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 2014,
together with Auditor´s 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 in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

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 in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Santander Consumer Finance, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2014, and the consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of Santander Consumer Finance, S.A. and Subsidiaries 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 in Spain (identified in Note 1-b to the accompanying consolidated financial statements) and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2014, and its consolidated results and its consolidated cash flows for the year then ended 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 in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2014 contains the explanations which the Parent's 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 2014. 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

Juan Manuel Alonso Fernández
27 March 2015

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 2014

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 in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

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

SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2014 AND 2013

(Thousands of Euros)

ASSETS	Note	2014	2013 (*)
CASH AND BALANCES WITH CENTRAL BANKS		1,345,368	1,656,199
FINANCIAL ASSETS HELD FOR TRADING:		149,444	94,801
Trading derivatives	9	149,444	94,801
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS:		471,212	469,913
Debt instruments	7	460,032	464,394
Equity instruments	8	11,180	5,519
LOANS AND RECEIVABLES:		63,019,623	64,919,789
Loans and advances to credit institutions	6	5,486,502	8,682,746
Loans and advances to customers	10	57,445,560	55,928,205
Debt instruments	7	87,561	308,838
HELD-TO-MATURITY INVESTMENTS		-	-
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	31	307,698	314,286
HEDGING DERIVATIVES	11	265,125	174,109
NON-CURRENT ASSETS HELD FOR SALE	12	69,043	62,469
INVESTMENTS:	13	488,604	306,915
Associates		411,479	269,277
Jointly controlled entities		77,125	37,638
INSURANCE CONTRACTS LINKED TO PENSIONS		-	-
REINSURANCE ASSETS		-	-
TANGIBLE ASSETS:	14	311,262	328,246
Property, plant and equipment-		311,262	328,166
For own use		146,999	164,731
Leased out under an operating lease		164,263	163,435
Investment property		-	80
Memorandum item: Acquired under a finance lease		*52,648*	*54,303*
INTANGIBLE ASSETS:	15	2,290,215	2,045,179
Goodwill		1,916,255	1,522,760
Other intangible assets		373,960	522,419
TAX ASSETS:	23	1,093,416	991,018
Current		264,524	147,548
Deferred		828,892	843,470
OTHER ASSETS:	16	1,020,980	740,364
Inventories		3,790	5,367
Other		1,017,190	734,997
TOTAL ASSETS		**70,831,990**	**72,103,288**
Memorandum item			
CONTINGENT LIABILITIES	29	754,457	231,502
CONTINGENT COMMITMENTS	29	19,121,845	7,661,153

LIABILITIES AND EQUITY	Note	2014	2013 (*)
LIABILITIES			
FINANCIAL LIABILITIES HELD FOR TRADING:		411,754	103,011
Trading derivatives	9	411,754	103,011
OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
FINANCIAL LIABILITIES AT AMORTISED COST:		59,812,194	62,048,840
Deposits from central banks	17	2,956,626	2,805,496
Deposits from credit institutions	17	7,061,090	14,009,904
Customer deposits	18	29,298,053	30,929,880
Marketable debt securities	19	18,492,455	12,713,651
Subordinated liabilities	20	1,235,568	1,343,818
Other financial liabilities	21	768,402	246,091
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		-	-
HEDGING DERIVATIVES	11	150,226	453,072
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	12	21,472	1,056
LIABILITIES UNDER INSURANCE CONTRACTS		-	-
PROVISIONS:	22	934,718	642,704
Provision for pensions and similar obligations		564,648	453,323
Provisions for taxes and other legal contingencies		51,480	82,971
Provisions for contingent liabilities and commitments		4,636	7,233
Other provisions		313,954	99,177
TAX LIABILITIES:	23	556,521	587,473
Current		178,435	213,488
Deferred		378,086	373,985
OTHER LIABILITIES	16	1,297,157	982,274
TOTAL LIABILITIES		**63,184,042**	**64,818,430**
EQUITY			
SHAREHOLDERS' EQUITY:		7,805,495	7,392,392
Registered share capital	24	5,338,639	4,963,639
Share premium	25	1,139,990	1,139,990
Reserves-	26	986,367	679,409
Accumulated reserves		811,505	668,752
Reserves of entities accounted for using the equity method		174,862	10,657
Less- Treasury shares			-
Profit for the year attributable to the Parent		638,317	609,354
Less- Dividends and remuneration		(297,818)	-
VALUATION ADJUSTMENTS:	27	(290,724)	(111,753)
Available-for-sale financial assets		(1,637)	(1,145)
Cash flow hedges		(8,525)	(12,502)
Hedges of net investments in foreign operations		(3,391)	-
Exchange differences		(141,521)	(25,451)
Entities accounted for using the equity method		2,681	(1,869)
Other valuation adjustments		(138,331)	(70,786)
NON-CONTROLLING INTERESTS:	28	133,177	4,219
Valuation adjustments		-	-
Other		133,177	4,219
TOTAL EQUITY		**7,647,948**	**7,284,858**
TOTAL LIABILITIES AND EQUITY		**70,831,990**	**72,103,288**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 50 and Appendices I to VI are an integral part of the consolidated balance sheet as at 31 December 2014

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (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 2014 AND 2013

(Thousands of Euros)

		Income/(Expenses)	
	Note	2014	2013 (*)
INTEREST AND SIMILAR INCOME	31	3,337,355	3,503,802
INTEREST EXPENSE AND SIMILAR CHARGES	32	(1,120,594)	(1,400,050)
NET INTEREST INCOME		**2,216,761**	**2,103,752**
INCOME FROM EQUITY INSTRUMENTS		46	47
SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	13 & 33	41,531	10,163
FEE AND COMMISSION INCOME	34	1,080,701	1,044,377
FEE AND COMMISSION EXPENSE	35	(268,518)	(250,672)
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES (net):	36	4,233	(6,864)
Held for trading		5,879	(8,088)
Other financial instruments at fair value through profit or loss		-	-
Financial instruments not measured at fair value through profit or loss		7,918	437
Other		(9,564)	787
EXCHANGE DIFFERENCES (net)	37	477	(6,391)
OTHER OPERATING INCOME:	38	124,624	125,617
Sales and income from the provision of non-financial services		72,161	73,277
Other operating income		52,463	52,340
OTHER OPERATING EXPENSES:	39	(127,686)	(136,027)
Changes in inventories		(61,159)	(61,473)
Other		(66,527)	(74,554)
GROSS INCOME		**3,072,169**	**2,884,002**
ADMINISTRATIVE EXPENSES:		(1,206,870)	(1,189,250)
Staff costs	40	(519,795)	(517,522)
Other general administrative expenses	41	(687,075)	(671,728)
DEPRECIATION AND AMORTISATION CHARGE	14 & 15	(169,677)	(174,724)
PROVISIONS (net)	22	(470,642)	(27,980)
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (net):		(521,356)	(577,411)
Loans and receivables	10	(521,356)	(577,411)
PROFIT FROM OPERATIONS		**703,624**	**914,637**
IMPAIRMENT LOSSES ON OTHER ASSETS (net):	42	(119,711)	(3,781)
Goodwill and other intangible assets		(114,816)	(1,460)
Other assets		(4,895)	(2,321)
GAINS (LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE	43	242,020	(4,771)
GAINS FROM BARGAIN PURCHASES ARISING IN BUSINESS COMBINATIONS		-	-
GAINS (LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS	44	(1,634)	(12,003)
PROFIT BEFORE TAX		**824,299**	**894,082**
INCOME TAX	23	(134,455)	(253,413)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**689,844**	**640,669**
LOSS FROM DISCONTINUED OPERATIONS (net)	45	(26,282)	(5,904)
CONSOLIDATED PROFIT FOR THE YEAR		**663,562**	**634,765**
PROFIT ATTRIBUTABLE TO THE PARENT		638,317	609,354
PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	28	25,245	25,411
BASIC AND DILUTED EARNINGS PER SHARE			
From continuing and discontinued operations	4	*0.39*	*0.39*
From continuing operations		*0.40*	*0.39*

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 50 and Appendices I to VI are an integral part of the consolidated income statement for 2014.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (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 EQUITY FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

A) CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

(Thousands of Euros)

	2014	2013 (*)
CONSOLIDATED PROFIT FOR THE YEAR	**663,562**	**634,765**
OTHER RECOGNISED INCOME AND EXPENSE	**(178,971)**	**(112,509)**
Items that will not be reclassified to profit or loss	**(67,545)**	**(11,012)**
Actuarial gains and losses on defined benefit pension plans	(104,162)	(14,075)
Non-current assets held for sale	-	-
Income tax relating to items that will not be reclassified to profit or loss	36,617	3,063
Items that may be reclassified subsequently to profit or loss	**(111,426)**	**(101,497)**
Available-for-sale financial assets:	(105)	(2,343)
Revaluation gains (losses)	*8*	*(3,328)*
Amounts transferred to income statement	*(113)*	*985*
Cash flow hedges:	10,069	48,107
Revaluation gains (losses)	*(32,607)*	*7,751*
Amounts transferred to income statement	*42,676*	*40,356*
Hedges of net investments in foreign operations:	(3,391)	-
Revaluation gains (losses)	(3,391)	-
Amounts transferred to income statement	-	-
Exchange differences:	(116,070)	(134,118)
Revaluation gains (losses)	*(116,070)*	*(134,118)*
Amounts transferred to income statement	-	-
Non-current assets held for sale	-	-
Entities accounted for using the equity method:	4,550	(1,545)
Revaluation gains (losses)	*4,550*	*(1,545)*
Other recognised income and expense	-	-
Income tax relating to items that may be reclassified subsequently to profit or loss	(6,479)	(11,598)
TOTAL RECOGNISED INCOME AND EXPENSE	**484,591**	**522,256**
Attributable to the Parent	459,346	499,545
Attributable to non-controlling interests	25,245	22,711

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 50 and Appendices I to VI are an integral part of the consolidated statement of recognised income and expense for 2014.

SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013 (CONTINUED)

B) CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

(Thousands of Euros)

	2014												
	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 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**
Adjustments due to changes in accounting policies	-	-	(257)	-	-	-	-	-	(257)	-	(257)	-	(257)
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**4,963,639**	**1,139,990**	**668,495**	**10,657**	**-**	**-**	**609,354**	**-**	**7,392,135**	**(111,753)**	**7,280,382**	**4,219**	**7,284,601**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**638,317**	**-**	**638,317**	**(178,971)**	**459,346**	**25,245**	**484,591**
Other changes in equity	**375,000**	**-**	**143,010**	**164,205**	**-**	**-**	**(609,354)**	**(297,818)**	**(224,957)**	**-**	**(224,957)**	**103,713**	**(121,244)**
Capital increases	375,000	-	-	-	-	-	-	-	375,000	-	375,000	-	375,000
Distribution of dividends (Note 4)	-	-	(302,182)	-	-	-	-	(297,818)	(600,000)	-	(600,000)	-	(600,000)
Transfers between equity items	-	-	445,149	164,205	-	-	(609,354)	-	-	-	-	-	-
Increases/(decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	103,713	103,713
Other increases (decreases) in equity	-	-	43	-	-	-	-	-	43	-	43	-	43
Ending balance at 31 December 2014	**5,338,639**	**1,139,990**	**811,505**	**174,862**	**-**	**-**	**638,317**	**(297,818)**	**7,805,495**	**(290,724)**	**7,514,771**	**133,177**	**7,647,948**

The accompanying Notes 1 to 50 and Appendices I to VI are an integral part of the consolidated statement of changes in total equity for 2014.

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

SANTANDER CONSUMER FINANCE GROUP

B) CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013 (CONTINUED)

(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**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 50 and Appendices I to VI are an integral part of the consolidated statement of changes in total equity for 2014.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (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 2014 AND 2013

(Thousands of Euros)

	2014	2013 (*)
CASH FLOWS FROM OPERATING ACTIVITIES	**(281,189)**	**1,771,957**
Consolidated profit for the year	*663,562*	*634,765*
Adjustments made to obtain the cash flows from operating activities:	*1,133,540*	*1,043,919*
Depreciation and amortisation charge	169,677	174,724
Other adjustments	963,863	869,195
Net (increase) decrease in operating assets:	*58,166*	*(598,784)*
Financial assets held for trading	(63,585)	(3,529)
Available-for-sale financial assets	(451,790)	(291,384)
Loans and receivables	1,110,504	(871,623)
Other operating assets	(536,963)	567,752
Net increase (decrease) in operating liabilities:	*(1,933,823)*	*909,331*
Financial liabilities held for trading	317,695	4,327
Financial liabilities at amortised cost	(1,646,600)	725,159
Other operating liabilities	(604,918)	179,845
Income tax recovered/(paid)	*(202,634)*	*(217,274)*
CASH FLOWS FROM INVESTING ACTIVITIES	**(311,311)**	**(383,216)**
(Payments)-	*(1,045,444)*	*(452,537)*
Tangible assets	(34,416)	(58,350)
Intangible assets	(136,289)	(109,485)
Investments	(41,785)	(70,931)
Subsidiaries and other business units	(832,954)	(213,771)
Proceeds	*734,133*	*69,321*
Tangible assets	7,259	41,465
Intangible assets	-	423
Investments	199,276	-
Subsidiaries and other business units	513,914	-
Non-current assets held for sale and associated liabilities	13,684	27,433
CASH FLOWS FROM FINANCING ACTIVITIES	**8,999**	**(317,834)**
(Payments)-	*(366,001)*	*(617,834)*
Dividends	(297,818)	(447,717)
Subordinated liabilities	(68,183)	(170,100)
Other payments related to financing activities	-	(17)
Proceeds-	*375,000*	*300,000*
Issuance of own equity instruments	375,000	300,000
Other proceeds related to financing activities	-	-
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(2,185)**	**(812)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(585,686)**	**1,070,095**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,611,872**	**1,541,777**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**2,026,186**	**2,611,872**
MEMORANDUM ITEMS:		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	157,095	162,197
Cash equivalents at central banks	1,188,273	1,494,002
Other financial assets	680,818	955,673
Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year	**2,026,186**	**2,611,872**
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 VI are an integral part of the consolidated statement of cash flows for 2014.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (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 2014

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 is registered in the Official Register of Institutions of the Bank of Spain under code 0224.

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 2014 and 2013 (see Note 24). Banco Santander, S.A. has its registered office at Paseo de Pereda 9-12, Santander. The consolidated financial statements for 2013 of the Santander Group were authorised for issue by the directors of Banco Santander, S.A. at its Board of Directors Meeting on 27 January 2014, were approved by the shareholders at the Annual General Meeting on 28 March 2014 and were filed at the Santander Mercantile Registry. The 2014 consolidated financial statements of the Santander Group were formally prepared by its directors on 23 February 2015 and, at the date of preparation of the Bank's financial statements, had not yet been approved by the shareholders at the Annual General Meeting. The Bank has one branch (Madrid), is not listed and, in 2014, it carried on most of its direct 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. At 31 December 2014, the Group had 403 branches distributed throughout Europe (66 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 2014.

The relationship between the Bank and the other Group companies sometimes gives rise to transactions which respond to the Santander 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 ("EU-IFRSs")

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 2014 were formally prepared by the directors of the Bank, as Parent (at the Board Meeting on 25 March 2015), 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 2014, 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 Bank ("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 2013 were approved by the shareholders at the Annual General Meeting of the Bank on 4 April 2014 and filed at the Madrid Mercantile Registry. The 2014 consolidated financial statements of the Group and the 2014 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 2013 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 and interpretations came into force and were adopted by the European Union in 2014:

- Amendments to IAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities - these amendments introduce a series of additional clarifications on the requirements of the standard for being able to offset a financial asset and a financial liability, indicating that they may only be offset when the entity currently has a legally enforceable right to set off the recognised amounts and this right is not contingent on a future event.

- Amendments to IAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets - 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 for which an impairment loss has been recognised or reversed during the period.

- Amendments to IAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting - 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 any other changes to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty.

- IFRIC 21, Levies, addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37. Based on this IFRIC, the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation; an entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period; the liability to pay a levy is recognised progressively if the obligating event occurs over a period of time; and if an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

- Amendments to IFRS 10, Consolidated Financial Statements; amendments to IFRS 12, Disclosure of Interest in Other Entities; and amendments to IAS 27 (Revised), Separate Financial Statements - the amendments made to IFRS 10, IFRS 12 and IAS 27 define investment entities and provide an exemption from the obligation to consolidate their investments, which will be measured at fair value through profit or loss, in accordance with IFRS 9. However, the parent of an investment entity must consolidate all the entities that it controls, including those that it controls through an investment entity, unless such parent is also an investment entity. Also, new disclosures are included that enable users to evaluate the nature and financial effects of the investments made by investment entities.

The application of the aforementioned accounting standards did not have any material effects on the Group's consolidated financial statements for 2014.

Also, at the date of preparation of these consolidated financial statements, the following accounting standard with an effective date subsequent to 31 December 2014 was in force:

- Amendments to IAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (obligatory for annual 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 having to perform calculations to attribute the reduction to each year of service. The application of this accounting standard is not expected to have any material effects on the Group's consolidated financial statements.

- 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 1, IFRS 3, IFRS 13 and IAS 40.

Lastly, at the date of preparation of these consolidated financial statements, the following standards and interpretations which effectively come into force after 31 December 2014 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), which will in the future replace the part of the current IAS 39 relating to the classification and measurement of financial assets, particularly to the calculation of impairment losses, 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 embedded derivatives 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 more closely align accounting rules with risk management. The three types of hedge accounting present in the current standard are retained (cash flow hedges, fair value hedges and hedges of net investments in foreign operations). However, there are very significant changes to various matters with respect to IAS 39, such as hedged items, hedging instruments, the accounting for the time value of options and effectiveness assessment.

- IFRS 15, Revenue from Contracts with Customers (obligatory for annual reporting periods beginning on or after 1 January 2017) - the new standard on the recognition of revenue from contracts with customers. IFRS 15 will supersede the following rules and interpretations currently in force: IAS 18, Revenue; IAS 11, Construction Contracts; IFRIC 13, Customer Loyalty Programmes; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfers of Assets from Customers; and SIC-31, Revenue-Barter Transactions Involving Advertising Services. An entity recognises revenue in accordance with the core principle of IFRS 15 by applying the following steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations identified in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

- Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - these amendments clarify that when an item of property, plant and equipment or an intangible asset is accounted for using the revaluation model, the total gross carrying amount of the asset is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset, so that the accumulated depreciation or amortisation is equal to the difference between the gross carrying amount and the carrying amount of the asset after revaluation (after taking into account any impairment losses).

- Amendments to IASs 16 and 41, Bearer Plants (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - under these amendments, plants of this nature are now within the scope of IAS 16 and must be accounted for in the same way as property, plant and equipment rather than at their fair value.

- Amendments to IAS 27, Equity Method in Separate Financial Statements (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - these amendments permit the use of the equity method as an option in the separate financial statements of an entity for accounting for investments in subsidiaries, joint ventures and associates.

- Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - these amendments establish that a gain or loss must be recognised for the full amount when the transaction involves assets that constitute a business (whether the business is housed in a subsidiary or not). When the transaction involves assets that do not constitute a business, a partial gain or loss is recognised, even if these assets are housed in a subsidiary.

- Amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations (obligatory for annual reporting periods beginning on or after 1 January 2016, early application permitted) - these amendments specify how to account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business.

- Improvements to IFRSs, 2012-2014 cycle (obligatory for reporting periods beginning on or after 1 July 2016) - these improvements introduce minor amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.

- Amendments to IAS 1, Presentation of Financial Statements - these amendments were designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements, in determining the line items to be disaggregated and the headings and additional subtotals to be included in the balance sheet and statement of profit or loss and other comprehensive income and in determining where and in what order information is presented in the financial disclosures. These amendments will apply to reporting periods beginning on or after 1 January 2016, although early application is permitted.

- Lastly, at the date of preparation of these consolidated financial statements, IFRS 14 had not yet been approved by the European Union, as regards the regulatory accounting rules applicable to companies that apply local GAAP as regulatory accounting rules.

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 accounting policies and measurement bases with a material effect on the consolidated financial statements for 2014 were applied in their preparation.

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 2014 estimates were 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, 13, 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);

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

7. The estimates on the recoverability of the Group's deferred tax assets and tax liabilities.

Although these estimates were made on the basis of the best information available at 31 December 2014 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 2013 contained in these notes to the consolidated financial statements is presented with the information relating to 2014 for comparison purposes only and, accordingly, it does not form part of the Group's statutory consolidated financial statements for 2013.

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 2014, 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.

Appendix I presents, inter alia, the special purpose entities (securitisation special purpose vehicles) that are consolidated in these consolidated financial statements.

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 or business 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 involved in the transaction, 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 of a business is obtained.

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 consolidated profit or loss.

vii. Acquisitions and disposals

Note 3 to these consolidated financial statements provides information on the most significant acquisitions and disposals in 2014 and 2013.

f) Capital and capital management

Effective from 1 January 2014, significant changes took place in the European capital adequacy legislation applicable to the Bank and the Group as a result of the entry into force of two regulations: (i) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC ("Directive 2013/36/EU"); and (ii) Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, and amending Regulation (EU) No 648/2012 ("Regulation 575/2013"). Both regulations, which supersede the EU directives that had until that time regulated the capital adequacy requirements established in the European Union (Directives 2006/48/EC and 2006/49/EC of the European Parliament and of the Council), constitute the implementation in the European Union of the Basel Committee's recommendations ("Basel III").

As a result of the publication and entry into force of Directive 2013/36/EU (which requires adoption thereof by EU Member States) and Regulation 575/2013 (directly applicable in EU Member States without the need for transposition into national legislation), new laws were issued in Spain and other rules that had until that time regulated the capital adequacy requirements of credit institutions and investment services firms were repealed and amended.

In this connection, the transposition to Spanish law of the changes brought about by the aforementioned new European capital adequacy legislation began with the publication of Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt Spanish law to European Union legislation in relation to the supervision and capital adequacy of financial institutions, and continued with the publication of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, repealing Law 13/1985, of 25 May, on investment ratios, capital and reporting requirements of financial intermediaries, Royal Decree 216/2008, of 15 February, on the capital of financial institutions, and certain articles of Bank of Spain Circular 3/2008, of 22 May, to credit institutions, on the calculation and control of minimum capital requirements, in order to adapt this Circular to the contents of the new EU capital requirements indicated above.

The main changes introduced by the new capital adequacy regulations indicated above are as follows:

- The requirement for institutions to have higher quality capital at a higher level and conduct a review of the concept and of the components of the regulatory capital required of the institutions. These components comprise two items: Tier 1 capital and Tier 2 capital. In turn, Tier 1 capital is the sum of Common Equity Tier 1 and Additional Tier 1 capital.

  Institutions must meet the following capital adequacy requirements at all times:

  i) A Common Equity Tier 1 ratio of 4.5%.

  ii) A Tier 1 capital (common equity plus additional capital) ratio of 6%.

  iii) A total capital ratio of 8%.

- Deductions from capital are increased and the requirements associated with certain assets are reviewed. To this end, a schedule is established to gradually apply these new deductions over time.

- Unlike the previous framework, minimum capital requirements are supplemented by capital buffer or cushion requirements and liquidity and leverage requirements.

The additional capital buffers or cushions are composed of (i) the so-called capital conservation buffer, which is mandatory from 2016, the year in which the buffer will be set at 0.63% of institutions' risk exposure, which will gradually increase to a requirement of 2.5% of institutions' exposure in 2019; (ii) the so-called countercyclical capital buffer that may be required of institutions from 2016 based on changes in the economic cycle; and (iii) the so-called systemic risk buffer which may be required of systemically important financial institutions, which are institutions that, due to their size, may trigger an impact that affects the financial system as a whole. None of these three capital buffers was applicable to the Bank or the Group at 31 December 2014.

Institutions must calculate their capital ratios as follows:

i. The Common Equity Tier 1 ratio is the Common Equity Tier 1 capital expressed as a percentage of the total risk exposure amount.

ii. The Tier 1 capital ratio is the Tier 1 capital expressed as a percentage of the total risk exposure amount.

iii. The total capital ratio is the total capital expressed as a percentage of the total risk exposure amount.

Capital is managed at the Bank and the Group as part of the capital management of the Santander Group, the parent of which is Banco Santander, S.A., although it must also meet separate and consolidated requirements.

The main figures relating to the capital ratios applicable to the Group pursuant to Regulation (EU) No 575/2013, at 31 December 2014, are as follows:

	Thousands of Euros
Common Equity Tier 1 (I)	5,252,799
Additional Tier 1 capital (II)	-
Total Tier 1 capital (III = I + II)	**5,252,799**
Tier 2 capital (IV)	418,297
Total eligible capital (V = III + IV)	**5,671,096**
Exposure for capital adequacy purposes	**47,262,603**

Common Equity Tier 1 includes basically share capital, the share premium, the Bank's reserves net of deductions and the portion of profit for 2014 to be taken to reserves.

Tier 2 capital includes basically certain credit loss provisions specified in Article 62 of Regulation 575/2013 and subordinated loans.

At 31 December 2014 and 2013, 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.

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 27,835 thousand in 2014 (2013: EUR 27,702 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*

Agreements with Banque PSA Finance

On 30 January 2015, the Bank increased capital by EUR 477 million at the subsidiary Santander Consumer France, S.A.S. (see Appendix I).

On 2 February 2015, the Group announced that, in the consumer financing framework agreement reached with Banque PSA Finance to cooperate in various countries in Europe, the related regulatory authorisations had been obtained to cooperate in France through Santander Consumer France, S.A.S. and, accordingly, activities would commence in France.

On this date, 50% of Société Financière de Banque - SOFIB, S.A. (hitherto the Banque PSA Finance Group) was acquired, which became an investee in France, the entire portfolio of which amounts to approximately EUR 8,000 million (SOFIB Group total).

Also, on 16 March 2015 the Group incorporated PSA Life Limited and PSA Non-Life Limited, in which it holds 50% ownership interests, for a total of approximately EUR 3 million.

Debt issue

On 18 February 2015, the Group issued debt of EUR 1,000,000 thousand maturing in February 2020. This issue was launched within the Euro Medium Term Note (EMTN) programme, which was issued and approved on 24 June 2014, with a limit of EUR 10,000,000 thousand.

Dividends paid

On 21 January 2015, the Group distributed a dividend out of reserves, which had not yet been paid at 31 December 2014 (see Note 4-a).

From 2014 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 Spanish consolidated entity to the respective Board of Directors.

Santander Consumer Finance, S.A.

i. Statistical summary of claims and complaints handled

396 claims were received by the Customer Care Service in 2014 (2013: 80 claims). All the claims received were admitted for consideration. In addition, 66 complaints were received in 2014.

91.34% of the claims (422 files) were resolved and concluded during the year (2013: 88.75%, 71 files), and 40 files were pending consideration at 2014 year-end (2013 year-end: 9 files, which were resolved in 2014). The detail, by type, of the claims filed is as follows:

	Number of Claims	
	2014	2013
Cards	309	45
Credits and loans	127	33
Insurance	12	2
Spanish Personal Data Protection Organic Law	7	-
Other	7	-

The Bank's directors state that the matters not yet resolved at 2014 year-end will not have a significant effect on these consolidated financial statements.

ii. Summary of resolutions

The detail of the responses to customers in 2014 and 2013 is as follows:

	Percentage	
	2014	2013
In favour of claimant	62%	44%
In favour of the Bank	38%	56%

The average handling period for claims was 19 calendar days in 2014 (2013: 16 days).

The Bank paid EUR 42 thousand to its customers for claims resolved in their favour in 2014 (2013: EUR 9 thousand).

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

The Bank's Customer Care Service received 30 claims through the Bank of Spain and the Directorate-General of Insurance in 2014 (2013: 30 claims). All these claims were resolved at 2014 year-end. These claims were resolved as follows:

	Percentage	
	2014	2013
In favour of the customer	27%	10%
In favour of the Bank	73%	90%

The Bank paid EUR 1 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 2014 (2013: EUR 107).

iv. Claims received by the Customer Ombudsman

In 2014 the Bank's Customer Ombudsman received 68 claims (2013: 134 claims). These claims were resolved as follows:

	Percentage	
	2014	2013
In favour of the customer	76%	93%
In favour of the Bank	4%	-
Other claims not giving rise to any loss for the customer	20%	7%

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 1 thousand to its customers for claims made through the Customer Ombudsman which were resolved in the customers' favour in 2014 (2013: 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

136 claims were received by the Customer Care Services of this Group company in 2014 (2013: 36 claims). The increase with respect to 2013 was due to an increase in the incidents managed directly by this company. All the claims received were admitted for consideration. In addition, 11 complaints were received in 2014.

The average handling period for claims was 18 days in 2014 (2013: 16 days).

The company paid EUR 16 thousand to its customers for claims resolved in their favour in 2014 (2013: EUR 3 thousand).

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

The company's Customer Care Services received 13 claims through the Bank of Spain and the Directorate-General of Insurance in 2014 (2013: 15 claims). The detail of the resolved claims is as follows:

	Percentage	
	2014	2013
In favour of the customer	50%	40%
In favour of the company	50%	60%

Santander Consumer, E.F.C., S.A. did not pay any amount 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 2014 (2013: EUR 2 thousand paid in this connection).

iii. Claims received by the Customer Ombudsman

In 2014 the Customer Ombudsman of this company received 27 claims (2013: 56 claims). These claims were resolved as follows:

	Percentage	
	2014	2013
In favour of the customer	67%	86%
In favour of the company	8%	2%
Other claims not giving rise to any loss for the customer	25%	10%
Claims rejected	-	2%

The company paid approximately EUR 1 thousand to its customers for claims resolved in their favour in 2014 (2013: EUR 3 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.

Financiera El Corte Inglés, E.F.C., S.A.

i. Claims received by the Customer Care Services and claims made through the Bank of Spain

29 claims were received by the Customer Care Services of this company in 2014 (2013: 13), of which 19 were admitted for consideration and 10 were rejected from consideration, and the customer was informed in writing of the reasons for the rejection. 14 of the claims considered were resolved in the company's favour and 1 was resolved in the customer's favour. In all cases, customers were informed of the decisions taken and furnished with the requested documentation. The other four were processed through the Bank of Spain's Claims Service, which found for the company in three files and for the customer in one file.

Also, in 2014 a response was received for a file in 2013 that had not yet been ruled on by the Bank of Spain's Claims Service. In this case, the ruling was in the customer's favour.

It should be noted that, based on the process established in this Ministry of Economy Order and in line with the company's commitment to provide the utmost service to its customers, 5,173 transactions were processed and resolved by the company's operations departments in 2014 (2013: 4,759) and were not, therefore, subsequently processed by the company's Customer Care Service.

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

The measures adopted to improve the customer care service -the company's driving commitment- are managed within an integrated computer solution that fully responds to the principles of speed, security, efficiency, coordination and monitoring that are required by the Ministerial Order, as evidenced throughout the company's extensive experience in the operation of this system, which defines proper handing and personalised care as one more motivation for management.

Also, the internal audit department -with a view to ensuring the correct operation of the company's entire claims process- performs reviews on a half-yearly basis and issues a report on the basis of which the appropriate corrective measures are taken.

Furthermore, this company's Customer Care Service has continued to present suggestions to improve quality and customer satisfaction:

- Including on the website the address of the virtual office of the Bank of Spain's Claims Service.
- Including the following documents in the intranet, under "Business Applications - Create Documents":
    - Financiera's Rules for Customer Protection
    - Financiera El Corte Inglés Document
    - Customer Care Document

In March 2014, the internal rule “Procedure for submitting, processing and resolving claims at the Customer Care Service of Financiera El Corte Inglés, S.A.” was revised, updated and then distributed by the Cash-Sales Organisation and Administration department to all the organisation's companies and customer care departments.

Other Spanish consolidated entities

The Customer Care Services of the other Spanish 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

Transactions in currency other than the functional currency of each entity in the scope of consolidation performed by the consolidated entities (or entities accounted for using the equity method) are initially recognised by applying the exchange rate prevailing at the time of the transaction. Assets and liabilities denominated in currencies other than the functional 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 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 2014 amounted to EUR 12,445 million and EUR 8,995 million, respectively (2013 year-end: EUR 11,758 million and EUR 9,624 million, respectively) (see Note 46). Approximately 96% of the assets and 100% of the liabilities as at 31 December 2014 relate to Norwegian kroner and Swedish kronor. 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, taking into account the exchange rate hedges arranged by the Group in this connection, 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”, "Loans and Receivables" 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 classified under "Loans and Receivables" 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, if any, 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.

- 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 or jointly controlled entities.

- 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 and jointly controlled entities.

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, if any, 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, if any, 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, if any, 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 at the balance sheet date, 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 on an arm's length basis in an orderly transaction that is not forced between knowledgeable 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 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 (Net)" in the consolidated income statement. Specifically, the fair value of financial derivatives, if any, 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, if any, 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, the related interest 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 as a valuation adjustment to these assets.

The effective interest rate is the discount rate that exactly matches the initial amount of a financial instrument to the present value of 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, if any, 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" and "Hedging Derivatives" in the consolidated balance sheet, which are measured at fair value. The carrying amount of financial liabilities measured at fair value and hedged in fair value hedges is adjusted by the amount of the changes in fair value associated with the hedged risk.

iii. Valuation techniques

The following table shows a summary of the fair values, at 31 December 2014 and 2013, of the financial assets and liabilities that, as indicated above, are measured at fair value in these consolidated financial statements, classified on the basis of the various measurement methods used by the Group to determine their fair value:

	Thousands of Euros					
	31/12/14			31/12/13		
	Published Price Quotations in Active Markets	Internal Models (*)	Total	Published Price Quotations in Active Markets	Internal Models (*)	Total
Financial assets held for trading	-	149,444	149,444	23,810	70,991	94,801
Available-for-sale financial assets (**)	460,032	-	460,032	469,913	-	469,913
Hedging derivatives (assets)	-	265,125	265,125	60,599	113,510	174,109
Financial liabilities held for trading	859	410,895	411,754	25,795	77,216	103,011
Hedging derivatives (liabilities)	-	150,226	150,226	-	453,072	453,072

(*) 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).

(**) In addition to the financial instruments measured at fair value shown in the foregoing table, at 31 December 2014, the Bank held equity instruments classified as available-for-sale financial assets and carried at cost amounting to EUR 11,180 thousand.

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 and derivatives traded in organised markets, securitised assets and shares. Most of the financial instruments classified in this measurement level at 31 December 2014 relate to bonds issued by the Norwegian Treasury.

In cases where the fair value of a financial instrument cannot be obtained from its market price quotations, the Group makes its best estimate of fair value 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 for information purposes (see Note 46) 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 2014. 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.

These pricing models are fed with observable market data such as deposits, futures, cross currency swap rates and basis swap spreads. These data allow us to calculate different yield curves depending on the payment frequency and discounting curves for each currency.

Equity and foreign exchange-

The most important products in these asset classes are forward and futures contracts, which include vanilla and OTC (over-the-counter) derivatives on exchange rates.

The inputs of foreign exchange models include the interest rate curve for each currency and the spot foreign exchange price.

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 to each counterparty in each future period. The CVA for a specific counterparty is equal to the sum of the CVA for all the 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 2014 amounted to EUR 54 million and EUR 6 million, respectively (31 December 2013: EUR 143 million and EUR 113 million, 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 2014 and 2013:

	Thousands of Euros	
	Fair Values Calculated Using Internal Models at 31/12/14	Valuation Techniques
ASSETS:		
Financial assets held for trading	**149,444**	
Trading derivatives	149,444	
Swaps	*149,444*	Present Value Method
Hedging derivatives	**265,125**	
Swaps	*263,598*	Present Value Method
Other	*1,527*	Present Value Method
LIABILITIES:		
Financial liabilities held for trading	**410,895**	
Trading derivatives	*410,895*	
Swaps	*410,895*	Present Value Method
Hedging derivatives	**150,226**	
Swaps	*149,926*	Present Value Method
Other	*300*	Present Value Method

	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's 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's 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 (Net)". The changes in the fair value of trading derivatives and hedging derivatives in fair value transactions are in all cases recognised under “Gains/Losses on Financial Assets and Liabilities (Net)” in the consolidated income statement.

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 (Net)" 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, where appropriate, the asset giving rise to them is derecognised or written down, 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 the hedged 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.

3. There must be adequate documentation of the hedging transaction that evidences 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 fair 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, if any, of the change in value of hedging derivatives is recognised under “Gains/Losses on Financial Assets and Liabilities (Net)” in the consolidated income statement. The value of the hedged instrument in this type of hedge is not changed as a result of forming a part of the hedge.

When fair value hedge accounting is discontinued, the adjustments previously recognised as an adjustment to the carrying amount of 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 in equity 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.

Any 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, securitisation of assets in which the transferor retains a subordinated debt or grants a credit enhancement to the new holders that entails assuming substantially the credit risk of the transferred 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 2014 and 2013 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 as at 31 December 2014 and 2013.

f) Impairment of financial assets

i. Definition

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.

The balances relating to impaired or doubtful 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 (write-offs).

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.

The following sections explain the methods applied by the Group to estimate and recognise impairment losses for each category of financial assets:

ii. Debt instruments carried at amortised cost

When there is objective evidence that a financial asset measured at amortised cost has been impaired, the impairment loss is measured as the positive difference between the asset's carrying amount and the present value of the estimated future cash flows associated with it. The estimate of fair value takes into account the type, status and characteristics of the transactions together with the existence of any models and local regulations that must be taken into account to estimate this present value.

In this regard, 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 estimating the coverage of 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 for accounting purposes of the coverage of the losses arising from credit risk, 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. The estimate of present value takes into account the existence of any local regulatory models that are applicable and that are in all cases consistent with EU-IFRSs.

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. In addition, the Group considers substandard risks -and estimates the allowances for doubtful debts that are necessary- to be those risks which, featuring certain characteristics that make them similar, show weaknesses that may entail the Group assuming losses higher than those estimated for risks classified as standard.

However, the coverage of the Group's losses arising from credit risk must also meet the regulatory requirements of EU-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 loss incurred is calculated in the Group's internal models 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.

  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 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 2014, the estimated losses arising from credit risk calculated by the Group's internal models did not differ significantly 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 any 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

Any 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 any 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 relating to the assets held for sale or disposal groups and to discontinued operations.

Non-current assets held for sale -both individual items and disposal groups, if any- 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. However, such financial instruments, assets arising from employee remuneration, deferred tax assets and reinsurance assets as might exist and as might be classified as non-current assets held for sale but whose nature does not change due to being classified, as appropriate, non-current assets held for sale, continue to be measured as described in this Note. 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 their 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 2014 are as follows: Ibertasa, Sociedad de Tasación, S.A., Compañía Hispania de Tasaciones y Valoraciones, S.A., Tinsa Tasaciones Inmobiliarias, S.A.U., Eurovaloraciones, S.A., Tasiberica, S.A., Técnicos en Tasación, S.A., Grupo 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) and gains or losses on the sale thereof are recognised under “Gains (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.

Assets and liabilities relating to discontinued operations are presented and measured in accordance with the criteria indicated for disposal groups. Revenue and expenses arising from these assets and liabilities are presented net of the related tax effect under "Loss from Discontinued Operations" in the consolidated income statement.

i) Tangible assets

“Tangible Assets” in the consolidated balance sheet includes any 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 any 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 under "Depreciation and Amortisation Charge" 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 changes	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 any 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, if ever, 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, where applicable, the exercise price of the purchase option). The depreciation policy for these assets, if any, is consistent with that for property, plant and equipment for own use.

In both cases, any 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 -depending on whether the consolidated entities act as lessors or lessees- 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 (see Note 38).

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 differences between the cost of investments in consolidated entities, entities accounted for using the equity method and other types of business combinations and the corresponding net fair values of the assets and liabilities acquired, adjusted by the percentage of the ownership interest of these net assets and liabilities acquired in the case of purchases of investments at the acquisition date is recognised as follows:

1. If there is an excess of the acquisition price over the aforementioned fair value, as goodwill under "Intangible Assets - Goodwill" on the asset side of the consolidated balance sheet. In the case of the acquisition of investments in associates or jointly controlled entities, goodwill arising from the acquisition is recognised as part of the value of the investment and not individually under "Intangible Assets - Goodwill".

2. Any negative differences between the acquisition cost and the aforementioned fair value of the investments in subsidiaries are recognised, after the valuation process has been reviewed, as income under "Gains from Bargain Purchases Arising in Business Combinations" in the consolidated income statement.

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 or business 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 the 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 the goodwill of subsidiaries 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.

Any 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 any 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, if any, 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, although possible, it is not considered 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 Group (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. Any 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 2014 and 2013 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 companies other than Group companies, associates or jointly controlled entities are recognised as income when the right to receive them arises.

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 in the consolidated balance sheet the amount of the fees, commissions and similar interest received at the inception of the transactions and a credit 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 financial institutions 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 - Provision 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 any 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).

  - Any 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) recognised under "Valuation Adjustments - Other Valuation Adjustments" 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).

Any of the above amounts recognised as valuation adjustments are not reclassified to the consolidated income statement once they have been recognised.

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 assumed by the consolidated entities are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that actuarial gains and losses and the other aforementioned changes to the defined benefit post-employment obligations are in no case recognised as valuation adjustments but rather 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 2014 and 2013 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 that were not recognised in prior years by the Group.

Deferred tax assets and liabilities, if any, 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 that have been recognised. 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, if any.

"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 the consolidation of 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 2014, the Group had deferred tax assets convertible into tax receivables ("monetisable tax assets") amounting to EUR 324,223 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 as at 31 December 2014 and 2013 and of the average annual interest rates in 2014 and 2013 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 “Valuation Adjustments - Entities Accounted for Using the Equity Method” in the consolidated balance sheet.

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, if any. 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, if any.

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 the Bank's 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 consolidated 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 1,345,368 thousand at 31 December 2014 (31 December 2013: EUR 1,656,199 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 680,818 thousand at 31 December 2014 (31 December 2013: EUR 955,673 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). For information purposes, following are the condensed balance sheets, income statements, statements of changes in equity and statements of cash flows of the Bank for 2014 and 2013:

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED BALANCE SHEETS AS AT 31 DECEMBER 2014 AND 2013
(Thousands of Euros)

ASSETS	2014	2013	LIABILITIES AND EQUITY	2014	2013
CASH AND BALANCES WITH CENTRAL BANKS	66,210	35,519	**LIABILITIES**		
FINANCIAL ASSETS HELD FOR TRADING	-	3,866	FINANCIAL LIABILITIES HELD FOR TRADING	2,528	8,718
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS	-	-	FINANCIAL LIABILITIES AT AMORTISED COST	14,919,284	14,289,947
LOANS AND RECEIVABLES	14,712,080	14,775,290	CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-
HELD-TO-MATURITY INVESTMENTS	-	-	HEDGING DERIVATIVES	22,343	32,768
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-	LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	-	-
HEDGING DERIVATIVES	128,365	96,119	PROVISIONS	56,652	52,605
NON-CURRENT ASSETS HELD FOR SALE	10,959	10,510	TAX LIABILITIES	204,723	274,630
INVESTMENTS	8,934,522	8,190,198	OTHER LIABILITIES	23,588	17,832
INSURANCE CONTRACTS LINKED TO PENSIONS	-	-	**TOTAL LIABILITIES**	**15,229,118**	**14,676,500**
TANGIBLE ASSETS	38	40			
INTANGIBLE ASSETS	722	624	SHAREHOLDERS' EQUITY	8,926,352	8,773,602
TAX ASSETS	295,498	323,201	VALUATION ADJUSTMENTS	(4,787)	(12,176)
OTHER ASSETS	2,289	2,559	**TOTAL EQUITY**	**8,921,565**	**8,761,426**
TOTAL ASSETS	**24,150,683**	**23,437,926**	**TOTAL LIABILITIES AND EQUITY**	**24,150,683**	**23,437,926**
MEMORANDUM ITEMS:					
CONTINGENT LIABILITIES	1,097,330	835,222			
CONTINGENT COMMITMENTS	8,441,299	12,152,486			

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

(Thousands of Euros)

	Income/(Expenses)	
	2014	2013
INTEREST AND SIMILAR INCOME	362,839	475,258
INTEREST EXPENSE AND SIMILAR CHARGES	(189,203)	(154,250)
NET INTEREST INCOME	**173,636**	**321,008**
INCOME FROM EQUITY INSTRUMENTS	41,571	311,427
FEE AND COMMISSION INCOME	34,505	36,496
FEE AND COMMISSION EXPENSE	(50,292)	(51,282)
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES (net)	7,238	65,412
EXCHANGE DIFFERENCES (net)	(6,384)	(2,029)
OTHER OPERATING INCOME	63	945
OTHER OPERATING EXPENSES	(1,844)	(3,211)
GROSS INCOME	**198,493**	**678,766**
ADMINISTRATIVE EXPENSES	(52,044)	(36,818)
DEPRECIATION AND AMORTISATION CHARGE	(392)	(575)
PROVISIONS (net)	(6,520)	7,622
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (net)	238	780
PROFIT FROM OPERATIONS	**139,775**	**649,775**
IMPAIRMENT LOSSES ON OTHER ASSETS (net)	-	(34,168)
GAINS (LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE	267,437	(34,941)
GAINS FROM BARGAIN PURCHASES ARISING IN BUSINESS COMBINATIONS	-	-
GAINS (LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS	(6,035)	(9,113)
PROFIT BEFORE TAX	**401,177**	**571,553**
INCOME TAX	(23,170)	(76,430)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**378,007**	**495,123**
PROFIT/LOSS FROM DISCONTINUED OPERATIONS (net)	-	-
PROFIT FOR THE YEAR	**378,007**	**495,123**

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED STATEMENTS OF CHANGES IN EQUITY

A) CONDENSED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

(Thousands of Euros)

	2014	2013
PROFIT FOR THE YEAR	**378,007**	**495,123**
OTHER RECOGNISED INCOME AND EXPENSE	**7,389**	**16,519**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(1,280)**	**(932)**
ACTUARIAL GAINS AND LOSSES ON DEFINED BENEFIT PENSION PLANS	(1,829)	(1,331)
NON-CURRENT ASSETS HELD FOR SALE	-	-
INCOME TAX RELATING TO ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	549	399
ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS	**8,669**	**17,451**
AVAILABLE-FOR-SALE FINANCIAL ASSETS	-	-
CASH FLOW HEDGES	12,384	24,930
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	(3,715)	(7,479)
TOTAL RECOGNISED INCOME AND EXPENSE	**385,396**	**511,642**

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED STATEMENTS OF CHANGES IN EQUITY

B) CONDENSED STATEMENTS OF CHANGES IN TOTAL EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

(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 2013	**4,963,639**	**1,139,990**	**2,174,850**	-	-	**495,123**	-	**8,773,602**	**(12,176)**	**8,761,426**
Adjustments due to changes in accounting policies	-	-	(257)	-	-	-	-	(257)	-	(257)
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**4,963,639**	**1,139,990**	**2,174,593**	-	-	**495,123**	-	**8,773,345**	**(12,176)**	**8,761,169**
Total recognised income and expense	-	-	-	-	-	**378,007**	-	**378,007**	**7,389**	**385,396**
Other changes in equity	**375,000**	-	**192,941**	-	-	**(495,123)**	**(297,818)**	**(225,000)**	-	**(225,000)**
Capital increases	375,000	-	-	-	-	-	-	375,000	-	375,000
Distribution of dividends	-	-	(302,182)	-	-	-	(297,818)	(600,000)	-	(600,000)
Transfers between equity items	-	-	495,123	-	-	(495,123)	-	-	-	-
Ending balance at 31 December 2014	**5,338,639**	**1,139,990**	**2,367,534**	-	-	**378,007**	**(297,818)**	**8,926,352**	**(4,787)**	**8,921,565**

	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**

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

(Thousands of Euros)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES	**704,287**	**3,972,661**
Profit for the year	378,007	495,123
Adjustments made to obtain the cash flows from operating activities	9,790	144,538
Net (increase)/decrease in operating assets	77,239	3,279,841
Net increase/(decrease) in operating liabilities	239,251	49,478
Income tax recovered/paid	-	3,681
CASH FLOWS FROM INVESTING ACTIVITIES	**(737,193)**	**(4,004,040)**
(Payments)	(992,607)	4,040,825
Proceeds	255,414	(36,785)
CASH FLOWS FROM FINANCING ACTIVITIES	**75,513**	**46,379**
(Payments)	(299,487)	253,621
Proceeds	375,000	(300,000)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**-**	**-**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**42,607**	**15,000**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	38,612	**23,612**
CASH AND CASH EQUIVALENTS AT END OF YEAR	81,219	**38,612**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	-	-
Cash equivalents at central banks	66,210	35,519
Other financial assets	15,009	3,093
Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year	**81,219**	**38,612**

Appendices I and II 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 2014 and 2013 were as follows:

Bank Zachodni WBK S.A. and Santander Consumer Bank S.A. (Poland)

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 as at 31 December 2013.

Following these transactions, the Bank held 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. (Poland) 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 as 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 held all the share capital of Santander Consumer Bank S.A. (Poland).

As part of a corporate restructuring at the Santander Group, on 30 June 2014, the shareholders at the Annual General Meeting of Bank Zachodni WBK S.A. (a Santander Group entity) resolved to increase the share capital by PLN 53,839 thousand through the issue of 5,383,902 new shares of PLN 10 par value each and a share premium of PLN 390.53 per share. This increase was subscribed in full by the Bank through the non-monetary contribution of a 60% ownership interest in the share capital of the Polish entity Santander Consumer Bank S.A., which also represented 67% of the voting rights at the Annual General Meeting of this entity. This capital increase was subscribed by the Bank on 1 July 2014. Following this transaction, the Bank's ownership interest in Bank Zachodni WBK S.A. amounted to 5.425% of the share capital and voting rights thereof.

On 12 August 2014, the Bank entered into an agreement with Banco Santander, S.A. for the purchase and sale in full of the aforementioned ownership interest in the Polish entity Bank Zachodni WBK S.A. The selling price amounted to PLN 2,156,414 thousand and gave rise to a gain of EUR 140,081 thousand, which was recognised under "Gains (Losses) on Disposal of Assets Not Classified as Non-Current Assets Held for Sale" in the accompanying consolidated income statement for 2014 (see Note 43).

Following this transaction, the Group holds a 40% ownership interest in the share capital of the Polish entity Santander Consumer Bank S.A. As a result of the loss of control over this entity, at 31 December 2014 the Group recognised a gain amounting to EUR 106,389 thousand under "Gains (Losses) on Disposal of Assets Not Classified as Non-Current Assets Held for Sale" in the accompanying consolidated income statement relating to the recognition at fair value of the investment held in this entity, in accordance with IFRS 10 (see Note 43).

Financiera El Corte Inglés E.F.C., S.A. (Spain)

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 provided for the acquisition by the Bank of 51% of the share capital and voting rights at the Annual General Meeting 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, among other conditions, to 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.

In the first half of 2014 the structure of the governing bodies of Financiera El Corte Inglés E.F.C., S.A. and the Group's ability to carry on its significant activities were evaluated and it was concluded that the Group exercises control over this investment in accordance with the requirements provided for in current standards (IFRS 10).

The estimated fair value of the assets acquired and liabilities assumed at the date of the business combination, broken down by the nature of the related items, was as follows:

	Millions of Euros
Loans and advances to credit institutions	29
Loans and receivables - Loans and advances to customers (*)	1,291
Intangible assets	2
Other assets	22
Total assets (I)	1,344
Deposits from credit institutions	173
Customer deposits	81
Marketable debt securities	585
Provisions	3
Other liabilities	290
Total liabilities (II)	1,132
Net asset value (III=I-II)	212
Non-controlling interests (IIIx49%)	(104)
Cost of investment	(140)
Goodwill at acquisition date (**)	**32**

(*) The estimate of fair value included impairment losses of EUR 146 million on the acquired loans.

(**) Belongs to the Spain and Portugal cash-generating unit.

On the date of the business combination, the Group recognised an increase of non-controlling interests amounting to EUR 104 million under "Non-Controlling Interests - Other" in the consolidated balance sheet. These non-controlling interests relate to the percentage of the carrying amount of the net assets which remain property of El Corte Inglés, S.A. included in the balance sheet after the completion of this business combination.

The amounts contributed by the acquired business to gross income and profit before tax in the accompanying consolidated income statement for 2014 amounted to EUR 145 million and EUR 78 million, respectively.

GE Money Bank AB (Sweden)

On 20 June 2014, the Bank announced that it had reached an agreement with the Swedish entity GE Money Nordic Holding AB to acquire all the share capital of the Swedish entity GE Money Bank AB, which carries on GE Capital's consumer finance business in Sweden, Norway and Denmark.

On 6 November 2014 -the closing date of the transaction, following the obtainment of the relevant regulatory and competition authorisations- the Bank paid SEK 6,408 million (EUR 693 million) to acquire all the voting rights of the aforementioned investment, which generated goodwill of EUR 408 million on the date control was obtained (see Note 15-a).

The estimated fair value of the assets acquired and liabilities assumed at the date of the business combination, broken down by the nature of the related items, was as follows:

	Millions of Euros
Cash and balances with central banks	28
Loans and advances to credit institutions	179
Loans and receivables - Loans and advances to customers (*)	2,099
Other assets	62
Total assets	**2,368**
Deposits from credit institutions (**)	1,159
Customer deposits	769
Subordinated liabilities	81
Other liabilities	74
Total liabilities	**2,083**
Net asset value	**285**
Cost of investment	**693**
Goodwill at acquisition date (***)	**408**

(*) In estimating their fair value, the value of the loans was reduced by EUR 75 million.

(**) Includes mainly the financing provided by the Santander Consumer Finance Group to the acquired entity.

(***)Belongs to the Scandinavia cash-generating unit.

The amounts contributed by the acquired business from the acquisition date for accounting purposes (6 November 2014) to gross income and profit before tax in the accompanying consolidated income statement for 2014 amounted to EUR 44 million and EUR 11 million, respectively.

Current accounting legislation provides for a maximum period of one year from the date of the business combination during which the acquirer must adjust the provisional amounts recognised at the acquisition date; if during this period additional information is obtained relevant to determining the fair value of the contributed assets and liabilities about facts and circumstances that existed at the date of the business combination and, if known, would have affected the provisional amounts recognised at the aforementioned date. At the date of preparation of these consolidated financial statements, the recognition, at fair value, of the assets and liabilities acquired was not yet definitive and, therefore, the amounts indicated above are subject to review.

Agreement with Banque PSA Finance

The Bank, Peugeot, S.A. and Banque PSA Finance, the vehicle financing unit of the PSA Peugeot Citroën Group, entered into an agreement to operate the vehicle financing business and to cooperate in the insurance business in several European countries. Pursuant to the terms of this agreement, the Group will finance this business, under certain circumstances and conditions, from the date on which the transaction is completed, which is expected to occur in 2015 or at the beginning of 2016, depending on each country. In addition, in certain countries, the Group will purchase a portion of the current lending portfolio of Banque PSA Finance.

At 31 December 2014, the transaction was subject to approval by the related regulatory and competitions authorities and, therefore, no amount was recognised in the consolidated financial statements for 2014, while approval was awaited. In this regard, in January 2015 the relevant regulatory authorisations were obtained for the commencement of activities in France (see Note 1-i).

Santander Benelux, S.A.

On 18 December 2014, Santander Consumer Holding GmbH sold in full the ownership interest that it held in Santander Benelux, S.A. at that date, which represented 16.8% of the share capital of this company, to Banco Santander, S.A. for EUR 200 million, which did not give rise to any material gain or loss for the Group in 2014.

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 as 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.

Fortune Auto Finance Co., Ltd (China)

In 2013, the Bank disbursed CNY 250 million (approximately EUR 33 million) 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 Fortune Auto Finance Co., Ltd. This investment was recognised under “Investments - Jointly Controlled Entities” in the consolidated balance sheet.

Subsequently, on 8 May 2014, the Bank's Executive Committee approved the contribution of CNY 250 million (approximately EUR 33 million) for a capital increase at this entity, after which the Bank retained its percentage ownership interest in the share capital of this entity (50%).

Capital increases

In 2014 and 2013, 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 (*)	
	2014	2013
Transolver Finance, E.F.C., S.A. (**)	3.5	-
Santander Consumer Bank, S.p.A. (Italy)	-	30
Santander Consumer Bank A.S. (Norway)	121	78
Santander Consumer Finance Zrt. (Hungary)	24.7	-
Santander Consumer Holding GmbH (Germany) (***)	-	3,660
	149.2	**3,768**

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

(**) Relates to a capital increase of EUR 7 million in this jointly controlled entity 50% owned by the Bank, subsequent to which the Bank will retain its 50% ownership interest in the share capital of this entity.

(***)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 2014 that the Board of Directors will propose for approval by the shareholders at the Annual General Meeting is as follows:

	Thousands of Euros
Dividends	297,818
Legal reserve	37,801
Voluntary reserves	42,388
Net profit for the year (Note 3-a)	**378,007**

At the Bank's Extraordinary General Meeting held on 18 December 2014, it was resolved to distribute a dividend of EUR 302,182 thousand out of voluntary reserves. This dividend had not yet been paid at 2014 year-end and, accordingly, it is recognised under "Financial Liabilities at Amortised Cost - Other Financial Liabilities" in the accompanying consolidated balance sheet as at 31 December 2014 (see Note 21). This dividend was paid on 21 January 2015 (see Note 1-i).

Also, at the Board Meeting held on 11 December 2014, the Bank's directors resolved to distribute an interim dividend out of 2014 profit of EUR 297,818 thousand. This dividend was paid on 23 December 2014 and is recognised in equity under "Shareholders' Equity - Less- Dividends and Remuneration" in the consolidated balance sheet as at 31 December 2014.

The provisional accounting statement prepared by the Bank's directors in accordance with Article 277 of the Consolidated Spanish Limited Liability Companies Law evidencing the existence of sufficient liquidity for the distribution of the interim dividend is as follows:

	Thousands of Euros 30/11/14
Estimated profit before tax	402,789
Less:	
Estimated income tax	(24,294)
Appropriation to legal reserve	(37,850)
Distributable profit	**340,645**
Interim dividend to be distributed	**297,818**
Gross dividend per share (euros) (*)	**0.18**

(*) Estimate made based on the number of Bank shares existing at the date of approval of the interim dividend.

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, if any, 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 any potential ordinary shares (share options, warrants and convertible debt instruments, if any).

At 31 December 2014, 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	
	2014	2013
Consolidated profit for the year attributable to the Parent (thousands of euros)	638,317	609,354
Of which:		
From discontinued operations:	*(26,282)*	*(5,904)*
Weighted average number of shares outstanding	1,654,888,638	1,555,642,062
Basic and diluted earnings per share (euros)	0.3857	0.3917
Of which:		
From discontinued operations	*(0.0159)*	*(0.0038)*

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

a) *Bylaw-stipulated emoluments and other fees*

In 2014 the members of the Bank's Board of Directors earned remuneration amounting to EUR 201 thousand in the form of bylaw-stipulated emoluments and attendance fees (2013: EUR 155 thousand), which related in full to two external (independent) directors, the detail being as follows:

	Thousands of Euros	
	2014	2013
Mr Antonio Escámez Torres	192	155
Mr Luis Alberto Salazar-Simpson Bos	9	-

In 2014 the Bank's directors received approximately EUR 17,510 thousand from Banco Santander, S.A. (2013: approximately EUR 15,329 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 26 thousand in 2014 (2013: EUR 23 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.

Remuneration in kind paid by Banco Santander, S.A. to the Bank's directors amounted to approximately EUR 380 thousand in 2014 (2013: approximately EUR 545 thousand).

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 at the Santander Group. 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 32,531 thousand at 31 December 2014 (31 December 2013: EUR 34,892 thousand). This amount is covered basically by provisions recorded at Santander Group entities that do not belong to the Group.

The contributions made for the Bank's directors to pension plans amounted to EUR 2,346 thousand in 2014, of which EUR 7 thousand related to defined benefit plans and EUR 2,339 thousand to defined contribution plans externalised at the Santander Group subsidiary Santander Seguros y Reaseguros, Compañía Aseguradora, S.A. (2013: EUR 2,160 thousand, of which EUR 3 thousand related to defined benefit plans and EUR 2,157 thousand to defined contribution plans). These contributions were made by other Santander Group entities that do not belong to the Group.

The pension payments made to former members of the Bank's Board of Directors amounted to EUR 5,808 thousand in 2014 (2013: EUR 86 thousand) and were made mainly by other Santander Group entities that do not belong to the Group.

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

The variable remuneration policy for the Bank's directors and certain executive personnel of the Bank includes payments based on shares of Banco Santander, S.A. The cost of this remuneration is borne in full by other Santander Group entities that do not belong to the Group.

These plans are denominated as follows: (i) performance share plan; (ii) obligatory investment share plan; (iii) deferred conditional delivery share plan; (iv) deferred conditional variable remuneration plan and (v) performance share plan. The characteristics of the plans are set forth below:

i) Performance share plan

This deferred share-based variable remuneration was instrumented through a multiannual incentive plan payable in shares of Banco Santander, S.A. ("Banco Santander"). The beneficiaries of the plan were the executive directors of Banco Santander and other members of senior management, together with any other Santander Group executives determined by the Board of Directors of Banco Santander or, when delegated by it, the Executive Committee, except for Plan PI14 (approved in 2011), of which the executive directors and senior executives who participated in the deferred conditional variable remuneration plan were not beneficiaries.

This plan involved successive three-year cycles of share deliveries to the beneficiaries. In June 2009, 2010 and 2011 the fourth, fifth and sixth and final cycles (PI12, PI13 and PI14, respectively) were approved. On 31 July 2012, 2013 and 2014 the fourth, fifth and sixth cycles (PI12, PI13 and PI14, respectively) were cancelled.

For each cycle a maximum number of shares was established for each beneficiary who remained in the Group's employ for the duration of the plan. The target, which, if met, would determine the number of shares to be delivered, was defined by comparing the Total Shareholder Return (TSR) performance of the shares of Banco Santander, S.A. with the TSR of a benchmark group of financial institutions. The ultimate number of shares to be delivered in the aforementioned cycles was determined by the degree of achievement of the targets on the third anniversary of commencement of each cycle, and the shares would be delivered within a maximum period of seven months from the beginning of the year in which the corresponding cycle ended.

Plan PI14 (approved in 2011) expired in 2014, without any shares having been delivered to the plan beneficiaries, since the minimum target for shares to be delivered was not achieved.

The maximum number of options granted at 1 January 2013 to each executive director based on their participation in the I13 incentive plan (Plan I13) through which a portion of the variable remuneration for 2010 was instrumented is as follows:

	Options at 1 January 2013	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 (I13)							
Mr José A. Álvarez Álvarez	71,530	-	-	(71,530)	-	11/06/10	31/07/13
Mr Juan Rodríguez Inciarte	60,904	-	-	(60,904)	-	11/06/10	31/07/13
Mr José María Espí Martínez	66,035	-	-	(66,035)	-	11/06/10	31/07/13
Mr Ernesto Zulueta Benito	14,214	-	-	(14,214)	-	11/06/10	31/07/13
Ms Inés Serrano González	21,630	-	-	(21,630)	-	11/06/10	31/07/13
Ms Magdalena Salarich Fernández de Valderrama	84,154	-	-	(84,154)	-	11/06/10	31/07/13
Mr David Turiel López	17,304	-	-	(17,304)	-	11/06/10	31/07/13
	335,771	**-**	**-**	**(335,771)**	**-**		

ii) Obligatory investment share plan

This deferred share-based variable remuneration was instrumented through a multiannual incentive plan payable in shares of Banco Santander and conditional upon compliance with certain investment and continued Santander Group service requirements. The beneficiaries of this plan were the executive directors of Banco Santander, members of Banco Santander's senior management and other Santander Group executives determined by the Board of Directors.

This plan, which was discontinued in 2010, was structured in three-year cycles. The beneficiaries of the plan had to use 10% of their gross annual variable cash-based remuneration (or bonus) to acquire shares of Banco Santander in the market (the "Obligatory Investment"). In accordance with the terms and conditions of the corresponding cycles, the Obligatory Investments were made before 29 February 2008, 28 February 2009 and 28 February 2010, respectively.

Participants who held the shares acquired through the Obligatory Investment and remained in the Group's employ for three years from the date on which the Obligatory Investment was made (until 2011, 2012 and 2013, respectively) were entitled to receive the same number of Banco Santander shares as that composing their initial obligatory investment.

The shares would be delivered within a maximum period of one month from the third anniversary of the date on which the obligatory investment was made.

In 2009 a requirement was introduced for the third cycle additional to that of remaining in the Group's employ, which was that in the three-year period from the investment in the shares, none of the following circumstances should occur: (i) poor financial performance of the Santander Group; (ii) breach by the beneficiary of the codes of conduct or other internal regulations, including, in particular, those relating to risks, where applicable to the executive in question; or (iii) material restatement of the Santander Group's financial statements, except when it was required pursuant to a change in accounting standards.

This plan was cancelled with the delivery of the shares of the third cycle in March 2013. The conditions having been met for their receipt, in February 2013, as approved by the Board of Banco Santander, at the proposal of the Appointments and Remuneration Committee, the gross number of shares detailed above relating to the third cycle accrued to the executive directors, and this number is equal to the number of shares initially acquired by them.

iii) Deferred conditional delivery share plan

In 2012 and 2013 the Board of Directors of Banco Santander, S.A., at the proposal of the Appointments and Remuneration Committee, approved the third and fourth cycles of the deferred conditional delivery share plan to instrument payment of the share-based bonus of the Group executives or employees whose variable remuneration or annual bonus for 2012 and 2013, respectively, exceeded, in general, EUR 0.3 million (gross), with a view to deferring a portion of the aforementioned variable remuneration or bonus over a period of three years in which it will be paid in Banco Santander shares. Since these cycles entailed the delivery of Banco Santander shares, the shareholders at the Annual General Meetings of Banco Santander of 30 March 2012 and 22 March 2013 approved, respectively, the application of the third and fourth cycles of the deferred conditional delivery share plan. These cycles are not applicable to the executive directors or other members of senior management or other executives who are beneficiaries of the deferred conditional variable remuneration plan described below.
The share-based bonus is deferred over three years and will be paid, where appropriate, in three instalments starting in the first year. The amount in shares is calculated based on the tranches of the following scale established by the Board of Directors on the basis of the gross variable cash-based remuneration or annual bonus for the year:

Benchmark Bonus (Thousands of Euros)	Percentage (Deferred)
300 or less	0%
300 to 600 (inclusive)	20%
More than 600	30%

The condition for accrual of the share-based deferred remuneration was, in addition to that of the beneficiary remaining in the Santander Group's employ, with the exceptions envisaged in the plan regulations, that none of the following circumstances should occur in the period prior to each of the deliveries: (i) poor financial performance of the Santander Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Santander Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Santander Group's economic capital or risk profile.

iv) Deferred conditional variable remuneration plan

In 2012, 2013 and 2014 the Board of Directors of Banco Santander, S.A., at the proposal of the Appointments and Remuneration Committee, approved the second, third and fourth cycles of the deferred conditional variable remuneration plan to instrument payment of the bonus for 2012, 2013 and 2014, respectively, of the executive directors and certain executives (including senior management) and employees who assume risk, who perform control functions or receive an overall remuneration which puts them on the same remuneration level as senior executives and employees who assume risks (all of whom are referred to as the "Identified Staff", in accordance with the Guidelines on Remuneration Policies and Practices approved by the Committee of European Banking Supervisors on 10 December 2010 and, since 2014, pursuant to Article 92(2) of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, and the related implementing legislation).

The purpose of these cycles is to defer a portion of the bonus of the beneficiaries thereof over a period of three years for it to be paid, where appropriate, in cash and in Banco Santander shares; the other portion of the variable remuneration is also to be paid in cash and Banco Santander shares, upon commencement of the cycles, in accordance with the rules set forth below.

The bonus will be paid in accordance with the following percentages, based on the timing of the payment and the group to which the beneficiary belongs (the "immediate payment percentage" identifies the portion of the bonus for which payment is not deferred, and the "deferred percentage" identifies the portion of the bonus for which payment is deferred):

	2014	
	Immediate Payment Percentage (*)	Deferred Percentage (*)
Executive directors and members of the Identified Staff with total variable remuneration ≥ EUR 2.6 million	40%	60%
Division managers, country heads, other executives of the Group with a similar profile and members of the Identified Staff with total variable remuneration ≥ EUR 1.8 million (< EUR 2.6 million)	50%	50%
Other beneficiaries	60%	40%

	2012-2013	
	Immediate Payment Percentage (*)	Deferred Percentage (*)
Executive directors	40%	60%
Division directors and other executives of the Group with a similar profile	50%	50%
Other executives subject to supervision	60%	40%

(*) Generally applicable percentages. Deferred percentages may be higher for certain categories of executives, thereby giving rise to lower immediate payment percentages.

The payment of the deferred percentage of the bonus applicable in each case will be deferred over a period of three years and will be paid in three instalments, within 30 days following the anniversaries of the initial date (the date on which the immediate payment percentage is paid) in 2014, 2015 and 2016 for the second cycle, in 2015, 2016 and 2017 for the third cycle, and in 2016, 2017 and 2018 for the fourth cycle, 50% being paid in cash and 50% in shares, provided that the conditions described below are met.

In addition to the requirement that the beneficiary remains in the Santander Group's employ, with the exceptions included in the plan regulations, the accrual of the deferred remuneration is conditional upon none of the following circumstances occurring -in the opinion of the Board of Directors of Banco Santander following a proposal of the Remuneration Committee-, during the period prior to each of the deliveries, pursuant to the provisions set forth in each case in the plan regulations: (i) poor financial performance of the Santander Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Santander Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Santander Group's economic capital or risk profile.

On each delivery, the beneficiaries will be paid an amount in cash equal to the dividends paid on the deferred amount in shares and the interest on the amount accrued in cash. If the Santander Dividendo Elección scrip dividend scheme is applied, they will be paid the price offered by Banco Santander for the bonus share rights corresponding to those shares.

The maximum number of shares to be delivered is calculated taking into account the amount resulting from applying the applicable taxes and the volume-weighted average prices for the 15 trading sessions prior to the date on which the Board of Directors approves the bonus for the Bank's directors for 2012, 2013 and 2014 for the second, third and fourth cycle, respectively.

v) Performance share plan

In 2014 the Board of Directors of Banco Santander, S.A. approved the first cycle of the performance share plan by which to instrument a portion of the variable remuneration of the Identified Staff, consisting of a long-term incentive (ILP) in shares based on Banco Santander's performance over a multiannual period.

Since the aforementioned plan entails the delivery of shares of Banco Santander, S.A., the Annual General Meeting of Banco Santander of 28 March 2014 approved the application of the first cycle of the plan.

The maximum amount of the plan and, consequently, the maximum number of shares to which a beneficiary may be entitled under this plan was set at 15% of the beneficiaries' benchmark bonus.

The Board of Directors of Banco Santander, following a proposal of the Remuneration Committee, has set the amount of the ILP for each beneficiary for 2014. For this purpose, the following percentages were applied to 15% of the beneficiaries' benchmark bonus in accordance with the relative performance of Banco Santander's Total Shareholder Return (TSR) in 2014 compared to a benchmark group:

Santander's Place in the TSR Ranking	Percentage of Maximum Shares to Be Delivered
1st to 8th	100%
9th to 12th	50%
13th and below	0%

Since Banco Santander's TSR was in fourth place, the applicable percentage was 100%.

The agreed-upon amount of the ILP for each beneficiary will be deferred over a period of three years and will be paid, where appropriate, in thirds in June 2016, 2017 and 2018 based on compliance with the multiannual TSR targets. Thus, for each ILP payment date, the Board of Directors of Banco Santander, following a proposal of the Remuneration Committee, will calculate the amount, where appropriate, to be received by each beneficiary applying to the third of the agreed-upon amount of the ILP for that year the percentage resulting from the following table:

Santander's Place in the TSR Ranking	Percentage of Maximum Shares to Be Delivered
1st to 4th	100.0%
5th	87.5%
6th	75.0%
7th	62.5%
8th	50.0%
9th and below	0%

For the accrual for 2016, the benchmark TSR will be that accumulated between 1 January 2014 and 31 December 2015, for the accrual for 2017, the benchmark TSR will be that accumulated between 1 January 2014 and 31 December 2016 and for the accrual for 2018, the benchmark TSR will be that accumulated between 1 January 2014 and 31 December 2017.

In addition to the requirement that the beneficiary remains in the Santander Group's employ, with the exceptions included in the plan regulations, the delivery of shares to be paid on the ILP payment date based on compliance with the related multiannual target is conditional upon none of the following circumstances occurring -in the opinion of the Board of Directors of Banco Santander following a proposal of the Remuneration Committee-, during the period prior to each of the deliveries, as a result of the actions carried out in 2014: (i) poor financial performance of the Santander Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Santander Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Santander Group's economic capital or risk profile.

d) Loans and deposits

At 2014 year-end, the Group was not exposed to direct risks with its directors in connection with loans, credits and guarantees provided (2013 year-end: EUR 21 thousand) (see Note 48). At the end of 2014 and 2013, 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 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 2014 and 2013) amounted to EUR 4,961 thousand in 2014 (2013: EUR 3,897 thousand) and was paid in full by other Santander Group entities that do not belong to the Group.

The remuneration in kind paid to the Bank's non-director senior managers totalled approximately EUR 79 thousand in 2014 (2013: EUR 51 thousand), which were paid by other Santander Group entities that do not belong to the Group.

In 2014 contributions amounting to EUR 600 thousand (2013: EUR 624 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 that do not belong to the Group. No amounts were paid in this connection in 2014 or 2013.

The detail of the share options granted to the Bank's senior managers, excluding directors, follows the same guidelines as those explained in Note 5-c. The Bank's direct risk exposure to senior managers who are not Bank directors amounted to EUR 2 thousand at 31 December 2014 (31 December 2013: EUR 6 thousand). It should also be noted that these senior managers held deposits at the Bank totalling EUR 154 thousand at 31 December 2014 (31 December 2013: EUR 257 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 Santander 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 Banco Santander 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 1,200 thousand (31 December 2013: 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 that do not belong to the Group.

g) Information on investments held by the directors in other companies and conflicts of interest

None of the members of the Board of Directors or persons related to them perform, as independent professionals or as employees, activities that involve effective competition, be it present or potential, with the activities of Santander Consumer Finance, S.A., or that, in any other way, place the directors in an ongoing conflict with the interests of Santander Consumer Finance, S.A.

Without prejudice to the foregoing, following is a detail of the declarations by the directors with respect to their investments and the investments of persons related to them in the share capital of companies whose object is banking, financing or lending; and of the management or governing functions, if any, that the directors discharge thereat:

Director	Corporate Name	Line of Business	Ownership Interest	Functions
Mr Antonio Escámez Torres	Banco Santander, S.A.	Financial institution	0.006%	-
	Open Bank, S.A.	Financial institution	-	Chairman
	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	-	Director
Ms Magdalena Salarich Fernández de Valderrama	Banco Santander, S.A.	Financial institution	0.002%	General Manager
	Financiera El Corte Inglés E.F.C, S.A.	Financial institution	-	Director
	Santander Consumer Bank AG	Financial institution	-	Member of the Supervisory Board
Mr José Antonio Álvarez	Banco Santander, S.A.	Financial institution	0.003%	General Manager
	Banco Santander (Brasil) S.A.	Financial institution	-	Director
	Santander de Titulización, S.G.F.T.	Fund management	-	Chairman
	Santander Consumer Bank AG	Financial institution	-	Member of the Supervisory Board
	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	0.003%	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	Santander Consumer, E.F.C., S.A.	Financial institution	-	Director
	Banco Santander Consumer Portugal, S.A.	Financial institution	-	Director
	Santander Consumer Bank, S.A. (Poland)	Financial institution	-	Member of the Supervisory Board
	Santander Consumer Finanse, S.A. (Poland)	Financial institution	-	Member of the Supervisory Board
	Santander Consumer Bank, S.p.A.	Financial institution	-	Director
	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%	-

Director	Corporate Name	Line of Business	Ownership Interest	Functions
Mr Luis Alberto Salazar-Simpson Bos	Santander Investment, S.A.	Financial institution	-	Director
	Banco Santander, S.A.	Financial institution	0.002%	-
Mr Bruno Montalvo Wilmot	Santander Consumer Bank, S.A. (Poland)	Financial institution	-	Member of the Supervisory Board
	Santander Consumer Finanse, S.A. (Poland)	Financial institution	-	Chairman of the Supervisory Board
	Santander Consumer Finance, Zrt. (Hungary)	Financial institution	-	Chairman of the Supervisory Board
	Santander Consumer Bank A.S. (Norway)	Financial institution	-	Deputy Chairman of the Board
	Santander Consumer UK plc	Financial institution	-	Chairman
	Banco Santander, S.A.	Financial institution	Less than 0.001%	-
Mr Ernesto Zulueta Benito (*)	Santander Consumer Bank S.p.A.	Financial institution	-	Director
	Santander Consumer Bank S.A. (Poland)	Financial institution	-	Member of the Supervisory Board
	Santander Consumer Finance, Zrt. (Hungary)	Financial institution	-	Member of the Supervisory Board
	Banco Santander, S.A.	Financial institution	Less than 0.001%	-
Ms Inés Serrano González	Santander Consumer Bank S.p.A.	Financial institution	-	Deputy Chairman
	Unifin S.p.A.	Financial institution	-	Director
	Banco Santander Consumer Portugal S.A.	Financial institution	-	Chairman
	Santander Consumer Bank AG	Financial institution	-	Member of the Supervisory Board
	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 Javier Francisco Gamarra Antón	Banco Santander, S.A.	Financial institution	Less than 0.001%	-
	Santander Consumer Bank A.G.	Financial institution	-	Director

(*) Ceased to be a member of the Board on 18 December 2014.

With regard to situations of conflict of interest, as stipulated in Article 18 of the Rules and Regulations of the Board, the directors must notify the Board of any direct or indirect conflict with the interests of the Bank in which they may be involved. If the conflict arises from a transaction, the director shall not be allowed to conduct it unless the Board, following a report from the Appointments Committee, approves such transaction.

The director involved shall not participate in the deliberations and decisions on the transaction to which the conflict refers, and the body responsible for resolving conflicts of interest is the Board of Directors itself.

In 2014, the Bank's directors did not report to the Board of Directors or to the shareholders any direct or indirect conflict of interest that they or persons related to them might have.

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 as at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Type:		
Reciprocal accounts (Note 2-x)	680,818	955,673
Time deposits	2,869,206	5,927,417
Reverse repurchase agreements	243,547	178
Other accounts	1,687,196	1,790,018
	5,480,767	8,673,286
Currency:		
Euro	4,475,334	8,051,022
Foreign currency	1,005,433	622,264
	5,480,767	8,673,286
Add - Valuation adjustments	5,735	9,460
Of which:		
Accrued interest	*6,600*	*9,522*
Transaction costs	*(865)*	*(62)*
	5,486,502	**8,682,746**

Note 46 contains a detail of the terms to maturity of these assets at 31 December 2014 and 2013 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 as at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Classification:		
Loans and receivables	87,561	308,838
Available-for-sale financial assets	460,032	464,394
	547,593	**773,232**
Type:		
Foreign government debt securities	227,496	434,393
Issued by financial institutions	320,088	238,572
Other fixed-income securities	9	100,267
	547,593	**773,232**
Currency:		
Euro	321,667	340,067
Foreign currency	225,926	433,165
	547,593	**773,232**
Less - Impairment losses	-	-
	547,593	**773,232**

At 31 December 2014, "Foreign Government Debt Securities" in the foregoing table related mainly to Norwegian government bonds purchased by the subsidiary Santander Consumer Bank AS (Norway) (31 December 2013: 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 2014, “Issued by Financial Institutions” in the foregoing table included mainly commercial paper issued by Abbey National Treasury Services (UK) and purchased by the subsidiary Santander Consumer Bank S.p.A. (Italy) for EUR 85,494 thousand (31 December 2013: EUR 206,500 thousand). This commercial paper matures in 2015 and the average annual interest rate thereon was 0.19% in 2014 (2013: 0.18%). At 31 December 2014, "Issued by Financial Institutions" also included bonds issued by KfW Bankengruppe, LandesBank Berling AG and LandesBank Rheinland-Pfalz purchased by the subsidiary Santander Consumer Bank AG (Germany) for EUR 232,536 thousand. These bonds mature between 2015 and 2019 and the average annual interest rate thereon was 0.25% in 2014.

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 2014 and 2013, 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 2014 and 2013 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 as at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Classification:		
Available-for-sale financial assets	11,180	5,519
	11,180	**5,519**
Type:		
Shares of foreign companies	11,180	5,519
	11,180	**5,519**
Currency:		
Euro	11,180	5,238
Foreign currency	-	281
	11,180	**5,519**

The changes in 2014 and 2013 in "Available-for-Sale Financial Assets - Equity Instruments" in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2014	2013
Balance at beginning of year	5,519	3,141
Net additions (disposals)	5,661	2,804
Valuation adjustments	-	(426)
Balance at end of year	**11,180**	**5,519**

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 2014 and 2013 is as follows:

	Thousands of Euros			
	2014		2013	
	Asset Balance	Liability Balance	Asset Balance	Liability Balance
Interest rate risk	10,687	292,254	23,539	34,430
Foreign currency risk	138,757	119,500	71,262	68,581
	149,444 (*)	**411,754 (*)**	**94,801 (*)**	**103,011 (*)**

(*) Of which EUR 97,709 thousand and EUR 360,275 thousand of asset and liability balances, respectively, relate to amounts held with Santander Group companies at 31 December 2014 (31 December 2013: EUR 64,953 thousand and EUR 78,060 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 “Loans and Receivables - Loans and Advances to Customers" in the accompanying consolidated balance sheets as at 31 December 2014 and 2013, which reflect the Group’s exposure to credit risk in its core business:

	Thousands of Euros	
	2014	2013
Loan type and status:		
Commercial credit	72,048	39,969
Secured loans	8,059,150	9,537,231
Other term loans	42,361,911	39,325,967
Finance leases	3,801,780	3,769,779
Receivable on demand and other	2,648,330	3,061,051
Impaired assets	2,709,789	2,348,338
	59,653,008	58,082,335
Borrower sector:		
Public sector - Spain	58	65
Public sector - Other countries	46,699	-
Individuals	51,216,036	49,918,627
Energy	1,318	8,496
Construction	331,687	343,263
Manufacturing	2,059,284	1,909,326
Services	3,904,462	3,901,186
Other sectors	2,093,464	2,001,372
	59,653,008	58,082,335
Geographical area:		
Spain and Portugal	9,330,374	7,280,457
Italy	5,143,339	5,651,644
Germany and Austria	32,203,985	32,125,414
Scandinavia	11,841,126	8,583,257
Other	1,134,184	4,441,563
	59,653,008	58,082,335
Interest rate formula:		
Fixed rate	44,032,158	44,185,382
Floating rate	15,620,850	13,896,953
	59,653,008	58,082,335
Currency:		
Euro	49,286,233	47,535,403
Foreign currency	10,366,775	10,546,932
	59,653,008	58,082,335
Less - Valuation adjustments	(2,207,448)	(2,154,130)
Of which:		
Impairment losses	*(2,657,489)*	*(2,466,064)*
Accrued interest	*67,636*	*55,796*
Other	*382,405*	*256,138*
	57,445,560	**55,928,205**

Note 46 contains a detail of the terms to maturity of loans and advances to customers at 31 December 2014 and 2013 and of the related average annual interest rates in the years then ended.

On 22 May 2014, the Bank subscribed 4,152 mortgage participation certificates issued by Banco Santander, S.A. for EUR 424,397 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 3 and 39 years and earn annual interest of between 0.93% and 5.54%.

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 mortgage participation certificates amounted to EUR 739,954 thousand at 31 December 2014 (31 December 2013: EUR 358,548 thousand).

At 31 December 2014 and 2013, 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 2014 (31 December 2013: 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 2014 and 2013 were as follows:

	Thousands of Euros	
	2014	2013
Balance at beginning of year	2,466,064	2,526,116
Net impairment losses charged to consolidated profit for the year (*)	694,580	705,901
Of which:		
Identified losses	*618,019*	*718,563*
Inherent losses	*76,561*	*(12,662)*
Changes in the scope of consolidation	(399,837)	-
Write-off of impaired balances against recorded impairment allowance	(825,337)	(771,380)
Exchange differences and other (**)	722,019	5,427
Balance at end of year	**2,657,489**	**2,466,064**
Of which:		
By method of assessment-		
Identified losses	*1,993,185*	*1,710,031*
Inherent losses	*664,304*	*756,033*
By geographical location of risk-		
Spain	*474,658*	*374,497*
Other	*2,182,831*	*2,091,567*

(*) Recognised under "Impairment Losses on Financial Assets (Net) - Loans and Receivables" in the accompanying consolidated income statements for 2014 and 2013.

(**) Includes the effect of the exchange differences and adjustments made in the calculation of the fair value of the loans and advances to customers acquired in the business combinations performed in 2014 and 2013 due to the credit risk on the related nominal values, which are broken down in this detail for information purposes only and to facilitate the comparability of the information.

Previously written-off assets (written-off assets) recovered, including sales of portfolios of written-off and doubtful assets, amounted to EUR 173,224 thousand in 2014 (2013: EUR 128,490 thousand) and are presented as a deduction from “Impairment Losses on Financial Assets - Loans and Receivables” in the accompanying consolidated income statements.

In 2014 the Bank and the subsidiary Santander Consumer, E.F.C., S.A. (Spain) sold portfolios of written-off loans, with a nominal value of EUR 261,157 thousand, for EUR 18,070 thousand. In addition, in 2014 the following foreign subsidiaries sold the following portfolios of written-off loans:

Entity	Thousands of Euros	
	Nominal Value	Selling Price (**)
Santander Consumer Bank S.p.A. (Italy)	2,274	252
Santander Consumer Bank AG (Germany) (*)	598,744	72,289
Santander Consumer Finance Benelux B.V. (the Netherlands)	31,309	10,803
Santander Consumer Bank S.A. (Poland)	48,634	8,650
Santander Consumer Bank AS (Norway)	11,338	3,783
Santander Consumer Finance Oy (Finland)	16,220	6,673
Banco Santander Consumer Portugal, S.A.	29,173	2,333
	737,692	**104,783**

(*) Of which EUR 22,700 thousand were not previously classified as written-off loans.

(**) The gain or loss on these sales was recognised under "Impairment Losses on Financial Assets (Net) - Loans and Receivables" in the accompanying consolidated income statement for 2014.

In 2013 the Bank and the subsidiaries Santander Consumer, E.F.C., S.A. and Santander Consumer Bank S.A. (Poland) sold to non-Group third parties written-off loans, with a nominal value of EUR 339,309 thousand, for EUR 19,109 thousand In 2013, the subsidiary Santander Consumer Bank S.p.A. (Italy) sold portfolios 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 9,226 thousand which was recognised under "Impairment Losses on Financial Assets (Net)" in the accompanying consolidated income statement for 2013.

Impaired assets

The changes in 2014 and 2013 in the balance of the financial assets classified as loans and receivables and considered to be impaired due to credit risk (doubtful assets) at 31 December 2014 and 2013 were as follows:

	Thousands of Euros	
	2014	2013
Balance at beginning of year	2,348,338	2,312,311
Additions net of recoveries	703,902	827,103
Written-off assets	(825,337)	(771,380)
Changes in the scope of consolidation and exchange differences	482,886	(19,696)
Balance at end of year	**2,709,789**	**2,348,338**

Following is a detail of the financial assets classified as loans and receivables and considered to be impaired due to credit risk (doubtful assets) at 31 December 2014 and 2013, classified by geographical location of risk and by age of the oldest past-due amount:

2014						
	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	98,185	63,054	35,598	32,354	191,647	420,838
Germany and Austria	7,122	370,478	82,504	82,706	568,746	1,111,556
Italy	24,191	51,518	40,912	39,779	100,973	257,373
Scandinavia	56,228	141,363	17,096	42,165	594,714	851,566
Other	-	6,991	3,060	3,370	55,035	68,456
	185,726	**633,404**	**179,170**	**200,374**	**1,511,115**	**2,709,789**

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**

The non-performing loans ratio stood at 4.54% at 31 December 2014 (31 December 2013: 4.04%).

The accrued interest receivable on impaired assets amounted to EUR 2,239 thousand at 31 December 2014 (31 December 2013: EUR 5,310 thousand). This interest has not been recognised in the accompanying consolidated income statements as there are doubts as to its collection.

Loans classified as standard: past-due amounts receivable

In addition, at 31 December 2014, there were assets with amounts receivable that were past due by three months or less, the detail of which, by age of the oldest past-due amount, is as follows:

	Thousands of Euros		
	Less than 1 Month	1 to 2 Months	2 to 3 Months
Loans and advances to customers	223,251	45,147	33,546
Public sector	-	-	-
Private sector	*223,251*	*45,147*	*33,546*
Total	**223,251**	**45,147**	**33,546**

Written-off assets

The changes in 2014 and 2013 in the balance of the financial assets classified as loans and receivables and considered to be written-off assets at 31 December 2014 and 2013 were as follows:

	Thousands of Euros	
	2014	2013
Balance at beginning of year	2,149,236	2,720,007
Changes in the scope of consolidation (*)	(189,241)	-
Additions	825,337	771,380
Disposals	(1,166,688)	(1,342,151)
Balance at end of year	**1,618,644**	**2,149,236**

(*) Includes the additions to and exclusions from the Group's scope of consolidation.

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 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Home purchase loans:	2,555,327	2,278,774
Without mortgage guarantee	-	-
Of which:		
- *Doubtful*	-	-
With mortgage guarantee	2,555,327	2,278,774
Of which:		
- *Doubtful*	94,564	85,685

The detail, by loan-to-value ratio, of the mortgage loans to households for the acquisition of homes in Spain at 31 December 2014 and 2013 is as follows:

	2014					
	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	*341*	*505*	*818*	*170*	*721*	*2,555*
Of which: Doubtful	*5*	*5*	*14*	*13*	*58*	*95*

	2013					
	Loan-to-Value Ratio					
	Millions of Euros					
	More than 0% and Less than 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*

Securitisation

The balance of “Loans and Receivables - Loans and Advances to Customers” in the accompanying consolidated balance sheets as at 31 December 2014 and 2013 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 regulations, 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	
	2014	2013
Derecognised	**-**	**-**
Retained on the balance sheet:	**17,619,116**	**13,104,358**
Of which:		
Santander Consumer, E.F.C., S.A. (Spain)	*1,632,629*	*1,460,857*
Santander Consumer Bank AG (Germany)	*6,729,585*	*3,459,243*
Santander Consumer Bank S.p.A. (Italy)	*3,705,349*	*4,364,908*
Santander Consumer Bank A.S. (Norway)	*2,605,377*	*2,299,454*
Banco Santander Consumer Portugal, S.A.	*460,977*	*591,994*
Santander Consumer Finance Oy (Finland)	*694,666*	*572,053*
Financiera El Corte Inglés, E.F.C., S.A. (Spain)	*1,019,021*	-
Santander Consumer Bank GmbH (Austria)	*448,612*	-
Santander Consumer Finance Benelux B.V. (the Netherlands)	*322,900*	*355,849*
Total	**17,619,116**	**13,104,358**

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

In 2014, the subsidiaries mentioned in the foregoing table securitised receivables amounting to EUR 8,265,667 thousand (2013: EUR 8,182,097 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

At 31 December 2014 and 2013, the detail, by type of hedge, of the fair value of the derivatives qualifying for hedge accounting is as follows:

	Thousands of Euros			
	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Fair value hedges	72,254	124,339	76,260	410,188
Cash flow hedges (*)	192,871	22,528	97,849	42,884
Hedges of net investments in foreign operations (**)	-	3,359	-	-
	265,125	150,226	174,109	453,072

(*) Of which EUR 8,525 thousand of losses, net of tax, were recognised under "Valuation Adjustments - Cash Flow Hedges" in the consolidated balance sheet as a reduction of consolidated equity at 31 December 2014 (31 December 2013: EUR 12,502 thousand) (see Note 27).

(**) Of which EUR 3,391 thousand of losses, net of tax, were recognised under "Valuation Adjustments - Hedges of Net Investments in Foreign Operations" in the consolidated balance sheet as a reduction of consolidated equity at 31 December 2014 (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 as at 31 December 2014 and 2013 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	
	2014	2013
Loans and advances to credit institutions	21,950	2,165
Loans and advances to customers	32,010	44,323
Other assets	245	263
	54,205	46,751
Foreclosed tangible assets	53,973	53,966
Other tangible assets held for sale	1,297	4,410
	55,270	58,376
Less - Impairment losses	(42,432)	(42,658)
	69,043	**62,469**

The changes in "Impairment Losses" in the foregoing table in 2014 and 2013 were as follows:

	Thousands of Euros	
	2014	2013
Balances at beginning of year	42,658	49,640
Net impairment losses charged to consolidated income for the year (Note 44)	2,008	9,842
Amounts released	(2,234)	(16,824)
	42,432	**42,658**

The consolidated entities incurred a net loss of EUR 374 thousand in 2014 on the sale of non-current assets held for sale (2013: a net loss of EUR 2,161 thousand) (see Note 44).

The balance of "Liabilities Associated with Non-Current Assets Held for Sale" in the accompanying consolidated balance sheets as at 31 December 2014 and 2013 includes the amount of the balances payable of the subsidiaries classified as discontinued operations, the detail being as follows:

	Thousands of Euros	
	2014	2013
Other financial liabilities	121	218
Tax liabilities	15	95
Accrued expenses and deferred income	124	291
Other liabilities	21,212	452
	21,472	**1,056**

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

The detail of the foreclosed assets of the Group's business in Spain, based on the recipient of the loan or credit facility initially granted, at 31 December 2014 and 2013 is as follows:

	Thousands of Euros			
	31 December 2014		31 December 2013	
	Carrying Amount	Of which: Impairment Losses	Carrying Amount	Of which: Impairment Losses
Property assets arising from financing granted for construction and property development	753	2,479	37	108
- Completed buildings	50	151	30	88
Residential	-	-	-	-
Other	*50*	*151*	*30*	*88*
- Buildings under construction	-	-	-	-
Residential	-	-	-	-
Other	-	-	-	-
- Land	703	2,328	7	20
Developed land	*630*	*2,109*	*6*	*17*
Other land	*73*	*219*	*1*	*3*
Property assets from home purchase mortgage financing granted to households	10,546	34,987	9,920	32,765
Other property assets received in payment of debts	717	1,754	1,706	4,729
Equity instruments, ownership interests 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 as at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Associates:		
Santander Benelux, S.A., N.V.	-	199,276
Bank of Beijing Consumer Finance Company	50,624	38,168
Konecta B.T.O., S.L.	21,524	17,995
Reintegra, S.A.	2,569	1,883
Santander Consumer Bank S.A. (Poland)	300,813	-
Santander Consumer Finanse S.A. (Poland)	12,044	-
Other associates	23,905	11,955
	411,479	269,277
Of which:		
Goodwill		
Bank of Beijing Consumer Finance Company	*3,428*	*3,094*
Konecta B.T.O., S.L.	*1,619*	*1,619*
Grupo Konectanet, S.L.	*1,947*	*1,947*
Santander Consumer Bank S.A. (Poland)	*106,389*	-
Other	*340*	*340*
	113,723	*7,000*
Jointly controlled entities:		
Fortune Auto Finance Co. Ltd.	62,345	27,560
Transolver Finance, E.F.C., S.A.	12,295	7,331
Other jointly controlled entities	2,485	2,747
	77,125	37,638
	488,604	**306,915**

The changes in 2014 and 2013 in “Investments - Associates" and “Investments - Jointly Controlled Entities” in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2014	2013
Balance at beginning of year	306,915	238,705
Purchases and capital increases	41,800	70,931
Sales	(199,276)	-
Dividends paid	(37,058)	-
Effect of equity accounting (Note 33)	41,531	10,163
Changes in the scope of consolidation	331,643	-
Exchange differences and other	3,049	(12,884)
Balance at end of year	**488,604**	**306,915**

Impairment losses

In 2014 and 2013 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	
	2014(*)	2013
Total assets	8,673	11,910
Total liabilities	(7,604)	(10,377)
Equity	(1,069)	(1,533)
Group's share of the net assets of associates	375	300
Goodwill	114	7
Total Group share	**489**	**307**
Total income	1,397	77,330
Total profit	179	65
Group's share of the profit of associates	42	10

(*) 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 2014 and 2013 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 2013	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
Additions / Disposals (net)	(14,289)	(4,894)	-	(19,183)
Additions	*24,905*	*9,511*	-	*34,416*
Disposals	*(39,194)*	*(14,405)*	-	*(53,599)*
Net additions/disposals due to change in the scope of consolidation	*(24,588)*	*(18)*	-	*(24,606)*
Exchange differences	(630)	(67)	(2)	(699)
Transfers and other	(4,492)	(2,356)	(78)	(6,926)
Balances at 31 December 2014	**430,537**	**243,326**	**-**	**673,863**
Accumulated depreciation:				
Balances at 1 January 2013	(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)
Net additions/disposals due to change in the scope of consolidation	13,395	-	-	13,395
Charge for the year	(26,132)	(153)	-	(26,285)
Disposals and retirements	34,617	7,733	-	42,350
Exchange differences	958	24	-	982
Transfers and other	2,535	224	-	2,759
Balances at 31 December 2014	**(283,538)**	**(76,197)**	**-**	**(359,735)**
Impairment losses:				
Balance at 1 January 2013	(90)	(3,612)	-	(3,702)
Net impairment losses (Note 42)	(94)	(418)	-	(512)
Disposals and retirements	-	509	-	509
Transfers and other	(710)	320	-	(390)
Balance at 31 December 2013	(894)	(3,201)	-	(4,095)
Net additions/disposals due to change in the scope of consolidation	894	-	-	894
Net impairment losses (Note 42)	-	-	-	-
Disposals and retirements	-	-	-	-
Transfers and other	-	335	-	335
Balances at 31 December 2014	**-**	**(2,866)**	**-**	**(2,866)**
Net tangible assets:				
Balances at 31 December 2013	164,731	163,435	80	328,246
Balances at 31 December 2014	**146,999**	**164,263**	**-**	**311,262**

The balance of tangible assets acquired under finance leases amounted to EUR 52,648 thousand at 31 December 2014 (31 December 2013: EUR 54,303 thousand).

The Group incurred a net loss of EUR 3,990 thousand in 2014 (2013: EUR 4,771 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" at 31 December 2014 and 2013 in the foregoing table is as follows:

	Thousands of Euros			
	Cost	Accumulated Depreciation	Impairment Losses	Carrying Amount
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**
Buildings	74,884	(12,940)	-	61,944
Furniture	197,504	(142,174)	-	55,330
IT equipment	116,234	(105,590)	-	10,644
Other	41,915	(22,834)	-	19,081
Balances at 31 December 2014	**430,537**	**(283,538)**	**-**	**146,999**

The net balance of "Property, Plant and Equipment for Own Use" at 31 December 2014 includes approximately EUR 144,752 thousand (31 December 2013: EUR 162,254 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 as at 31 December 2014 and 2013, based on the cash-generating units giving rise thereto, is as follows:

	Thousands of Euros	
	2014	2013
Germany/Austria	1,284,389	1,284,389
Nordic countries (Scandinavia)	563,804	170,479
The Netherlands	35,550	35,550
Poland	-	32,183
Spain/Portugal	32,354	-
Other	158	159
Total	**1,916,255**	**1,522,760**

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 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 flows. 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 2014 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	9.24%	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 2014 and 2013 the Group did not recognise any impairment loss on goodwill.

The changes in 2014 and 2013 in this item in the accompanying consolidated balance sheets as at 31 December 2014 and 2013 were as follows:

	Thousands of Euros	
	2014	2013
Balance at beginning of year	1,522,760	1,539,252
Additions (Note 3-b)	440,428	-
Of which:		
Financiera El Corte Inglés, E.F.C., S.A. (Spain)	*32,354*	-
Santander Consumer Bank AB (Sweden)	*408,074*	-
Disposals (Note 3-b)	(32,183)	-
Of which:		
Santander Consumer Bank SA (Poland)	*(32,183)*	-
Impairment losses (Note 42)	-	-
Exchange differences and other	(14,750)	(16,492)
Balance at end of year	**1,916,255**	**1,522,760**

At 31 December 2014 and 2013, the Group had goodwill relating to cash-generating units located in non-euro currency countries (mainly Poland and Norway -31 December 2013 Poland only), 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 as at 31 December 2014 and 2013 is as follows:

	Estimated	Thousands of Euros	
	Useful Life	2014	2013
With finite useful life:			
Customer base	10 years	1,700	14,062
IT developments	3 years	371,548	508,265
Other		712	92
		373,960	**522,419**

The changes in 2014 and 2013 in "Other Intangible Assets" in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2014	2013
Balance at beginning of year	522,419	561,313
Net additions	109,749	109,062
Amortisation charge	(143,392)	(146,496)
Impairment losses (Note 42)	(114,816)	(1,460)
Balance at end of year	**373,960**	**522,419**

Most of the additions in 2014 and 2013 relate to the implementation of management and accounting software at certain Group companies in Germany for their commercial banking business.

In 2014, impairment losses of EUR 115 million were recognised under "Impairment Losses on Other Assets (Net) - Goodwill and Other Intangible Assets" in the consolidated income statement. These impairment losses relate mainly to the decline in or loss of the recoverable value of certain computer systems and software as a result of the processes initiated by the Group to adapt to the various regulatory changes and to transform or integrate businesses.

16. Other assets and Other liabilities

The detail of “Other Assets” and “Other Liabilities” in the accompanying consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of Euros			
	Assets		Liabilities	
	2014	2013	2014	2013
Inventories	3,790	5,367	-	-
Prepaid expenses	47,832	44,919	-	-
Accrued expenses	-	-	375,743	368,545
Transactions in transit	6,104	16,889	85,358	39,071
Other	963,254	673,189	836,056	574,658
	1,020,980	**740,364**	**1,297,157**	**982,274**

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 as at 31 December 2014 and 2013 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 as at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Type:		
Reciprocal accounts	6,606	45,415
Time deposits	5,784,940	12,406,918
Other demand accounts	1,235,555	1,505,937
	7,027,101	13,958,270
Currency:		
Euro	4,229,674	11,363,592
Foreign currency	2,797,427	2,594,678
	7,027,101	13,958,270
Add - Valuation adjustments	33,989	51,634
Of which:		
Accrued interest	*36,061*	*52,581*
Other	*(2,072)*	*(947)*
	7,061,090	**14,009,904**

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 2014 and 2013 and of the related average annual interest rates in the years then ended.

At 31 December 2014, the consolidated entities had unused credit facilities amounting to EUR 305,669 thousand (31 December 2013: EUR 3,300,950 thousand).

18. Customer deposits

The detail, by type, geographical area and currency, of “Customer Deposits” in the accompanying consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Type:		
On demand-		
Current accounts	13,325,581	12,910,139
Savings accounts	5,744,405	3,519,302
Other demand deposits	2,039	790
Time deposits-		
Fixed-term deposits	9,851,943	13,975,569
Home-purchase savings accounts	9	2
Other time deposits	150,264	150,000
	29,074,241	30,555,802
Geographical area:		
Spain and Portugal	286,279	273,979
Germany	24,946,461	27,069,954
Poland	-	1,591,378
Italy	208,286	322,648
Scandinavia	2,754,083	1,123,618
Other	879,132	174,225
	29,074,241	30,555,802
Currency:		
Euro	26,320,200	25,002,318
Foreign currency	2,754,041	5,553,484
	29,074,241	30,555,802
Add - Valuation adjustments	223,812	374,078
Of which:		
Accrued interest	*224,260*	*374,923*
Other	*(448)*	*(845)*
	29,298,053	**30,929,880**

The amount recognised under “Other Time Deposits” at 31 December 2014 and 2013 in the foregoing table relates basically 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 2014 and 2013 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 as at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Bonds and debentures outstanding	12,347,409	8,887,318
Mortgage-backed bonds	1,193,952	1,193,952
Notes and other securities	4,807,774	2,493,691
	18,349,135	12,574,961
Add- Valuation adjustments-	143,320	138,690
Of which:		
Accrued interest	98,391	74,455
Issue premiums/discounts	827	1,132
Micro-hedges (Note 30) (*)	47,444	69,277
Other	(3,342)	(6,174)
	18,492,455	**12,713,651**

(*) Of which EUR 9,707 thousand relate to a micro-hedge that was discontinued in 2014 (EUR 17,482 thousand relate to a micro-hedge that was discontinued in 2013). 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 by Group subsidiaries -Santander Consumer Bank S.p.A. (Italy) and Santander Consumer Bank AS (Norway)- amounting to EUR 953,733 thousand at 31 December 2014 (31 December 2013: EUR 1,566,326 thousand). At 31 December 2014, “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 6,259,557 thousand (31 December 2013: EUR 4,921,986 thousand).

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. This programme was listed on the Luxembourg Stock Exchange on 26 June 2013 and matures between 20 January 2014 and 28 September 2016. The annual interest rate on these liabilities is between 1.2% and 3.5%.

In addition, at the Board meeting held on 23 April 2014, the directors delegated these powers to the Bank's Executive Committee. At its meeting held on 12 June 2014, the Board of Directors resolved to launch a Euro Medium Term Notes programme with a maximum principal amount outstanding that may not exceed EUR 10,000 million. The programme was listed on the Irish Stock Exchange on 24 June 2014.

At 31 December 2014, the outstanding balance of these notes amounted to EUR 5,134,119 thousand (31 December 2013: EUR 2,399,006 thousand), and they mature between 17 March 2015 and 19 June 2018. The annual interest rate on these financial liabilities is between 0.41% and 1.79%.

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 0.40% in 2014 (2013: 1.05%), 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).

  At its meeting held on 18 September 2014, the Bank's 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 2,057,457 thousand at 31 December 2014 (31 December 2013: EUR 2,240,801 thousand).

- At its meeting held on 25 April 2013, the Bank’s Executive Committee resolved to launch a Euro Commercial Paper programme with a maximum principal amount outstanding that may not exceed EUR 8,000 million and a duration of one year. 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 Irish Stock Exchange on 21 June 2013.

  At its meeting held on 12 June 2014, the Bank’s Executive Committee resolved to launch a Euro Commercial Paper programme with a maximum principal amount outstanding that may not exceed EUR 5,000 million. The maturities of this commercial paper range from a minimum of 1 day to a maximum of 364 days. The programme was listed on the Irish Stock Exchange on 16 June 2014.

  The outstanding balance of this commercial paper amounted to EUR 2,750,317 thousand at 31 December 2014 (31 December 2013: 252,890 thousand).

Other information

At 31 December 2014 and 2013, 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 2014 and 2013 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, by trading market, if any, of the outstanding balance of the debt instruments issued by the Bank or by any other Group entity, at 31 December 2014 and 2013, and of the changes in this balance in 2014 and 2013:

	Thousands of Euros				
	2014				
	Outstanding Balance at 01/01/14	Issues	Repurchases or Redemptions	Exchange Rate and Other Adjustments (*)	Outstanding Balance at 31/12/14
Debt instruments issued in an EU Member State for which it was necessary to file a prospectus	12,574,961	24,397,588	(19,343,388)	125,492	17,754,653
Debt instruments issued in an EU Member State for which it was not necessary to file a prospectus	-	422,750	(146,782)	-	275,968
Other debt instruments issued outside an EU Member State	-	318,514	-	-	318,514
	12,574,961	**25,138,852**	**(19,490,170)**	**125,492**	**18,349,135**

(*) Includes, if any, the additions to and exclusions from the Group's scope of consolidation.

	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**

(*) Includes, if any, the additions to and exclusions from the Group's scope of consolidation.

Other issues guaranteed by the Group

At 31 December 2014 and 2013, 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 Bank's Board of Directors state that the Bank has specific policies and procedures in place to cover all activities relating to the mortgage market issues launched by the Bank, 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.

Summarised 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	
	2014	2013
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) (*)	2,590	2,325
Of which:		
Loans eligible to cover issues of mortgage-backed securities	*1,706*	*1,739*
Non-eligible mortgage loans and credits	*884*	*586*

(*) At 31 December 2014 and 2013, the only issues of this type related to the mortgage-backed bond issues launched by the Bank.

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 is to be adopted, the payments to all holders of the mortgage-backed bonds issued must 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 2014 and 2013 amounting to EUR 1,350 million relating to issues launched by the Bank, which is the only Spanish entity in the Group to have launched this type of issue.

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.

Appendix VI contains the additional disclosures required pursuant to Mortgage Market Law 2/1981, of 25 March, and to Royal Decree 716/2009, of 24 April, implementing certain provisions of the aforementioned Law, implemented by Bank of Spain Circular 5/2011.

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

The main characteristics of the most significant issues of asset-backed securities launched by the Group in 2014 and 2013, or guaranteed by the Bank or Group entities in those years, are as follows:

Issuer Data				Data on the Issues Launched in 2014								
Name	Relation ship with the Bank	Country of Origination	Issuer or Issue Credit Rating	ISIN Code	Type of Security	Transaction Date	Amount of the Issue (Thousands of Euros)	Balance Outstanding at 31/12/14 (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 2014 -1 UG (haftungsbeschränkt)	(*)	Germany	DBRS A (sf) Rating/S&P A (sf) Rating	XS1043161667	Senior debt	20/03/14	1,205,000	1,205,000	2.301%	Luxembourg Stock Exchange	-	-
SC Germany Consumer 2014 -1 UG (haftungsbeschränkt)	(*)	Germany	N/A	XS1043162046	Junior debt	20/03/14	145,000	145,000	3.384%	Luxembourg Stock Exchange	-	-
SC Germany Auto 2014 -1 UG (haftungsbeschränkt)	(*)	Germany	Fitch AAA sf Rating/Moody's Aaa (sf) Rating/S&P AAA (sf) Rating	XS1041499283	Senior debt	20/03/14	553,500(**)	374,667	Euribor + 0.42%	Luxembourg Stock Exchange	-	-
SC Germany Auto 2014 -1 UG (haftungsbeschränkt)	(*)	Germany	N/A	XS1041500551	Junior debt	20/03/14	46,500	46,500	2.25%	Luxembourg Stock Exchange	-	-
SC Austria 2013-1, S.A.	(*)	Austria	N/A	N/A	Senior debt	31/10/14	300,000	275,968	3M Euribor + 0.90%	N/A	-	-
SC Austria 2013-1, S.A.	(*)	Austria	N/A	N/A	Junior debt	31/10/14	122,750	122,750	3M Euribor + spread	N/A	-	-
Golden Bar (Securitisation) S.R.L.	(*)	Italy	DBRS A (high) (sf) Rating/Moody's A2 (sf) Rating	IT0005026163	Senior debt	11/06/14	646,800	646,800	Euribor + 1.1%	Irish Stock Exchange	-	-
Golden Bar (Securitisation) S.R.L.	(*)	Italy	DBRS A (low) (sf) Rating/Moody's Baa2 (sf) Rating	IT0005026189	Senior debt	11/06/14	30,100	30,100	1.30%	Irish Stock Exchange	-	-

Issuer Data				Data on the Issues Launched in 2014								
Name	Relationship with the Bank	Country of Origination	Issuer or Issue Credit Rating	ISIN Code	Type of Security	Transaction Date	Amount of the Issue (Thousands of Euros)	Balance Outstanding at 31/12/14 (Thousands of Euros)	Interest Rate	Market Where Quoted	Type of Guarantee Given	Risks Additional to the Guarantee that the Group would Assume
Golden Bar (Securitisation) S.R.L.	(*)	Italy	N/A	IT0005026197	Junior debt	11/06/14	75,100	75,100	N/A	N/A	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1	(*)	Spain	DBRS A (sf) Rating/Fitch A (sf) Rating	ES0305053003	Senior debt	20/11/14	703,000	703,000	2%	AIAF	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1	(*)	Spain	DBRS BBB (sf) Rating/Fitch BBB (sf) Rating	ES0305053011	Junior debt	20/11/14	27,400	27,400	2.5%	AIAF	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1	(*)	Spain	DBRS BB (low) (sf) Rating/Fitch BB+ (sf) Rating	ES0305053029	Junior debt	20/11/14	15,200	15,200	3.5%	AIAF	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1	(*)	Spain	DBRS B (low) (sf) Rating/Fitch BB (sf) Rating	ES0305053037	Junior debt	20/11/14	14,400	14,400	5%	AIAF	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1	(*)	Spain	DBRS C (sf) Rating/Fitch CC (sf) Rating	ES0305053045	Junior debt	20/11/14	38,000	38,000	5%	AIAF	-	-
SC Germany Auto 2014 -2 UG (haftungsbeschränkt)	(*)	Germany	S&P A (sf) Rating/DBRS A (sf) Rating	XS1107063676	Senior debt	17/09/14	2,895,000	2,895,000	1.209%	Luxembourg Stock Exchange	-	-
SC Germany Auto 2014 -2 UG (haftungsbeschränkt)	(*)	Germany	N/A	XS1107063593	Junior debt	17/09/14	105,000	105,000	2.505%	Luxembourg Stock Exchange	-	-

Issuer Data				Data on the Issues Launched in 2014								
Name	Relation ship with the Bank	Country of Origination	Issuer or Issue Credit Rating	ISIN Code	Type of Security	Transaction Date	Amount of the Issue (Thousands of Euros)	Balance Outstanding at 31/12/14 (Thousands of Euros)	Interest Rate	Market Where Quoted	Type of Guarantee Given	Risks Additional to the Guarantee that the Group would Assume
Bilkreditt 6 Limited	(*)	Norway	S&P AAA (sf) Rating/Moody's Aaa (sf) Rating	XS1101828561	Senior debt	12/09/14	715,000(**)	637,972	Euribor + 0.37%	Irish Stock Exchange	-	-
Bilkreditt 6 Limited	(*)	Norway	S&P A (sf) Rating/Moody's A1 (sf) Rating	XS1101831516	Junior debt	12/09/14	67,350	67,350	Nibor + 1.10%	Irish Stock Exchange	-	-
Bilkreditt 6 Limited	(*)	Norway	N/A	N/A	Junior debt	12/09/14	42,867	42,867	Nibor + 1.20%	N/A	-	-
SCFI Rahoituspalvelut Limited	(*)	Finland	Fitch AAA sf Rating/Moody's Aaa (sf) Rating	XS1116626141	Senior debt	05/11/14	442,800(**)	408,098	0.472%	Irish Stock Exchange	-	-
SCFI Rahoituspalvelut Limited	(*)	Finland	Fitch AA sf Rating/Moody's Aa2 (sf) Rating	XS1116626497	Junior debt	05/11/14	43,500	43,500	0.75%	Irish Stock Exchange	-	-
SCFI Rahoituspalvelut Limited	(*)	Finland	Fitch A+ sf Rating/Moody's A2 (sf) Rating	N/A	Junior debt	05/11/14	6,700	6,700	1%	Irish Stock Exchange	-	-
SCFI Rahoituspalvelut Limited	(*)	Finland	Fitch A sf Rating/Moody's Baa1 (sf) Rating	N/A	Junior debt	05/11/14	7,200	7,200	1.75%	Irish Stock Exchange	-	-
SCFI Rahoituspalvelut Limited	(*)	Finland	Fitch BB+ sf Rating/ Moody's Ba1 (sf) Rating	N/A	Junior debt	05/11/14	8,200	8,200	3.5%	Irish Stock Exchange	-	-
SCFI Rahoituspalvelut Limited	(*)	Finland	N/A	N/A	Junior debt	05/11/14	9,300	9,300	7%	Irish Stock Exchange	-	-

(*) 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 2013								
Name	Relation ship with the Bank	Country of Origination	Issuer or Issue Credit Rating	ISIN Code	Type of Security	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 Security	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 (sf) 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 Security	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.

20. Subordinated liabilities

The detail, by currency of issue, of “Subordinated Liabilities” in the accompanying consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of Euros		31 December 2014		31 December 2013	
Currency of Issue	2014	2013	Outstanding Issue Amount in Foreign Currency (Millions)	Annual Interest Rate at 31/12/14	Outstanding Issue Amount in Foreign Currency (Millions)	Annual Interest Rate at 31/12/13
Euro	1,192,420	1,260,664	-	3.03%	-	3.01%
Norwegian krone (*)	43,148	46,646	390	2.79%	390	3.80%
Polish zloty (**)	-	36,508	-	-	152	5.02%
Balance at end of year	**1,235,568**	**1,343,818**				

(*) Including, at 31 December 2014 and 2013, 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.

(**) Included, at 31 December 2013, two subordinated loans granted to Santander Consumer Bank S.A. (Poland) by a Santander Group entity for a nominal amount of PLN 100 million and PLN 50 million, which could be repaid early on or after 14 December 2011 and 15 January 2014, respectively. This company ceased to be fully consolidated in 2014 (see Note 3).

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.	13,000	Open Bank Santander Consumer, S.A.	(2)	31/10/18
Santander Consumer Bank S.p.A.	13,000	Open Bank Santander Consumer, S.A.	(2)	31/10/18
Santander Consumer Bank S.p.A.	13,000	Open Bank Santander Consumer, S.A.	(2)	22/06/16
Santander Consumer Bank S.p.A.	16,250	Open Bank Santander Consumer, S.A.	(2)	31/10/18
Santander Consumer Bank S.p.A.	16,250	Open Bank Santander Consumer, S.A.	(2)	31/10/18
Santander Consumer Bank S.p.A.	32,500	Open Bank Santander Consumer, S.A.	(2)	22/06/16
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.	6,500	Santander Benelux, S.A./N.V.	(2)	22/04/15
Santander Consumer Bank S.p.A.	3,500	Santander Benelux, S.A./N.V.	(2)	30/06/15
Santander Consumer Bank S.p.A.	20,000	Santander Benelux, S.A./N.V.	(2)	31/12/19
Santander Consumer Bank S.p.A.	32,500	Santander Benelux, S.A./N.V.	(2)	22/04/15
Santander Consumer Bank S.p.A.	17,500	Santander Benelux, S.A./N.V.	(2)	30/06/15
Santander Consumer Bank S.p.A.	20,000	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
	1,191,000			
Add - Valuation adjustments	1,420			
Total	**1,192,420**			

(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 2014 and 2013 were as follows:

	Thousands of Euros	
	2014	2013
Balance at beginning of year	1,343,818	1,524,555
Additions	128,750	-
Of which:		
Italy	*128,750*	-
Redemptions	(196,750)	(170,100)
Of which:		
Spain	-	*(153,600)*
Germany	*(45,000)*	-
Italy	*(151,750)*	*(16,500)*
Exchange differences and other (*)	(40,250)	(10,637)
Balance at end of year	**1,235,568**	**1,343,818**

(*) Includes the additions to and exclusions from the Group's scope of consolidation.

Note 46 contains a detail of the residual maturity periods of these subordinated liabilities at 31 December 2014 and 2013 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 consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Declared dividends payable (Note 4-a)	302,182	-
Trade payables	159,377	46,277
Tax collection accounts	18,928	15,636
Unsettled financial transactions	3,929	5,387
Other financial liabilities (*)	283,986	178,791
	768,402	**246,091**

(*) This item includes EUR 160,546 thousand at 31 December 2014 relating to balances payable arising from tax consolidation with Banco Santander, S.A. (31 December 2013: EUR 91,198 thousand in this connection) (see Note 23).

Note 46 contains a detail of the residual maturity periods of these financial liabilities at 2014 and 2013 year-end.

22. Provisions

The detail of “Provisions” in the consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Provisions for pensions and similar obligations	564,648	453,323
Provisions for taxes and other legal contingencies	51,480	82,971
Provisions for contingent liabilities and commitments	4,636	7,233
Other provisions	313,954	99,177
	934,718	**642,704**

The changes in 2014 and 2013 in the balance of this item in the accompanying consolidated balance sheets were as follows:

	2014					2013				
	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	453,323	82,971	7,233	99,177	642,704	439,855	82,367	6,222	166,367	694,811
Net inclusion (exclusion) of entities in (from) the Group	10,908	(2,678)	(1,285)	(10,144)	(3,199)	-	-	-	-	-
Additions (Reversals) charged (credited) to income:										
Interest expense and similar charges (Note 32)	15,333	-	-	-	15,333	14,257	-	-	-	14,257
Staff costs (Note 40)	10,373	-	-	-	10,373	11,451	-	-	-	11,451
Net additions to provisions (amounts used) (**)	(397)	(9,977)	(1,311)	482,327	470,642	7,408	9,083	1,090	10,399	27,980
	36,217	(12,655)	(2,596)	472,183	493,149	33,116	9,083	1,090	10,399	53,688
Changes in value recognised in equity	104,162	-	-	-	104,162	14,075	-	-	-	14,075
Payments to retired employees and pre-retirees with a charge to internal provisions (***)	(25,613)	-	-	-	(25,613)	(24,371)	-	-	-	(24,371)
Insurance premiums paid and return premiums received	(4,343)	-	-	-	(4,343)	-	-	-	-	-
Payments to retired employees by insurance companies	-	-	-	-	-	(3,160)	-	-	-	(3,160)
Amounts used	-	(20,465)	-	(233,847)	(254,312)	-	(9,440)	-	(32,794)	(42,234)
Transfers, exchange differences and other changes	902	1,629	(1)	(23,559)	(21,029)	(6,192)	961	(79)	(44,795)	(50,105)
	75,108	(18,836)	(1)	(257,406)	(201,135)	(19,648)	(8,479)	(79)	(77,589)	(105,795)
Balances at end of year	**564,648**	**51,480**	**4,636**	**313,954**	**934,718**	**453,323**	**82,971**	**7,233**	**99,177**	**642,704**

(*) Most of the German banking industry has been affected by two German Supreme Court decisions in 2014 in relation to handling fees in consumer loan agreements.

In May 2014 the German Supreme Court held handling fees in loan agreements to be null and void. The Court subsequently handed down a ruling at the end of October 2014 extending from three to ten years the statute-of-limitation period on claims relating to old transactions. Therefore, any claims relating to handling fees paid between 2004 and 2011 become statute-barred in 2014. This situation gave rise to numerous claims at the end of 2014 which have affected the income statements of banks in Germany.

Santander Consumer Bank AG stopped including these handling fees in agreements from 1 January 2013 and ceased charging these fees definitively at that date, i.e. before the Supreme Court handed down its judgment on the issue.

In 2014 Santander Consumer Bank AG recognised provisions totalling approximately EUR 455 million to cover the estimated cost of the claims relating to handling fees, considering both the claims already received and the estimated claims that may be received in 2015 relating to fees paid in 2012; no new claims are expected to be received for fees paid earlier than 2012 since they are statute-barred.

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

	Thousands of Euros	
	2014	2013
	Expense / (Income)	
Post-employment benefits - Spanish entities:		
Past service cost	279	-
Pre-retirements	-	-
Curtailments/settlements	-	-
Return premiums received on defined contribution pension plans	(43)	(47)
	236	(47)
Other long-term benefits - Spanish entities:		
Recognised actuarial losses/(gains) (obligations and assets)	3,449	4,119
Pre-retirements	3,246	-
Past service cost	-	4,684
Curtailments/settlements	-	-
	6,695	8,803
Foreign entities:		
Recognised actuarial losses/(gains) (obligations and assets)	(209)	38
Past service cost	4	-
Curtailments/settlements	(7,123)	(1,386)
	(7,328)	(1,348)
	(397)	**7,408**

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

	Thousands of Euros	
	2014	2013
Post-employment benefits - Spanish entities	2,644	2,684
Other long-term benefits - Spanish entities	11,934	12,096
Foreign entities	11,035	9,591
	25,613	**24,371**

Provisions for pensions and similar obligations

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

The Group has classified the following obligations of the Spanish consolidated entities 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 2014 the Bank received return premiums amounting to EUR 43 thousand from the insurance company (2013: EUR 47 thousand). No premiums were paid to the insurance company in 2014 (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 2014 and 2013 (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 2014 contributions made in this connection amounted to EUR 341 thousand (2013: EUR 343 thousand) and were recognised with a charge to "Staff Costs - Contributions to Defined Contribution Pension Plans" in the accompanying consolidated income statement for 2014 (see Note 40).

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

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

Santander Consumer Finance, S.A.

- Pension obligations under the 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.

- Pension obligations under the 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 obligations assumed by the Spanish consolidated entities in relation to post-employment benefits at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Present value of the obligations:		
To current employees	161	115
Vested obligations to retired employees and pre-retirees	32,491	31,131
Other obligations to retired employees	198	189
Provisions - Provisions for pensions and similar obligations (Note 2-q)	**32,850**	**31,435**

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:

	2014	2013
Annual discount rate	1.5%	2.8%
Mortality tables	PERM/F-2000P	PERM/F-2000P
Cumulative annual CPI growth	1.5%	1.5%
Annual salary increase rate	2.5%	2.5%
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 statements in relation to these pension obligations in 2014 and 2013 are as follows:

	Thousands of Euros	
	2014	2013
	Expense / (Income)	
Current service cost (Notes 2-q and 40)	81	75
Net interest cost (Note 32)	798	872
Extraordinary charges		
Past service cost	279	-
Return premiums received on defined contribution pension plans	(43)	(47)
Amount recognised in the year	**1,115**	**900**

In addition, in 2014 a net charge of EUR 2,031 million with respect to defined benefit obligations was recognised in "Valuation Adjustments - Other Valuation Adjustments" (2013: a decrease of EUR 1,607 million).

The changes in 2014 and 2013 in the present value of the accrued defined benefit obligations of the Spanish entities in the Group were as follows:

	Thousands of Euros	
	2014	2013
Present value of the obligations at beginning of year	31,435	30,877
Current service cost (Notes 40 and 2-q)	81	75
Interest cost (Note 32)	798	872
Pre-retirements	-	-
Effect of curtailments/settlements	-	-
Benefits paid	(2,644)	(2,684)
Past service cost	279	-
Actuarial (gains)/losses (Note 2-q) (*)	2,901	2,296
Other	-	(1)
Present value of the obligations at end of year	**32,850**	**31,435**

(*) Including in 2014 demographic actuarial gains of EUR 753 thousand (2013: losses of EUR 1,762 thousand) and financial actuarial losses of EUR 3,654 thousand in the post-employment plans (2013: losses of EUR 534 thousand).

iii. Other long-term benefits - Spanish entities

The long-term benefit obligations (other than post-employment benefit obligations) guaranteed by the Spanish subsidiaries of 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 individual pre-retirement agreements and/or 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 Renting, S.L.

- 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.

Financiera el Corte Inglés, E.F.C., S.A.

- In accordance with the Collective Agreement in force, the Company has undertaken to pay bonuses to the employees who opt to retire prior to the legal retirement age (65 years and two months) should they have the right to do so.

The present value of the aforementioned obligations at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Present value of the obligations:		
To pre-retirees	68,800	72,108
Long-service bonuses	188	172
Provisions - Provisions for pensions and similar obligations (Note 2-r)	**68,988**	**72,280**

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	2013
Annual discount rate	1.5%-2.00%	2.8%-3%
Mortality tables	PERM/F-2000P	PERM/F-2000P
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 statements for 2014 and 2013 in relation to these pension obligations are as follows:

	Thousands of Euros	
	2014	2013
	Expense / (Income)	
Current service cost (Note 40)	9	8
Net interest cost (Note 32)	1,756	2,023
Expected return on insurance contracts linked to pensions (Note 31)	-	-
Extraordinary charges		
Actuarial (gains)/losses recognised in the year	3,449	4,119
Past service cost	-	4,684
Pre-retirement cost	3,246	-
Curtailments/settlements	-	-
Amount recognised in the year	**8,460**	**10,834**

The changes in 2014 and 2013 in the present value of the accrued obligations for other long-term benefits of the Spanish entities in the Group were as follows:

	Thousands of Euros	
	2014	2013
Present value of the obligations at beginning of year	72,280	73,541
Current service cost (Note 40)	9	8
Interest cost (Note 32)	1,756	2,023
Pre-retirements	3,246	-
Effect of curtailments/settlements	-	-
Benefits paid	(11,934)	(12,096)
Past service cost	-	4,684
Actuarial (gains)/losses recognised in the year	3,449	4,119
Exchange differences and other items	182	1
Present value of the obligations at end of year	**68,988**	**72,280**

iv. Post-employment benefits – Other foreign subsidiaries

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

	Thousands of Euros	
	2014	2013
Present value of the obligations:	506,475	379,635
Of which:		
Germany	*401,512*	*310,342*
Less-		
Plan assets	(43,665)	(30,027)
Provisions - Provisions for pensions and similar obligations (Note 2-q)	**462,810**	**349,608**

The most significant actuarial assumptions used by the entities located in Germany in estimating the value of their obligations were as follows:

	2014	2013
Annual discount rate	2.20%	3.50%
Mortality tables	R2005G of Heubeck-Richttafeln-	R2005G of Heubeck-Richttafeln-
Cumulative annual CPI growth	2.00%	-
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, Santander Consumer Bank, AG and Santander Consumer Bank AB). The contributions made to these plans in 2014 amounted to EUR 9,285 thousand (2013: EUR 7,991 thousand), which were recognised under “Administrative Expenses - Staff Costs” in the consolidated income statement (see Note 40).

The amounts recognised in the consolidated income statements for 2014 and 2013 in relation to these defined benefit pension obligations of the Group's foreign entities were as follows:

	Thousands of Euros	
	2014	2013
	Expense / (Income)	
Current service cost (Note 40)	10,283	11,368
Net interest cost (Note 32)	13,960	12,253
Extraordinary charges		
Past service cost	4	
Effect of curtailments/settlements	(7,332)	(1,386)
Expected return on plan assets (Note 32)	(1,181)	(891)
Amount recognised in the year	**15,734**	**21,344**

(*) This item is recognised at its net amount of EUR 12,779 thousand (2013: EUR 11,362 thousand) under "Interest Expense and Similar Charges" in the consolidated income statement (see Note 32).

In addition, in 2014 a net charge of EUR 65,514 thousand with respect to defined benefit obligations was recognised under "Valuation Adjustments – Other Valuation Adjustments" (2013: a decrease of EUR 7,024 thousand).

The changes in 2014 and 2013 in the present value of the accrued defined benefit obligations and in the plan assets were as follows:

	Thousands of Euros	
	2014	2013
Present value of the obligations at beginning of year	379,635	360,981
Net inclusion/(exclusion) of entities in/(from) the Group	24,443	-
Current service cost (Note 40)	10,283	11,368
Interest cost (Note 32)	13,960	12,253
Pre-retirements	-	-
Effect of curtailments/settlements	(7,332)	(1,386)
Benefits paid	(11,712)	(11,131)
Past service cost	4	-
Actuarial (gains)/losses (*)	97,998	13,603
Exchange differences, transfers and other items	(804)	(6,053)
Present value of the obligations at end of year	**506,475**	**379,635**

(*) Including in 2014 demographic actuarial losses of EUR 16,843 thousand (2013: losses of EUR 17,010 thousand) and financial actuarial losses of EUR 85,763 thousand on the post-employment plans (2013: financial actuarial gains of EUR 3,407 thousand).

The changes in 2014 and 2013 in the fair value of the plan assets associated with other obligations were as follows:

	Thousands of Euros	
	2014	2013
Fair value of plan assets at beginning of year	30,027	25,544
Net inclusion (exclusion) of entities in (from) the Group	13,535	-
Expected return on plan assets	1,181	891
Net actuarial gains/(losses) arising in the year	(3,263)	25
Contributions	4,343	8,220
Benefits paid	(677)	(1,510)
Exchange differences and other items	(1,481)	(3,143)
Fair value of plan assets at end of year	**43,665**	**30,027**

v. Sensitivity analysis

Changes in the main assumptions used in the valuation might affect the calculation of the obligations. At 31 December 2014, 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 +/-5%.

vi. Funding status of pension fund in 2014 and the four preceding years

The funding status of the defined benefit obligations at the end of 2014 and the four preceding years is as follows:

Spanish entities-

	Thousands of Euros									
	Post-Employment Benefits					Other Long-Term Employee Benefits				
	2014	2013	2012	2011	2010	2014	2013	2012	2011	2010
Present value of the obligations:										
To current employees	161	115	78	73	69	-	-	-	-	-
Vested obligations to retired employees	32,491	31,131	30,610	31,308	32,607	-	-	-	-	-
To pre-retirees	-	-	-	-	-	68,811	72,108	73,386	83,481	94,941
Long-service bonuses and other obligations	-	-	-	-	-	177	172	155	151	140
Other	198	189	189	780	180	-	-	-	-	-
Provisions - Provisions for pensions	**32,850**	**31,435**	**30,877**	**32,161**	**32,856**	**68,988**	**72,280**	**73,541**	**83,632**	**95,081**
Of which:										
Insurance contracts linked to pensions	-	-	-	*27,316*	*28,160*	-	-	-	*422*	*945*

Foreign entities-

	Thousands of Euros				
	2014	2013	2012	2011	2010
Present value of the obligations	506,475	379,635	360,981	299,773	212,749
Less-					
Fair value of plan assets	(43,655)	(30,027)	(25,544)	(22,578)	(21,607)
Provisions - Provisions for pensions	**462,810**	**349,608**	**335,437**	**277,195**	**191,142**

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 income tax expense recognised in the consolidated income statement

The reconciliation of the consolidated accounting profit to the income tax expense in the consolidated income statements for 2014 and 2013 is as follows:

	Thousands of Euros			
	2014		2013	
	Continuing Operations	Discontinued Operations	Continuing Operations	Discontinued Operations
Consolidated profit (loss) before tax	824,299	*(26,282)*	*894,082*	*(5,904)*
Income tax expense (*)	*247,290*	*(7,884)*	*268,225*	*(1,771)*
Permanent differences (**)	(112,835)	(7,884)	(14,812)	(1,771)
Consolidated income tax	134,455	-	**253,413**	-
Effective tax rate	**16.3%**	-	**28.34%**	-

(*) Calculated applying the Bank's effective tax rate (30%)

(**) These include the net tax effect of permanent differences at the consolidated entities, differences arising as a result of the existence of different tax rates in the countries in which the Group operates and the effect of tax credits and tax relief in each jurisdiction in which the consolidated companies carry on their business.

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					
	2014			2013		
	Monetisable	Other	Total	Monetisable	Other	Total
Tax assets	**324,223 (*)**	**504,668**	**828,892**	**306,570 (*)**	**536,900**	**843,470**
Tax losses and tax credits	-	68,213	68,213	-	73,653	73,653
Temporary differences	324,223	436,457	760,680	306,570	463,247	769,817
Of which:						
Non-deductible provisions	-	*32,156*	*32,156*	-	*59,729*	*59,729*
Valuation of investments and financial instruments	-	*108,494*	*108,494*	-	*136,447*	*136,447*
Tax credit for reinvestment and double taxation of gains on disposal of investments	-	*56,637*	*56,637*	-	*56,637*	*56,637*
Credit losses	*288,639*	*28,188*	*316,827*	*254,024*	*56,992*	*311,016*
Pensions	*31,208*	*92,005*	*123,213*	*38,968*	*51,380*	*90,348*
Valuation of tangible and intangible assets	*4,377*	*60,854*	*65,231*	*13,578*	*62,978*	*76,556*
Tax liabilities	-	**378,086**	**378,086**	-	**375,985**	**375,985**
Temporary differences	-	378,086	378,086	-	375,985	375,985
Of which:						
Valuation of financial instruments	-	*90,920*	*90,920*	-	*95,219*	*95,219*
Valuation of tangible and intangible assets	-	*66,789*	*66,789*	-	*62,972*	*62,972*
Gains on disposal of investments	-	*139,193*	*139,193*	-	*139,193*	*139,193*
Valuation of Group investments	-	*41,440*	*41,440*	-	*40,487*	*40,487*

(*) At 31 December 2014, EUR 123 million related to monetisable tax assets corresponding to Spain (31 December 2013: EUR 134 million) and EUR 201 million corresponding to Italy (31 December 2013: EUR 167 million).

d) *Tax recognised in equity*

In addition to the income tax recognised in the consolidated income statements, in 2014 and 2013 the Group recognised the following amounts in consolidated equity:

	Thousands of Euros	
	Credits/Charges to Equity	
	2014	2013
Actuarial gains and losses on pension plans	36,617	3,063
Cash flow hedges	(6,092)	(12,133)
Available-for-sale financial assets	(387)	535
Total	**(30,138)**	**(8,535)**

e) *Years open for review by the tax authorities*

The Bank forms part of the Tax Group headed by Banco Santander, S.A. Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired.

In 2010 the tax audit of the transactions performed by the Bank in 2003 and 2004 was completed in relation to all the taxes applicable to it, with some of the items signed on a contested basis.

In 2014 the assessments arising from the outcome of the tax audit of the Consolidated Tax Group to which the Bank belongs of the years 2005 to 2007 were signed partly on an uncontested basis and partly on a contested basis. Notification was received by Banco Santander S.A., as Parent, at the beginning of February 2015 of the final agreed payments arising from these assessments. Also, in 2014 a tax audit of the Consolidated Tax Group for 2009, 2010 and 2011 commenced; and the Consolidated Tax Group had the years to 2014 open for review.

The notes to the separate financial statements of the consolidated entities include other salient information in relation to the tax matters affecting those entities.

In 2014 there were no developments with a significant impact in connection with the tax disputes at various instances which were pending resolution at 31 December 2013.

The other entities have the corresponding years open for review, pursuant to their respective tax regulations. Because of the possible different interpretations which can be made of the tax regulations, the outcome of the tax audits of the open years might give rise to contingent tax liabilities which cannot be objectively quantified. However, the Group's tax advisers consider that it is unlikely that such tax liabilities will arise, and that in any event the tax charge arising therefrom would not materially affect the Group's consolidated financial statements.

24. Registered share capital

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.

Therefore, at 31 December 2013, the Bank's share capital, the only share capital included in the accompanying consolidated balance sheet as 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.

On 23 December 2014, the shareholders at the Extraordinary General Meeting of the Bank resolved to increase capital by EUR 375,000 thousand by issuing at par 125,000,000 ordinary shares of EUR 3 par value each. This capital increase was fully subscribed and paid by the Bank's shareholders on 23 December 2014, and it was executed in a public deed on 23 December 2014 and registered in the Mercantile Register on 30 December 2014.

Consequently, at 31 December 2014, the Bank's share capital, the only share capital included in the accompanying consolidated balance sheet as at that date as a result of the consolidation process, consisted of 1,779,546,172 fully subscribed and paid registered shares of EUR 3 par value each, all with the same voting and dividend rights. At 31 December 2014, 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 2014, 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 attributable to the Group 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, should the Bank perform such transactions, and the redistribution of profits to the Bank's shareholders recognised with a charge to reserves.

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 corresponding to the Group of the undistributed 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 "Shareholders' Equity - Reserves - Accumulated Reserves" and "Shareholders' Equity - Reserves - Reserves of Entities Accounted for Using the Equity Method" in the consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Accumulated reserves:		
Legal reserve	437,800	388,288
Unrestricted, voluntary and other reserves	1,929,735	1,788,164
Consolidation reserves attributable to the Bank	73,860	132,802
Reserves at subsidiaries	(1,629,890)	(1,640,502)
	811,505	**668,752**
Reserves of entities accounted for using the equity method:		
Associates and jointly controlled entities	**174,862**	**10,657**

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	
	2014	2013
Santander Consumer, E.F.C., S.A. (Spain)	(155,165)	(222,147)
Santander Consumer Holding GmbH (Germany)	(2,027,603)	(2,108,048)
Santander Consumer Bank S.p.A. (Italy)	(289,220)	(242,688)
Santander Consumer Bank AS (Norway)	115,845	57,538
Santander Consumer Finanse S.A. (Poland)	-	(54,601)
Santander Consumer Bank S.A. (Poland)	-	226,338
Santander Consumer Bank AG (Germany)	421,349	433,403
Other companies	304,904	269,703
	(1,629,890)	**(1,640,502)**

27. Valuation adjustments

The balances of "Valuation Adjustments" in the accompanying consolidated balance sheets as at 31 December 2014 and 2013 include the amounts, net of any 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, with the exception of actuarial gains and losses arising from defined benefit post-employment obligations, which will not be transferred to 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 2014 and 2013, disregarding the valuation adjustments attributable to non-controlling interests, were as follows:

	Thousands of Euros	
	2014	2013
Balance at beginning of year	(1,145)	642
Revaluation gains / (losses)	8	(1,321)
Amounts transferred to consolidated income statement	(113)	(985)
Income tax	(387)	519
Balance at end of year	**(1,637)**	**(1,145)**
Of which:		
Equities	-	*193*
Fixed-income securities	*(1,637)*	*(1,338)*

b) Cash flow hedges

The balance of “Valuation Adjustments - Cash Flow Hedges” 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 2014 and 2013 were as follows:

	Thousands of Euros	
	2014	2013
Balance at beginning of year	(12,502)	(48,064)
Revaluation gains/(losses)	(32,607)	7,242
Amounts transferred to consolidated income statement	42,676	40,356
Income tax	(6,092)	(12,036)
Balance at end of year (Note 30)	**(8,525)**	**(12,502)**

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 liability (asset) of the defined benefit post-employment obligations.

Changes in "Valuation Adjustments - Other Valuation Adjustments" are recognised in the consolidated statement of recognised income and expense. The most significant changes in 2014 related mainly to the changes in the main actuarial assumptions of the German subsidiary (reduction in the discount rate from 3.5% to 2.2%) and to the exchange rate fluctuations (depreciation of the Norwegian krone).

***e)* Hedges of net investments in foreign operations**

“Valuation Adjustments - Hedges of Net Investments in Foreign Operations” in consolidated equity includes the net amount of the changes in the derivatives arranged by the Group and designated as hedging instruments considered to be effective for hedges of this type. The changes in “Valuation Adjustments - Hedges of Net Investments in Foreign Operations” in 2014 (hedges of this type did not exist in 2013) were as follows:

	Thousands of Euros
	2014
Balance at beginning of year	-
Revaluation gains / (losses)	(3,391)
Amounts transferred to consolidated income statement	-
Balance at end of year	**(3,391)**

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 the consolidated profit for the year.

The detail, by Group company, of "Non-Controlling Interests" in the accompanying consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Kontacta Comunicaciones, S.A.	-	(10)
Santander Consumer Finance Media, S.r.L.	2,699	2,699
Suzuki Servicios Financieros, S.L.	1,520	1,218
Sánchez Ramade Santander Financiera, S.L.	-	33
Financiera El Corte Inglés, E.F.C., S.A.	103,713	-
Santander Consumer Bank S.A. (Poland)	-	(25,132)
	107,932	(21,192)
Profit (loss) for the year attributable to non-controlling interests:		
Kontacta Comunicaciones, S.A.	-	*10*
Santander Consumer Finance Media, S.r.l.	*(60)*	-
Suzuki Servicios Financieros, S.L.	*337*	*302*
Sánchez Ramade Santander Financiera, S.L.	-	*(33)*
Financiera El Corte Inglés, E.F.C., S.A.	*24,968*	-
Santander Consumer Bank, S.A. (Poland)	-	*25,132*
	25,245	25,411
	133,177	**4,219**

The changes in 2014 and 2013 in "Non-Controlling Interests" were as follows:

	Thousands of Euros	
	2014	2013
Balance at beginning of year	4,219	193,222
Change in proportion of ownership interest	103,713(*)	(163,550)(**)
Dividends	-	(47,686)
Exchange differences and other	-	(3,178)
Profit for the year attributable to non-controlling interests	25,245	25,411
Balance at end of year	**133,177**	**4,219**

(*) Corresponds to the 49% of subsidiary Financiera El Corte Inglés, E.F.C., S.A. held by El Corte Inglés, S.A. (see Note 3-b).

(**) 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 the balances recognised under "Memorandum Items" in the consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Contingent liabilities:		
Bank guarantees and other indemnities provided	753,761	228,328
Of which:		
Credit institutions	*616,355*	*98,554*
Other sectors	*137,406*	*129,774*
Other contingent liabilities	696	3,174
	754,457	**231,502**
Contingent commitments:		
Drawable by third parties	18,931,917	7,558,337
Of which:		
Drawable by credit institutions(*)	1,606,780	1,331,292
Other sectors	17,325,137	6,227,045
Other contingent commitments	189,928	102,816
	19,121,845	**7,661,153**

(*) 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 2014 and 2013 is as follows:

	Thousands of Euros			
	2014		2013	
	Notional Amount	Net Market Value: Debit / (Credit) Balance	Notional Amount	Net Market Value: Debit / (Credit) Balance
Trading derivatives:				
Interest rate risk-				
Interest rate swaps	7,659,033	(281,568)	10,701,477	(10,891)
Options and futures	-	-	550,500	-
Foreign currency risk-				
Currency swaps	2,174,109	19,258	1,664,447	2,681
	9,833,142	(262,310)	12,916,424	(8,210)
Hedging derivatives:				
Interest rate risk-				
Interest rate swaps	13,798,737	113,672	17,292,917	(358,885)
Foreign currency risk-				
Foreign currency purchases and sales	1,277,891	1,227	1,154,803	70,085
Currency swaps	1,849,728	-	870,611	9,837
	16,926,356	114,899	19,318,331	(278,963)
	26,759,498	**(147,411)**	**32,234,755**	**(287,173)**

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 2014 and 2013 is as follows:

Trading derivatives-

	2014				
	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)	2,408,052	5,169,919	81,062	-	7,659,033
Currency swaps	863,965	1,310,144	-	-	2,174,109
Total	**3,272,017**	**6,480,063**	**81,062**	-	**9,833,142**

	2013				
	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-

	2014				
	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)	6,007,750	7,440,987	350,000	-	13,798,737
Currency swaps	2,137,008	910,764	79,847	-	3,127,619
Total	**8,144,758**	**8,351,751**	**429,847**	-	**16,926,356**

	2013				
	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 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 2014 year-end, the Group held IRS contracts with a nominal amount of EUR 2,700 million (31 December 2013: EUR 700 million), the fair value of which represented a gain of EUR 37,737 thousand at that date (31 December 2013: EUR 51,795 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 8,218 million at 31 December 2014- recognised in “Gains/Losses on Financial Assets and Liabilities (Net)” in the accompanying consolidated income statement.

In 2014 the Group recognised losses amounting to EUR 9,564 thousand under “Gains/Losses on Financial Assets and Liabilities (Net) - Other” in the accompanying consolidated income statement for 2014 (2013: gains amounting to EUR 787 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 changes in 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 -8,525 thousand at 31 December 2014 (31 December 2013: EUR -12,502 thousand). This amount was recognised in the Group's consolidated equity at 31 December 2014 (see Note 27).

iii. Hedges of net investments in foreign operations

As part of its financial strategy, the Group hedges the foreign currency risk arising from its investments in non-euro-zone countries. To this end, it arranges foreign currency derivatives in order to take a long position in euros vis-à-vis the local currency of the investment.

At 31 December 2014, the nominal amount of the hedging instruments associated with these investments had a total euro equivalent value of EUR 341,738 thousand.

31. Interest and similar income

"Interest and Similar Income" in the consolidated income statements for 2014 and 2013 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, with the exception of trading derivatives; 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 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Balances with the Bank of Spain and other central banks	1,152	2,855
Loans and advances to credit institutions	70,046	100,114
Debt instruments	9,326	22,551
Loans and advances to customers	3,232,612	3,342,453
Doubtful assets	24,014	23,988
Rectification of income as a result of hedge accounting and other interest	205	11,841
	3,337,355	**3,503,802**

Most of the interest and similar income was generated by the Group's financial assets that are measured at amortised cost.

32. Interest expense and similar charges

"Interest Expense and Similar Charges" in the consolidated income statements for 2014 and 2013 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, with the exception of trading derivatives; 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 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Balances with the Bank of Spain and other central banks	2,709	10,976
Deposits from credit institutions	161,290	238,599
Customer deposits	468,078	645,036
Marketable debt securities	258,194	200,790
Subordinated liabilities	40,933	43,194
Provisions for pensions (Notes 2-q, 2-r and 22) (*)	15,333	14,257
Rectification of expenses as a result of hedge accounting	153,554	227,834
Other interest	20,503	19,364
	1,120,594	**1,400,050**

(*) Includes the interest on post-employment and other long-term benefits of Spanish entities, amounting to EUR 798 thousand and EUR 1,756 thousand, respectively, in 2014 (2013: EUR 872 thousand and EUR 2,023 thousand, respectively), and of foreign entities, amounting to EUR 12,779 thousand (2013: EUR 11,362 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 for 2014 and 2013 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, at 31 December 2014 and 2013, is as follows (see Note 13):

	Thousands of Euros	
	2014	2013
Santander Consumer Bank S.A. (Poland)	18,272	-
Bank of Beijing Consumer Finance Company	7,688	1,552
Santander Benelux, S.A./N.V.	7,241	6,488
Konecta BTO, S.L.	3,691	4,050
Other companies	4,639	(1,927)
	41,531	**10,163**

34. Fee and commission income

The balance of “Fee and Commission Income” in the consolidated income statements for 2014 and 2013 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 “Fee and Commission Income”, at 31 December 2014 and 2013, is as follows:

	Thousands of Euros	
	2014	2013
Collection and payment services:		
Bills	1,732	4
Demand accounts	15,215	16,772
Cards	100,684	68,533
Cheques and orders	53,438	51,900
	171,069	137,209
Marketing of non-banking financial products:		
Investment and pension funds	11,363	12,934
Insurance	644,370	657,285
Other	4,940	4,967
	660,673	675,186
Securities services:		
Securities trading	-	-
Administration and custody	4,401	4,057
Asset management	-	64
	4,401	4,121
Other:		
Financial guarantees	3,797	2,646
Other fees and commissions	240,761	225,215
	244,558	227,861
	1,080,701	**1,044,377**

35. Fee and commission expense

The balance of “Fee and Commission Expense” in the consolidated income statements for 2014 and 2013 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 “Fee and Commission Expense”, at 31 December 2014 and 2013, is as follows:

	Thousands of Euros	
	2014	2013
Brokerage fees on lending and deposit transactions	17,875	11,206
Fees and commissions assigned in respect of off-balance-sheet risks	926	372
Fees and commissions assigned for collection and return of bills	6,312	5,579
Fees and commissions assigned in other connections	8,254	10,449
Fees and commissions assigned for cards	31,416	30,393
Fees and commissions assigned for securities	19,761	17,406
Fees and commissions assigned to intermediaries	51,692	56,979
Other fees and commissions for placement of insurance	52,011	57,734
Other fees and commissions	80,271	60,554
	268,518	**250,672**

36. Gains/losses on financial assets and liabilities (net)

"Gains/Losses on Financial Assets and Liabilities (Net)" in the consolidated income statement for 2014 and 2013 includes the amount of the gains or losses recognised as valuation adjustments of instruments hedged by fair value hedges, the valuation adjustments of financial instruments, except, if any, those attributable to interest accrued as a result of application of the effective interest method, allowances, valuation adjustments corresponding to the effective portion of cash flow hedges, and the gains or losses obtained from the sale and purchase thereof.

The detail of "Gains/Losses on Financial Assets and Liabilities (Net)" at 31 December 2014 and 2013, by type of instrument, is as follows:

	Thousands of Euros	
	2014	2013
	Income/(Expenses)	
Held for Trading	5,879	(8,088)
Other financial instruments at fair value through profit or loss	-	-
Financial instruments not measured at fair value through profit or loss	7,918	437
Other (Note 30)	(9,564)	787
	4,233	**(6,864)**

37. Exchange differences (net)

"Exchange Differences (Net)" in the consolidated income statements for 2014 and 2013 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 for 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Sales and income from the provision of non-financial services (*)	72,161	73,277
Other	52,463	52,340
	124,624	**125,617**

(*) Relates mainly to income from operating leases on vehicles in Spain.

39. Other operating expenses

The detail of "Other Operating Expenses" in the consolidated income statements for 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Contributions to Deposit Guarantee Funds (Note 1-g)	27,835	27,702
Changes in inventories	61,159	61,473
Other	38,692	46,852
	127,686	**136,027**

(*) Relates mainly to expenses arising from the business of operating leases on vehicles in Spain.

40. Staff costs

The detail of "Staff Costs" in the consolidated income statements for 2014 and 2013 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" at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Wages and salaries	396,328	397,179
Social security costs	75,358	72,779
Additions to pension provisions (Note 22) (*)	10,373	11,451
Contributions to defined contribution pension funds (Note 22)	9,626	8,334
Contributions to plans - Spanish entities	*341*	*343*
Contributions to plans - foreign entities	*9,285*	*7,991*
Share-based payment costs	916	1,748
Other staff costs	23,698	23,783
Termination benefits	3,496	2,248
	519,795	**517,522**

(*) Of which:

- In 2014, EUR 81 thousand relate to "current service cost of defined benefit post-employment obligations - Spanish entities" (2013: EUR 75 thousand) (see Notes 2-q and 22).
- In 2014, EUR 10,283 thousand relate to "current service cost of defined benefit post-employment obligations - foreign entities" (2013: EUR 11,368 thousand) (see Notes 2-q and 22).
- In 2014, EUR 9 thousand relate to "current service cost of other long-term defined benefit obligations - Spanish entities" (2013: EUR 8 thousand) (see Notes 2-r and 22).

The average number of employees at the Group in 2014 and 2013, by professional category, was as follows:

	Average Number of Employees	
	2014	2013
The Bank:		
Senior executives	1	1
Middle management	-	-
Clerical staff	6	6
	7	7
Other companies (*)	8,726	10,108
	8,733	**10,115**

(*) Excluding personnel assigned to discontinued operations.

The functional breakdown, by gender, of the number of employees at the Group at 31 December 2014 and 2013 is as follows:

	2014			2013		
	Total	Men	Women	Total	Men	Women
Senior executives	97	82	15	113	100	13
Middle management	464	344	120	493	367	126
Clerical staff and other	7,567	3,534	4,033	9,266	3,782	5,484
	8,128	**3,960**	**4,168**	**9,872**	**4,249**	**5,623**

At 31 December 2014 and 2013, the Board of Directors of the Bank had 10 members, of whom 2 were 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 and since 2007 the Santander Group has set up remuneration systems tied to the performance of the stock market price of the shares of Banco Santander, S.A., aimed at certain senior executives of the Group companies (see Note 5). 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 2014, the Santander Group had approved a total of six cycles, all of which had already been settled, one in 2014. The delivery of shares is based on the achievement of certain targets. The detail of these systems, which at 2014 and 2013 year-end were outstanding, 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 2013	**1,607,858**					
Options exercised (Plan I13)	-	-	-	-	-	-
Options cancelled (Plan I13)	-780,232	2010	Executives	240	11/06/10	31/07/13
Plans outstanding at 31 December 2013	**827,626**					
Options exercised (Plan I14)	-	-	-	-	-	-
Options cancelled (Plan I14)	-827,626	2011	Executives	221	17/06/11	31/07/14
Plans outstanding at 31 December 2014	-	-	-	-	-	-
Of which (there are no further plans)						

In relation to all the plans set up, 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 2014, the expense recognised by the Group in this connection amounted to EUR 916 thousand (2013: EUR 1,748 thousand).

41. Other general administrative expenses

The detail of “Other General Administrative Expenses” in the consolidated income statements for 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Property, fixtures and supplies	96,168	104,838
Other administrative expenses	39,243	36,840
Communications	49,554	44,539
Taxes other than income tax	14,989	15,868
Technology and systems	155,593	166,879
Public relations, advertising and publicity	75,808	67,918
Per diems and travel expenses	12,206	14,021
Outside services	187,386	182,660
Technical reports	52,717	34,462
Insurance premiums	2,885	2,903
Surveillance and cash courier services	526	800
	687,075	**671,728**

“Technical reports” in the foregoing table includes the fees paid by the various Group companies (detailed in the accompanying Appendices) for the services provided by the Bank's auditor, the detail being as follows:

	Millions of Euros	
	2014	2013
Audit fees	4.6	4.7
Other attest services	2.0	2.7
Tax advisory services	-	0.5
Other	0.3	0.4
Total	**6.9**	**8.3**

The detail of the main items included in “Audit fees” is as follows:

	Millions of Euros	
	2014	2013
Audit of the financial statements of the companies audited by Deloitte	3.9	3.2
Other audit engagements	0.7	1.5
Of which:		
Internal control audit (SOX)	*0.5*	*0.6*
Issue of comfort letters	*0.2*	*0.9*
Total audit fees	**4.6**	**4.7**

The detail of the main items included in “Other attest services” is as follows:

	Millions of Euros	
	2014	2013
Other recurring work and reports required by the various national supervisory bodies of the countries in which the Group operates	1.0	0.7
Non-recurring reviews required by regulators	0.001	0.1
Due diligence reviews	0.3	1.5
Issuance of other assurance reports	0.6	0.1
Reviews of procedures, data and controls and other services	0.1	0.3
Total other attest services	**2.0**	**2.7**

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 1 July) and in the related implementing regulations, 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 the Bank's auditor amounting to EUR 4.14 million (2013: EUR 2.9 million).

42. Impairment losses on other assets

The detail of “Impairment Losses on Other Assets” in the consolidated income statements for 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Goodwill and other intangible assets:		
Goodwill (Note 15)	-	-
Other intangible assets (Note 15)	114,816	1,460
	114,816	1,460
Other assets:		
Other (*)	4,895	2,321
	119,711	**3,781**

(*) In 2014, there were no impairment losses on property, plant and equipment or reversals thereof (2013: gains on reversals of EUR 512 thousand) (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 for 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
	Income/(Expenses)	
Gains:		
Property, plant and equipment (Note 14)	2,009	1,240
Investments (Note 3-b)	246,470	-
	248,479	1,240
Losses:		
Property, plant and equipment (Note 14)	(5,999)	(6,011)
Investments (Note 3-b)	(460)	-
	(6,459)	(6,011)
	242,020	**(4,771)**

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 for 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
	Income/(Expenses)	
Net gains (losses) on disposals:	374	(2,161)
Tangible assets (Note 12)	*(1,860)*	*(2,161)*
Other (Note 12)	*2,234*	*-*
Impairment losses (net) (Note 12)	(2,008)	(9,842)
	(1,634)	**(12,003)**

45. Discontinued operations

In 2014 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 2014 and 2013 are indicated below:

	Thousands of Euros	
	2014	2013
Interest and similar income	3,949	5,508
Interest expense and similar charges	(5)	(5)
Net interest income	3,944	5,503
Income from equity instruments	-	-
Fee and commission expense	(67)	(102)
Fee and commission income	137	191
Exchange differences	(239)	(47)
Other operating income	-	-
Other operating expenses	(99)	(1)
Gross income	3,676	5,544
Administrative expenses	(4,102)	(5,114)
Depreciation and amortisation charge	(23)	(11)
Provisions (net)	(21,351)	(138)
Impairment losses on financial assets (net)	(4,481)	(6,132)
Loss from operations	(26,281)	(5,851)
Impairment losses on other assets (net)	-	-
Gains (losses) on disposal of assets not classified as non-current assets held for sale	(1)	(53)
Loss before tax	(26,282)	(5,904)
Income tax	-	-
Gains/Losses on disposal of investments	-	-
Loss from discontinued operations	**(26,282)**	**(5,904)**

Additionally, following is a detail of the net cash flows attributable to the operating, investing and financing activities of discontinued operations in 2014 and 2013:

	Thousands of Euros	
	2014	2013
Cash and cash equivalents at beginning of year	-	1
Cash flows from operating activities	(24,530)	(5,406)
Cash flows from investing activities	10	1
Cash flows from financing activities	24,520	5,404
Cash and cash equivalents at end of year	**-**	**-**

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 0.0159 in 2014 (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 2014 and 2013 is as follows:

	2014								
	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 2014
Assets:									
Cash and balances with central banks	1,339,123	6,245	-	-	-	-	-	1,345,368	0.04%
Available-for-sale financial assets-									
Debt instruments (Note 7)	34	579	33	316,100	142,319	967	-	460,032	1.28%
Loans and receivables-									
Loans and advances to credit institutions (Note 6)	2,279,982	1,480,581	541,999	301,182	882,756	2	-	5,486,502	0.97%
Loans and advances to customers (Note 10)	1,397,834	2,151,646	3,078,709	9,014,991	27,629,972	14,172,408	-	57,445,560	6.21%
Debt instruments (Note 7)	-	85,546	-	2,015	-	-	-	87,561	1.91%
	5,016,973	3,724,597	3,620,741	9,634,288	28,655,047	14,173,377	-	64,825,023	
Liabilities:									
Financial liabilities at amortised cost-									
Deposits from central banks (Note 17)	-	570,002	986,149	-	1,400,475	-	-	2,956,626	0.35%
Deposits from credit institutions (Note 17)	139,074	1,689,745	1,565,695	2,258,614	987,711	420,251	-	7,061,090	1.53%
Customer deposits (Note 18)	14,199,314	5,074,408	1,770,511	4,158,170	3,783,916	311,734	-	29,298,053	1.27%
Marketable debt securities (Note 19)	86	1,567,634	2,070,558	5,868,107	2,742,425	6,243,645	-	18,492,455	2.03%
Subordinated liabilities (Note 20)	-	-	-	80,000	354,148	801,420	-	1,235,568	5.61%
Other financial liabilities (Note 21)	72,841	446,411	9,668	24,815	175,196	39,471	-	768,402	-
	14,411,315	9,348,200	6,402,581	12,389,706	9,443,871.	7,816,521	-	59,812,194	
Difference (assets less liabilities)	**(9,394,342)**	**(5,623,603)**	**(2,781,840)**	**(2,755,418)**	**19,211,176**	**6,356,856**	**-**	**5,012,829**	

	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**	

b) *Equivalent euro value of assets and liabilities*

The detail of the equivalent euro value of the main foreign currency balances in the accompanying consolidated balance sheets as at 31 December 2014 and 2013, based on the nature of the related items, is as follows:

	Equivalent Value in Millions of Euros			
	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Cash and balances with central banks	34	-	61	-
Trading derivatives	110	-	-	-
Available-for-sale financial assets	226	-	433	-
Loans and receivables	10,693	-	10,625	-
Hedging derivatives	139	-	79	-
Non-current assets held for sale	55	-	47	-
Investments	434	-	67	-
Tangible assets	5	-	21	-
Intangible assets	548	-	208	-
Financial liabilities at amortised cost	-	8,566	-	9,289
Liabilities associated with non-current assets held for sale	-	21	-	1
Other assets and liabilities	201	408	217	334
	12,445	**8,995**	**11,758**	**9,624**

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 items included under cash and balances with central banks, loans and receivables, equity instruments whose market value, if any, cannot be estimated reliably and derivatives that have these instruments as their underlyings and are settled by delivery thereof, if any.

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 at 31 December 2014 and 2013 of the Group's financial assets measured at other than fair value and their respective fair values at the end of 2014 and 2013:

Assets	Millions of Euros									
	2014					2013				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Loans and receivables:										
Loans and advances to credit institutions	5,486	5,486	-	2,988	2,498	8,683	8,684	-	-	8,684
Loans and advances to customers	57,446	59,905	-	9,658	50,247	55,928	55,968	-	-	55,968
Debt instruments	88	88	-	88	-	309	309	-	-	309
	63,020	**65,479**	**-**	**12,734**	**52,745**	**64,920**	**64,961**	**-**	**-**	**64,961**

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									
	2014					2013				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial liabilities at amortised cost:										
Deposits from central banks and credit institutions	10,018	10,006	-	7,053	2,953	16,815	16,815	-	14,010	2,805
Customer deposits	29,298	29,355	-	-	29,355	30,930	30,933	-	-	30,933
Marketable debt securities	18,492	18,536	2,135	16,401	-	12,714	12,064	-	12,064	-
Subordinated liabilities	1,236	1,236	-	1,236	-	1,344	1,344	-	1,344	-
Other financial liabilities	768	761	-	-	761	246	246	-	-	246
	59,812	**59,894**	**2,135**	**24,690**	**33,069**	**62,049**	**62,402**	**-**	**28,418**	**33,984**

iii. Valuation methods and inputs used

The main valuation methods and inputs used in the estimates at 31 December 2014 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.

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 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)	2014 Spain	2014 Italy	2014 Germany	2014 Scandinavia	2014 Other Areas	2014 Intra-Group Eliminations (*)	2014 Total	2013 Spain	2013 Italy	2013 Germany	2013 Scandinavia	2013 Other Areas	2013 Intra-Group Eliminations (*)	2013 Total
	Thousands of Euros													
Loans and advances to customers	6,857,703	4,944,893	29,922,924	11,114,222	6,253,831	(1,648,013)	57,445,560	6,201,823	5,449,741	29,735,856	8,463,334	6,173,700	(96,249)	55,928,205
Financial assets held for trading	-	-	5,280	47,055	-	97,109	149,444	-	-	6,344	23,504	-	64,953	94,801
Debt instruments	2,023	35	232,536	225,926	517,392	(430,319)	547,593	102,342	-	30,001	119,065	315,338	206,486	773,232
Loans and advances to credit institutions	9,805,289	788,485	1,974,337	1,373,236	728,747	(9,183,592)	5,486,502	10,266,089	1,021,436	4,340,572	1,232,729	674,796	(8,852,876)	8,682,746
Tangible and intangible assets	198,781	16,007	424,602	88,975	49,260	1,823,852	2,601,477	205,195	18,908	543,397	102,319	57,382	1,446,224	2,373,425
Other asset accounts	403,855	349,326	1,935,391	489,184	440,243	983,415	4,601,414	426,466	313,208	2,058,120	339,624	403,763	709,698	4,250,879
Total assets	**17,267,651**	**6,098,746**	**34,495,070**	**13,338,598**	**7,989,473**	**(8,357,548)**	**70,831,990**	**17,201,915**	**6,803,293**	**36,714,290**	**10,280,575**	**7,624,979**	**(6,521,764)**	**72,103,288**
Customer deposits	243,584	214,110	25,120,938	2,754,085	2,494,291	(1,528,955)	29,298,053	236,756	290,149	27,387,030	1,122,935	1,815,681	77,329	30,929,880
Marketable debt securities	9,867,453	136,933	1,012,244	3,538,775	1,090,271	2,846,779	18,492,455	4,999,609	649,585	1,157,537	2,812,017	758,629	2,336,274	12,713,651
Subordinated liabilities	66,178	-	-	2	-	1,169,388	1,235,568	63,865	-	183	-	-	1,279,770	1,343,818
Deposits from central banks and credit institutions	6,022,153	4,955,575	3,270,766	5,348,611	3,070,669	(12,650,058)	10,017,716	10,747,703	5,136,143	3,572,042	5,227,547	3,708,029	(11,576,064)	16,815,400
Other liability and equity accounts	492,773	252,315	1,460,629	358,552	281,832	1,136,602	3,982,703	501,042	181,078	975,594	246,620	288,770	715,043	2,908,147
Equity	575,510	539,813	3,630,493	1,338,573	1,052,410	668,696	7,805,495	652,940	546,338	3,621,904	871,456	1,053,870	645,884	7,392,392
Total funds under management	**17,267,651**	**6,098,746**	**34,495,070**	**13,338,598**	**7,989,473**	**(8,357,548)**	**70,831,990**	**17,201,915**	**6,803,293**	**36,714,290**	**10,280,575**	**7,624,979**	**(6,521,764)**	**72,103,288**

Consolidated Income Statements (Condensed)	2014 Spain	2014 Italy	2014 Germany	2014 Scandinavia	2014 Other (*)	2014 Total	2013 Spain	2013 Italy	2013 Germany	2013 Scandinavia	2013 Other (*)	2013 Total
NET INTEREST INCOME	**314,623**	**229,595**	**936,728**	**462,176**	**273,639**	**2,216,761**	**313,817**	**235,319**	**932,772**	**373,934**	**247,910**	**2,103,752**
Share of results of entities accounted for using the equity method	2,150	-	1,435	-	37,946	41,531	434	-	1,249	-	8,480	10,163
Net fee and commission income	30,601	33,082	555,200	25,198	168,102	812,183	34,705	39,509	542,174	23,278	154,039	793,705
Gains/losses on financial assets and liabilities (net)	674	(1,329)	(4,574)	8,244	1,218	4,233	(387)	(932)	(5,601)	(1,367)	1,423	(6,864)
Other operating income/(expenses)	16,222	2,429	(20,807)	6,545	(6,928)	(2,539)	12,771	3,577	(26,550)	8,673	(15,225)	(16,754)
GROSS INCOME	**364,270**	**263,777**	**1,467,982**	**502,163**	**473,977**	**3,072,169**	**361,340**	**277,473**	**1,444,044**	**404,518**	**396,627**	**2,884,002**
Administrative expenses	(113,807)	(78,365)	(590,186)	(179,208)	(245,304)	(1,206,870)	(107,689)	(79,652)	(612,373)	(144,054)	(245,482)	(1,189,250)
Staff costs	(59,372)	(37,762)	(332,044)	(83,015)	(7,602)	(519,795)	(52,820)	(42,826)	(343,826)	(76,377)	(1,673)	(517,522)
Other general administrative expenses	(54,435)	(40,603)	(258,142)	(96,193)	(237,702)	(687,075)	(54,869)	(36,826)	(268,547)	(67,677)	(243,809)	(671,728)
Depreciation and amortisation charge	(14,252)	(10,720)	(156,748)	(11,741)	23,784	(169,677)	(20,315)	(11,745)	(149,355)	(15,361)	22,052	(174,724)
Provisions (net)	(19,029)	(4,586)	(457,050)	(627)	10,650	(470,642)	(4,780)	(995)	(8,786)	(2,991)	(10,428)	(27,980)
Impairment losses on financial assets (net)	(50,332)	(168,594)	(115,086)	(102,952)	(84,392)	(521,356)	(82,628)	(197,492)	(125,743)	(65,883)	(105,665)	(577,411)
PROFIT (LOSS) FROM OPERATIONS	**166,850**	**1,512**	**148,912**	**207,635**	**178,715**	**703,624**	**145,928**	**(12,411)**	**547,787**	**176,229**	**57,104**	**914,637**
Other gains/(losses)	(838)	(2,624)	17	-	124,120	120,675	(142)	-	-	-	(20,413)	(20,555)
PROFIT (LOSS) BEFORE TAX	**166,012**	**(1,112)**	**148,929**	**207,635**	**302,835**	**824,299**	**145,786**	**(12,411)**	**547,787**	**176,229**	**36,691**	**894,082**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**125,095**	**7,012**	**125,738**	**150,080**	**281,919**	**689,844**	**113,326**	**(17,946)**	**423,832**	**129,565**	**(8,108)**	**640,669**
Loss from discontinued operations (net)	-	-	-	-	(26,282)	(26,282)	-	-	-	-	(5,904)	(5,904)
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**125,095**	**7,012**	**125,738**	**150,080**	**255,637**	**663,562**	**113,326**	**(17,946)**	**423,832**	**129,565**	**(14,012)**	**634,765**
Profit (Loss) attributable to the Parent	**119,995**	**7,072**	**125,738**	**150,080**	**235,432**	**638,317**	**107,949**	**(17,947)**	**423,832**	**129,565**	**(34,045)**	**609,354**

(*) Includes the reconciliation of segment reporting to the consolidated financial statements of the Group and corporate activities.

Also, pursuant to the legislation applicable to the Bank, following is a detail:

1. By the geographical areas indicated in the aforementioned legislation, of the balance of “Interest and Similar Income” recognised in the consolidated income statements for 2014 and 2013:

	Thousands of Euros	
	2014	2013
Spain	492,521	406,138
Abroad:		
European Union	2,505,240	2,669,633
OECD countries	339,594	428,031
Other countries	-	-
	2,844,834	3,097,664
Total	**3,337,355**	**3,503,802**

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 2014 and 2013:

	Revenue (Thousands of Euros)					
	Revenue from External Customers		Inter-Segment Revenue		Total Revenue	
	2014	2013	2014	2013	2014	2013
Spain and Portugal	750,665	623,546	254,364	355,984	1,005,029	979,530
Italy	439,489	483,288	2,516	2,875	442,005	486,163
Germany	2,143,528	2,256,639	212,042	140,173	2,355,570	2,396,812
Scandinavia	533,160	638,888	161,462	167,852	694,620	806,740
Other	680,119	664,618	51,705	25,225	731,824	689,843
Inter-segment revenue adjustments and eliminations	-	-	(682,088)	(692,109)	(682,088)	(692,109)
Total	**4,546,960**	**4,666,979**	**-**	**-**	**4,546,960**	**4,666,979**

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 2014 and 2013, by business, are as follows:

Consolidated Income Statement (Condensed)	Thousands of Euros				
	2014				
	Automotive	Consumer Finance and Cards	Direct Finance	Other Business (*)	Total
NET INTEREST INCOME	**1,034,194**	**234,942**	**754,024**	**193,601**	**2,216,761**
Share of results of entities accounted for using the equity method	-	-	-	41,531	41,531
Net fee and commission income	272,904	90,700	262,991	185,588	812,183
Gains/losses on financial assets and liabilities (net)	-	(9)	(15)	4,257	4,233
Other operating income/(expenses)	18,076	(2,159)	2,536	(20,992)	(2,539)
GROSS INCOME	**1,325,174**	**323,474**	**1,019,536**	**403,985**	**3,072,169**
Administrative expenses	(325,693)	(119,163)	(237,933)	(524,081)	(1,206,870)
Staff costs	(140,275)	(51,323)	(102,477)	(225,720)	(519,795)
Other general administrative expenses	(185,418)	(67,840)	(135,456)	(298,361)	(687,075)
Depreciation and amortisation charge	(45,790)	(16,753)	(33,452)	(73,682)	(169,677)
Provisions	(6,202)	(1,040)	(3,098)	(460,302)	(470,642)
Impairment losses on financial assets (net)	(168,752)	(92,230)	(288,301)	27,927	(521,356)
PROFIT (LOSS) FROM OPERATIONS	**778,737**	**94,288**	**456,752**	**(626,153)**	**703,624**
Other gains/(losses)	-	-	-	120,675	120,675
PROFIT (LOSS) BEFORE TAX	**778,737**	**94,288**	**456,752**	**(505,478)**	**824,299**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**551,304**	**69,217**	**314,837**	**(245,514)**	**689,844**
Loss from discontinued operations (net)	-	-	-	(26,282)	(26,282)
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**551,304**	**69,217**	**314,837**	**(271,796)**	**663,562**

(*) "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				
	2013				
	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.

48. Related parties

Following is a detail of the transactions performed by the Group with its related parties at 31 December 2014 and 2013, 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 2014 and 2013. Related party transactions were made on terms equivalent to those prevailing in arm's-length transactions.

	Thousands of Euros							
	2014				2013			
	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)	246,196	3,412,643	-	-	4,187,835	2,235,703	-	-
Loans and receivables-								
Loans and advances to customers	215,564	343	-	2	23,686	329	21	6
Debt instruments	-	85,494	-	-	-	206,486	-	-
Trading derivatives (Note 9)	-	97,709	-	-	-	64,953	-	-
Hedging derivatives	-	136,220	-	-	-	29,706	-	-
Other assets	11,605	20,700	-	-	10,846	4,773		
Liabilities:								
Deposits from credit institutions (Note 17)	-	4,536,938	-	-	3,320,595	7,468,959	-	-
Customer deposits	8,942	59,312	-	154	8,243	76,110	-	257
Marketable debt securities	-	3,406,014	-	-	1,113,337	1,222,936	-	-
Subordinated liabilities (Note 20)	-	1,235,568	-	-	205,660	1,138,158	-	-
Other financial liabilities	661	463,918	-	-	99	96,254	-	-
Trading derivatives (Note 9)	-	360,275	-	-	-	78,060	-	-
Hedging derivatives	-	147,074	-	-	-	442,094	-	-
Other liabilities	2,640	16,496	-	-	1,036	22,043	-	-
Income statement:								
Interest and similar income	9,278	62,825	-	-	50,160	49,814	-	-
Interest expense and similar charges	(5,803)	(180,011)	-	(4)	(151,496)	(87,238)	-	(5)
Result of companies accounted for using the equity method (Note 34)	34,290	7,241	-	-	10,163	-	-	-
Fee and commission income	39,418	16,584	-	-	35,060	4,913	-	-
Fee and commission expense	(6,111)	(3,213)	-	-	(4,990)	(3,331)	-	-
Gains/losses on financial assets and liabilities (net)	-	(26,603)	-	-	-	131,705	-	-
Exchange differences	-	51,754	-	-	-	8,349	-	-
Other operating income	648	813	-	-	-	655	-	-
Other general administrative expenses	(8,403)	(241,523)	-	-	(6,666)	(244,600)	-	-
Gains (losses) on disposal of assets not classified as non-current assets held for sale	-	246,396	-	-	-	-	-	-
Memorandum items:								
Contingent liabilities	454,813	159,036	-	-	-	95,785	-	-
Contingent commitments	13,462	1,595,925	-	-	677,133	654,269	-	-

(*) 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 a member of the Santander Group, Santander Consumer Finance's risk activity is governed by the following basic principles, which are in line with the Group's strategy and business model and take into account the recommendations of the supervisory and regulatory bodies and the best market practices.

- A risk culture integrated throughout the organisation. It consists of a series of attitudes, values, skills and guidelines for action vis-à-vis risks that are integrated in all processes, including change management and strategic and business planning decision-making. It is implemented through the heavy involvement of senior management in risk management and decision-making, remuneration schemes that are in line with the risk appetite, training processes at all levels of the organisation, robust control mechanisms and a complete, detailed regulatory framework of risk management and control policies and processes.
- Independence of the risk function, encompassing all risks and appropriately separating the risk generating areas from those responsible for risk control and supervision and having sufficient authority and direct access to management and governing bodies responsible for setting and supervising risk strategy and policies.
- The consideration of all risks on an integrated basis as an objective for the appropriate management and control thereof, including both directly originated risks and those originated outside the entity (e.g. by suppliers, factories, etc.) that might affect it. It is considered essential to have the ability to prepare an all-encompassing view of the risks assumed, understand the relationships between risks and facilitate the assessment of them on an overall basis, without prejudice to differences in their nature, level of development and the real possibilities of management and control of each type of risk, and adapt the organisation, processes, reports and tools to the characteristics of each one.
- A robust organisational and governance model that ensures that duly identified control officers and management officers are assigned to deal with each risk, while maintaining the principle of independence and having clear, coherent reporting mechanisms both within each unit in the Group and between each unit and the corporation.
- Decision-making is instrumented through powers and responsibilities granted to each risk managing unit, mainly through collective bodies, which is considered to be an effective instrument for furnishing the appropriate analysis and different perspectives to be taken into consideration in risk management. The decision-making process includes an orderly contrasting of opinions in proportion to the potential impact of the decision and the complexity of the factors affecting it.
- The Group encourages the use of common management instruments, without prejudice to their adaptation to regulations, supervisory requirements and each unit's level of progress.
- These instruments include the formulation and monitoring of the risk appetite and, accordingly, the Group calculates the amount and type of the risks it considers reasonable to assume in the performance of its business strategy and the development thereof within limits that are objective, verifiable and consistent with the risk appetite for each relevant activity; the use of scenario analysis and a forward-looking vision of risks in management processes, using advanced models and metrics and establishing a control, reporting and escalation framework to ensure that risks are identified and managed from different perspectives. In addition, the periodic risk identification and assessment processes and the contingency and business continuity plans and living wills (recovery and resolution plans) complete the essential management mechanisms which, together with the other instruments and principles indicated, comprise the Group-wide risk management programme. In 2014 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.

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 prepares, per the required schedule, the two 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, the Santander Group reports 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 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.

a) Global credit risk map- 2014

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			
	2014 (Millions of Euros)	Change on December 2013	% of Portfolio
Germany	30,552	-0.12%	51.22%
The Netherlands	1,134	-5.48%	1.90%
Spain	8,472	32.33%	14.20%
Italy	5,143	-9.00%	8.62%
Portugal	859	-2.19%	1.44%
Nordic countries	11,841	37.96%	19.85%
Austria	1,652	7.56%	2.77%
SCF Group	**59,653**	**2.70%**	**100.00%**

Credit risk exposure rose by 2.70% in year-on-year terms, mainly as a result of the acquisition of Santander Consumer Bank AB's business in the Nordic countries and Financiera El Corte Inglés, E.F.C., S.A.'s business in Spain.

Germany continues to account for more than half of the gross credit risk exposure, specifically 51.22%. For their part, the Nordic countries accounted for almost 20% of the Santander Consumer Finance Group's total credit risk in 2014 (19.85%).

b) Variations in main aggregates in 2014

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 in recent years. 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 4.54% at 31 December 2014 (31 December 2013: 4.04%), i.e., it increased by 50 basis points in 2014, considerably affected by the inclusion of Santander Consumer Bank AB's business in the Nordic countries. The NPL coverage ratio stood at 98.07%.

Following is a detail, by activity, of the loans and advances to customers at 31 December 2014:

	Thousands of Euros								
				Secured Loans. Loan-to-Value Ratio					
	Unsecured Loans	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	46,756	-	-	-	-	-	-	-	46,756
Other financial institutions	208,702	-	-	-	-	-	-	-	208,702
Non-financial companies and individual traders	6,097,459	326,964	173,037	81,471	100,019	93,363	202,198	22,950	6,597,460
Of which:									
Construction and property development	*22,399*	-	-	-	-	-	-	-	*22,399*
Civil engineering construction	*270,635*	-	-	-	-	-	-	-	*270,635*
Large companies	*1,947,693*	*26,987*	-	-	*14,104*	*12,883*	-	-	*1,974,680*
SMEs and individual traders	*3,856,732*	*299,977*	*173,037*	*81,471*	*85,915*	*80,480*	*202,198*	*22,950*	*4,329,746*
Other households and non-profit institutions serving households	43,335,523	7,688,335	233,088	1,188,024	2,137,204	2,491,455	1,046,855	1,057,885	51,256,946
Of which:									
Residential	350,086	7,632,599	149,916	1,173,099	2,120,227	2,466,910	1,017,640	1,004,639	8,132,601
Consumer loans	*42,950,895*	*55,736*	*83,172*	*14,925*	16,977	*24,545*	*29,215*	*53,246*	*43,089,803*
Other purposes	*34,542*	-	-	-	-	-	-	-	*34,542*
Less: Impairment losses on assets not earmarked for specific transactions	-	-	-	-	-	-	-	-	(664,304)
Total	**49,688,440**	**8,015,299**	**406,125**	**1,269,495**	**2,237,223**	**2,584,818**	**1,249,053**	**1,080,835**	**57,445,560**
Memorandum item									
Refinancing, refinanced and restructured transactions	*429,150*	*128,768*	*138,425*	*39,109*	*54,148*	*81,498*	*21,616*	*70,822*	*696,343*

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 those 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 customer debt forbearance policy that serves as a reference for the various local adaptations made for all the financial institutions forming part of the Group. This policy shares the principles laid down in both Bank of Spain Circular 6/2012 and the technical standards published by the European Banking Authority in 2014, which it develops in greater detail based on the level of customer impairment.

This 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.
- Forborne transactions are classified using more stringent criteria, which prudentially ensure that the customer's ability to pay is restored from the date of forbearance and for an adequate period of time thereafter.
- In addition, in the case of customers that have been assigned a risk analyst, 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.

The forbearance policy also 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 relate to financial difficulties, for management purposes a distinction is made between two types of forbearance based on the original management status of the transactions: ex-ante forbearance, when the original transaction was classified as other than doubtful; and ex-post forbearance, when it had previously been classified as doubtful.

In addition, within the category of ex-post forbearance, distinct treatments are established for cases of advanced impairment, the classification requirements and criteria for which are even more stringent than those for other forborne transactions.

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 regulatory requirements to be classified in a different category must comply with a continuous prudential payment schedule in order to assure reasonable certainty as to the recovery of the ability to pay.

If there is any (non-technical) default in payments during that period, the aforementioned payment schedule starts again.

On successful completion of the period, the duration of which depends on the customer's situation and the transaction features (term and guarantees provided), the transaction is no longer considered to be doubtful, although it continues to be subject to a probation period during which it undergoes special monitoring.

This monitoring continues until a series of requirements have been met, including most notably: a minimum observation period; repayment of a substantial percentage of the outstanding amounts; and settlement of the amounts that were past due at the time of forbearance.

When forbearance is applied to a transaction classified as doubtful, the original default dates continue to be considered for all purposes, irrespective of whether as a result of forbearance the transaction becomes current in its payments. Also, the forbearance of a transaction classified as doubtful does not give rise to any release of the related provisions.

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 2014, taking into consideration the above definitions:

Current restructuring balances at 31 December 2014 (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	348	-	-	456	3,375	2	203	-	-	315	8,412	1,135	5	1,009	-	-	952	17,600	11,521	**1,737**	**30,947**	**12,656**
Of which: Financing for construction and property development	-	-	-	-	*21*	*74*	-	-	-	-	*9*	*66*	*15*	-	-	-	-	*68*	*528*	*407*	***98***	***668***	***422***
Other individuals	410	31,628	340	27,961	54,233	269,773	499	63,415	617	79,803	14,923	104,920	28,373	191	21,249	311	38,342	91,874	395,454	252,226	**163,398**	**1,032,545**	**280,599**
Total	**417**	**31,976**	**340**	**27,961**	**54,689**	**273,148**	**501**	**63,618**	**617**	**79,803**	**15,238**	**113,332**	**29,508**	**196**	**22,258**	**311**	**38,342**	**92,826**	**413,054**	**263,747**	**165,135**	**1,063,492**	**293,255**

(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.

Current restructuring balances at 31 December 2013 (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 2014, 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 2014 in the Spanish forborne loan portfolio:

	Thousands of Euros
Balance at beginning of year	**520,356**
Of which:	
Portfolio classified as other than doubtful	*309,047*
Doubtful assets	*211,309*
New additions	130,046
Reductions (*)	(168,090)
Balance at end of year	**482,312**
Of which:	
Portfolio classified as other than doubtful	*296,331*
Doubtful assets	*185,981*

(*) 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.

Measurement metrics and 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. 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 2014 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: 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 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 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 Executive 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

The sale phase comprises the decision-making process, the aim of which is to analyse and resolve upon transactions, since approval by the risk unit is a pre-requisite for the arrangement of any risk transaction. This process must consider the transaction approval policies defined and take into account both the risk appetite and any transaction elements that are important in achieving a balance between risk and return.

In the sphere of standardised customers (lower-revenue individuals, businesses and SMEs), the management of large volumes of loan transactions is facilitated by the use of automatic decision-making models that rate the customer/loan relationship. Thus, loans are classified in homogeneous risk groups using the rating assigned to the transaction by the model on the basis of information on the features of the transaction and the borrower.

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

The monitoring function is founded on a process of ongoing observation, which makes it possible to detect early any changes that might arise in customers' credit quality, so that action can be taken to correct any deviations with an adverse impact.

Monitoring is based on the segmentation of customers, is performed by dedicated local and global risk teams and is complemented by the work performed by internal audit.

The function involves, inter alia, identifying and monitoring companies under special surveillance, reviewing ratings and the ongoing monitoring of indicators.

The system called "companies under special surveillance" (FEVE, using the Spanish acronym) distinguishes four categories based on the degree of concern raised by the circumstances observed (extinguish, secure, reduce and monitor). The inclusion of a position 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 the position in question, 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 lower-revenue individuals, businesses and SMEs, the key indicators are monitored in order to detect any variance in the performance of the loan portfolio with respect to the forecasts made in the credit management programmes.

e) Measurement and control

In addition to monitoring customers' credit quality, Santander Consumer Finance establishes the control procedures required to analyse the current credit risk portfolio and the changes therein over the various credit risk phases.

The risk control function is performed by assessing risks from various complementary perspectives, the main pillars being control by geographical location, business area, management model, product, etc., thus facilitating the early detection of specific areas requiring attention and the preparation of action plans to correct possible impairment.

Each control pillar can be analysed in two ways:

1.- Quantitative and qualitative analysis of the portfolio

In the analysis of the portfolio, any variances 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 variances in certain future situations, both those of an exogenous nature and those arising from strategic decisions, are assessed in order to establish measures aimed at placing the profile and amount of the risk portfolio within the parameters set by the Group.

In addition to the traditional metrics, the following, inter alia, are used in the credit risk control phase:

- **Change in non-performing loans (VMG)**
  VMG measures the change in non-performing loans in the period, discounting the loans written off and taking recoveries into account. It is an aggregate measure at portfolio level that enables action to be taken in the event of deteriorations in the trend of non-performing loans.

- **EL (expected loss) and capital**
  Expected loss is the estimated financial loss that will occur over the next twelve months on the portfolio existing at any given time. It is an additional cost of the activity and must be charged in the transaction price.

2.- Assessment of the control processes

This includes a systematic periodic review of the procedures and methodology, and is performed over the entire credit risk cycle to ensure that they are in force and effective.

In 2006, within the corporate framework established in the 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. In this connection, the risk division assesses the efficiency of the internal control of its activities on an annual basis.

Furthermore, the Integrated Risk Control and Internal Risk Validation unit, as part of its mission to supervise the quality of the Group's risk management, guarantees 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. Also, internal audit is responsible for ensuring that the policies, methods and procedures are appropriate, effectively implemented and regularly reviewed.

f) Loan recovery

Recovery is a significant function within the sphere of the Group's risk management. This function is performed by the Asset Recovery and Clean-up Division (DRSA), a unit created in July 2013 with the aim of achieving greater efficiency in the asset recovery process, while at the same time developing a global strategy and a comprehensive approach for recovery management.

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 Executive 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 2014 and 2013 is as follows:

At 31 December 2014

	Thousands of Euros				
	Spain	Other EU Countries	Americas	Rest of the World	Total
Credit institutions	3,058,301	2,989,030	71,647	337,164	6,456,142
Public sector	57	236,549	-	39,738	276,344
Of which:					
Central government	-	*225,941*	-	-	*225,941*
Other	*57*	*10,608*	-	*39,738*	*50,403*
Other financial institutions	227,877	42,555	-	65,231	335,663
Non-financial companies and individual traders	1,385,247	5,108,801	429	953,966	7,448,443
Of which:					
Construction and property development	-	*22,533*	-	-	*22,533*
Civil engineering construction	-	*270,765*	-	-	*270,765*
Large companies	*237,592*	*1,737,089*	-	-	*1,974,681*
SMEs and individual traders	*1,147,655*	*3,078,414*	*429*	*953,966*	*5,180,464*
Other individuals and non-profit institutions serving households	7,382,843	40,460,063	346	3,452,925	51,296,177
Of which:					
Residential	*2,518,241*	*5,614,360*	-		*8,132,601*
Consumer loans	*4,830,321*	*34,845,320*	*346*	*3,452,925*	*43,128,912*
Other purposes	*34,281*	*383*	-		*34,664*
Less: Impairment losses on assets not earmarked for specific transactions					664,304
Total					**65,148,465**

(*) For the purposes of this table, the definition of risk includes the following items in the public consolidated balance sheet: "Loans and Advances to Credit Institutions", "Loans and Advances to Customers", "Debt Instruments", "Trading Derivatives", "Hedging Derivatives", "Investments", "Equity Instruments" and "Contingent Liabilities".

At 31 December 2013

	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 individuals 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 consolidated balance sheet: "Loans and Advances to Credit Institutions", "Loans and Advances to Customers", "Debt Instruments", "Trading Derivatives", "Hedging Derivatives", "Investments", "Equity Instruments" 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 2014 (*)								
	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	-	-	-	-	57	57	-	-
Italy	-	-	-	-	45	45	-	-

(*) Information prepared under EBA standards.

(**) Presented without taking into account the valuation adjustments recognised (EUR 32 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 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 any 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 2014 and 2013 is as follows:

Exposure to Other Counterparties by Country of Issuer/Borrower at 31 December 2014 (*)									
	Thousands of Euros								
			Debt Instruments					Derivatives (***)	
	Balances with Central Banks	Reverse Repurchase Agreements	Financial Assets Held for Trading and Other Financial Assets at FVTPL	Available-for-Sale Financial Assets	Loans and Receivables	Loans and Advances to Customers (**)	Total Net Direct Exposure	Other than CDSs	CDSs
Spain	66,261	-	-	-	2,023	8,534,503	8,602,787	(58,607)	-
Portugal	-	-	-	-	-	913,741	913,741	-	-
Italy	4,442	-	-	-	35	5,168,959	5,173,436	-	-
Ireland	-	-	-	-	8	5,657	5,665	-	-

(*) Also, the Group had off-balance-sheet exposure other than derivatives –contingent liabilities and commitments– amounting to EUR 16,381,183 thousand, EUR 284,431 thousand and EUR 10,317 thousand to counterparties in Spain, Portugal and Italy, respectively.

(**) Presented excluding valuation adjustments and impairment losses recognised (EUR 753,740 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.

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 FVTPL	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 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 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.

At 31 December 2014 and 2013, 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 Finance 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 Executive 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

<u>Balance-sheet management</u>

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.

Also, Santander Consumer Finance S.A. prepares the liquidity statements required by the Bank of Spain, which must be completed every month with month-end data, the Liquidity Coverage Ratio (LCR), also to be reported on a monthly basis, and the Net Stable Funding Ratio (NSFR), to be reported on a quarterly basis. The last two have been implemented by the European Banking Authority (EBA) through Directive 2013/36/EU, CRR Regulation 575/2013 and successive technical standards published subsequently, known as CRD IV/CRR.

- *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 the liquidity stress tests conducted by the Santander Consumer Finance Group is to determine the impact of a severe, but plausible, liquidity crisis. In these stress scenarios, internal factors that might affect the Group's liquidity are simulated, such as a fall in the institutional credit rating or the value of on-balance-sheet assets, restrictions on transfers between Group entities or factors external to the SCF Group such as, inter alia, a scarcity of liquidity in the banking system, banking crises, regulatory factors, changes in consumption trends and/or a loss of confidence by depositors.

Every month, three liquidity stress scenarios (banking crisis in Spain, an idiosyncratic crisis at the Santander Consumer Finance Group and a global crisis) are simulated by stressing these factors, and the results are used to establish early warning levels.

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.

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. Since the end of 2014, hedges of this foreign currency risk exposure have been recognised in the books of both Banco Santander S.A. and Santander Consumer Finance S.A.

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

The Santander Group defines operational risk (OR) as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".

Operational risk is inherent in all products, activities, processes and systems, and is generated in all the business and support areas. Accordingly, all the employees are responsible for managing and controlling the operational risks generated in their area of activity.

The aim pursued by Santander Consumer Finance in operational risk control and management is primarily to identify, measure/assess, monitor, control, mitigate and report on this risk.

Santander Consumer Finance's priority, therefore, is to identify and mitigate 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 Santander Group has been applying the Standardised Approach provided for under Basel II standards. However, in 2014 the Group embarked on a project to shift to Advanced Measurement Approaches (AMA), for which it has already satisfied the majority of the regulatory requirements. In any event, it should be noted that the priority in operational risk management continues to be focused on mitigation.

Compliance with the new regulatory framework

The regulations known as Basel III, which establish new global capital and liquidity standards for financial institutions, came into force in 2014.

From the capital standpoint, Basel III redefines what is considered to be available capital at financial institutions (including new deductions and raising the requirements for eligible equity instruments), increases the minimum capital requirements, requires financial institutions to operate permanently with capital buffers, and adds new requirements in relation to the risks considered.

In Europe, the new standards were implemented through Directive 2013/36/EU, known as the Capital Requirements Directive ("CRD IV"), and the related Capital Requirements Regulation 575/2013 ("CRR"), which is directly applicable in all EU member states (as part of the Single Rulebook). In addition, the standards are subject to Implementing Technical Standards commissioned from the European Banking Authority (EBA), some of which will be issued in the coming months/years.

The Capital Requirements Regulation came into force on 1 January 2014, with many of its rules subject to various implementation timetables. This transitional implementation phase, which affects mainly the definition of eligible capital, concludes at the end of 2017, 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, some in the form of public consultation processes, which will entail a future amendment of CRD IV and the CRR.

Santander Consumer Finance has a very sound capital adequacy position that significantly surpasses the levels required by regulations. In 2014 the Group continued to bolster its main capital ratios in response to the difficult economic and financial environment and the new regulatory demands.

At the end of December, Santander Consumer Finance had a CET 1 ratio of 11.11%, or 10.64%, had a fully loaded calculation been performed.

With regard to credit risk, the Santander Group is continuing to adopt its plan to implement the advanced internal ratings-based (AIRB) approach under Basel for substantially all its banks, and it intends to do so until the percentage of net exposure of the loan portfolio covered by this approach exceeds 90%. The attainment of this objective in the short term will also depend on the acquisitions of new entities and the need for the various supervisors to coordinate the validation processes for the internal approaches. Accordingly, the Group continued in 2014 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 Group units.

In 2014 the method of calculating minimum regulatory capital requirements was changed from the standardised approach to the AIRB approach for the following portfolios: businesses and cards at SC Spain and consumer loans at SC Germany.

With regard to operational risk, Santander Consumer Finance currently uses the standardised approach for regulatory capital calculation purposes. A project to roll out AMA approaches once it has collated sufficient data using its own management model is currently at an advanced stage.

Leverage ratio

The new CRD IV regulations introduce a new leverage ratio that is not sensitive to the entities' risk profile. It is calculated as the ratio of Tier 1 capital to exposure.

This exposure is calculated as the sum of total assets per books plus off-balance-sheet items (mainly guarantees, unused credit limits granted and documentary credits). Certain technical adjustments are made to this sum, such as by replacing the asset value of derivatives and securities financing transactions with the EAD considered for the calculation of risk-weighted assets and by eliminating the value of assets considered as deductions from Tier 1 capital. Additionally, the regulators have included certain value reductions for off-balance-sheet trade-related transactions.

Although compliance with this ratio is not yet mandatory, it must be published from 2015 onwards. The supervisors have announced their intention to make compliance with a minimum ratio obligatory from 2018 onwards (indicating a 3% minimum benchmark ratio).

At the end of December, Santander Consumer Finance had a leverage ratio of 5.9%. Had a fully loaded calculation been made (anticipating the effects of Basel III), the ratio would have been 5.7% at 31 December 2014. Lastly, the ratio would rise if the amendment to Regulation (EU) No 575/2013 published on 17 January 2015 were applied.

With respect to Pillar II, the Santander Consumer Finance 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.

Internal validation of risk models

The internal validation of risk models function provides essential support to the Executive 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 fully independent specialised unit of the Group 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 five regional centres located in Madrid, London, São Paulo, Boston and Wroclaw (Poland). From a functional standpoint, these centres are fully accountable to the corporate centre, which makes it possible to ensure 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 the Santander Group 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 various competent supervisory authorities to which the Group is subject. 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.

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 in Spain (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	Registered Office	Country	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (c)		Line of Business	Millions of Euros		
			Direct	Indirect	2014	2013		Capital and Reserves (a)	Net Profit (Loss) (a)	Amount of Ownership Interest (b)
Santander Consumer Beteiligungsverwaltungsgesellschaft mbH	Santander Platz I, 41061 (Mönchengladbach)	Germany	0%	100%	100%	100%	Holding company	1	26	4
Santander Consumer Bank AG	Santander Platz I, 41061 (Mönchengladbach)	Germany	0%	100%	100%	100%	Banking	3,063	110	4,820
Santander Consumer Leasing GmbH	Santander Platz I, 41061 (Mönchengladbach)	Germany	0%	100%	100%	100%	Leasing	20	37	101
Santander Consumer Holding GmbH	Santander Platz I, 41061 (Mönchengladbach)	Germany	100%	0%	100%	100%	Holding company	4,451	16	5,677
Santander Consumer Holding Austria GmbH	Rennweg 17, A 1030 (Vienna)	Austria	0%	100%	100%	100%	Holding company	363	26	363
Hispamer Renting, S.A.U.	Ciudad Grupo Santander, Av Cantabria, 28660 (Boadilla del Monte-Madrid)	Spain	0%	100%	100%	100%	Full-service leasing	12	-	1
Guaranty Car, S.A.U.	Nacional II, Km 16,500 San Fernando de Henares (Madrid)	Spain	0%	100%	100%	100%	Automotive	1	-	1
Santander Consumer Finance Zrt.	Kapas Center, Kapas U6-12H-1027 (Budapest)	Hungary	0%	100%	100%	100%	Finance	25	- 25	-
Santander Consumer Bank S.p.A.	Via Nizza 262, I-10126 (Turin)	Italy	100%	0%	100%	100%	Banking	528	8	523
Santander Consumer, E.F.C, S.A.	Ciudad Gupo Santander, Av. Cantabria, 28660 (Boadilla del Monte- Madrid)	Spain	100%	0%	100%	100%	Finance	333	21	505
Andaluza de Inversiones, S.A.	Ciudad Gupo Santander, Av. Cantabria, 28660 (Boadilla del Monte- Madrid)	Spain	100%	0%	100%	100%	Holding company	51	2	27
Santander Consumer Bank A.S.	Strandveien 18, 1366 Lysaker, 0219 (Baerum)	Norway	100%	0%	100%	100%	Finance	841	114	969
Banco Santander Consumer Portugal, S.A.	Rua Castilho 2/4 1269-073 (Lisbon)	Portugal	80%	20%	100%	100%	Banking	120	4	128
Santander Consumer Renting, S.L.	Santa Bárbara 1, 28180 (Torrelaguna)	Spain	0%	100%	100%	100%	Full-service leasing	57	4	39
Santander Consumer Unifin S.p.A.	Strada Maggiore 47-I, 40125 (Bologna)	Italy	0%	100%	100%	100%	Finance	66	(1)	62
Suzuki Servicios Financieros, S.L.	C/Carlos Sainz 35, Pol. Ciudad del Automóvil (Leganés - Madrid)	Spain	0%	51%	51%	51%	Intermediation	3	1	-

Company	Registered Office	Country	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (c)		Line of Business	Millions of Euros		
			Direct	Indirect	2014	2013		Capital and Reserves (a)	Net Profit (Loss) (a)	Amount of Ownership Interest (b)
Santander Consumer Finance Media S.r.l.	Via Nizza 262, I-10126 (Turin)	Italy	0%	65%	65%	65%	Finance	8	-	5
Santander Consumer Finance Oy	Hermannin Rantatie 10, 00580 (Helsinki)	Finland	0%	100%	100%	100%	Finance	128	32	130
Santander Consumer Finance Benelux B.V.	Guldensporenpark 81, 9820 (Merelbeke)	The Netherlands	0%	100%	100%	100%	Finance	107	22	93
Santander Consumer Bank GmbH	Andromeda Tower, Donan City, Strów-Wien,	Austria	0%	100%	100%	100%	Banking	326	26	356
Santander Consumer Services GmbH	Thomas Alva Edison Str. I, Eisendstadt	Austria	0%	100%	100%	100%	Services	-	-	-
Financiera El Corte Inglés, E.F.C., S.A.	C/ Hermosilla 112, 28009 (Madrid)	Spain	51%	0%	51%	0%	Finance	212	51	140
Silk Finance No. 3 Limited	-	Ireland	0%	(d)	-	-	Securitisation	-19	6	-
Bilkreditt 1 Limited	-	Ireland	0%	(d)	-	-	Securitisation	-	-	-
SC Germany Auto 2011-1 UG (haftungsbeschränkt)	-	Germany	0%	(d)	-	-	Securitisation	-	-	-
Bilkreditt 2 Limited	-	Ireland	0%	(d)	-	-	Securitisation	-	-	-
SC Germany Auto 2011-2 UG (haftungsbeschränkt)	-	Germany	0%	(d)	-	-	Securitisation	-	-	-
SCFI Rahoituspalvelut Limited	-	Ireland	0%	(d)	-	-	Securitisation	-	-	-
SCF Ajoneuvohallinto Limited	-	Ireland	0%	(d)	-	-	Securitisation	-	-	-
Svensk Autofinans 1 Limited	-	Ireland	0%	(d)	-	-	Securitisation	-	-	-
Bilkreditt 3 Limited	-	Ireland	0%	(d)	-	-	Securitisation	-	-	-
Dansk Auto Finansiering 1 Ltd.	-	Ireland	0%	(d)	-	-	Securitisation	-	-	-
BCLF 2013-1 B.V.	-	The Netherlands	0%	(d)	-	-	Securitisation	-	-	-
SC Germany Auto 2013-1 UG (haftungsbeschränkt)	-	Germany	0%	(d)	-	-	Securitisation	-	-	-
SC Germany Consumer 2013-1 UG (haftungsbeschränkt)	-	Germany	0%	(d)	-	-	Securitisation	-	-	-
SC Germany Auto 2013-2 UG (haftungsbeschränkt)	-	Germany	0%	(d)	-	-	Securitisation	-	-	-

			Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (c)			Millions of Euros		
Company	Registered Office	Country	Direct	Indirect	2014	2013	Line of Business	Capital and Reserves (a)	Net Profit (Loss) (a)	Amount of Ownership Interest (b)
Bilkreditt 4 Limited	-	Ireland	0%	(d)	-	-	Securitisation	-	-	-
SCF Ajoneuvohallinta Limited	-	Ireland	0%	(d)	-	-	Securitisation	-	-	-
SCF Rahoituspalvelut 2013 Limited	-	Ireland	0%	(d)	-	-	Securitisation	-	-	-
SC Germany Vehicles 2013-1 UG (haftungsbeschränkt)	-	Germany	0%	(d)	-	-	Securitisation	-	-	-
Bilkreditt 5 Limited	-	Ireland	0%	(d)	-	-	Securitisation	-	-	-
Svensk Autofinans wh 1 Ltd.	-	Ireland	0%	(d)	-	-	Securitisation	-	-	-
SC Germany Auto 2014-1 UG (haftungsbeschränkt)	-	Germany	0%	(d)	-	-	Securitisation	-	-	-
SC Germany Consumer 2014-1 UG (haftungsbeschränkt)	-	Germany	0%	(d)	-	-	Securitisation	-	-	-
Bilkreditt 6 Limited	-	Ireland	0%	(d)	-	-	Securitisation	-	-	-
SCFI Rahoituspalvelut Limited	-	Ireland	0%	(d)	-	-	Securitisation	-	-	-
SCFI Ajoneuvohallinto Limited	-	Ireland	0%	(d)	-	-	Securitisation	-	-	-
SC Germany Auto 2014-2 UG (haftungsbeschränkt)	-	Germany	0%	(d)	-	-	Securitisation	-	-	-
SC Austria Finance 2013-1 S.A.	-	Austria	0%	(d)	-	-	Securitisation	-	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2010-1	-	Spain	0%	(d)	-	-	Securitisation	-	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2011-1	-	Spain	0%	(d)	-	-	Securitisation	-	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2012-1	-	Spain	0%	(d)	-	-	Securitisation	-	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2013-1	-	Spain	0%	(d)	-	-	Securitisation	-	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1	-	Spain	0%	(d)	-	-	Securitisation	-	-	-

			Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (c)			Millions of Euros		
Company	Registered Office	Country	Direct	Indirect	2014	2013	Line of Business	Capital and Reserves (a)	Net Profit (Loss) (a)	Amount of Ownership Interest (b)
Golden Bar (Securitisation) S.r.l.	-	Italy	0%	(d)	-	-	Securitisation	-	-	-
Golden Bar Securitization Programme IV 2009-1	-	Italy	0%	(d)	-	-	Securitisation	-	-	-
Golden Bar Stand Alone 2011-1	-	Italy	0%	(d)	-	-	Securitisation	-	-	-
Golden Bar Stand Alone 2011-2	-	Italy	0%	(d)	-	-	Securitisation	-	-	-
Golden Bar Stand Alone 2012-1	-	Italy	0%	(d)	-	-	Securitisation	-	-	-
Golden Bar Stand Alone 2012-2	-	Italy	0%	(d)	-	-	Securitisation	-	-	-
Golden Bar Stand Alone 2013-1	-	Italy	0%	(d)	-	-	Securitisation	-	-	-
Golden Bar Stand Alone 2013-2	-	Italy	0%	(d)	-	-	Securitisation	-	-	-
Golden Bar Stand Alone 2014-1	-	Italy	0%	(d)	-	-	Securitisation	-	-	-
Santander Consumer France, S.A.S.	Rue de Courcelles 40, 75008 (Paris)	France	100%	0%	100%	-	Holding company	-	-	1
Santander Consumer Bank AB	Vendevägen 89, FE 303 182 82 (Stockholm)	Sweden	100%	0%	100%	-	Banking	266	90	693

(a) Data obtained from the financial statements of each subsidiary for 2014. 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

Name	Entity	Registered Office	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (b)		Line of Business	Millions of Euros (a)		
			Direct	Indirect	2014	2013		Assets	Capital and Reserves	Profit (Loss)
Santander Consumer Bank S.A.	Associate	Poland	40.00%	-	40%	100%	Banking	4,189	429	114
Akb Marketing Services Sp. Z.o.o.	Associate	Poland	-	40.00%	40%	100%	Marketing	7	7	-
Santander Mediación Operador de Banca-Seguros Vinculado, S.A.	Associate	Spain	7.00%	1.50%	8.50%	8.50%	Insurance brokerage	38	3	-
Konecta Field Marketing, S.A.	Associate	Spain	-	44.77%	44.77%	44.77%	Marketing	2	-	1
Omega Financial Services GmbH	Jointly controlled entity	Germany	-	50.00%	50%	50%	Services	1	-	1
Grupo Konectanet, S.L.	Associate	Spain	-	44.77%	44.77%	44.77%	Holding company	63	13	2
Reintegra, S.A.	Associate	Spain	-	45.00%	45%	45%	Services	18	4	2
Konecta Chile Limitada	Associate	Chile	-	44.77%	44.77%	44.77%	Services	9	2	-
Santander International Products, Plc.	Associate	Ireland	-	0.00%	0.00%	0.00%	Finance	1,665	-	-
Transolver Finance, E.F.C., S.A.	Jointly controlled entity	Spain	50.00%	-	50%	50%	Leasing	260	22	3
Konecta Portugal, Lda.	Associate	Portugal	-	44.77%	44.77%	44.77%	Marketing	4	-	-
Konectanet Comercialización, S.L.	Associate	Spain	-	44.77%	44.77%	44.77%	Marketing	5	-	1
Santander Consumer Finanse S.A.	Associate	Poland	-	40.00%	40%	100%	Services	35	20	4
Konecta Servicios Administrativos y Tecnológicos, S.L.	Associate	Spain	-	44.77%	44.77%	44.77%	Services	6	-	1
Grupo Konecta Centros Especiales de Empleo, S.L.	Associate	Spain	-	44.77%	44.77%	44.77%	Telemarketing	1	-	-
Konecta Servicios de BPO, S.L.	Associate	Spain	-	44.77%	44.77%	44.77%	Services	20	1	-
Puntoform, S.L.	Associate	Spain	-	44.77%	44.77%	44.77%	Training	1	-	-
Konecta Broker, S.L.	Associate	Spain	-	44.77%	44.77%	44.77%	Services	-	-	-
Konectanet Andalucía, S.L.	Associate	Spain	-	44.77%	44.77%	44.77%	Services	3	-	-
Konecta Gestión Integral de Procesos, S.L.	Associate	Spain	-	44.77%	44.77%	44.77%	Services	1	-	-
Konecta Bto, S.L.	Associate	Spain	-	44.77%	44.77%	44.77%	Telecommunications	145	49	8
Konecta Activos Inmobiliarios, S.L.	Associate	Spain	-	48.83%	48.83%	48.83%	Property	22	5	-

Name	Entity	Location	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (b)		Line of Business	Millions of Euros (a)		
			Direct	Indirect	2014	2013		Assets	Capital and Reserves	Profit (Loss)
Grupo Konecta Maroc S.A.R.L. À Associé Unique	Associate	Morocco	-	44.77%	44.77%	44.77%	Telemarketing	1	-	-
Konecta Soluciones Globales, S.L.	Associate	Spain	-	44.77%	44.77%	44.77%	Services	-	-	-
Kontacta Comunicaciones, S.A.	Associate	Spain	-	44.77%	44.77%	44.77%	Services	10	5	-
Santander Consumer Multirent S.A.	Associate	Poland	-	40.00%	40%	100%	Leasing	117	9	2
Konecta Colombia Grupo Konecta Colombia Ltda	Associate	Colombia	-	44.77%	44.77%	44.77%	Telemarketing	6	-	-
Konecta Brazil Outsourcing, Ltda.	Associate	Brazil	-	44.77%	44.77%	44.77%	Services	10	-	-
Grupo Konecta UK Limited	Associate	United Kingdom	-	44.77%	44.77%	44.77%	Finance	5	1	1
Grupo Konectanet México, S.A. de C.V.	Associate	Mexico	-	44.77%	44.77%	44.77%	Telemarketing	2	-	- 1
Hyundai Capital Germany GmbH	Jointly controlled entity	Germany	-	49.99%	49.99%	49.99%	Services	5	2	2
Universal Support, S.A.	Associate	Spain	-	44.77%	44.77%	44.77%	Telemarketing	5	2	-
Fortune Auto Finance Co., Ltd	Jointly controlled entity	China	50.00%	-	50%	50%	Finance	504	127	(3)
Bank of Beijing Consumer Finance Company	Associate	China	20.00%	-	20%	20%	Finance	1,503	183	38
Psa Italia S.p.A.	Associate	Italy	-	50.00%	50%	-	Securitisation	10	10	-

(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

Changes and notifications of acquisitions and disposals of investments in 2014

(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		Effective Date of the Transaction (or the Date of Notification as Appropriate)
		Acquired/Sold in the Year	At Year-End	
Acquisitions in 2014:				
Financiera El Corte Inglés, E.F.C.	Finance	51%	51%	27/02/14
Santander Consumer Bank AB (Sweden)	Finance	100%	100%	06/11/14
Bank Zachodni WBK S.A. (Poland)	Finance	5.42%	0%	01/07/14
Disposals in 2014:				
Santander Consumer Bank S.A. (Poland)	Finance	60%	40%	01/07/14
Bank Zachodni WBK S.A. (Poland)	Finance	5.42%	0%	12/08/14

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	B027380799	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	31/03/13	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	-	Zafra	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
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	-	Linares	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 - Socuéllamos	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

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
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
Finanduero 2007, S.L.U.	Avda Castilla 47 - 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 automotive financing, leasing and full-service leasing
Finangi. Cat, S.L.	Avda. de la Rápita, 33 1° Amposta (Tarragona)	43870	B43571660	01/06/99	-	Amposta	Loans and credits, finance leases
Fromán 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 districts 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, Fernán 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
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	Vitoria	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
European Finantial Consumer, S.L.	C/ Sexmo del Espinar, 3 1º C Segovia	40006	B86080280	03/01/11	03/01/16	Segovia and its province	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards
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

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
Soluciones Financieras del Este S.L.	C/ Mariano Barbacid Rivas Vaciamadrid	28521	B84418904	02/11/05	-	Arganda del Rey, Rivas - Vaciamadrid	Mortgage loans, consumer loans, finance leases
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
Praga Services, s.l.	C/ Patrimonio Mundial, 7 2º A		B85464402	01/01/15	01/01/20	Aranjuez	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards
Gestiones Sánchez 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 - Andújar	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

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
Inversiones Financieras Bilegui, S.L. (*)	C/ Artiz Bidea, 48 - Mungía	48100	B95659579	30/11/12	01/10/16	Eibar, Mondragón, Gernika 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
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

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
Finanzamora Services, S.L.	Ctra de la Estación 2 1º E Zamora	49009	B49282403	01/01/15	01/01/20	Zamora and its province	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards

(*) Contract tacitly renewable for successive periods of one year.

Appendix V

Annual Banking Report

This Annual Banking Report was prepared in compliance with Article 87 of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions.

Pursuant to the aforementioned Article, from 1 January 2015, credit institutions must send the Bank of Spain and publish annually a report as an appendix to the financial statements audited in accordance with the legislation regulating audits of financial statements, which specifies, by country in which they are established, the following information on a consolidated basis for each year:

a) Name(s), nature of activities and geographical location.

b) Turnover.

c) Number of employees on a full time equivalent basis.

d) Gross profit or loss before tax.

e) Tax on profit or loss.

f) Public subsidies received.

Following is a detail of the criteria used to prepare the annual banking report for 2014:

a) Name(s), nature of activities and geographical location

The aforementioned information is available in Appendices I and II to the Group's consolidated financial statements, which contain details of the companies operating in each jurisdiction, including, among other information, their name(s), geographical location and the nature of their activities.

As can be seen in the aforementioned Appendices, the main activity carried on by the Group in the various jurisdictions in which it operates is commercial banking. The Group operates mainly in ten markets through a model of subsidiaries that are autonomous in capital and liquidity terms, which has clear strategic and regulatory advantages, since it limits the risk of contagion between Group units, imposes a double layer of global and local oversight and facilitates crisis management and resolution. The Group has 403 branches in total, which provide its customers with all their basic financial requirements.

b) Turnover

For the purposes of this report, turnover is considered to be gross income, as defined and presented in the consolidated income statement that forms part of the Group's consolidated financial statements.

The data on turnover by country was obtained from the statutory accounting records of the Group companies with the corresponding geographical location and translated to euros. Accordingly, this is aggregate information from the separate financial statements of the companies that operate in each jurisdiction, reconciliation of which with the information from the Group's consolidated financial statements requires a series of unifying adjustments and the elimination of transactions between the various Group companies, such as those relating to the distribution of dividends by subsidiaries to their respective parents.

c) Number of employees on a full time equivalent basis

The data on employees on a full time equivalent basis were obtained from the average headcount of each jurisdiction.

d) Gross profit or loss before tax

For the purposes of this report, gross profit or loss before tax is considered to be profit or loss before tax, as defined and presented in the consolidated income statement that forms part of the Group's consolidated financial statements.

As with the information relating to turnover, the data included was obtained from the statutory accounting records of the Group companies with the corresponding geographical location and translated to euros. Accordingly, this is aggregate information from the separate financial statements of the companies that operate in each jurisdiction, reconciliation of which with the information from the Group's consolidated financial statements requires a series of unifying adjustments and the elimination of transactions between the various Group companies, such as those relating to the distribution of dividends by subsidiaries to their respective parents.

e) Tax on profit or loss

In the absence of specific criteria, this is the amount of tax effectively paid in respect of the taxes the effect of which is recognised in Income tax in the consolidated income statement.

Taxes effectively paid in the year by each of the companies in each jurisdiction include:

- supplementary payments relating to income tax returns, normally for prior years.
- advances, prepayments, withholdings made or borne in respect of tax on profit or loss for the year. Given their scantly representative amount, it was decided that taxes borne abroad would be included in the jurisdiction of the company that bore them.
- refunds collected in the year with respect to returns for prior years that resulted in a refund.
- where appropriate, the tax payable arising from tax assessments and litigation relating to these taxes.

The foregoing amounts are part of the statement of cash flows and, therefore, differ from the income tax expense recognised in the consolidated income statement. Such is the case because the tax legislation of each country establishes:

- the time at which taxes must be paid and, normally, there is a timing mismatch between the dates of payment and the date of generation of the income bearing the tax.
- its own criteria for calculating the tax and establishes temporary or permanent restrictions on expense deduction, exemptions, relief or deferrals of certain income, etc., thereby generating the related differences between the accounting profit (or loss) and taxable profit (or tax loss) which is ultimately taxed; tax loss carryforwards from prior years, tax credits and/or relief, etc. must also be added to this. Also, in certain cases special regimes are established, such as the tax consolidation of companies in the same jurisdiction, etc.

f) Public subsidies received

In the context of the disclosures required by current legislation, this term was interpreted to mean any aid or subsidy in line with the European Commission's State Aid Guide and, in such context, the Group companies did not receive public subsidies in 2014.

The detail of the information for 2014 is as follows:

Jurisdiction (Millions of Euros)	Turnover	Number of Employees on a Full Time Equivalent Basis	Gross Profit or Loss before Tax	Tax on Profit or Loss
Germany	1,641	3,314	201	100
Austria	159	380	53	-
Belgium	29	116	11	-
Spain	550	519	510	22
Denmark	119	246	52	9
Finland	75	130	40	3
Hungary	4	32	(25)	-
Ireland	14	-	7	-
Italy	274	565	9	9
Norway	339	542	133	21
The Netherlands	67	197	19	6
Poland	142	2,641	86	30
Portugal	40	168	9	-
Sweden	173	366	81	3
Total	**3,626**	**9,216**	**1,186**	**203**
Adjustments	(554)		(362)	
	3,072		**824**	

At 31 December 2014, the return on assets (ROA) of the Group was estimated to be 0.9%.

Appendix VI

Disclosures required pursuant to Mortgage Market Law 2/1981, of 25 March, and to Royal Decree 716/2009, of 24 April, implementing certain provisions of the aforementioned Law

Disclosures relating to mortgage-backed bond issues

The detail of the nominal value of the Bank's mortgage-backed bond issues outstanding at 31 December 2014 and 2013, indicating the annual interest rate and the maturity date of each issue, is as follows:

Currency of Issue	Thousands of Euros (*) 2014	Thousands of Euros (*) 2013	Annual Interest Rate (%)	Maturity Date
Euro:				
March 2006 issue	1,200,000	1,200,000	3.875	March 2016
July 2007 issue (Note 17)	150,000	150,000	5.135	July 2022
Balance at end of year	**1,350,000**	**1,350,000**		

(*) Nominal value.

At 31 December 2014 and 2013, the detail of the mortgage loans and credits, indicating their eligibility and computability for mortgage market regulatory purposes, was as follows:

	Thousands of Euros Nominal Value 2014	Thousands of Euros Nominal Value 2013
Total mortgage loans and credits	2,589,851	2,325,946
Mortgage participation certificates issued	-	-
Mortgage transfer certificates issued	-	-
Mortgage loans securing borrowings	-	-
Mortgage loans backing mortgage and mortgage-backed bond issues	2,589,851	2,325,946
i) Non-eligible mortgage loans and credits	883,786	586,636
- Which comply with the requirements to become eligible, except for the limit established in Article 5.1 of Royal Decree 716/2009	3,385	8,132
- Other	880,401	578,504
ii) Eligible mortgage loans and credits	1,706,065	1,739,310
- Non-computable amounts		
- Computable amounts	1,706,065	1,739,310
a) Mortgage loans and credits covering mortgage bond issues	-	-
b) Mortgage loans and credits eligible to cover mortgage-backed bond issues	1,706,065	1,739,310

(*) At 31 December 2014 and 2013, the Bank had not issued mortgage bonds and, therefore, all the loans and credits back to the mortgage-backed bond issues.

Following is a detail of the nominal value of the outstanding mortgage loans and credits and of the nominal value of the loans and credits that are eligible pursuant to Royal Decree 716/2009, without considering the calculation limits established under Article 12 of Royal Decree 716/2009, by origin, currency, payment status, average residual term to maturity, interest rate, holders and type of collateral:

	Thousands of Euros			
	2014		2013	
	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans
Origin of transactions				
Originated by the Bank	2,589,851	1,706,065	2,325,946	1,739,310
Subrogations from other entities	-	-	-	-
Other	-	-	-	-
Currency				
Euro	2,589,851	1,706,065	2,325,946	1,739,310
Other currencies	-	-	-	-
Payment status				
Current	2,511,848	1,681,814	2,254,782	1,739,310
Past due	78,003	24,251	71,164	-
Average term to maturity				
Less than 10 years	149,104	134,016	151,447	130,531
10 to 20 years	725,857	601,872	563,349	514,906
20 to 30 years	1,076,658	722,024	1,007,646	761,720
More than 30 years	638,232	248,153	603,504	332,153
Interest rate				
Fixed	37	37	60	60
Floating	2,589,814	1,706,028	2,325,886	1,739,250
Hybrid	-	-	-	-

(*) Including EUR 739,954 thousand at 31 December 2014 (2013: EUR 358,548 thousand) relating to mortgage participation certificates acquired from Banco Santander, S.A.

	Thousands of Euros			
	2014		2013	
	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans
Borrowers				
Legal entities and individual businessmen	36,640	22,299	55,670	34,134
Of which: Property developments	-	-	-	-
Other individuals and non-profit institutions serving households (NPISHs)	2,553,211	1,683,766	2,270,276	1,705,176
Type of guarantee				
Completed buildings				
- Residential	2,523,051	1,670,502	2,273,882	1,711,049
Of which: Officially sponsored housing	-	-	-	-
- Commercial	66,800	35,563	52,064	28,261
- Other	-	-	-	-
Buildings under construction				
- Residential	-	-	-	-
Of which: Officially sponsored housing	-	-	-	-
- Commercial	-	-	-	-
- Other	-	-	-	-
Land				
- Developed	-	-	-	-
- Other	-	-	-	-
	2,589,851	**1,706,065**	**2,325,946**	**1,739,310**

As regards the disclosures on guarantees associated with mortgage loans and those loans eligible in accordance with the aforementioned regulations, following is a detail of the nominal value of these mortgage loans and eligible loans, based on the related loan-to-value ratio.

	LTV Ranges				
	2014				
	Millions of Euros				
	Up to 40%	>40%, <= 60%	>60%, <= 80%	>80%	Total
Mortgage loans and credits eligible for mortgage and mortgage-backed bond issues					
- *Home mortgages*	*333*	*498*	*839*	-	*1,670*
- *Other mortgages*	*12*	*24*	-	-	*36*

	LTV Ranges				
	2013				
	Millions of Euros				
	Up to 40%	>40%, <= 60%	>60%, <= 80%	>80%	Total
Mortgage loans and credits eligible for mortgage and mortgage-backed bond issues					
- *Home mortgages*	*356*	*530*	*815*	-	*1,701*
- *Other mortgages*	*16*	*22*	-	-	*38*

Following is a detail of the changes in 2014 and 2013 in the nominal value of eligible and non-eligible mortgage loans and credits pursuant to Royal Decree 716/2009:

	Thousands of Euros	
	Eligible Mortgage Loans and Credits	Non-Eligible Mortgage Loans and Credits
Balance as at 1 January 2013	**2,135,705**	**355,480**
Disposals in the year	(436,055)	(39,715)
Repaid on maturity	-	-
Early repayment	*(173,899)*	*(39,715)*
Subrogations by other entities	-	-
Other	*(262,156)*	-
Additions in the year	39,660	270,871
Originated by the Bank	*39,660*	*19,723*
Subrogations from other entities	-	-
Other	-	*251,148*
Balance as at 31 December 2013	**1,739,310**	**586,636**
Disposals in the year	468,720	(34,026)
Repaid on maturity	-	-
Early repayment	*(105,828)*	*(34,026)*
Subrogations by other entities	-	-
Other	*(362,892)*	-
Additions in the year	435,475	331,173
Originated by the Bank	*11,078*	*20,672*
Subrogations from other entities	-	-
Other	*424,397*	*310,501*
Balance as at 31 December 2014	**1,706,065**	**883,783**

The detail of the nominal value of the Bank's mortgage securities outstanding at 31 December 2014 and 2013 is as follows:

	Millions of Euros		Average Term to Maturity
	Nominal Value		
	2014	2013	
Mortgage bonds outstanding	-	-	-
Mortgage-backed bonds	1,350	1,350	-
Of which: Not recognised in liabilities	-	-	-
i) Debt instruments. Issued through a public offering	1,350	1,350	-
- Term to maturity of up to 1 year	-	-	-
- Term to maturity of 1 to 2 years	1,200	-	-
- Term to maturity of 2 to 3 years	-	1,200	-
- Term to maturity of 3 to 5 years	-	-	-
- Term to maturity of 5 to 10 years	150	150	-
- Term to maturity of more than 10 years	-	-	-
ii) Debt instruments. Other issues	-	-	-
- Term to maturity of up to 1 year	-	-	-
- Term to maturity of 1 to 2 years	-	-	-
- Term to maturity of 2 to 3 years	-	-	-
- Term to maturity of 3 to 5 years	-	-	-
- Term to maturity of 5 to 10 years	-	-	-
- Term to maturity of more than 10 years	-	-	-
iii) Deposits	-	-	-
- Term to maturity of up to 1 year	-	-	-
- Term to maturity of 1 to 2 years	-	-	-
- Term to maturity of 2 to 3 years	-	-	-
- Term to maturity of 3 to 5 years	-	-	-
- Term to maturity of 5 to 10 years	-	-	-
- Term to maturity of more than 10 years	-	-	-
Mortgage participation certificates issued	-	-	-
i) Issued through a public offering	-	-	-
ii) Other issues	-	-	-
Mortgage transfer certificates issued	-	-	-
i) Issued through a public offering	-	-	-
ii) Other issues	-	-	-

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 Bank had replacement assets assigned to them.

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)

2014 Consolidated Directors' Report

Economic, banking and regulatory environment

International economic environment and outlook for 2015

In 2014 the world economy grew by around 3.3%. This rate was similar to that of 2013, albeit with significant differences: on the one hand, the advanced economies overall experienced a marked revitalisation, which was offset by the slowdown in growth of the emerging economies. On the other, among both the advanced and the emerging countries the differences in their cyclical positions were accentuated:

- The United States is undergoing a strong phase of expansion. The economy grew at higher than the potential rates, with the result that there were substantial falls in unemployment and excess installed capacity. Inflation remained low. In these conditions, the Federal Reserve decided to end its asset-buying programme, although the tone of its monetary policy remained expansive. The outlook for 2015 points to growth in GDP of more than 3%, which would lead to a gradual upturn in the official rate for federal funds.

- The United Kingdom economy performed very well in 2014. Inflation remained steady at under 2%, as a result of which the Bank of England kept the discount rate at 0.5%. In 2015 the economy is expected to continue this positive trend and the Bank of England is likely to embark on a gradual and moderate process of raising interest rates.

- The recovery of GDP in the euro area was slower and more vulnerable than was expected. Rates of inflation were close to 0%, which led the ECB to reduce its reference rates and launch further measures of quantitative easing in the form of longer-term liquidity injection (the TLTRO programme) and the purchase of securities issued by the private sector. The recovery is expected to gradually take a firmer hold in 2015.

- In 2014 Spain's growth was clearly ahead of that of the euro area as a whole. The job creation that began in the last quarter of 2013 was consolidated and supported a gradual decrease in the rate of unemployment. The recovery is the result of the adjustments and reforms undertaken by the public and private sectors in recent years, including most notably the recovery of competitiveness via internal devaluation, the labour reform and the restructuring of the financial system. In 2015 growth is expected to accelerate to rates of over 2%.

- Growth in Germany slowed as the year progressed due to a loss in business confidence. However, it is expected to revive (1.5% in 2015) in response to the strength of the German labour market and the strong competitiveness that is supporting exports.

- Poland grew strongly in 2014, although towards the end of the year it lost energy as a result of the conflict in Ukraine (affecting Poland's trade with Eastern Europe) and the modest growth of the euro area. The stimulus measures and the likely improvement of the international environment herald a slight improvement in activity in 2015 (3.2% in 2015).

Financial markets and exchange rates

In general, there was a substantial improvement in financial conditions. The advances occurred mainly in the first half of the year, when the global perception of risk fell significantly, there were widespread rises in stock market indexes, risk premiums on both government and private debt securities fell considerably, access to capital markets became more fluid and the conditions for the supply of bank credit – in the advanced economies – eased.
This performance was linked to the monetary policies of the central banks, which resulted in abundant liquidity and the consequent pursuit of returns. The progress made towards the European banking union and the idea that the most extreme risks had passed also had a big influence.

There was a correction in the second half of 2014 with a greater differentiation in performance depending on the nature of the assets and the outlook for each economy in the face of the downward revision of the forecasts for global growth, the end of the asset-buying programme in the United States, and the marked fall in commodity prices (especially sharp in the case of oil).

There were significant fluctuations in exchange rates during 2014. In particular, the dollar rose strongly against both the euro and the main Latin American currencies.

Banking sector environment

The biggest highlight for the banking systems in which Santander Group operates was the progress made towards the Banking Union in the euro area. The ECB took on the function of supervising all banks in the euro area, and of doing so directly in the case of the 120 biggest banks, which account for 82% of the system's total assets.

2014 brought a turning point in the evolution of European banking, thanks to the assessment exercise performed on banks' balance sheets and the efforts made by the banks to prepare for it, which decisively strengthened their solvency.

This was reflected in a clear improvement during the year in confidence in the European financial system. At the same time, the weakness of the economy continued to weigh on the business volume and the low level of interest rates continued to exert downward pressure on earnings. Nevertheless, it is likely that the trend of improvement set during the year in both the performance and cost of credit will support a gradual improvement in margins in 2015.

Regulatory context

In Europe the European crisis management Directive was approved. This Directive is a significant development in the orderly resolution of entities in Europe and has helped to break the link between banking and sovereign risk by requiring a bank's creditors to be the first to absorb losses, and reducing to a minimum the option of allocating public funds in banking crises.

Another area where there continue to be intensive regulatory activities is the review being undertaken by the Basel Committee of the capital consumption frameworks for credit risk, market risk and operational risk. They are expected to be completed in 2015 and on their success will depend whether the role of risk-sensitive requirements is maintained in the prudential framework, or whether greater weight is given to measures that are not risk sensitive such as the leverage ratio. Also in Europe, the European Banking Authority (EBA) continued to issue standards and guidance to ensure the harmonised implementation in the European Union of the minimum capital requirements. All of this work will be decisive for reducing variations in capital consumption that are not justified by differences in banks' risk profiles and ensuring a level playing field and comparability.

In Europe the year was marked by the progress made towards the Banking Union. The ECB assumed its supervisory responsibilities in the euro area on 4 November 2014. The Single Resolution Mechanism Regulation and Single Resolution Fund Regulation were also approved.

In January 2014, the European Commission published its draft Regulation for structural reform, which prohibits proprietary trading and allows Member State authorities to require separation of market-making activities in certain cases. The European Parliament and the European Council will continue to take these negotiations forward in 2015. In addition to the United Kingdom, France, Germany and Belgium have also passed laws for the separation of banking activities (mainly the separation and/or prohibition of proprietary trading) which will come into force in 2015.

Noteworthy in connection with investor protection was the publication of MiFID II, which will come into force in January 2017. The European Securities and Markets Authority and the European Commission are working on its implementation.

Strategy

In an environment of incipient recovery in consumer spending and private vehicle registrations, SCF continued to gain market share on the back of a business model based on geographical diversification with critical mass in key products, a higher efficiency ratio than its competitors and a shared risk and recovery control system that facilitates a high credit quality.

In 2014 the management focuses were:

- Promoting new lending and cross-selling tailored to the situation in each market supported by brand agreements and penetration in used cars.

- Harnessing the institution's competitive advantages in the European market of consumer finance.

In addition, a number of agreements were reached or implemented in 2014 that have strengthened SCF's position:

- In the Nordic countries in the fourth quarter, after the acquisition of the GE business, SCF took the lead in auto, direct credit and cards.

- The business in Spain has been the leader of consumer finance since the beginning of 2014.

- In 2015, in a number of European countries (including France and Switzerland where SCF does not currently operate), the implementation of the agreement with Banque PSA Finance will strengthen SCF's leadership in auto.

Lastly, for 2015, the main objectives are:

- To focus on the integration of the new joint operations with PSA and the business acquired from GE Nordics.

- To promote new lending while defending margins tailored to the situation in each market supported by brand agreements and penetration in used cars.

- To boost cross-selling using IT tools, as well as online finance.

Business activity

Gross lending to customers was up in 2014 by 2.70% to EUR 59,653 million. This increase was mainly due to the acquisition of the GE business in the Nordic countries and the El Corte Inglés finance arm in Spain.

Accumulated production was up by 5.1% year on year at EUR 23,076 million, even though the unit in Poland was no longer within the scope of consolidation. This increase was due to the addition of the El Corte Inglés finance arm, the acquisition of the GE business in Sweden and the organic increase at almost all of the Group units. By product, noteworthy was the growth in cards (up by 86.6%), used vehicles (up by 4.4%) and new vehicles (up by 5.9%), which was higher than that of vehicle registrations. Noteworthy also was the 13.5% increase in mortgages in the business in Germany. On the other hand, the 20.5% decrease in durable goods was the result of the removal of the Poland portfolio referred to above.

By unit, there was growth in local currency at all of them, except for the Netherlands. Most notable were the peripheral countries (Italy, Spain and Portugal) with double-digit growth, the Nordic countries (up by 12%) and Germany (up by 3%).

On the liability side, with no changes in the scope of consolidation (not considering Poland), most notable was the stability of customer deposits (at around EUR 29,000 million), which sets Santander Consumer Finance apart from its competitors.

With regard to the raising of wholesale funds, in 2014 the area performed eight asset securitisation and structured finance transactions (both private- and public-sector or retained) in six of the twelve countries in which it operates, through which it obtained third-party financing totalling over EUR 2,800 million. These transactions have positioned Santander Consumer Finance as one of the leading vehicle loan securitisation issuers in Europe. This evidences how attractive the area's assets are to the market and the high diversification of its funding sources. In addition, senior issues of more than EUR 2,800 million were launched and placed with third parties.

At 2014 year-end, customer deposits and medium- and long-term issues and securitisations in the market accounted for 83.2% of the area's net lending which, together with capital funds, enabled the area to achieve net self-financing.

Earnings and business performance

Attributable profit of EUR 638.32 million, which was 4.75% more than in 2013.

By income statement line, the management of asset spreads and the reduction in the cost of deposits absorbed the decrease in interest rates, leading to a 5.37% increase in the net interest income. Fees and commissions were up by 2.33% As a result the gross operating income obtained was EUR 3,072 million, an increase on 2013 of 6.52%.

Costs remained practically flat year on year.

Credit loss provisions were down by 9.71%, taking the cost of credit to record lows of under 1%, and reflecting a high credit quality for the business standards.

The non-performing loans ratio was 4.54%, and the coverage ratio was 98.07%, strongly impacted by the addition of the GE business in the Nordic countries.

There was a noteworthy increase in the net operating income after credit loss provisions in the Nordic countries (due to the big increase in income as a result of the change in the scope of consolidation) and the recovery of the peripheral countries (with good performance of both income and costs and provisions).

As for Germany, there was positive growth in income, particularly of fees and commissions, combined with lower costs and credit loss provisions. Santander Consumer Finance is the leader in consumer finance in Germany, with a 14.3% market share in short-term loans. By business line, it leads in finance for durable consumer goods, is second in finance for cars and direct credit, and is in the top three for credit cards.

Risk management

Corporate principles

Quality in risk management constitutes one of 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 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 the processes and models for managing and controlling risks (identification, measurement, assessment, decision, monitoring and recoveries) particularly 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 risk activity is governed by the following basic principles, which are aligned with the Santander Group strategy and business model and take into account the recommendations of the supervisors and regulators as well as best market practices.

- A **risk culture** integrated throughout the organisation. It consists of a series of attitudes, values, skills and guidelines for action vis-à-vis the risks that are integrated in all processes, including change management and strategic and business planning decision-making. It is implemented by the **close engagement of senior management** in risk management and decision-taking, **remuneration arrangements aligned with the risk appetite**, training processes at all levels of the organisation, robust control mechanisms and a full and detailed regulatory framework of risk management and control policies and processes.
- **Independence of the risk function**, encompassing all risks and appropriately separating the risk-generating areas from those responsible for risk control and supervision and having sufficient authority and direct access to management and governing bodies responsible for setting and supervising risk strategy and policies.
- **Comprehensive consideration of all risks** as an objective for the adequate management and control of them, including both risks arising directly and those that arise outside the organisation (for example, at suppliers, factories, etc.) but may affect it. The ability to formulate an all-embracing view of the risks assumed, understanding the relationship between them and facilitating their joint assessment, is considered essential, while taking into account the differences in nature, degree of evolution and real possibilities of managing and controlling each type of risk, and adapting the organisation, procedures, reports and tools to the characteristics of each one.
- A robust **organisational and governance model** that ensures that duly identified control officers and management officers are assigned to deal with each risk, while maintaining the principle of independence and having clear, coherent reporting mechanisms both within each unit in the Group and between each unit and the corporation.

- Decision-making is instrumented through **powers and responsibilities** granted to each risk managing unit, mainly through **collective bodies**, which is considered to be an effective instrument for furnishing the appropriate analysis and different perspectives to be taken into consideration in risk management. The decision process includes an orderly checking of opinions, in proportion to the potential impact of the decision and the complexity of the factors affecting it.
- The Group encourages the use of **common management instruments**, without prejudice to their adaptation to regulations, supervisory requirements and each unit's level of progress.
- These instruments include the formulation and monitoring of the **risk appetite**, through which the Group determines the amount and type of risks that it considers reasonable to assume in the implementation of its business strategy and the development of it within limits that are objective, verifiable and consistent with the risk appetite for each major business activity; the use of **scenario analysis** and a vision that anticipates the risks in the management processes, using advanced **models and metrics** and establishing a **framework of control, reporting and scaling** that make it possible to identify and manage risks from different viewpoints. In addition, the periodical risk identification and assessment processes, and the contingency, business continuity, and viability and resolution plans round out the essential management mechanisms that, together with the other instruments and principles mentioned, make up the components of the Group-wide risk management programme. In 2014 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 Santander Group's main units, including the Santander Consumer Finance Group.

Corporate governance of the risk function

Committee structure

The board of directors is responsible for approving the Company's general policies and strategies and, in particular, the general risk policy.

In this mission, the board is supported by two board committees: the risk, regulation and compliance oversight committee and the risk committee.

In addition, the Group's executive committee, which is chaired by the chair of the board, pays particular attention to the management of the Group's risks on a weekly basis.

The risk, regulation and compliance oversight committee

This committee's mission is to assist the board in the oversight and control of risk and the definition of the Group's risk policies, its relationships with supervisory bodies and in matters of regulation and compliance.

The committee was set up with the approval of the annual general meeting in 2014[1] at the proposal of the board in line with the European CRD IV Directive and best market practices. The committee extends the board's focus and efforts on risk, and assumes a portion of the functions hitherto assigned to the audit committee. It comprises external or non-executive directors, with a majority of independent directors, and is chaired by an independent director.

[1]The risk, regulation and compliance oversight committee held its first meeting on 23 July 2014.

The risk committee (CDR)

This committee is executive in nature and takes decisions within the scope of powers delegated by the board to ensure that the Group's risk profile derived from its business strategy fits in with the risk appetite limits and global policies approved by the board. Under these powers the CDR approves risk transactions, establishes risk policies and monitors the global risk profile to ensure that the Group has the necessary structure, funds and systems for adequate risk management and control.

The CDR is chaired by the second deputy chairman, and another four of the Bank's directors are members. In 2014 the risk committee held 96 meetings, evidencing the importance that Santander Group attaches to the proper management of its risks.

The committee’s main responsibilities are as follows:

- To monitor the Group's general risk profile composed of all the risks detailed in the risk map
- To manage the Group's exposure to its various customers, economic activity sectors, geographical areas and types of risk.
- To authorise the management tools, improvement initiatives, project development and any other relevant risk control actions, including the policy on internal risk models and their internal validation.
- To follow, within the scope of its activities, the indications issued by the supervisory authorities in the performance of their functions.
- To ensure that the Group's actions are consistent with the risk appetite previously established by the board of directors with the advice of the risk, regulation and compliance oversight committee, and to empower other, lower-ranking committees or executives to assume risks.
- 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.
- To provide the risk, regulation and compliance oversight committee with the information it requires to perform the duties attributed to it by law, the Bylaws and the Rules and Regulations of the Board, without prejudice to the obligation to inform the board of directors, on a timely basis, of its risk management activities.

Some of the CDR's powers have been delegated to corporate risk committees, which are structured by type of risk and activity, and this facilitates the appropriate escalation process to enable final decisions to be made and the risk profile to be monitored on an ongoing basis.

Each type of risk has its own committee arrangement. Thus, credit risk is governed by committees according to the customer segment, and market risk is governed by the global market risks committee. Actuarial and pension risks are governed by the global business risks committee.

Operational risk was a particularly important focus of action in 2014, with the reinforcement of the participation of the first lines of defence and greater weight given to the operational risk coordinators within the first corporate lines of defence. These coordinators take an active part in managing this risk and support the managers in their management and control tasks. The governance structure defined includes first line committees which deal with the most important matters relating to the management of operational risk at each division, and a control committee (corporate operational risk committee) that reviews the operational risk profile.

Organisational risk management structure

The second deputy chairman of the 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 three 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 control of all the risks and for the management of the financial risks. Its management functions are 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 four blocks:

  - A block with supervisory functions and global perspective of financial and non-financial risks, in which the risk supervision and consolidation and operational risk control areas are to be found.
  - A block for regulatory development, the development and definition of methodological standards, information infrastructure, planning and internal governance. This block includes the following areas: risk policies, methodology, information management and risk planning and governance.
  - A **structure for financial** (credit, market and structural) risk **and non-financial** (operational, compliance and conduct) **risk** management and control.
  - A business structure, centred on the performance of the risk function in the 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.

- 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, market, structural and operational risk models and economic and regulatory 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, its use and the associated governance process.
  - Integrated risk control, the purpose of which is to supervise the quality of the Group's risk management, verifying 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.

- The **regulatory project control and coordination unit** (DG DDPR) ensures that the best regulatory risk management standards are designed and implemented at the Group and that the regulatory requirements are met in all the countries consistently and efficiently.

  To achieve these objectives, the DG CCPR has the following functions:

  - Creating a corporate regulatory risk framework and ensuring the design of appropriate, consistent risk management plans.
  - Centralised perspective of the implementation of the Group's regulatory projects.
  - Guaranteeing the instruments, governing bodies and resources required for the appropriate management of regulatory risk and developing metrics to monitor and control the execution of the various projects.

  In particular the DG CCPR ensures control of the progress in the execution and quality of projects and particularly monitors those identified as having significant regulatory impact, in coordination with the rest of the Group divisions.

The identification and assessment of all the risks is the keystone to their control and 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 - 2014

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			
	2014 (Millions of Euros)	Change on December 2013	% of Portfolio
Germany	30,552	-0.12%	51.22%
The Netherlands	1,134	-5.48%	1.90%
Spain	8,472	32.33%	14.20%
Italy	5,143	-9.00%	8.62%
Portugal	859	-2.19%	1.44%
Nordic countries	11,841	37.96%	19.85%
Austria	1,652	7.56%	2.77%
SCF Group	**59,653**	**2.70%**	**100.00%**

There was a 2.70% increase year on year in credit risk exposure. This increase was mainly due to the acquisition of the GE business in the Nordic countries and the El Corte Inglés finance arm in Spain.

Germany continued to account for more than half of the gross exposure to credit risk, specifically 51.22%. In 2014 the Nordic countries accounted for almost 20% of the total credit risk of Santander Consumer Finance (19.85%).

Variations in main aggregates in 2014

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 has enabled the Group to keep these figures at levels below those of its competitors in recent years. 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 4.54% and 4.04%, respectively, at 31 December 2014 and 2013, i.e. there was an increase of 50 basis points in the year, heavily impacted by the addition of the GE business in the Nordic countries. The coverage of non-performing loans with provisions was 98.07%.

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 95.4% and inventory financing for dealers 4.6%) as it engages principally in vehicle financing.

Metrics and measurement tools

Credit rating tools

In keeping with 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 rules, 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. Since 2013 all the units have 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 Santander Group risk division, 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 (6.2% of the total portfolio) and relates mainly to dealer inventory financing risk.

Credit risk parameters

The assessment of customers or transactions using rating or scoring systems is a way of judging 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.

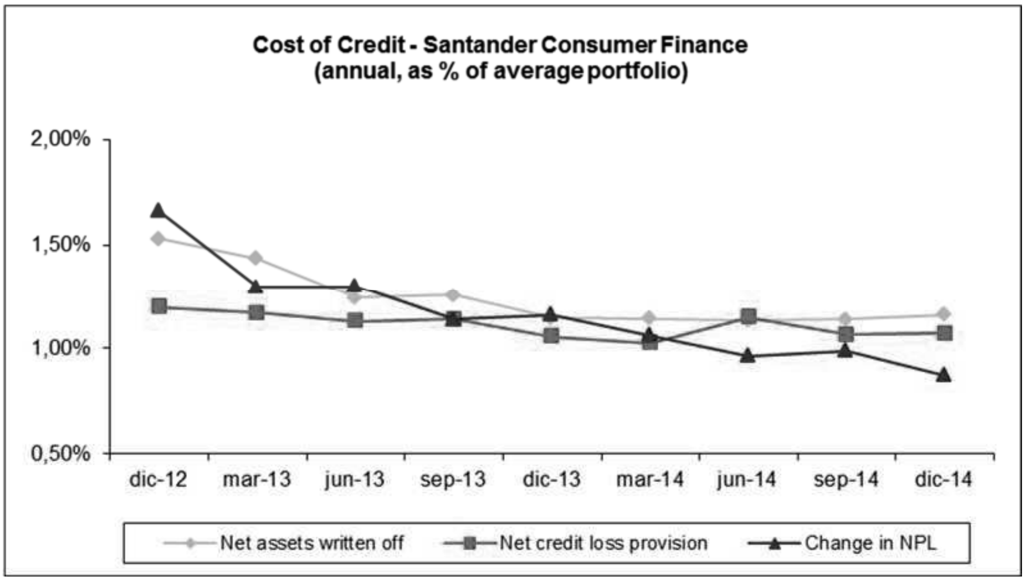
The estimated parameters for the global portfolios are the same for all the Group's units. Therefore, a financial institution with an 8.5 rating will have the same PD, regardless of the Group unit in which its exposure is accounted for. By contrast, the retail portfolios have specific rating and scoring 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

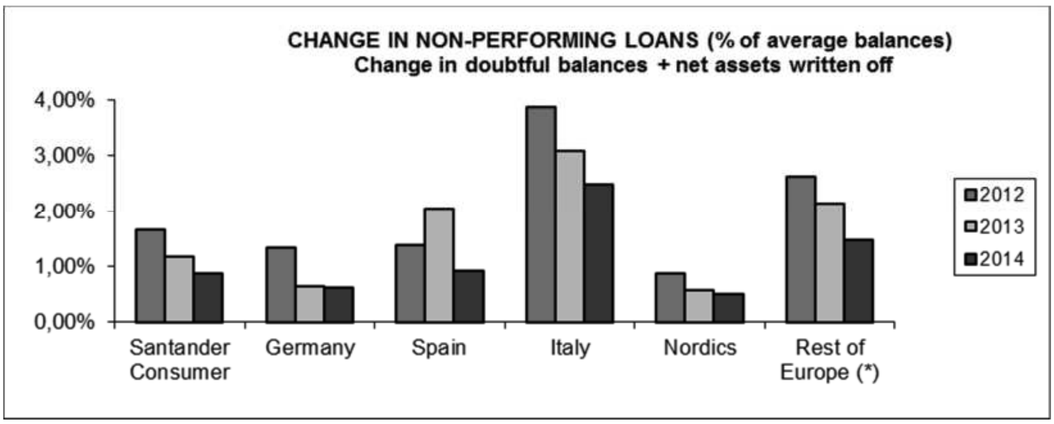
To supplement the predictiveness provided by the advanced models described above, other habitual measures are used to facilitate prudent and effective management of credit risk based on observed loss.

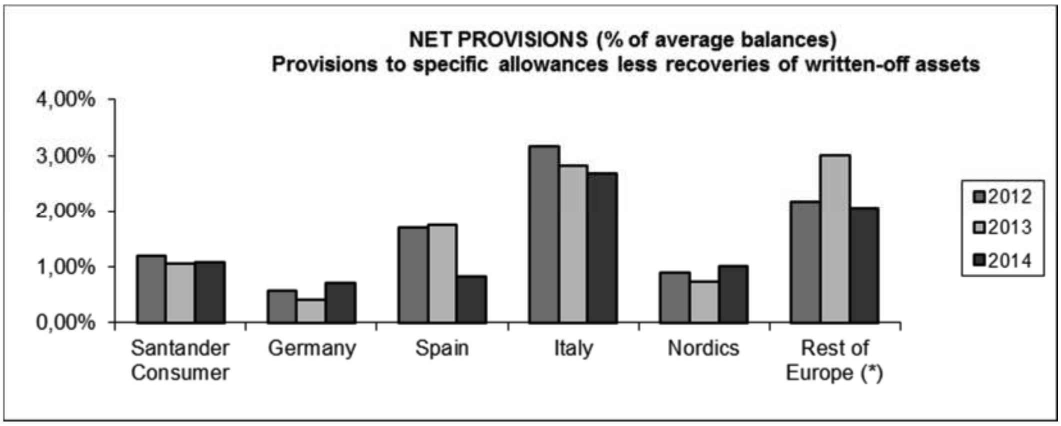
As part of the Santander Group, the cost of credit risk at Santander Consumer Finance is measured using different approaches: change in non-performing loans (ending doubtful assets - beginning doubtful assets + assets written off - recovery of assets written off); net credit loss provisions (gross provisions to specific allowances - recovery of assets written off); and net assets written off (assets written off - recovery of assets written off).

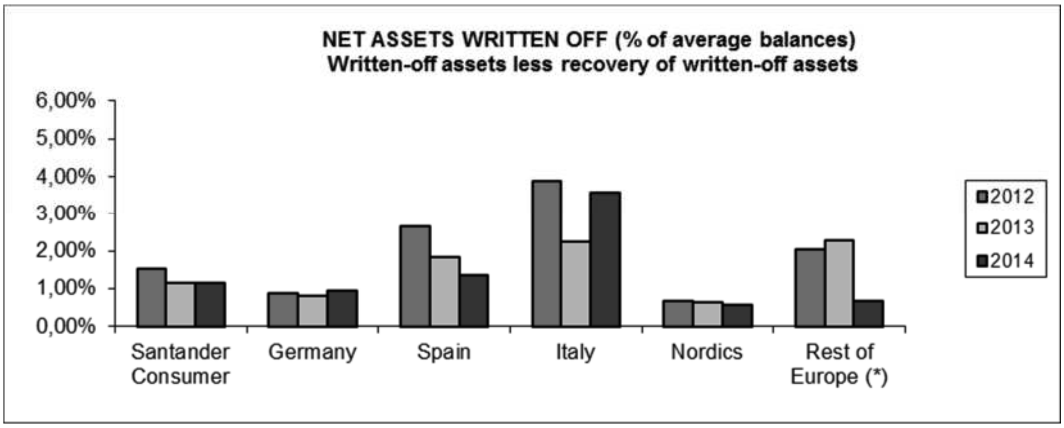


The three indicators measure the same reality and, consequently, converge in the long term although they represent successive moments in credit cost measurement: flows of non-performing loans (change in NPL), coverage of doubtful loans (net credit loss provisions) and classification as write-offs (net 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 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 2014 and prior years, measured using the different approaches: (*) The Rest of Europe includes Austria, Benelux, El Corte Inglés finance arm, Portugal and Hungary.







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 2014, the three indicators converge at an average value equal to the net provisions as a percentage of average loans. In 2014, Santander Consumer Finance kept the indicators of net write-offs as a percentage of average loans and net provisions as a percentage of average loans stable with respect to 2013 and reduced the indicator of change in non-performing loans as a percentage of average loans.

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 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.

<u>Scenario analysis</u>

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 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 sale phase comprises the decision-making process, the aim of which is to analyse and resolve upon transactions, since approval by the risk unit is a pre-requisite for the arrangement of any risk transaction. This process must consider the transaction approval policies defined and take into account both the risk appetite and any transaction elements that are important in achieving a balance between risk and return.

In the sphere of lower-revenue individuals, businesses and SMEs, the management of large volumes of loan transactions is facilitated by the use of automatic decision-making models that rate the customer/loan relationship. As a result, loans are classified in homogeneous groups of risk based on the model's rating of the transaction using information about the characteristics of the transaction and the borrower.

Monitoring

The monitoring function is founded on a process of ongoing observation, which makes it possible to detect early any changes that might arise in customers' credit quality, so that action can be taken to correct any deviations with an adverse impact.

Monitoring is based on the segmentation of customers, is performed by dedicated local and global risk teams and is complemented by the work performed by internal audit.

The function involves, inter alia, identifying and monitoring companies under special surveillance, reviewing ratings and the ongoing monitoring of indicators.

The system called "**companies under special surveillance**" (FEVE, using the Spanish acronym) distinguishes four categories based on the degree of concern raised by the circumstances observed (extinguish, secure, reduce and monitor). The inclusion of a position 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 the position in question, 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 lower-revenue individuals, businesses and SMEs, the key indicators are monitored in order to detect any variance in the performance of the loan portfolio with respect to the forecasts made in the credit management programmes.

Measurement and control

In addition to monitoring customers' credit quality, Santander Consumer Finance establishes the control procedures required to analyse the current credit risk portfolio and the changes therein over the various credit risk phases.

The risk control function is performed by assessing risks from various complementary perspectives, the main pillars being control by geographical location, business area, management model, product, etc., thus facilitating the early detection of specific areas requiring attention, and the preparation of action plans to correct any possible deterioration.

Each control pillar can be analysed in two ways:

1.- Quantitative and qualitative analysis of the portfolio

Portfolio analysis systematically controls on an ongoing basis any changes in the risk exposure with respect to budgets, limits and benchmarks, 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 the Group.

In addition to the traditional metrics, the following, inter alia, are used in the credit risk control phase:

- **Change in non-performing loans**

Change in NPL measures the change in non-performing loans in the period, discounting the loans written off and taking recoveries into account. It is an aggregate measure at portfolio level that enables action to be taken in the event of deteriorations in the trend of non-performing loans.

- **EL (expected loss) and capital**
  Expected loss is the estimated financial loss that will occur over the next twelve months on the portfolio existing at any given time. It is an additional cost of the activity and must be charged in the transaction price.

2.- Assessment of the control processes

This includes a systematic periodic review of the procedures and methodology, and is performed over the entire credit risk cycle to ensure that they are in force and effective.

In 2006, within the corporate framework established in the 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. In this connection, the risk division assesses the efficiency of the internal control of its activities on an annual basis.

Furthermore, the integrated risk control and internal risk validation unit, as part of its mission to supervise the quality of the Group's risk management, guarantees 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. Also, internal audit is responsible for ensuring that the policies, methods and procedures are appropriate, effectively implemented and regularly reviewed.

Recovery process

The recovery process is a major function of the Group's risk management. It is performed by the asset recovery and clean-up division (DRSA), a unit created in July 2013 with the aim of achieving greater efficiency in the asset recovery process, while at the same time developing a global strategy and a comprehensive approach for recovery management.

Santander Consumer Finance combines a global model with local implementation that takes into account the specific features of the business in each area of activity.

The main objective of loan recovery is to recover outstanding obligations by managing our customers, thereby helping to reduce the need for provisions and lower 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 institution'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. 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 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. This 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 the financial management area 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.

Santander Consumer Finance S.A. also prepares the monthly liquidity statements required by the Bank of Spain giving the month-end data for each month, as well as the monthly liquidity coverage ratio (LCR) and the quarterly net stable funding ratio (NSFR) required by the European Banking Authority (EBA) under Directive 2013/36/EU, Regulation CRR 575/2013 and the CRD IV/CRR technical standards published subsequently.

- *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 objective of the liquidity stress tests performed by the Santander Consumer Finance Group is to determine the impact of a severe, but plausible, liquidity crisis. The stress scenarios simulate internal factors that could affect the Group's liquidity such as the lowering of the institutional credit rating, the value of the on-balance sheet assets, inter-Group entity transfer restrictions, as well as external factors such as liquidity shortage in the banking system, banking crises, regulatory factors, changing trends in consumer spending and/or loss of depositor confidence, etc.

Using these stress factors, three liquidity stress scenarios are simulated on a monthly basis (banking crisis in Spain, idiosyncratic crisis of Santander Consumer Finance Group and global crisis) establishing levels of early warnings on the results obtained.

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 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.

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. Since the end of 2014, the hedges covering these foreign currency risk exposures are booked at both Banco Santander S.A. and Santander Consumer Finance S.A.

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 2014

A. *Balance sheet management*

A1. Interest rate risk

The interest rate risk limits for 2014 for the consolidated portfolios denominated in euros were set at EUR -75 million for the sensitivity of the net interest margin (NIM) at one year and at EUR -170 million for the sensitivity of the market value of equity (MVE). The latter limit was increased to EUR -212 million in September 2014 due to the absence of hedges to cover the scenario of a lengthy period of low rates.

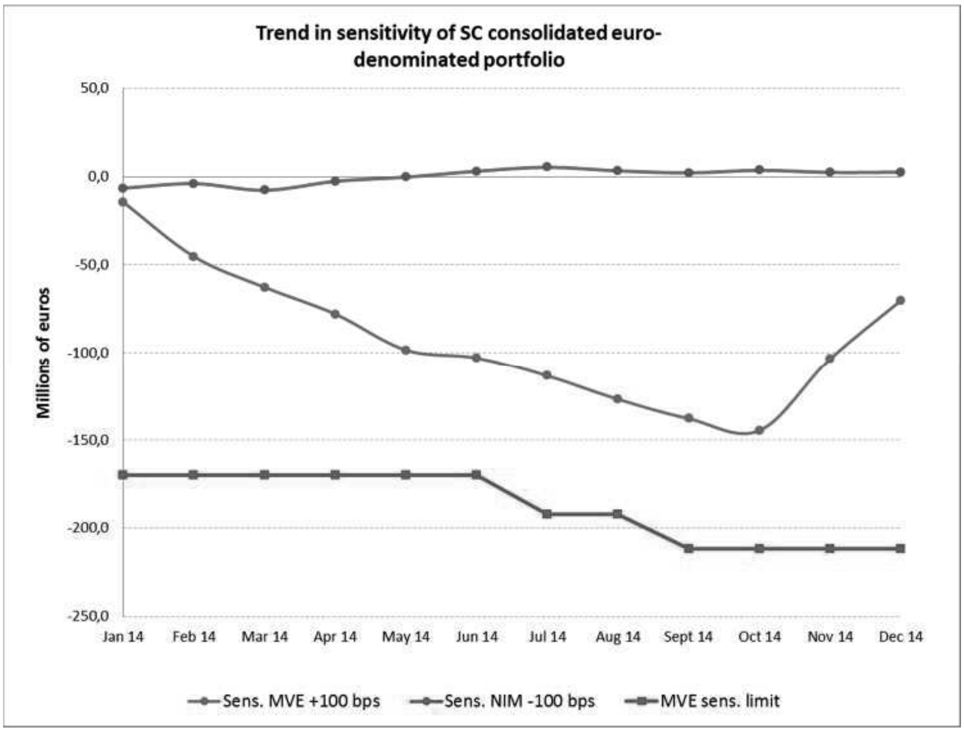
The limits are compared with the sensitivity to the highest of the losses calculated for eight different scenarios (parallel increases and decreases of 25, 50, 75 and 100 basis points in the yield curve). The use of several scenarios improves interest rate risk control. In scenarios of falling interest rates, negative interest rates are not envisaged.

At 31 December 2014, the scope of consolidation comprised the units of the following countries: Germany, Austria, the Netherlands, Belgium, Spain, Italy, Portugal and Finland.

The weakness of the economic and financial situation in 2014 meant that interest rates remained very low and no increases were expected in the short term. As a result no new hedges were arranged within the scope of consolidation denominated in euros in the year.

The sensitivity of the net interest margin of the euro scope of consolidation at the end of December 2014 (pending December figures) to a parallel 100bp rise in interest rates was EUR +6.4 million. The sensitivity of the market value of equity to a parallel rise of 100 basis points was EUR -70.2 million.
The sensitivity of both the net interest margin and market value of equity was within the established limits at December 2014.

The chart below shows the changes in the sensitivity of the net interest margin and of the market value of equity in 2014 (figures through December 2014):



A2. 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 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 2014:

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 16 October 2014. 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 partner financial institutions) had a balance of EUR 2,057 million in note issues at the end of 2014.

ECP PROGRAMME

Santander Consumer Finance has a EUR 5,000 million multi-currency European Commercial Paper (ECP) programme outstanding, with maturities of between 1 and 364 days. The outstanding balance at 31 December 2014 was EUR 2,759 million.

SECURITISATIONS

Note 19 to the consolidated financial statements contains a detail of the securitisations performed by the Group in 2014 (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 10,000 million. The outstanding balance at 2014 year-end was EUR 5,134 million, and the balance issued in 2014 was EUR 3,720 million (14 transactions).

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 the euro. At 31 December 2014, the open foreign currency position in Spain amounted to EUR 511.7 million relating to the investment in Norwegian krone in SCB S.A. (Norway), EUR 145.7 million relating to the investment in Polish zloty in SCB S.A. (Poland), and EUR 682.2 million in Swedish krona after the acquisition of GE Money Bank AB in Sweden. Structural foreign currency risk is managed centrally at Santander Group level by applying the general corporate procedures. However, as mentioned earlier, since the end of 2014, the hedges covering these foreign currency risk exposures are booked at both Banco Santander S.A. and Santander Consumer Finance S.A.

Operational risk

Definition and objectives

Santander Consumer Finance defines operational risk (OR) as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".

Operational risk is inherent in all products, activities, processes and systems, and is generated in all the business and support areas. Accordingly, all the employees are responsible for managing and controlling the operational risks generated in their area of activity.

The aim pursued by Santander Group in operational risk control and management is primarily to identify, measure/assess, monitor, control, mitigate and report on this risk.

The Santander Group's priority, therefore, is to identify and mitigate any clusters of operational risk, irrespective of whether or not 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 has been applying the Standardised Approach provided for under Basel II standards. However, in 2014 Santander Consumer Finance embarked on a project to switch to Advanced Measurement Approaches (AMA), for which it has already satisfied the majority of the regulatory requirements. In any event, it should be noted that the priority in operational risk management continues to be focused on mitigation.

Operational risk management and control model

Operational risk management cycle

The various phases of operational risk management at Santander Consumer Finance are as follows:

The operational risk management and control model includes the following phases:

- Identification of the operational risk inherent in all Santander Consumer Finance's activities, products, processes and systems.
- Definition of the target operational risk profile, specifying the strategies by unit and time horizon, through the establishment of the operational risk appetite and tolerance, the budget and the related monitoring.
- Encouragement of the involvement of all employees in the operational risk culture, through appropriate training for all areas and levels of the organisation.
- Objective and continued measurement and assessment of operational risk, consistent with the industry and regulatory standards (Basel, Bank of Spain, etc.).
- Continuous monitoring of operational risk exposures, implementation of control procedures, improvement of internal awareness and mitigation of losses.
- Establishment of mitigation measures to eliminate or minimise operational risk.
- Generation of periodic reports on the exposure to operational risk and its level of control for senior management and Santander Consumer Finance's areas/units, and reporting to the market and the regulatory authorities.
- Definition and implementation of the methodology required for calculating capital in terms of expected and unexpected loss.

The following is required for each of the key processes indicated above:

- Definition and implementation of systems enabling Santander Consumer Finance to monitor and control operational risk exposures. These systems must be integrated into the Group's daily management, using the current technology and maximising the automation of applications.
- Definition and documentation of operational risk management and control policies and implementation of the related methodologies and tools consistent with current regulations and best practices.

The operational risk management and control model implemented by Santander Consumer Finance provides the following benefits:

- It encourages the development of an operational risk culture.
- 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.
- Setting of limits for operational risk appetite.

Risk identification, measurement and assessment model

Until October, the organisational model for risk management and control established three levels of control:

- First level: control functions performed by Santander Group units.

- Second level: functions performed by the corporate areas.

- Third level: integrated control functions performed by the risk division - integrated risk control and the Santander Group's internal risk validation area (CIVIR).

Operational risk management and control was 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 Santander Group and Santander Consumer Finance units, with particular importance being attached to the role of the local operational risk officers.

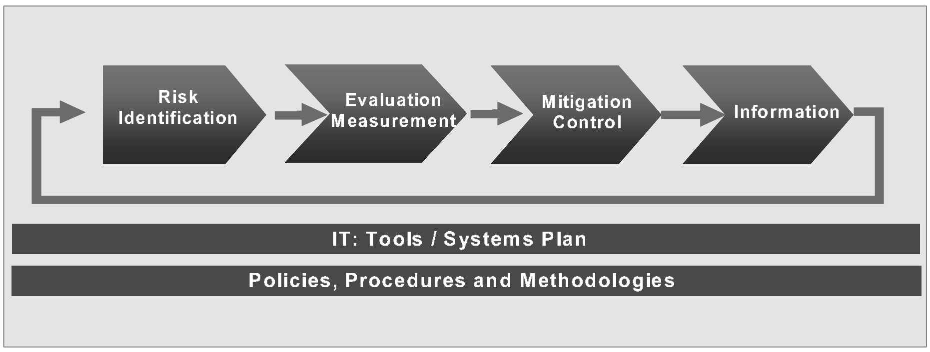
Since November 2014 Santander Consumer Finance has been applying the new Santander Group management system in which three lines of defence have been defined:

- 1st line of defence: integrated in the business or support areas. Its tasks are to identify, measure or assess, control (primary control), mitigate and report the risks attached to the activity or function for which it is responsible.

- 2nd line of defence: performed by the non-financial risks unit, reporting to the CRO. Its functions are the design, maintenance and development of the local adaptation of the Operational Risk Management Framework (BIS), and control and challenge over the first line of defence of operational risk.

- 3rd line of defence: performed by the internal audit, which assesses the compliance of all the entity's activities and units with its policies and procedures.

The various phases of operational risk management at Santander Consumer Finance are as follows:



In order to identify, measure and assess operational risk, the Group defined a set of quantitative and qualitative corporate techniques/tools that are combined to perform a diagnosis based on the identified risks and obtain a valuation through the measurement/assessment of the area/unit.

The quantitative analysis of this risk is carried out mainly using tools that record and quantify the level of losses associated with operational risk events.

- An internal database of events, to capture all operational risk events at Santander Consumer Finance. The capture of operational risk-related events is not limited by the establishment of thresholds, i.e. events are not excluded because of their amount, and the database contains both events with an accounting impact (including positive impacts) and those without.

  There are accounting reconciliation procedures that ensure the quality of the information entered in the database. The most significant events of the Group and of each of the Group's operational risk units of the Group are especially documented and reviewed.

- An external database of events, since Santander Consumer Finance participates through Santander Group in international consortia, as an ORX (operational risk exchange). In 2014 greater use was made of external databases that provide quantitative and qualitative information and permit a more detailed and structured analysis of major events that have occurred in the sector.

- OR scenario analysis. Expert opinion is obtained from the business lines and the risk and control managers with the aim of identifying potential events that although very unlikely to occur could involve a very high loss for the institution. Their possible effect on the institution is evaluated and additional controls and mitigating measures are identified to reduce the possibility of a high economic impact.
- Capital calculation using the standard method.

The tools defined for the qualitative analysis aim to assess aspects (coverage/exposure) linked to the risk profile, thereby making it possible to capture the existing control environment. These tools are primarily:

- Processes and risks map and self-assessment questionnaires. An appropriate evaluation of the risks based on the expert judgement of the managers provides a qualitative view of the main clusters of risk at Santander Consumer Finance, irrespective of whether they have occurred previously.

- A continuously evolving corporate system of operational risk indicators that is coordinated with the internal control area. These are different kinds of statistics or parameters that provide information on the institution's risk exposure. These indicators are reviewed periodically to warn of changes that could reveal problems with the risk.

- Audit recommendations. These provide relevant information about the risk attached to internal and external factors and make it possible to identify weaknesses in the controls.

- Other specific instruments that permit a more detailed analysis of technology risk, such as the control of critical incidents in the systems and cyber security events.

Model implementation and initiatives:

Substantially all the Santander Consumer Finance 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.

Santander Consumer Finance has begun a project to switch to an AMA approach. In 2014, the situation of the pillars of the OR model at the most important units (Germany and Spain) was analysed, and a series of actions was scheduled in order to meet the management and regulatory expectations in OR management and control.

The main functions, activities and global initiatives which have been adopted and seek to ensure the effective management of operational risk, can be summarised as follows:

- Definition and implementation of the new operational risk framework.
- Designation of OR head coordinators and creation of operational risk departments at the local units.
- Training and experience sharing: communication of best practices within Santander Consumer Finance.
- Fostering of mitigation plans: control of both the implementation of corrective measures and projects under development.
- Definition of policies and structures to minimise the impacts on Santander Consumer Finance in the event of major disasters.

Anti-cyber-risk measures

Regarding the management of technology risk, in 2014 Santander Consumer continued with its projects to reduce cyber-risk, and extended the management model for incidents and the application service continuity (ASC) service at the units within its sphere. Projects were undertaken to include the applications of SC UK, Germany, Spain and the Netherlands in the Metrics monitoring tool, which enables the Produban teams to manage the applications in real time. The configuration of the installation was secured by applying the necessary updates and a major technology upgrade project was undertaken at SC Spain to migrate from AIX to Linux and update SQL 2003-based applications to Oracle 11.

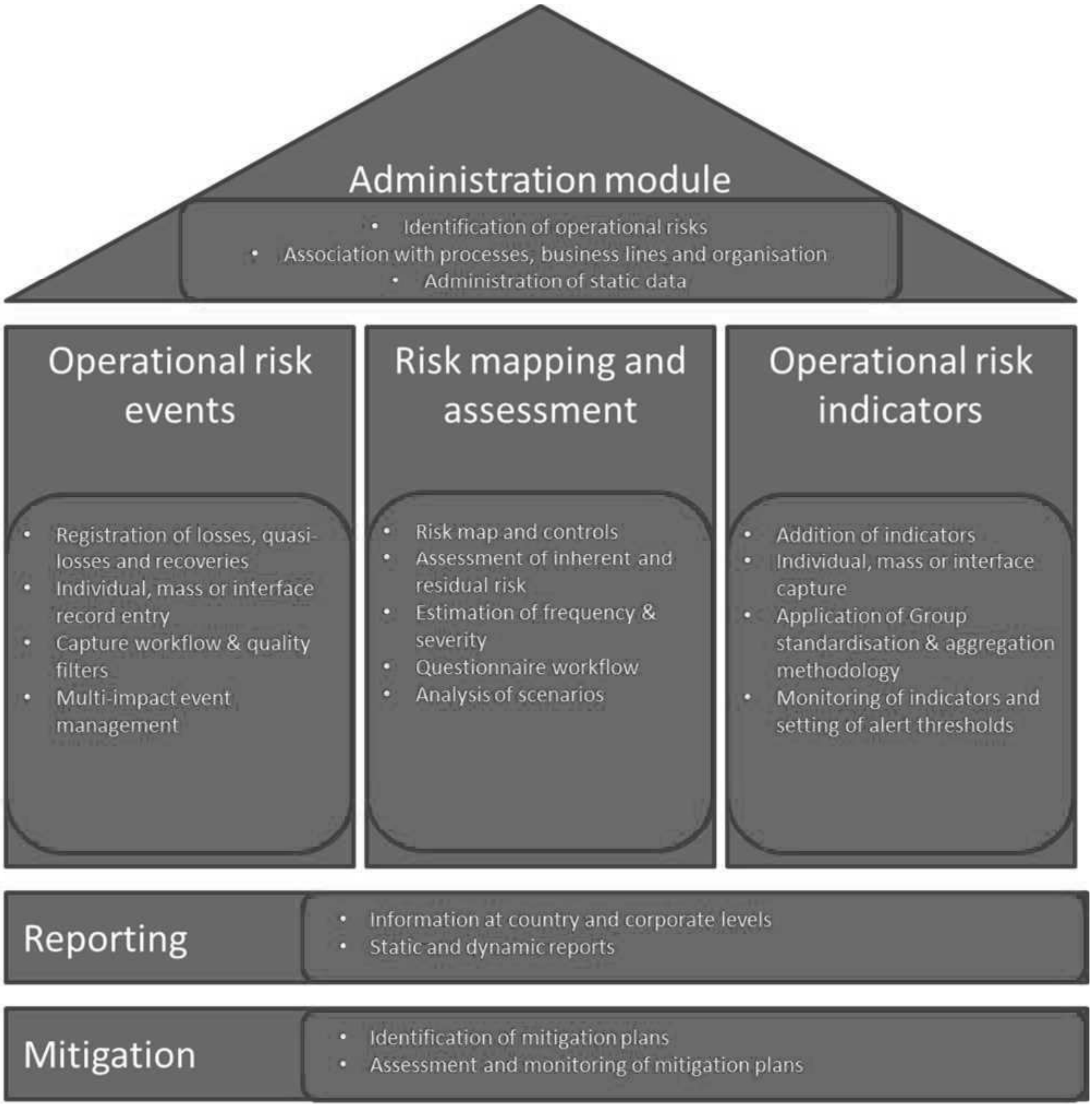
Work was also done to secure the perimeters of applications at Santander Consumer Poland, UK, Netherlands, Portugal, Spain using black box and white box ethical hacking tests (5) and correcting the vulnerabilities detected during the exercise.

Operational risk information system

Santander Consumer Finance uses the Santander Group's corporate information system that supports the operational risk management tools and facilitates the information and reporting functions and needs at local and corporate level.

The system offers event recording modules, risk mapping and assessment, indicators, mitigation and reporting systems, and is applicable to all the Santander Consumer Finance entities.

The following diagram shows the various areas covered by the current technology platform:


Administration module
• Identification of operational risks
• Association with processes, business lines and organisation
• Administration of static data
Operational risk events
• Registration of losses, quasi-losses and recoveries
• Individual, mass or interface record entry
• Capture workflow & quality filters
• Multi-impact event management
Risk mapping and assessment
• Risk map and controls
• Assessment of inherent and residual risk
• Estimation of frequency & severity
• Questionnaire workflow
• Analysis of scenarios
Operational risk indicators
• Addition of indicators
• Individual, mass or interface capture
• Application of Group standardisation & aggregation methodology
• Monitoring of indicators and setting of alert thresholds
Reporting
• Information at country and corporate levels
• Static and dynamic reports
Mitigation
• Identification of mitigation plans
• Assessment and monitoring of mitigation plans

As part of the rollout of advanced models, taking into account the control synergies that it will provide, Santander Group, and therefore Santander Consumer Finance, is in the process of rolling out a governance, risk and compliance (GRC) tool to provide integral support for not only the management and control of operational risk but also the functions of internal control and compliance.

Business Continuity Plan

The Santander Group and, therefore, Santander Consumer Finance, has a business continuity management system to ensure the continuity of the business processes of its entities in the event of a disaster or serious incident.

This basic objective consists of the following:

- Minimising possible injury to persons, as well as adverse financial and business impacts for Santander Consumer Finance, due to an interruption of normal business operations.
- Reducing the operational effects of a disaster by supplying a series of pre-defined, flexible guidelines and procedures to be employed in order to resume and recover processes.
- Resuming time-sensitive business operations and associated support functions, in order to achieve business continuity, stable earnings and planned growth.
- Re-establishing the time-sensitive technology and transaction-support operations of the business if existing technologies are not operational.
- Protecting the public image of, and confidence in, Santander Consumer Finance.
- Meeting Santander Consumer Finance's obligations to its employees, customers, shareholders and other third-party stakeholders.

Corporate information

The Santander Group's corporate operational risk control area has an operational risk management information system that provides data on the Group's main risk elements. The information available from each country/unit in the operational risk sphere is consolidated to obtain a global view with the following features:

- Two levels of information: one corporate, with consolidated information, and the other individualised for each country/unit.
- Dissemination of the best practices among the countries/units of Santander Group, obtained from the combined study of the results of qualitative and quantitative analyses of operational risk.

More specifically, information is prepared on the following aspects:

- The operational risk management model in place at the Santander Group and its main units and geographical areas.
- The scope of operational risk management.
- Monitoring of appetite metrics.
- Analysis of the internal event database and of significant external events.
- Analysis of the most significant risks, detected using various sources of information, such as the internal operational and technology risk assessment exercises.
- Evaluation and analysis of risk indicators.
- Mitigating measures/active management.
- Business continuity plans and contingency plans.

This information acts as the basis for meeting reporting requirements to the risk committee, the risk, regulation and compliance oversight committee, the operational risk committee, senior management, regulators, rating agencies, etc.

The role of insurance in operational risk management

Santander Group considers insurance a key factor in operational risk management. In 2014 common guidelines were established for coordinating the various functions involved in the management cycle for operational risk-mitigating insurance, mainly the areas of proprietary insurance and operational risk control, but also the various front-line risk management areas.

These guidelines include the following activities:

- Identifying all risks at Santander Group that can be covered by insurance, and identifying new insurance covers for risks already identified in the market.
- Establishing and implementing criteria for quantifying the insurable risk on the basis of loss analyses and loss scenarios that make it possible to determine the level of exposure of Santander Group to each risk.
- Analysing the cover available in the insurance market, and drawing up the preliminary design of the conditions that best meet the needs that have been previously identified and assessed.

- Technically evaluating the level of protection provided by the policy, the cost and the levels of retention to be assumed by Santander Group (excesses and other items payable by the insured) in order to reach a decision on whether to take out the insurance.
- Negotiating with and selecting suppliers in accordance with the procedures drawn up for this purpose by Santander Group.
- Monitoring incidents declared under the policies, and those not declared or not recovered due to incorrect declaration.
- Analysing whether the Group policies are appropriate for the risks covered, taking the necessary corrective measures to remedy any shortcomings identified.
- Close cooperation between local operational risk officers and local insurance coordinators in order to strengthen 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 highest technical body in the Group responsible for the definition of insurance coverage and arrangement strategies.

Reputational risk

Under the Santander Group risk management model, the management of reputational risk lies with the compliance function and is directly related to operational and regulatory risk. Reputational risk is associated with how the Bank is perceived by its customers, shareholders, employees and public opinion in general.

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, came into force in 2014.

From the capital standpoint, Basel III redefines what is considered to be available capital at financial institutions (including new deductions and raising the requirements for eligible equity instruments), increases the minimum capital requirements, requires financial institutions to operate permanently with capital buffers, and adds new requirements in relation to the risks considered.

In Europe, the new standards were implemented through Directive 2013/36/EU, known as the Capital Requirements Directive ("CRD IV"), and the related Capital Requirements Regulation 575/2013 ("CRR"), which is directly applicable in all EU member states (as part of the Single Rulebook). In addition, the standards are subject to Implementing Technical Standards commissioned from the European Banking Authority (EBA), some of which will be issued in the coming months/years.

The Capital Requirements Regulation came into force on 1 January 2014, with many of its rules subject to various implementation timetables. This transitional implementation phase, which affects mainly the definition of eligible capital, concludes at the end of 2017, 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, some in the form of public consultation processes, which will entail a future amendment of CRD IV and the CRR.

Santander Consumer Finance has a very sound capital adequacy position that significantly surpasses the levels required by regulations. In 2014 the Group continued to bolster its main capital ratios in response to the difficult economic and financial environment and the new regulatory demands.

At the end of December 2014 Santander Consumer Finance had a CET 1 ratio of 11.11% on the basis of a fully loaded calculation of 10.64%.

With regard to credit risk, the Group is continuing with its plan to implement the advanced internal ratings-based (AIRB) approach under Basel for substantially all its banks, and it intends to do so until the percentage of net exposure of the loan portfolio covered by this approach exceeds 90%. The attainment of this objective in the short term will also depend on the acquisitions of new entities and the need for the various supervisors to coordinate the validation processes for the internal approaches. Accordingly, the Group continued in 2014 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 Group units.

In 2014 the calculation of the minimum regulatory capital requirements switched from a standard to an IRB advanced approach for the following portfolios: businesses and cards at SC Spain and consumer loans at SC Germany.

The standard approach is currently used to calculate the regulatory capital as regards operational risk. Santander Consumer Finance's project to evolve to an advanced model approach (AMA) is currently at an advanced stage, with sufficient information being obtained based on its own management model.

Leverage ratio

The new CRD IV regulations introduce a new leverage ratio that is not sensitive to an entity's risk profile. It is calculated as the ratio of Tier 1 capital to exposure.

This exposure is calculated as the sum of total assets per books plus off-balance-sheet items (mainly guarantees, unused credit limits granted and documentary credits). Certain technical adjustments are made to this sum, such as by replacing the asset value of derivatives and securities financing transactions with the EAD considered for the calculation of risk-weighted assets and by eliminating the value of assets considered as deductions from Tier 1 capital. Additionally, the regulators have included certain value reductions for off-balance-sheet trade-related transactions.

Although compliance with this ratio is not yet mandatory, it must be published from 2015 onwards. The supervisors have announced their intention to make compliance with a minimum ratio obligatory from 2018 onwards (indicating a 3% minimum benchmark ratio).

At December end Santander Consumer Finance had a leverage ratio of 5.9%; fully loaded (anticipating the impacts of Basel III), the ratio would be 5.7% at 31 December 2014. Lastly, if the changes made by Regulation (EU) No 575/2013 published on 17 January 2015 were applied, the ratio would increase.

With respect to Pillar II, the Santander Consumer Finance 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 second deputy chairman of the Group and chairman of the risk committee, and provide support for the Group's governing bodies in risk control and management matters.

The Santander Group's **integrated risk control** function was launched in 2008 in order to ensure an integrated view of the management of all the risks affecting the performance of the Group's ordinary 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, conduct 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.

This function is characterised by having global and corporate scope, encompassing all risks, all businesses and all geographical areas. 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.

In 2014, (a) the sixth cycle of review of the various risks was completed in close contact with the corporate risk control areas; areas for improvement were identified, giving rise to recommendations with the related implementation schedule; (b) periodic reports were submitted to the board of directors and the executive committee, giving a comprehensive view of all the risks; and reports on the function itself were submitted to the risk committee; and (c) the risk area, in coordination with the public policy area and other areas, represented the Group in forums such as the FSB, the IIF, 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.

The **internal validation** of risk models 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.

To this end, a fully independent specialised unit of the Group 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 five regional centres located in Madrid, London, São Paulo, Boston and Wroclaw (Poland). From a functional standpoint, these centres are fully accountable to the corporate centre, which makes it possible to ensure 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 the Santander Group 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 various competent supervisory authorities to which the Group is subject. 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 Santander Group's economic capital model complements the regulatory approach by including in its measurement all the significant risks incurred in the Group's 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 Pillar I 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.

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 (ICAAP) using its economic capital model. To this end, the Group plans the evolution of the business and the capital requirements under a central scenario and under alternative stress scenarios. With this planning the Group ensures that it will continue to meet its capital adequacy targets, even in adverse economic scenarios.

Also, the economic capital metrics make it possible to assess risk-return targets, price transactions on a risk basis and gauge the economic viability of projects, units or lines of business, with the ultimate objective of maximising the generation of shareholder value.

Analysis of the global risk profile

Santander Consumer Finance 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 the Group 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 Santander Group's cost of capital for 2014 was 11.59%. 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.

Value creation at Santander Consumer Finance increased in 2014 due both to the increase in the rate of return and the decrease in the cost of capital. The Group's results and, therefore, the RORAC and value creation figures were shaped by the varying trends in the economic cycle at the Group units.

Proposed distribution of profit

The distribution of the Bank's net profit for 2014, amounting to EUR 378,007 thousand, that will be proposed for approval by the annual general meeting is as follows:

Interim dividend: EUR 297,818 thousand.

To legal reserve: EUR 37,801 thousand.

To voluntary reserve: EUR 42,388 thousand.

Share capital and treasury shares

The Group did not perform any transactions involving treasury shares in 2014 and it did not have any treasury share balance on its balance sheet at 31 December 2014.

Research and development

Santander Group considers technological innovation and development to be a cornerstone of the corporate strategy, and it seeks to capitalise on the opportunities offered by digitalisation.

Bringing the technology and operations division into line with the corporate objectives provides support to the business with value proposals arranged by segment and focused on customers and on their satisfaction, and with an optimised price-risk management under high standards of operating security.

Also, as a global systemic institution, Santander and its individual subsidiaries are under growing pressure due to increasingly demanding regulatory requirements that impact on the systems model and the underlying technology, and that oblige them to make additional investment to guarantee compliance and legal security.

Significant events after the reporting period

Significant events occurring after 2014 year-end are detailed in Note 1-i to the consolidated financial statements.

Outlook

The outlook for the world economy in 2015 maintains the tendency for a gradual recovery of activity led by the advanced economies, which will benefit from still very expansive monetary policies, less restrictive fiscal policies and greater financial stability which could benefit consumption and continue the adjustment of balance sheets by the private sector. The emerging economies are still looking at a slight slowdown, albeit with higher rates of growth than those of the advanced economies, which enables the emerging economies to continue increasing their share of global growth.

In the euro area, 2015 is expected to be the year in which the recovery is confirmed, with all the major countries recording growth, albeit moderately in certain cases. The forecasts place Spain at the head of them all, with rates above 2% underpinned by the strength of domestic demand in an environment of near-zero inflation and interest rates, lower taxes, the depreciated euro and oil prices at six-year lows.

Further contributions to Europe's recovery will come from the quantitative measures taken by the European Central Bank (conditional long-term auctions and the programme of asset purchases, including public debt), with the objective of facilitating credit in the euro area and stabilising prices in the medium term. All of this in a healthier banking scenario to allow better access to credit at rates that also foster economic growth.

In the case of the United Kingdom and the United States, which are in a more advanced point of the cycle, the forecasts place their growth at around 3% or higher. In view of this scenario their monetary authorities started to show signs that they might commence a process of interest rate rises in 2015. Yet the increases are not expected to be very strong due to the deflationary pressures existing in the advanced economies, the effect of the falls in oil prices and the strength of their currencies. This would allow their central banks to maintain more lax monetary policies than has been normal in other economic cycles.

This economic situation will give rise to a stabilisation and initial recovery of credit in the euro area, assisted by the low rates and the injections of liquidity by the European Central Bank, with some economies and sectors reflecting still necessary deleveraging processes. The excess liquidity and the low rates will perpetuate the preference for off-balance sheet funds to the detriment of deposits.

Supported by business dynamics that are better than those of its competitors, in 2015 Santander Consumer Finance faces the challenge of integrating units that improve its strategic position and its potential for future growth. Its priorities will focus on:

- Accelerating the integration and launch of the new joint operations with Banque PSA, and the business purchased at the end of 2014 in the Nordic countries from GE Money.

- At traditional units, boosting new lending at spreads that are appropriate to the time in the cycle of each market, taking advantage of the brand agreements and the penetration in used vehicles.

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.	1,124,548,712	Percentage of ownership 63.19%
Holneth, B.V.	444,886,543	Percentage of ownership 25.00%
Fomento e Inversiones, S.A.	210,110,917	Percentage of ownership 11.81%
Total number of shares	1,779,546,172	
Par value (euros)	3.00	
Share capital (euros)	5,338,638,516	

On 23 December 2014, the extraordinary general meeting of the Bank resolved to increase capital by EUR 375,000 thousand by issuing at par 125,000,000 ordinary shares of EUR 3 par value each. This capital increase was fully subscribed and paid by the shareholders on 23 December 2014, and it was executed in a public deed on 23 December 2014 and registered in the Mercantile Register on 30 December 2014.

Accordingly, at 31 December 2014, the Bank's share capital consisted of 1,779,546,172 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 2014.

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 the shares 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 insolvencies, insolvency proceedings and 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 for their own account, whether they be individuals or legal entities, and under the terms and clauses they deem 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.