the Bank had acquired previously from another financial institution; all the foregoing irrespective of whether these acquisitions or disposals relating to the loan or loans in question are full or partial, and of the type of the loans themselves, whether due to the form of instrumentation (agreement, deed, bills, promissory notes or by another other means) or to the additional guarantees they might have (all manner of security interest, mortgages, etc.).

f) To arrange in favour of the Bank mortgages and other encumbrances on immovable property to secure the loan transactions to which it is party or to underwrite guarantees and other obligations which, with respect to these transactions, are outstanding, and they will stipulate the periods, interest and distribution of charges and any other terms inherent to the agreements in question at their own discretion.

g) To modify, transfer or subrogate and terminate mortgages and other in rem rights, including entries in the Land Registry, held by the Bank, and to grant and release, in the Bank's name, tax payment documents and final account settlements, or declare that the obligations related to the encumbrances have been extinguished.

h) To reach a settlement on properties and rights and submit any questions and discrepancies affecting the Bank to the decision of arbitrators or honest brokers.

i) To appear in the hereditary successions of debtors, at administration and insolvency proceedings and in bankruptcies, to approve inventories and arrangements and contest them; to take part and vote at the meetings held for such purposes, whether they be in or out of court; to accept or reject such agreements as are adopted for the purpose; to sign arrangements in or out of court, to provide the guarantees that may be required, and to accept attached assets.

j) As security for the obligations of third parties and on their behalf, whether said parties be individuals or legal entities, and under the terms and clauses deemed appropriate, they may arrange, modify and withdraw or terminate guarantees and all other types of collateral before all manner of departments, bodies and agencies at central, provincial or municipal and autonomous community government level and bodies reporting thereto, autonomous community or semi-public agencies, ordinary and special tribunals and courts, including the economic-administrative and judicial review jurisdictions, employment courts, official banks and savings banks and, in general, before any public body, and before any type of company or individual, placing, as the case may be, the required deposits in cash or securities, with or without transfer of possession, and they may bind the Bank, even jointly and severally with the principal debtor, therefore waiving the benefits of order, discussion and division, the only limit being that, if the obligation undertaken by way of guarantee exceeds EUR 3,005,060, the transaction must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of his assignee.

k) Without any limitations, to perform all manner of actions and to file claims and appeals at the courts and tribunals of any jurisdiction, including the Constitutional Court, and very in particular in the judicial review jurisdiction; to answer interrogatories; to give court depositions; to file complaints and criminal complaints and to ratify them.

   Request the ministries, directorates general, central government and autonomous community units and offices, provincial, municipal and any other level of public corporations, authorities and civil servants, to act as deemed appropriate for the interests of the principal, by filing economic-administrative claims, appeals to superior administrative bodies and claims of any other nature and class, which they will conduct through all stages and levels; to request payment orders, and to present affidavits and evidence.

   To confer legal and court-case powers on court procedural representatives ("procuradores") if the principal requires such legal representation, and to perform in the Bank's name all manner of actions and exceptions which might be available to the former, conducting the proceedings through all stages and levels, including the Constitutional Court and the extraordinary cassation and review levels, and to withdraw, settle and stay such proceedings.

l) To pledge securities belonging to the Bank's portfolio in sufficient quantity so as to arrange credit account facilities, pledging the amount deemed appropriate in each case, and to sign the documents required for this purpose, and for the arrangement, drawdown and cancellation of the aforementioned accounts and of their related guarantees and the renewal thereof upon expiry of each facility.

m) To present, at any central government offices, banks (including the Bank of Spain), companies, establishments and private individuals, shares or securities for conversion or exchange purposes, withdrawing or collecting the new certificates, receipts, securities or bills resulting from the exchange or conversion, with current or in-arrears coupons, and in general carrying out any transactions required to this end.

n) To arrange with insurance companies policies that cover all manner of movable or immovable property owned by the Bank or pledged or mortgaged in its favour against the risks of fire, catastrophic damage or third-party liability, being able to establish such terms and conditions of the policies as they see fit.

o) To authorise certifications of the company's accounting ledgers and documents.

p) To grant and sign the public deeds and private documents required to prepare the aforementioned acts and agreements.

q) To take part in Annual General Meetings and meetings of the Board of Directors in the name and on behalf of the Bank at companies in which the Bank holds an ownership interest.

The Bank does not grant the power to issue or buy back treasury shares, which corresponds to the Annual General Meeting or the Board of Directors, as appropriate.

Significant agreements which will be modified or terminated in the event of a change in control of the Company

Not applicable.

Agreements between the Company and the directors, executives or employees which provide for termination benefits if the relationship with the Company ends as a result of a takeover bid

Not applicable.