We want to help people and businesses prosper

2014 Annual report

Santander

Santander in 2014

« Santander's purpose is to help people and businesses prosper. We want to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.»

Ana Botín
Group executive chairman

Employees

185,405
employees

Gender

45% **55%**

97%
employees received training in 2014

Customers

117
million customers

International network

12,951
branches

Customer loans (net)

734,711
million euros

Shareholders

3.2
million shareholders

€0.479
EPS in 2014

Positioning

1º
largest market capitalisation in the euro zone

Communities

12
million students and teachers benefit from cooperation agreements between universities and the Bank

Agreements with universities

1,151
cooperation agreements in 21 countries

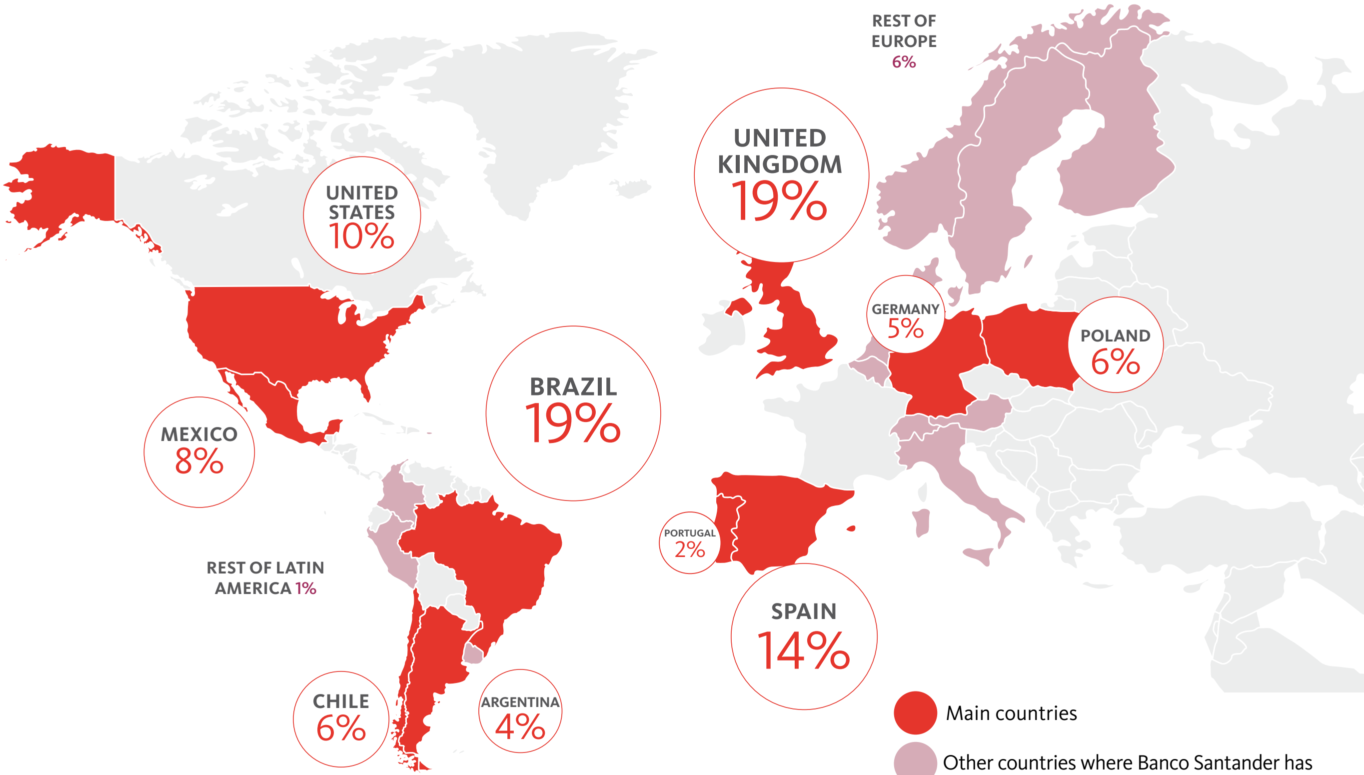
Contribution to higher education

146
million euros for universities

Recognitions

Geographic diversification

Contribution to attributable profit (%)



Main countries

Other countries where Banco Santander has commercial and retail banking businesses: Peru, Puerto Rico, Uruguay, Colombia, Norway, Sweden, Finland, Denmark, Holland, Belgium, Austria, Switzerland and Italy.

Financial indicators

Total on-balance sheet assets

1,266,296

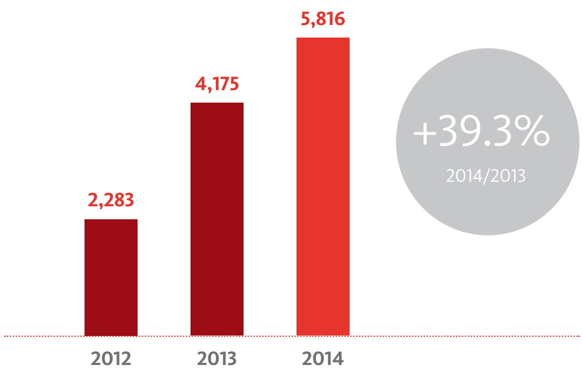
Million euros

CET1 fully loaded

9.7%

Group attributable profit

Million euros



Balance sheet and results (Million euros)	2014	2013
Customer loans (net)	734,711	684,690
Customer deposits	647,628	607,836
Shareholders' funds	80,806	70,326
Gross income	42,612	41,920
Pre-provision profit (net operating income)	22,574	21,762
Attributable profit to the Group	5,816	4,175

Ratios (%)	2014	2013
Earnings per share (euros)	0.479	0.385
RoE*	7.0	5.8
RoTE*	11.0	9.6
Efficiency (with amortisation)	47.0	48.1
Non-performing loan (NPL) ratio	5.2	5.6
Loan-to-deposit ratio	113	112

* Proforma figure in 2014 that includes the January 2015 capital increase of €7,500 million.

Annual report 2014

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Message from Ana Botín

Ana Botín, Group executive chairman.

I became Group executive chairman of Santander Group last September. As you will know, since then we have made some significant changes to the board and governance and to the management team. We have also focused on reviewing our capital position and our dividend policy. This done, I now want to focus on how Santander is to grow in the years ahead. To do that, we have reviewed the markets in which we do business, our strategy and how we operate.

I now want to set out why I am so confident about Santander's future – the fantastic opportunities for growth that lie before us, and how we are going to take advantage of them.

Santander today

Santander is a retail and commercial bank listed in Madrid and on the NYSE, with a market capitalization of ~€90bn, total assets of €1.2trn and a capital base of ~€88bn. In 2014 the Bank achieved a net attributable profit of €5.8bn in 2013 and remunerated shareholders with €0.60 per share.

The bank has a unique model and franchise to compete in the global retail banking landscape. This model has been developed over the last 158 years, especially under the inspiring leadership of my father Emilio Botín. At its core lies:

- **A diversified presence.** Our well-balanced emerging-mature markets mix is delivering growth above our peers. Average GDP growth in our markets is forecast to be close to 3% in 2016.
- **Strong retail and commercial operations.** We are or aim to be one of the top 3 banks in our core 10 markets, which give us access to one billion customers.
- **Autonomous subsidiaries in liquidity and capital.** This creates incentives for good local management and enhances our stability and flexibility.
- **International talent management, a common culture and a top global brand.** We are able to attract and retain world class talent. We have a shared approach as to how we want to operate and behave. And we have created a powerful, global brand: according to Brand Finance, we are number 10 in the world.
- **Prudent risk management and balance sheet strength, underpinned by our Group's solid control framework.** We have delivered a dividend every year for more than 50 years, including during the financial crisis.
- **Investment in innovation, driving digital transformation, and sharing best practice.** Our global scale enables the Group to add value to our subsidiaries around the world.

Market capitalization
88
bn euros

Total assets
1.2
trn euros

Capital base
88
bn euros

Our virtuous circle

At the heart of our culture we believe that, wherever we operate, everything we do should be Simple, Personal and Fair

Santander's purpose, aim and culture

These strong foundations give us a unique opportunity to grow. We can only do this with **a team that fulfills Santander's purpose, understands its aim and lives by its values**.

Santander's purpose is to help people and businesses prosper.

Back in 1857, the founders of Santander wanted to finance trade between Spain and Latin America that generated jobs and prosperity in both continents. Today, our role is obviously broader but the outcome of our efforts is the same.

Our aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

I am convinced that the only way to achieve such aim is by having the best possible relationships with our team, our customers, our shareholders and the communities that we serve. And the most precious asset in these relationships is loyalty:

- A loyal team is one that feels motivated, engaged and rewarded to go the extra mile for customers.
- When our customers get excellent service and can see we are addressing their personal needs, their loyalty to us will grow.
- When that happens, our return and value will also grow – securing loyal shareholders who will invest more in us.
- This, in turn, allows us to do more to support our local communities, generating loyalty to us and strengthening our team's pride in the business.

And then this virtuous circle will begin again.

At the heart of our culture we believe that, wherever we operate, everything we do should be Simple, Personal and Fair.

We have picked these three words because, together, they reflect what our teams and our customers around the world tell us they want from a bank.

A **simple** bank offers its customers a service that is convenient and products that are easy to understand, however and whenever they choose to bank. It makes its processes better every day, so they are easy and clear for customers and its team.

A **personal** bank treats its customers as valued individuals, providing a professional, personal service they can trust. It supports colleagues to develop their skills and achieve their ambitions.

A **fair** bank treats people as they like to be treated – and it earns investors an adequate and sustainable return, while contributing its share to help communities.

Our strategy going forward

As I said, we have reviewed our strategy from the perspective of our purpose, our aim and our culture. I should stress that I am not in favor of changing processes or platforms that are delivering results. We will stick to the elements that have underpinned our success and will build upon them to take Santander to the next level and achieve our goals.

With Simple, Personal and Fair as our guiding principle, we will focus on the following:

People

A strong internal culture. Above all else, Santander's continued success depends on our employees. We should be able to attract, retain and develop our talent to have the best professionals, so we have a very ambitious goal for 2017: to be the one of the Top 3 banks to work for in the majority of our core geographies (according to the relevant rankings).

Customers

Earn the loyalty of our retail and commercial customers; and improve our franchise. We have more than 100 million customers: 53 million are "active", but only 13 million are classified as "loyal", that is, banking regularly with us. This presents us with a great opportunity – and one we need to grasp.

For instance, if 40% of our total retail active customers were to become "loyal" in UK and Spain, and 25% in Mexico and Brazil, we could generate two to three billion Euro of additional income. Critically, these would be satisfied customers, and that means a better and more sustainable revenue generation.

In the UK, for example, we **increased the number of loyal customers from about 1 million** to 3.3 million by rewarding their loyalty with our innovative, transparent, value-adding products and services, such as the 1|2|3 world, for both existing customers and new customers. By having more loyal customers we were able to reduce the cost of our retail deposits and our Group **profit before taxes in the UK rose from £1,008m in 2012 to £1,612 in 2014 (+c.60%).**

So we know how to earn and retain loyalty. Our task now is to change how we do things, so that we increase the loyalty of retail and commercial customers across all our core markets in Europe and the Americas.

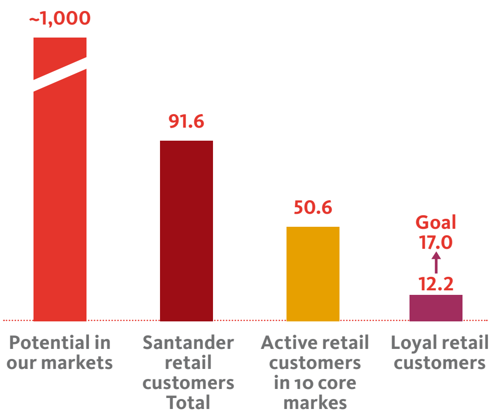
Our goal for 2017 is to have 17 million loyal retail customers —40% more than today— and 1.1 million loyal SME customers.

Operational Excellence: We will continue to build on our operational excellence, starting with customer satisfaction. Our goal is to be within the top 3 group in customer satisfaction across our core markets.

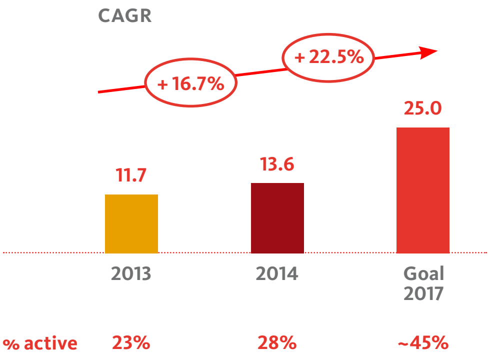
Our digital offering is key to this. Only 28% of customers use our digital channels now: **the objective is to increase this to 45% in 2017.** To achieve this, a number of initiatives have already started including a Multichannel Development Plan, Mobile First, the deployment of Smart ATMs and our unique Innoventures Fintech Fund.

Our opportunity

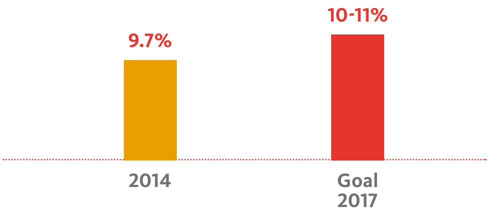
Retail customers (million)



Digital transformation
Number of digital customers



Reinforced capital
CET1 fully loaded



The results of these initiatives are encouraging. In 2014 alone the number of digital customers across the Group grew by 17%.

We will also continue to simplify internal processes and to improve the role of the Corporate Center in order to achieve our efficiency plan targets of a Cost to Income of less than 45% by 2017.

In 2014 we improved this ratio to 47% from 48% in 2013. We are, for example, simplifying the group structure from 15 to 11 divisions.

Shareholders

Reinforced capital and risk management. Even before our capital increase we were amongst the best in several important capital ratios, as shown by the recent AQR and stress tests where we came out “best-in-class”.

Our €7.5bn capital increase was a huge success: 235 investors participated with a total demand of above €11bn –79% of the demand coming from US and UK investors.

We did this for two reasons. First, we wanted to be able to accelerate organic growth, with the new capital allowing us prudently to gain profitable market share now that most of our core markets are forecast to see economic growth once again.

Second, we wanted to be able to have in place a sustainable dividend policy and increase the cash component of the pay-out to between 30-40% of recurrent earnings. **Our cash dividend will go up from €1bn to €2.5bn.**

Looking ahead, we will be amongst the best in overall capital ratios, reaching a CET1 fully loaded of 10% in 2015 and a target 10-11% for 2017.

We will focus on organic growth – mainly in Europe and the Americas; be stricter in our capital allocation – allocating capital to businesses with higher potential returns; and although acquisitions are not a priority, were we to consider an acquisition, we would be stricter in our criteria. Our goal is a ROTE of 12-14% by 2017.

To achieve this, excellence in risk management is essential. We are working on a Group Wide Risk Management Program to enhance our holistic and timely control of all types of risks. In our Risk Data Aggregation project alone we are investing €500m. Our goal is to continue to achieve a predictable risk profile, with NPLs below 5%.

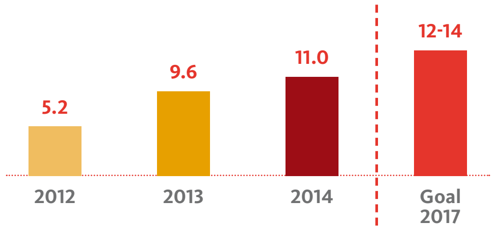
The most important aspect of risk management, however, is strong corporate governance. Banco Santander’s board of directors is fully involved in the Group’s risk oversight and management. Our modern, diverse and international board has broad knowledge of different sectors and the right balance between executive and independent directors (60% of the total), and 33% are women.

I would like to thank Fernando de Asúa and Abel Matutes for their invaluable contribution to the Bank over many years.

Enhanced profitability. Our strategy of focusing on loyal customers will enable us to deliver higher growth than our peers and improved profitability to our shareholders.

Our aim is to deliver higher EPS growth than peers.

Enhanced profitability
Return on tangible equity (RoTE) %



Communities

Santander Universities lies at the heart of our support for our communities. Since 1996 Banco Santander has invested more than EUR 1.0 bn in universities projects and has supported more than 160,000 students and professors through its scholarship program in countries where we operate.

Over the next four years we will invest EUR 700 million in universities; and we will continue to support charities and NGOs on a range of other initiatives, including corporate volunteering.

The ultimate measure of success

I joined Santander in 1988, so I know well the Santander team and our businesses around the world. Over the last few months, we have made the necessary changes both at executive and board level so that, together, we will become the **best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.**

Ultimately, the measure of our success will be that wherever we operate, our customers are the ones who champion our services and bring in new customers.

I am confident we will achieve this because each of us at Santander is committed to going the extra mile to serve our customers. **I would like to thank every member of our team:** their hard work, commitment and loyalty to Santander are the foundation of our success.

Finally, I would like to thank you, as one of our shareholders, and our board for the support and loyalty shown over the years. We can all be proud of what has been achieved - but our best days lie ahead.

Kind regards and all the best for 2015,

Ana Botín
Group executive chairman

The measure of our success will be that wherever we operate, our customers are the ones who champion our services and bring in new customers

Message from José Antonio Álvarez


José Antonio Álvarez, chief executive officer.

2014 was a year when the global economic situation improved, particularly in the developed economies, the hardest hit by the financial crisis. The financial situation of both consumers and companies improved which, coupled with the measures taken by central banks, is facilitating access to credit.

The year, however, was not free of volatility and uncertainties, with geopolitical risks and falls in commodity prices. Interest rates continued to decline globally, particularly in the euro zone where the ECB's benchmark rate was 0.05%. The regulatory environment also continued to evolve with new capital measures and new stress tests conducted by several of our regulators, which our Bank passed in all cases better than the sector's average.

In this environment, Grupo Santander generated an attributable profit of €5,816 million in 2014, 39.3% more than in 2013. Attributable profit per share was 24.4% higher at €0.479.

We posted a higher quality profit, characterised by:

- **Gross income** rose in nine of the 10 core units, mainly due to the improvement in commercial activities.
- **Costs were controlled;** they rose in the Group at below the average inflation rate, while absorbing investments in order to be able to grow.
- **Loan-loss provisions declined** in seven of the 10 core units, particularly in countries hit by recession or affected by an economic downturn in the last few years.
- **All units increased their pre-tax profits** in local currency for the first time since 2007, reflecting a differentiated management and one tailored to each country's situation.

As regards the **balance sheet**, the downward trend in lending was reversed and growth returned at Group level after several years of falling. Moreover, this growth occurred in both individual customers as well as companies and in all the core countries except for Portugal. This was made possible thanks to the effort made to offer our customers new products and services.

On the liabilities side, we combined an increase in all the units with management focused on reducing the cost of deposits, particularly in countries with interest rates at historically low levels.

In this way, **the Group ended the year with a larger but also more solid balance sheet:**

- **With better credit quality.** The sharp fall in entries of non-performing loans was reflected in lower NPL ratios at Group level and in its main units, while the coverage ratio continued to increase.
- **With a comfortable liquidity situation.** The net loan-to-deposit ratio (LTD) of 113% remained within our comfort zone and we expect to comply ahead of schedule and amply with the short-term regulatory requirements (liquidity coverage ratio or LCR), both at Group level and in the main subsidiaries.
- **With strengthened capital ratios** via organic generation, the issue of additional Tier 1 capital and, in January 2015, a capital increase.

Santander's balance sheet strength, recurrent results and low risk business model were underscored by the European Central Bank's comprehensive assessment of the European Union's largest banks. Two big conclusions can be drawn from the results of these tests:

1. Santander has a **clean and prudently valued balance sheet.** The Bank registered a marginal impact (€200 million in a balance sheet of almost €1,300 billion), as a result of the Asset Quality Review (AQR), the lowest among its European peers.
2. Our business model is **less volatile** than that of the rest of the banking sector and **consumes less capital in unfavourable economic situations.** In the adverse stress test scenario, we were the bank with the least impact among our peers as we showed a €19,500 million capital surplus above the minimum requirement.

In short, **the profit and balance sheet evolution increased Grupo Santander's profitability**. Return on tangible capital (RoTE) was 1.4 p.p. higher than in 2013 at 11.0%, while return on risk weighted assets (RoRWA) improved to 1.3% and reached levels that although comparing well with many of our competitors are still far from our potential.

For the first time since 2007, all units increased their pre-tax profit in local currency terms, reflecting our differentiated management and one tailored to each country's situation

The Group ended the year with a larger but also more solid balance sheet

The profit and balance sheet evolution increased Grupo Santander's profitability

Outlook by business unit

The economic outlook for 2015 is better than in recent years. In particular, we expect the European recovery to firm up and emerging countries to grow more strongly. Banks, however, will continue to operate in a very complex environment of low interest rates and economic growth below that of the previous cycle.

The regulatory environment, meanwhile, will continue to evolve quickly in order to have stronger and more transparent banking systems. We are conscious of the correctness of the objective, but also of the increasing complexity it generates and its impact on the structural profitability of banks in the coming years. Consequently, we believe that the regulator should assess the impact that the reforms and the new environment have on economic growth and banks' capacity to conduct on a sustained basis the function entrusted in them: to finance the economy's growth and contribute to the wealth of households and companies.

The executive chairman explains in detail in her letter the Group's strategic priorities for the next few years. I will review the performance of the main units in 2014 and their management priorities for 2015.

Developed markets

Contribution to Group profit

19%

• United Kingdom
The transformation of the commercial franchise and the favourable economic environment had a positive impact in 2014 on Santander UK's business, commercial revenues and provisions. Attributable profit was 30% higher at £1,270 million. Also noteworthy was the growth in lending to companies above that of the market, the increased engagement of individual customers and the change of trend in mortgages (+1%).

These business dynamics, combined with our balance sheet strength, represent an excellent foundation for tackling 2015, a year when we will maintain the main strategic lines: increase the number of engaged customers, demand deposit accounts and lending to companies by more than the market. We will also continue to invest in digital technology, which we will combine with a further improvement in the efficiency ratio.

Contribution to Group profit

14%

• Spain
The year 2014 saw a return to profit and business growth. Attributable profit more than doubled to €1,121 million, driven by a lower cost of liabilities, reduced costs and a fall in provisions from the credit risk improvement. Also of note was the growth in lending, for the first time since 2008, due to companies and SMEs, as well as the strong rise in new mortgage lending.

In 2015, with a macroeconomic environment that will further improve, profit and profitability will continue to normalise. With the integration completed, we will focus more on the commercial business, the quality of service and customer engagement. We also aim to increase our market share in the most attractive lending segments, where we believe we can again surpass the sector. And the particular attention paid to improving the cost of credit and operational excellence will positively affect results.

Santander Consumer Finance

Contribution to Group profit

11%

• Santander Consumer Finance
Santander Consumer Finance (SCF) is one of the areas that best performed during the crisis, and better than its peers. Attributable profit in 2014 was €891 million, 12% more than in 2013, fuelled by greater lending and revenues and a very low cost of credit for its type of business.

We also reached agreements that enhanced our position and future growth potential. In 2015, the entry into force of the agreement with Banque PSA Finance and of the business acquired from GE Nordics will consolidate our leadership in auto finance in various European countries, enabling us to enter markets such as France and Switzerland where we have not operated until now.

The priority for the year will be to achieve a model integration of the new operations in order to extract all their potential, without overlooking the growth of the rest of units and with spreads tailored to each market.

• United States
Santander USA posted an attributable profit of $1,061 million in 2014, similar to 2013. It did not increase because of the higher minority interests of SCUSA after its stock market listing. Before these interests, profit was 4% higher due to the units' varied strategies:

- Santander Bank, our retail and commercial bank in the north east of the US, focused its business growth on companies and auto finance, while repositioning its balance sheet in terms of profitability, by reducing unproductive assets and cancelling long-term debt whose cost was above the market's.

- SCUSA, our consumer finance unit, increased origination and sale of credits, following the agreement with Chrysler, as well as the weight of servicing in total business.

Our two main objectives in 2015 are: on the one hand, continue to improve the commercial franchise in order to be in a position to gain market share in a growing economy; on the other, strengthen governance and control structures by investing more in technology, risk and regulatory compliance, enabling us to fulfil the regulator's requirements as quickly as possible. It will take time, but we will build a better bank.

Contribution to Group profit
10%

• Portugal
In a still weak market context, Santander Totta continues to be the country's most profitable bank. Attributable profit increased 65% to €189 million, with revenues, costs and provisions all contributing to this growth.

We will continue to normalise profit in 2015. In an environment where competitors are in a situation of weakness, we have the opportunity to gain profitable market share in the next few years, growing in customers and revenues. We will see further improvements in costs and lower provisions.

Contribution to Group profit
2%

Emerging markets

• Brazil
In an environment of adjustment and low growth, we are improving our business model in order to make it more sustainable, through increased commercial activity, greater engagement of customers, more recurrent revenues and lower risk.

The 2014 results began to reflect this strategy. Attributable profit rose 8% in constant currency to €1,558 million. The drivers of this growth were lower provisions and growth in costs well below the inflation rate. Revenues are still growing weakly because of the change of mix to lower risk businesses and lower spreads, already reflected in the cost of credit.

Contribution to Group profit
19%

This year we are implementing measures to increase the number of engaged customers, keep on growing in the high segment of companies and in those sectors where our presence is low, while continuing to improve efficiency. In addition, the acquisition of minority interests and investments in GetNet and Bonsuceso endorses the Bank's confidence in the country's medium and long term potential, and will have a positive direct impact on results.

Contribution to Group profit
8%

- **Mexico**

Santander Mexico continued in 2014 to expand and strengthen its franchise. As a result, pre-tax profit rose 9% to €1,057 million at constant exchange rates, fuelled by higher gross income from business volumes and an improvement in the cost of credit. Attributable profit fell 3%, due to the higher tax charge.

We will combine in 2015 investments in the multi-channel business and in opening branches with the efficiency plan. The objective is to grow more than the market, particularly in high income clients (*Select*), SMEs (*Advance*) and companies. We are ready to take advantage of the economic recovery and want to be one of the leading banks in financing the government's infrastructure plan.

Contribution to Group profit
6%

- **Chile**

Santander Chile made an attributable profit of €509 million, 35% more than in 2013 at constant exchange rates. This was an excellent result generated by growth in target segments, lower provisions and the favourable impact on revenues of the UF portfolio, indexed to inflation, in a year when inflation was higher than expected.

The Bank focused on improving commercial management and customer engagement, which helped to boost customer satisfaction in all networks and channels. The more expansive tone of monetary and fiscal policy in 2015 heralds an upturn in activity. The Bank's strategy will continue to focus on perfecting the customer experience, transforming commercial and retail banking and deepening the relationship model with companies and large corporations.

Contribution to Group profit
6%

- **Poland**

In a context of a sharp drop in interest rates, BZ WBK posted an attributable profit of €358 million, 7% more than in 2013 at constant exchange rates. Of note was the improvement in commercial revenues, distinguishing us from our peers, following the success of that commercial campaigns that enabled us to increase lending and funds.

We face 2015 in a good market position, with the integration of BZ WBK and Kredyt Bank completed. We draw strength from our leadership in cards, mobile banking and electronic banking, from our capacity to offer innovative solutions to individual customers and companies, and development of the *Next Generation Bank* strategic programme, whose main objective is to make BZ WBK the Bank of first choice.

Contribution to Group profit
4%

- **Argentina**

In a complex environment, Santander Río increased its attributable profit by 33%, to €298 million. We continue to be the leading private sector bank in volume terms, we have a very transaction-based business model and a solid balance sheet of low structural risk.

We will continue to develop in 2015 a strategy focused on improving our commercial position in order to fully exploit the country's more developed banking system, with greater emphasis on high income individuals, SMEs and transaction products.

Global businesses

Santander Global Banking and Markets posted an attributable profit of €1,614 million in 2014, 16% more than in 2013 in constant euros. Growth was fuelled by customer revenues and lower provisions. The Group will continue to develop in 2015 its capacities to expand its presence in the segment of large multinationals that operate in our main geographic areas: Europe and the United Kingdom, North America and Latin America.

Private Banking, Asset Management and Insurance continued to increase their contribution to the Group. This business generated total revenues of €4,528 million including those paid to the commercial network, 7% higher than in 2013 with constant exchange rates and perimeter (10% of the Group's total). A key driver was the good performance of our strategic agreements with product specialists in various countries in order to spur the insurance and asset management businesses in the coming years.

Conclusions

I will conclude with some basic ideas on Santander's outlook for the next few years:

- We began 2015 with good dynamics in results and volumes.
- We have comfortable liquidity and capital positions to be able to grow in an environment of greater activity in our core markets.
- We know what to do in order to be commercially successful: make the customer the focal point of our management.
- We will maintain our focus on operational excellence in order to streamline internal processes, transform the Bank digitally and improve efficiency and customer service.
- We will strengthen risk management, a longstanding priority for Santander.
- We will use capital much more efficiently and exit non-strategic businesses, focusing on growth areas.
- Our ultimate objective is to improve the return on the capital employed.

I expect the Group's profits to normalise and return to pre-crisis levels. As the chairman indicated in her letter, **we aspire to attain a return on tangible equity of between 12% and 14%**, with most of the dividend distribution in cash and in accordance with the growth in profits. This will have a positive impact on the value of our share.

In order to implement our strategy and meet our goals, **we have an experienced team** and the capacities of adequate management, which we will continue to strengthen via the strategic Human Resources plan. Its objective is to make Santander the best bank to work for.

I am confident that, with the support and motivation of our employees and the confidence of our customers and shareholders, we will be able to achieve all the goals set for 2015.

José Antonio Álvarez
Chief executive officer

Our ultimate objective is to improve the return on the capital employed. We aspire to attain a return on tangible capital of between 12% and 14%

Corporate governance

Balanced and committed board

- Of the 15 directors, 10 are non-executive and five executive.

Equality of shareholders' rights

- The principle of one share, one dividend, one vote.
- No anti-takeover measures in the corporate Bylaws.
- Encourage informed participation by shareholders in meetings.

Maximum **transparency**, particularly in the remuneration sphere

- This is key for generating shareholder and investor confidence and security.

Recognised by **socially responsible** investment indices

- Santander has been in the FTSE4Good and DJSI indices since 2003 and 2000, respectively.

The board of directors

Banco Santander's board of directors is the top decision-making body, except for matters reserved for the general shareholders' meeting. It is responsible, among other things, for the Group's strategy. Its functioning and activities are regulated by the Bank's internal rules, which are based on principles of transparency, efficiency and defence of shareholders' interests. The board also oversees compliance, taking into account the best international practices in corporate governance, and closely involves itself in the Group's taking of risks. In particular, the board, at the proposal of senior management, is the body responsible for establishing and monitoring the Group's risk appetite.

The board's composition is balanced between executive and non-executive directors.

There are 15 directors, five of which are executive and 10 non-executive. Of the 10 non-executive directors, nine are independent and one proprietary.

All members are recognised for their professional capacity, integrity and independence. The non-executive directors are noted for their financial expertise, wide knowledge of the markets where the Group operates and different sectors and customer attention models, from top executive positions.

The board held 16 meetings in 2014.

Remuneration policy

The remuneration policy for directors and the Bank's senior management is based on the following principles:

1. Remuneration must be consistent with rigorous and prudent risk management.

2. Anticipating and adapting to regulatory changes in remuneration matters. The executive director's variable remuneration deferred period, as well as that of other directors within the Group's identified category, are consistent with the provisions of the CRD IV.

3. Involvement of the board, as, at the proposal of the remuneration committee, it approves the annual remuneration report for directors and submits it to the general meeting of shareholders on a consultative basis and as a separate item on the agenda.

4. Transparent information.

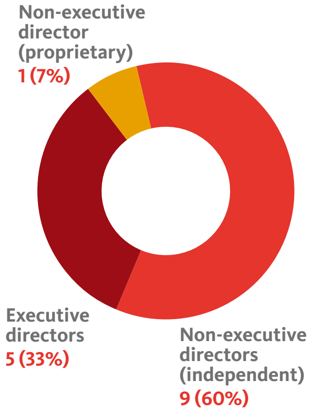
The board's total remuneration increased 8.9% compared to the Group's profit growth of 39%.

In 2014, the board increased its gender and geographic diversity

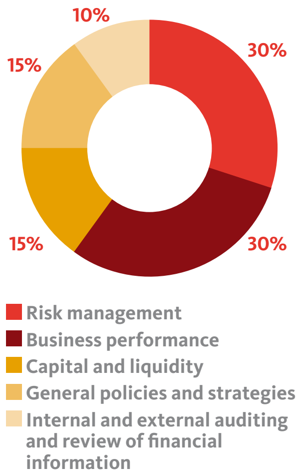
For more information on corporate governance, see pages 68 to 99 of this annual report.

El Faro, Santander Group City, Boadilla del Monte, Madrid, Spain.

Composition of the board

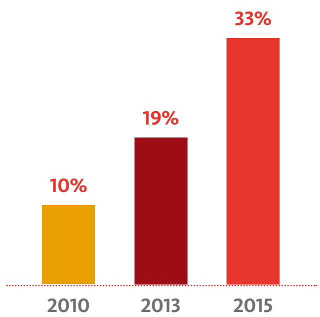


Approximate time spent by the board on each function

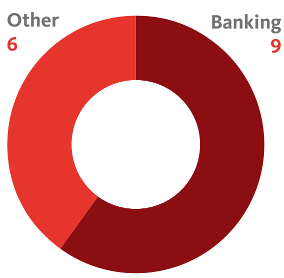


Diversity in the board

% of female directors



Areas of speciality



Changes in the board's composition

On September 10, following the death of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, the Bank's board agreed to appoint **Ms. Ana Botín-Sanz de Sautuola y O'Shea** executive chairman.

The board, at its meeting on November 25, appointed **Mr. José Antonio Álvarez Álvarez** chief executive officer, in the place of Mr. Javier Marín Romano, and it also agreed the following appointments:

- **Mr. Rodrigo Echenique Gordillo**, as vice chairman. In 2015, he was appointed executive director responsible for compliance, as well as other functions that might be delegated in him by the executive chairman.
- **Mr. Bruce Carnegie-Brown,** vice chairman, independent director, lead independent director and coordinator of the non-executive directors.
- **Ms. Sol Daurella Comadrán,** as independent director.
- **Mr. Carlos Fernández González,** as independent director.

The new independent directors filled the vacancies occurred, including those produced by the resignations of Mr. Fernando de Asúa Álvarez and Mr. Abel Matutes Juan.

Board of directors of Banco Santander

1.
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea
Executive chairman. Executive director
● □ △

2.
Mr. José Antonio Álvarez Álvarez
Chief executive officer and executive director
● ■ □ △

3.
Mr. Bruce Carnegie-Brown
Vice chairman. Non-executive director (independent), coordinator of the non-executive directors and lead independent director
● ● ■ ○ △

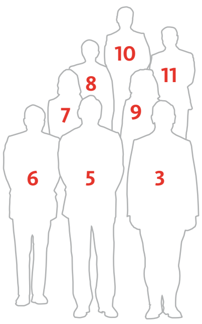
4.
Mr. Rodrigo Echenique Gordillo
Vice chairman. Executive director
● ■ □ △

5.
Mr. Matías Rodríguez Inciarte
Vice chairman. Executive director
● ■ △

6.
Mr. Guillermo de la Dehesa Romero
Vice chairman. Non-executive director (independent)
● ▲ ● ■ ○ □ △

7.
Ms. Esther Giménez-Salinas i Colomer
Non-executive director (independent)
□ △

8.
Mr. Juan Miguel Villar Mir
Non-executive director (independent)
▲ ○



● Executive committee
■ Executive risk committee
▲ Audit and compliance committee
● Appointments committee
■ Remunerations comittee
○ Supervision of risks, regulation and compliance committee
□ International committee
△ Innovation and technology committee

9.
Ms. Isabel Tocino Biscarolasaga
Non-executive director
(independent)
● ■ ▲ ■ ○

10.
Mr. Javier Botín-Sanz de Sautuola y O' Shea
Non-executive director
(proprietary)

11.
Mr. Carlos Fernández González
Non-executive director
(independent)
▲ ● ○

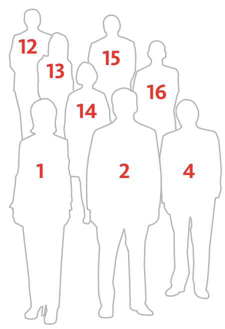
12.
Mr. Ángel Jado Becerro de Bengoa
Non-executive director
(independent)
■ ▲ ● ■ ○

13.
Ms. Sol Daurella Comadrán
Non-executive director
(independent)
● ■

14.
Ms. Sheila C. Bair
Non-executive director
(independent)
○

15.
Mr. Juan Rodríguez Inciarte
Executive director
■

16.
Mr. Ignacio Benjumea Cabeza de Vaca
General secretary and secretary of the board
● ■ ▲ ● ■ ○ □ △



Structure and internal governance of Grupo Santander

Model of subsidiaries

Grupo Santander is structured via a model of subsidiaries autonomous in terms of capital and liquidity. The Group's parent company is Banco Santander whose registered office is in the city of Santander, Spain, and operating headquarters and corporate centre are in Boadilla del Monte, Madrid.

The Group's model of subsidiaries is characterised by:

- The administration bodies of each subsidiary are responsible for rigorous and prudent management, ensuring economic soundness and overseeing the interests of shareholders and other stakeholders.
- The subsidiaries are managed on the basis of local criteria and by local teams that contribute a lot of expertise of clients in their markets, while benefiting from the synergies and advantages of belonging to Grupo Santander.
- They are subject to the regulation and supervision of their local authorities, without detriment to that exercised by the European Central Bank on the Group.
- Their deposits are guaranteed by the respective deposit guarantee funds of the countries where they are located.

The subsidiaries are funded autonomously in terms of capital and liquidity.

- **Capital:** the local units are endowed with the capital required to conduct their business and meet regulatory requirements.
- **Liquidity:** each subsidiary develops its financial plans and liquidity projections and calculates its funding needs without counting on the parent company's resources and guarantees. The subsidiaries obtain liquidity autonomously in local and international markets on the basis of their needs.

The Group's capital and liquidity needs are coordinated in corporate committees. Intragroup exposures are limited, transparent and at market prices.

The subsidiaries' autonomy limits the contagion risks between the Group's different units, which reduces systemic risk. Each subsidiary has its own resolution plan.

Listed subsidiaries

The Group has subsidiaries listed in their respective markets, always retaining a stake that gives it control.

The listed subsidiaries:

- Provide access to local funding sources. They are submitted to market discipline, which generates incentives for good management.
- They guarantee a high level of transparency and corporate governance, and strengthen the Group brand in its respective countries.

Grupo Santander's subsidiaries are autonomous in terms of capital and liquidity


Santander Group City, Boadilla del Monte, Madrid, Spain.

Internal governance in Grupo Santander

Santander has an internal governance framework to which its subsidiaries adhere. This framework establishes the principles that govern relations between the Group and its subsidiaries, and articulates:

- The Group's supervision and control mechanisms, and
- The Group's participation in certain of the subsidiaries' important decisions.

In particular, the subsidiaries formulate their risk appetite in line with the global framework agreed at the corporate level, which includes quantitative metrics and qualitative elements.

Under the internal governance framework, Banco Santander has drawn up common frameworks for certain functions – notable among which are risks, capital, liquidity, corporate governance, auditing, marketing of products and services, prevention of money laundering, and brand and communication – which have been approved by the subsidiaries' administration bodies.

The value of the corporation

Banco Santander's subsidiaries' model is complemented by global support and control units that carry out functions to do with risk, auditing, technology, human resources, legal matters, communication and marketing, among others. This adds value to the Group's different units through:

- **Its international team, corporate culture and brand.** The Group's more than 180,000 professionals throughout the world are at the service of 117 million customers. The Santander culture attaches particular importance to fulfilling a purpose that is the same in all countries and businesses (helping people and businesses prosper) and how to achieve it in a Simple, Personal and Fair way.
- **Prudent risk management and capital strength.** Santander comprehensively manages all risks and has units for global supervision and control.
- **Investment in innovation.** The Group's size gives it a high innovation capacity to carry out the digital transformation. Santander also has mechanisms to transfer the best practices quickly from one market to others.

All these factors enable Santander to post better results and contribute more value than that which would be derived from the mere sum of each of the local banks.

Santander has a value added structure which enables the Bank to obtain better results than that which would come from the sum of each of the local banks

Purpose

Santander's purpose is to help people and businesses prosper.

Aim

Santander's aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

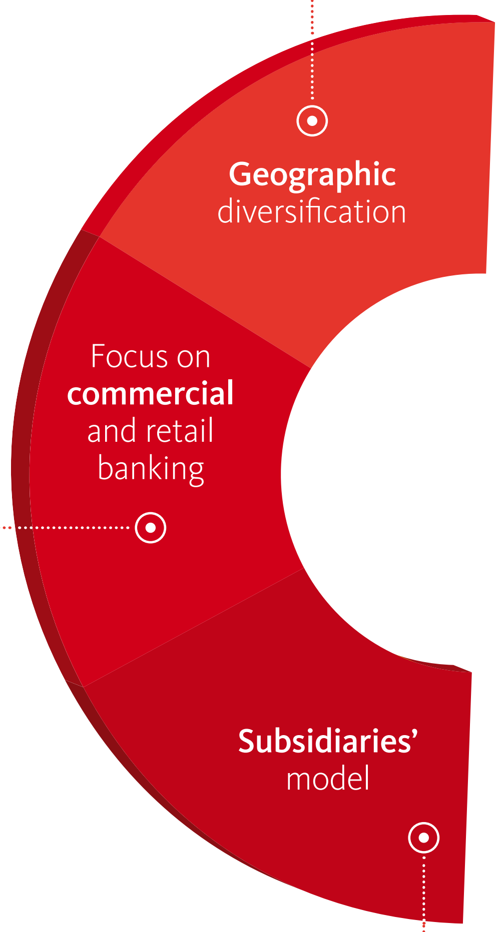
1

Business model and strategy

Purpose and business model

Our purpose is to help people and businesses prosper

In order to fulfil this purpose, Santander has a customer-focused business model that is unique among the major international banks.

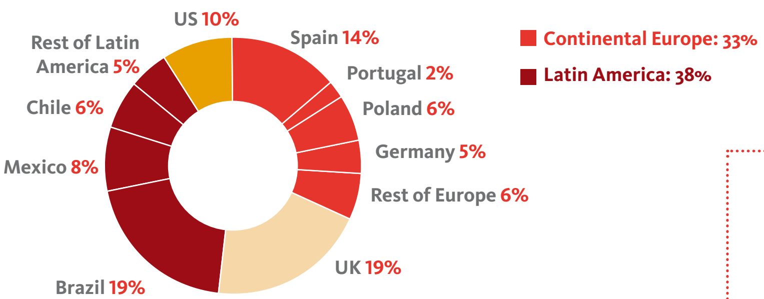


1.- Diversification, focused on Europe and the Americas

Grupo Santander's geographic distribution is balanced between its 10 core markets: Spain, Germany, Poland, Portugal, the United Kingdom, Brazil, Mexico, Chile, Argentina and the United States. It also has significant market shares in Uruguay and Puerto Rico, consumer finance businesses in other European countries and a presence in China through wholesale banking and consumer finance.

Santander also has global business areas that develop products that are distributed through the Group's retail networks and provide services to clients globally.

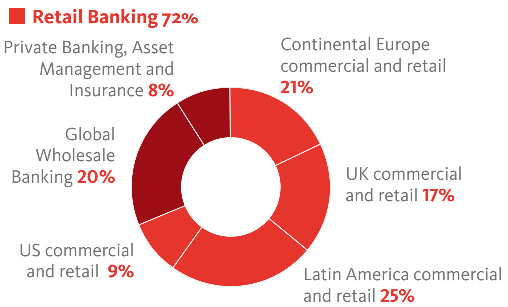
Distribution of attributable profit by geographic operating area



2.- Focus on retail banking and customer loyalty

Banco Santander's commercial model aims to satisfy the needs of all types of customer: individuals with different income levels, companies of any size and different sectors of activity, private companies and public institutions. Developing lasting and sustainable relations with them is the Bank's main objective. The Bank has high market shares in commercial and retail banking in the main countries where it operates.

Distribution of attributable profit by operating business segments



117
million customers

3.- Subsidiaries' model

Grupo Santander is structured via a model of subsidiaries autonomous in capital and liquidity, which are managed according to local criteria and by local teams that contribute substantial knowledge and experience with customers in their markers, while also benefiting from the synergies and advantages of belonging to Grupo Santander.

The subsidiaries' autonomy limits the contagion risk between the Group's units and reduces systemic risk.

See page 22 of this annual report

4.- International talent, with a shared culture and a global brand

The Group has over 180,000 professionals at the service of its 117 million customers. Santander's employees share a culture focused on complying with the Group's purpose (helping people and businesses prosper) and attaining its aim (be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities).

The Santander brand synthesises the Group's identity and expresses a corporate culture and unique international positioning that is consistent with conducting banking in a Simple, Personal and Fair way worldwide.

185,405
employees

#1
World's top retail banking brand
(Brand Finance)

Simple | Personal | Fair

5.- A strong balance sheet, prudent risk management and global control frameworks

Santander has a medium-low risk profile and high asset quality, with solid capital tailored to its business model, balance sheet structure, risk profile and regulatory requirements. It funds most of its lending with customer deposits, maintains wide access to wholesale funding and has a broad array of instruments and markets to obtain liquidity.

Banco Santander has frameworks and corporate policies, common customer attention models and global control systems. This enables the Group to obtain better results and contribute greater value than that which would come from the sum of each of the local banks.

9.7
Capital (CET1 fully loaded)

113%
Loan-to-deposit ratio
(112% in 2013)

5.2%
NPL ratio
(5.6% in 2013)

6.- Innovation, digital transformation and best practices

Innovation has been one of Grupo Santander's hallmarks since it was founded. On many occasions the Bank has revolutionised the financial sector with new products and services.

Santander is carrying out an intense digital transformation in order to anticipate, with innovative and attractive solutions, customers' new needs. Some examples of this are improvements in online banking, mobile banking, mobile wallet and a new strategy for digital payments.

The Group's size enables it to identify and quickly and efficiently transfer its best practices between the different markets in which it operates, adapting them to local features. In the last few years, moreover, Santander has launched global value proposals for its high-income clients *(Santander Select)*, for SMEs *(Santander Advance)* and for companies *(Santander Passport)*, all of which underscores the advantages of working with an international and diversified bank such as Santander.

Aim and value creation

Our aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

1 Best bank for our employees

→ Attract, retain and engage the best professionals capable of providing the best service to our customers and guaranteeing the success and sustainability of the business.

2 Best bank for our customers

→ Construct long-term relations of loyalty with our customers, offering them simple and tailored solutions, fair and equal treatment, and an excellent service via our branches and digital channels, in order to enhance their satisfaction and engagement with the Bank.

3 Best bank for our shareholders

→ Generate an attractive and sustainable return for our shareholders on the basis of a business model with a high degree of recurrent revenues, prudence in risks, efficient, disciplined use of capital and financial strength.

4 Best bank for communities

→ Conduct our banking activity by contributing to the economic and social progress of the communities in which we operate, in a responsible and sustainable way, and particularly committed to the sphere of higher education.

Our six strategic priorities

	Priority		2014	2017 Targets
Employees	1 Be the best bank to work in and transform our culture: Simple, Personal and Fair	Number of core markets where the Bank is among the top three banks to work for (according to the relevant local rankings)	3	6
Customers	2 Increase the number of loyal individual customers and companies	Loyal individual customers (million)	12.2	17.1
		Loyal corporate banking and SMEs customers (thousand)	767	1,049
		Credit growth to customers	5%	outperforming competitors in terms of growth
	3 Operational excellence	Number of countries where the Bank is among the top 3 for customer satisfaction among its peers	5	9
		Number of digital customers (million)	13.6	25.0
		Cost-to-income ratio	47%	<45%
Shareholders	4 Capital strength and risk management	CET1 fully loaded capital ratio	9.7%	10%-11%
		Non-performing loan ratio	5.2%	<5%
		RoTE	11%	12-14%
	5 Enhanced profitability	Growth in earnings per share (EPS)	24%	outperforming competitors in terms of growth
Communities	6 Santander Universities as the main support of communities	€700 million for universities over the next four years		
		90,000 scholarships for students between 2015 and 2017		
		Among the first 10 in the Dow Jones Sustainability Index		

For more information, see Ana Botín's message (pages 6-11).

Simple, Personal and Fair

Simple, Personal and Fair transmits how all Santander's professionals think and act and what our customers demand of us as a bank. It defines what guides our actions and decisions and the way in which we must relate to our customers, shareholders and communities.

Simple, Personal and Fair is the way to become the best bank for our customers and the best company for our employees.

Simple

- We offer a convenient service to our customers with products that are simple, easy to understand and uncomplicated.
- We use clear, concise and understandable language.
- We improve our processes every day for customers and professionals by simplifying procedures and eliminating unnecessary steps.

Personal

- We treat our customers in an individual and personalised manner by offering them products, services and tools so they can decide which ones best suit their needs.
- We strive to make every customer feel unique and appreciated.
- We are committed to our professionals and support them so they can develop their full potential and achieve their objectives.

Fair

- We treat our customers in a just and fair way, through transparency and resolving their complaints quickly and diligently.
- We establish relations in such a way that both the Bank as well as employees, customers and shareholders obtain a profit, as we understand that what is good for them is also good for the Bank.
- We meet our promises and take responsibility for the commitments made with our customers.

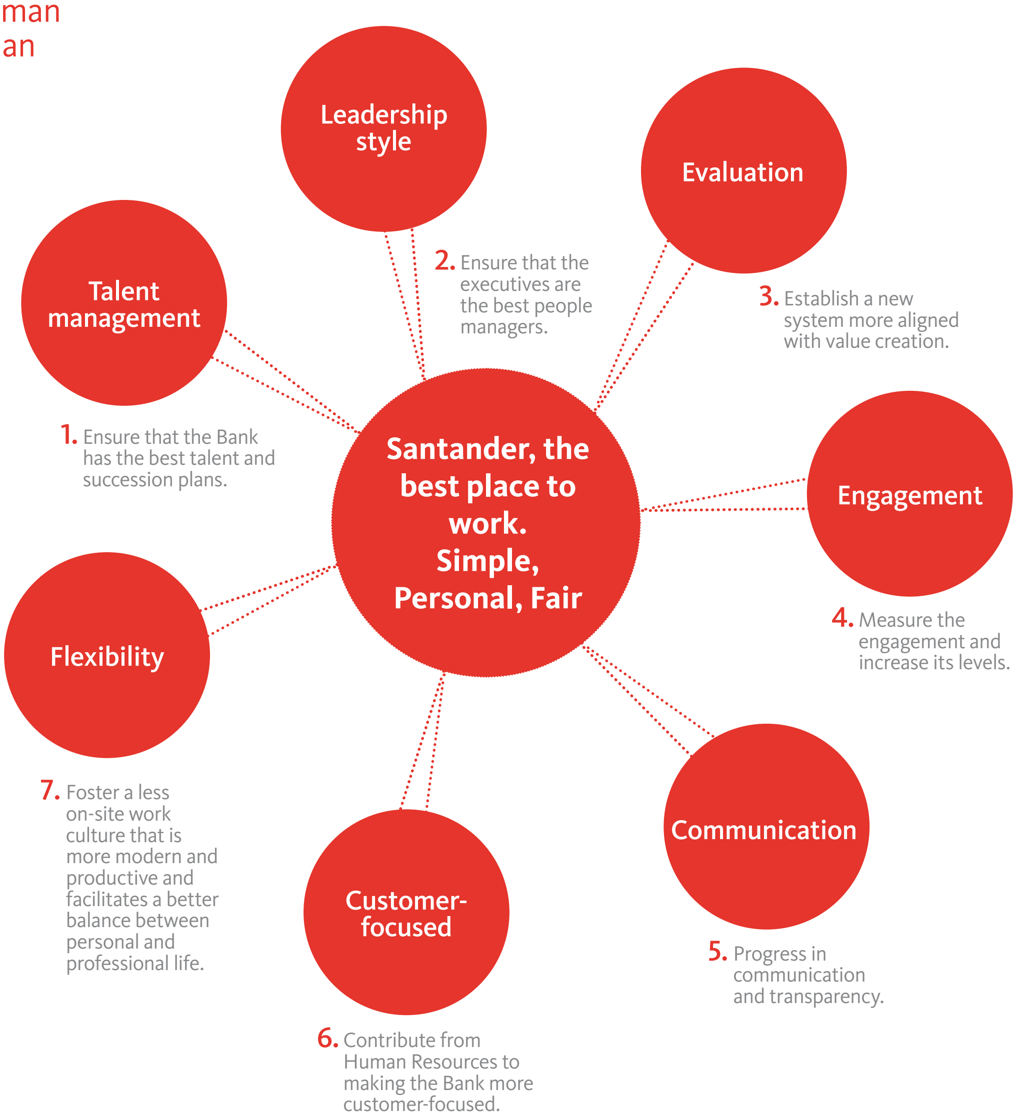
Employees

In order to be the best retail and commercial bank for our customers, we must begin with our employees. If they feel proud of belonging to Santander and more engaged, they will be able to earn the lasting loyalty of our customers.

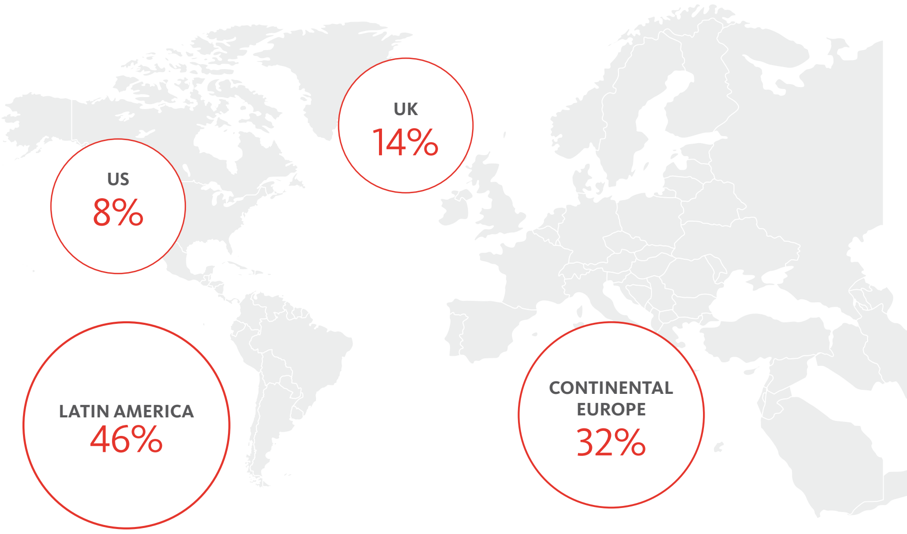
Santander launched in 2014 a strategic Human Resources plan whose main objective is to **make Santander the best place to work.**

This plan revolves around **seven elements** and has a system of governance and monitoring for overseeing the execution and impact of the initiatives included in each one of them.

Strategic Human Resources plan



Geographic distribution of professionals



Other key figures

Women	Men
55%	45%
9	11
Average number of years with Santander	
55%	46%
Graduates	
37	39
Average age (years)	

Total number of professionals

185,405

58,878 Continental Europe

25,599 UK

15,919 US

85,009 Latin America

Among the main projects launched during 2014 under this plan were:

Talent management

Santander drew up a harmonised and homogeneous plan to identify and develop the Group's talent, as well as a succession plan that guarantees the viability of the business.

The following steps were taken:

- **Committees to assess talent,** bodies that meet regularly and involve senior management: division executives, country heads and members of management committees. These committees analyse professionals, their career path and future potential. In some cases, individual development plans are established to accelerate professional development. There were 143 of these committees in 2014.
- **Global job posting:** a corporate platform that offers all the Group's professionals the possibility of knowing and opting for vacant positions in other countries. The objective is to facilitate employee mobility, foster their development and make internal selection processes more transparent. More than 500 positions in various countries have been publicised since its launch in July 2014 and 60 offers of incorporation made.

Santander continued to be **committed to gender diversity** through various initiatives:

- Programmes such as *Sumando Talento* or *Take the Lead* for women in executive or pre-executive positions in all countries in order to foster the development of talent and female leadership.
- In Spain, Banco Santander signed a voluntary agreement with the Ministry of Health, Social Services and Equality to increase the presence of women in executive and pre-executive positions in four years.
- The III Santander Woman and Company Meeting was held at the Bank's headquarters in Boadilla del Monte with the title *Other leadership perspectives*. Close to 1,000 people attended.

El Solaruco training centre, Santander Group City, Boadilla del Monte, Madrid, Spain.

Assessment

The new management performance model, launched in 2014 for corporate executives, includes the following developments:

- Independent measurement of objectives and powers including a 180° process of assessment involving direct reports as well as the person's immediate superior.
- Incorporation of an objective of "people management" with a minimum weight of 15% which the 180° assessment will take into account.
- Strengthening crossed or functional evaluation.
- Elimination of the curve of differentiation of evaluations.

Commitment

The Group launched for the first time a **global survey** of professionals in all countries in order to gauge their level of engagement, as well as the organisational aspects they most value and those where there is room for improvement.

The global participation rate in the survey was 78% and the results indicate that 70% of the Bank's professionals have a high level of engagement (6 p.p. above the financial sector's average). Furthermore, 78% of professionals are proud to work for Santander and want to continue doing so for a long time. Of note among the aspects most valued by employees are professional development opportunities, the Bank's innovative spirit in developing products and services and the social benefits they can access. There are also areas of improvement regarding flexibility, cooperation and recognition.

Communication

In order to foster the active listening of professionals and a more transparent and participative style of communication, two key projects were launched in 2014:

- **Santander Ideas,** the Group's first internal social network that enables professionals from all countries to share their ideas on strategic issues for the Bank, vote on them and comment on them. This channel energises internal communication and fosters a culture of work focused on innovation, cooperation and participation, taking advantage of the diversity and collective intelligence of Santander's more than 180,000 professionals throughout the world.

  More than 10,000 ideas were obtained from almost 25,000 participants in all the Group's countries, via the three global challenges launched in 2014 related to customers, employees and branches. Of them, 213 were selected for implementation and 50 have already been put into effect in various countries.

- ***Somos Santander* (*We are Santander*)**, a communications campaign that fosters the idea of a united and cohesive team, where the talent and commitment of all the Group's professionals is vital for achieving sustainable growth that benefits our customers, shareholders and communities.

  The Semana *Somos Santander (We are Santander* week) is one of the main events and enables professionals from all the Group's countries to become protagonists and celebrate the pride of working for Santander. Furthermore, during this week Santander volunteers expressed their solidarity and in just one day collected 59 tonnes of food that was delivered to various NGOs throughout the world.

Social networks to foster communication and team work

SANTANDER ideas:)

25,000
participants

10,000
ideas

233,489
followers in the global profile of Santander in LinkedIn

Santander Select branch in Sao Paulo, Brazil.

This was one of the corporate volunteer activities organised in all countries during 2014, involving 60,000 volunteers.

Customer-focused

Santander continued in 2014 to be committed to training its professionals, paying particular attention to developing training programmes and exchange of best practices that support the commercial transformation into a more customer-focused Bank. Of note were:

- **Santander Retail and Commercial Banking College**, whose purpose is to enhance the development and knowledge of its commercial and retail banking professionals via specialised training programmes by segment and/or business in each country.
- **Santander Business Insights**, conferences to disseminate good practices related to customers, both the Group's and those of external organisations.
- **Knowledge without limits**, a new training platform for all the Group's professionals that provides access, in an open and participative way, to a wide variety of training resources and best internal and external practices in order to give a better customer service.

Recognitions

Among the recognitions obtained by Banco Santander in various countries during 2014 were the following:

- Santander UK obtained the *Top Employer* certification granted to those banks that attain the highest standards of excellence in the conditions they offer to their employees. The Bank was also recognised in the *Top 50 Employers for Women* for supporting gender diversity and in the Top *100 Graduate Employers* for being one of the preferred companies among university graduates.
- Santander Consumer Germany was recognised as *Top Employer* in the country and received the *Total E-Quality Award* for its initiatives in favour of diversity and equality of opportunity among its employees.
- In Argentina, Banco Santander was ranked first for the third year running in the *Great Place to Work* classification.
- In Spain, the Bank obtained the following recognitions:
  - The *MercoPersonas* 2014 ranking put Santander as the best bank to work for and the fourth best company in Spain.
  - The annual survey *Empleadores Ideales*, conducted by the Swedish consultancy Universum and which gathers the opinions of more than 16,000 Spanish students, put Banco Santander among the five favourite companies to work for among business school students who also regard it as their preferred bank.
  - The survey by the consultancy Randstad among more than 8,000 potential candidates between the ages of 18 and 65 recognised Santander as one of the preferred places to work in Spain in the banking category.

103.2
million euros invested in training for Santader employees

97%
employees received training in 2014

44.6
hours of training per employee

Customers

We want to help our customers prosper and meet their goals. In order to achieve this, the Bank's more than 180,000 professionals strive every day to build long-term relationships that increase the satisfaction and loyalty of our customers.

In order to continue to increase the loyalty of customers with the Bank and provide them with excellent service, we continued to work in 2014 on a commercial model that aims to offer value with simple and tailored solutions, via the most appropriate and efficient channels and with just and fair treatment.

Customer loyalty

Progress was made during 2014 in improving knowledge of customers and adapting the attention model and solutions that the Bank offers to satisfy their demands.

Knowing our customers

In order to facilitate a personalised dialogue with customers that enables us to better understand their behaviour, expectations and needs, new management tools and other initiatives were launched, such as events and group dynamics.

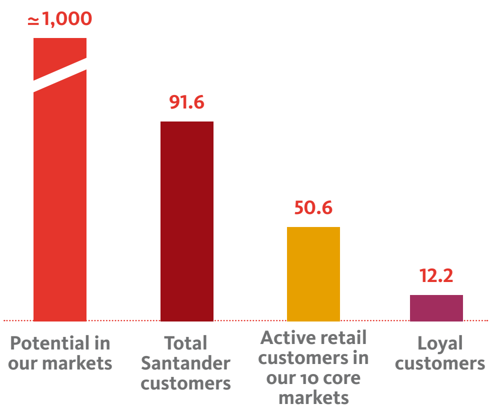
After the launch in 2012 of NEO CRM in Chile, it was introduced in 2014 in Brazil, Spain and the US. It will be implemented throughout 2015 in Argentina, Mexico, Portugal, Poland and the UK.

The **NEO CRM** project is a novel tool for organising commercial activity that enables us to gather and analyse the information of each customer and have a 360º vision of their performance and relationship with the Bank. This information enables customer needs to be anticipated and tailored solutions to be offered.

Group customers
Million

Spain	12.6
Portugal	3.6
UK	25.7
Poland	4.3
Germany	6.3
Rest of Europe	10.3
Total Europe	**62.8**
Brazil	31.1
Mexico	11.7
Chile	3.6
Argentina	2.5
Rest of Latin America	0.5
Total Latin America	**49.4**
United States	**4.7**
Total customers	**117.0**

Individual customers
Million



New customer behaviours

- Customer behaviour is changing due to greater access to new technologies
- Mobile phones have changed the way customers interact to the Bank
- Customers demand a more comprehensive and simple service and greater accessibility, seeking comfort and convenience when operating with the Bank

Santander branch in Boadilla del Monte, Madrid, Spain.

Specialised solutions

Banco Santander's commercial model aims to satisfy the needs of all types of customer: individuals with different income levels, companies of all sizes and sectors, private corporations and public institutions.

Santander continued to innovate and develop solutions during 2014 for each customer type:

Individuals:

- The Bank remained committed to ***Santander Select*** as the Group's differentiated value proposal for high income customers. This specialised attention model, with products and services tailored to suit these customers' needs, is already operating in all our markets.

  Moreover, by taking advantage of its international franchise, Santander is able to make global value offers to these customers, such as the *Débito Global Select* card, which can be used to make cash withdrawals in the Bank's more than 30,000 ATMs throughout the world without paying a fee.

- In the UK, the range of products of the 1|2|3 account continued to function successfully. There are more than 3.6 million customers with a high degree of engagement with the Bank. The 1|2|3 current account reimburses in cash part of household bills and pays a better interest on large balances.

  In Spain, Poland and the US, similar products were launched in 2013 and in 2014 in Germany.

Companies:

In order to turn the Bank into **a strategic partner for growth in business with SMEs**, various initiatives were developed including *Santander Advance,* a programme that offers a powerful financial offer and other non-financial solutions to spur internationalisation, foster job creation, talent and training.

Santander Advance was launched in Spain, Mexico and Portugal in 2014, with the participation of more than 28,000 SMEs, and during 2015 will be extended to the rest of the countries where the Group operates.

Also in the UK, the Breakthrough programme, launched in 2012, offers value added services and alternative financing for SMEs to grow in this country. The results have been very notable and pushed up the Bank's market share in SMEs from 3.5% in 2012 to 6.5% in 2014.

Santander is also promoting other initiatives that take advantage of its international scope and network:

- ***Santander Passport*** is a specialised attention programme for companies with an international scope. These companies are recognised and served homogeneously as the Bank's preference clients in all the Group's subsidiaries.

  Santander Passport was launched during 2014 in eight countries (Argentina, Brazil, Chile, Spain, Mexico, Portugal, the UK and Uruguay) and is expected to be operational in the rest of the Group's markets by the end of 2015.

Santander Select branch in Mexico.

- ***Santander Trade*** is a unique platform in the financial sector that helps to internationalise the activity of companies, thanks to bringing business opportunities to the business community. It has been launched in 12 countries: Argentina, Brazil, Chile, Spain, the US, Mexico, Poland, Portugal, Peru, Puerto Rico, the UK and Uruguay.

  The Bank strengthened this service in 2014 with *Santander Trade Club*, an online community that enables clients from various countries to get in contact with one another in order to step up their international activity. More than 9,000 companies are currently involved, more than one million visits were registered and more than 50,000 data bases downloaded.

- The new cooperation project between retail and commercial banking and wholesale banking (collaboration revenues) aims to put at the disposal of all the Bank's customers the products and services that best suit their needs and which, until now, were only available to large companies.

Operational excellence

Santander wants to provide its customers with excellent service and so in 2014 the Bank launched new initiatives that aim to improve processes from the customers' standpoint, incorporating the benefits brought by the digital transformation.

Multichannel and digital strategy

The digital transformation is a strategic priority for Banco Santander. During 2014, the Bank progressed in developing a multichannel distribution model that facilitates customers' relations with the Bank where they want, how they want and when they want.

The Bank also continued to work during 2014 on a new model based on the concept of the multichannel branch.

In the case of branches, which are the main channel for forging and maintaining long-term relations with customers, the objective is to have more modern and simpler spaces that combine the advantages of the use of technology with the proximity and professionalism provided by the Bank's employees to customers.

Santander also strengthened its range of services via mobile phones, electronic banking and the contact centre.

- *Mobile First* was promoted in the mobile phone sphere, which aims to improve the client's experience with initiatives such as the simple mobile banking in the UK (*Smartbank*), the mobile wallet in Spain to manage payments from the smartphone, and the new mobile apps in Brazil, Germany, Poland, Uruguay, Puerto Rico and Portugal.

Benefits of *Santander Passport*

→ A global interlocutor that will tend to a company in any country with the support of local account managers

→ Personalised attention with the support of local specialists in new markets

→ Facilities to open an account or contract products

→ Quick response to credit requests, as the Bank will have at its fingertips the risk analysis of the company's activity in different markets

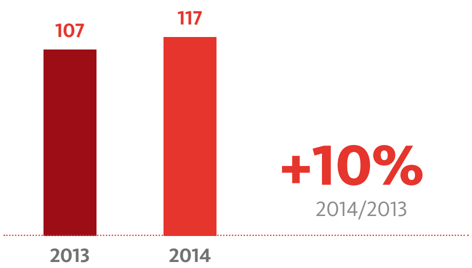
→ App *Passport* to access via mobile devices to all the advantages of *Santander Passport*

12,951
branches.
The largest network among international banks

Customer satisfaction
% of active customers satisfied

Bank	End 2014	End 2013
Argentina	86.8%	85.2%
Brazil	70.6%	78.4%
Chile	88.4%	85.4%
Spain	85.0%	87.2%
Mexico	95.0%	92.0%
Poland	93.5%	96.7%
Portugal	94.1%	93.8%
UK	94.5%	92.3%
US	80.8%	80.8%
Total	**85.3%**	**86.9%**

Customers
Million



- Of note in the online sphere was the launch of new commercial websites in the United Kingdom, Portugal, Spain and Argentina, the new online banking project in Brazil, the virtual advisor in Poland, which facilitates advice at a distance to customers, and the digital manager in Spain.
- As regards the contact centres, of note is the success of the voiceprint in Mexico (customer identified by their voice).
- An extra push is being given to social networks in order to reach customers with offers of products and services in the appropriate place and moment.

Customer satisfaction
One of Banco Santander's strategic objectives is to have more satisfied customers. We believe that such customers use the Bank's products more assiduously, their average savings balances are higher and the probability of them leaving is significantly lower than in the case of an unsatisfied customer.

In 2014, 85.3% of Grupo Santander's active individual customers were satisfied. Of particular note was the increased satisfaction of customers in Mexico, Chile, the UK and Argentina.

As for complaints, their number was 14% lower in 2014 than in 2013, reflecting Santander's commitment to continuously improve customer attention and the quality of service. Among the main markets, those that most reduced the volume of complaints were Portugal, the UK, Chile, the US and Brazil.

As well as the programme to continuously improve quality, established in the Group years ago, an initiative was launched in 2014 to transform the customer experience for the main customer journeys.

This project, launched in the Group's 10 core markets, identifies the customer processes that impact the most on their experience and redesigns them from the customer's perspective.

A methodology is used whose basis is the customers' views and expectations and with the work carried out by many of the Bank's areas a new experience is delivered to the customer.

At the moment the two to three main customer journeys in each country are being improved, such as the process of taking on a customer.

Innovation
Santander's commitment to innovation, in response to the challenges that digital transformation represents for the business and our customers, is reflected in the following two initiatives:

- **Corporate unit of innovation,** whose purpose is to plan and develop the Group's digital innovation strategy from a global perspective, taking advantage of the innovation capacities that already exist in the different units and businesses. Of note among its functions is the global observatory, which analyses and consolidates the market's trends and best practices, and the laboratories, which conceptualise and execute projects using innovative methodologies.
- The mutual fund ***Santander InnoVentures***, with $100 million to invest in start-ups and innovative companies in the financial sector.

Simplification in the process of registering customers

An initiative that aims to improve the customer experience during the first 90 days of their relationship with the Bank

Examples of progress in countries:
→ **United Kingdom:** simplifying documents delivered to the customer

→ **Spain:** digital signing in a tablet

Other Customers Journeys

Improvement in the various processes which are critical in customers' daily interaction with the Bank

For example:
→ **Mexico:** paperless process for loans, beginning with the customer's first visit and online pre-evaluation

→ **Argentina:** incidents resolved immediately and via the same channel the customer uses to communicate it

Shareholders

Banco Santander pays particular attention to its shareholders and strives to reward them with an attractive and sustainable dividend per share and return, and with a personalised service and attention model and regular and transparent information.

The base of Banco Santander's value proposal for its shareholders is a business model with a high degree of recurring revenues, prudence in risks, efficient and with disciplined use of capital and financial strength.

Capital strength and risk management

Banco Santander's strategy focuses on organic growth and an efficient capital allocation among its businesses. The Bank is implementing an enterprise wide risk management *(Santander Advanced Risk Management)* model, which will enable it to strengthen and improve its medium-low risk profile and reduce its NPL ratio below 5% by 2017.

The results of the stress test and the Asset Quality Review (AQR) conducted by the European Central Bank in 2014 showed that Santander has one of Europe's best-capitalised balance sheets.

- The adjustment to Grupo Santander's levels of provisions resulting from the AQR was the lowest among its international peers (impact of 0.04 p.p. on its capital ratio).
- In the adverse scenario of the stress test, Santander was the bank whose capital was reduced the least among its international peers, representing a €20,000 million surplus above the minimum capital required at that time.

In 2015, Banco Santander has increased its capital by €7,500 million, through the issue of 1,214 million new shares. The issue consisted of an accelerated book building process aimed at institutional investors. The new shares began to be listed on January 13, 2015 on the Spanish stock exchange.

This capital strengthening will enable the Bank to benefit from the strong growth envisaged in its core markets in 2016, taking advantage of the organic growth opportunities and increasing lending and its market share. It will also make it possible to comply ahead of schedule with the Basel III capital requirements, assuming then fully as of 2015 although they will only be required as of January 2019.

As a result of this capital increase, the Bank will attain in 2015 a fully loaded capital ratio of around 10%, making Santander one of the best capitalised banks at an international level, bearing in mind its geographic diversification and retail and commercial banking model that enable it to generate results with a low level of volatility.

International investors received the capital increase warmly, as shown by the speed with which it was carried out, the number of participating investors and the high demand for the new shares. This operation is positive for shareholders, as earnings per share are estimated to improve as of 2016.

Main figures of the January 2015 capital increase

- €7,500 million capital increase, representing 8.8% of the Bank's capital after the transaction
- 1,214 million new shares issued
- €6.18 per share: placement price
- 235 investors took part in the transaction
- €11,000 million total demand for the new shares
- Operation closed after four hours
- 79% of the demand for the new shares came from the US and the UK

The capital increase will enable the Bank to benefit from the growth envisaged in its core markets and be one of the international banks with the strongest capital position

Banco Santander's extraordinary general meeting of shareholders, September 2014, Santander, Spain.

Shareholder remuneration in 2014 and 2015

2014
remuneration per share
€0.60

- **February » €0.15 :** *Santander Scrip Dividend* charged to 2013's earnings
- **May » €0.15 :** *Santander Scrip Dividend* charged to 2013's earnings
- **August » €0.15 :** *Santander Scrip Dividend* charged to 2014's earnings
- **November » €0.15 :** *Santander Scrip Dividend* charged to 2014's earnings

2015
estimated remuneration per share
€0.40

- **February » €0.15 :** *Santander Scrip Dividend* charged to 2014's earnings
- **May » €0.15 :** *Santander Scrip Dividend* charged to 2014's earnings
- **August » €0.05 :** Cash dividend charged to 2015's earnings
- **November » €0.05 :** *Santander Scrip Dividend* charged to 2015's earnings

... In the coming years, the evolution of the dividend will be in accordance with the growth in earnings

Enhanced profitability

The growth expectations in the main markets in which Santander operates enable us to anticipate a substantial improvement in the Bank's profitability, as shown by the sharp rise in profits in 2014 (+39.3%). The Group's objective is to increase its return on tangible equity from 11% in 2014 to 12-14% in 2017.

The amount assigned by Banco Santander to its shareholders charged to 2014's earnings will be €0.60 per share, if the proposal that the board submits to the 2015 general meeting of shareholders is approved.

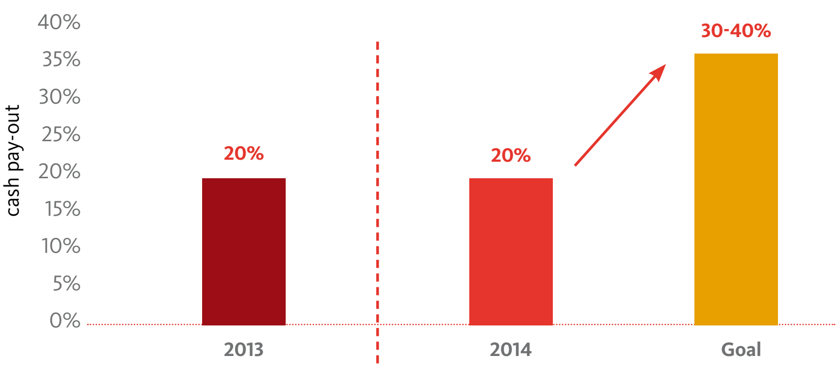
The *Santander Scrip Dividend Scheme* has enabled shareholders to opt to receive their dividend in shares or in cash and allowed the Bank, during the years of the crisis, to recapitalise at the pace of the regulatory requirements.

Following the capital increase, Banco Santander decided to reformulate its dividend policy. In the context of the improvement in the economic growth scenario and the change in tax regulations, which worsens the treatment of receiving a dividend in the scrip format, the board decided to set the remuneration per share charged to 2015's earnings at €0.20 per share, which will be paid, as always, in four payments, three of them in cash and the other in shares or cash, at the shareholder's choice.

In the coming years, the evolution of the dividend will be in accordance with the growth in earnings, with the objective that the cash pay-out represents between 30% and 40% of the recurring profit, instead of the current 20%.

Cash pay-out policy until now and Santander's new policy

Dividend in cash (%)



Evolution of the Santander share

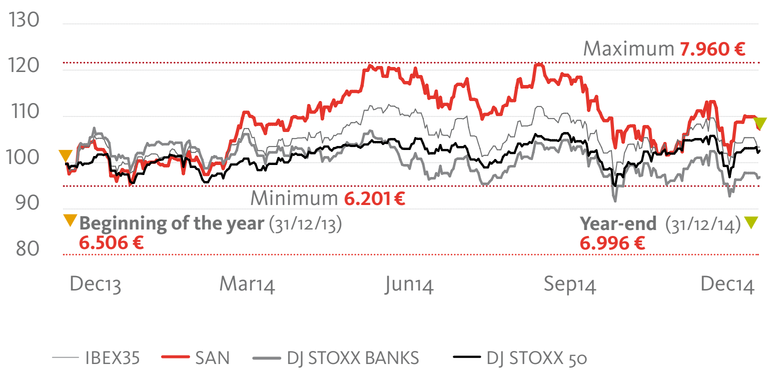
Santander continued to be the largest bank in the euro zone in 2014 by market capitalisation for the 12th year running, and the 11th in the world, with a value of €88,041 million.

The Santander share ended 2014 at €6.996 per share, 7.5% higher than a year earlier. This evolution outperforms that of the Ibex 35 (+3.7%), the Spanish blue chip index, and of the main international indices, such as the DJ Stoxx Banks (-2.8%) and the DJ Stoxx 50 (+2.9%).

At the beginning of 2015, the Santander share was affected by the announcement of the Bank's capital increase and by the turbulence in the market due to political risks in Greece, the oil prices and the correction in the US monetary policy.

Comparative performance of the Santander share

December 2013 VS December 2014



Shareholder base and capital

Number of shareholders

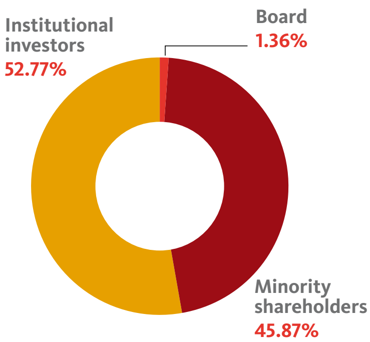
At the end of 2014, Banco Santander had 3.2 million shareholders in more than 100 different countries.

Number of shares

The number of Banco Santander shares was 12,584,414,659 at the end of 2014, after four capital increases to tend to the demand of the four scrip dividend programmes during the year. These entailed issuing a total of 880,057,105 new shares (7.8% of the capital at the beginning of the year). In addition, and in order to tend to the exchange of the offer for acquiring 13.65% of Santander Brazil, 370,937,066 shares were issued.

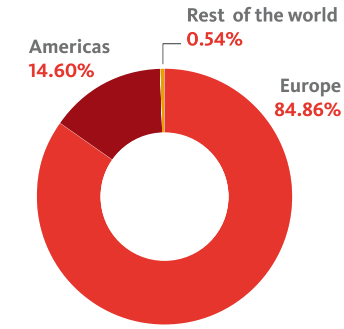
Distribution of capital stock by type of shareholder

31/12/14



Geographic distribution of capital stock

31/12/14



3.2 million shareholders

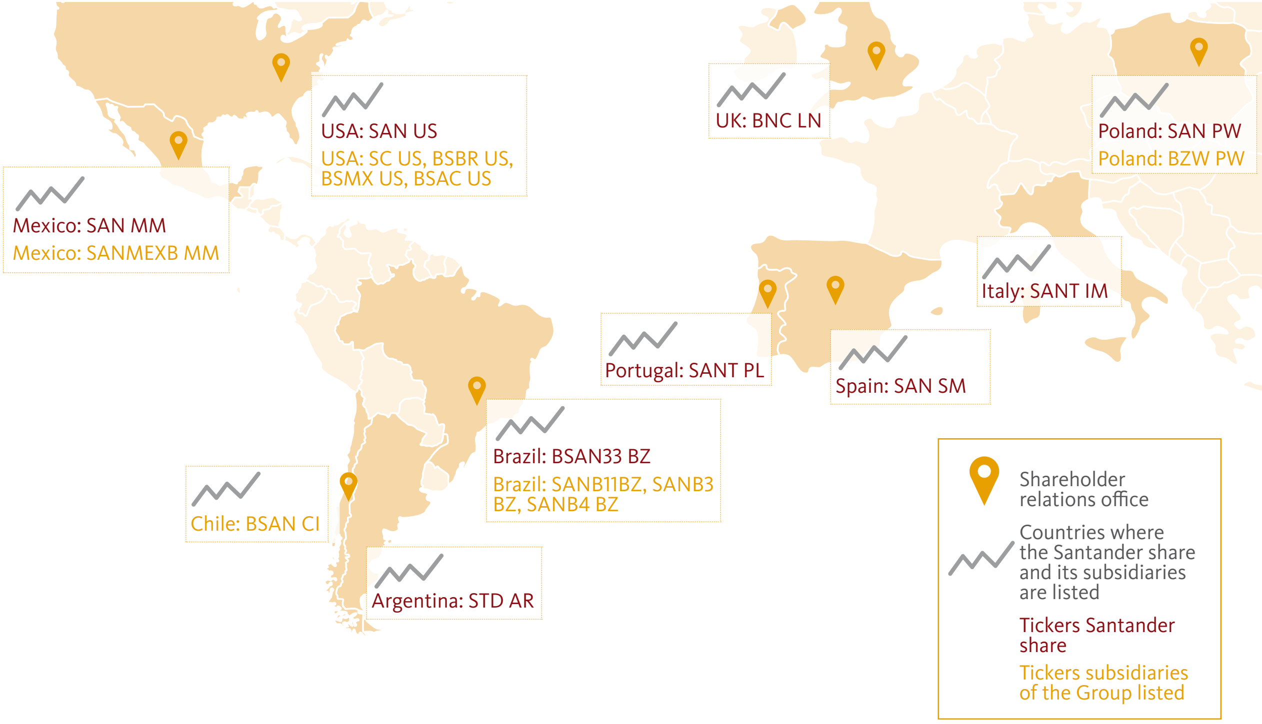
Earnings per share **24.4%** growth in 2014

Market capitalisation **88,041** million euros

Milestones in 2014

- **January 30:** presentation of 2013's results
- **February:** third interim dividend, 2013
- **March 28:** general shareholders' meeting
- **April 29:** presentation of first quarter 2014 results
- **May:** final dividend, 2013
- **July 31:** presentation of second quarter 2014 results
- **August:** first interim dividend, 2014

The Santander share in the world



Listing in two new stock markets

The Santander share began to be listed on the Sao Paulo stock exchange on November 17 after the offer to acquire 13.65% of Santander Brazil's capital. This meant issuing new Banco Santander shares. The Santander share was also listed on the Warsaw stock exchange on December 3, bringing the number of markets where the share is traded to nine: the four Spanish markets, New York, Milan, Lisbon, London, Buenos Aires, Mexico, Sao Paulo and Warsaw.

Shareholder relations offices

Banco Santander wants to listen to all its shareholders and, in order to do so, puts at their disposal, via shareholder relations offices, varied channels to facilitate their communication with the Bank, including: shareholder mail box, telephone line, corporate website, the *I am a shareholder* website and the Santander Shareholders app.

Shareholders can send their comments and suggestions via these channels, while also receiving all the information on the evolution of the share and of the Group. Also, 329 events were held with shareholders to inform them of the Group's results and offer them a personalised attention.

In 2014 :

32,034
e-mails tended to

227,968
telephone consultations received

339,049
letters

3,826,979
alerts sent via SMS

September 15: extraordinary meeting of shareholders

October 26: stress test on European banks

November 4: presentation of third quarter 2014 results

November: second interim dividend, 2014

November 17: SAN share publicly quoted in Brazil

December 3: SAN share publicly quoted in Poland

January 2015: €7,500 million capital increase

February 3 : presentation of 2014's results

Communities

Banco Santander develops its business in a responsible way in order to contribute greater value to its employees, customers and shareholders. We take into account the impact of our activity on the environment and we contribute to the economic and social progress of the communities in which we operate.

Banco Santander's commitment to society and the environment is manifested in two fundamental spheres:

1. Responsibility in developing its activity
Banco Santander is aware of the enormous impact its regular activity has on the environment and is committed to acting responsibly.

- It has a sustainability committee chaired by the chief executive officer, which is responsible for integrating sustainability within the Group's business model.
- It has developed corporate policies and rigorous processes of marketing products and services that aim to guarantee they are sold appropriately.
- It fosters compliance with the codes of conduct that govern the behaviour of its professionals.
- It measures the social and environmental risks in large credit operations.
- It has internal policies that govern the Bank's activities in sensitive sectors, such as defence, energy and forestry.
- It complies with the highest standards of corporate governance as regards transparency, effectiveness and defence of shareholders' interests.
- It promotes compliance with the *United Nations Global Compact* among its suppliers and manages purchase processes in a coordinated, efficient and sustainable way.
- It has implemented energy efficiency measures in all the Group's facilities and offers funding lines for the development of clean energy projects.

2. Commitment with the community
Santander shows its commitment to the society in which it conducts its business by investing in its development and social progress, with initiatives in different spheres:

- **Education.** A quality education for everyone is a guarantee of social and economic wellbeing. Banco Santander supports education as the engine of communities' progress, particularly higher education. The Santander Universities programme is the hallmark of the Group's social commitment. Moreover, the Bank promotes access to quality nursery education through various initiatives, some of which directly involve employees.
- **Entrepreneurship and job creation.** Santander promotes entrepreneurship and job creation, paying particular attention to the spheres of higher education and universities. The Bank has various business incubation initiatives and promotion of young talent with entrepreneurial spirit, as well as programmes that contribute to strengthening the business fabric and sustainable development.
- **Financial inclusion**. Banco Santander pursues financial inclusion and the socio occupational integration of vulnerable collectives, in order to improve their quality of life and that of their environment. Santander has microcredit programmes in Brazil, Chile and El Salvador. Furthermore, the Bank is firmly committed to financial education, conscious of the need to promote better knowledge of basic aspects of finance.
- **Culture.** Santander carries out intense activity to protect, preserve and disseminate art and culture. The Banco Santander Foundation in Spain and Santander Cultural in Brazil are the best examples of the Group's cultural investment.

Santander forms part of the main stock market indices that analyse and assess the companies' activity in the sphere of corporate social responsibility: the Dow Jones Sustainability Index (DJSI) in the bronze category, and the FTSE4Good

"Banco Santander is the leading company in the world in education investment," according to the Varkey Foundation report in conjunction with Unesco

Santander UNIVERSITIES

Santander Universities

Investment in higher education is a hallmark of the Bank's social commitment and this support is articulated and managed via Santander Universities.

For 18 years Santander has maintained a long-term strategic alliance with universities, unique in the world. Santander cooperates in launching projects to improve education, internationalisation and modernisation of universities, student and teacher mobility, the entry of students into the labour market and fostering an entrepreneurial culture in universities.

This cooperation is articulated via comprehensive cooperation agreements, support for international cooperation agreements between universities, encouraging and cooperating with international academic networks, and backing global projects.

Of note among the main activities in 2014 were:

- The **4th edition of the internship aid programme for professionals in SMEs in Spain,** which made 5,000 grants. The success of this programme led to its launch, for the second time, in Argentina, the UK and Puerto Rico. The programme facilitates the insertion of students in the labour market. Almost 50% of students who were interns under this programme had a work relation with the company at the end of the programme.
- The **Universia network** also helps young people to enter the labour market. There were 2.8 million job offers in 2014 and 16 million job requests registered in the platforms of the work community.
- **Innovation and entrepreneurship** is a key priority in the support that Santander Universities gives to the university community. Of note was the holding of the 10th edition of the Santander Universities prizes for Innovation and Entrepreneurship in Brazil (20,100 projects presented) and the editions in Mexico, Argentina, Chile and Puerto Rico. Of note also is the organisation of Spin 2014, an international event held in Mexico City, in cooperation with Red Emprendia, the Latin American university network of business incubation that promotes the transfer of knowledge, technological development, innovation and responsible entrepreneurship.
- Launch of the latest edition of the ***Santander Iberoamérica* scholarship** programmes, fulfilling the commitment made at the II Meeting of University vice-chancellors in Guadalajara, Mexico, in 2010.

€146
million contribution to universities

1,151
agreements with universities in 21 countries on four continents

28,443
scholarships and grants made in 2014

universia

1,345
universities form part of Universia

2.8
million job offers for university students

Latin American summit of heads of state, Veracruz, Mexico.

The **III International Meeting of Vice-chancellors** was held by Universia in 2014 in Rio de Janeiro, attended by 1,109 vice-chancellors from universities in 32 countries who, during two days, debated the projection of universities and their capacity to respond to society's demands.

The conclusions of the different working sessions are set out in the 2014 Universia Rio Declaration, which details the main challenges and priorities facing Latin American universities in the 21st century and along which is fostering entrepreneurship. This declaration was delivered by Ana Botín, executive chairman of Banco Santander, to Enrique Peña Nieto, the president of Mexico, King Felipe VI of Spain and the Ibero-American General Secretariat in the framework of the summit of heads of state held in December 2014 in Veracruz, Mexico.

At the Rio meeting, the Bank announced its commitment to invest €700 million in university support programmes over the next four years. Of it, 40% will go on university entry scholarships and national and international student and teacher mobility; 30% on fostering research, innovation and university entrepreneurship; and the remaining 30% on supporting academic projects and initiatives to modernise and incorporate new technologies to universities.

The 2014 Universia Rio Declaration

Key strategic areas and proposals for Latin American universities

1. Consolidation of the Ibero-American Knowledge Space.

2. Universities' social and environmental responsibility.

3. Improvement of information on Ibero-American universities.

4. Attention to students' expectations.

5. Continuous training of professors and strengthening of teaching resources.

6. Guarantee for teaching quality and adaptation to social needs.

7. Improvement of research, transfer of its results and innovation.

8. Extending internationalisation and mobility initiatives.

9. Full use of digital technologies.

10. Adaptation to new outlines of organisation, governance and funding.

See more information on the 2014 Universia Rio Declaration at: www.universiario2014.com

Recognitions

Prestigious international organisations recognised during 2014 Banco Santander's commitment to society:

- **The world's greenest bank** for the third time, according to the magazine Bloomberg Markets, which for the last four years has drawn up a ranking of the world's greenest banks which assesses the financing of renewable energy projects and the reduction of the environmental impact with energy efficiency measures.

- **World's most transparent bank,** according to the NGO Transparency International, which drew up the second edition of its Transparency in Corporate Reporting index. Santander was classified in fifth place in the ranking of the world's most transparent multinationals and the first among international banks, thanks to the information provided on its anti-corruption programmes and organisational transparency.

Other recognitions obtained during the year in countries where Santander operates include:

- **Santander Brazil won the BeyondBanking award,** in the Banking Planet category –adapting and responding to climate change effects– granted by the Inter-American Development Bank (IDB), for its Reduce and Compensate CO_2 programme. This award recognises the best financial institutions in the sustainability sphere in all of Latin America.

- **Santander Chile was recognised as the leading company in corporate governance** by ALAS20 on its report on sustainability and responsible investments. It also obtained an award in the leading company in sustainability and investor relations categories.

- **Santander UK attained a national award for the Community Plus programme** of the Santander UK Foundation for being considered the best corporate foundation programme in the 2014 Corporate Engagement Awards, which are granted to corporate social responsibility initiatives.

- **Santander Totta was recognised for its energy efficiency management plans** at its headquarters, in the ninth edition of the EDP Electric Energy and Environment awards.

Santander experiences

Santander Chile: financial education

In order to promote financial education in an inclusive way, foster conducts such as responsible consumption, savings and good use of banking products and services, various initiatives were developed for individuals and SMEs such as sanodelucas.cl, a digital and interactive platform with contents and tools, and the recently launched Financial Education Centre.

Santander Mexico: nursery education

The Bécalos project, in which the Bank has participated for many years in cooperation with the Mexican Banking Association and the Televisa Foundation, promotes education in Mexico through granting scholarships to students and teachers in public schools.

Under Bécalos, 90 out of every 100 students can attend the following school course. The Bank collected more than €53,000 in 2014 for this initiative via ATMs. The Bank, on its part, contributed €200,000. Over 200.000 students have benefited from this programme.

Santander Brazil: microcredit programme

- Santander Brazil is the leading private bank and the second in microcredits in Brazil. It is present in more than 600 municipalities throughout the country.
- The programme grants credits of €700-€800, with maturities of around eight months, to charity groups formed by five to six people.
- More than 300,000 people, 70% of them women, have benefited from this programme since 2002.

Risk management

Quality in risk management is one of our hallmarks and a priority area for action and value creation.

During its more than 150 years of activity, Santander has developed a combination of prudence in risk management together with the use of advanced techniques that have proven to be decisive in generating recurring economic results.

Grupo Santander's risk policy is focused on maintaining a medium-low and predictable profile for all of its risks. Its risk management model is a key factor for achieving the Group's strategic objectives.

Grupo Santander's corporate risk management principles

Integration of the risk culture and involvement of senior management in managing and taking decisions on risks

An independent risk function

Comprehensive approach to all risks

Formulating the risk appetite of the Group and its units

Clear definition of attributions and decision-making via collegiate bodies

Use of common management instruments among countries

The board is responsible for annually establishing and updating the risk appetite

Corporate governance of the risk function

The board is responsible for annually establishing and updating the risk appetite, monitoring the risk profile, and ensuring consistency between both. The risk appetite is set for the whole Group, as well as for each of its main business units, in accordance with the corporate methodology adapted to each market. At the local level, the boards of the subsidiaries are responsible for approving the respective risk appetite proposals once these have been validated by the Group.

The executive risk committee (ERC) is the Group's maximum executive body on risks and adopts decisions in the sphere of the powers delegated by the board to ensure that the Group's risk profile derived from the business strategy is aligned with the risk appetite limits and global policies approved by the board. Under these powers, the DRC approves risk operations, sets the risk policies and monitors the profile of global risks, ensuring that the Group has the structure, resources and necessary systems for adequately managing and controlling risks.

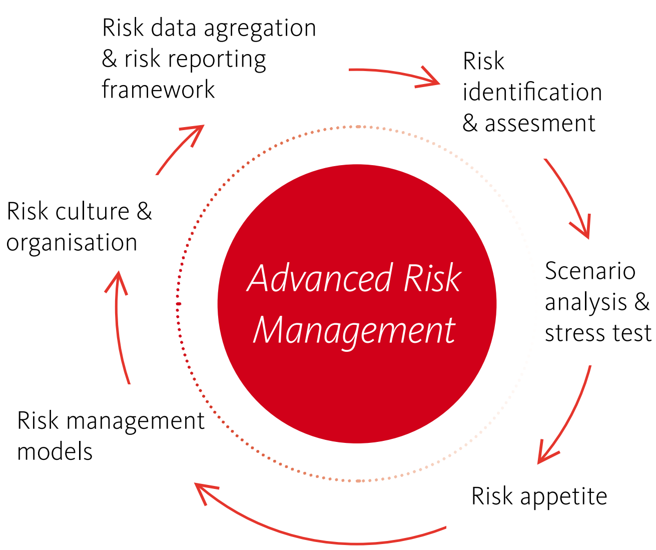
The DRC delegates some of its powers in corporate risk committees, structured by risk type and activity, which facilitate an adequate scaling process for taking final decisions and continuous monitoring of the risk profile. Moreover, both the executive committee as well as the Bank's board devote particular attention to managing the Group's risks.

See pages 179-181 of this annual report

A new board committee was created in 2014 to supervise risks, regulation and compliance. Its functions are to support and advise the board on defining and assessing the risk strategy and policies and in the Bank's relation with supervisors and regulators in the various countries where it operates, supervise compliance with the general code of conduct and, in general, the Bank's rules of governance and compliance programme.

Advanced Risk Management (ARM)

The Group launched the Santander Advanced Risk Management programme to accelerate the implementation of its strategic projects to improve risk management and control capacity. The aim is to have comprehensive and integrated risk management at all levels of the organisation, efficiently aligning the strategic objectives with a medium-low and stable risk profile.



Grupo Santander's risk profile

The risks that Santander faces as a result of its activity are: credit, market, liquidity, structural and capital, operational, conduct, compliance and legal, model, reputational and strategic. We set out below a brief description of the main risks and their evolution in 2014.

Credit risk

See pages 194-222 of this annual report

Definition

This risk comes from the possibility of losses derived from total or partial failure to perform the financial obligations contracted with the Group by its customers or counterparties.

Other credit risk optics:

- Credit risk from activity in the financial markets.
- Concentration risk.
- Country risk.
- Sovereign risk and that with the rest of public administrations.
- Environmental risk.

Risk profile

- More than 80% of Grupo Santander's credit risk comes from commercial and retail banking activities.
- 64% of the Group's loan portfolio has real guarantees.
- High degree of geographic diversification of risks.
- Limited concentrations in clients, business groups, sectors, products and countries.
  - The largest concentration in a loan portfolio in a particularly sector and country represents 16% of the Group's total risk and corresponds to residential loans in the UK.
  - The exposure to Spain's sovereign risk represents only 3% of the Group's total assets.
- Very limited cross-border risk exposure, in line with the model of subsidiaries autonomous in terms of capital and liquidity.
- High credit rating of the Group's assets.

Evolution in 2014

- The credit risk with customers increased in 2014, to €804,084 million, following two years of decreases.
- The trend toward reducing loan-loss provisions and the cost of credit, which stood at 1.43%, was maintained.
- The NPL ratio was reduced to 5.19% and the coverage ratio increased to 67%.
- The net exposure to run-off real estate risk in Spain was reduced by €2,015 million, to €7,320 million.
- The adjustment in Grupo Santander's level of provisions as a result of the ECB's Asset Quality Review (AQR) was marginal (€200 million in a balance sheet of €1.3 trillion).

Liquidity and funding risk

See pages 245-258 of this annual report

Liquidity risk is that incurred from potential losses that could arise as a result of a bank's incapacity to obtain funding in the market and/or from the higher financial cost of accessing new ways of funding.

Management of this risk aims to ensure the availability of the funds needed in adequate time and cost to tend to obligations and develop operations.

- Liquidity management and funding is a basic element of the business strategy.
- The funding and liquidity model is decentralised and based on autonomous subsidiaries that are responsible for covering their own liquidity needs.
- The needs derived from medium and long-term activity must be funded by medium and long-term instruments.
- High participation of customer deposits, as a result of an essentially retail and commercial banking balance sheet.
- Diversification of wholesale funding sources by: instruments/investors, markets/currencies, and maturities.
- Limited recourse to short-term wholesale funding.
- Availability of a sufficient liquidity reserve, which includes the discounting capacity in central banks to be used in adverse situations.

- Net loan-to-deposit ratio in the Group at very comfortable levels (113%).
- High capturing of medium and long-term wholesale funds (issues and securitisations): €52,000 million via 18 issues in 15 countries and 13 different currencies.
- Compliance ahead of schedule of regulatory ratios: at the end of the year, the liquidity coverage ratio exceeded 100% in the Group and the main subsidiaries compared to 60% required as of October 2015.
- The liquidity reserve stood at €230,000 million, after rising in the quantity (+€30,000 million) and quality of its assets.

	Definition	Risk profile	Evolution in 2014
Market risk See pages 223-244 of this annual report	Market risk covers those financial activities where equity risk is assumed as a result of a change in market factors. This risk emanates from changes in interest rates, the inflation rate, exchange rates, equities, credit spreads, commodity prices and volatility in each one of these factors, as well as the liquidity risk of the various products and markets in which the Group operates.	• Santander maintains a moderate exposure to market risk. • Diversification both in terms of risk factors as well as geographic distribution. • Trading activity centred on customer business. • The average VaR in trading activity remained in a low range, in line with previous years. • Limited exposure to complex, structured assets.	• The VaR of trading activity in markets fluctuated in 2014 between €8 million and €24 million. • The most significant fluctuations were due to changes in the exposure to Brazil's exchange rate and to interest rates and credit spreads in Spain's treasury.
Operational risk See pages 259-267 of this annual report	The risk of losses resulting from defects or failures in internal processes, human resources or systems, or from external circumstances. In general, and unlike other types of risk, it is not a risk associated with products or businesses. It is found in processes and/or assets and is internally generated (people, systems, processes) or as a result of external risks, such as natural disasters.	• In the sphere of operational risk control and management, the Group focuses on identifying, measuring/assessing, controlling/mitigating and communicating. • Organisational model of control and management based on three lines of defence. • The Group has over 500 mitigation measures in place in response to the main risk sources. • The business continuity management system ensures the operation of processes in the event of disaster or serious incident.	• Progress was made on the evolution towards an advanced model (AMA) to calculate regulatory capital by operational risk.

Compliance and reputational risk
See pages 268-273 of this annual report
	Compliance risk
	This is the risk of receiving sanctions, economic or otherwise, or being the object of another type of disciplinary measure by supervisory bodies, as a result of not complying with laws, regulations, rules, standards of self-regulation or codes of conduct applicable to the activity developed.
	Reputational risk
	This is the risk linked to the perception that the various stakeholders have of the Group, both internal and external, in the development of its activity, and which can have an adverse impact on results or expectations of business development including, among others, legal, economic and financial, ethical, social and environmental aspects.
		• Explicit declaration of zero tolerance in matters of compliance and reputational risk.
		• The Group's compliance programme focuses on:
		  • Prevention of money laundering and financing of terrorism.
		  • Marketing of products and services.
		  • Conduct in the securities markets.
		  • Prevention of penal risks.
		  • Relations with regulators and supervisors.
		  • Drawing up and disseminating the Group's institutional information.
			• In the sphere of money laundering 22.9 million transactions were analysed and training courses given to 129,233 employees.
			• The corporate committee of marketing analysed a total of 103 new products/services.
			• 12,000 Group employees are subject to the Code of Conduct in the Securities Markets.
			• Banco Santander made public 90 material facts.

In 2014 Santander generated an attributable profit of

€ 5,816 million.

Profit was up 39.3%, backed by solid revenues, cost control and lower provisions.

2

2014 Results

Economic, banking and regulatory environment

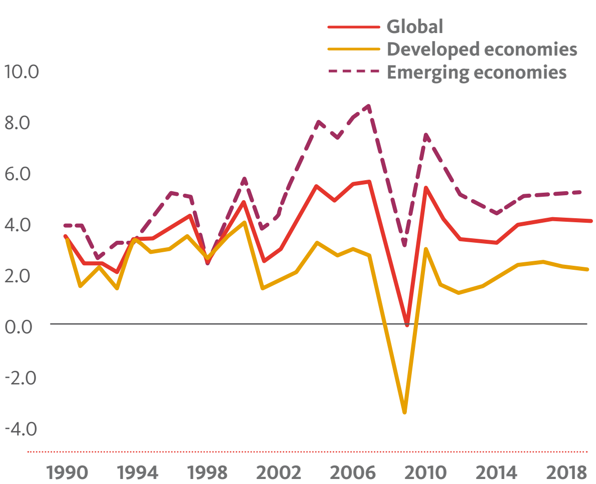
International economic environment

The global economy grew by around 3.3% in 2014, in line with 2013 but with important differences. On the one hand, the developed economies grew more strongly which was offset by more moderate growth among the emerging economies. On the other, the differences in cyclical positions between the developed countries and among the emerging ones were more accentuated.

- The **United States** is in a solid expansion stage. The economy grew at above its potential rate, as a result of which unemployment and the excess of installed capacity were reduced substantially. Inflation remained low. In these conditions, the Federal Reserve concluded its bond-buying programme, without abandoning the expansive tone of its monetary policy.
- The **United Kingdom** performed very positively in 2014. Inflation consolidated at below 2%, enabling the Bank of England to hold its discount rate at 0.5%.
- The **euro zone** registered a slow recovery. Inflation was close to 0%, which led the ECB to cut its benchmark rates and launch new quantitative easing measures in the form of injecting long-term liquidity (TLTROs) and purchases of securities issued by the private sector.
- **Spain** grew clearly above the euro zone average in 2014. Job creation, which began in the fourth quarter of 2013, was consolidated and produced a gradual decline in the unemployment rate. The recovery is the result of the adjustments and reforms made in the public and private sectors in the last few years, notably among which has been the improvement in competitiveness, via internal devaluation, labour market reforms and restructuring of the financial system.
- **Germany's** growth eased as the year progressed, while maintaining the strength of its labour market and the high level of competitiveness of its exports.
- **Poland** grew strongly in 2014, although the economy lost steam in the last part of the year due to the conflict in the Ukraine (which hit Poland's trade with East Europe) and the euro zone's modest growth.

The developed economies grew more strongly, while the emerging ones moderated their growth

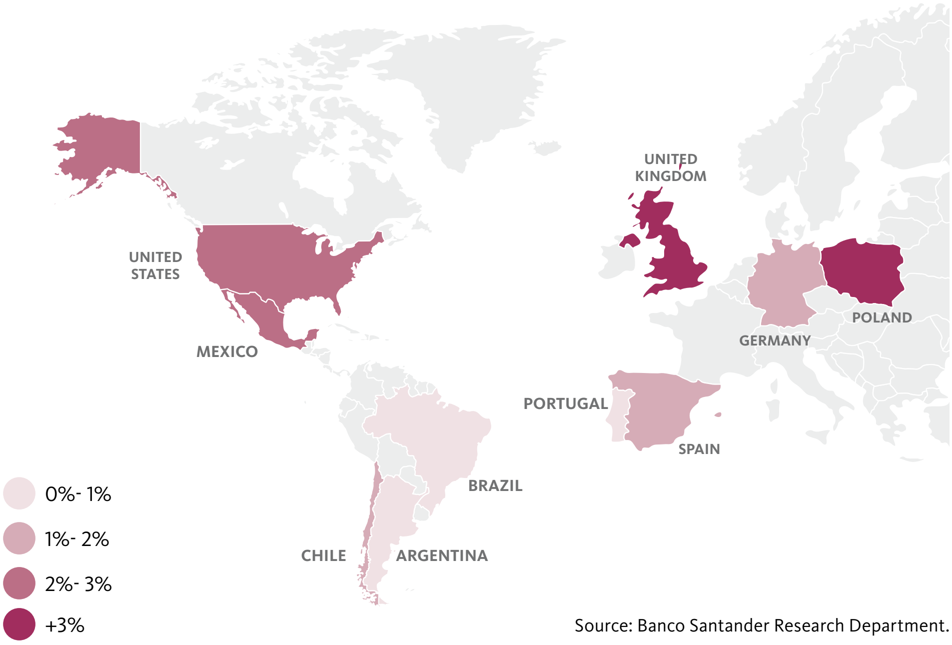
GDP
% change



Source: FMI, World Economic Outlook

GDP 2014

% change



Source: Banco Santander Research Department.

» In the United States and the United Kingdom, consolidation of the recovery was particularly noticeable

» In the euro zone, the pace of growth was moderate, with Spain growing faster than the European average

» In Latin America, growth slowed but by varying degrees

- In **Latin America**, growth slowed in 2014 (1.3% vs. 2.7% in 2013) in an international environment characterised by the normalisation of monetary policy in the US, lower growth in China and less favourable terms of foreign trade than in the past. Despite this lower growth, inflation rose, as a result of several supply shocks and the impact of the depreciation of Latin American currencies.

- **Brazil** recorded moderate growth, despite which the jobless rate remained very low. The first measures announced by the new government were positively valued by the markets.

- The **Chilean** economy slowed down, which allowed for more expansive monetary (benchmark interest rate at 3%) and fiscal policies.

- **Mexico** was on an upward growth trend during 2014, thanks to the strong trade links with the US and the expectations raised by the major structural reforms.

The main international institutions foresee an upturn in the global economy in 2015 which would gain steam in 2016.

Financial markets and exchange rates

In general, financial conditions improved substantially. The advances mainly occurred in the first half of the year when the global perception of risk declined substantially, stock market indices registered widespread gains, public and private debt risk premiums fell sharply, access to capital markets was more fluid and the conditions of bank credit – in developed economies – eased.

This performance was linked to central banks' monetary policies, which resulted in abundant liquidity and in the consequent search for profitability. Another important factor was the progress in the European Banking Union and the idea that the most extreme risks were a thing of the past.

In the second half of 2014 there was a correction and a greater differentiation in the performance depending on the nature of the asset and the prospects of each economy in the face of the downgrading of global growth forecasts, the end of the US bond buying programme and the notable fall in commodity prices, particularly in the case of oil.

Exchange rates registered important changes during 2014. The dollar, in particular, appreciated sharply against the euro and against the main Latin American currencies.

Financial conditions improved substantially and exchange rates registered important changes during 2014

Headquarters of the European Central Bank in Frankfurt, Germany.

Banking sector environment

The most important development for the banking systems in which Santander operates was the progress toward the Banking Union in the euro zone. The ECB assumed the function of supervisor of all euro zone banks and directly for the 120 most important (82% of the system's total assets).

Before beginning this task, it conducted an exhaustive health check of the banks' assets and liabilities. The assessment included two key elements: an Asset Quality Review and a simulation of the impact of different macroeconomic scenarios on the solvency of banks (stress test). Of the 123 banks analysed, only 13 recorded a net deficit of capital (€9,475 million total) when the results were announced.

2014 represented a turning point for European banks, thanks to the assessment of their balance sheets and the preparatory work by the banks, which strengthened their solvency decisively.

This was reflected in a clear improvement during the year in the confidence in the European financial system. Economic weakness, meanwhile, continued to weigh on business and the low interest rates continued to exert downward pressure on results. Even so, the trend of improvement during the year in the evolution of credit and the cost of credit is expected to support a gradual improvement in spreads in 2015.

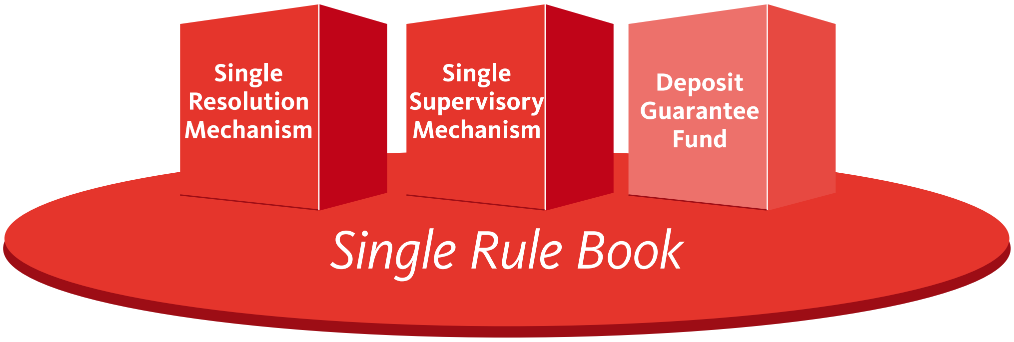
2014 represented a turning point toward a clear improvement in the confidence in the European financial system, thanks to the ECB's assessment of their balance sheets

Analysis of European banks

- 123 banks with €28 trillion in assets (70% of the European banking system)
- Asset Quality Review: average European banking impact on CET1 of -40 b.p. but only -4 b.p. for Santander.
- Stress test: European banking impact on CET1 of -260 b.p. in the adverse scenario (Santander -139 b.p.).
- 13 banks with capital needs of €9,475 million did not pass the test.

See pages 174-176 of this annual report

Pillars of European Banking Union



Regulatory context

At the international level, the Financial Stability Board progressed in drawing up the **crisis management framework** to be applied to globally systemic banks (G-SIBs). The most novel element of these frameworks is the requirement of a minimum total loss-absorbing capacity (TLAC) to recapitalise an institution in the event of resolution. During 2015, an impact and market study will be developed to close the TLAC definition and calibration by the end of the year.

In Europe the crisis management directive was approved. This directive constituted a significant advance in the ordered resolution of banks in Europe and helped to break the feedback loop between banking and sovereign risk, by making bank creditors the first to absorb losses and reduce to the maximum the possibility of using public funds in the case of a banking crisis.

Another sphere of intense regulatory activity was the review of the **capital requirement frameworks for credit, market and operational risk**, both of standard as well as advanced models, which the Basel Committee is developing. This work is expected to be completed before the end of 2015. On its success will depend the role of risk sensitive requirements is maintained in the prudential framework or, on the contrary, a greater weight is given to non-risk sensitive measures such as the leverage ratio. Meanwhile, in Europe, the European Banking Authority (EBA) continued to issue standards and guidelines to guarantee a harmonised implementation in the European Union of the minimum capital requirements. All this work will be key for reducing the changes in capital requirements. All this work will be key for reducing the variability in capital requirements across banks not justified by their different risk profile. This will also help to guarantee a level playing field and meaningful comparisons.

The year in Europe was marked by progress in the **Banking Union**. The ECB assumed its supervision responsibilities in the euro zone on November 4. Furthermore, the regulations of the Single Resolution Mechanism (SRM) and of the Single Resolution Fund were approved.

The European Commission published in January 2014 its proposed regulations for **structural reform** that ban proprietary trading and the possibility of requiring separation of market making in some cases. The European Parliament and Council will continue to advance in these negotiations during 2015. As well as the UK, France, Germany and Belgium have also approved laws separating banking activity (fundamentally the separation and/or prohibition of proprietary trading) that will enter into force during 2015.

As regards **investor protection**, of note was the publication of MiFID II, which will come into force in January 2017. The European Securities Market Authority (ESMA) and the European Commission are developing it.

The year in Europe was marked by the launch of the single supervisor

Highlights

Balance sheet (Million euros)	2014	2013	% 2014/2013	2012
Total assets	**1,266,296**	1,134,128	11.7	1,282,880
Net customer loans	**734,711**	684,690	7.3	731,572
Customer deposits	**647,628**	607,836	6.5	626,639
Managed customer funds	**1,023,437**	946,210	8.2	990,096
Stockholders' funds	**80,806**	70,326	14.9	71,797
Total managed and commercialised funds	**1,428,083**	1,270,042	12.4	1,412,617

Income statement[1] (Million euros)	2014	2013	% 2014/2013	2012
Net interest income	**29,548**	28,419	4.0	31,914
Gross income	**42,612**	41,920	1.7	44,989
Pre-provision profit (net operating income)	**22,574**	21,762	3.7	24,753
Profit before tax	**9,720**	7,362	32.0	8,942
Attributable profit to the Group	**5,816**	4,175	39.3	2,283

EPS, profitability and efficiency (%)	2014	2013		2012
Attributable earnings per share (euros)	**0.479**	0.385	24.4	0.234
RoE[2]	**7.0**	5.8		3.1
RoTE[2]	**11.0**	9.6		5.2
RoA	**0.6**	0.4		0.3
RoRWA[3]	**1.3**	—		—
Efficiency ratio (with amortisations)	**47.0**	48.1		45.0

Solvency and non-performing loans (%)				
CET 1 fully loaded[3,4]	**9.7**	—		—
CET 1 phase-in[3,4]	**12.2**	—		—
Non-performing loan (NPL) ratio	**5.2**	5.6		4.6
Coverage ratio	**67.2**	64.9		75.4

The share and capitalisation	2014	2013	% 2014/2013	2012
Number of shares (million)	**12,584**	11,333	11.0	10,321
Share price (euros)	**6.996**	6.506	7.5	6.100
Market capitalisation (million euros)	**88,041**	73,735	19.4	62,959
Shareholders' funds per share (euros)	**6.42**	6.21		6.99
Share price/shareholders' funds per share (times)	**1.09**	1.05		0.87
PER (share price/attributable earnings per share) (times)	**14.59**	16.89		26.10

Other figures	2014	2013	% 2014/2013	2012
Number of shareholders	**3,240,395**	3,299,026	(1.8)	3,296,270
Number of employees	**185,405**	186,540	(0.6)	189,460
Number of branches	**12,951**	13,781	(6.0)	14,238

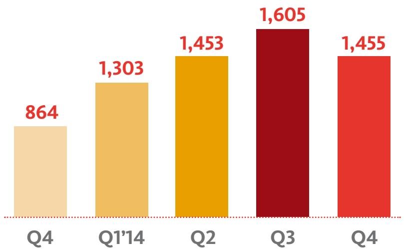
1. Changes excluding the impact of exchange rates: net interest income: +8.8%; gross income: +6.2%; pre-provision profit: +9.1%; attributable profit: +49.3%.
2. RoE: Attributable profit to the Group/(Average capital+reserves+retained earnings+valuation adjustments). In 2014, proforma data including the January 2015 capital increase of €7,500 million.
RoTE: Attributable profit to the Group/(Average capital+reserves+retained earnings+valuation adjustments-goodwill-intangible assets). In 2014, proforma data including the January 2015 capital increase.
3. The previous years' figures are excluded because they are not compatible due to the new CRD IV directive.
4. In 2014, proforma data including the January 2015 capital increase.

Income statement

1 Sharp rise in the Group's attributable profit, fuelled by the improvement in commercial activity. Profit before tax rose in the 10 core markets.

See more information
on pages 104-109 of this annual report

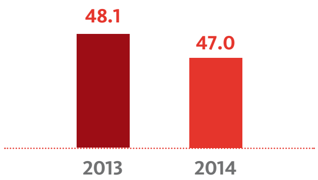
Quarterly attributable profit
Million euros



2014 attributable profit
€5,816
million
+39.3%

2 Gross income (€42,612 million) evolved favourably in quarterly terms and costs (€20,038 million) increased at below the inflation rate, which improved the efficiency ratio.

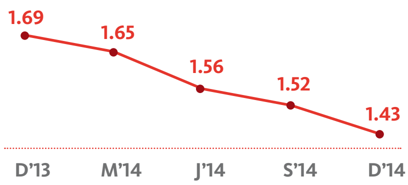
Efficiency ratio (%)



2014-2016 efficiency and productivity plan revised upward
€2,000
million

3 Sustained trend of improvement in the cost of credit due to lower provisions than in 2013.

Cost of credit (%)



-14.4%
Loan-loss provisions

Balance sheet

1 Recovery in lending and faster pace of growth in deposits and mutual funds, enabling the Bank to maintain a comfortable liquidity position.

+5%* Loans

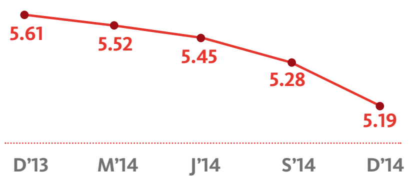
+6%* Customer funds

113% Net loan-to-deposit ratio

* Excluding exchange rates

2 Fall in the NPL ratio due to the sharp reduction in NPL entries. Rise in the coverage ratio.

Non performing loan (NPL) ratio (%)



67%
Coverage ratio

3 High solvency and leverage ratios. The results of the ECB's comprehensive assessment reflect the Group's good management and balance sheet quality. Santander stands out among its peers for the small adjustment as a result of the Asset Quality Review and less impact on capital in the stress test.

9.7%* CET1 fully loaded

12.2%* CET1 phase-in

* Proforma data that includes the January 2015 capital increase.

See more information
on pages 174-176 of this annual report

Results by countries and businesses

Spain

Santander Spain has retail, commercial, wholesale, private banking and online banking (OpenBank) business. Its market share in loans is 13.5% and 14.8% in savings.

Santander Private Banking branch in Madrid, Spain.

Aim:

Be the best bank for our customers and the best place to work.

We want to maintain our current position in the segment of high income individuals (*Select* and Private Banking) and grow our position in SMEs. Increase the loyalty and satisfaction of our individual customers. Drive innovation and digitalisation in order to be the best bank in the market. And strengthen excellence in service quality by streamlining critical processes.

2014 highlights

- Santander Spain granted some 400,000 credits and loans for a total amount of €34,000 million (+84 b.p. in market share).

- In a challenging economic and financial environment, but with a small and gradual upturn during the year, the strategy focused on:

    - Launching the *Santander Advance* project for SMEs with a financial and non-financial offer that has brought considerable recognition to the Bank, thanks to the activities organised with customers.

    - Attract new customers and greater engagement with current ones. In order to improve the customer experience, the *We want to be your Bank* programme was transformed so that it is better adapted to each customer profile.

    - Manage customer funds (+5%), which has largely shifted from deposits to mutual funds, consolidating leadership in investment funds.

- Net interest income increased 9.4% in the year, mainly due to the reduction in the cost of funds. Operating costs were down 6.7% and the synergies envisaged and communicated to the market at the time of the merger were surpassed. Provisions fell sharply.

Integration of Santander, Banesto and Banif

The integration ended in July, ahead of schedule. All private banking clients were incorporated to the attention model that Banif had.

We took advantage of the integration to optimise segmentation and specialisation of branches, with a particular emphasis on private banking, *Select* and company banking, and increasing coverage in specialised portfolios to almost 100%.

Employees
24,979

Customers (Million)
12.6

Branches
3,511

Loans[1,2]
157,047 (+2%)

Attributable profit[1]
1,121 (+141%)

1. Million euros
2. Change without repos

Contribution to Group profit

14%

Poland

Bank Zachodni WBK is the country's third largest bank by market share in loans (7.5%) and deposits (8.3%).

Aim: To increase our market share and to maintain our leadership in terms of profitability.

Bank Zachodni WBK branch in Poland.

2014 highlights

- The Group's business model in Poland focuses on commercial and retail banking, with a noteworthy presence in asset management, stockbroking, factoring and leasing. The Bank provides services to corporate clients and has the Global Banking & Markets unit that provides services to international clients.
- The Bank continues to offer innovative and tailored solutions, not only to attract new customers, but also to deepen already existing relations. The objective is to improve transaction banking and increase in this way the Bank's market share. The strategic programme *Next Generation Bank* continued to develop the Bank at all levels, with the focus on customers and their satisfaction, so that it becomes the bank of first choice.
- The integration of BZ WBK with Kredyt Bank was completed, with an effective management of costs and gains in productivity and commercial activity.
- Lending (+7%) and funds (+10%) grew in 2014, following the success of commercial campaigns. The funding structure was improved, with a net loan-to-deposit ratio of 84%. The efficiency ratio was 42.2%.
- Bank Zachodni generated the largest amount of returns for its shareholders between 2004 and 2013 of all the banks listed on the Warsaw stock market, and was first in the Zlota Akacja ranking (Golden Share) of the WIG banks index.

Employees
11,971

Customers (Million)
4.3

Branches
788

Loans[1,2]
16,976 (+7%)

Attributable profit[1]
358 (+7%)

1. Million euros, change in local currency
2. Change without repos

Contribution to Group profit
6%

Portugal

Santander Totta is the third largest private sector bank by assets in Portugal and the leader in terms of attributable profit.

Aim: To be a reference in customer service quality, to grow in market share and to be the most profitable local bank.

Santander Select branch in Portugal.

2014 highlights

- Santander Totta's market share in loans is 10.7% (+46 b.p. in 2014) and 10.4% in mutual funds plus deposits (+73 b.p.).
- Its strategy is to remain focused on increasing profitability and market shares in the company segment. Priority objectives are to manage net interest income, both assets and liabilities, and control non-performing loans. The Bank is the leader in customer satisfaction.
- The Bank has been active in the international markets through two covered bond issues: the first, in March, of €1,000 million with maturity at three years; and the second, in June, of €750 million at five years. The Bank reduced its exposure to the European Central Bank.
- Deposits rose 4% and mutual funds 21%. Lending fell 5% in a deleveraging environment.
- Gross income increased 4.3% and operating costs remained very controlled (-0.9%). Loan-loss provisions evolved well (-35.7%).
- In 2014, Santander Totta was named Best Bank in Portugal by *Euromoney* and *Global Finance* and Bank of the Year by *The Banker*.

Employees
5,410

Customers (Million)
3.6

Branches
594

Loans[1,2]
23,180 (-5%)

Attributable profit[1]
189 (+65%)

1. Million euros
2. Change without repos

Contribution to Group profit
2%

Santander Consumer Finance

With a position of leadership in Europe's consumer finance market, SCF specialises in auto finance and offers personal credits, loans to buy durable goods and credit cards.

Headquarters of Santander Consumer Bank in Poland.

Aim:

Maintain the consumer finance industry leadership at a European and local level, increasing profitability and creating value

We aim to extend and maximise captive car finance, resume growth in consumer loans, continue with efficiency leadership, and maintain diversified funding and solid capital ratios.

SCF provides financing solutions so that clients can buy goods through more than 120,000 associated points-of-sale. It also has 65 finance agreements with car and motorbike manufacturers, as well as various cooperation agreements with large retail distribution groups.

In an environment of the beginning of a recovery in consumption and car sales, SCF continued to gain market share, backed by a business model whose pillars are geographic diversification and critical mass in key products, higher efficiency than its competitors and a risk control and loan loss recovery management system common to all the markets in which it operates, which translates into a high credit quality.

- Solid results supported by growth in commercial revenues (+6.4%) and lower loan-loss provisions (-3.7%).

- The main units evolved well in profits. Of note was the growth in Poland and in the Nordics and the recovery in the euro zone periphery countries, led by Spain.

- Lending increased 9%, supported by growth in the markets of central and northern Europe, and with Spain showing signs of improvement. The cost of credit was below 1%, the NPL ratio 4.82% and the coverage ratio 100%.

The agreements materialised in 2014 strengthen SCF's position in its markets:

- The agreement with **Banque PSA Finance** (PSA Peugeot Citroën Group) will enable it to bolster leadership in auto finance in various European countries and enter the French and Swiss markets.

- SCF is the leader in auto finance and consumer credit in Spain, and strengthened its position in the latter segment after acquiring 51% of Financiera El Corte Inglés.

- In the Nordics, SCF's leadership in auto finance was joined by that in direct lending and cards after buying GE Money's business in Norway, Sweden and Denmark.

Germany

SCF is the consumer finance leader in Germany (market share of 14% in term credit). By business lines, it is the leader in financing consumer durables and second in auto finance and direct lending. It also has commercial banking businesses.

Employees
13,046

Customers (Million)
16.6

Branches
579

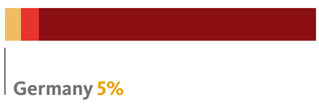
Loans[1 2]
60,448 (+9%)

Attributable profit[1]
891 (+12%)

1. Million euros
2. Change without repos

Contribution to Group profit

11%



United Kingdom

Against a backdrop of economic recovery, Santander UK is well placed to accelerate its growth, strengthen relations with customers and push its business with corporates in 2015.

Santander UK headquarters in London.

Aim:

To be the best bank for our employees, customers, shareholders and communities.

Santander UK's strategy centres on increasing the number of loyal and satisfied customers; becoming the bank of choice for UK companies and growing in the wholesale banking business; and maintaining a solid base of profitability, while continuing to invest in technology, advance in digital transformation, improve efficiency and foster the risk culture across the organisation.

Santander UK has a growing presence in current accounts, thanks to its innovative 1|2|3 World accounts, and is increasing its lending in both corporate banking and with SMEs, which currently represents 6.6% of loans to customers.

Its objective is to become a more diversified bank, capable of providing all types of service to cover the financial needs of individuals, households and companies.

2014 highlights

- Gross income grew 7.7% in local currency, largely due to the improvement in margins on mortgage interest rates and growth in loans to SMEs and mid corporates, with underlying cost efficiency well managed. Provisions fell 45.7%.
- Santander UK successfully increased the number of customers who have their main current account and hold more than one product. There was a large rise in 2014 with 1.2 million new 1|2|3 World customers, bringing the total balances in current accounts to £41,100 million (+47% versus 2013). The 1|2|3 World now has 3.6 million current account and credit card customers.
- Gross mortgages increased by 43%, to £26,260 million.
- Loans to companies increased 8%, bringing total lending to £23,900 million. This business is developed through an extensive network of corporate business centres, whose number rose from 50 to 66 in the last 12 months.
- Improving customer satisfaction is a priority for Santander UK and in 2014 significant progress was made in this sphere. Retail customer satisfaction, as calculated by the Financial Reporting Survey (FRS), improved to 59.7% from 57.3% in 2013. Improvements in corporate customer satisfaction also continued to be delivered, rising to 58% from 50% as reported in the Charterhouse UK business survey.
- Santander UK continues to be one of the banks with the most solid capital ratios in the United Kingdom (CET1 11.9%).

Employees
25,599

Customers (Million)[1]
25.7

Branches
929

Loans[2 3]
251,191 (+3%)

Attributable profit[2]
1,576 (+30%)

1. 14 million active customers
2. Million euros, change in local currency
3. Change without repos

Contribution to Group profit

19%

Brazil

Santander Brazil is the country's third largest private sector bank by assets and the leading foreign bank.

Santander headquarters in Sao Paulo.

Aim:

Be the bank of first choice for an increasingly large number of satisfied customers, providing high value-added and innovative services to individual customers and companies.

We want to develop a sustainable commercial banking business, with recurring results and centred on increasing the number of customers, as well as their confidence and satisfaction. Grow wholesale banking, corporate and financial businesses, with an efficient capital allocation among the various businesses. Gain market share, increase net recurring profit and boost Brazil's contribution to the Group's total profit.

2014 highlights

> In Brazil, the Bank has a market share of 12.4% in unrestricted loans and 7.9% in deposits.

> Results were on a positive trend during 2014, with higher profits, costs rising at below the inflation rate and a fall in non-performing loans.

> The Bank made progress in 2014 in its strategic priorities. Of note from a commercial standpoint were:

- The acquisition of GetNet, one of the largest networks in Brazil for processing electronic transactions, in order to advance in the customer attention model and improve customer satisfaction.
- In order to promote the payroll business, a joint venture was created with Banco Bonsucesso to increase the range of products and improve the distribution and marketing capacity.
- The acquisition of 50% of *Super Pagamentos*, a digital platform that sells financial products and services via pre-payment cards, was announced. This operation will help the process of increasing the penetration of banking services in Brazil.
- Channels were reformulated (attention centre, Internet, mobile banking) with a simpler, more accessible and commercial proposal.
- The Santander *Conta Conecta*, a current account for individual customers and SMEs, which offers a device that enables payments to be received with cards in smartphones and tablets, has attracted some 50,000 customers.

> A total of around 400 ideas suggested by employees via *A bank for your ideas* in the corporate intranet were implemented in 2014, and since then the number of complaints dropped by 26% and customers' perception of the quality of service improved.

> The Bank will continue to streamline its processes and make the customer experience easier. The objective is to be a benchmark in customer satisfaction, with greater engagement and profitability.

> The offer to acquire the shares of Banco Santander Brazil not owned by Grupo Santander was concluded on October 30, 2014. This offer was accepted by shareholders representing 13.65% of the Bank's share capital. As a result, Grupo Santander's stake in Banco Santander Brazil increased to 88.3%.

Employees
46,464

Customers (Million)
31.1

Branches
3,411

Loans[1,2]
74,373 (+10%)

Attributable profit[1]
1,558 (+8%)

1. Million euros, change in local currency
2. Change without repos

Contribution to Group profit
19%

Mexico

Santander is the country's third largest bank by business volume, with market shares of 13.8% in loans and 13.7% in deposits.

Santander Select branch in Mexico.

Aim:

Be the leading bank in profitability, competitiveness, technological innovation, quality of service and pride in belonging to Santander.

We want to consolidate our leadership in strategic markets, double our customer base, be the preferred bank for our customers, convert the Santander brand into the most recognised in the market, increase our participation in the key sectors of energy and infrastructure, and be the bank of technological innovation in Mexico.

2014 highlights

- Santander Mexico continues to focus on developing the high income and SME segments. In 2014, against a backdrop of lower growth in Mexico, lending rose 18% and deposits 14%, outperforming the market in its strategic businesses:

  - **Mortgages.** The strong growth of 17% consolidated the Bank as the second largest player in the country's mortgage market.

  - **SMEs**. The Bank secured its leadership in this sector with growth of 26% in lending, surpassing the market and further strengthening its position as the partner for SMEs. *Santander Advance,* the largest programme of financing and integral services for SMEs in Mexico, was launched, which will double this loan portfolio over the next three years. This plan includes a MXN 1,000 million fund for SMEs' growth projects in sectors such as telecoms, energy and renewables.

- Gross income continued to grow notably (+6.0%), with a positive evolution in the main lines of the income statement. Of note was the growth in net interest income (+7.3%) and fee income (+2.6%).

- Operating costs rose 7.2%, mainly due to the continuous investment in strategic businesses and the opening of 95 new branches. With an efficiency ratio of 41%, Santander Mexico is one of the most efficient franchises in the country.

- Loan-loss provisions remained at a similar level to 2013 despite the growth in lending in 2014. The slight fall in attributable profit was due to the higher tax charge.

- In order to increase transaction banking engagement, campaigns were carried out to improve the interest rate on loans for engaged customers. Innovative products continued to be launched such as the first credit card shared with American Express and the first agri-business credit card in Mexico.

- In order to finance investment projects in infrastructure related to the structural reforms underway in Mexico, Santander launched a $10,000 million fund that will strengthen the Bank's leadership in this sector.

- In 2014, *LatinFinance* recognised Santander Mexico as the Best Bank in infrastructure in Mexico and *Euromoney* named it the Best Bank in Mexico for the third year running.

Employees
16,933

Customers (Million)
11.7

Branches
1,347

Loans[1,2]
25,873 (+18%)

Attributable profit[1]
660 (-3%)

1. Million euros, change in local currency
2. Change without repos

Contribution to Group profit

8%

Chile

Santander Chile is the country's largest bank in terms of assets and customers.

Aim: To be the leading and most valued bank in Chile, setting the client at the centre of our raison d'etre.

Santander branch in Chile.

2014 highlights

- Santander Chile has market shares of 19.2% in lending and 17.6% in deposits.
- The Bank continued with its strategic plan to position the customer at the centre of its activity and looks to consolidate the franchise and leadership positions.
- The four main pillars are: enhance the quality of customer attention and experience; focus on commercial and retail banking; proactive and conservative management of risks; and continuously streamlining processes.
- Work continued in 2014 on the project to transform the Bank in order to grow prudently and with higher profitability; improve the relationship with customers and the quality of service; and manage risk and capital conservatively.
- Lending grew 8%, with growth in high-income clients (+16%) and companies (+8%). Deposits increased 13%. The efficiency ratio was 38.9%. There was a strong rise in profits, fuelled by growth in gross income, cost control and stable provisions.
- Santander Chile was ranked first in corporate transparency by Chile Transparente, the University for Development (UDD) and KPMG; and was named Bank of the Year by *LatinFinance*.

Employees
12,081

Customers (Million)
3.6

Branches
475

Loans[1 2]
30,550 (+8%)

Attributable profit[1]
509 (+35%)

1. Million euros, change in local currency
2. Change without repos

Contribution to Group profit
6%

Argentina

Santander Río is the country's leading private sector bank by assets and liabilities.

Aim: Be the leading private sector bank in terms of profitability and market capitalisation.

Santander Río branch in Argentina.

2014 highlights

- Santander Río has a market share of 9.2% in lending and 9.5% in deposits.
- The business strategy centres on capturing and linking customers, particularly high income ones and SMEs. The Bank has a multi-channel network which focuses on quality of service and customer satisfaction. The number of branches increased by 5% in 2014 and 9 new spaces as well as 28 *Select* corners and 135 *Select* boxes were inaugurated for high income clients. A project was also launched to transform the branch network in order to improve service and efficiency. Work was carried out too on new mobile banking functionalities and on renewing the website.
- In an environment of lower growth and greater regulation, the Bank showed a strong momentum. Lending rose 23% and savings 37%. Gross income was 34.3% higher in pesos.
- Santander Río was named the Best Bank in Argentina by *Euromoney* and the Best Online Bank by *Global Finance*.
- In the medium and long term, Santander Río will centre on enhancing its efficiency and quality of attention with new investments in technology, buildings and cost management. It will also progress in the launch of *Advance*, the Group's value offer for SMEs.

Employees
7,275

Customers (Million)
2.5

Branches
396

Loans[1 2]
5,470 (+23%)

Attributable profit[1]
298 (+33%)

1. Million euros, change in local currency
2. Change without repos

Contribution to Group profit
4%

United States

Grupo Santander does retail banking in the northeast of the country, provides consumer finance and wholesale banking services throughout the country as well as a wide range of financial services in Puerto Rico and private banking services in Miami.

Santander branch in New York City.

Aim:

To become the regional bank of choice in the northeast and enhance our position as a national leader in auto finance.

To achieve this, Santander will strive to increase the number of loyal and satisfied customers, digitalise the Bank, and generate profitable growth while re-balancing the business mix.

2014 highlights

- Santander Bank closed the year with 206,000 new *extra20 checking* accounts, representing 11% of its customer base. This account is the first in the US which pays customers $20 every month if they deposit directly at least $1,500 a month and pay online two bills every month.
- In order to improve customer satisfaction, Santander Bank installed more than 600 new ATMs and added 537 cash points without printed receipt to its branch network.
- Santander Bank launched *Santander Bravo MasterCard®* in February 2014. Cardholders benefit from promotions for each dollar they spend at service stations, supermarkets and restaurants.
- Wholesale banking continued to increase its number of clients (+14% in large corporate clients, to 387), and attract various high profile multinational clients.
- The Bank launched its *Real Change* advertising campaign in September 2014, which highlights the commitment of the Santander brand in the US to create real change that promotes progress for its clients and the communities it serves.
- The successful listing of Santander Consumer USA in January 2014 generated capital gains of €730 million for the Group. SCUSA's growth during the year (new lending +25%) was spurred above all by the agreement to provide auto finance services to Chrysler Corp.'s clients, now in its second year.
- According to the main credit rating agencies, Santander BanCorp is the only Investment Grade-rated financial institution in Puerto Rico, and it has a better credit rating than the country's sovereign debt.
- In the framework of new regulatory trends and in order to apply the best management standards, the Group began a process of transformation in the US, consolidating all its businesses under a holding (Santander Holdings USA) and strengthening governance and control structures.
- Through the Santander Universities website, Universia, Santander sponsored President Barack Obama's multinational initiative, *100,000 strong in the Americas*, created to foster the bi-directional exchange of 100,000 students between Latin America and the Caribbean, on the one hand, and the United States, on the other.

Employees
15,919

Customers (Million)
4.7

Branches
811

Loans[1,2]
67,175 (+4%)

Attributable profit[1]
800 (0%)

1. Million euros, change in local currency
2. Change without repos

Contribution to Group profit
10%

Global Wholesale Banking

Santander Global Banking & Markets (SGBM) posted an attributable profit of €1,614 million.

Treasury room, Torre Santander, Sao Paulo, Brazil.

Santander Global Banking & Markets (SGBM) is the global business unit for corporate clients and institutions that, because of their size, complexity and sophistication, require specially-tailored services or value-added wholesale products.

2014 highlights

- SGBM continued to reinforce the pillars of its business model, focused on the customer, global product capacities and interconnection with its local units, together with an optimum management of risk, capital and liquidity.
- Its results were backed by the strength and diversification of client revenues, which represent 89% of total revenues. The efficiency ratio remained at levels that are a reference for the sector (36.4%).
- Of note among SGBM's activities in 2014 was the push given to the transaction business in the UK, the US and Poland, which complements the reinforcement of the franchise of clients in all markets; the creation of the Financing Solutions & Advisory unit to provide a comprehensive solution to clients' advisory and structural funding needs; the development, together with Commercial Banking, of the offer and advisory in high value products for various client segments in all the Group's units; and the drive in custody business in Spain and Latin America through a strategic agreement with an investment group.

Main transactions

- In cash management, SGBM continued consolidating its local strength and development of regional solutions to accompany clients in their internationalisation process. Of note was the mandate for the treasury and payroll management of General Electric and its subsidiaries in Brazil.
- Strong drive in trade finance, helping clients to import and export, such as the financing for the Sao Paulo Government. Notable growth in the area of working capital solutions, with programmes such as that of the Danone Group to make annual payments to its suppliers.
- SGBM strengthened its capacities in the global capital markets sphere, leading rankings such as that of Brazilian issues in euros or that of the Housing Associations in the UK. An example of this were the euro issues of the Brazilian and Chilean Treasuries.
- SGBM is one of the leading banks in placing project bonds for Europe, Mexico and Brazil, with issues such as that of Odebrecht Offshore Drilling Finance Limited.
- In the sphere of corporate finance, it led the main operations in its core markets, such as advisory services for American Tower in its acquisition of the Brazilian BR Towers or Orange's takeover bid for Jazztel.
- Regarding corporate syndicated loans, SGBM remains the reference in Europe and Latin America.

Employees
3,152

Customers (Thousand)
57

Loans[1]
86,589 (+0%)

Attributable profit[1]
1,614 (+16%)

1. Million euros, change in constant currency

Contribution to Group profit[2]

20%

2. This figure is included in the profit contribution of each of the local units

Private Banking

Private banking includes the units that focus on providing a comprehensive and specialised service to the Group's high net worth clients.

Santander Private Banking operates in Spain, Italy, Portugal, Brazil, Mexico and Chile, through a domestic private banking model, and in the US and other countries with a specialised offer for international clients.

2014 highlights

- Assets under management rose 7% on a like-for-like basis, due to the generation of new business opportunities and the new clients attracted.
- Once the integration of Santander, Banesto and Banif in Spain was completed, Santander was consolidated as the reference bank for high net worth clients in the country.
- Cooperation with the Group's different areas such as Wholesale Banking, Corporate Banking and Commercial Banking was reinforced through projects that facilitate common work for the benefit of the client.
- *The Banker* named Santander Private Banking as the Best Private Bank in Latin America and *Euromoney* recognised the units in Chile, Portugal and Spain as the Best Private Banks.

Assets under management[1]
153,471 (+7%)

Gross income[1]
889 (+2%)

Attributable profit[1]
319 (+17%)

1. Million euros, change in constant currency, and assets under management on a like-for-like basis.

Asset Management

Santander has a wide range of savings and investment products covering different customer needs which are distributed globally via its retail networks.

This activity revolves around three business areas: Santander Asset Management (SAM), for mutual and pension funds, companies and discretional portfolios; Santander Real Estate, specialised in managing property investments; and Santander Private Equity for venture capital.

Santander Asset Management continued to develop in 2014 a global business model, supported by the local fund managers' market strength and knowledge, and by the strategic agreement with the partners Warburg Pincus and General Atlantic to drive the global business of asset management.

2014 highlights

- In 2014, new ranges of profiled *Select* funds were launched in Poland, Portugal and Brazil and the range of funds for the retail segment was completed with the Tandem profiled funds.
- The offer of investment solutions in the form of profiled funds in Spain, Portugal, Chile, Brazil, Mexico, Poland, Germany and the UK was consolidated. Uruguay is expected to be included in 2015.
- Training was stepped up in the commercial networks to strengthen knowledge of the profiled product offering and their sale tailored to the needs of each client.

Assets managed and commercialised[1]
161,788 (+17%)

Total revenues[1]
1,039 (+22%)

Attributable profit[1]
114 (+100%)

1. Million euros, change in constant currency and on a like-for-like basis

Insurance

The insurance business offers protection and savings solutions to close to 20 million clients in 20 countries, with a segmented offer and multi-channel distribution.

2014 highlights

- Insurance continued to progress in transforming business, centred on clients and their protection needs. It focused on improving the customer experience, offering protection solutions adapted to the different segments and developing an innovative multi-channel marketing model. All of this strengthens customer loyalty and engagement, and builds long-term relations of confidence.
- The insurance activity in 2014 centred on:
  - Continued development of a sustainable business model focused on excellence and quality of service.
  - Continued innovation and expansion of the range of insurance products, with a special emphasis on *Select* and *Advance*.
  - Strengthen the bancassurance business through the strategic alliances with Zurich in Brazil, Mexico, Chile, Argentina and Uruguay; with Aegon in Spain; and Aviva in Poland. An agreement was signed in 2014 with insurance company CNP to develop the insurance business of Santander Consumer Finance in Europe and cooperation with Aegon was increased and extended to Portugal.

Total revenues[1]
2,599 (+3%)

Gross income[1]
455 (+12%)

Attributable profit[1]
270 (+24%)

1. Million euros, change in constant currency

« We are beginning a new era, reinforcing our aim to become the best commercial bank in the world as we move forward with the highest international standards of corporate governance »

Ana Botín, chairman of Banco Santander
Internal communication.
25 November 2014.

3

Corporate governance report

Balanced and committed board.

- Of 15 directors, 10 are non-executive and 5 are executive.

Equality of rights of shareholders.

- Principle of one share, one vote, one dividend.
- No defensive mechanisMs in Bylaws.
- Encouragement of informed participation at meetings.

Maximum transparency, particularly as regards remuneration.

A corporate governance model recognised by socially responsible investment indices.

- Santander has been included in the FTSE4Good and DJSI indices since 2003 and 2000, respectively.

Executive summary

Changes in the composition of the board

The following changes have led to a more international and diversified board:

- On 10 September, after the death of the former chairman, Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, the Bank's board of directors resolved to appoint Ms Ana Botín-Sanz de Sautuola y O'Shea as executive chairman of the Group.

- At its meeting of 25 November, the board of directors appointed Mr José Antonio Álvarez Álvarez as chief executive officer, replacing Mr Javier Marín Romano, and also approved the following appointments:

  - Mr Bruce Carnegie-Brown, as first vice-chairman, independent director and lead director (*consejero coordinador*).

  - Mr Rodrigo Echenique Gordillo, as fourth vice-chairman.

  - Ms Sol Daurella Comadrán and Mr Carlos Fernández González, as independent directors.

- The new independent directors filled the vacancies created by the death of Mr Emilio Botín-Sanz de Sautuola y García de los Ríos as well as by the resignations of Mr Fernando de Asúa Álvarez and Mr Abel Matutes Juan.

- In 2015, at its meeting of 16 January, the board of directors approved the appointment of Mr Rodrigo Echenique Gordillo, vice-chairman of the board, as an executive director with responsibility for the duty of compliance in accordance with the regulatory recommendations on corporate governance and also assuming the other duties assigned to him by the chairman of the Bank.

Activities of the board

- The board held 16 meetings during 2014. In addition to the report made by the chairman at each ordinary meeting, at 9 meetings, the chief executive officer submitted management reports to the board, and the second vice-chairman and chairman of the executive risk committee reported on Group risks. The board has already held one meeting on the global strategy of the Group in 2015.

- The Group's external auditors and heads of internal audit participated in 11 of the 13 meetings held by the audit committee and reported to the board on 2 occasions during 2014.

Increase in capital and new dividend policy

- In January 2015, a capital increase of 7,500 million euros, approximately 8.8% of the Bank's capital after the increase, was carried out by means of accelerated bookbuilding.

- The dividend policy of the Bank has also been redirected, effective from the first dividend to be paid for financial year 2015, resulting in the expected distribution of three cash dividends and a scrip dividend (*Santander Scrip Dividend*), in an estimated amount of five cents per share for each of them.

  There is a compensation of 0.60 euros per share by means of scrip dividends with a charge to financial year 2014, in accordance with the announcement at the general shareholders' meeting of 28 March 2014.

Remuneration of directors

- The total remuneration of directors for 2014 is 8.9% more than 2013.

Bylaw-mandated payments

- The total amount paid by the board in bylaw-mandated payments amounted to 4.4 million euros in 2014, which is 27.2% less than the maximum amount approved at the general shareholders' meeting.

Remuneration of executive directors

- At the general shareholders' meeting in 2014 it was resolved to amend the Bylaws to adjust the remuneration rules for the executive directors to the provisions of Royal Decree-Law 14/2013 (today Law 10/2014) and of CRD IV, such that the variable components of their remuneration may not exceed 100% of the fixed components, unless a higher ratio is approved at the general shareholders' meeting, which ratio shall in no case exceed 200%.

- One of the main new elements of the 2014 director remuneration policy included a long-term share incentive based on the performance of the Bank over a multi-year period, in order to increase the alignment of variable remuneration with the creation of long-term value for the shareholders.

Appointment of new chairmen at subsidiaries in the United Kingdom, in Brazil and in the United States

- During December 2014, the appointments were announced of Baroness Vadera, who will be the new non-executive chairman of Santander UK from 30 March 2015, replacing Lord Burns, and of Mr T. Timothy Ryan, Jr., a former vice chairman of JP Morgan Chase, who has been appointed non-executive chairman of the boards of directors of Santander Holdings USA (SHUSA) and of Santander Bank.

- The appointment of Mr Sérgio Rial as chairman of the board of Santander Brazil was announced in January 2015. Mr Rial has held executive positions in ABN-AMRO (CEO for the Asia region), Bear Stearns, Marfrig (CEO) and Cargill (executive vice president and CFO) among others.

Financial information periodically published by the Bank

- The board approved the quarterly financial information, the annual accounts and the management report for 2014, in addition to other documents such as the annual report, the sustainability report, prudential information (Pillar III), the annual corporate governance report, the reports of the committees of the board and the annual director remuneration report.

1. Ownership structure

Number of shares and significant interests

Number of shares

In 2014, the Bank carried out five capital increases, effective 30 January, 29 April, 30 July, 4 November and 5 November, with the issuance of 227,646,659, 217,013,477, 210,010,506, 210,010,506 and 225,386,463 new shares, representing 2.009%, 1.915%, 1.853%, 3.273% and 1.989%, respectively, of the Bank's share capital at year-end 2013. The first three and the last were within the framework of the *Santander Scrip Dividend* programme, and the fourth resulted from the offer made for the shares of Banco Santander (Brasil) S.A. not owned by Santander Group. All this entailed a total increase in share capital equal to 11.038% in comparison with share capital at year-end 2013.

	Nº of shares	% of share capital *
30 January	227,646,659	2.009%
29 April	217,013,477	1.915%
30 July	210,010,506	1.853%
4 November	370,937,066	3.273%
5 November	225,386,463	1.989%
Total	**1,250,994,171**	**11.038%**

* Share capital at year-end 2013.

The Bank's share capital at 31 December 2014 was represented by 12,584,414,659 shares, whose value per the listing price on the Electronic Trading System (*Sistema de Interconexión Bursátil*) (continuous market) of the Spanish stock exchanges at such date was 88,040.6 million euros.

All shares carry the same economic, voting and related rights.

Significant interests

No shareholder held significant interests (of more than 3% of the share capital[1] or interests that would permit a significant influence on the Bank) at 31 December 2014.

The interests held by: State Street Bank and Trust Company (11.43%); Chase Nominees Limited (5.78%); The Bank of New York Mellon Corporation (4.80%); EC Nominees Limited (4.35%); Guaranty Nominees Limited (4.21%); and Clearstream Banking S.A. (3.47%), which were the only ones in excess of 3%, were held by them on behalf of their customers. The Bank is not aware of any of them holding individual stakes of 3% or more of its share capital.

1. Limit set by Royal Decree 1362/2007, of 19 October, for defining the concept of significant interest..

Bearing in mind the current number of members of the board of directors (15), the percentage of capital needed to exercise the right to appoint a director, in accordance with article 243 of the Spanish Companies Act (*Ley de Sociedades de Capital*) on proportional representation, is 6.67%.

Shareholders' agreements and other significant agreements

Section A.6 of the annual corporate governance report, which forms part of the management report, contains a description of the private shareholders' agreement (*pacto parasocial*) executed in February 2006 by Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea, Mr Emilio Botín-Sanz de Sautuola y O'Shea, Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea, Simancas, S.A., Puente San Miguel, S.A., Puentepumar, S.L., Latimer Inversiones, S.L. and Cronje, S.L. Unipersonal, providing for the syndication of the shares of the Bank held by them or in respect of which they have voting rights. Such agreement was also reported to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) (CNMV) as a significant event (*hecho relevante*) and is described in the public records thereof.

On 3 August and 19 November 2012, Banco Santander reported to the CNMV as material facts that it had been formally notified of amendments to this shareholders' agreement with regard to the signatories thereto.

On 17 October 2013, the Bank also reported to the CNMV as a material fact an update of the holders and of the distribution of shares included in the syndication, as a consequence of a business reorganisation carried out by one of the parties to the agreement.

On 3 October 2014, Banco Santander reported to the CNMV as a material fact a new update of the holders and of the distribution of shares included in the syndication, as well as the change of the chairmanship of the syndicate, which is vested in Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea, current chairman of the board of trustees of the Botín Foundation, completing such information by a material fact notification on 6 February 2015.

Shares included in the syndication

At the date of this document, the syndication included a total of 73,732,624 shares of the Bank (0.6% of its share capital), broken down as follows:

Signatories to the shareholders' agreement	Number of shares
Estate *(herencia yacente)* of Mr Emilio Botín-Sanz de Sautuola y Garcia de los Ríos	552,426
Ms Ana Patricia Botín-Sanz de Sautuola O'Shea[1]	8,079,986
Mr Emilio Botín-Sanz de Sautuola O'Shea[2]	16,873,709
Mr Francisco Javier Botín-Sanz de Sautuola O'Shea[3]	16,288,313
Ms Paloma Botín-Sanz de Sautuola O'Shea[4]	7,835,293
Ms Carmen Botín-Sanz de Sautuola O'Shea	8,636,449
PUENTEPUMAR, S.L.	—
LATIMER INVERSIONES, S.L.[5]	553,508
CRONJE, S.L., Unipersonal	9,337,661
NUEVA AZIL, S.L.	5,575,279
TOTAL	**73,732,624**

1. 7,996,625 shares of Banco Santander, S.A. indirectly through Bafimar, S.L.
2. 7,800,332 shares of Banco Santander, S.A. indirectly through Puente San Miguel, S.L.U.
3. 4,652,747 shares of Banco Santander, S.A. indirectly through Inversiones Zulú, S.L. and 6,794,391 shares through Agropecuaria El Castaño, S.L.U.
4. 6,628,291 shares of Banco Santander, S.A. indirectly through Bright Sky 2012, S.L.
5. Bare ownership of 553,508 shares corresponds to the Botín Foundation, but voting rights are assigned to Latimer Inversiones, S.L. as beneficial owner thereof.

In all other respects the aforementioned shareholders' agreement remains unchanged.

The aforementioned material facts may be viewed on the Group's corporate website (www.santander.com).

Treasury shares

Treasury share policy

The sale and purchase of own shares, by the Company or by companies controlled thereby, must conform to the provisions of applicable law and the resolutions of the shareholders in this regard.

The Bank, by resolution of the board of directors on 23 October 2014 approved a new treasury stock policy[2] taking into account the criteria recommended by the CNMV.

Treasury share transactions have the following objectives:

a) To provide liquidity or a supply of securities, as applicable, in the market for the shares of the Bank, giving depth to such market and minimising possible temporary imbalances between supply and demand.

b) To benefit shareholders as a whole, to take advantage of situations of weakness in the price of the shares in relation to prospects of changes in the medium-term.

They shall be subject to the following general guidelines:

- They shall not entail proposed intervention in the free formation of prices.
- Trading may not take place if the unit entrusted with such transaction is in possession of insider or relevant information.
- Where applicable, the execution of buy-back programmes and the acquisition of shares to cover obligations of the Bank or the Group shall be permitted.

Treasury stock transactions shall be carried out by the Investments and Holdings Department, which is isolated as a separate area from the rest of the Bank's activities and protected by the respective chinese walls, preventing it from receiving any insider or relevant information. The head of such department is responsible for the management of treasury stock.

2. The treasury share policy is published on the Group's corporate website (www.santander.com).

Key data
At 31 December 2014, the Bank held 1,465,371 treasury shares, representing 0.012% of its share capital at such date (at year-end 2013, there were 1,425,239 treasury shares, representing 0.013% of the Bank's share capital at such date).

The following table sets out the monthly average percentages of treasury shares in 2014 and 2013.

Monthly average percentages of treasury shares[1]
% of the Bank's social capital[2]

	2014	2013
January	0.154	0.441
February	0.232	1.264
March	0.241	0.792
April	0.136	0.794
May	0.260	1.061
June	0.297	0.752
July	0.284	0.209
August	0.414	0.497
September	0.337	0.482
October	0.156	0.171
November	0.258	0.431
December	0.141	0.393

1. Further information in this regard is included in section A.8 of the annual corporate governance report, which forms part of the management report, and in the capital and treasury stock section of this latter report.
2. Monthly average of daily positions of treasury stock.

The transactions in own shares carried out by companies forming part of the consolidated Group in the interest thereof during financial year 2014 entailed the acquisition of 487,590,901 shares, equal to a nominal amount of 243.8 million euros (actual amount of 3,442.0 million euros), and the sale of 487,550,769 shares, in the nominal amount of 243.8 million euros (actual amount of 3,498.5 million euros).

The average purchase price of shares of the Bank in financial year 2014 was 7.06 euros per share, and the average sale price of shares of the Bank was 7.18 euros per share.

The effect on equity (net of taxes) generated by transactions carried out during the financial year with shares issued by the Bank was equal to a profit of 40 million euros, which was recorded in the Group's equity section under *Shareholders' equity–Reserves*.

Authorisation
The current authorisation for transactions in treasury shares arises from resolution 5 adopted by the shareholders acting at the general shareholders' meeting held on 28 March 2014, item II) of which reads as follows:

"To grant express authorisation for the Bank and the subsidiaries belonging to the Group to acquire shares representing the share capital of the Bank for valuable consideration in any manner permitted by law, within the limits of the law and subject to all legal requirements, up to a maximum number of shares –including the shares they already hold– equal to 10% of the share capital existing at any given time or such greater maximum percentage as is established by the law while this authorisation is in effect. Such shares shall be fully paid-in at a minimum price per share equal to the par value thereof and a maximum price of up to 3% over the last listing price for transactions in which the Bank does not act on its own behalf on the Continuous Market of the Spanish stock exchanges (including the block market) prior to the acquisition in question. This authorisation may only be exercised within five years of the date of the general shareholders' meeting. The authorisation includes the acquisition of shares, if any, that must be delivered directly to the employees and managers of the Company, or that must be delivered as a result of the exercise of the options held by them".

Resolutions in effect regarding the possible issuance of new shares or of bonds convertible into shares

The capital authorised by the shareholders acting at the annual general meeting held on 28 March 2014, under item 9 of the agenda, amounts to 2,890,266,786.50 euros. The period available to the directors of the Bank to carry out and make capital increases up to such limit expires on 28 March 2017. The resolution gives the board (or, by delegation, the executive committee) the power to exclude pre-emptive rights in whole or in part, pursuant to the provisions of section 506 of the Companies Act, though this power is limited to capital increases carried out pursuant to this delegation up to 1,156,106,714.50 euros.

In addition, the shareholders acting at the annual general meeting held on 28 March 2014 approved the following resolutions in connection with the content of this section:

1. Four increases in share capital with a charge to reserves in the maximum amounts of 1,875 million, 1,950 million, 2,025 million and 2,100 million euros at market value, respectively, within the shareholder compensation scheme (*Santander Scrip Dividend*) whereby the Bank has offered shareholders the possibility of receiving shares under a scrip issue for an amount equal to the dividends on the quarterly dates on which they are customarily paid.

   For such purposes, at 31 December 2014, the first three aforementioned increases in capital had been implemented, taking place on 29 April, 30 July and 5 November 2014. A number of shares having a nominal value of 0.5 euro each were issued in each case, equal to 108,506,738.50 euros, 105,005,253 euros and 112,693,231.50 euros, respectively, which corresponds to a total of 5.184% of the Bank's share capital at year-end 2014.

   The fourth increase in capital was implemented 29 January 2015. A number of shares having a nominal value of 0.5 euro each were issued, representing 131,289,496.50 euros, which corresponds to 1.903% of share capital at such date.

2. Delegation to the board of directors, in accordance with the general rules on issuance of obligations and pursuant to the provisions of article 319 of the Regulations of the Commercial Register (*Reglamento del Registro Mercantil*), of the power to issue, on one or more occasions, debentures, bonds, preferred shares and other fixed-income securities or debt instruments of a similar nature in any of the forms allowed by law and convertible into and/or exchangeable for shares of the Bank (resolution Eleven A) of the general shareholders' meeting of 28 March 2014). Such delegation also includes warrants or similar securities that may directly or indirectly carry the right to subscribe for or acquire shares of the Bank, whether newly-issued or already outstanding, payable by physical delivery or through set-off. The issuance or issuances of securities carried out pursuant to this delegation come to the aggregate maximum amount of 10,000 million euros or the equivalent thereof in another currency, and the period available to the directors of the Bank within which to implement this resolution expires on 28 March 2019.

   At the date of this document, pursuant to this delegation, two issuances of preferred shares convertible into newly issued ordinary shares of the Bank, excluding pre-emptive rights of shareholders, were carried out in May and September 2014, respectively, the former in the nominal amount of 1,500 million dollars (1,077,044,589.65 euros at the exchange rate of 1.3927 US dollars per euro) and the latter for 1,500 million euros. The issuance of these contingently convertible securities involves the approval of corresponding increases in capital, if applicable, to provide for the conversion of the preferred shares. Consequently, the two aforementioned issuances mean that of the authorised capital mentioned at the beginning of this section, 264,009,622 euros has been used for those purposes with respect to the two described authorised capital limits.

   On 5 March 2014, pursuant to the delegation implemented by the board of directors under resolution Twelve A. II) of the general shareholders' meeting held on 22 March 2013 (which was later rescinded under the aforementioned resolution Eleven A) of the general shareholders' meeting of 28 March 2014), an issuance of preferred shares contingently convertible into newly issued ordinary shares of the Bank was carried out, excluding pre-emptive rights of shareholders, in the nominal amount of 1,500 million euros.

3. Delegation to the board of directors, pursuant to the provisions of section 297.1.a) of the Companies Act, of the broadest powers such that, within one year of the date on which the aforementioned shareholders' meeting is held, it may set the date and the terms and conditions, as to all matters not provided for by the shareholders themselves, of an increase in capital in the amount of 500 million euros. If the board does not exercise the powers delegated thereto within the period established by the shareholders for implementation of this resolution, such powers shall be rescinded.

With relation to the takeover bid offer for all the securities representing the share capital of Banco Santander Brasil that were not held by the Santander Group, the shareholders of the Bank acting at the extraordinary general shareholders' meeting on 15 September 2014 approved six increases in share capital in the amount necessary to be able to acquire all such securities of Banco Santander Brasil, delivering new shares of the Bank as consideration.

After the initial period for acceptance of the offer, the holders of 13.65% of the securities representing the share capital of Banco Santander Brasil accepted the offer. As the percentage of acceptance was lower than the limit that would have permitted the holders of securities representing the share capital of Banco Santander Brasil who did not accept the offer to request that the Bank purchase their shares during the three following months at the same exchange ratio in accordance with the provisions in the terms of the offer, it was only necessary to implement the first of the aforementioned six increases in share capital.

On 4 November, Banco Santander, S.A., in implementation of the aforementioned resolution of the general shareholders' meeting, issued 370,937,066 shares, which represented approximately 3.09% of the Bank's share capital at such date.

Finally, in financial year 2015, on 8 January the board of directors approved an increase in share capital with the exclusion of pre-emptive rights pursuant to the delegation contained in resolution Nine of the general shareholders' meeting of 28 March 2014 and described at the beginning of this section. After an accelerated bookbuilding among qualified investors, on 9 January 2015 the executive committee declared the capital increase closed in the total nominal amount of 606,796,117 euros, which represents 9.64% of the Bank's share capital at such date.

After such capital increase, the available authorised capital amounts to 1,996,946,432 euros with respect to the capacity of the board of directors (or, replacing them, the executive committee) to approve increases in capital and to 262,786,360 euros with respect to the power to approve increases in capital with the exclusion of pre-emptive rights.

2. Banco Santander's board of directors[3]

Ms Ana Botín-Sanz de Sautuola y O'Shea

›Chairman
Executive director

Born in 1960 in Santander (Spain).

Joined the board in 1989.

Graduate in Economics.

Joined the Bank after a period at JP Morgan (1980-1988). She has been executive vice president of Banco Santander, S.A. since 1992, was executive chairwoman of Banesto from 2002 to 2010, and chief executive officer of Santander UK from 2010 to 2014.

Other significant positions: she is a non-executive director of The Coca-Cola Company. She is also Business Ambassador of the government of the United Kingdom.

Committees of the board of which she is a member
Executive (chairman), international (chairman) and innovation and technology (chairman).

Mr José Antonio Álvarez Álvarez

›Chief executive officer
Executive director

Born in 1960 in León (Spain).

Appointed director on an interim basis at the board meeting of 25 November 2014.

M.A. degree in Economics and Business Administration. MBA at the Chicago University.

Joined the Bank in 2002 and was appointed executive vice president of the financial management and investor relations division in 2004 (chief financial officer).

Other significant positions: He is a member of the board of Banco Santander (Brasil), S.A. and SAM Investments Holdings Limited. Has also served as a director of Santander Consumer Finance, S.A. and a member of the supervisory boards of Santander Consumer AG, Santander Consumer Holding GMBH, Santander Holdings USA, Inc. and Bank Zachodni WBK, as well as a director of Bolsas y Mercados Españoles (BME).

Committees of the board of which he is a member
Executive, executive risk, international and innovation and technology.

Mr Bruce Carnegie-Brown

›First vice-chairman
Non-executive (independent) director and lead independent director

Born in 1959 in Freetown (Sierra Leone).

Appointed director on an interim basis at the board meeting of 25 November 2014.

M. A. degree in English Language and Literature.

Other significant positions: He is currently non-executive chairman of Moneysupermarket.com Group Plc and Aon UK Ltd and a non-executive director of Santander UK Plc. He was previously founder and managing partner of the quoted private equity division of 3i Group plc, president and CEO of Marsh Europe and has held various positions at JP Morgan Chase and Bank of America. He was also lead independent director at Close Brothers Group plc (2008-2014) and Catlin Group Ltd (2010-2014)

Committees of the board of which he is a member
Executive, appointments (chairman), remuneration (chairman), risk supervision, regulation and compliance (chairman) and innovation and technology.

Mr Matías Rodríguez Inciarte

›Second vice-chairman
Executive director

Born in 1948 in Oviedo (Spain).

Joined the board in 1988.

Graduate in Economics, and Government Economist. He also carried out Business Administration studies at the MIT.

Other significant positions: minister of the Presidency between 1981 and 1982, as well as technical general secretary of the Ministry of Finance, general secretary of the Ministry for European Community Relations and deputy secretary of state to the President. He is currently chairman of the Fundación Princesa de Asturias and of the social council of the Universidad Carlos III de Madrid, as well as an external director of Sanitas, S.A. de Seguros and of Financiera Ponferrada, S.A., SICAV.

Committees of the board of which he is a member
Executive, executive risk (chairman) and innovation and technology.

3. Unless otherwise specified, the main activity of the members of the board is that carried out at the Bank in their capacity as directors, whether executive or non-executive.

Mr Guillermo de la Dehesa Romero

›Third vice-chairman
Non-executive (independent) director

Born in 1941 in Madrid (Spain).

Joined the board in 2002.

Government Economist and head of office of Banco de España (on leave of absence).

Main activity:
international advisor to Goldman Sachs International.

Other significant positions:
former state secretary of Economy, secretary general for Trade, chief executive officer of Banco Pastor, S.A. He is presently the non-executive vice-chairman of Amadeus IT Holding, S.A., chairman of the Centre for Economic Policy Research (CEPR) based in London, a member of the Group of Thirty based in Washington, chairman of the board of trustees of IE Business School and non-executive chairman of Aviva Grupo Corporativo, S.L. and of Aviva Vida y Pensiones, S.A. de Seguros y Reaseguros.

Committees of the board of which he is a member
Executive, audit (chairman), appointments, remuneration, risk supervision, regulation and compliance, international and innovation and technology.

Mr Rodrigo Echenique Gordillo

›Fourth vice-chairman
Executive director

Born in 1946 in Madrid (Spain).

Joined the board in 1988.

Graduate in Law and Government Attorney.

Other significant positions:
former chief executive officer of Banco Santander, S.A. (1988-1994). He is also currently non-executive director of Inditex, S.A. Has served on the board of directors of several industrial and financial companies such as Ebro Azúcares y Alcoholes, S.A. and Industrias Agrícolas, S.A. He was also a member and subsequently chairman of the advisory board of Accenture, S.A. He is also non-executive chairman of NH Hotels Group, S.A. and has been non executive chairman of Vocento, S.A. and Vallehermoso, S.A.

Committees of the board of which he is a member
Executive, executive risk, international and innovation and technology.

Ms Sheila C. Bair

Non-executive director (independent)

Born in 1954 in Wichita, Kansas (USA).

Joined the board in 2014.

JD from the University of Kansas School of Law and BA from the University of Kansas.

Main activity:
Senior advisor to and chair of the Systemic Risk Council at The Pew Charitable Trusts and columnist for Fortune magazine.

Other significant positions:
She was chairman of the Federal Deposit Insurance Corporation (2006-2011), professor of Financial Regulatory Policy for the Isenberg School of Management at the University of Massachusetts-Amherst (2002-2006) and Assistant Secretary for Financial Institutions at the US Department of the Treasury (2001-2002). She is also a non-executive director of Thomson Reuters Corporation and Host Hotels & Resorts Inc. In addition, she is a founding board member of The Volcker Alliance.

Committees of the board of which she is a member
Risk supervision, regulation and compliance.

Mr Javier Botín-Sanz de Sautuola y O'Shea

Non-executive (proprietary) director

Born in 1973 in Santander (Spain).

Joined the board in 2004.

Graduate in Law.

Main activity:
chairman and chief executive officer of JB Capital Markets, Sociedad de Valores, S.A.

Other significant positions:
In addition to his professional activity in the financial sector, he cooperates with several non-profit making organisations. Chairman since 2014 of the Botín Foundation and trustee of th Princess of Gerona Foundation and of the Prehistoric Research Institute of Cantabria.

Ms Sol Daurella Comadrán

Non-executive (independent) director

Born in 1966 in Barcelona (Spain).

Appointed director on an interim basis at the board meeting of 25 November 2014.

Graduate in Business and MBA in Business Administration.

Main activity:
Executive chairwoman of Coca-Cola Iberian Partners, S.A.

Other significant positions:
She is currently a non-executive director of Acciona, S.A.
Has served as a member of the governing board of the Círculo de Economía and an independent external director of Banco Sabadell, S.A. She is also Honorary Consul-General for Iceland in Catalonia.

Committees of the board of which he is a member
Appointments and remuneration.

Mr Carlos Fernández González

Non-executive (independent) director

Born in 1966 in Mexico City, (Mexico).

Appointed director on an interim basis at the board meeting of 25 November 2014.

An **Industrial Engineer**, he has undertaken graduate studies in business administration at the Instituto Panamericano de Alta Dirección de Empresas.

Main activity:
He is the chairman of the board of directors and vice president of Finaccess, S.A.P.I.

Other significant positions:
He is currently a member of the board of Grupo Financiero Santander, S.A.B. de C.V. and of Grupo Modelo.

Committees of the board of which he is a member
Audit, appointments and risk supervision, regulation and compliance.

Ms Esther Giménez-Salinas i Colomer

Non-executive (independent) director

Born in 1949 in Barcelona (Spain).

Joined the board in 2012.

Doctor of Laws.

Main activity:
full professor of Criminal Law at ESADE-URL Law School.

Other significant positions:
she has been a Rector of the Ramon Llull University, a member of the Spanish Supreme Judicial Council, a member of the Standing Committee of the Conference of Rectors of Spanish Universities and an executive vice president of the Centre for Legal Studies of the Department of Justice of the Generalitat de Catalunya.

Committees of the board of which she is a member
International and innovation and technology.

Mr Ángel Jado Becerro de Bengoa

Non-executive (independent) director

Born in 1945 in Santander (Spain).

Joined the board in 2010.

Graduate in Law and in Business Administration.

Other significant positions:
he was director of Banco Santander from 1972 to 1999 and director of Banco Banif, S.A. from 2001 to 2013. Currently, he holds various positions in investment trusts.

Committees of the board of which he is a member
Executive risk, audit, appointments, remuneration and risk supervision, regulation and compliance.

Mr Juan Rodríguez Inciarte

Executive director and executive vice president

Born in 1952 in Oviedo (Spain).

Joined the board in 2008.

Graduate in Economics.

Other significant positions: he is director of Santander UK plc, Santander Consumer Finance, S.A. and SAM Investment Holdings Limited. Was formerly a member of the board of directors of The Royal Bank of Scotland and NatWest Bank, director and member of the executive committee of Instituto Bancario San Paolo di Torino and director of First Union (now Wells Fargo & Company). Has likewise served on the board of NIBC Bank NV, Sovereign Bancorp (now Santander Bank N.A.), CEPSA and ABN AMRO, among others.

Committees of the board of which he is a member

Executive risk.

Ms Isabel Tocino Biscarolasaga

Non-executive (independent) director

Born in 1949 in Santander (Spain).

Joined the board in 2007.

Doctor in Law. She has undertaken graduate studies in business administration at IESE and the Harvard Business School.

Main activity: full professor at Universidad Complutense de Madrid.

Other significant positions: she has formerly been Spanish Minister for the Environment, chairwoman of the European Affairs Committee and of the Foreign Affairs Committee of the Spanish Congress and chairwoman for Spain and Portugal and vice-chairwoman for Europe of Siebel Systems. She is currently an elected member of the Spanish State Council, a member of the Royal Academy of Doctors and a non-executive director of ENCE Energía y Celulosa, S.A. and Enagas, S.A.

Committees of the board of which she is a member

Executive, executive risk, audit, remuneration and risk supervision, regulation and compliance.

Mr Juan Miguel Villar Mir

Non-executive (independent) director

Born in 1931 in Madrid (Spain).

Joined the board in 2013.

Doctorate in Civil Engineering, graduate in Law and degree in Industrial Organisation.

Main activity: he is the chairman of Grupo OHL and of Grupo Villar Mir, and represents these entities as vice-chairman of Abertis Infraestructuras, S.A. and Inmobiliaria Colonial, S.A., respectively.

Other significant positions: he was minister of Finance and government vice-chairman for Economic Affairs between 1975 and 1976. He has been chairman of Electra de Viesgo, Altos Hornos de Vizcaya, Hidro Nitro Española, Empresa Nacional de Celulosa, Empresa Nacional Carbonífera del Sur, Cementos del Cinca y Cementos Portland Aragón and Puerto Sotogrande. He is also currently a member of the Royal Academy of Engineering.

Committees of the board of which he is a member

Audit and risk supervision, regulation and compliance.

Mr Ignacio Benjumea Cabeza de Vaca

General secretary and secretary of the board

Born in 1952 in Madrid (Spain).

Joined the Group in 1987.

Graduate in Law at the Deusto University, ICADE-E3, and Government Attorney.

Other important positions: Vice Chairman of the Fundación de Estudios Financieros. He was Technical General Secretary of the Ministry of Labour and Social Security, general secretary of Banco de Crédito Industrial, general secretary and executive vice president of Banco Santander de Negocios and director of Dragados, S.A., Bolsas y Mercados Españoles (BME) and of the Governing Body of the Madrid Stock Exchange.

Secretary of committees of the board

Executive, executive risk, audit, appointments, remuneration, risk supervision, regulation and compliance, international and innovation and technology.

Re-election of directors at the 2015 annual general shareholders' meeting

Pursuant to article 55 of the Bylaws* and article 22 of the Rules and Regulations of the Board*, directors are appointed to three-year terms, such that one-third of the board is renewed each year.

The following directors will be proposed for re-election at the 2014 annual general shareholders' meeting, scheduled for 26 or 27 March on first and second call, respectively, and following the order determined by seniority for annual renewal and for renewal of one-third of the board as established by article 55 of the Bylaws: Mr Juan Rodríguez Inciarte, Mr Matías Rodríguez Inciarte, Mr Juan Miguel Villar Mir and Mr Guillermo de la Dehesa Romero, the first two as executive directors, the third as non-executive (independent) director, and the last as non-executive (neither proprietary nor independent) director.

* The Bylaws and the Rules and Regulations of the Board of Banco Santander are published on the Group's website (www.santander.com).

The general shareholders' meeting will also be asked to ratify the appointments of Mr Carlos Fernández González (also re-electing him for a three-year term), Ms Sol Daurella Comadrán, Mr Bruce Carnegie-Brown and Mr José Antonio Álvarez Álvarez, the first three as independent directors and the last as an executive director. Their professional profiles, together with a description of their activities, appear on the preceding pages.

The re-elections will be submitted separately to a vote of the shareholders at the general shareholders' meeting (article 21.2 of the rules and regulations for the general shareholders' meeting). In view of the fact that this election practice has been followed since the 2005 annual general shareholders' meeting, the election of all of the current directors has been submitted to a separate vote of the shareholders.

Powers and duties

The basic responsibility of the board of directors is to supervise the Group, delegating the day-to-day management thereof to the appropriate executive bodies and the various management teams.

Composition and structure of the board of directors[1]

Board of Directors		Executive	Non-executive	1. Executive committee	2. Executive risk committee	3. Audit committee	4. Appointments committee	5. Remuneration committee	6. Risk supervision, regulation and compliance committee	7. International committee	8. Innovation and technology
Chairman	Ms Ana Botín-Sanz de Sautuola y O'Shea	■		C						C	C
Chief executive officer	Mr José Antonio Álvarez Álvarez[2]	■		■	■					■	■
First vice-chairman	Mr Bruce Carnegie-Brown[2]		I	■			C	C	C		■
Second vice-chairman	Mr Matías Rodríguez Inciarte	■		■	C						■
Third vice-chairman	Mr Guillermo de la Dehesa Romero[3]		I	■		C	■	■	■	■	■
Fourth vice-chairman	Mr Rodrigo Echenique Gordillo	■		■	■					■	■
Members	Ms Sheila C. Bair		I						■		
	Mr Javier Botín-Sanz de Sautuola y O'Shea		P								
	Ms Sol Daurella Comadrán[2]		I				■	■			
	Mr Carlos Fernández González[2]		I			■	■		■		
	Ms Esther Giménez-Salinas i Colomer		I							■	■
	Mr Ángel Jado Becerro de Bengoa		I		■	■	■	■	■		
	Mr Juan Rodríguez Inciarte	■			■						
	Ms Isabel Tocino Biscarolasaga		I	■	■	■		■	■		
	Mr Juan Miguel Villar Mir		I			■			■		
General secretary and secretary of the board	Mr Ignacio Benjumea Cabeza de Vaca			■	■	■	■	■	■	■	■

1. Data as at 23 February 2015.
2. Their appointment will be submitted for ratification at the general shareholders' meeting scheduled for 26 or 27 March 2015, on first or second call.
3. The re-election of Mr Guillermo de la Dehesa Romero as a director is expected at the annual general shareholders' meeting in 2014, from which moment of his re-election he will be considered a non-executive but not independent director, having held the position of director for more than 12 years.

The Rules and Regulations of the Board (article 3) reserve thereto the power to approve general policies and strategies and, in particular, strategic plans, management objectives and the annual budget, corporate governance, corporate social responsibility and dividend and treasury share policies, the general risk policy, and the policies for the provision of information to and for communication with the shareholders, the markets and the public opinion, which power cannot be delegated.

The board also reserves for itself, and likewise cannot delegate, the following matters, among others: decisions regarding the acquisition and disposition of substantial assets (except when the decisions come within the purview of the shareholders at a general shareholders' meeting) and major corporate transactions; the determination of the remuneration of each director and the approval of the contracts governing the performance by the directors of duties other than those of a director, including executive duties, as well as the remuneration to which they are entitled for the discharge thereof; the selection, the interim appointment and the on-going evaluation of the directors, the selection, appointment and, if appropriate, removal of the other members of senior management (executive vice presidents and equivalents) and the monitoring of management activity and on-going evaluation thereof, as well as the determination of the basic terMs of their contracts, as well as the creation or acquisition of interests in special purpose entities or in entities registered in countries or territories regarded as tax havens. With respect to certain of the matters mentioned in this paragraph, the executive committee may make any appropriate decisions, by delegation of the board and whenever justified by reasons of urgency, reporting such decisions to the board at the first subsequent meeting held thereby.

The Bylaws (article 40) as well as the aforementioned Rules and Regulations (article 5) establish the board's obligation to ensure that the Bank faithfully complies with applicable law, observes usage and good practices of the industries or countries where it does business and abides by the additional social responsibility principles that it has voluntarily accepted.

In addition, the board of the Bank takes a very active interest in the Group's risk function. Of its 15 members, 12 are members of at least one of the three board committees with powers in the area of risks: the executive committee, the executive risk committee and the risk supervision, regulation and compliance committee.

Shareholding

Direct	Indirect	Shares represented	**Total**	% of share capital	Date of first appointment	Date of last appointment	Expiration date[8]	Date of last proposal of the appointments and remuneration committees
110,464	17,334,286	-	17,444,750	0.124%	04.02.1989	28.03.2014	First six months of 2017	17.02.2014
425,458	-	1,240	426,698	0.003%	25.11.2014[4]	25.11.2014	First six months of 2018	25.11.2014
2	-	-	2	0.000%	25.11.2014[5]	25.11.2014	First six months of 2018	21.11.2014
1,385,728	120,966	181,935	1,688,629	0.012%	07.10.1988	30.03.2012	First six months of 2015	17.02.2012
139	-	-	139	0.000%	24.06.2002	22.03.2013	First six months of 2016	17.02.2014
658,758	13,594	-	672,352	0.005%	07.10.1988	28.03.2014	First six months of 2017	13.02.2013
1	-	-	1	0.000%	27.01.2014	27.01.2014	First six months of 2017	23.01.2014
4,793,481	-	128,348,014	133,141,495	0.947%	25.07.2004	22.03.2013	First six months of 2016	13.02.2013
920	270,370	-	271,290	0.002%	25.11.2014[6]	25.11.2014	First six months of 2018	21.11.2014
15,434,451	-	-	15,434,451	0.110%	25.11.2014[5]	25.11.2014	First six months of 2018	21.11.2014
5,181	-	-	5,181	0.000%	30.03.2012	28.03.2014	First six months of 2017	17.02.2014
2,050,000	5,100,000	-	7,50,000	0.051%	11.06.2010	22.03.2013	First six months of 2016	13.02.2013
1,673,175	-	-	1,673,175	0.012%	28.01.2008	30.03.2012	First six months of 2015	17.02.2012
166,888	-	-	166,888	0.001%	26.03.2007	22.03.2013	First six months of 2016	13.02.2013
1,176	-	-	1,176	0.000%	07.05.2013	28.03.2014	First six months of 2017	17.02.2014
26,705,822	**22,839,216**	**128,531,189**	**178,076,227**	**1.266%**				**Total**

4. Effective 13 January 2015.

5. Effective 12 February 2015.

6. Effective 18 February 2015.

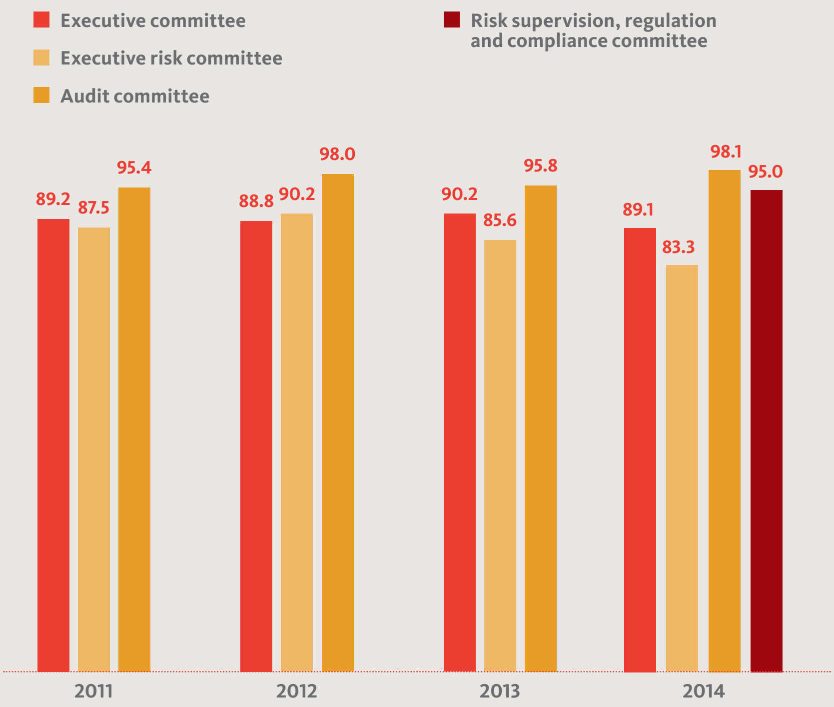
7. However, and pursuant to the provisions of article 55 of the Bylaws, one-third of the board will be renewed each year, based on length of service and according to the date and order of the respective appointment.

C Chairman of the committee
V Vice-chairman of the committee
P Proprietary
I Independent
N Non-executive, neither proprietary nor independent

Corporate governance in risk management

Average rate of attendance at meetings of the committees of the board

%



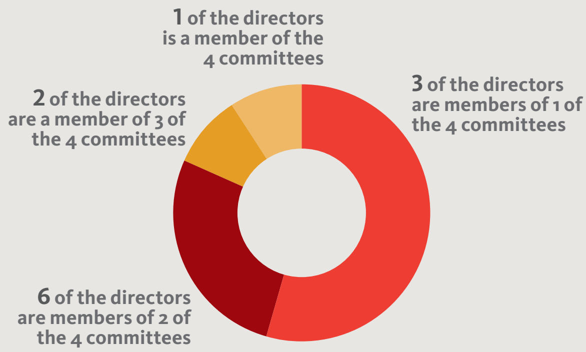
- Mr Matías Rodríguez Inciarte, executive vice-chairman of Banco Santander, chairs the executive risk committee.
- The executive risk committee held 96 meetings in 2014, each of which lasted approximately three hours.
- The executive committee held 65 meetings in 2014 and devoted a very significant amount of its time to discussions on risks.
- The risk supervision, regulation and compliance committee supports and advises the board of directors on risk supervision and control, on the definition of the Group's risk policies, on relations with supervisory authorities and on regulation and compliance. It has been established in July 2014 and has held five meetings in 2014.

Number of meetings of the executive, executive risk, audit, and risk supervision, regulation and compliance committees

Committees	2010	2011	2012	2013	2014
Executive	55	59	59	58	65
Executive risk	99	99	98	97	96
Audit	11	12	11	12	13
Risk supervision, regulation and compliance*	-	-	-	-	5
Total meetings	**165**	**170**	**168**	**167**	**179**

* In accordance with the provisions of article 54 *bis* of the Bylaws and article 17 *bis* of the Rules and Regulations of the Board, the risk supervision, regulation and compliance committee held its first meeting on 23 July 2014.

Cross-participation on executive, executive risk, audit, and risk supervision, regulation and compliance committees



Size and composition of the board

Since the end of 2010, the size of the board has been reduced by 25%, from 20 to 15 members.

The composition of the board of directors is balanced between executive and non-executive directors. All members are distinguished by their professional ability, integrity and independence of opinion.

Pursuant to article 6.3 of the Rules and Regulations of the Board, the appointments committee verified the status of each director at its meetings of 20 and 23 February 2015. Its proposal was submitted to the board, which approved it at its meeting of 23 February 2015.

Of the 15 members currently sitting on the board, five are executive and 10 are non-executive. Of the latter, nine are independent and one is proprietary.

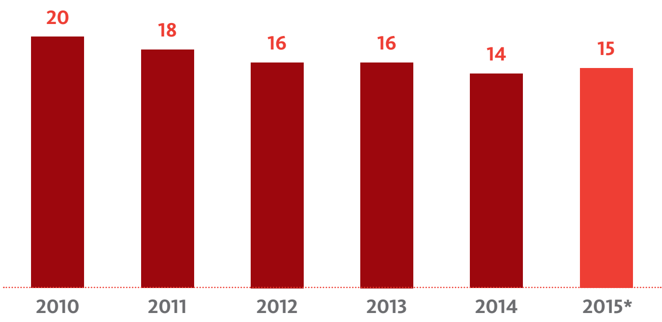
The following changes to the composition of the board occurred during financial year 2014:

After the death of the former chairman, Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, the Bank's board of directors agreed to appoint Ms Ana Botín-Sanz de Sautuola y O'Shea as executive chairman of the Bank at its meeting of 10 September 2014.

At its meeting of 25 November, the board appointed Mr José Antonio Álvarez Álvarez as chief executive officer, replacing Mr Javier Marín Romano, and also approved the appointments of Mr Bruce Carnegie-Brown, as vice-chairman, independent director and lead director, and of Ms Sol Daurella Comadrán and Mr Carlos Fernández González, as independent directors, filling the vacancies created by the death of Mr Emilio Botín-Sanz de Sautuola y García de los Ríos as well as by the resignations of Mr Fernando de Asúa Álvarez and Mr Abel Matutes Juan.

At its meeting of 16 January 2015, the board of directors approved the appointment of Mr Rodrigo Echenique Gordillo, vice-chairman of the board, as an executive director thereof with responsibility for the compliance function in accordance with the regulatory recommendations on corporate governance, also assuming the other duties assigned to him by the chairman of the Bank.

Size of the board



* Data at 23 February 2015.

Executive directors

Pursuant to the Rules and Regulations of the Board (article 6.2.a)), the following are executive directors: Ms Ana Botín-Sanz de Sautuola y O'Shea, Mr José Antonio Álvarez Álvarez, Mr Rodrigo Echenique Gordillo, Mr Matías Rodríguez Inciarte and Mr Juan Rodríguez Inciarte.

Proprietary non-executive directors

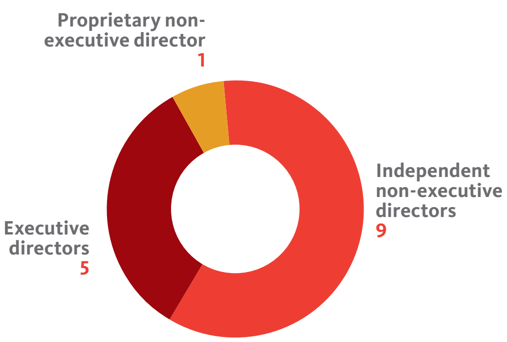
According to article 6.2.b) of the Rules and Regulations of the Board, proprietary directors are non-executive directors who hold or represent shareholdings equal to or greater than the one legally considered as significant, or who have been designated for their condition as shareholders despite their shareholdings not reaching the threshold to be considered significant, as well as anyone representing such shareholders.

Taking into account the circumstances of the case, and upon the prior report of the appointments committee, the board considers Mr Javier Botín-Sanz de Sautuola y O'Shea to be a proprietary non-executive director.

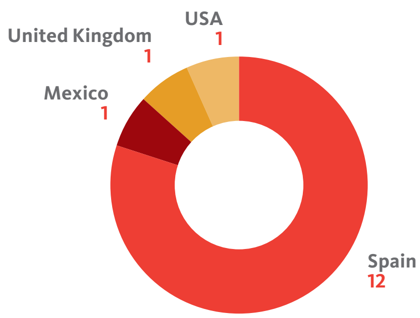
Independent non-executive directors

The Rules and Regulations of the Board (article 6.2.c)) include the legal definition of independent director established in article 8 of Order ECC/461/2013, which coincides with that currently established in section 529 *duodecies* (4) of the Companies Act.

Current composition of the board



Geographical diversity on the board



Taking into account the circumstances of each case and upon a prior report of the appointments committee, the board considers the following nine directors to be independent non-executive directors: Mr Bruce Carnegie-Brown, Mr Guillermo de la Dehesa Romero, Ms Sheila C. Bair, Ms Sol Daurella Comadrán, Mr Carlos Fernández González, Ms Esther Giménez-Salinas i Colomer, Mr Ángel Jado Becerro de Bengoa, Ms Isabel Tocino Biscarolasaga and Mr Juan Miguel Villar Mir.

Mr Guillermo de la Dehesa Romero, who is currently considered to be an independent non-executive director, will continue to be considered as such until the completion of his term at the next general shareholders' meeting. The board has agreed to propose his re-election as non-executive director, neither proprietary nor independent, at the general shareholders' meeting.

Given the current number of directors (15), independent non-executive directors account for 60% of the board.

Such percentage significantly exceeds the minimum of one-third established by article 6.1 of the Rules and Regulations of the Board and reflects the board's goal for the board to be made up predominantly of non-executive directors, which in turn are predominantly independent.

Diversity on the board

As established in article 17.4a) of the Rules and Regulations of the Board, the appointments committee is responsible for proposing and reviewing the standards that must be followed for the composition of the board and for determining who is to be proposed for the position of director.

As regards gender diversity, both the appointments committee and the board of directors are aware of the importance of fostering equal opportunities between men and women and of the appropriateness of appointing to the board women who fulfil the requirements of ability, suitability and effective dedication to the position of director.

At the proposal of the appointments committee, the board has approved a goal regarding its composition setting the minimum percentage of female directors at 25%.

At present, there are five women on the board of directors, of whom one is its chairman, Ms Ana Botín-Sanz de Sautuola y O'Shea, while the others are non-executive independent directors: Ms Sheila C. Bair, Ms Sol Daurella Comadrán, Ms Esther Giménez-Salinas and Ms Isabel Tocino Biscarolasaga.

The percentage of women on the Banco Santander board (33.3%) is clearly higher than the average for large European listed companies. According to a study carried out by the European Commission with data from March 2014, this percentage was 17.8% for the group of 28 countries forming the European Union and 14.8% for Spain.

Executive chairman and chief executive officer

The chairman of the board is the highest-ranking officer of the Bank (article 48.1 of the Bylaws and article 8.1 of the Rules and Regulations of the Board) and all the powers that may be delegated under the law, the Bylaws and the Rules and Regulations of the Board have been delegated thereto.

Pursuant to article 10.3 of the Rules and Regulations of the Board, the chief executive officer is entrusted with the day-to-day management of the various business areas.

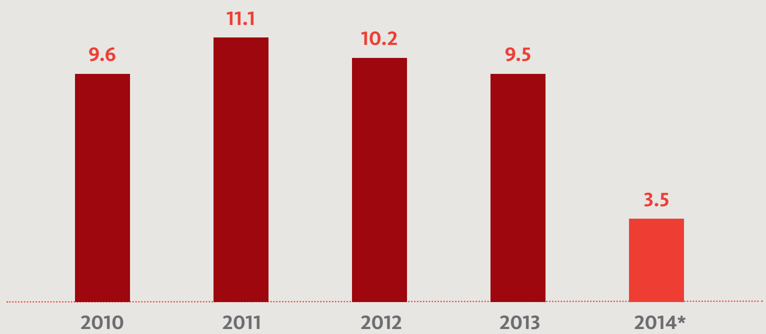
There is a clear separation of duties between the executive chairman, the chief executive officer, the board, and its committees, and various checks and balances that assure proper equilibrium in the corporate governance structure of the Bank, including the following:

- The board and its committees oversee and control the activities of both the executive chairman and the CEO.
- The lead director, who is independent, chairs the appointments, the remuneration and the risk supervision, regulation and compliance committees.
- The executive risk committee is chaired by an executive vice chairman of the board who does not report to the CEO.
- The audit committee is chaired by a vice chairman who is an independent director.
- The powers delegated to the executive chairman and the CEO exclude those that are exclusively reserved for the board itself.

Years of service of independent directors

Data at financial year-end except for 2014

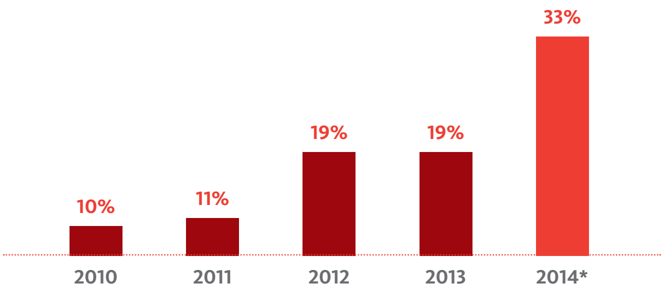
At the date of this document, the average length of service of non-executive independent directors in the position of board member is 3.5 years.



* Data at the date of this document.

% of women on the board

Data at financial year-end except for 2014



* Data at 23 February 2015.

	Number of members	Number of female directors	% of female directors
Board	15	5	33.3%
Executive committee	7	2	28.6%
Executive risk committee	6	1	16.7%
Audit committee	5	1	20.0%
Appointments committee	5	1	20.0%
Remuneration committee	5	2	40.0%
Risk supervision, regulation and compliance committee	7	2	28.6%
Innovation and technology	7	2	28.6%
International committee	5	2	40.0%

Succession plans for the chairman and the chief executive officer

Succession planning for the main directors is a key element of the good governance of the Bank, assuring an orderly leadership transition at all times. This process is regulated in article 24 of the Rules and Regulations of the Board.

Appointment of the new chairman

After the death of the former chairman, Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, at its meeting of 10 September 2014 the Bank's board of directors resolved to appoint Ms Ana Botín-Sanz de Sautuola y O'Shea as executive chairman of the Bank.

Pursuant to the provisions of article 24 of the Rules and Regulations of the Board, the appointments and remuneration committee proposed such appointment. Having analysed the suitability of Ms Botín, the appointments and remuneration committee considered that given her personal and professional qualities, her experience, her career within the Group and her unanimous national and international recognition, she was the most appropriate person for the position.

Rules for interim replacement of the chairman

Article 44.2 of the Bylaws sets out interim replacement rules for the temporary performance (in cases of absence, inability to act or indisposition) of the duties of the chairman of the board of directors in the absence of the vice-chairmen.

Lead director

By resolution of the general shareholders' meeting of 28 March 2014, the figure of lead director (*consejero coordinador*), already established in the Rules and Regulations of the Board, has been included in the Bylaws, the responsibilities thereof being defined in article 49 *bis*. Pursuant to those provisions, the lead director will be especially authorised to: (i) request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board that has already been called; (ii) coordinate and organise meetings of the non-executive directors; and (iii) direct the regular evaluation of the chairman of the board of directors.

At its meeting of 25 November 2014, the board of directors appointed Mr Bruce Carnegie-Brown as first vice-chairman and lead director, replacing Mr Fernando de Asúa Álvarez.

The appointment of the lead director has been made for an indefinite period and with the abstention of the executive directors, as provided in the Bylaws.

Secretary of the board

The Bylaws (article 45.2) include among the duties of the secretary those of ensuring the formal and substantive legality of all action taken by the board, ensuring observance of the good governance recommendations adopted by the Bank, and ensuring that governance procedures and rules are observed and regularly reviewed.

The secretary of the board is the general secretary of the Bank, and also acts as secretary of all the committees of the board.

The Rules and Regulations of the Board (article 17.4.d)) provide that the appointments committee must report on proposals for the appointment or withdrawal of the secretary of the board prior to submission thereof to the board.

Proceedings of the board

There were 16 meetings during financial year 2014.

The board holds its meetings in accordance with an annual calendar. The Rules and Regulations of the Board provide that the board shall hold not less than nine annual ordinary meetings.

The board shall meet whenever the chairman so decides, acting on her own initiative or at the request of not less than three directors (article 46.1 of the Bylaws). Additionally, the lead director shall be especially authorised to request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting that has already been called (article 49. bis.1 (i) of the Bylaws).

When directors cannot attend a meeting personally, they may give a proxy to any other director, in writing and specifically for each meeting, to represent them for all purposes at such meeting. A proxy shall be given with instructions. Non-executive directors may only be represented by another non-executive director.

The board may meet in various rooms at the same time, provided that interactivity and communication among them in real time is ensured by audiovisual means or by telephone and the concurrent holding of the meeting is thereby ensured.

Meetings of the board shall be validly held when more than one-half of its members are present in person or by proxy.

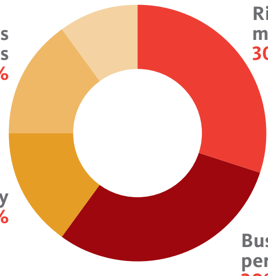
Except in instances in which a greater majority is specifically required pursuant to legal provisions, the Bylaws or the Rules and Regulations of the Board, resolutions are adopted by absolute majority of the directors attending in person or by proxy. In the event of a tie, the chairman has a tie-breaking vote.

In 2014, the board was kept continuously and fully informed of the performance of the various business areas of the Group through the management reports and risk reports presented by the chief executive officer and the executive vice-chairman who chairs the executive risk committee, respectively.

During the year, the board has also reported on the conclusions of the external and internal audits.

The chart below shows a breakdown of the approximate time dedicated to each duty at the meetings held by the board in financial year 2014.

Approximate time dedicated to each duty



Dedication to board duties

One of the directors' duties expressly established in the Rules and Regulations of the Board is that of diligent management, which, among other duties, requires that directors dedicate the necessary time and effort to their position. The maximum number of boards of directors to which they may belong is established in section 26 of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions.

In this regard, the directors of the Bank may not at the same time hold more than: (a) one executive position and two non-executive positions; or (b) four non-executive positions. For such purposes, positions held within the same group (including companies in which the Bank has a significant shareholding) will be counted as a single position, and positions held at non-profit organisations or organisations not pursuing commercial ends will not be counted. The European Central Bank may authorise a director to hold an additional non-executive position if it considers that it does not impede the proper performance of the director's duties at the Bank.

Comparison of number of meetings held*

In a study carried out on the dedication of directors, the firm Spencer Stuart concluded that the average time dedicated by each director of the Bank to the tasks of the board and its committees was 300.1 hours, against an average of 80.8 hours for the directors of the main banks in the UK (Lloyds, Barclays, Standard Chartered and HSBC), 120.8 hours for those in the US and Canada (Bank of America, Goldman Sachs, JP Morgan Chase, Citigroup, Morgan Stanley, Wells Fargo and Royal Bank of Canada), and 109.6 hours for a range of international banks (Société Générale, BNP Paribas, BBVA, Credit Suisse, Deutsche Bank, UBS, UniCredit, Intesa SanPaolo, Nordea and Itaú).

	Santander	US and Canada average	UK average	Europe and other countries average
Board	11	13.7	8.8	12.8
Executive committee	59	3	-	22.0
Executive risk committee	98	7.7	7.3	13.8
Audit committee	11	12.1	9.3	10.8
Appointments committee**	11	6.1	3.3	6.2
Remuneration committee**	11	8.7	7.5	9.0

* The data refer to 2012, the latest year for which comparative information is available.
** Until 23 October 2014, there was a combined appointments and remuneration committee.

The directors shall endeavour to ensure that absences from meetings of the board and of the committees to which they belong are reduced to cases of absolute necessity.

The appointments committee analyses directors' dedication to their position on an annual basis, using information received regarding their other professional obligations and other available information to evaluate whether the directors are able to dedicate the necessary time and effort to complying with the duty of diligent management. Dedication is also taken into account for re-election, since proposals by the appointments committee must contain an evaluation of work and of effective dedication to the position during the latest period of time in which the proposed director has performed his or her duties.

Training of directors and information programme

As a result of the self-evaluation of the board carried out in 2005, an on-going director training programme was put in place.

Seven meetings were held in 2014 with an average attendance of nine directors, who devoted approximately one hour to each session. Various issues were reviewed in depth at such meetings, including: risk decision systems and future trends, the technological implications of the new regulatory system and the European Bank Recovery and Resolution Directive, as well as aspects relating to the Group's business in capital markets, operational risk, the Advanced Management Model, and the new European supervisory authority.

The Rules and Regulations (article 21.7) provide that the board shall make available to new directors an information programme providing quick and sufficient information regarding the Bank and its Group, including the governance rules thereof.

The board members Mr Bruce Carnegie-Brown, Ms Sol Daurella Comadrán and Mr Carlos Fernández González, appointed by resolution of the board at its meeting of 25 November 2014, attend in an information programme for new directors, which addressed the following matters:

- General presentation of the Group and of the regulatory context within which it operates.
- Main territories and businesses of the Group.
- Key support areas (technology and operations, risk and audit).
- Sustainability, communication and the Santander brand.

Self-evaluation by the board

In line with the provisions of the Rules and Regulations of the Board, the on-going self-evaluation exercise performed by the board with the support of the firm Spencer Stuart, on the basis of a questionnaire and personal interviews with the directors, includes a special section for the individual evaluation of the chairman of the board, the chief executive officer and the other directors, as well as an independent evaluation based, among other things, on benchmarking with respect to other comparable international banks.

The last self-evaluation exercise focused on the following subjects: organisation, operation and content of the board and its committees; comparison with other international banks; and open questions relating to the future (strategy and internal and external factors that may affect the Group) and other matters of interest.

As in recent years, the directors highlighted the following as strengths of the Group's corporate governance: the high level of devotion and commitment of the members of the board and their involvement in the control of all risks, not merely credit risks; the directors' experience in and knowledge of the banking business; balance between executive and non-executive directors, both on the board and on its committees; and the very good operation of the board committees, particularly the executive committee.

For the independent evaluation exercise, Spencer Stuart performed a comparison with 23 leading international financial institutions with regard to the composition and dedication of the board, remuneration, and other aspects of corporate governance, with the Bank holding a very notable position.

Appointment, re-election and ratification of directors

The proposals for appointment, re-election and ratification of directors, regardless of the status thereof, that the board of directors submits to the shareholders for consideration at the general shareholders' meeting, as well as the appointment decisions made by the board itself in the exercise of its powers to make interim appointments as permitted by law, must, in turn, be preceded by the corresponding proposal of the appointments committee.

Although the proposals of such committee are not binding, the Rules and Regulations of the Board provide that if the board does not follow them, it must give reasons for its decision.

Currently, all directors have been appointed or re-elected at the proposal of the appointments committee.

Some specific measures adopted as a consequence of the board's self-evaluation in the last years

→ An amendment to the Bylaws, approved at the general shareholders' meeting, to reduce the maximum size of the board from 30 directors to 22.

→ A more detailed replacement procedure for positions on the board, in particular those of chairman and chief executive, established in the Rules and Regulations of the Board.

→ Holding of annual board meetings dedicated specifically to the strategy of the Group.

→ An on-going director training programme that has been carried out continuously since it was proposed during the self-evaluation process of 2005.

Due to the vacancies left on the board by the death of the former chairman, Mr Emilio Botín Sanz de Sautuola y García de los Ríos, and the resignations from their posts and other positions on the board presented by the independent directors Mr Fernando de Asúa Álvarez and Mr Abel Matutes Juan, the appointments committee commenced a process to select new directors, with the assistance of the firm Russell Reynolds Associates, which engaged in the search process based on an evaluation of the skills of the board (using a skill map) to determine the profiles that would optimise the strategic objectives of the Group.

Various candidates were considered for each vacancy.

Pursuant to an analysis of competencies and diversity, the skills sought to be strengthened on the board were those relating to the following matters: business knowledge beyond banking, new technologies; strategy, international experience, and range of nationalities, and, lastly, diversity (particularly the number of women). Based on the foregoing, the committee proposed to the board the appointment as independent directors of Mr Bruce Carnegie-Brown, Ms Sol Daurella Comadrán and Mr Carlos Fernández González, whose profiles may be consulted in the preceding pages of this report.

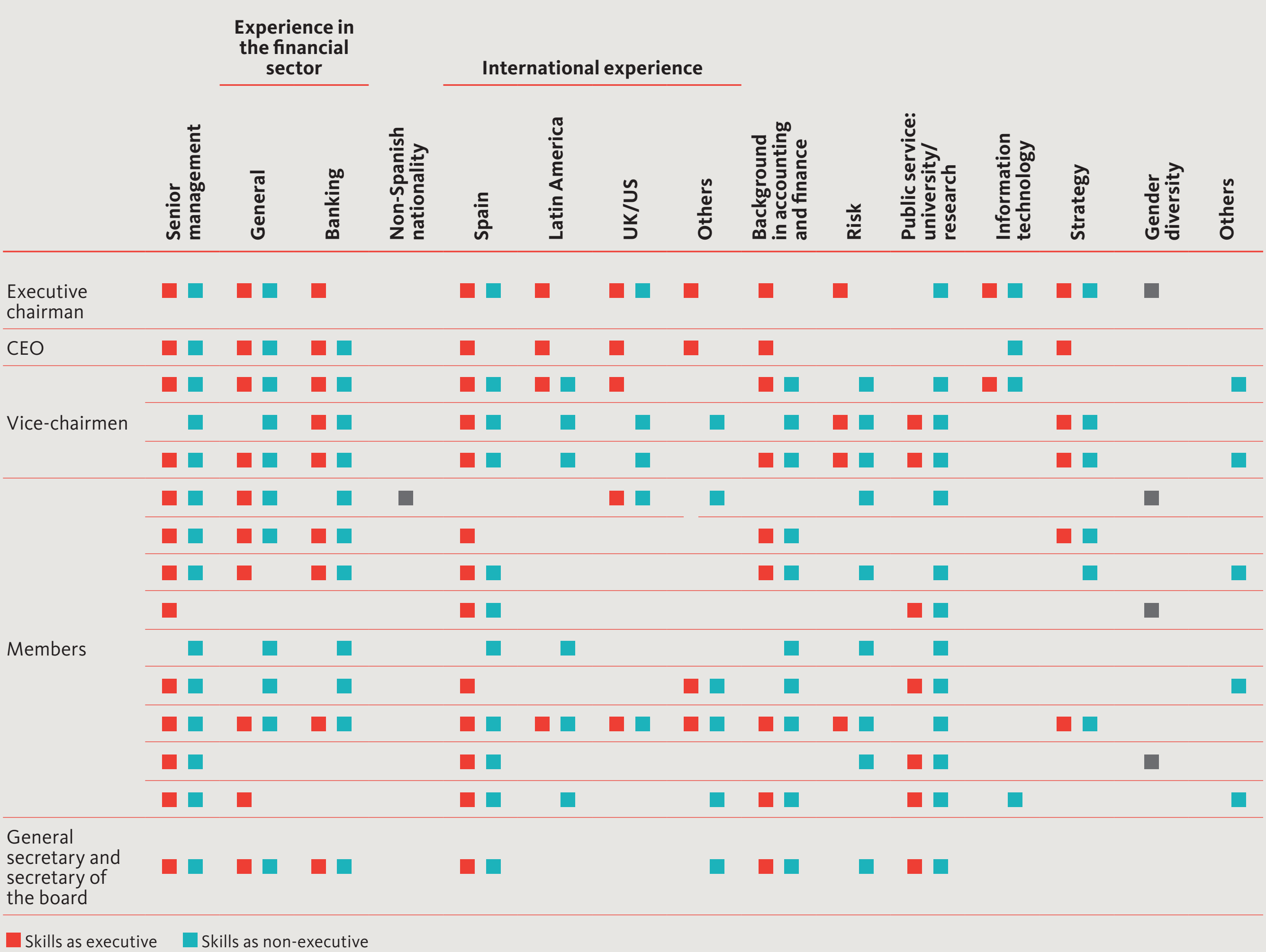
In selecting Mr José Antonio Álvarez Álvarez as CEO, the appointments committee considered several candidates, concluding that the then executive vice president in charge of the financial management and investor relations division of Grupo Santander was the most suitable person for this position.

Skill map for the members of the board

In financial year 2014, Russell Reynolds Associates were engaged to prepare an analysis of the competencies and diversity of the members of the board of directors. The following skill map shows the results of this analysis.

From this analysis, the skills to be strengthened on the board were the following:
- Business knowledge beyond banking.
- New technologies.
- Strategy.
- International experience and range of nationalities.
- Diversity (particularly the number of women).

Skill map for the members of the board and analysis of diversity*



* Data at November 2014.

Remuneration

Remuneration system

The shareholders acting at the general shareholders' meeting of 28 March 2014 resolved to amend the Bylaws to adjust the remuneration regime of the executive directors to the provisions contained in Royal Decree-Law 14/2013 (today Law 10/2014) and in CRD IV, such that the variable components of their remuneration may not exceed 100% of the fixed components, unless the shareholders acting at the general shareholders' meeting approve a higher ratio, which shall in no case exceed 200%.

With relation to the foregoing, the shareholders acting at the aforementioned general shareholders' meeting approved a maximum ratio between fixed and variable components of executive directors' remuneration of 200% for financial year 2014.

The remuneration of directors is approved by the board at the proposal of the remuneration committee, except for such remuneration as consists of the delivery of shares or options thereon, or that is paid under other remuneration systems established by reference to the value of the shares of the Bank, the approval of which, under the law and the Bylaws, is within the purview of the shareholders acting at a general shareholders' meeting, at the proposal of the board made after a report of the remuneration committee.

The Group's policy provides that only executive directors may be beneficiaries of remuneration systems consisting of the delivery of shares or rights thereon.

Remuneration of the board in 2014

In 2014, the board resolved to increase the total remuneration of the directors, for all items, by 8.9%.

The total amount accrued by the board as attendance fees amounted to 4.4 million euros in 2014, which is 27.2% lower than the maximum amount of 6 million euros approved by the shareholders for the financial year and very similar to the amount paid in 2013.

The chart below shows the evolution of total remuneration of directors with executive duties against the total return for shareholders *pay for performance*.

All details regarding the director remuneration policy in 2014 may be consulted in the report of the remuneration committee forming part of the corporate documentation of Banco Santander.

Anticipation of and adjustment to the regulatory framework

The board of directors, at the proposal of the remuneration committee, promotes and encourages a remuneration system that fosters a rigorous management of risks, and implements ongoing monitoring of the recommendations issued by the principal national and international bodies with authority in this field.

Annual director remuneration report

As provided in section 541 of the Companies Act and in the Bylaws (article 59.1), the board of directors annually approves an annual director remuneration report, which sets forth the standards of and basis for determining remuneration for the current financial year, as well as an overall summary of the application of the remuneration policy during the financial year ended, and a breakdown of the individual remuneration paid for all items to each of the directors during such financial year, making the report available to the shareholders on occasion of the call to the annual general shareholders' meeting and submitting it to a consultative vote.

The content of such report is subject to the provisions of article 10 of Order ECC/461/2013 and in CNMV Circular 4/2013, of 12 June, which provisions have not been amended following the entry into force of the aforementioned section 541 of the Companies Act (introduced by Law 31/2014).

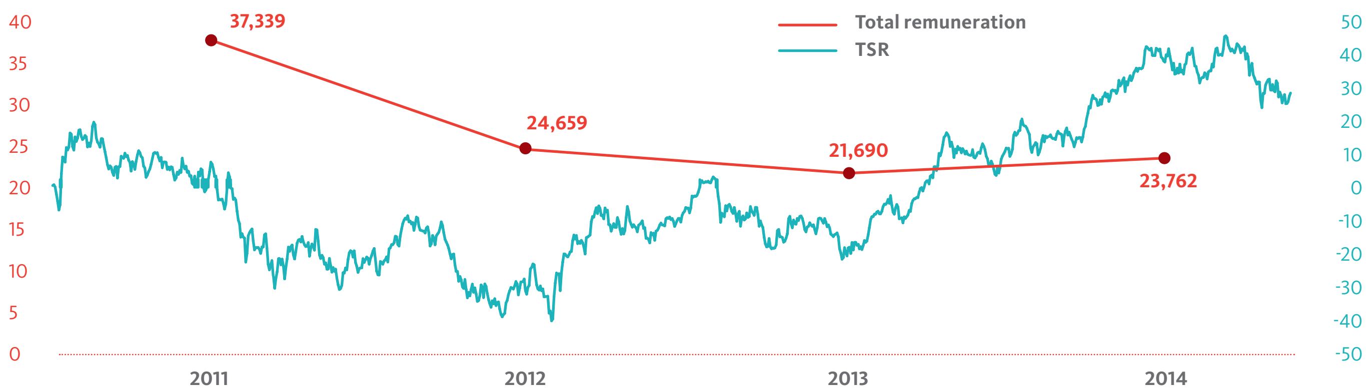
In 2014, the report corresponding to financial year 2013 was submitted to the shareholders at the general shareholders' meeting held on 28 March, as a separate item on the agenda and as a consultative matter, with 91.422% of the votes being in favour of the report.

In 2015, as well as submitting the annual report on director remuneration in respect of 2014 to the consultative vote of shareholders at the general meeting, the board will also propose the binding approval of the director remuneration policy for 2015 and 2016, in compliance with the new article 529 novodecies of the Capital Corporations Act.

Transparency

Pursuant to the Bylaws (article 59.2), the annual report includes itemised information on the remuneration received by each director, with a statement of the amounts for each item of

Evolution of the remuneration for all items of directors with executives duties against the total return for shareholders*



* Remuneration data of executive directors in euro thousands and return for shareholders in percentages.

remuneration. The report also sets forth, on an individual basis for each item, the remuneration for the executive duties entrusted to the executive directors of the Bank. All such information is contained in note 5 to the Group's legal report.

Duties of directors, related-party transactions and conflicts of interest

Duties

The duties of the directors are governed by the Rules and Regulations of the Board[4], which conform to both the provisions of current Spanish law and to the recommendations of the Unified Good Governance Code.

The Rules and Regulations expressly provide for the duties of diligent management, loyalty, secrecy and inactivity in the event of knowledge of confidential information.

The duty of diligent management includes the directors' duty to adequately inform themselves of the progress of the Bank and to dedicate the time and effort needed to effectively carry out their duties.

Related-party transactions

No member of the board of directors, no person represented by a director, and no company of which such persons, or persons acting in concert with them or through nominees therein, are directors, members of senior management or significant shareholders, has to the Bank's awareness entered into any significant transaction or any transaction on non-customary market conditions with the Bank during financial year 2014 and through the date of publication of this report.

The board, without the intervention of the interested party and on a prior favourable report of the remuneration committee, authorised the sale by the Bank under market conditions of 2,403,923 shares of MED 2001 Inversiones, Sicav, S.A., of which it was the owner, to Mr Ángel Jado Becerro de Bengoa and companies of his family group.

Control mechanisms

As provided in the Rules and Regulations of the Board (article 30), directors must inform the board of any direct or indirect conflict of interest with the interests of the Bank in which they may be involved. If the conflict relates to a transaction, the director may not carry it out without the approval of the board, following a report from the appointments committee.

The director involved must abstain from participating in the discussion and voting on the transaction to which the conflict refers, the body in charge of resolving any disputes being the board of directors itself.

In addition to the above-described situation, there were another 136 occasions during financial year 2014 on which other directors abstained from participating in and voting on the discussion of matters at the meetings of the board of directors or of the committees thereof.

The breakdown of the 103 cases is as follows: on 52 occasions, the abstention was due to proposals to appoint, re-elect, withdraw or empower directors; on 43 occasions, the matter under consideration was the approval of terms of remuneration; on 27 occasions, the matter concerned discussion of financing proposals or other risk transactions in favour of companies related to various directors; on 5 occasions abstention related to the suitability evaluation procedure that the Bank, as a credit institution, must undertake regarding members of the management body and holders of key positions, all in accordance with the provisions of Royal Decree 84/2015; on 4 occasions, the abstention concerned the annual verification of the status of the directors made by the appointments and remuneration committee pursuant to article 6.3 of the Rules and Regulations of the Board; on 3 occasions, the matter concerned the evaluation entrusted to the appointments committee under article 17.4 g) of the Rules and Regulations of the Board regarding the professional obligations of the directors to evaluate if such obligations may interfere with the dedication required thereof for the effective performance of their work; on one occasion, the matter concerned approval of a related-party transaction; and on another the matter related to the attendance of a director as a guest at the meetings of the committees of the board when the director was no longer a member thereof.

Some measures taken by the board

2012: maximum limit for increases in share capital without pre-emptive rights

At the proposal of the board, the shareholders for the first time established a maximum limit on the power to exclude pre-emptive rights for increases in share capital; pre-emptive rights may only be excluded for up to the equivalent of 20% of the share capital of the Bank as of the date of the general shareholders' meeting.

2013: cap on annual remuneration of the directors

The shareholders established a maximum amount of six million euros, which may only be amended by a decision of the shareholders acting at the general shareholders' meeting.

2014: maximum variable remuneration for executive directors

The shareholders approved an amendment to the Bylaws establishing a maximum ratio between the fixed and variable components of total remuneration of the executive directors and other employees belonging to categories with professional activities that significantly affect the risk profile of the Group.

4. The recent Law 31/2014 amends the regulation of directors' duties contained in the Companies Act. At the next general shareholders' meeting, the board will propose the corresponding amendments to adapt the Bylaws to such regulations, which shall be followed by the corresponding amendments to the Rules and Regulations of the Board.

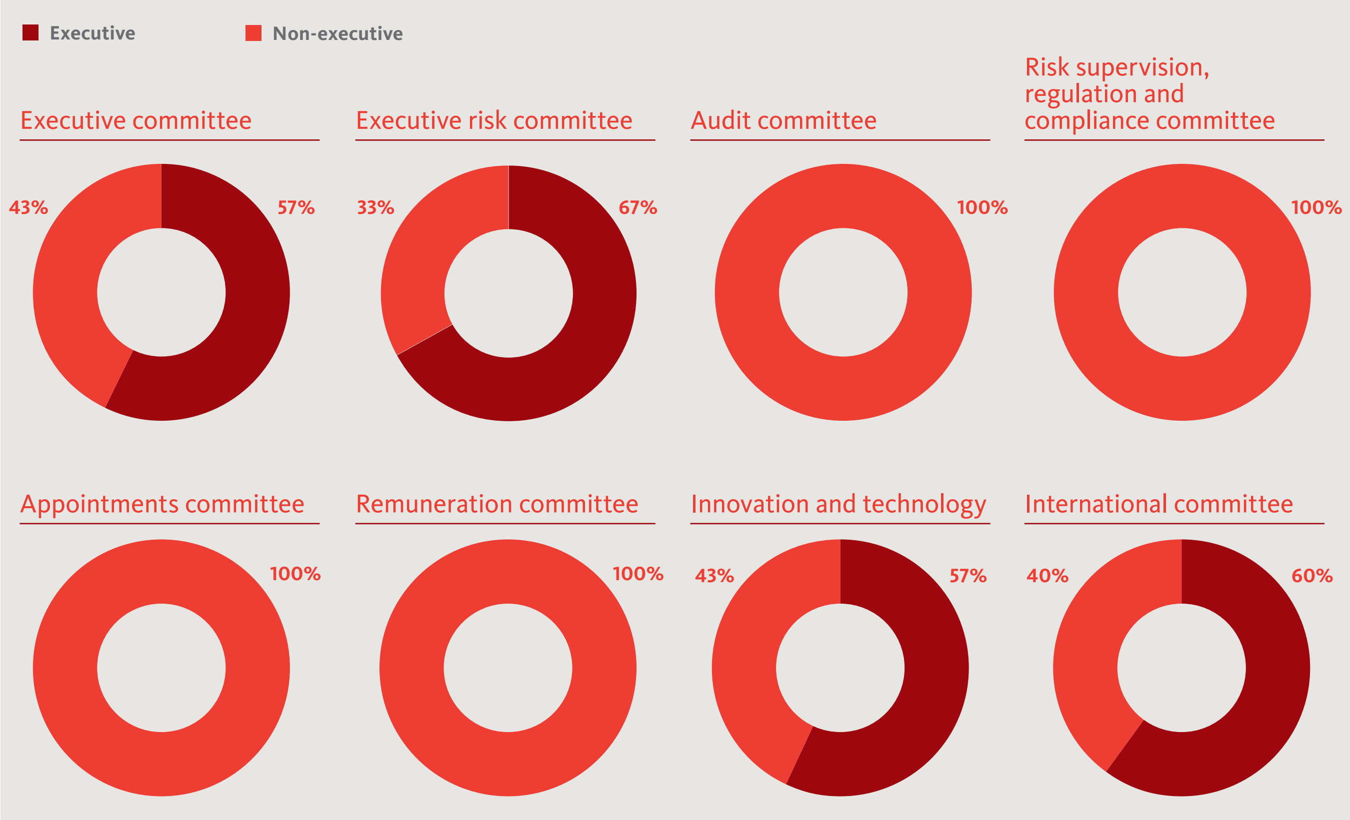
Committees of the board

General information

The board has the following decision-making committees: an executive committee, to which general decision-making powers are delegated, and an executive risk committee, with delegated powers specifically relating to risk.

The board also has other committees with powers of supervision, information, advice and proposal (the audit, appointments, remuneration, risk supervision, regulation and compliance, innovation and technology and international committees).

Composition of the committees of the board



Number of meetings and duration of committees

Committees	No. of meetings	Hours[1]
Executive committee	65	325
Executive risk committee	96	288
Audit committee	13	65
Appointments and remuneration committee[2]	21[2]	63[2]
Risk supervision, regulation and compliance committee[3]	5	25
Innovation and technology	2	4
International committee	-	-

1. Estimated average hours devoted by each director.
2. Pursuant to articles 54.1 of the Bylaws and 17.10 of the Rules and Regulations of the Board, at its meeting on 23 October 2014, the board of directors unanimously resolved to separate into two the appointments and remuneration committee, which until such date had met on 12 occasions, with an average dedication of approximately 36 hours per director in preparing and participating in the meetings. Subsequently, within the 2014 financial year, the appointments and the remuneration committees held 5 and 4 meetings, with an average dedication of approximately 15 and 12 hours, respectively, per director.
3. In accordance with the provisions of article 54 *bis* of the Bylaws and article 17 *bis* of the Rules and Regulations of the Board, the risk supervision, regulation and compliance committee held its first meeting on 23 July 2014.

Executive committee

The executive committee is a basic instrument for the corporate governance of the Bank and its Group. It exercises by delegation all the powers of the board (except those which cannot be legally delegated or which cannot be delegated pursuant to the law, the Bylaws or the Rules and Regulations of the Board). It reports to the board on the principal matters dealt with and resolutions adopted and makes the minutes of its meetings available to the directors. It meets once per week.

There are currently seven directors sitting on the committee, of whom four are executive and the other three are independent non-executive directors.

Its duties, composition and functioning are established in the Bylaws (article 51) and in the Rules and Regulations of the Board (article 14).

Executive risk committee

This is also an executive committee, with powers delegated thereto by the board in matters regarding risks. It normally meets twice per week.

It is governed by the Bylaws (article 52) and the Rules and Regulations of the Board (article 15), which define the composition, functioning and duties of this committee.

The committee is currently made up of six directors, of whom four are executive and two are independent non-executive directors. Its chairman is a vice-chairman with executive duties, pursuant to the Rules and Regulations of the Board (article 15.1).

Pages 168 *et seq.* of this annual report contain broad information on the executive risk committee and the Group's risk policies.

Audit committee

The audit committee, among other duties, reviews the Group's financial information and its internal control systems, serves as a communication channel between the board and the auditor, ensuring the independent exercise of the latter's duty, and supervises work regarding the internal audit function. It normally meets on a monthly basis (it met 13 times in 2014).

As provided in the Bylaws (article 52) and the Rules and Regulations of the Board (article 16), the committee must be made up of non-executive directors, the majority of whom must be independent, with an independent director acting as chairman.

It is currently composed of five independent non-executive directors.

Appointments committee

The appointments committee, among other duties, proposes the appointments of members of the board, including executive directors, and those of the other members of senior management and key Group personnel.

The Bylaws (article 54) and the Rules and Regulations of the Board (article 17) provide that this committee is also to be made up exclusively of non-executive directors and that its chairman shall be an independent director.

It is currently composed of five independent non-executive directors.

Remuneration committee

Banco Santander established the remuneration committee, then named the compensation committee, in 1995.

Among other duties, this committee proposes the director remuneration policy to the board, producing the corresponding report, and proposes the remuneration of the members of the board, including executive directors, and that of the other members of senior management and key Group personnel also proposing the remuneration policy for the latter.

The Bylaws (article 54) and the Rules and Regulations of the Board (article 17) provide that this committee is also to be made up exclusively of non-executive directors, and that its chairman shall be an independent director.

Its five current members are independent non-executive directors.

Risk supervision, regulation and compliance committee

The risk supervision, regulation and compliance committee, among other duties, supports and advises the board regarding the definition and evaluation of risk strategy and policies and with relation to authorities and regulators in the various countries in which the Group has a presence, and monitors compliance with the General Code of Conduct and with the Bank's governance rules and compliance programme generally. It normally meets on a monthly basis (it met 5 times in 2014)[5].

As provided in the Bylaws (article 54 *bis*) and the Rules and Regulations of the Board (article 17 *bis*), the committee must be made up of non-executive directors, the majority of whom must be independent, with an independent director acting as chairman.

It is currently composed of seven independent non-executive directors.

International committee

Pursuant to article 13 of the Rules and Regulations of the Board, the international committee has the duty to monitor the development of the Group's strategy and of the activities, markets and countries in which the Group desires to have a presence through direct investments or specific transactions. It is kept informed of the commercial initiatives and strategies of the various units within the Group and of the new projects presented thereto.

It is made up of five directors, of whom two are executive and three are independent non-executive.

Innovation and technology committee

Pursuant to article 13 of the Rules and Regulations of the Board, the innovation and technology committee (previously, technology, productivity and quality committee) has the duty to review and report on plans and activities regarding information systems and programming of applications, investments in computer equipment, design of operating processes in order to improve productivity, and programmes for the improvement of service quality and measurement procedures, as well as those relating to means and costs.

It is made up of seven directors, of whom four are executive and three are independent non-executive.

* * *

5. The risk supervision, regulation and compliance committee held its first meeting on 23 July 2014.

In accordance with the Rules and Regulations of the Board, any director may attend meetings of board committees of which the director is not a member, with the right to participate but not to vote, at the invitation of the chairman of the board and of the respective committee, and by prior request to the chairman of the board.

Additionally, all board members who are not also members of the executive committee may attend its meetings, whatever the reason for the chairman calling such meetings. During financial year 2014, six directors not forming part of the executive committee each attended an average of 15 meetings thereof.

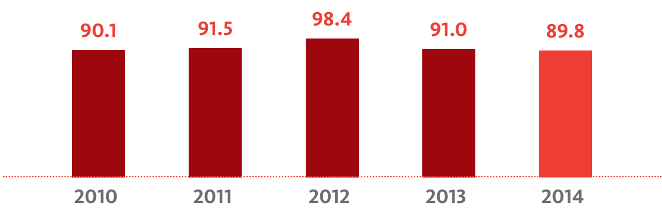
The audit, appointments, remuneration, and risk supervision, regulation and compliance committees have prepared reports on their activities in 2014, containing, among other things, a description of the manner in which such committees carry out the Group's supervision of risk, internal audit and compliance. The report of the remuneration committee also includes the director remuneration policy. All such reports are made available to the shareholders as part of the annual documentation of the Bank for financial year 2014.

Attendance at meetings of the board of directors and its committees in 2014

Pursuant to the Rules and Regulations of the Board (article 20.1), absences from meetings must be limited to unavoidable cases. The average attendance rate at meetings of the board in financial year 2014 was 89.84%.

Rate of attendance at meetings of the board

%



Committees

Directors	Board	Executive	Executive risk	Audit	Appointments and remuneration[6,8]	Appointments[6,8]	Remuneration[8]	Risk supervision, regulation and compliance[9]	Innovation and technology	International
		Decision-making							Reporting	
Average attendance	**89.8%**	**89.1%**	**83.3%**	**98.1%**	**100%**	**100%**	**93,8%**	**95.0%**	**100%**	**-**
Individual attendance										
Ms Ana Botín-Sanz de Sautuola y O´Shea[1]	15/16	50/65							2/2	-
Mr Matías Rodríguez Inciarte	16/16	63/65	96/96							
Mr Guillermo de la Dehesa Romero	16/16	62/65		13/13	12/12	5/5	4/4			-
Mr Rodrigo Echenique Gordillo[2]	15/16	55/65	67/96	4/4				4/5		-
Ms. Sheila C. Bair	13/16							5/5		
Mr Javier Botín-Sanz de Sautuola y O´Shea	12/16									
Ms Esther Giménez-Salinas i Colomer	15/16				12/12	5/5	4/4			-
Mr Ángel Becerro de Bengoa	16/16							5/5		
Mr Juan Rodríguez Inciarte	16/16		53/96							
Ms Isabel Tocino Biscarolasaga	15/16	60/65	92/96		12/12		3/4			
Mr Juan Miguel Villar Mir	10/16									
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos[3]	9/9	39/45							1/2	-
Mr Javier Marín Romano[4]	15/16	56/65							2/2	-
Mr Fernando de Asúa Álvarez[5]	15/16	61/65	92/96	13/13	12/12	5/5	4/4	5/5	2/2	
Mr Vittorio Corbo Lioi[6]	6/8									
Mr Abel Matutes Juan[7]	13/16			12/13		5/5				-

1. Apponited chairman of the board of directors effective 10 September 2014.
2. Presented his resignation from the position of member of the audit committee effective 23 April 2014.
3. Died on 9 September 2014.
4. Withdrawal from position of director effective 12 January 2015.
5. Withdrawal from position of director effective 12 February 2015.
6. Withdrawal from position of director effective 24 July 2014.
7. Withdrawl from position of director effective 18 February 2015.
8. In accordance with the provisions of article 54.1 of the Bylaws and article 17.10 of the Rules and Regulations of the Board, at its meeting of 23 October 2014, the board of directors resolved to separate the appointments and remuneration committee into two committees. The appointments committee assumed the duties relating to appointments contained in article 17.4 of the Rules and Regulations of the Board, and the remuneration committee assumed those included in article 17.5 of the Rules and Regulations of the Board, as well as, in both cases, any other duties corresponding thereto under applicable law.
9. As provided in article 54 bis of the Bylaws and article 17 bis of the Rules and Regulations of the Board, the risk supervision, regulation and compliance committee held its first meeting on 23 July 2014.

3. Shareholder rights and the general shareholders' meeting

One share, one vote, one dividend. No defensive mechanisMs contemplated in the Bylaws

The Bank has eliminated all defensive mechanisMs in the Bylaws, fully conforming to the one share, one vote, one dividend principle.

The Bylaws of Banco Santander provide for only one class of shares (ordinary shares), granting all holders thereof the same rights.

There are no non-voting or multiple-voting shares, or preferences in the distribution of dividends, or limitations on the number of votes that may be cast by a single shareholder, or quorum requirements or qualified majorities other than those established by law.

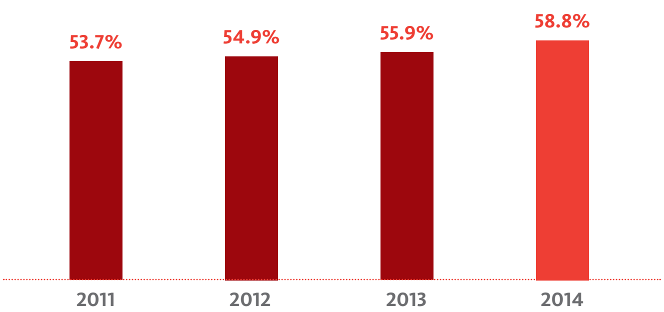
Any person is eligible for the position of director, subject only to the limitations established by law.

Quorum at the annual general shareholders' meeting held in 2014

The informed participation of shareholders at general shareholders' meetings is an objective expressly acknowledged by the board (article 31.3 of the Rules and Regulations of the Board).

The quorum at the 2014 annual general shareholders' meeting was 58.820%, continuing a trend of improvement in each of the last three years.

Quorum at annual general shareholders' meetings



Encouragement of informed participation of shareholders at shareholders' meetings

The Bank continues to implement measures designed to encourage the informed participation of shareholders at shareholders' meetings. Thus, since the annual general meeting held in 2011, shareholders have had access to an electronic shareholders' forum, in compliance with the provisions of the Companies Act.

Such forum, which the Bank made available on the corporate website (www.santander.com), enables the shareholders to post proposed supplements to the agenda announced in the call to meeting, requests for adherence to such proposals, initiatives aimed at reaching the percentage required to exercise a minority right contemplated by law, as well as voluntary proxy offers or solicitations.

Information provided to the shareholders and communication with them

During 2014, there were 562 meetings with investors, analysts and rating agencies, which entailed contact with 1,325 investors/analysts. In addition, the investor relations department maintained direct contact with the principal shareholders throughout the financial year to disseminate information regarding the Group's policies relating to sustainability and governance.

Santander has continued to strengthen the channels for shareholder information and service through eight shareholders' offices in certain significant markets in which it is present. The Bank currently has offices in Spain, the United Kingdom, the United States, Mexico, Portugal, Brazil and Poland to serve the shareholders in the share of the parent bank, as well as offices in Mexico, Chile and Brazil to serve the shareholders of its subsidiaries.

During financial year 2014, the shares of Banco Santander were admitted to listing on the stock exchanges of São Paulo and Warsaw, on 17 November and 3 December, respectively.

Channels for shareholder information and service

Telephone service lines	227,968	Questions
Shareholder's mailbox	32,034 235,292	E-mails answered Subscriptions
Events	17,671 329	Participants Held
SMS alerts	3,826,479 97,409	Alerts sent Subscriptions
Letters	339,049	Letters answered

Finally, in compliance with recommendations of the National Securities Market Commission, both notices of the meetings with analysts and investors and the documentation to be used thereat are being published sufficiently in advance.

Annual general shareholders' meeting held on 28 March 2014

Information on the call to meeting, establishment of a quorum, attendance, proxy-granting and voting

A total of 402,814 shareholders attended in person or by proxy, with 6,800,244,239 shares. The quorum was thus 58.820% of the share capital of the Bank at the date of the annual general shareholders' meeting.

The shareholders acting at the general shareholders' meeting approved the corporate management of the Bank in 2013 with a 95.384% favourable vote.

The average percentage of affirmative votes upon which the proposals submitted by the board were approved was 92.372%.

The following data are expressed as percentages of the Bank's share capital:

Physically present	0.274%[1]
By proxy	42.708%[2]
Absentee votes	15.838%[3]
Total	**58.820%**

1. Of such percentage (0.274%), 0.002% is the percentage of share capital that attended by remote means through the Internet.
2. The percentage of share capital that granted proxies through the Internet was 0.223%.
3. Of such percentage (15.838%), 15.777% is the percentage of votes case by postal mail, and the rest is the percentage of electronic votes.

Extraordinary general shareholders' meeting of 15 September 2014

Information on the call to meeting, the establishment of a quorum, attendance, proxy-granting and voting

A total of 262,139 shareholders attended in person or by proxy, with 6,255,472,979 shares. The quorum was thus 52.181% of the share capital of the Bank at the date of the extraordinary general shareholders' meeting.

The average percentage of affirmative votes upon which the proposals submitted by the board were approved was 98.740%.

*

Key points of the 2014 annual general shareholders' meeting

Shareholders approved the corporate management of the Bank in 2014 with a 95% favourable vote.

The 2013 annual report on director remuneration received a 91% favourable vote.

The following data are stated as percentages of the Bank's share capital at the date of the extraordinary general shareholders' meeting:

Physically present	0.130%[1]
By proxy	37.930%[2]
Absentee votes	14.121%[3]
Total	**52,181%**

1. Of such percentage (0.130%), 0.001% is the percentage of share capital that attended by remote means through the Internet.
2. The percentage of share capital that granted proxies through the Internet was 0.297%.
3. Of such percentage (14.121%), 14.061% is the percentage of votes cast by postal mail, and the rest is the percentage of electronic votes.

Resolutions adopted at the general shareholders' meetings held in 2014

The full texts of the resolutions adopted at the general shareholders' meetings held in 2014 are available on the websites of both the Group (www.santander.com) and the CNMV (www.cnmv.es).

4. Santander group management team

Composition

Chairman	Ms Ana Botín-Sanz de Sautuola y O'Shea
Chief executive officer	Mr José Antonio Álvarez Álvarez
Executive vice chairman, to whom the chief compliance officer reports	Mr Rodrigo Echenique Gordillo
Executive vice chairman, to whom the chief risk officer reports	Mr Matías Rodríguez Inciarte
Businesses	
Germany	Mr Ulrich Leuschner
Argentina	Mr Enrique Cristofani
Asia	Mr Juan Rodríguez inciarte
Brazil	Mr Jesús María Zabalza Lotina Mr Sérgio Rial*
Chile	Mr Claudio Melandri Hinojosa
United States	Mr Román Blanco Reinosa
Spain	Mr Enrique García Candelas Mr Rami Aboukhair**
Mexico	Mr Marcos Martínez Gavica
Poland	Mr Gerry Byrne Mr Mateusz Morawiecki
Portugal	Mr Antonio Vieira Monteiro
United Kingdom	Mr Nathan Bostock
Uruguay	Mr Juan Carlos Chomali
Business divisions	
Global Wholesale Banking***	Mr Jacques Ripoll
Consumer Finance	Ms Magda Salarich Fernández de Valderrama
Business support divisions	
Commercial Banking	Mr Francisco Javier San Félix García
Support and control functions	
Chief risk officer	Mr José María Nus Badía
Chief financial officer	Mr José García Cantera
General Secretariat and of the board	Mr Ignacio Benjumea Cabeza de Vaca
Chief compliance officer	Ms Mónica López-Monís Gallego
Internal Audit	Mr Juan Guitard Marín
Communications, Corporate Marketing and Research	Mr Juan Manuel Cendoya Méndez de Vigo
Corporate Development	Mr José Luis de Mora Gil-Gallardo
Innovation	Mr José María Fuster van Bendengem
Financial Accounting and Control	Mr José Francisco Doncel Razola
Chairman's Office and Strategy	Mr Víctor Matarranz Sanz de Madrid
Human Resources, Organisation and Costs	Mr Jesús Cepeda Caro
Technology and Operations	Mr Andreu Plaza López
Universities	Mr José Antonio Villasante Cerro

* This appointment is subject to regulatory authorisation
** Executive vice president of Commercial Banking.
*** The results of this unit are accounted in the income statements of the various countries.

Remuneration

Information on the remuneration of executive vice presidents is provided in note 5 to the Group's legal report.

Related-party transactions and conflicts of interest

Related-party transactions

To the knowledge of the Bank, no member of senior management who is not a director, no person represented by a member of senior management who is not a director, and no company in which such persons or persons with whom they act in concert or who act through nominees therein are directors, members of senior management or significant shareholders, has made any unusual or significant transaction therewith during financial year 2014 and through the date of publication of this report.

Conflicts of interest

The control mechanisMs and the bodies in charge of resolving this type of situation are described in the Code of Conduct in Securities Markets, which is available on the Group's website (www.santander.com).

5. Transparency and independence

Santander is among the five most transparent companies in the world according to the latest ranking of Transparency International, an NGO that evaluates international companies in the context of the fight against corruption. The Bank is the leading financial institution in the world as well as the leading Spanish company.

Financial information and other significant information

Financial information

Pursuant to the provisions of its Rules and Regulations (article 34.2), the board has taken the necessary actions to ensure that the quarterly and semi-annual information and any other information made available to the markets is prepared following the same principles, standards and professional practices as are used to prepare the annual accounts. To such end, the aforementioned information is reviewed by the audit committee prior to the release thereof.

The annual accounts are reported on by the audit committee and certified by the head of financial accounting prior to the preparation thereof by the board.

Other material information

Pursuant to the provisions of the Code of Conduct in Securities Markets, the compliance area is responsible for communicating to the CNMV the material information generated in the Group.

Such communication is simultaneous to the release of material information to the market or to the media and occurs as soon as the decision in question is made or the resolution in question has been signed or carried out. Material information shall be disseminated in a true, clear, complete and equitable fashion and on a timely basis and, whenever practicable, such information shall be quantified.

In financial year 2014, the Bank published 90 material facts, which are available on the websites of the Group (www.santander.com) and the CNMV (www.cnmv.es).

Relationship with the auditor

Independence of the auditor

The shareholders acting at the general shareholders' meeting of 2014 approved the re-election of Deloitte, S.L. as auditor for one year, with the affirmative vote of 94.233% of the share capital present in person or by proxy.

The Bank has mechanisMs in place to preserve the independence of the auditor, including the obligation of the board to refrain from hiring audit firMs when the fees intended to be paid to them for any and all services are more than 2% of the total income thereof during the last financial year.

In addition, the Rules and Regulations of the Board establish limits upon hiring the audit firm for the provisions of services other than audit services that could jeopardise the independence thereof, and impose on the board the duty to make public the overall fees paid by the Bank to the auditor for services other than audit services. The information for financial year 2014 is contained in note 48 to the Group's legal report.

The Rules and Regulations determine the mechanisMs to be used to prepare the accounts such that there is no room for qualifications in the auditor's report. Nevertheless, the Bylaws as well as the Rules and Regulations also provide that, whenever the board believes that its opinion must prevail, it shall provide an explanation, through the chairman of the audit committee, of the content and scope of the discrepancy and shall endeavour to ensure that the auditor issue a report in this regard. The annual accounts of the Bank and of the consolidated Group for financial year 2014 are submitted without qualifications.

At its meetings of 19 and 23 February 2015, the audit committee received from the auditor a written confirmation of its independence in respect of the Bank and the entities directly or indirectly related thereto, as well as information regarding additional services of any kind provided to such entities by the auditors or by entities related thereto, pursuant to the provisions of Royal Legislative Decree 1/2011, of 1 July, restated text of the Audit of Accounts Act.

Such committee, at the aforementioned meetings of 19 and 23 February 2015, issued a report setting forth a favourable opinion regarding the independence of the auditors and reporting, among other matters, upon the provision of the additional services mentioned in the preceding paragraph.

The aforementioned report, issued prior to the audit report, has the content established in article 529 *quarterdecies* of the Companies Act.

Intra-group transactions

There were no intra-group transactions in financial year 2014 that were not eliminated in the consolidation process and that are not part of the ordinary course of business of the Bank or of the companies of its Group as regards the purpose and conditions thereof.

The end of the acceptance period for the offer made to acquire the shares representing the share capital of Banco Santander Brasil not owned by the Santander Group was announced on 31 October. Such offer was accepted by owners of shares representing 13.65% of the share capital of Banco Santander Brasil, and as such the shareholding of the Santander Group in such subsidiary now represents 89.58% of its share capital at year end 2014.

Website

Since 2004, the Group's website (www.santander.com) has disclosed in the Investor Relations section of the main menu all information required under applicable law (currently, the Companies Act and Order ECC/461/2013 of 20 March).

The content of the Group's website, which is presented with specific sections for institutional investors and shareholders and is accessible in Spanish, English and Portuguese, receives approximately 185,000 visits per week.

The information available on such website includes:

- The Bylaws.
- The Rules and Regulations for the General Shareholders' Meeting.
- The Rules and Regulations of the Board.
- Professional profiles and other information regarding the directors.
- The annual report.
- The annual corporate governance report.
- The Code of Conduct in the Securities Markets.
- The General Code of Conduct.
- The sustainability report.
- The reports of the committees of the board.

The announcement of the call to the 2015 annual general shareholders' meeting will be viewable as from the date of publication thereof, together with the information relating thereto, which shall include the proposed resolutions and mechanisMs for the exercise of rights to receive information, to grant proxies and to vote, including an explanation of the mechanisMs for the exercise of such rights by means of data transmission and the rules applicable to the electronic shareholders' forum that the Bank will make available on its website (www.santander.com).

Unified Good Governance Code

Banco Santander follows all of the recommendations concerning corporate governance in the special working group report on the good governance of listed companies.

Furthermore, Banco Santander follows the recommendations and best practices in corporate governance applicable to credit institutions, and likewise complies with the codes of good governance of the stock exchanges on which its shares are listed.

4

Economic and financial review

Consolidated Financial Report

2014 Summary of Grupo Santander

The global economy grew by more than 3% in 2014, reflecting an upturn in developed economies, mainly the UK and US, and slower growth in emerging countries.

This environment was not free of bouts of uncertainty and volatility in the markets. Furthermore, banking activity was again affected by interest rates still at historically low levels in many countries. Regulatory requirements are also affecting revenues and costs.

Against this backdrop, Grupo Santander is focusing its management on measures to boost profits and profitability while maintaining a solid, liquid and low risk balance sheet.

The main aspects in 2014 were:

- **Strong results.** In the last few years and despite the difficult scenario, Grupo Santander has proven its capacity to generate recurring results, backed by its geographic diversification and management tailored to each market. This has enabled it to generate profits throughout the crisis and be in a position to take advantage of a cycle of stronger growth.

  Grupo Santander posted an attributable profit of EUR 5,816 million in 2014, 39.3% more than in 2013. This growth was fuelled by the good evolution of the three main lines of the income statement:

  - Gross income increased after falling in 2013 thanks to the growth in net interest income and net fee income.

  - Operating expenses rose by below the average inflation rate of the countries in which the Group operates, benefiting from the processes of integration (Spain and Poland) and the three-year efficiency and productivity plan launched at the end of 2013.

  - Loan-loss provisions continued on a path of normalisation and the cost of credit improved.

  All units increased their profits before tax in local currency.

- **A faster pace of business.** The increased volumes reflect the Group's strategy in segments, products and countries.

  The trend in lending changed and after two years of falling rose in 2014, both to individuals as well as companies. This growth occurred in nine of the Group's ten largest units.

  Growth in funds was also higher than in 2013 and, as in lending, occurred in most countries and was combined with a policy of reducing the funding cost, particularly in those countries where interest rates were lower.

- **Progress was made in the commercial transformation programme** whose main aims are to improve knowledge of the Group's customers, specialised management of each segment, develop a multichannel distribution model and continuously improve the customer experience.

  Among the actions taken is a new commercial front, expanding the *Select* model for high-income clients and launching the *Advance* programme for SMEs.

  The goal is to increase customer linkage and satisfaction in all units.

- **Solid funding and liquidity structure.**

  A priority objective in the Group's strategy in the last few years has been to improve the liquidity position. It was achieved thanks to the capacity to capture funds in the retail market of the extensive branch network and the wide and diversified access to wholesale markets via the Group's model of subsidiaries.

  In 2014, the net loan-to-deposit ratio and the ratio of deposits plus medium and long term funds / lending remained at comfortable levels for the Group as well as the main units.

We took advantage of the better market environment with lower interest rates to issue at longer maturities, increasing the liquidity reserve to close to EUR 230,000 million.

All of this enables us to meet ahead of schedule the regulatory ratios for the Group and its main units.

- **Improve the Group's credit quality.** The main risk indicators evolved positively during the year.

  Of note was the fall in net entries of non-performing loans, which excluding the exchange rate and perimeter effects declined 51% in 2014.

  The NPL ratio dropped from 5.61% in 2013 to 5.19% at the end of 2014, and fell in every quarter. The ratios for Spain, Brazil, UK and the US reflect better evolution. The coverage ratio rose by 2 percentage points to 67%.

- **Reinforced solvency.** The Group ended the year with high levels of capital, and this was bolstered in January 2015 with a capital increase of EUR 7,500 million.

  After this, the Group's phased-in CET1 ratio was 12.2% and the fully loaded ratio 9.7%.

  These levels put Santander among the banks with the strongest capital at the international level, bearing in mind our business model, geographic diversification and capacity to withstand adverse stress scenarios.

- **Higher profitability.** The evolution of the balance sheet and income statement improved the ratios of financial management and profitability.

  The efficiency ratio improved by 1.1 percentage points to 47%, making it a reference for our peers; earnings per share rose 24%, and the return on tangible equity (RoTE) increased by 1.4 points to 11.0% (including in it the capital increase).

- In addition, and in order to attain the best competitive position, the Group adopted a series of **measures that should be reflected in better results in the future:**

  1. Acquisition in Spain by Santander Consumer Finance of 51% of Financiera El Corte Inglés.
  2. Acquisition by Santander Consumer Finance of GE Capital's business in Sweden, Denmark and Norway, which is mainly direct credit and cards.
  3. Framework agreement of Santander Consumer Finance with Banque PSA Finance, the auto finance unit of PSA Peugeot Citroën, for cooperation in various European countries. The approvals by the regulatory authorities in France and the UK were obtained in January 2015.
  4. Offer to acquire the minority interests of Banco Santander Brazil, which was accepted by shareholders representing 13.65% of the capital. This raised Grupo Santander's stake to 88.30%.
  5. Banco Santander Brazil's purchase of GetNet to strengthen its acquiring business.
  6. Creation by Banco Santander Brazil of a joint venture with Banco Bonsucesso to drive payroll business, which is expected to come into operation during the first quarter of 2015.
  7. Agreement to acquire the listed Canadian company Carfinco, specialised in auto finance.

Exchange rates: 1 euro / currency parity

	2014		2013	
	Year end	Average	Year end	Average
US$	1.214	1.326	1.379	1.327
Pound sterling	0.779	0.806	0.834	0.849
Brazilian real	3.221	3.118	3.258	2.852
Mexican peso	17.868	17.647	18.073	16.931
Chilean peso	737.323	756.718	724.579	656.524
Argentine peso	10.277	10.747	8.990	7.220
Polish zloty	4.273	4.185	4.154	4.196

Grupo Santander. Income statement

- **Attributable profit increased 39.3% to EUR 5,816 million.** Moreover, pre-tax profit grew in all units in their respective currencies.
- **Commercial revenues** (net interest income and net fee income) **rose** 7.9% excluding the exchange rate impact (decline in 2013).
- **Strict control of costs.** They declined 0.6% thanks to the efficiency and productivity plan.
- Continued downward trend in **loan-loss provisions** (-14.4%) with leeway to normalisation.
- **Improved profitability:** RoTE reached 11.0% (+1.4 p.p.).

Grupo Santander continued to increase its results and the process of normalization of profitability. Attributable profit of EUR 5,816 million was 39.3% higher than the figure in 2013, which has already been adjusted to the entry into force with retroactive effect of the interpretation of the international accounting standard IFRIC 21. This means anticipating the recording of contributions to the deposit guarantee funds. As a result, 2013's profit was reduced by EUR 195 million and 2012's by EUR 12 million.

This strong growth in profit was due to the good performance of the main lines of the income statement and the improved results in almost all the business units. Of note were commercial revenues, which returned to growth after falling in 2013, and the downward trend in loan-loss provisions that still have some way to go. Costs were also contained by the efficiency and productivity plan announced.

Before analyzing the income statement some aspects that affect year-on-year comparisons need to be pointed out:

Income statement

EUR Million

	2014	2013	Variation amount	%	% w/o FX	2012
Net interest income	**29,548**	**28,419**	**1,129**	**4.0**	**8.8**	**31,914**
Net fees	9,696	9,622	74	0.8	5.4	10,125
Gains (losses) on financial transactions	2,850	3,496	(646)	(18.5)	(16.1)	2,691
Other operating income	519	383	136	35.5	37.1	259
Dividends	435	378	57	15.0	16.7	423
Income from equity-accounted method	243	283	(39)	(14.0)	(5.7)	185
Other operating income/expenses	(159)	(278)	119	(42.7)	(36.8)	(349)
Gross income	**42,612**	**41,920**	**693**	**1.7**	**6.2**	**44,989**
Operating expenses	(20,038)	(20,158)	120	(0.6)	3.0	(20,236)
General administrative expenses	(17,781)	(17,758)	(23)	0.1	3.9	(18,044)
Personnel	*(10,213)*	*(10,276)*	*63*	*(0.6)*	*2.8*	*(10,474)*
Other general administrative expenses	*(7,568)*	*(7,482)*	*(86)*	*1.1*	*5.3*	*(7,570)*
Depreciation and amortisation	(2,257)	(2,400)	143	(6.0)	(3.3)	(2,193)
Net operating income	**22,574**	**21,762**	**813**	**3.7**	**9.1**	**24,753**
Net loan-loss provisions	(10,562)	(12,340)	1,778	(14.4)	(10.5)	(13,521)
Impairment losses on other assets	(375)	(524)	149	(28.4)	(27.6)	(853)
Other income	(1,917)	(1,535)	(382)	24.9	28.3	(1,437)
Ordinary profit before taxes	**9,720**	**7,362**	**2,357**	**32.0**	**41.3**	**8,942**
Tax on profit	(2,696)	(1,995)	(701)	35.1	44.5	(2,617)
Ordinary profit from continuing operations	**7,024**	**5,367**	**1,657**	**30.9**	**40.1**	**6,325**
Net profit from discontinued operations	(26)	(15)	(11)	73.2	70.2	70
Ordinary consolidated profit	**6,998**	**5,352**	**1,646**	**30.8**	**40.0**	**6,395**
Minority interests	1,182	1,177	5	0.4	7.1	1,066
Ordinary attributable profit to the Group	**5,816**	**4,175**	**1,641**	**39.3**	**49.3**	**5,329**
Net capital gains and provisions	—	—	—	—	—	(3,047)
Attributable profit to the Group	**5,816**	**4,175**	**1,641**	**39.3**	**49.3**	**2,283**
EPS (euros)	**0.479**	**0.385**	**0.094**	**24.4**		**0.234**
Diluted EPS (euros)	**0.478**	**0.383**	**0.095**	**24.7**		**0.232**
Pro memoria:						
Average total assets	1,203,260	1,230,166	(26,906)	(2.2)		1,287,619
Average stockholders' equity*	82,545	71,509	11,036	15.4		72,689

(*) Stockholders' equity: Shareholders' equity + equity adjustments by valuation. In 2014, pro-forma taking into account the January 2015 capital increase.

- A more favourable global macroeconomic environment of recovery, despite the signs of weakness in some European economies and in emerging ones during the second half of 2014.

- Improved financial conditions in markets, but interest rates generally remained low.

- A more demanding regulatory environment, limiting revenues and increasing costs.

- In order to facilitate comparisons with the previous period, the financial information of 2013 has been re-expressed as set out on page 120 of this report. The changes were mainly due to taking control of Santander Consumer USA, in 2014, and the loss of control of the fund management companies in 2013, as if they had been effective in the previously presented periods. Non recurring capital gains and provisions are shown separately as “net capital gains and provisions”.

  The capital gains correspond to the Altamira operation (EUR 385 million net), the IPO of SCUSA (EUR 730 million net), the change in pension commitments in the UK (EUR 224 million net) and the insurance operation (EUR 250 million net).

  Total charges net of taxes of EUR 1,589 million were recorded for restructuring costs, impairment of intangible assets and other provisions. The impact of these amounts on profits was thus zero.

- A positive perimeter effect of 2 p.p. from the incorporation of Financiera El Corte Inglés, GetNet and the consumer finance business of GE Capital in the Nordic countries, as well as the acquisition of minority interests in Brazil in September 2014.

- The impact of exchange rates of various currencies against the euro was 4/5 p.p. negative for the whole Group in year-on-year comparisons for revenues and costs. The negative effects were in Brazil (-8/-9 p.p.), Mexico (-4 p.p.) and Chile (-14/-15 and positive in the UK (+6 p.p.) There was hardly any impact in the US (+0.1 p.p.).

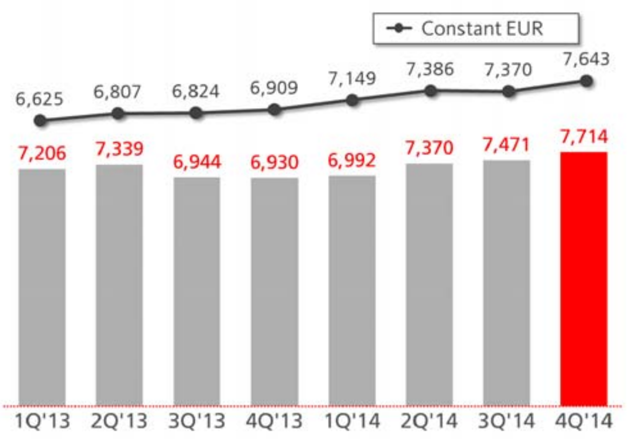
Quarterly. Income statement

EUR Million

	2013				2014			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Net interest income	**7,206**	**7,339**	**6,944**	**6,930**	**6,992**	**7,370**	**7,471**	**7,714**
Net fees	2,484	2,494	2,300	2,345	2,331	2,403	2,439	2,524
Gains (losses) on financial transactions	967	880	995	653	767	511	952	620
Other operating income	66	134	94	89	34	204	99	182
Dividends	59	145	72	102	31	220	72	112
Income from equity-accounted method	66	58	80	79	65	42	72	64
Other operating income/expenses	(59)	(69)	(58)	(92)	(63)	(58)	(45)	6
Gross income	**10,722**	**10,847**	**10,333**	**10,017**	**10,124**	**10,488**	**10,961**	**11,040**
Operating expenses	(5,068)	(5,088)	(4,943)	(5,060)	(4,847)	(4,906)	(5,070)	(5,216)
General administrative expenses	(4,497)	(4,485)	(4,381)	(4,395)	(4,256)	(4,360)	(4,509)	(4,656)
Personnel	*(2,631)*	*(2,606)*	*(2,478)*	*(2,559)*	*(2,455)*	*(2,515)*	*(2,572)*	*(2,670)*
Other general administrative expenses	*(1,865)*	*(1,879)*	*(1,902)*	*(1,836)*	*(1,801)*	*(1,844)*	*(1,937)*	*(1,985)*
Depreciation and amortisation	(571)	(602)	(562)	(665)	(590)	(546)	(560)	(560)
Net operating income	**5,655**	**5,760**	**5,390**	**4,957**	**5,277**	**5,582**	**5,891**	**5,824**
Net loan-loss provisions	(3,142)	(3,399)	(3,025)	(2,774)	(2,695)	(2,638)	(2,777)	(2,452)
Impairment losses on other assets	(110)	(126)	(141)	(146)	(87)	(71)	(67)	(151)
Other income	(262)	(422)	(368)	(483)	(347)	(438)	(491)	(642)
Ordinary profit before taxes	**2,141**	**1,812**	**1,856**	**1,554**	**2,149**	**2,435**	**2,556**	**2,580**
Tax on profit	(577)	(453)	(518)	(447)	(569)	(664)	(649)	(814)
Ordinary profit from continuing operations	**1,564**	**1,359**	**1,338**	**1,107**	**1,579**	**1,771**	**1,908**	**1,766**
Net profit from discontinued operations	—	(14)	(0)	(1)	(0)	(0)	(7)	(19)
Ordinary consolidated profit	**1,564**	**1,345**	**1,337**	**1,106**	**1,579**	**1,771**	**1,901**	**1,746**
Minority interests	359	294	282	242	277	318	296	291
Ordinary attributable profit to the Group	**1,205**	**1,050**	**1,055**	**864**	**1,303**	**1,453**	**1,605**	**1,455**
Net capital gains and provisions	—	—	—	—	—	—	—	—
Attributable profit to the Group	**1,205**	**1,050**	**1,055**	**864**	**1,303**	**1,453**	**1,605**	**1,455**
EPS (euros)	**0.116**	**0.098**	**0.096**	**0.076**	**0.113**	**0.122**	**0.131**	**0.112**
Diluted EPS (euros)	**0.115**	**0.098**	**0.095**	**0.076**	**0.113**	**0.122**	**0.131**	**0.112**

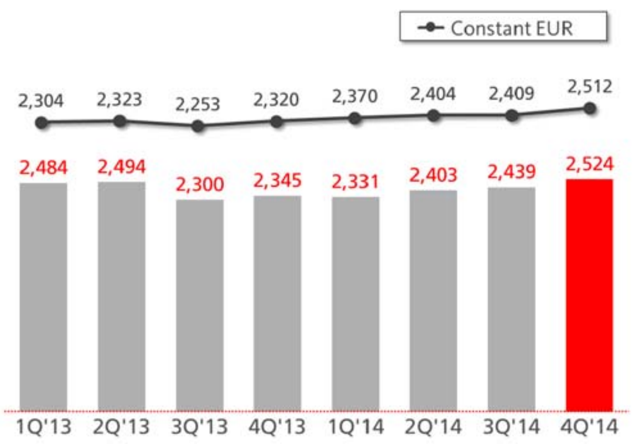
Net interest income

EUR Million



Net fees

EUR Million



The performance of the main lines of the income statement was:

Gross income rose 1.7% year-on-year to EUR 42,612 million (+6.2% without the exchange rate effect). Growth was of greater quality based on rises in the most commercial drivers of revenues (net interest income and fee income), together with a fall in trading gains that only represented 7% of the Group's gross income. The main developments were:

- The rise was mainly due to **net interest income**, which accounted for 69% of gross income and amounted to EUR 29,548 million (+4.0% year-on-year, +8.8% excluding the exchange rate impact). Of note was:
  - General improvement in all countries except for Brazil, with very positive growth in Spain, UK, US and Chile.
  - Good evolution of lending, with growth in all units except Portugal, which is still immersed in deleveraging.
  - Growth in deposits, consistent with falls in the average cost mainly in developed countries.

  Of note in net interest income by geographic areas:

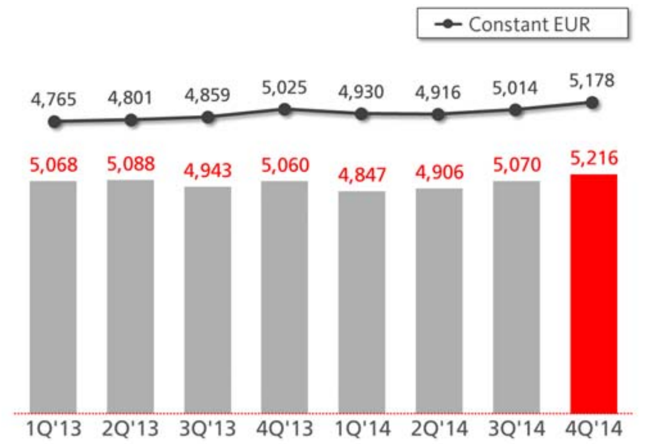
  - Favourable evolution in the UK (+16.5%) and the US (+11.2%), thanks to the effort made to reduce the cost of retail deposits in the first case and greater consumer activity (SCUSA) in the second. Continental Europe's net interest income increased 7.9% excluding the exchange rate impact, with growth in all units. Spain's rose 9.4%, due to greater activity and the fall in the cost of deposit. Latin America as a whole grew because of larger volumes.
  - Brazil is the only unit that declined (-2.7%) due to lower spreads from the change of business mix toward lower risk segments. This evolution was offset by the improvement in the cost of credit, which resulted in a rise of 11.5% in net interest income net of provisions.

Net fees

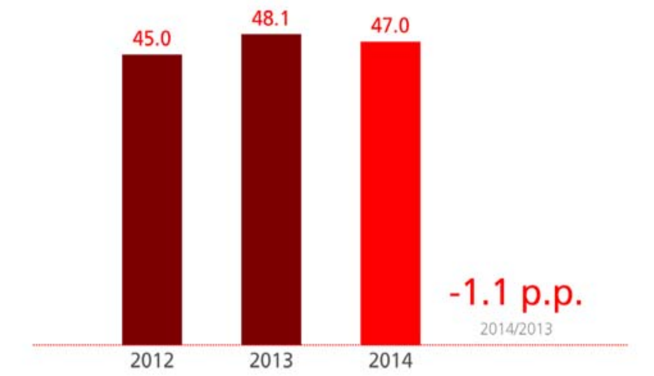
EUR Million

	2014	2013	Variation amount	%	2012
Fees from services	5,827	5,851	(24)	(0.4)	6,217
Mutual & pension funds	913	831	81	9.8	903
Securities and custody	763	655	108	16.4	678
Insurance	2,193	2,284	(91)	(4.0)	2,326
Net fee income	**9,696**	**9,622**	**74**	**0.8**	**10,125**

Operating expenses
EUR Million



Efficiency ratio
%



- **Net fee income** rose 0.8% to EUR 9,696 million (+5.4% without the exchange rate impact). This line was affected by reduced activity in some markets because of the environment and regulatory impacts that affected in some countries revenues from insurance and cards, due to the limits on interchange rates. The best performance came from mutual funds, securities and custody, advisory and management of operations and foreign exchange business.

- The aggregate of **net interest income and net fee income** was 7.9% higher (without the exchange rate impact) and accounted for 92% of the Group's total revenues (91% in 2013).

- **Trading gains** fell 18.5% due to the lower results from wholesale banking and management of the portfolio of assets and liabilities.

- **Other operating income** was EUR 519 million, EUR 136 million more than in 2013 (+35.5%). This growth is the net of the following movements: rise of EUR 57 million in dividends; increase of EUR 119 million in other operating income and costs, mainly from the greater generation of leasing operations in the US; and fall of EUR 39 million in income by the equity method due to the reduced perimeter in asset management business.

Operating expenses declined 0.6%. Excluding the exchange rate impact, costs rose 3.0% and 2.2% without the perimeter effect, of over one percentage point lower than the average inflation rate of the countries where the Group operates (3.6%). This is the fruit of the three-year efficiency and productivity plan announced at the end of 2013, which saved more than EUR 1,100 million in its first year. Part of these savings was used for investments to increase productivity.

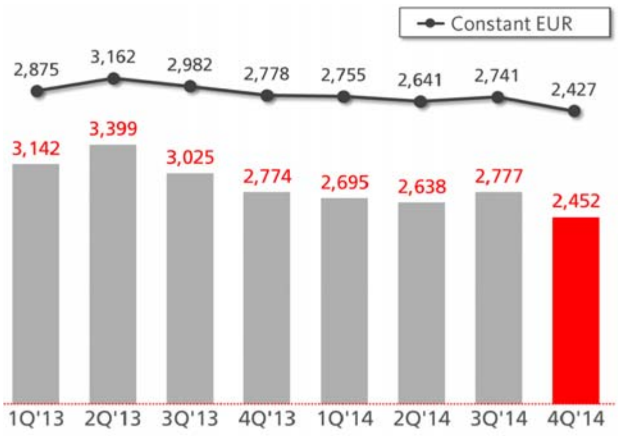
The performance by units varied:

- A first block with units in processes of integration (Spain and Poland) or adjusting structures (Portugal), whose operating costs declined in nominal terms. Brazil also did well, reflecting the effort in efficiency improvement plans and a nominal rise of

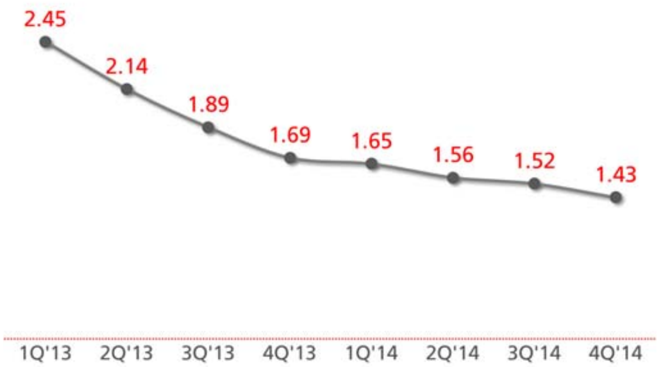
Operating expenses
EUR Million

	2014	2013	Variation amount	%	2012
Personnel expenses	10,213	10,276	(63)	(0.6)	10,474
General expenses	7,568	7,482	86	1.1	7,570
Information technology	936	985	(49)	(4.9)	877
Communications	489	540	(51)	(9.5)	660
Advertising	654	637	17	2.7	669
Buildings and premises	1,775	1,815	(40)	(2.2)	1,750
Printed and office material	155	169	(13)	(7.8)	167
Taxes (other than profit tax)	460	458	2	0.5	422
Other expenses	3,098	2,879	219	7.6	3,025
Personnel and general expenses	**17,781**	**17,758**	**23**	**0.1**	**18,044**
Depreciation and amortisation	2,257	2,400	(143)	(6.0)	2,193
Total operating expenses	**20,038**	**20,158**	**(120)**	**(0.6)**	**20,236**

Net loans-loss provisions
EUR Million



Cost of credit
%



1.0% (-0.6% without the perimeter effect) compared to inflation of more than 6%.

- In a second block, the UK is combining investments in its digital transformation plan, commercial plan and in branches with efficiency improvements. The same goes for Chile.

- Lastly, higher rises in Mexico and Argentina because of their expansion plans or programmes to improve commercial capacity, and in the US, which is enhancing the franchise of Santander Bank and adapting to regulatory requirements (+7.6%).

The **efficiency** ratio improved by one percentage point in 2014 to 47% and compares very well with our main European and North American competitors.

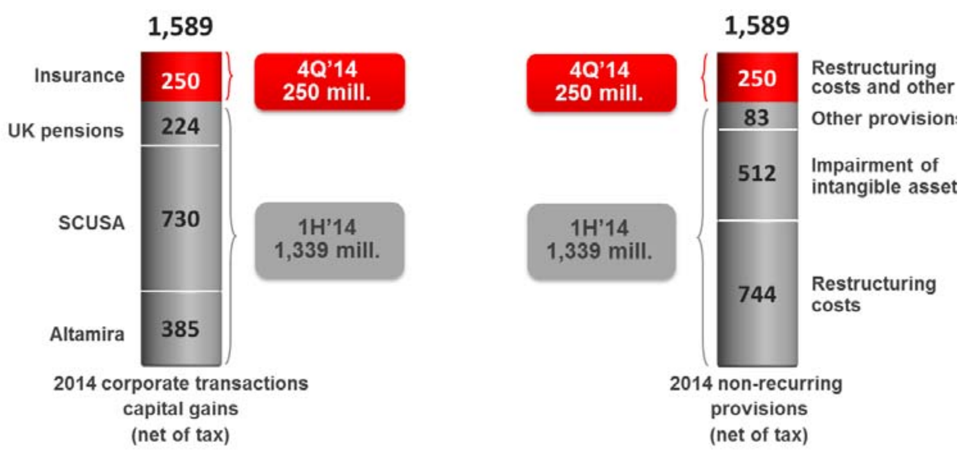
Net operating income (pre-provisions profit) was EUR 22,574 million, 3.7% more than in 2013 (+9.1% without the exchange rate impact).

Loan-loss provisions were EUR 10,562 million, 14.4% less than in 2013. Excluding the exchange rate impact, provisions were 10.5% lower. The main falls were in the UK (-45.7%), Spain (-27.6%), Brazil (-17.7%) and Portugal (-35,7%), due to the better macroeconomic situation and balance sheet management. Among the rest of the large units, the only significant rise was in the US because of the larger provisions made by SCUSA, partly due to the larger volume of business following the agreement with Chrysler.

Other asset impairment losses and other results were EUR 2,292 million negative, compared to EUR 2,059 million also negative in 2013.

Profit before tax was EUR 9,720 million (+32.0%).

Capital gains and provisions net of tax
EUR Million



Net loans-loss provisions

EUR Million

	2014	2013	Variation amount	%	2012
Non performing loans	11,922	13,405	(1,483)	(11.1)	15,497
Country-risk	(24)	2	(26)	—	(2)
Recovery of written-off assets	(1,336)	(1,068)	(268)	25.1	(1,974)
Total	**10,562**	**12,340**	**(1,778)**	**(14.4)**	**13,521**

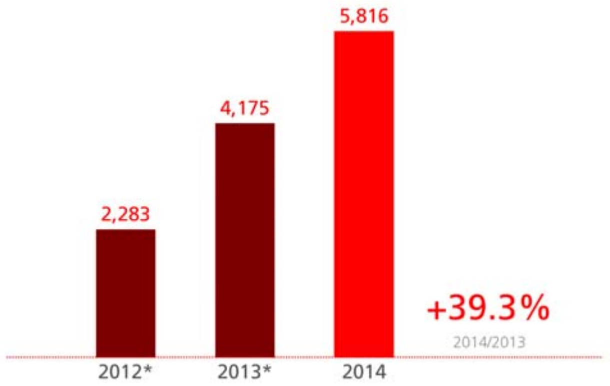
After taxes, discontinued operations and minority interests **attributable profit** increased 39.3% to EUR 5,816 million (+49.3% excluding the exchange rate impact).

Earnings per share in 2014 were EUR 0.48 (24.4% more than in 2013), affected by the rise in the number of shares issued to meet payment of the amounts equivalent to the dividend for shareholders who opted to receive Santander shares.

The Group's **RoE** (attributable profit/average shareholders' funds plus valuation adjustments) was 7.0% and the **RoTE** was 11.0%. Both cases take into account from January 1, 2014, the capital increase made in 2015. The **RoRWA** was 1.3%. All these figures were better than in 2013.

Attributable profit

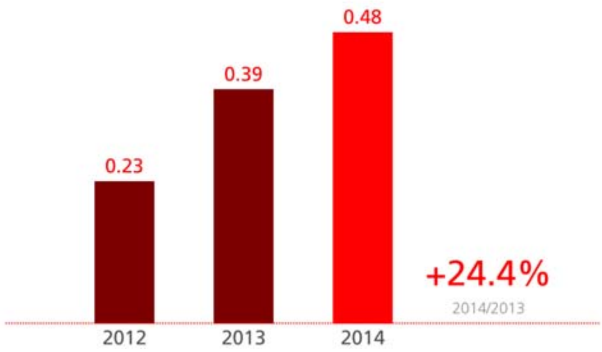
EUR Million



(*) Profit adjusted to the entry into force with retroactive effect, of the interpretation of the international accounting standard IFRIC 21

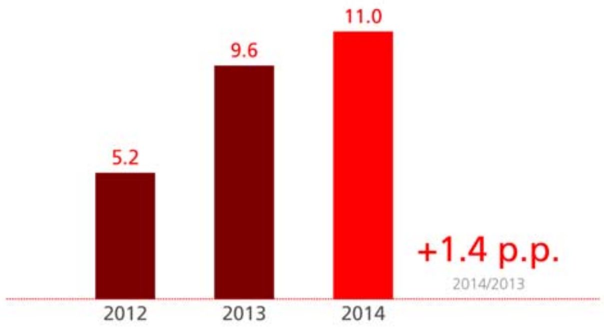
Earning per share

Euros



RoTE*

%



(*) RoTE: Group attributable profit / (Average of capital + reserves + retained profit + valuation adjustments - goodwill -other intangible assets). In 2014, pro-forma taking into account the January 2015 capital increase.

Balance sheet

EUR Million

Assets	2014	2013	Variation amount	%	2012
Cash on hand and deposits at central banks	69,428	77,103	(7,675)	(10.0)	118,488
Trading portfolio	148,888	115,309	33,579	29.1	177,917
Debt securities	*54,374*	*40,841*	*13,533*	*33.1*	*43,101*
Customer loans	*2,921*	*5,079*	*(2,158)*	*(42.5)*	*9,162*
Equities	*12,920*	*4,967*	*7,953*	*160.1*	*5,492*
Trading derivatives	*76,858*	*58,920*	*17,938*	*30.4*	*110,319*
Deposits from credit institutions	*1,815*	*5,503*	*(3,688)*	*(67.0)*	*9,843*
Other financial assets at fair value	42,673	31,441	11,232	35.7	28,356
Customer loans	*8,971*	*13,255*	*(4,285)*	*(32.3)*	*13,936*
Other (deposits at credit institutions, debt securities and equities)	*33,702*	*18,185*	*15,517*	*85.3*	*14,420*
Available-for-sale financial assets	115,251	83,799	31,452	37.5	92,339
Debt securities	*110,249*	*79,844*	*30,406*	*38.1*	*87,797*
Equities	*5,001*	*3,955*	*1,046*	*26.4*	*4,542*
Loans	781,635	731,420	50,216	6.9	770,349
Deposits at credit institutions	*51,306*	*57,178*	*(5,872)*	*(10.3)*	*54,817*
Customer loans	*722,819*	*666,356*	*56,463*	*8.5*	*708,473*
Debt securities	*7,510*	*7,886*	*(376)*	*(4.8)*	*7,059*
Investments	3,471	3,377	93	2.8	2,427
Intangible assets and property and equipment	26,109	18,137	7,972	44.0	17,346
Goodwill	27,548	24,263	3,284	13.5	25,652
Other	51,293	49,279	2,014	4.1	50,005
Total assets	**1,266,296**	**1,134,128**	**132,168**	**11.7**	**1,282,880**

Liabilities and shareholders' equity	2014	2013	Variation amount	%	2012
Trading portfolio	109,792	94,695	15,097	15.9	143,244
Customer deposits	*5,544*	*8,500*	*(2,956)*	*(34.8)*	*8,897*
Marketable debt securities	—	*1*	*(1)*	*(100.0)*	*1*
Trading derivatives	*79,048*	*58,910*	*20,138*	*34.2*	*109,746*
Other	*25,200*	*27,285*	*(2,085)*	*(7.6)*	*24,600*
Other financial liabilities at fair value	62,318	42,311	20,007	47.3	45,418
Customer deposits	*33,127*	*26,484*	*6,644*	*25.1*	*28,638*
Marketable debt securities	*3,830*	*4,086*	*(255)*	*(6.3)*	*4,904*
Due to central banks and credit institutions	*25,360*	*11,741*	*13,619*	*116.0*	*11,876*
Financial liabilities at amortized cost	961,053	880,115	80,937	9.2	971,659
Due to central banks and credit institutions	*122,437*	*92,390*	*30,047*	*32.5*	*134,467*
Customer deposits	*608,956*	*572,853*	*36,103*	*6.3*	*589,104*
Marketable debt securities	*193,059*	*182,234*	*10,825*	*5.9*	*210,577*
Subordinated debt	*17,132*	*16,139*	*993*	*6.2*	*18,238*
Other financial liabilities	*19,468*	*16,499*	*2,969*	*18.0*	*19,273*
Insurance liabilities	713	1,430	(717)	(50.2)	1,425
Provisions	15,376	14,599	776	5.3	16,019
Other liability accounts	27,331	20,680	6,651	32.2	23,369
Total liabilities	**1,176,581**	**1,053,830**	**122,752**	**11.6**	**1,201,133**
Shareholders' equity	91,664	84,479	7,185	8.5	81,268
Capital stock	*6,292*	*5,667*	*625*	*11.0*	*5,161*
Reserves	*80,026*	*75,044*	*4,982*	*6.6*	*74,475*
Attributable profit to the Group	*5,816*	*4,175*	*1,641*	*39.3*	*2,283*
Less: dividends	*(471)*	*(406)*	*(64)*	*15.8*	*(650)*
Equity adjustments by valuation	(10,858)	(14,153)	3,295	(23.3)	(9,471)
Minority interests	8,909	9,972	(1,063)	(10.7)	9,950
Total equity	**89,714**	**80,298**	**9,416**	**11.7**	**81,747**
Total liabilities and equity	**1,266,296**	**1,134,128**	**132,168**	**11.7**	**1,282,880**

Grupo Santander. Balance sheet

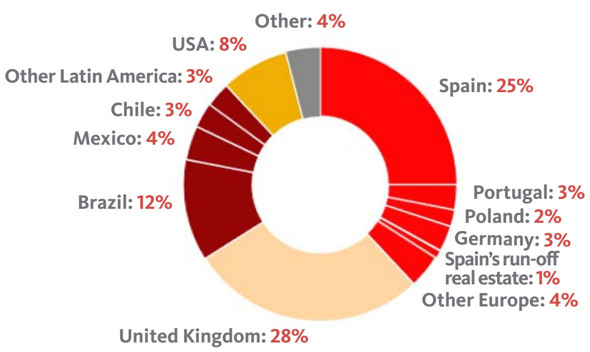
→ Growth in lending and in funds in most countries in 2014:

- In **lending**, growth in the 10 core markets, except for Portugal, and notably in Latin America.
- In **funds**, also widespread growth, with a greater focus on the cost of deposits and on the marketing of mutual funds.
- The Group's **net loan-to-deposit ratio** was 113% (112% in 2013).

→ The fully-loaded **CET1** ratio was 9.7% after the capital increase in January 2015. The fully-loaded total capital ratio was 11.8%.

Distribution of total assets

December 2014



Total **managed and marketed funds** at the end of 2014 amounted to EUR 1,428,083 million, of which EUR 1,266,296 million (89%) were on-balance sheet and the rest mutual and pension funds and managed portfolios.

When making comparisons with 2013 it is important to take into account the significant impact of changes in exchange rates of the currencies in which the Group operates. On the basis of year-end exchange rates, the dollar appreciated 14% against the euro, sterling 7% and the Brazilian real and the Mexican peso around 1%, while the Chilean and Argentine pesos depreciated 2% and 13%, respectively and the Polish zloty 3%. The impact on year-on-year changes in lending and customer funds was 3-4 p.p. positive.

There was also a positive perimeter effect of less than one point on lending, as a result of the incorporation to the Group of the consumer finance business of El Corte Inglés and GE's business in Nordic countries, both of them in the unit of Santander Consumer Finance.

Customer lending

The Group's gross lending amounted to EUR 761,928 million at the end of 2014, 7% higher. Excluding the exchange rate impact and eliminating repos, balances were 5% higher, and grew in every quarter of the year. The evolution by geographic areas was as follows.

In **Continental Europe,** the evolution varied. Lending fell in Portugal, still affected by the low demand, and in the Run-off Real Estate Activity in Spain, as the strategy of reducing this type of risk continued. It rose at Santander Consumer Finance, benefiting from the perimeter in Poland, with a good evolution by products and segments, and in Spain, where the trend of the last few years was reversed as a result of growth to companies and public administrations.

Customer loans

EUR Million

	2014	2013	Variation amount	%	2012
Spanish Public sector	17,465	13,374	4,091	30.6	16,884
Other residents	154,905	160,478	(5,572)	(3.5)	183,130
Commercial bills	7,293	7,301	(8)	(0.1)	8,699
Secured loans	96,426	96,420	6	0.0	103,890
Other loans	51,187	56,757	(5,570)	(9.8)	70,540
Non-resident sector	589,557	537,587	51,970	9.7	558,572
Secured loans	369,266	320,629	48,637	15.2	339,519
Other loans	220,291	216,958	3,333	1.5	219,052
Gross customer loans	**761,928**	**711,439**	**50,489**	**7.1**	**758,586**
Loan-loss allowances	27,217	26,749	468	1.7	27,014
Net customer loans	**734,711**	**684,690**	**50,021**	**7.3**	**731,572**
Pro memoria: Doubtful loans	40,424	41,088	(664)	(1.6)	36,002
Public sector	167	99	68	69.1	121
Other residents	19,951	21,763	(1,812)	(8.3)	16,025
Non-resident sector	20,306	19,226	1,080	5.6	19,856

- Gross lending in **Spain** (excluding the Run-off Real Estate Activity unit and repos) rose 2%. The distribution was as follows:

  - Lending to individuals amounted to EUR 59,746 million, of which EUR 47,333 million are home mortgages. This portfolio was concentrated in financing first homes, with a strong concentration in the lowest tranches of loan-to-value (73% with an LTV of less than 80%). The balance of mortgages dropped 6%, as the sharp rise of 64% in new loans still does not offset the amortisations made.

  - Loans directly to SMEs and companies without real estate purpose amounted to EUR 86,459 million and accounted for the largest share of lending (53% of the total). Growth was 5%, benefiting from the special plan to promote business with SMEs launched during 2014.

  - Lending to the Spanish public sector rose significantly in the year due to the higher funding of both the Central Administration and the local and autonomous regions, while also participating in corporate operations such as financing the electricity tariff deficit.

- In **Portugal**, lending dropped 5% in a context of deleveraging. Santander Totta gained market share, both in individual customers and companies. In the latter, balances in construction and real estate (2% of lending) dropped 27%.

- In **Poland**, credit increased 7% y-o-y in local currency, with growth in all products and segments. Of note were SMEs (+11%) and large companies, a segment being developed, where lending rose 32% from a still small base.

- **Santander Consumer Finance's** balances increased 9%. The evolution varied by country. In local currency terms, Germany's lending, which accounted for almost 50% of the area's credit, remained stable, Poland's rose 6%, the Nordic countries' 48% and Spain's 32% (both benefiting from the perimeter effect). The portfolios in Portugal and Italy continued to be adjusted.

  New loans increased 14%, with significant rises in direct credit, cards and new auto finance, where the evolution was better than the average for the sector.

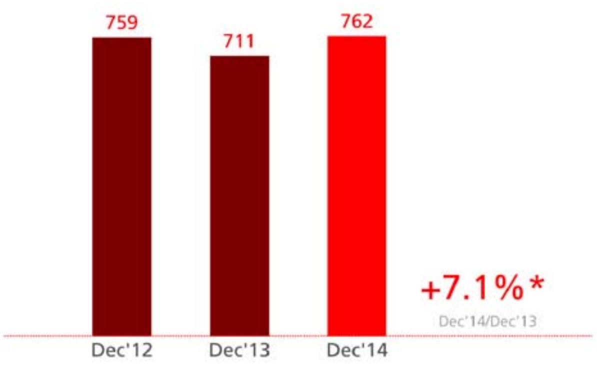
- Net customer lending included in the unit of **Run-off Real Estate Activity** in Spain amounted to EUR 3,787 million, a decline of EUR 1,948 million (-34%).

In the **United Kingdom,** the balance of customer loans was 3% higher in sterling. In local criteria, the balance of mortgages increased 1% and lending to companies 8%.

Lending in **Latin America** in constant currency increased 12%, with significant growth in all countries: Brazil (+10%), Mexico (+18%), Chile (+8%), Argentina (+23%), Uruguay (+17%) and Peru (+28%).

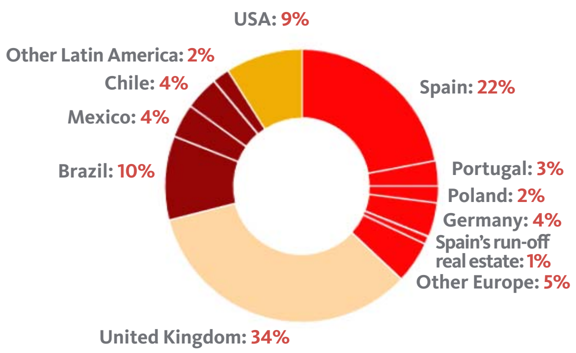
Lastly, lending in the **US** rose 4% in dollars, due to the sale and securitisations of assets in the second half of the year (+7% without this impact). Santander Bank's lending increased 1% (+6% excluding the sale of assets) and SCUSA's 13%, benefiting from the

Gross customer loans
EUR Billion



(*) Excluding exchange rate impact: +3.3%

Customer loans
% o/ operating areas. December 2014



Credit risk management*

EUR Million

	2014	2013	Variation amount	%	2012
Non-performing loans	41,709	42,420	(711)	(1.7)	36,761
NPL ratio (%)	5.19	5.61	(0.42 p.)		4.55
Loan-loss allowances	28,046	27,526	520	1.9	27,704
Specific	*21,784*	*22,433*	*(650)*	*(2.9)*	*22,213*
Collective	*6,262*	*5,093*	*1,170*	*23.0*	*5,491*
Coverage ratio (%)	67.2	64.9	2.3 p.		75.4
Cost of credit (%) **	1.43	1.69	(0.26 p.)		2,38

(*) Excluding country-risk
(**) 12 months net loan-loss provisions / average lending

Note: NPL ratio: Non-performing loans / computable assets

strategic alliance with Chrysler, while Puerto Rico's dropped 16% against a backdrop of deleveraging.

At the end of 2014, Continental Europe accounted for 37% of the Group's total net lending (22% Spain), the UK 34%, Latin America 20% (10% Brazil) and the US 9%.

Risks

Net NPL entries in 2014 amounted to EUR 9,652 million after eliminating the perimeter and exchange-rate effects (-51%). They declined in all countries, particularly in Spain, Portugal, Poland, UK and Chile.

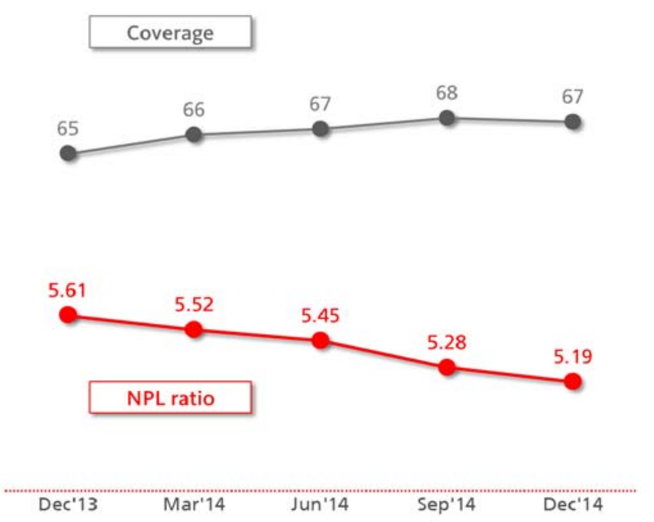
Bad and doubtful loans were EUR 711 million lower at EUR 41,709 million at the end of 2014. This balance, together with the level of lending, brought the Group's NPL ratio to 5.19%, 42 b.p. lower than in 2013 and the first decline since the start of the crisis.

Loan-loss provisions amounted to EUR 28,046 million, of which EUR 6,262 million are collectively assessed. The total was slightly higher (+2%) and combined with the fall in bad loans put coverage at the end of 2014 at 67% (65% in 2013).

The cost of credit (loan-loss provisions of the last 12 months as a percentage of average lending over the same period) was 1.43% (1.69% in 2013). Excluding SCUSA, which due the type of its

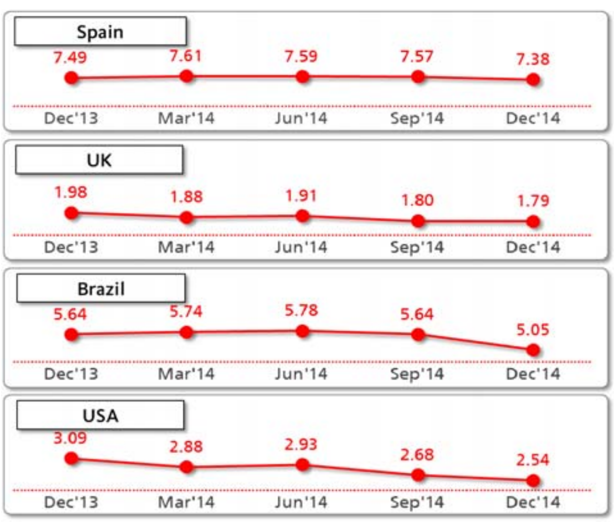
Grupo Santander. NPL and coverage ratios

%



Main units. NPL ratio

%



business has a high level of provisions and recoveries, the cost of credit was 1.15% (1.53% in 2013).

More information on credit risk, the control and monitoring systems and the internal risk models for calculating provisions can be found in the risk management report in this annual report.

Customer funds under management and marketed

Total managed funds, including mutual and pension funds and managed portfolios, amounted to EUR 1,023,437 million (+8%). Excluding the exchange rate impact, growth was 5%.

The strategy followed has been to grow in demand deposits, reduce expensive deposits and market mutual funds. The result was 9% growth in demand deposits (rise in the 10 main units), a 5% fall in time deposits and an increase of 18% in mutual funds.

Overall customer deposits excluding repos and mutual funds increased 9% (+6% excluding the forex impact).

Continental Europe's main units performed as follows:

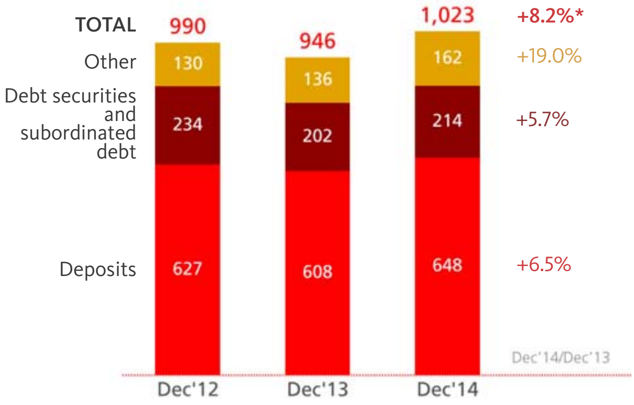
- **Spain's** total funds rose 5%. Spain is a clear example of the strategy followed: 25% growth in demand deposits and 28% in mutual funds, consolidating Grupo Santander's leadership. Time deposits, on the other hand, declined 22%.
- **Portugal's** funds increased 5% (+4% customer deposits without repos and +21% mutual funds). Demand deposits rose sharply and time ones remained virtually unchanged.
- **Poland's** deposits increased 12% in local currency, while mutual funds did not change. Their combined growth was 10%.
- **Santander Consumer Finance's** deposits declined 2%, due to the policy of reducing those of higher cost in Germany (81%of the area's total deposits).

In the **UK,** customer deposits excluding repos (in sterling) increased 3%, due to the strategy of replacing expensive and less stable deposits with those that offer a better opportunity of customer linkage. Demand deposits grew 24% because of the rise in current accounts as a result of the success of marketing the 1|2|3 range of products, which offset the reduction in time deposits. Mutual funds dropped 8%.

In **Latin America,** and in constant currency, the aggregate of deposits without repos plus mutual funds rose 14%: Brazil (+12%); Mexico (+13%); Chile (+17%); Argentina (+37%); Uruguay (+18%) and Peru (+32%).

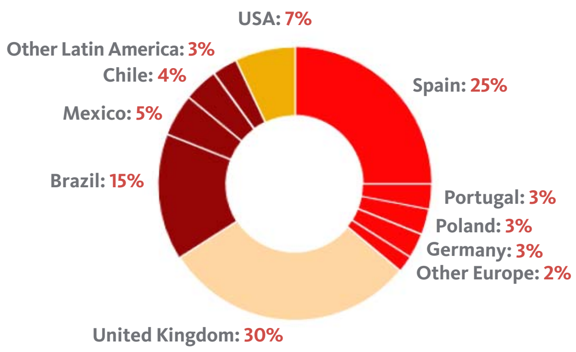
Lastly, in the **US** the aggregate of deposits without repos plus mutual funds increased 6%. Deposits rose 5% and continued to improve their composition and cost similar to that registered by other units (demand: +7%; time: -10%). Mutual funds increased 79% from a small base.

Managed and marketed customer funds
EUR Billion



(*) Excluding exchange rate impact: +5.0%

Managed and marketed customer funds
% o/ operating areas. December 2014



Managed and marketed customer funds

EUR Million

	2014	2013	Variation amount	%	2012
Resident public sector	9,349	7,745	1,604	20.7	8,487
Other residents	163,340	161,649	1,691	1.0	157,011
Demand deposits	88,312	74,969	13,343	17.8	71,526
Time deposits	67,495	80,146	(12,650)	(15.8)	75,414
Other	7,532	6,535	998	15.3	10,071
Non-resident sector	474,939	438,442	36,497	8.3	461,141
Demand deposits	273,889	230,715	43,175	18.7	228,698
Time deposits	151,113	161,300	(10,187)	(6.3)	179,503
Other	49,937	46,427	3,509	7.6	52,940
Customer deposits	**647,628**	**607,836**	**39,791**	**6.5**	**626,639**
Debt securities*	196,890	186,321	10,569	5.7	215,482
Subordinated debt	17,132	16,139	993	6.2	18,238
On-balance-sheet customer funds	**861,649**	**810,296**	**51,354**	**6.3**	**860,359**
Mutual funds	124,708	103,967	20,741	19.9	100,709
Pension funds	11,481	10,879	602	5.5	10,076
Managed portfolios	25,599	21,068	4,531	21.5	18,952
Other managed and marketed customer funds	**161,788**	**135,914**	**25,873**	**19.0**	**129,737**
Managed and marketed customer funds	**1,023,437**	**946,210**	**77,227**	**8.2**	**990,096**

(*).- Including retail commercial paper in Spain (EUR million): 274 in December 2014, 3,553 in December 2013 and 11,536 in December 2012

In addition to these advances, pension funds grew 5% in Spain and 7% in Portugal, the only countries where Santander markets this product.

By geographic areas, Continental Europe accounted for 36% of managed and marketed customer funds (25% Spain), the UK 30%, Latin America 27% (Brazil 15%) and the US 7%.

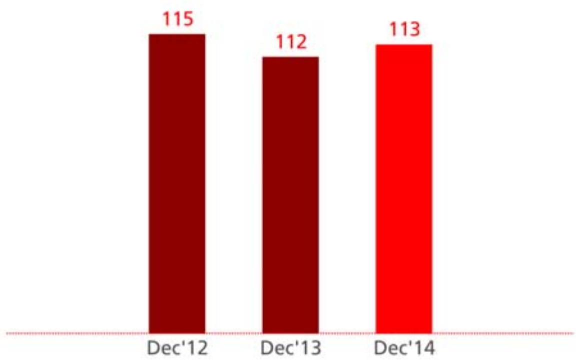
As well as capturing customer deposits, Grupo Santander, for strategic reasons, maintains a selective policy of issuing securities in the international fixed income markets and strives to adapt the frequency and volume of operations to the structural liquidity needs of each unit, as well as to the receptiveness of each market.

The Group captured EUR 26,423 million in medium- and long-term senior debt issues, and EUR 7,711 million in covered bonds.

Of note were: Santander Totta's placement of EUR 1,750 million in two issues of covered mortgage bonds, after four years of not being present in the international covered bonds market; the senior issue of EUR 1,500 million made in the European market by Banco Santander, S.A. in the first quarter; Santander UK's operations in September placing $1,500 million of senior debt in the US market and EUR 1,500 million of covered bonds in the European market; in November Banco Santander, S.A. Spain's issue of a covered mortgage bond in two tranches for an aggregate amount of EUR 3,000 million and maturities of 10 and 20 years, respectively, the longest maturity of a covered bond since the beginning of the crisis; and the senior debt issued by several European units of Santander Consumer Finance for a total amount of EUR 4,571 million in the local markets where it operates.

LTD ratio. Total Group

%



Managed and marketed mutual funds

EUR Million

	2014	2013	Variation amount	%	2012
Spain	42,183	33,104	9,078	27.4	26,720
Portugal	1,276	1,050	226	21.5	1,544
Poland	3,430	3,525	(96)	(2.7)	2,460
United Kingdom	9,524	9,645	(122)	(1.3)	13,919
Latin America	66,657	55,835	10,821	19.4	54,606
USA	1,640	807	833	103.3	1,460
Total	**124,708**	**103,967**	**20,741**	**19.9**	**100,709**

The Group's subsidiaries placed in the market during 2014 a total of EUR 13,391 million of securitisations, mainly via the consumer finance units.

This issuing activity underscores the Group's capacity to access the different segments of institutional investors via more than 10 issuance units, including the parent bank, Banco Santander, S.A. and the main subsidiaries of the countries where it operates. All this reaffirms the Group's policy of liquidity self-sufficiency for its subsidiaries so that each adapts its issuance programme to the evolution of its balance sheet.

Maturities and amortisation of medium- and long-term debt throughout the Group amounted to EUR 33,765 million in 2014, of which EUR 20,111 million was senior debt, EUR 10,175 million covered bonds, EUR 1,731 subordinated debt and EUR 1,749 million of preferred shares.

The net loan-to-deposit ratio was 113% in December, within the Group's comfort zone (around 120% or below). The ratio of deposits plus medium- and long-term funding to the Group's loans was 116%, underscoring the comfortable funding structure.

As regards funding from central banks, the Group took part in 2014 in the two auctions of long-term liquidity conditioned to the volume and evolution of non-mortgage loans (TLTROs) by the European Central Bank. The aggregate liquidity of both auctions taken via banks in Spain, Portugal and SCF was EUR 8,200 million.

Managed and marketed pension funds

EUR Million

	2014	2013	Variation amount	%	2012
Spain	10,570	10,030	539	5.4	9,289
Portugal	911	848	63	7.4	787
Total	**11,481**	**10,879**	**602**	**5.5**	**10,076**

Other balance sheet items

Total goodwill was EUR 27,548 million, EUR 3,284 million more than in 2013, due to SCUSA, the incorporations of Getnet and GE's business in Nordic countries and the evolution of exchange rates, particularly the US dollar and sterling.

The balance of financial assets available for sale amounted to EUR 115,251 million, EUR 31,452 million more than 2013 (+38%), due to the increased debt positions of Spain, Portugal, UK, Brazil and the US.

Trading derivatives amounted to EUR 76,858 million in assets and EUR 79,048 million in liabilities with year-on-year increases, due to the drop in interest rates in the long-term curve.

Shareholders' equity and solvency ratios

Total shareholders' funds, after retained profits, amounted to EUR 91,664 million (+7,185 million and +9%).

There were several issues of ordinary shares during 2014 to tend to those shareholders who opted to receive the equivalent amount of the interim dividends in shares under the *Santander Dividendo Elección* programme (scrip dividend). A total of 880,057,105 shares were issued for the four scrip dividends – the third and fourth of 2013 and the first and second of 2014, with an overall acceptance of 87.1% of the capital.

In addition, 370,937,066 shares were issued in September to tend to the exchange derived from the offer to acquire the minority interests of Banco Santander Brazil, S.A.

Valuation adjustments improved by EUR 3,295 million, with a notable positive impact of exchange rates (partly hedged) on the

Total equity and capital with the nature of financial liabilities

EUR Million

	2014	2013	Variation amount	%	2012
Capital stock	6,292	5,667	625	11.0	5,161
Additional paid-in surplus	38,611	36,804	1,807	4.9	37,302
Reserves	41,425	38,248	3,177	8.3	37,460
Treasury stock	(10)	(9)	(1)	11.1	(287)
Attributable profit	5,816	4,175	1,641	39.3	2,283
Less: dividends	*(471)*	*(406)*	*(64)*	*15.8*	*(650)*
Shareholders' equity	**91,664**	**84,479**	**7,185**	**8.5**	**81,268**
Valuation adjustments	(10,858)	(14,153)	3,295	(23.3)	(9,471)
Stockholders' equity	**80,806**	**70,326**	**10,480**	**14.9**	**71,797**
Minority interests	8,909	9,972	(1,063)	(10.7)	9,950
Total equity	**89,714**	**80,298**	**9,416**	**11.7**	**81,747**
Preferred shares and securities in subordinated debt	6,978	4,053	2,925	72.2	4,740
Total equity and capital with the nature of financial liabilities	**96,692**	**84,351**	**12,341**	**14.6**	**86,487**

value of stakes in foreign subsidiaries and by valuations of portfolios, mainly fixed income.

Total equity amounted to EUR 80,806 million at the end of 2014, (+EUR 10,479 million and +15%). Including the EUR 7,500 million capital increase in January 2015, total equity was EUR 88,306 million.

The Group's computable capital amounted to EUR 77,854 million including the capital increase.

Under the new European regulation on equity, and aimed solely at qualified investors, Banco Santander made three issues of contingent perpetual preferred securities convertible into ordinary shares of the Bank, eligible as additional Tier 1 (AT1) capital, to strengthen its solvency (Tier 1) in 2014.

These operations were for EUR 1,500 million in March, $1,500 million in May and EUR 1,500 million in September, and at annual rates of 6.25%, 6.375% and 6.25%, respectively, for the first five years in the first two cases and the first seven in the other. All were notably oversubscribed by the international investors at whom the issues were targeted. This meant pro-ratas in each one.

From a qualitative standpoint, the Group has solid ratios appropriate for its business model, balance sheet structure and risk profile.

The phased-in CET1 (common equity tier 1) is 12.2%, the same as that for the Tier 1 capital ratio, while the total ratio is 13.3%.

The fully-loaded CET1 is 9.7% and the total ratio is 11.8%. All these ratios take into account the capital increase made in 2015.

Computable capital*. December 2014

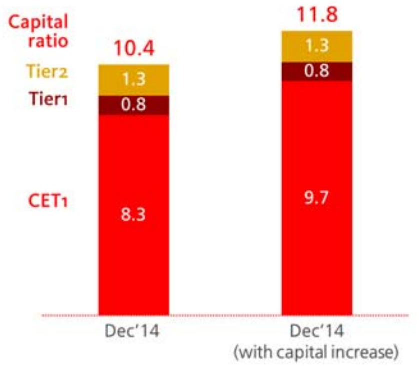
EUR Million

	Phase-in	Fully loaded
CET1	71,598	56,282
Basic capital	71,598	61,010
Computable capital	**77,854**	**68,570**
Risk-weighted assets	585,243	583,366
CET1 capital ratio	**12.2**	**9.7**
T1 capital ratio	**12.2**	**10.5**
BIS ratio	**13.3**	**11.8**

(*).- 2014 pro-forma taking into account the January 2015 capital increase

Capital ratios. Fully loaded

%



Rating agencies

The Group's access to wholesale funding markets, as well as the cost of issues, depends to some extent on the ratings accorded by rating agencies.

Rating agencies regularly review the Group's ratings. Debt classification depends on a series of internal factors (solvency, business model, capacity to generate profits, etc.) and external ones related to the general economic environment, the sector's situation and the sovereign risk of the countries in which the Group operates.

The rating and outlook for the Kingdom of Spain has improved. In 2014, Moody's improved its rating in February from Baa3 to Baa2 and the outlook from stable to positive, Fitch upgraded from BBB to BBB+ in April and confirmed it in October, and S&P in May from BBB- to BBB.

The methodology used by the agencies limits the rating of a bank above that of the sovereign of the country in which it is based. This means that despite the Group's good fundamentals, Santander's rating can be limited by the sovereign debt rating.

At the end of 2014, Banco Santander was the only bank in the world with a rating higher than that of the sovereign of the country in which it is based by the four agencies, following the upgradings in 2014 by Moody's from Baa2 to Baa1 with stable outlook, Fitch from BBB+ to A- with stable outlook and S&P from BBB to BBB+, also with stable outlook. The rating by DRBS remained at A. These higher ratings than the sovereign underscore Santander's financial strength and diversification.

During the first quarter of 2014, the Group obtained A+ and A from GBB Rating and Scope, respectively.

The agencies' good assessment of Santander's credit profile is reflected in the rating of the Bank's individual fundamentals, which in the case of S&P is "a-", a level equivalent to its peers including those based in countries with a better macroeconomic situation.

Rating agencies

	Long term	Short term	Outlook
DBRS	A	R1(low)	Negative
Fitch Ratings	A-	F2	Stable
GBB Rating	A+		Stable
Moody's	Baa1	P-2	Stable
Standard & Poor´s	BBB+	A-2	Stable
Scope	A		Stable

Description of the segments

Grupo Santander is maintaining in 2014 the general criteria applied in 2013, as well as the business segments with the following exceptions:

1) In the Group's financial statements:

- The Group has applied IFRIC 21, Levies, which addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37. The adoption of IFRIC 21 gave rise to a change in the recognition of the contributions made by Santander UK to the Financial Services Compensation Scheme and of the contributions made by the Group's Spanish financial institutions to the Deposit Guarantee Fund. Pursuant to the applicable standard, this change was applied retrospectively, giving rise to changes in the balances for 2013 (impact of -EUR 195 million on attributable profit and of -EUR 65 million on the Group's reserves) and 2012 (impact of -EUR 12 million on attributable profit and of -EUR 53 million on the Group's reserves).

- Some corporate operations recently carried out by the Group involve changes in the consolidation method. On the one hand, taking control of Santander Consumer USA (SCUSA) in 2014 meant changing to consolidation by global integration instead of by the equity accounted method, and, on the other, the loss of control of asset management companies sold at the end of 2013 meant consolidating by the equity accounted method instead of by global integration. Pro-forma information is provided with the Group's financial statements for previous periods, modified in order to facilitate comparisons as if these changes had been effective in the compared periods presented.

2) In geographic businesses by restructuring:

- The area for the United States includes Santander Bank, Santander Consumer USA, which as indicated, now consolidates by global integration, and Puerto Rico, which was previously included in Latin America.

- The sold units of Santander Asset Management consolidate by the equity accounted method, as commented, in the various countries.

3) Other adjustments:

- Annual adjustment of the perimeter of the Global Customer Relationship Model between Retail Banking and Global Banking and Markets. This change has no impact on the principal segments (or geographic).

- The Asset Management and Insurance area is now called Private Banking, Asset Management and Insurance. As regards the figures published in 2013, the domestic private banking units of Spain, Portugal, Italy, Brazil, Mexico and Chile are incorporated (management shared with local banks). Santander Private Banking in Latin America is also included.

For comparison purposes, the figures of previous periods of the principal and secondary segments have been re-expressed to include the changes in the affected areas.

The financial statements of each business segment have been drawn up by aggregating the Group's basic operating units. The information relates to both the accounting data of the units in each segment as well as that provided by the management information systems. In all cases, the same general principles as those used in the Group are applied.

The operating business areas are structured into two levels:

Principal level (or geographic). Geographical areas segment the activity of the Group's operating units. This coincides with the Group's first level of management and reflects Santander positioning in the world's three main currency areas (euro, sterling and dollar). The segments reported on are:

- **Continental Europe.** This covers all retail banking business, wholesale banking, and private banking and asset management and insurance conducted in this region, as well as the unit of Run-off Real Estate Activity in Spain. Detailed financial information is provided on Spain, Portugal, Poland and Santander Consumer Finance (which incorporates all the region's business, including the three countries mentioned herewith).

- **United Kingdom.** This includes retail and wholesale banking, and private banking asset management and insurance conducted by the Group's various units and branches in the country.

- **Latin America.** This embraces all the Group's financial activities conducted via its subsidiary banks and subsidiaries. It also includes the specialised units of Santander Private Banking, as an independent and globally managed unit, and New York's business. The financial statements of Brazil, Mexico and Chile are also provided.

- **United States.** Includes the businesses of Santander Bank, Santander Consumer USA and Puerto Rico.

Secondary level (or business). This segments the activity of the operating units by type of business. The segments are: Retail Banking, Wholesale Banking, Private Banking, Asset Management and Insurance and the unit of Run-off Real Estate Activity in Spain.

- **Retail Banking.** This covers all customer banking businesses, (except those of private banking and corporate banking, managed through the Global Customer Relationship Model). Because of their relative importance, details are also provided by the main geographic areas (Continental Europe, United Kingdom, Latin America and the United States). The results of the hedging positions in each country are also included, conducted within the sphere of each one's Assets and Liabilities Committee.

- **Global Wholesale Banking** (GBM). This business reflects the revenues from global corporate banking, investment banking and markets worldwide including all treasuries managed globally, both trading and distribution to customers (always after the appropriate distribution with Retail Banking customers), as well as equities business.

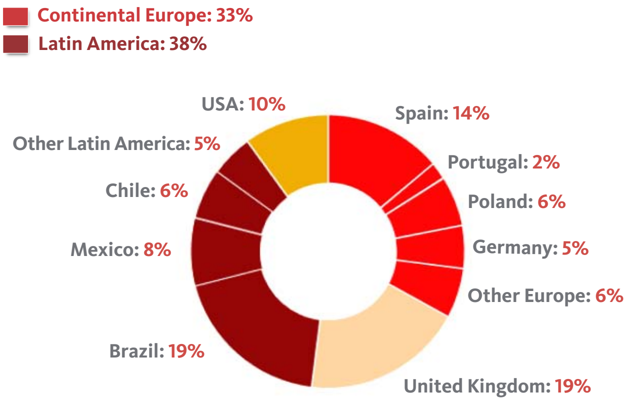
- **Private Banking, Asset Management and Insurance.** This includes the contribution to the Group for the design and management of mutual and pension funds and insurance, conducted in some cases via wholly-owned units and in other via units in which the Group participates through joint ventures with specialists. In both cases, the units remunerate the distribution networks used to place these products (basically the Group's, though not exclusively) via agreements. This means that the result recorded in this segment is net for each of the units included, in accordance with their participation and consolidation method, (i.e. deducting the distribution cost of sharing agreements from gross income). It also includes private banking business as defined above.

As well as these operating units, which cover everything by geographic area and by businesses, the Group continues to maintain the area of **Corporate Activities**. This area incorporates the centralised activities relating to equity stakes in financial companies, financial management of the structural exchange rate position and of the parent bank's structural interest rate risk, as well as management of liquidity and of shareholders' equity through issues and securitisations.

As the Group's holding entity, this area manages all capital and reserves and allocations of capital and liquidity. It also incorporates amortisation of goodwill but not the costs related to the Group's central services (charged to the areas), except for corporate and institutional expenses related to the Group's functioning.

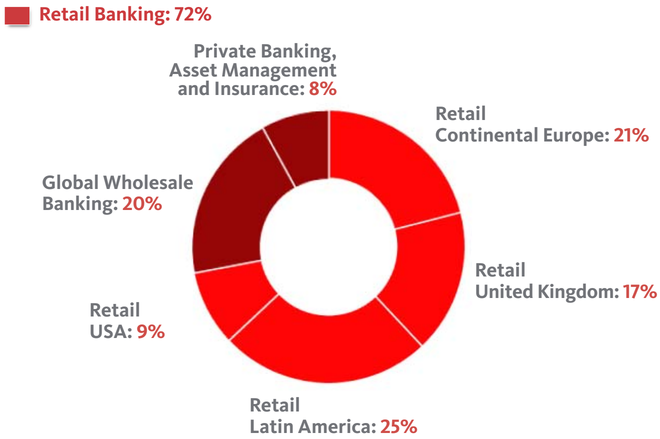
The figures of the Group's units have been drawn up in accordance with these criteria, and so might not coincide with those published individually by each unit.

Distribution of attributable profit by operating geographic segments*. 2014



(*) Excluding Spain's run-off real estate

Distribution of attributable profit by operating business segments*. 2014



Net operating income

EUR Million	2014	2013	Variation amount	%	% w/o FX
Continental Europe	**6,485**	**5,969**	**515**	**8.6**	**8.8**
o/w: Spain	3,515	3,220	295	9.2	9.2
Portugal	465	421	44	10.5	10.5
Poland	795	725	70	9.6	9.3
Santander Consumer Finance	1,857	1,720	137	8.0	8.0
United Kingdom	**2,651**	**2,276**	**375**	**16.5**	**10.6**
Latin America	**11,049**	**12,186**	**(1,137)**	**(9.3)**	**0.4**
o/w: Brazil	7,092	8,194	(1,102)	(13.5)	(5.4)
Mexico	1,812	1,796	16	0.9	5.2
Chile	1,343	1,322	20	1.5	17.0
USA	**3,611**	**2,975**	**636**	**21.4**	**21.3**
Operating areas	**23,795**	**23,406**	**390**	**1.7**	**6.5**
Corporate Activities	(1,221)	(1,644)	423	(25.7)	(25.7)
Total Group	**22,574**	**21,762**	**813**	**3.7**	**9.1**

Attributable profit

EUR Million	2014	2013	Variation amount	%	% w/o FX
Continental Europe	**2,078**	**1,115**	**963**	**86.4**	**87.4**
o/w: Spain	1,121	466	655	140.5	140.5
Portugal	189	114	75	65.1	65.1
Poland	358	334	24	7.2	6.9
Santander Consumer Finance	891	794	97	12.3	12.3
United Kingdom	**1,576**	**1,149**	**427**	**37.1**	**30.2**
Latin America	**3,150**	**3,181**	**(31)**	**(1.0)**	**10.8**
o/w: Brazil	1,558	1,577	(20)	(1.3)	8.0
Mexico	660	713	(53)	(7.4)	(3.5)
Chile	509	435	74	17.0	34.8
USA	**800**	**801**	**(1)**	**(0.1)**	**(0.2)**
Operating areas	**7,605**	**6,246**	**1,359**	**21.8**	**27.5**
Corporate Activities	(1,789)	(2,071)	282	(13.6)	(13.6)
Total Group	**5,816**	**4,175**	**1,641**	**39.3**	**49.3**

Customer loans

EUR Million	2014	2013	Variation amount	%	% w/o FX
Continental Europe	**266,827**	**266,355**	**471**	**0.2**	**(0.6)**
o/w: Spain	157,047	159,753	(2,706)	(1.7)	(1.7)
Portugal	23,180	24,482	(1,302)	(5.3)	(5.3)
Poland	16,976	16,214	761	4.7	7.7
Santander Consumer Finance	60,448	56,024	4,424	7.9	7.9
United Kingdom	**251,191**	**231,046**	**20,145**	**8.7**	**1.6**
Latin America	**144,714**	**128,684**	**16,030**	**12.5**	**12.1**
o/w: Brazil	74,373	66,446	7,927	11.9	10.7
Mexico	25,873	22,269	3,604	16.2	14.9
Chile	30,550	28,783	1,767	6.1	8.0
USA	**67,175**	**57,374**	**9,801**	**17.1**	**3.1**
Operating areas	**729,908**	**683,460**	**46,448**	**6.8**	**3.3**
Total Group	**734,711**	**684,690**	**50,021**	**7.3**	**3.8**

Customer deposits

EUR Million	2014	2013	Variation amount	%	% w/o FX
Continental Europe	**255,719**	**256,138**	**(418)**	**(0.2)**	**(0.1)**
o/w: Spain	178,446	181,117	(2,671)	(1.5)	(1.5)
Portugal	24,016	24,191	(174)	(0.7)	(0.7)
Poland	20,144	18,503	1,641	8.9	12.0
Santander Consumer Finance	30,847	30,878	(30)	(0.1)	(0.1)
United Kingdom	**202,328**	**187,467**	**14,862**	**7.9**	**0.8**
Latin America	**137,726**	**122,176**	**15,551**	**12.7**	**12.1**
o/w: Brazil	68,539	61,490	7,049	11.5	10.2
Mexico	28,627	24,663	3,964	16.1	14.8
Chile	23,352	20,988	2,364	11.3	13.2
USA	**46,575**	**39,206**	**7,369**	**18.8**	**4.6**
Operating areas	**642,348**	**604,985**	**37,363**	**6.2**	**3.0**
Total Group	**647,628**	**607,836**	**39,791**	**6.5**	**3.4**

Continental Europe

EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**8,728**	**8,107**	**622**	**7.7**	**7.9**
Net fees	3,457	3,420	37	1.1	1.1
Gains (losses) on financial transactions	453	774	(321)	(41.5)	(41.5)
Other operating income*	184	164	20	12.1	12.2
Gross income	**12,822**	**12,465**	**357**	**2.9**	**3.0**
Operating expenses	(6,337)	(6,495)	158	(2.4)	(2.3)
General administrative expenses	(5,632)	(5,737)	106	(1.8)	(1.7)
Personnel	*(3,316)*	*(3,488)*	*171*	*(4.9)*	*(4.8)*
Other general administrative expenses	*(2,315)*	*(2,249)*	*(66)*	*2.9*	*3.1*
Depreciation and amortisation	(706)	(758)	52	(6.9)	(6.8)
Net operating income	**6,485**	**5,969**	**515**	**8.6**	**8.8**
Net loan-loss provisions	(2,880)	(3,603)	724	(20.1)	(20.0)
Other income	(576)	(759)	184	(24.2)	(24.2)
Profit before taxes	**3,030**	**1,607**	**1,423**	**88.6**	**89.4**
Tax on profit	(756)	(351)	(406)	115.6	116.8
Profit from continuing operations	**2,273**	**1,256**	**1,017**	**81.0**	**81.8**
Net profit from discontinued operations	(26)	(6)	(20)	345.3	363.0
Consolidated profit	**2,247**	**1,250**	**997**	**79.8**	**80.5**
Minority interests	168	135	33	24.8	24.4
Attributable profit to the Group	**2,078**	**1,115**	**963**	**86.4**	**87.4**

Balance sheet					
Customer loans**	266,827	266,355	471	0.2	0.6
Trading portfolio (w/o loans)	65,859	50,317	15,543	30.9	30.9
Available-for-sale financial assets	52,858	37,319	15,539	41.6	42.3
Due from credit institutions**	65,754	38,547	27,207	70.6	70.9
Intangible assets and property and equipment	5,838	6,148	(311)	(5.1)	(4.9)
Other assets	22,523	39,902	(17,379)	(43.6)	(43.4)
Total assets/liabilities & shareholders' equity	**479,659**	**438,589**	**41,070**	**9.4**	**9.7**
Customer deposits**	255,719	256,138	(418)	(0.2)	0.1
Marketable debt securities**	19,435	16,781	2,654	15.8	17.2
Subordinated debt**	409	406	4	1.0	3.3
Insurance liabilities	713	1,430	(717)	(50.2)	(50.1)
Due to credit institutions**	76,889	59,440	17,449	29.4	30.1
Other liabilities	101,950	79,309	22,641	28.5	28.7
Shareholders' equity***	24,543	25,086	(543)	(2.2)	(1.7)
Other managed and marketed customer funds	**65,275**	**55,278**	**9,998**	**18.1**	**18.3**
Mutual and pension funds	58,369	48,559	9,810	20.2	20.4
Managed portfolios	6,906	6,719	187	2.8	2.8
Managed and marketed customer funds	**340,839**	**328,602**	**12,237**	**3.7**	**4.0**

Ratios (%) and operating means					
ROE	8.11	4.35	3.76		
Efficiency ratio (with amortisations)	49.4	52.1	(2.7)		
NPL ratio	8.93	9.13	(0.20)		
NPL coverage	57.2	57.3	(0.1)		
Number of employees	56,245	58,033	(1,788)	(3.1)	
Number of branches	5,482	6,160	(678)	(11.0)	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Continental Europe

Attributable profit of EUR 2,078 million, 86.4% more than in 2013, due to the good performance of all the main lines of the income statement.

- **Gross income increased 2.9% thanks to the 7.7% rise in net interest income (good performance by all units).**
- **Operating expenses were 2.4% lower, with falls in Spain, Portugal and Poland.**
- **Loan-loss provisions declined 20.1%, with reductions in Spain, Portugal and Santander Consumer Finance.**

Growth strategy focused on more lending in an environment of still weak demand and reducing the cost of liabilities.

Continental Europe includes all activities carried out in this zone: retail banking, global wholesale banking, private banking, asset management and insurance, as well as Run-off Real Estate Activity in Spain.

Environment and strategy

Units developed their business in 2014 in an environment of moderate growth, with significant differences by countries, and low interest rates. The system's high liquidity facilitated corporate issues and better access of companies and households to credit. All of this, however, did not prevent a further decline in lending in the euro zone (-1.5% year-on-year to October), reflecting deleveraging in some economies and disintermediation. The deposits of companies and households continued to grow at rates of around 3%.

In this context the integration of the retail networks in Spain and the banks in Poland was completed. In addition, the general strategic lines of the last few years were maintained:

- Defending spreads on loans and on deposits.
- Policy of reducing the cost of deposits in all units.
- Control of costs and exploiting synergies.
- Active risk management

Furthermore, the measures taken to push lending in those segments considered as strategic were intensified, particularly in the sphere of SMEs and companies.

Activity

Customer lending excluding repos increased 2%, due to the evolution in Spain, Poland and Santander Consumer Finance. It declined in Portugal and, above all, in Run-off Real Estate Activity in Spain.

Deposits excluding repos rose 2%, reflecting the cost reduction policy and the greater marketing of mutual funds (+24%). Pension funds increased 6%.

Results

Comparisons with 2013 are very favourable in the main income statement lines.

Gross income rose 2.9%, fuelled by net interest income (+7.7%), where the reduction in the cost of deposits in all units impacted favourably. Fee income was 1.1% higher, even though the impact in Spain of the incorporation of customers from Banesto to the programme *We want to be your Bank* was still felt, as well as regulatory effects in Spain, Portugal and Poland.

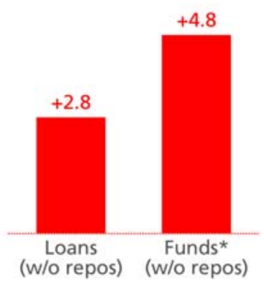
Operating expenses fell 2.4%, due to Spain (-6.7%), Poland (-2.2%) and Portugal (-0.9%).

Net operating income rose 8.6% and the efficiency ratio improved by 2.7 p.p. to below 50%.

Loan-loss provisions were 20.1% lower, with falls in all commercial units except Poland.

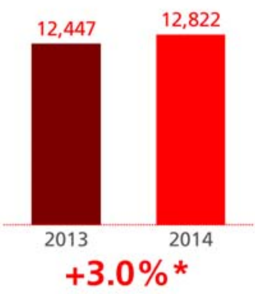
Net operating income after provisions jumped 52.4% to EUR 3,605 million and attributable profit surged 86.4%, due to the lower impact of the rest of provisions and other results.

Activity
% var. 2014/2013 (constant EUR)



(*) Customer deposits + mutual funds

Gross income
Constant EUR Million



(*) In euros: +2.9%

Net operating income
Constant EUR Million

(*) In euros: +8.6%

Attributable profit
Constant EUR Million

(*) In euros: +86.4%

Spain
EUR Million

Income statement	2014	2013	Variation amount	%
Net interest income	**4,768**	**4,358**	**411**	**9.4**
Net fees	1,796	1,832	(36)	(2.0)
Gains (losses) on financial transactions	284	610	(326)	(53.5)
Other operating income*	149	153	(4)	(2.8)
Gross income	**6,997**	**6,954**	**43**	**0.6**
Operating expenses	(3,482)	(3,734)	252	(6.7)
General administrative expenses	(3,130)	(3,349)	219	(6.5)
Personnel	*(1,929)*	*(2,115)*	*185*	*(8.8)*
Other general administrative expenses	*(1,201)*	*(1,234)*	*34*	*(2.7)*
Depreciation and amortisation	(352)	(384)	33	(8.5)
Net operating income	**3,515**	**3,220**	**295**	**9.2**
Net loan-loss provisions	(1,745)	(2,411)	666	(27.6)
Other income	(173)	(135)	(38)	28.3
Profit before taxes	**1,597**	**674**	**923**	**136.9**
Tax on profit	(469)	(207)	(263)	127.0
Profit from continuing operations	**1,127**	**467**	**660**	**141.2**
Net profit from discontinued operations	—	0	(0)	(100.0)
Consolidated profit	**1,127**	**467**	**660**	**141.2**
Minority interests	6	1	5	414.9
Attributable profit to the Group	**1,121**	**466**	**655**	**140.5**

Balance sheet				
Customer loans**	157,047	159,753	(2,706)	(1.7)
Trading portfolio (w/o loans)	62,470	47,062	15,408	32.7
Available-for-sale financial assets	38,353	25,608	12,745	49.8
Due from credit institutions**	48,881	25,092	23,789	94.8
Intangible assets and property and equipment	3,423	4,111	(688)	(16.7)
Other assets	5,166	21,183	(16,017)	(75.6)
Total assets/liabilities & shareholders' equity	**315,340**	**282,808**	**32,531**	**11.5**
Customer deposits**	178,446	181,117	(2,671)	(1.5)
Marketable debt securities**	704	3,953	(3,248)	(82.2)
Subordinated debt**	6	8	(2)	(21.9)
Insurance liabilities	539	525	14	2.7
Due to credit institutions**	38,519	22,759	15,759	69.2
Other liabilities	86,235	62,926	23,308	37.0
Shareholders' equity***	10,891	11,521	(629)	(5.5)
Other managed and marketed customer funds	**58,554**	**48,267**	**10,288**	**21.3**
Mutual and pension funds	52,605	42,976	9,629	22.4
Managed portfolios	5,949	5,291	658	12.4
Managed and marketed customer funds	**237,710**	**233,344**	**4,367**	**1.9**

Ratios (%) and operating means				
ROE	9.88	3.93	5.95	
Efficiency ratio (with amortisations)	49.8	53.7	(3.9)	
NPL ratio	7.38	7.49	(0.11)	
NPL coverage	45.5	44.0	1.5	
Number of employees	24,979	27,237	(2,258)	(8.3)
Number of branches	3,511	4,067	(556)	(13.7)

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Spain

Attributable profit of EUR 1,121 million, 140.5% more than in 2013 and improvements in all lines. Of note were:

- **Growth in net interest income (+9.4%), reflecting the lower cost of deposits.**
- **Drop of 6.7% in operating expenses, due to synergies from the merger and optimization plans.**
- **Loan-loss provisions declined 27.6%, due to much lower entries and the better credit quality.**

In activity: higher new lending and balances growing. Deposits plus mutual funds combined growth in volumes with the lower cost of deposits.

Grupo Santander has a solid retail presence in Spain (3,511 branches, 4,986 ATMs and 12.6 million customers), which is reinforced with global businesses in key products and segments (wholesale banking, private banking, asset management, insurance and cards).

Environment and strategy

Spain began a solid recovery in 2014, which coupled with the improvement in financial conditions (risk premium on 10-year government bonds at 107 b.p. at the end of 2014), spurred retail banking loan flows to households and SMEs. The balance of loans to companies and households fell again, due to deleveraging in some sectors and growing issues of securities by large companies. Deposits declined slightly, due to drop in time deposits, in a low interest rate environment that favoured mutual funds.

The branch networks of Santander, Banesto and Banif were integrated and their specialization in Spain continued, through the migration of customers within the concentration process.

Optimization of networks and employees ahead of schedule is enabling cost synergies to be achieved and efficiency and profitability improved.

Of note in business was the strong push given to the *Santander Advance* strategy. The Bank aims to become the reference institution in the growth of SMEs via financial support and integral commitment to their development.

This initiative accelerated new lending and the capturing of customers, which constituted a clear turning point in business with SMEs. More than 10,000 companies and SMEs participated in 2014 in non-financial activities, either training (on site, at distance workshops) or promoting international business (virtual connection of Spanish companies with potential customers from the UK, Brazil, Mexico and Poland). Moreover, 6,000 training and internship grants with companies were made.

In the segment of individuals, the project *We want to be your Bank* was transformed to give it various levels on the basis of the customer's linkage with the Bank and providing a better customer experience.

As for customer funds, the Bank maintained its strategy of optimizing the cost of funding begun in the middle of 2013, once high levels of liquidity were attained. Net loan-to-deposit ratio was 88%.

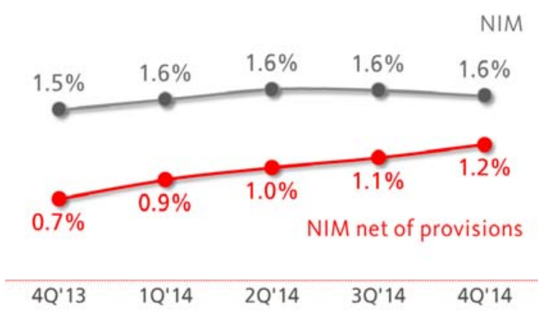
This made possible a sharp reduction in the cost of funds, particularly time deposits, and a rise in fees from the marketing of mutual funds. In this segment, the Bank is positioning itself in higher value funds for customers, which is enabling it to lead net capturing in the market and keep on gaining market share.

At the end of 2014, plans to increase positioning in some regions where the Bank operates below its natural market share were put into effect.

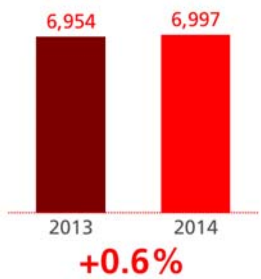
Activity
% var. 2014/2013

(*) Customer deposits + mutual funds

Net interest margin
%



Gross income
EUR Million



Activity

Lending continued to recover, with faster growth in new loans to individuals (mortgages: +64%; consumer credit: +72%) and to companies (+29% excluding commercial bills). Some 400,000 credits were granted for a total of EUR 34,000 million (market share gain of +84 b.p.).

The balance of gross loans to customers excluding repos rose by EUR 3,800 million, distinguishing us from most competitors and the sector as whole.

The aggregate of deposits without repos and mutual funds increased 5%.

Demand deposits increased 25% and time deposits fell 22%. This evolution reflected the strategy of reducing the cost of funds, which is feeding through to net interest income. In 2014, there was a further improvement of 94 b.p. in the cost of new time deposits, which reduced the cost of the stock of deposits by 64 b.p., between the two years

The reduction in time deposits was accompanied by a continuous rise in mutual funds managed and marketed by Santander (+28%). The greater demand for these products and the better evolution of the markets explain this evolution.

The balance of pension funds increased 5%. Lastly, repos fell by about EUR 3,000 million in twelve months, due to the reduction in clearing house activity.

Results

Net interest income was EUR 4,768 million, 9.4% more than in 2013, reflecting the good performance of the cost of deposits and the beginning of the recovery in lending.

Other revenues, including fee income, trading gains and other operating income, declined, affected by the *We want to be your Bank* strategy and regulatory changes in the first case, lower income from wholesale banking in the second, and the reduced perimeter from alliances in the businesses of funds management and insurance in the third.

Operating expenses were 6.7% lower, the product of synergies attained in the merger process and optimization plans put into effect.

Loan-loss provisions, which continued to normalize, were 27.6% lower at EUR 1,745 million and were the main reason for the improvement in profit.

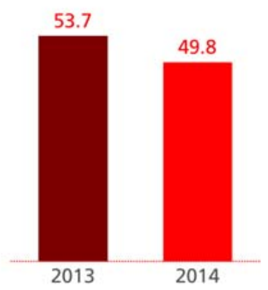
Attributable profit was EUR 1,121 million, up from EUR 466 million in 2013 (+140.5%).

The NPL ratio was 7.38% (-11 b.p.). Coverage was unchanged at 45%. Of note was the 92% fall in net entries of NPLs.

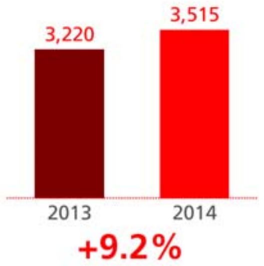
Strategy and objectives in 2015

- Increase the customer base. Focus on customer linkage with more transactions and cross selling.
- Lift the market share in lending, with the emphasis on SMEs *(Advance Plan).*
- Continue to improve the cost of credit.
- Strategy of capturing and strengthening agri-food business.

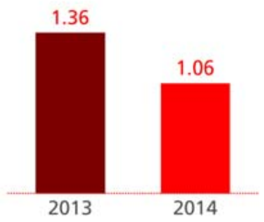
Efficiency ratio
%



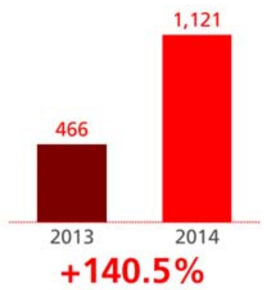
Net operating income
EUR Million



Cost of credit
%



Attributable profit
EUR Million



Portugal
EUR Million

Income statement	2014	2013	Variation amount	%
Net interest income	**546**	**514**	**32**	**6.3**
Net fees	280	318	(38)	(11.8)
Gains (losses) on financial transactions	88	51	37	72.9
Other operating income*	42	34	8	23.8
Gross income	**956**	**916**	**40**	**4.3**
Operating expenses	(491)	(495)	4	(0.9)
General administrative expenses	(419)	(417)	(3)	0.7
Personnel	*(297)*	*(299)*	*2*	*(0.5)*
Other general administrative expenses	*(122)*	*(118)*	*(4)*	*3.6*
Depreciation and amortisation	(72)	(79)	7	(9.0)
Net operating income	**465**	**421**	**44**	**10.5**
Net loan-loss provisions	(124)	(192)	69	(35.7)
Other income	(99)	(78)	(20)	26.2
Profit before taxes	**243**	**150**	**92**	**61.4**
Tax on profit	(57)	(44)	(14)	30.8
Profit from continuing operations	**185**	**106**	**79**	**74.1**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**185**	**106**	**79**	**74.1**
Minority interests	(4)	(8)	4	(52.4)
Attributable profit to the Group	**189**	**114**	**75**	**65.1**

Balance sheet				
Customer loans**	23,180	24,482	(1,302)	(5.3)
Trading portfolio (w/o loans)	2,082	1,831	252	13.7
Available-for-sale financial assets	7,011	4,724	2,288	48.4
Due from credit institutions**	2,163	2,895	(732)	(25.3)
Intangible assets and property and equipment	729	821	(92)	(11.2)
Other assets	6,450	7,096	(646)	(9.1)
Total assets/liabilities & shareholders' equity	**41,616**	**41,848**	**(232)**	**(0.6)**
Customer deposits**	24,016	24,191	(174)	(0.7)
Marketable debt securities**	2,855	2,329	526	22.6
Subordinated debt**	0	0	(0)	(71.6)
Insurance liabilities	27	75	(48)	(63.6)
Due to credit institutions**	11,538	12,319	(781)	(6.3)
Other liabilities	559	356	204	57.3
Shareholders' equity***	2,620	2,579	41	1.6
Other managed and marketed customer funds	**2,501**	**2,041**	**460**	**22.5**
Mutual and pension funds	2,187	1,898	289	15.2
Managed portfolios	314	142	172	120.7
Managed and marketed customer funds	**29,372**	**28,560**	**812**	**2.8**

Ratios (%) and operating means				
ROE	8.10	5.78	2.32	
Efficiency ratio (with amortisations)	51.4	54.1	(2.7)	
NPL ratio	8.89	8.12	0.77	
NPL coverage	51.8	50.0	1.8	
Number of employees	5,410	5,608	(198)	(3.5)
Number of branches	594	640	(46)	(7.2)

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Portugal

→ **Attributable profit of EUR 189 million, 65.1% more than in 2013 due to :**

- Net interest income was 6.3% higher, due to lower funding costs.
- Operating expenses fell 0.9%.
- Loan-loss provisions declined 35.7%.

→ The **net loan-to-deposit** ratio improved to 97%.

Santander Totta is Portugal's third largest bank by assets and it focuses on retail banking. It has 594 branches, over three million customers and a market share of 10%.

Environment and strategy

Portugal recovered positive growth rates in 2014, ending its economic and financial adjustment programme and returning to the international capital markets, taking advantage of the sharp fall in its risk premium. The total balance of loans, however, continued to decline, due to deleveraging, particularly in companies. Deposits remained stable throughout the year, contributing to an improvement in the sector's liquidity position.

Santander Totta's strategy in 2014 remained focused on increasing the levels of profitability and on market shares in various segments. At the same time, management of net interest income and control of non-performing loans continued to be critical objectives.

On the liabilities side, a strategy of reducing the cost of deposits and increasing their balances notably was combined, having taken advantage of market opportunities and some flight to quality to grow.

On the assets side, and despite the environment of deleveraging, Santander Totta put a lot of emphasis on the companies' segment, which produced a gain of 72 b.p. in 12 months in the market share of new lending.

Capital ratios remained very solid, with the CET1 CRD IV/CRR ending the year at 15.1%, well above the minimum required.

In the first half of the year, with a more favourable market environment, the Bank returned to the international markets with two issues of covered bonds. The first, at the end of March was for EUR 1,000 million at three years and the second, at the beginning of June, for EUR 750 million at five years. With these issues, for which there was large demand, the Bank reduced its exposure to the European Central Bank.

Activity

Customer deposits rose 4%, with sharp growth in demand deposits (+17%). Mutual funds increased 21%.

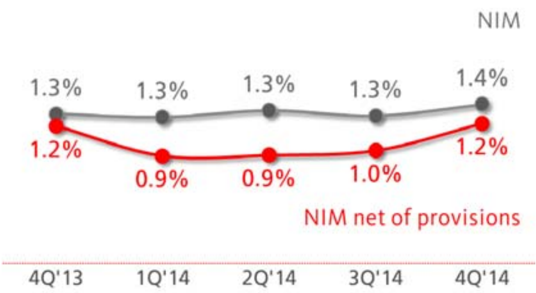
These rises, in a market that remained basically flat, produced a gain of 73 b.p. in the market share in the aggregate of deposits and mutual funds.

Lending declined 5% in a context of deleveraging. Despite this, the gain in market share was 46 b.p. during 2014, due to individuals and particularly to companies. Of note were the significant rises in new mortgage loans, in a market that was more dynamic (market share gain of 112 b.p. in twelve months), and in SMEs (+104 b.p.).

Activity
% var. 2014/2013

(*) Customer deposits + mutual funds

Net interest margin
%



Gross income
EUR Million

The net loan-to-deposit ratio improved to 97% from 101% in 2013.

Santander Totta ended the year with a NPL ratio of 8.89% (8.12% in 2013). Coverage was 52% (50% in 2013). In local criteria, the NPL and coverage ratios remained significantly better than Portugal's average, according to the latest available figures.

Results

Santander Totta recovered in 2014 the path of profit growth, as a result of the good performance of the main lines of the income statement. Of note was growth in gross income in a still weak business environment.

Gross income rose 4.3% to EUR 956 million, due to the positive evolution of net interest income and of trading gains, which offset the fall in net fee income.

Net interest income was EUR 546 million (+6.3%), thanks to lower funding costs, particularly in deposits.

Net fee income was 11.8% lower at EUR 280 million, affected by the reduced business volume and regulatory changes.

Trading gains amounted to EUR 88 million, higher than in 2013 due to the greater capital gains in portfolio management.

Operating expenses (EUR 491 million) declined for the fifth straight year (-0.9%) due to maintaining the policy of optimising the commercial network adjusted to the business environment.

The efficiency ratio improved by 2.7 p.p. in 2014 to 51.4%.

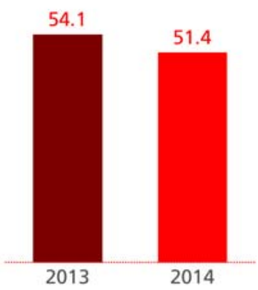
Loan-loss provisions fell 35.7% year-on-year to EUR 124 million, benefiting from lower NPL entries (-69%) during 2014.

Pre-tax profit was 61.4% higher at EUR 243 million and attributable profit rose 65.1% to EUR 189 million.

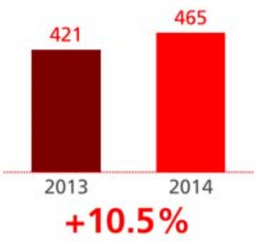
Strategy and objectives in 2015

- Increase customer linkage with a greater effort in SMEs/companies.
- Boost market shares, mainly in companies, where we expect to change the trend of recent years and return to grow in volumes.
- Continue the normalisation process of the cost of deposits and the cost of credit.
- Maintain efficiency plans in order to reduce costs for the sixth consecutive year.
- Strengthen international business.

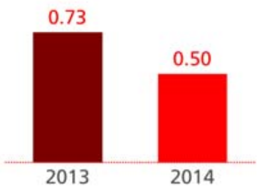
Efficiency ratio
%



Net operating income
EUR Million



Cost of credit
%



Attributable profit
EUR Million

Poland

EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**834**	**780**	**54**	**7.0**	**6.7**
Net fees	435	400	35	8.6	8.3
Gains (losses) on financial transactions	79	119	(39)	(33.2)	(33.3)
Other operating income*	28	19	9	46.2	45.8
Gross income	**1,376**	**1,317**	**58**	**4.4**	**4.1**
Operating expenses	(581)	(592)	11	(1.9)	(2.2)
General administrative expenses	(532)	(539)	7	(1.2)	(1.5)
Personnel	*(309)*	*(312)*	*3*	*(0.9)*	*(1.2)*
Other general administrative expenses	*(223)*	*(227)*	*4*	*(1.7)*	*(2.0)*
Depreciation and amortisation	(48)	(53)	5	(9.0)	(9.3)
Net operating income	**795**	**725**	**70**	**9.6**	**9.3**
Net loan-loss provisions	(186)	(167)	(18)	10.8	10.5
Other income	11	(6)	16	—	—
Profit before taxes	**620**	**552**	**68**	**12.3**	**12.0**
Tax on profit	(135)	(107)	(28)	26.3	25.9
Profit from continuing operations	**485**	**445**	**40**	**9.0**	**8.7**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**485**	**445**	**40**	**9.0**	**8.7**
Minority interests	127	111	16	14.2	13.9
Attributable profit to the Group	**358**	**334**	**24**	**7.2**	**6.9**

Balance sheet					
Customer loans**	16,976	16,214	761	4.7	7.7
Trading portfolio (w/o loans)	1,166	532	634	119.1	125.4
Available-for-sale financial assets	5,816	5,325	491	9.2	12.3
Due from credit institutions**	1,061	667	394	59.1	63.6
Intangible assets and property and equipment	236	273	(37)	(13.5)	(11.1)
Other assets	2,540	2,095	446	21.3	24.7
Total assets/liabilities & shareholders' equity	**27,794**	**25,106**	**2,688**	**10.7**	**13.9**
Customer deposits**	20,144	18,503	1,641	8.9	12.0
Marketable debt securities**	230	121	110	91.0	96.5
Subordinated debt**	337	333	4	1.1	4.0
Insurance liabilities	77	84	(6)	(7.4)	(4.7)
Due to credit institutions**	1,261	1,206	55	4.6	7.6
Other liabilities	3,876	2,984	891	29.9	33.6
Shareholders' equity***	1,869	1,875	(7)	(0.4)	2.5
Other managed and marketed customer funds	**3,515**	**3,631**	**(117)**	**(3.2)**	**(0.4)**
Mutual and pension funds	3,430	3,525	(96)	(2.7)	0.1
Managed portfolios	85	106	(21)	(19.8)	(17.5)
Managed and marketed customer funds	**24,226**	**22,588**	**1,638**	**7.3**	**10.3**

Ratios (%) and operating means					
ROE	16.16	15.85	0.31		
Efficiency ratio (with amortisations)	42.2	45.0	(2.7)		
NPL ratio	7.42	7.84	(0.42)		
NPL coverage	60.3	61.8	(1.5)		
Number of employees	11,971	12,363	(392)	(3.2)	
Number of branches	788	830	(42)	(5.1)	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Poland (changes in local currency)

→ Pre-tax **profit of EUR 358 million,** 6.9% more than in 2013:

- Strong rise in commercial revenues (+7.2%) and good management of costs (-2.2%).
- Pre-tax profit of EUR 620 million (+12.0%). Attributable profit affected by higher taxes and minority interests.

→ **Integration with Kredyt Bank** completed, improving productivity and business

→ Growth in lending and deposits, maintaining a solid funding structure.

→ The strategic *Next Generation Bank* programme continues, with the main goal of converting us into the Bank of first choice for customers.

Santander is the third largest bank in Poland in terms of loans and deposits (market shares of 8.9% and 9.5%, respectively, including the business of Santander Consumer Finance in the country). Excluding it, the market shares are 7.5% in loans and 8.3% in deposits. The Bank has 788 branches and 115 agencies.

Environment and strategy

The Polish economy grew above 3% in 2014, partly benefiting from lower interest rates and a stable zloty against the euro. This environment encouraged faster growth in lending (+7%) coupled with an increased corporate over consumer credit. Deposits (+8%) accompanied this evolution in an interest rate environment that increased the attractiveness of mutual funds.

The merger of BZ WBK and Kredyt Bank was completed in the second half of the year. This process was carried out with very effective management of costs, due to the efficiency measures adopted and execution of the integration plan of the former Kredyt Bank. The successful integration is also reflected in productivity improvement.

The Group's business model in Poland continues to be based on retail banking and with a notable presence in asset management, intermediation of securities, factoring and leasing.

The Global Banking and Markets (GBM) market presence developed during 2014, through the continued offer of banking services to BZ WBK large customers and the Group's global customers. By the end of 2014 GBM had almost 150 companies, of which 36 were large Polish groups. Deposits in this segment increased 44% and loans 34%.

Santander continued to be the leader in cards, mobile banking and Internet, marketing different products and initiatives. In mobile banking and Internet, the *BZWBK 24* channel assumed importance and sales via it rose 52%. As of November, cash loans and the possibility of overdrafts in current accounts began to be included in this channel.

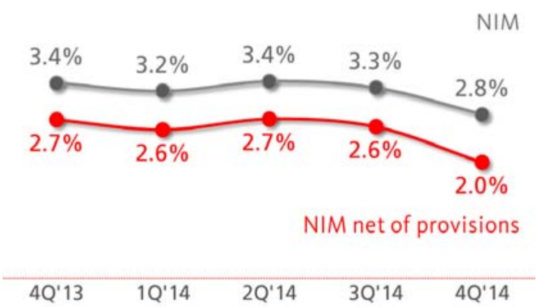
As regards cards, and despite the greater regulation of this market (recent reduction in the interchange fees), the Bank continued to perform well. In 2014, 680,000 debit cards were issued (+19%) and 57,000 credit cards (+9%). The total balances of credit cards increased 11% and turnover 14%.

All of this underscores a significant revenue potential in the coming years. The Bank also continued the *Next Generation Bank* programme to develop at all levels. The board, all businesses and product segments are involved in this programme, which is very focused on customer satisfaction. Its main goal is to streamline processes and products as part of our strategy.

Activity
% var. 2014/2013 (constant EUR)

(*) Customer deposits + mutual funds

Net interest margin
%



Gross income
Constant EUR Million

(*) In euros: +4.4%

Activity

Net loans at the end of 2014 amounted to EUR 16,976 million and customer deposits EUR 20,144 million. The solid funding structure was underscored by a net loan-to-deposit ratio of 84% (88% in 2013). Gross lending grew 7% and customer funds 10%.

In retail banking area 2014 was a very good year as regards increasing volumes and performance. Deposits grew strongly thanks to the success of the campaigns conducted in the second half of the year. In lending, the year was a record one for sales, with growth of 27% in mortgages, 20% in SMEs and 7% in cash loans.

In the corporate banking area, various campaigns were launched to provide loans and alternative ways of financing business development.

Of note was the leasing and factoring areas. The factoring portfolio increased 36% and sales 33%, putting us in third place in the market with a 13% share. The gross leasing portfolio rose 18%, with new sales portfolio volume up 35% (SMEs: +32%; rest of companies: +53%).

Results

Attributable profit was 6.9% higher than in 2013 at EUR 358 million, spurred by commercial revenues and good management of costs. Net operating income increased 9.3%.

Net interest income rose 6.7% underscored by higher volumes and good management of spreads in a low interest rates environment. Net fee income rose 8.3%, with notable growth in that from higher credit fees (commercial credit) and higher insurance fees. Trading gains fell 33.3% (-EUR 40 million), due the high gains in 2013 in an environment of low interest rates.

Operating expenses declined 2.2%, reflecting the synergies of the integration. With this evolution of revenues and costs, the efficiency ratio improved by 2.7 percentage points to 42.2%.

Net loan-loss provisions grew 10.5%, with an improvement in credit quality. The NPL ratio at the end of 2014 was 7.42%, down from 7.84% in 2013.

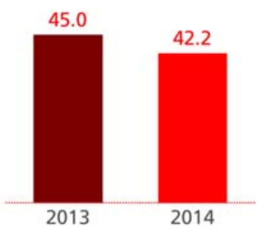
Attributable profit was dented by the 25.9% rise in taxes and the 13.9% increase in minority interests. Pre-tax profit was EUR 620 million (+12.0%).

In short, our unit continued to generate better quality results than its peers, strengthened by the success of the commercial strategy and higher productivity.

Strategy and objectives in 2015

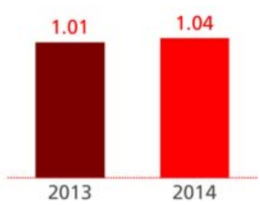
- Be the Bank of first choice for customers and employees, focused on attaining greater satisfaction for both of them.
- Boost market share in companies.
- Continue to be the leader in cards, mobile banking and Internet.
- Improve efficiency, productivity and profitability, maintaining a solid structure of liquidity and capital.

Efficiency ratio
%



Net operating income
Constant EUR Million

Cost of credit
%



Attributable profit
Constant EUR Million

Santander Consumer Finance

EUR Million

Income statement	2014	2013	Variation amount	%
Net interest income	**2,459**	**2,333**	**126**	**5.4**
Net fees	836	787	49	6.2
Gains (losses) on financial transactions	3	(7)	10	—
Other operating income*	12	(2)	14	—
Gross income	**3,309**	**3,111**	**198**	**6.4**
Operating expenses	(1,452)	(1,391)	(61)	4.4
General administrative expenses	(1,237)	(1,172)	(65)	5.5
Personnel	*(664)*	*(646)*	*(19)*	*2.9*
Other general administrative expenses	*(572)*	*(526)*	*(46)*	*8.8*
Depreciation and amortisation	(215)	(219)	4	(1.8)
Net operating income	**1,857**	**1,720**	**137**	**8.0**
Net loan-loss provisions	(544)	(565)	21	(3.7)
Other income	(37)	(70)	33	(47.2)
Profit before taxes	**1,277**	**1,085**	**191**	**17.6**
Tax on profit	(320)	(255)	(65)	25.6
Profit from continuing operations	**956**	**830**	**126**	**15.2**
Net profit from discontinued operations	(26)	(6)	(20)	345.2
Consolidated profit	**930**	**824**	**106**	**12.8**
Minority interests	39	31	8	27.1
Attributable profit to the Group	**891**	**794**	**97**	**12.3**

Balance sheet				
Customer loans**	60,448	56,024	4,424	7.9
Trading portfolio (w/o loans)	87	864	(776)	(89.9)
Available-for-sale financial assets	988	705	283	40.1
Due from credit institutions**	5,476	8,158	(2,682)	(32.9)
Intangible assets and property and equipment	786	934	(148)	(15.8)
Other assets	3,734	3,723	10	0.3
Total assets/liabilities & shareholders' equity	**71,520**	**70,409**	**1,111**	**1.6**
Customer deposits**	30,847	30,878	(30)	(0.1)
Marketable debt securities**	15,646	10,377	5,268	50.8
Subordinated debt**	66	64	2	3.3
Insurance liabilities	—	—	—	—
Due to credit institutions**	13,333	18,060	(4,727)	(26.2)
Other liabilities	4,091	3,901	189	4.9
Shareholders' equity***	7,537	7,128	408	5.7
Other managed and marketed customer funds	**7**	**6**	**1**	**9.8**
Mutual and pension funds	7	6	1	9.8
Managed portfolios	—	—	—	—
Managed and marketed customer funds	**46,566**	**41,326**	**5,241**	**12.7**

Ratios (%) and operating means				
ROE	10.89	9.95	0.94	
Efficiency ratio (with amortisations)	43.9	44.7	(0.8)	
NPL ratio	4.82	4.01	0.81	
NPL coverage	100.1	105.3	(5.2)	
Number of employees	13,046	11,695	1,351	11.6
Number of branches	579	613	(34)	(5.5)

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Santander Consumer Finance

→ **Attributable profit of EUR 891 million, 12.3% more than in 2013, due to:**

- **Higher gross income (+6.4%), fuelled by net interest income and fee income (+5.6% overall).**
- **Lower operating expenses at constant perimeter (-0.5%).**
- **Reduced loan-loss provisions (-3.7%).**

→ **Rises in profitable market share.**

→ **High credit quality for the standards of the business: NPL ratio of 4.82% and coverage ratio of 100%, impacted by the entry of GE Nordics (3.86% and 106% excluding it).**

→ **Agreements strengthened the future growth potential.**

Environment and strategy

Santander Consumer Finance's (SCF) units in Continental Europe conducted their business in an environment of moderate recovery in consumption (+1% year-on-year in the third quarter in the euro zone) and of car sales (+5% in the footprint), as well as tougher competition.

In this environment, SCF continued to gain market share, backed by a business model that has been strengthened in the last few years. The model's pillars are high geographic diversification with critical mass in key products, better efficiency than its peers and a common system of risk control and recoveries, which enables SCF to maintain high credit quality.

Management focused in 2014 on:

- Promoting new loans and cross selling tailored to each market and supported by brand agreements and penetration of the used car market.
- Exploiting its competitive advantages in the European consumer finance market.

Several agreements reached and/or materialized in the year bolstered SCF's position:

- In Spain, we are the leaders in consumer credit since the beginning of the year.
- In the Nordic countries in the fourth quarter, after acquiring GE's business, we became the leaders in auto finance, direct credit and cards.
- As of 2015 and in several European countries (including France and Switzerland where SCF does not currently operate), implementation of the agreement with Banque PSA Finance will strengthen SCF's leadership in auto finance.

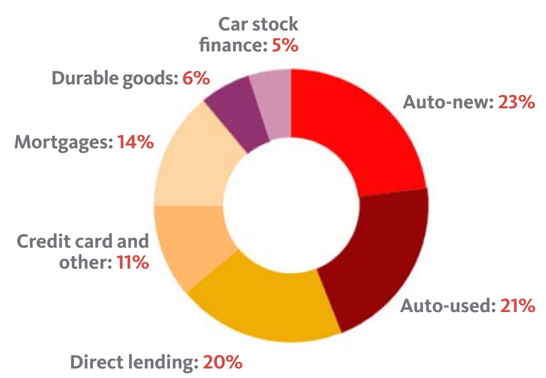
Activity

Gross lending increased 9% to EUR 63,509 million. Significant growth in the Nordic countries and Spain, favoured by the incorporations, as well as in Poland. Germany virtually unchanged and reduced business in Portugal and Italy.

New lending in 2014 amounted to EUR 25,073 million (+14%). Growth was strongly backed by direct credit and cards (+37% overall) and by new auto finance (+8%, higher than that of car registrations). All units grew in local currency terms, particularly

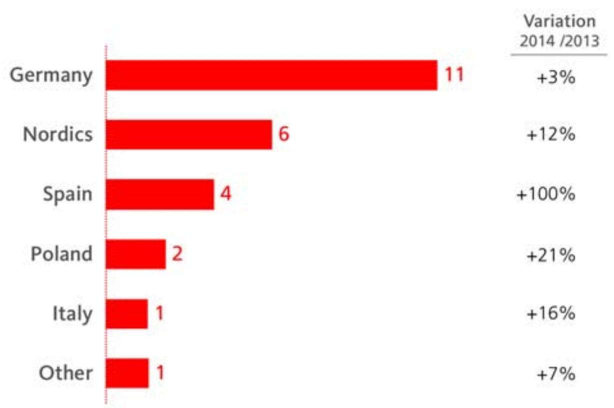
Portfolio distribution by products

%



New lending

EUR Billion



Poland (+21%), the euro zone periphery countries (double digit growth), Nordic countries (+12%) and Germany (+3%).

Of note on the funding side were stable customer deposits (around EUR 30,800 million), something that distinguishes us from our competitors.

As for wholesale funds capturing in markets, senior issues and securitisations in 2014 totalled EUR 6,750 million (EUR 6,200 million in 2013).

Deposits plus medium and long-term issues and securitisations covered 73% of net lending in 2014.

Results

Attributable profit was EUR 891 million, 12.3% more than in 2013 and slightly benefiting from the new incorporations.

Management of spreads on loans and the lower cost of funds absorbed the fall in interest rates, pushing up net interest income by 5.4%. Net fee income grew 6.2% and gross income was 6.4% higher at EUR 3,309 million.

Operating expenses grew 4.4%. Almost all of this growth was due to the new units in Spain and the Nordic countries (at constant perimeter costs dropped 0.5%).

The efficiency ratio improved by 0.8 p.p. to 43.9%.

Loan-loss provisions were 3.7% lower, which brought the cost of credit down to minimum levels of below 1%, a high level of credit quality for the standards of the business. The NPL ratio was 4.82% and the coverage ratio 100%. Both ratios have been impacted by the incorporation of GE's business in the Nordic countries as, excluding them, the NPL ratio was 3.86% and coverage 106%.

Net operating income after provisions increased 13.7%, with rises in all the big units.

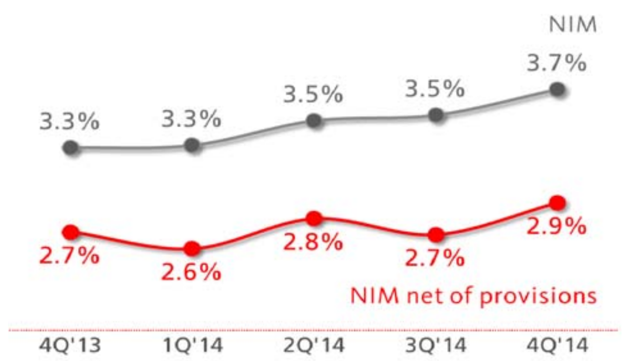
Of note was growth in Poland (+11.7%, due to higher gross income and lower operating expenses), the Nordic countries (+24.1%, because of the sharp rise in gross income favoured by the perimeter) and recovery in the euro zone periphery countries (good performance of gross income, costs and provisions). Germany grew 8.9%, with a favourable performance of gross income, particularly fee income, and lower costs and provisions.

Lastly, the UK (included in Santander UK for accounting purposes) generated an attributable profit of EUR 113 million (+6.2% excluding the forex impact).

Strategy and objectives in 2015

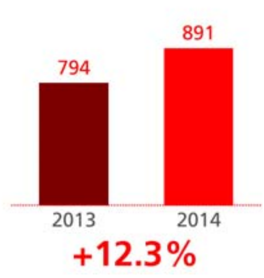
- Focus on the integration of new joint operations with PSA and the business acquired from GE Nordics.
- Spur new lending with defence of spreads, tailored to the moment of each market and supported by brand agreements and penetration of the used car market.
- Boost cross selling via IT tools, as well as online lending.

Net interest margin
%



Net operating income
EUR Million

Attributable profit
EUR Million



United Kingdom
EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**4,234**	**3,451**	**784**	**22.7**	**16.5**
Net fees	1,028	992	36	3.6	(1.7)
Gains (losses) on financial transactions	241	403	(162)	(40.1)	(43.2)
Other operating income*	37	36	2	5.6	0.2
Gross income	**5,541**	**4,881**	**660**	**13.5**	**7.7**
Operating expenses	(2,890)	(2,605)	(285)	10.9	5.3
General administrative expenses	(2,458)	(2,181)	(277)	12.7	7.0
Personnel	*(1,613)*	*(1,401)*	*(212)*	*15.1*	*9.2*
Other general administrative expenses	*(845)*	*(780)*	*(65)*	*8.4*	*2.8*
Depreciation and amortisation	(432)	(424)	(8)	1.8	(3.4)
Net operating income	**2,651**	**2,276**	**375**	**16.5**	**10.6**
Net loan-loss provisions	(332)	(580)	248	(42.8)	(45.7)
Other income	(318)	(236)	(82)	34.9	28.0
Profit before taxes	**2,001**	**1,460**	**541**	**37.1**	**30.1**
Tax on profit	(425)	(301)	(123)	40.9	33.8
Profit from continuing operations	**1,576**	**1,159**	**418**	**36.0**	**29.1**
Net profit from discontinued operations	—	(9)	9	(100.0)	(100.0)
Consolidated profit	**1,576**	**1,149**	**427**	**37.1**	**30.2**
Minority interests	—	—	—	—	—
Attributable profit to the Group	**1,576**	**1,149**	**427**	**37.1**	**30.2**

Balance sheet					
Customer loans**	251,191	231,046	20,145	8.7	1.6
Trading portfolio (w/o loans)	39,360	28,831	10,528	36.5	27.5
Available-for-sale financial assets	11,197	6,003	5,193	86.5	74.2
Due from credit institutions**	14,093	17,136	(3,043)	(17.8)	(23.2)
Intangible assets and property and equipment	2,700	2,498	202	8.1	1.0
Other assets	35,695	38,229	(2,534)	(6.6)	(12.8)
Total assets/liabilities & shareholders' equity	**354,235**	**323,743**	**30,492**	**9.4**	**2.2**
Customer deposits**	202,328	187,467	14,862	7.9	0.8
Marketable debt securities**	69,581	64,092	5,489	8.6	1.4
Subordinated debt**	5,376	5,805	(429)	(7.4)	(13.5)
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	26,700	26,882	(182)	(0.7)	(7.2)
Other liabilities	35,833	26,855	8,978	33.4	24.7
Shareholders' equity***	14,415	12,642	1,774	14.0	6.5
Other managed and marketed customer funds	**9,667**	**9,645**	**21**	**0.2**	**(6.4)**
Mutual and pension funds	9,524	9,645	(122)	(1.3)	(7.8)
Managed portfolios	143	—	143	—	—
Managed and marketed customer funds	**286,953**	**267,010**	**19,943**	**7.5**	**0.4**

Ratios (%) and operating means					
ROE	11.21	8.87	2.34		
Efficiency ratio (with amortisations)	52.2	53.4	(1.2)		
NPL ratio	1.79	1.98	(0.19)		
NPL coverage	41.9	41.6	0.3		
Number of employees	25,599	25,421	178	0.7	
Number of branches	929	1,011	(82)	(8.1)	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

United Kingdom (changes in sterling)

Attributable profit of £1,270 million, up 30.2% from 2013:

- **Net interest income growth of 16.5%, increasing for the eighth consecutive quarter.**
- **Cost efficiency absorbing more investment in businesses.**
- **Loan-loss provisions down 45.7%, supported by better credit quality in all portfolios and benign credit conditions.**

The *1|2|3 World* customer numbers continued to grow, now 3.6 million, with a better business profile, stronger relationships and increasing levels of activity.

Strong growth in corporate loans (+8%) and deposits (+7%), backed by the development of ancillary services and the greater distribution capacity.

Environment and strategy

In 2014 the pace of economic growth in the United Kingdom registered a strong pick up, and with sterling appreciating against the euro in an environment of low interest rates and high quantitative stimulus measures. Lending to the private sector registered limited growth (+2%), with loans to households increasing, underpinned by the rise in mortgage balances backed by higher house prices. On the other hand, loans to corporates continuing to decline. Deposits increased by around 5%.

Santander UK's strategy is built around three priorities: loyal and satisfied retail customers; Bank of Choice for UK companies; and consistent profitability and a strong balance sheet.

Santander UK continues to support its customers against a backdrop of a strengthening UK economy. In Retail Banking this is led by the *1|2|3 World* products, which is deepening customer relationships, realising greater transactionality and increased loyalty. This offering remains one of the most successful in the UK market and has contributed to a 47% increase in current account balances over the past twelve months. We are developing more targeted products and services for our key customer segments, such as our new *Select* segment for more affluent customers.

We continue to invest in branch refurbishments and digital technology. This year we have delivered a number of improvements in all of our digital platforms including our online and mobile banking services as well as introducing more digital technology into our branches. All of this is driving customer satisfaction and we are the most improved bank for retail customer satisfaction since December 2012, with the gap to the highest performing peers largely closed.

Santander UK is continuing to develop a more diversified business, with the growth of its corporate banking capability expanding its presence in this market whilst also widening its range of activities and the services offered to UK companies. Support for UK businesses continued with increased lending to corporates, rising 8% in the last 12 months meanwhile the market dropped. In addition, a strong positive evolution in customer deposits, which increased 7% and with a rise of 33% in account openings.

Balance sheet strength continues to underpin this strategy; capital and liquidity ratios are all robust, with Santander UK maintaining a leading capital position among the main UK banks. Santander UK exceeded the PRA's 2014 UK variant stress test threshold requirement of 4.5% with a stressed CET 1 capital ratio of 7.9% after PRA allowed management actions, demonstrating balance sheet strength and its resilience to a potential UK economic downturn.

At the end of December 2014, the CRD IV end point Common Equity Tier 1 capital ratio stood at 11.9% and leverage ratio was 3.8%.

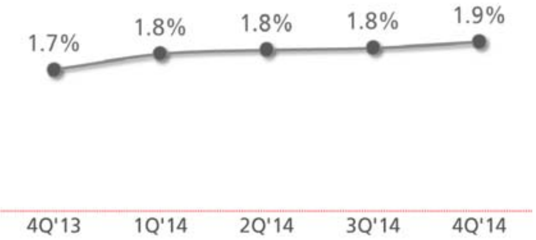
Activity

Santander UK is focused on the United Kingdom, with only 3% of assets being non-UK. Around 79% of customer loans are prime mortgages for homes in the UK. The portfolio of mortgages is of high quality, with no exposure to self-certified or subprime mortgages whilst buy to let mortgages are around 2% of customer loans. The loan to deposit ratio was 124%, one percentage point higher than in December 2013.

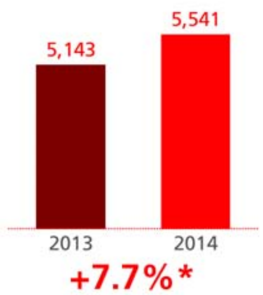
Activity
% var. 2014/2013 (constant EUR)

(*) Customer deposits + mutual funds

Banking NIM
%. Local criteria



Gross income
Constant EUR Million



(*) In euros: +13.5%

In local criteria, customer loans amounted to £190,700 million, 2% higher than in 2013. This was largely due to a 1% increase in mortgage loans and growth in corporate loans of 8%.

Gross mortgage lending amounted to £26,260 million, 43% more than in 2013, including £5,600 million to first time buyers and £1,200 million of *Help to Buy*. Net mortgage lending came to £2,000 million in 2014, as Santander UK resumed the growth of this business. This positive growth is expected to continue into 2015.

Both lending to corporates and, particularly, that to SMEs increased 8%.

At the end of 2014, there were 3.6 million customers in *1|2|3 World,* an increase of 1.2 million customers in a year. The *1|2|3 Current Account* attracts more loyal customers, with 93% of these customers having their primary bank account with Santander UK. Current account balances grew to £41,100 million, up 47% on 2013, or £1bn per month.

Customer deposits of £152,400 million increased 4% over 2013. In Retail Banking the managed reduction of more rate sensitive and short term deposits continued (mainly through maturities of higher rate *eSaver* savings products), and their replacement by deposits that offer better relationship opportunities and lower cost term ISA products.

Results

Attributable profit of £1,270 million, 30.2% more than in 2013.

This growth was largely due to net interest income, which increased 16.5%, with management focused on reducing the cost of retail liabilities following the strategy already mentioned. Gross revenues were 7.7% higher than in 2013, absorbing lower fee income and reduced gains on financial transactions.

Operating expenses increased by 5.3% in a year, with further investment in Retail Banking and Commercial Banking, partially offset by the efficiency plans we have in place. These investment programmes continued to support the transformation of the business and provide the underpinning for future efficiency improvements. The efficiency ratio was 52.2% (1.2 p.p. better than in 2013).

Loan-loss provisions fell 45.7%, with good credit quality across the product range and supported by an improving economic environment. The NPL ratio of 1.79% at the end of 2014 was lower than in 2013 (1.98%). We maintained our conservative lending criteria, with an average LTV of 65% on new lending, including *Help to Buy*, and 47% on the stock of mortgages. The Commercial Banking NPL ratio decreased to 3.01%, (3.02% at end 2013), as we continued to adhere to prudent lending criteria.

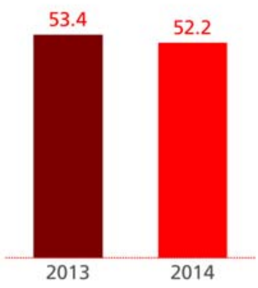
In short, the results demonstrated a further momentum in performance and continued progress evident through the year, particularly in net interest income. Banking NIM improved to 1.85% in the last quarter of 2014 from 1.71% in the last quarter of 2013.

Strategy and objectives in 2015

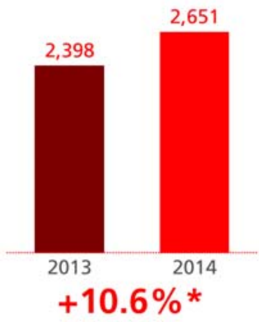
The strategy exhibited in 2014 will be maintained:

- On the assets side, growth in commercial lending and mortgages.
- On the liabilities side, increasing the number of customers who have their primary account with Santander UK.
- Improve the efficiency ratio, with management of 'jaws' to keep revenue growth higher than cost growth.
- Maintain good credit quality across all portfolios.
- Maintaining a strong capital base and prudent liquidity

Efficiency ratio
%

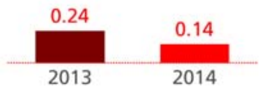


Net operating income
Constant EUR Million



(*) In euros: +16.5%

Cost of credit
%



Attributable profit
Constant EUR Million

(*) In euros: +37.1%

Latin America

EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**13,879**	**14,913**	**(1,034)**	**(6.9)**	**2.9**
Net fees	4,565	4,660	(95)	(2.0)	9.1
Gains (losses) on financial transactions	538	1,037	(499)	(48.1)	(41.3)
Other operating income*	83	51	32	64.0	86.7
Gross income	**19,065**	**20,661**	**(1,596)**	**(7.7)**	**2.3**
Operating expenses	(8,017)	(8,475)	459	(5.4)	5.0
General administrative expenses	(7,226)	(7,580)	354	(4.7)	5.9
Personnel	*(4,012)*	*(4,207)*	*196*	*(4.7)*	*5.9*
Other general administrative expenses	*(3,214)*	*(3,372)*	*158*	*(4.7)*	*5.8*
Depreciation and amortisation	(790)	(895)	105	(11.7)	(2.0)
Net operating income	**11,049**	**12,186**	**(1,137)**	**(9.3)**	**0.4**
Net loan-loss provisions	(5,119)	(6,435)	1,316	(20.5)	(12.7)
Other income	(839)	(543)	(295)	54.4	73.3
Profit before taxes	**5,091**	**5,207**	**(116)**	**(2.2)**	**9.4**
Tax on profit	(1,151)	(1,165)	14	(1.2)	12.7
Profit from continuing operations	**3,940**	**4,042**	**(102)**	**(2.5)**	**8.5**
Net profit from discontinued operations	—	0	(0)	(100.0)	(100.0)
Consolidated profit	**3,940**	**4,042**	**(102)**	**(2.5)**	**8.5**
Minority interests	790	861	(71)	(8.3)	0.3
Attributable profit to the Group	**3,150**	**3,181**	**(31)**	**(1.0)**	**10.8**

Balance sheet	2014	2013	Variation amount	%	% w/o FX
Customer loans**	144,714	128,684	16,030	12.5	12.1
Trading portfolio (w/o loans)	35,886	23,097	12,788	55.4	51.9
Available-for-sale financial assets	31,216	20,822	10,394	49.9	49.0
Due from credit institutions**	23,899	28,073	(4,174)	(14.9)	(16.2)
Intangible assets and property and equipment	3,967	3,895	72	1.9	1.9
Other assets	42,505	40,354	2,151	5.3	4.0
Total assets/liabilities & shareholders' equity	**282,187**	**244,925**	**37,262**	**15.2**	**14.3**
Customer deposits**	137,726	122,176	15,551	12.7	12.1
Marketable debt securities**	31,920	28,987	2,933	10.1	9.6
Subordinated debt**	6,467	4,833	1,635	33.8	33.1
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	35,263	24,489	10,773	44.0	42.4
Other liabilities	48,053	44,999	3,054	6.8	5.4
Shareholders' equity***	22,758	19,442	3,316	17.1	15.4
Other managed and marketed customer funds	**79,294**	**65,599**	**13,695**	**20.9**	**18.5**
Mutual and pension funds	66,657	55,835	10,821	19.4	18.1
Managed portfolios	12,637	9,764	2,874	29.4	20.3
Managed and marketed customer funds	**255,407**	**221,595**	**33,813**	**15.3**	**14.1**

Ratios (%) and operating means	2014	2013	Variation amount	%	% w/o FX
ROE	14.04	13.76	0.29		
Efficiency ratio (with amortisations)	42.0	41.0	1.0		
NPL ratio	4.65	5.00	(0.35)		
NPL coverage	84.7	85.4	(0.7)		
Number of employees	85,009	85,320	(311)	(0.4)	
Number of branches	5,729	5,789	(60)	(1.0)	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Latin America (all changes in constant currency)

→ Attributable profit of EUR 3,150 million, 10.8% higher than in 2013:

- **Gross income rose 2.3%, due to net interest income and fee income.**
- **Operating expenses increased (+5.0%) because of investments in commercial development, mainly in Mexico, Chile and Argentina and inflationary pressures.**
- **Loan-loss provisions declined 12.7%, mainly due to the improvement in Brazil.**

→ Lending increased 12% and deposits 11%.

Grupo Santander has the region's largest international franchise. It has 5,729 branches and points of attention, over 49 million customers and market shares of 9.9% in loans and 10.1% in deposits.

Environment and strategy

Growth slowed down in 2014, largely because of the international context. Central banks changed interest rates to varying degrees, with cuts in Mexico and Chile in order to support growth and hikes in others (Brazil) to contain inflation.

The slowdown was also reflected in the financial systems where Santander operates, reducing overall business. Total lending grew 11%, with stronger growth to companies and mortgages than consumer credit. Deposits increased 8%, mainly demand deposits.

Currencies depreciated against the dollar, but not against the euro where there was a slight appreciation except for the Chilean and Argentine pesos.

The strategy in 2014 was focused on expansion, consolidation and improvement in the business of the commercial franchise in the region.

We are strengthening the specialized offer of products and services tailored to suit customers' needs, which will enable us to push long-term business growth and improve customers' transaction business. Santander continued meanwhile to oversee the quality of risks. The measures being implemented to improve efficiency should be reflected in greater profitability.

The main aspects of the Group's activity and results are set out below. All percentage changes exclude the exchange rate impact.

Activity

Lending (excluding repos) increased 12%. Of note by country: Mexico increased 18%, Argentina 23% and Uruguay 17%.

Deposits excluding repos increased 11% with increases in all countries in demand deposits (up 15% for the whole region) and time deposits 8%. Mutual funds increased 18%.

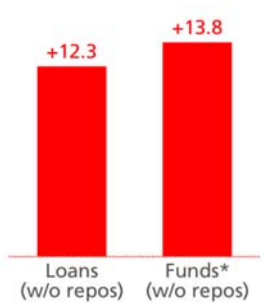
Results

Gross income was EUR 19,065 million, 2.3% higher than in 2013:

- Net interest income rose 2.9%, mainly affected by the change of mix toward lower cost of credit products and also reduced spreads. There was also pressure on spreads, particularly in Brazil and Mexico. Higher volumes and a lower cost of credit offset these effects.
- Net fee income increased 9.1%, with growth in all countries. Of note was the growth in that from cards (+9.8%) and insurance (+4.4%).
- Trading gains were 41.3% lower than in 2013 when income was obtained from the sale of portfolios, mainly in Brazil.

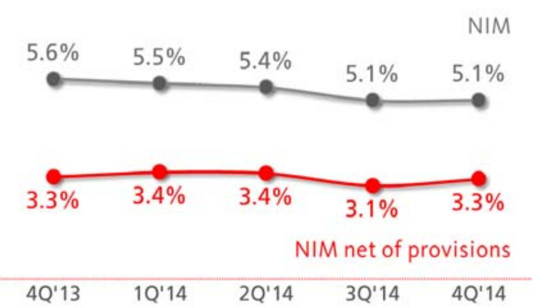
Operating expenses grew 5.0%, due to investment in networks and commercial projects (some traditional and others focused on priority customer segments) and inflationary pressures on salary agreements and contracted services. The consolidation of GetNet in Brazil also had some impact. Net operating income was EUR 11,049 million.

Activity
% var. 2014/2013 (constant EUR)

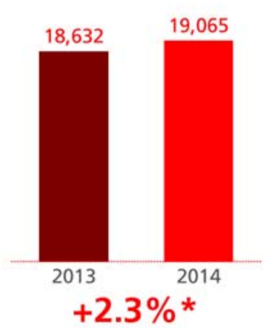


(*) Customer deposits + mutual funds

Net interest margin
%



Gross income
Constant EUR Million



(*) In euros: -7.7%

Latin America. Income statement

EUR Million

	Gross income			Net operating income			Attributable profit		
	2014	%	% w/o FX	2014	%	% w/o FX	2014	%	% w/o FX
Brazil	12,008	(11.2)	(2.9)	7,092	(13.5)	(5.4)	1,558	(1.3)	8.0
Mexico	3,072	1.7	6.0	1,812	0.9	5.2	660	(7.4)	(3.5)
Chile	2,197	(2.3)	12.6	1,343	1.5	17.0	509	17.0	34.8
Argentina	1,158	(9.8)	34.3	591	(14.2)	27.8	298	(10.5)	33.3
Uruguay	255	0.8	14.9	97	6.6	21.6	54	1.9	16.2
Peru	52	26.5	33.0	35	29.3	36.0	24	24.7	31.1
Other	32	391.3	394.9	(62)	(23.3)	(22.9)	(54)	(3.7)	(3.1)
Subtotal	**18,773**	**(7.8)**	**2.3**	**10,907**	**(9.4)**	**0.5**	**3,049**	**(0.8)**	**11.4**
Santander Private Banking	292	0.8	0.7	142	(4.3)	(4.4)	101	(4.8)	(4.9)
Total	**19,065**	**(7.7)**	**2.3**	**11,049**	**(9.3)**	**0.4**	**3,150**	**(1.0)**	**10.8**

Loan-loss provisions declined 12.7% due to Brazil (-17.7%, accentuating the change in trend started at the beginning of 2013). Mexico's provisions were slightly lower and Chile's almost unchanged.

The improvement in the cost of credit reflected the fall in NPLs. The NPL ratio ended the year at 4.65% (-35 b.p. in the year), positively impacted by Brazil. The coverage ratio was 85%.

After incorporating loan-loss provisions and other provisions, profit before tax was EUR 5,091 million (+9.4%).

The higher effective tax charge, mainly in Mexico, and lower minority interests in Brazil produced attributable profit of EUR 3,150 million (+10.8%).

Strategy and objectives in 2015

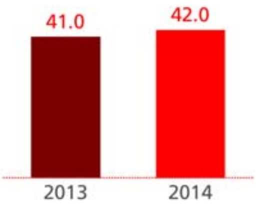
Improve business and the commercial franchise in the region:

- Increase the customer base and transactional linkage.
- Offer innovative value proposals (*Santander Advance* Programme – SMEs, *Select*- high-income clients – and be the Bank for companies' transactions).
- Improve productivity and profitability thanks to efficiency plans and quality of service

All of this, while keeping a permanent watch on the quality of risks.

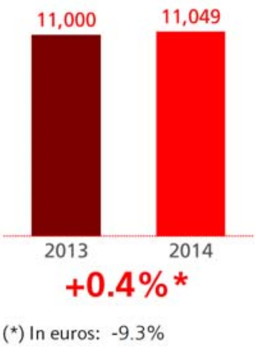
Efficiency ratio

%



Net operating income

Constant EUR Million

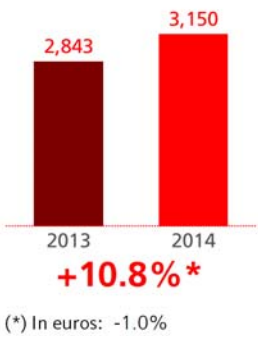


Cost of credit

%

Attributable profit

Constant EUR Million



Brazil

EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**8,959**	**10,067**	**(1,108)**	**(11.0)**	**(2.7)**
Net fees	2,836	2,871	(35)	(1.2)	8.0
Gains (losses) on financial transactions	96	540	(444)	(82.2)	(80.6)
Other operating income*	117	41	76	187.8	214.7
Gross income	**12,008**	**13,518**	**(1,510)**	**(11.2)**	**(2.9)**
Operating expenses	(4,916)	(5,324)	408	(7.7)	1.0
General administrative expenses	(4,407)	(4,743)	336	(7.1)	1.6
Personnel	*(2,386)*	*(2,563)*	*177*	*(6.9)*	*1.8*
Other general administrative expenses	*(2,021)*	*(2,180)*	*159*	*(7.3)*	*1.4*
Depreciation and amortisation	(509)	(581)	72	(12.4)	(4.2)
Net operating income	**7,092**	**8,194**	**(1,102)**	**(13.5)**	**(5.4)**
Net loan-loss provisions	(3,682)	(4,894)	1,212	(24.8)	(17.7)
Other income	(805)	(499)	(307)	61.5	76.5
Profit before taxes	**2,604**	**2,802**	**(197)**	**(7.0)**	**1.6**
Tax on profit	(679)	(763)	85	(11.1)	(2.8)
Profit from continuing operations	**1,926**	**2,039**	**(113)**	**(5.5)**	**3.3**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**1,926**	**2,039**	**(113)**	**(5.5)**	**3.3**
Minority interests	368	461	(93)	(20.2)	(12.7)
Attributable profit to the Group	**1,558**	**1,577**	**(20)**	**(1.3)**	**8.0**

Balance sheet	2014	2013	Variation amount	%	% w/o FX
Customer loans**	74,373	66,446	7,927	11.9	10.7
Trading portfolio (w/o loans)	18,256	10,321	7,935	76.9	74.9
Available-for-sale financial assets	22,939	14,175	8,764	61.8	60.0
Due from credit institutions**	10,276	14,734	(4,458)	(30.3)	(31.0)
Intangible assets and property and equipment	2,640	2,793	(153)	(5.5)	(6.6)
Other assets	27,803	25,456	2,347	9.2	8.0
Total assets/liabilities & shareholders' equity	**156,287**	**133,925**	**22,362**	**16.7**	**15.4**
Customer deposits**	68,539	61,490	7,049	11.5	10.2
Marketable debt securities**	21,903	20,002	1,901	9.5	8.3
Subordinated debt**	4,368	2,734	1,634	59.8	58.0
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	22,826	12,929	9,897	76.6	74.6
Other liabilities	25,684	25,229	455	1.8	0.7
Shareholders' equity***	12,967	11,542	1,425	12.4	11.1
Other managed and marketed customer funds	**49,806**	**42,640**	**7,166**	**16.8**	**15.5**
Mutual and pension funds	46,559	39,675	6,884	17.3	16.0
Managed portfolios	3,248	2,965	282	9.5	8.3
Managed and marketed customer funds	**144,616**	**126,866**	**17,750**	**14.0**	**12.7**

Ratios (%) and operating means	2014	2013	Variation amount	%	% w/o FX
ROE	13.28	12.64	0.64		
Efficiency ratio (with amortisations)	40.9	39.4	1.6		
NPL ratio	5.05	5.64	(0.59)		
NPL coverage	95.4	95.1	0.3		
Number of employees	46,464	49,371	(2,907)	(5.9)	
Number of branches	3,411	3,566	(155)	(4.3)	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Brazil (changes in local currency)

→ Attributable profit of EUR 1,558 million, 8.0% more than in 2013).

- **Gross income fell 2.9%, due to net interest income (change of mix) and trading gains. Fee income improved.**
- **Operating expenses rose by only 1%, well below the inflation rate.**
- **Credit quality continues to improve: loan-loss provisions declined 17.7%, and the NPL ratio fell 59 b.p.**

→ Loans and customer funds rose over 10%, with growth above private sector banks.

Santander Brazil is the country's third largest private sector bank by assets and the largest foreign bank in the country. It operates in the main regions, with 3,411 branches and points of banking attention, 14,856 ATMs and more than 31 million customers.

Environment and strategy

Banking business was conducted in 2014 in an environment of close to zero growth and higher interest rates to contain inflation, causing the real to depreciate against the dollar (slight appreciation against the euro). The economic slowdown was reflected in lower growth in lending (+11% in December), which continued to be driven by earmarked credit (+20%) and state banks, whose growth comfortably doubled that of the private sector banks (+16% vs. +6%). Total customer funds increased 10%, with a growing share of mutual funds and other funds (debentures and *letras financieras)* which increased 26%.

In this environment, Santander Brazil, as a universal bank focused on retail banking, maintained the following guidelines:

1) Increasing customers preference and linkage: with segmented products and services, simple and effective, which via a multi channel platform seek to maximise customer satisfaction.

2) Improve recurrence and sustainability: business growth with greater revenue diversification, while maintaining rigorous risk management.

3) Disciplined use of capital and liquidity in order to maintain a sound balance sheet, manage regulatory changes and take advantage of growth opportunities.

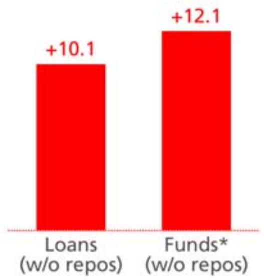
4) Increase productivity via an intense agenda of productive transformation.

5) Strengthen business lines with market share below the natural one.

Progress was made during 2014 in the Bank's strategic guidelines, through the reformulation of channels and launch of the new business model with a more efficient and agile management. In the segments of individuals and SMES, we launched products and made new agreements, expanded the *Select* branches (85 in 2014) and further strengthened the acquiring business. In the auto segment, Santander was the leader in car financing (19% market share).

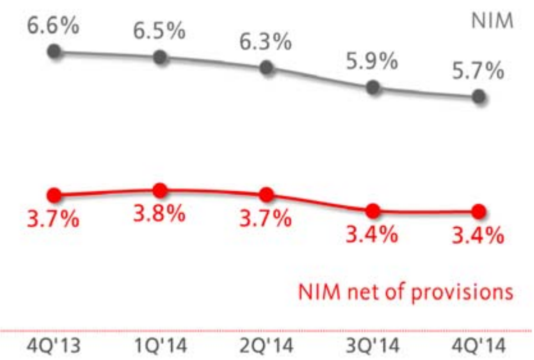
- Reformulation of channels with the creation of the multi channel concept, the proposal to improve the customer experience with simpler and more accessible processes. Of note was the launch of updated versions of the *Minha Conta app,* the new online banking and the special ATM for dollar withdrawals.
- Launch of *Santander Conta Conecta,* a current account for the segments of individuals and SMEs, which enables payments with cards to be received in smartphones and tablets. There are currently more than 60,000 accounts.
- Agreement to create a joint venture with Banco Bonsucesso to leverage activities in payroll business, as well as increase the offer of products and improve the distribution and marketing capacity. We expect to close this transaction in the first quarter of 2015.
- Acquisition of 50% of SuperBank, a digital platform that sells financial products and services for the massive segment of individuals, with a more efficient structure.
- Strengthen the acquiring business, following the purchase of GetNet. Banco Santander Brazil has an indirect participation with a stake of 88.5%.
- Launch of *Pague Directo*, a new payment means product which is focused on SMEs. This product enables shops to pay for their

Activity
% var. 2014/2013 (constant EUR)



(*) Customer deposits + mutual funds

Net interest margin
%



Gross income
Constant EUR Million

(*) In euros: -11.2%

orders with Santander's payment terminal more practically, quickly and securely.

- Lastly, at the end of 2014 the *CERTO* model was launched, which offers greater simplicity and commercial dedication to customers. The model has a unique commercial management platform with more integrated tools and aligned with a "customer vision", which will spur more business, efficiency and focus on the customer.

Activity

Lending rose 10%, higher than the average for private sector banks, backed by mortgages (+34%), where market penetration is still low, and large companies (+24%). The balances in segments of low risk/spreads such as agri business (+23%) and BNDES (+21%), where we want to boost our presence, also rose strongly.

Consumer finance lending declined 4% in a sluggish market and that to SMEs remained unchanged, after the falls of recent quarters with positive contribution of acquiring business.

Deposits without repos increased 8%, with demand deposits up 10%. Mutual funds rose 16%.

Santander Brazil's market share in total loans is 8.1% (12.4% for unearmarked lending) and 7.9% in deposits.

The strategy followed in the last few months increased the market share in segments where the Bank has a low presence, such as BNDES (+32 b.p.) and mortgages for individual borrowers (+32 b.p.) and also in auto finance, where Santander is the market leader.

Results

Gross income declined 2.9% to EUR 12,008 million, largely due to the fall in trading gains because of the reduced gains from markets activity in 2014. Net interest income was also lower because of the change of mix of portfolio to lower risk products/segments and the squeezing of spreads on loans.

Fee income, on the other hand, was 8.0% higher at EUR 2,836 million, backed by cards (+9%) and transaction banking (+15%), part of this growth came from the acquisition of GetNet.

Operating expenses rose by only 1.0% (-0.6% on a like-for-like basis), compared to inflation of more than 6%. This reflected the effort made in the last few years to control costs.

Loan-loss provisions declined 17.7%. The cost of credit fell to 4.9% from 6.3% in 2013.

Net operating income after provisions increased 13.0%. The NPL ratio was 5.05% (-0.6 p.p. in the year).

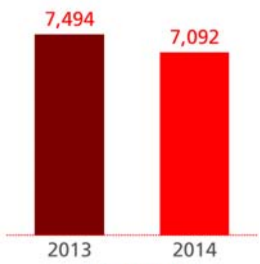
Attributable profit was 8.0% higher at EUR 1,558 million.

Strategy and objectives in 2015

- Continue the commercial business improvement and perception of services by customers.
- Grow the number of customers and increase linkage with more profitable products.
- Maintain the good lending trends.
- Increase commercial productivity via agile and modern tools.
- Maintain costs rise at below the inflation rate.
- Offer an innovative value proposal for SMEs, via *Santander Advance's* global programme.

Efficiency ratio
%

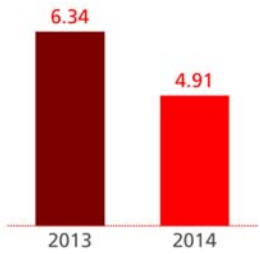
Net operating income
Constant EUR Million



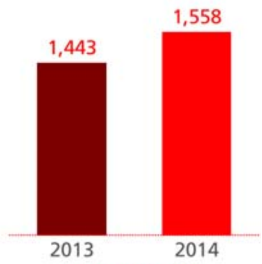
-5.4%*

(*) In euros: -13.5%

Cost of credit
%



Attributable profit
Constant EUR Million



+8.0%*

(*) In euros: -1.3%

Mexico

EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**2,182**	**2,120**	**62**	**2.9**	**7.3**
Net fees	770	783	(12)	(1.6)	2.6
Gains (losses) on financial transactions	165	141	24	17.0	21.9
Other operating income*	(45)	(23)	(22)	94.6	102.9
Gross income	**3,072**	**3,021**	**52**	**1.7**	**6.0**
Operating expenses	(1,260)	(1,225)	(36)	2.9	7.2
General administrative expenses	(1,129)	(1,105)	(24)	2.1	6.5
Personnel	*(607)*	*(593)*	*(14)*	*2.4*	*6.7*
Other general administrative expenses	*(522)*	*(512)*	*(10)*	*1.9*	*6.2*
Depreciation and amortisation	(131)	(120)	(12)	9.9	14.6
Net operating income	**1,812**	**1,796**	**16**	**0.9**	**5.2**
Net loan-loss provisions	(756)	(801)	44	(5.5)	(1.6)
Other income	2	17	(15)	(89.8)	(89.4)
Profit before taxes	**1,057**	**1,012**	**45**	**4.5**	**8.9**
Tax on profit	(207)	(79)	(127)	160.7	171.8
Profit from continuing operations	**851**	**933**	**(82)**	**(8.8)**	**(4.9)**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**851**	**933**	**(82)**	**(8.8)**	**(4.9)**
Minority interests	191	220	(29)	(13.4)	(9.7)
Attributable profit to the Group	**660**	**713**	**(53)**	**(7.4)**	**(3.5)**

Balance sheet					
Customer loans**	25,873	22,269	3,604	16.2	14.9
Trading portfolio (w/o loans)	10,185	8,685	1,500	17.3	15.9
Available-for-sale financial assets	4,624	3,387	1,238	36.6	35.0
Due from credit institutions**	7,058	7,975	(917)	(11.5)	(12.5)
Intangible assets and property and equipment	440	402	38	9.5	8.3
Other assets	5,545	5,681	(136)	(2.4)	(3.5)
Total assets/liabilities & shareholders' equity	**53,726**	**48,398**	**5,328**	**11.0**	**9.7**
Customer deposits**	28,627	24,663	3,964	16.1	14.8
Marketable debt securities**	3,266	2,896	370	12.8	11.5
Subordinated debt**	1,088	931	157	16.9	15.6
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	6,152	5,494	658	12.0	10.7
Other liabilities	11,004	11,601	(597)	(5.1)	(6.2)
Shareholders' equity***	3,589	2,814	775	27.5	26.1
Other managed and marketed customer funds	**11,523**	**10,349**	**1,174**	**11.3**	**10.1**
Mutual and pension funds	11,523	10,349	1,174	11.3	10.1
Managed portfolios	—	—	—	—	—
Managed and marketed customer funds	**44,504**	**38,838**	**5,665**	**14.6**	**13.3**

Ratios (%) and operating means					
ROE	14.25	15.15	(0.91)		
Efficiency ratio (with amortisations)	41.0	40.5	0.5		
NPL ratio	3.84	3.66	0.18		
NPL coverage	86.1	97.5	(11.4)		
Number of employees	16,933	14,745	2,188	14.8	
Number of branches	1,347	1,258	89	7.1	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Mexico (changes in local currency)

→ Pre-tax profit of EUR 1,057 million, 8.9% more than in 2013, due to:

- **Growth of 6.0% in gross income, backed by business dynamism and management of spreads.**
- **Operating costs rose 7.2%, due to the greater installed capacity, with the opening of 95 branches in 2014.**
- **Loan-loss provisions declined 1.6%.**
- **The normalisation of the effective tax rate and minority interests reduced attributable profit by 3.5% to EUR 660 million.**

→ Lending rose at a faster pace of 18% and deposits without repos 14%.

Santander is the third largest banking group in Mexico by business volume, with a market share in loans of 13.8% and 13.7% in deposits. It has 1,347 branches throughout the country and more than 11 million customers.

Environment and strategy

The economy, still far from its potential growth rate, showed a better quarterly profile in 2014 that looks as if it will continue to be supported by the strength of the US economy and the structural reforms underway. Lower interest rates also contributed to it, and the peso depreciated against the dollar (slight appreciation against the euro). In this environment, the system's total lending grew at a slower pace (+9%) due to consumer credit as lending to companies and mortgages was stronger (+9% in both cases). Deposits rose 9%, spurred by demand deposits.

Santander Mexico continued to strengthen its franchise via its expansion plan and the priority focus on improving the quality of service, innovation and forging closer relations with customers.

We continued the expansion plan begun in 2012 under which 185 new branches have been opened (95 in 2014). This enabled us to attain a market share in branches of 16.2% as of September 2014. The number of ATMs also increased to 5,528 (including the new full function ones).

This greater installed capacity was accompanied by an improvement in multichannel sales platforms and increasing the range of products.

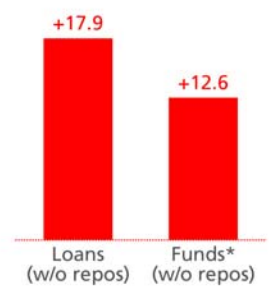
In multichannel activity and innovation, we continued to develop measures in online and mobile banking and improve the experience and security of customers via our *Huella Vocal* platform. We also integrated the 7/eleven shops into our network (1,800 new points). The number of additional points of attention over and above our network of traditional branches reached 16,350.

As regards the strategy, we focused on developing retail banking, particularly the segments of SMEs, companies and individuals.

In companies, we strengthened our position as one of the main options in the market. In SMEs, the *Santander SMEs* programme was launched (within the global programme of Grupo *Santander Advance*) whose objective is to continue to foster the growth of this important segment. The programme consists, as in other countries, of a comprehensive offer, not only financial, with benefits for SMEs such as grants, training, support to develop companies, internationalisation, etc. We ended the year with 18 SME centres (six new ones opened in 2014) and six new specialised branches. This strategy is reflected in a 26% increase in loans to SMEs.

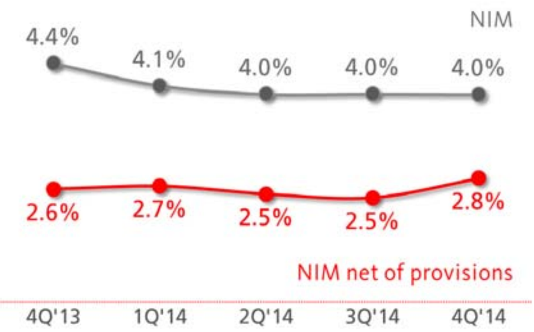
Of note in individuals is the mortgage segment, where we continued to offer a wide range of products in order to cover customers' needs, such as the *Hipoteca Light* that offers an initial low payment, the *10*1000* mortgage which offers fixed payments and the *Premier* mortgage, among others. We also acquired small mortgage portfolios, consolidating Santander as the second bank for mortgage loans.

Activity
% var. 2014/2013 (constant EUR)



(*) Customer deposits + mutual funds

Net interest margin
%



Gross income
Constant EUR Million

(*) In euros: +1.7%

In consumer credit, we launched a product for high-income segments and new credit card products. Of note among the latter was the first brand card shared with American Express and the first card for agri business.

As regards the high-income segment, the *Select* attention model was consolidated through 121 specialised offices (14 opened in 2014) and the *Contact Centre Select*, in order to offer a differentiated service. In 2014, *Mundo Select* was launched, with exclusive products and services.

Activity

The described activities resulted in both loans and deposits growing at faster rates than in 2013, and at a stronger pace than the sector.

Lending grew 18%, mainly to SMEs (+26%) and mortgages (+17%), while consumer credit rose 15% and credit cards 5%.

Deposits increased 14% and improved their structure. A greater focus was placed on demand deposits (+14%), Mutual funds increased 10%.

This evolution produced gains in the market share of loans and deposits of around one percentage point in both in twelve months.

Results

Gross income rose 6.0% year-on-year, with a good performance of net interest income (+7.3%) and fee income (+2.6%).

Gross income was affected by lower economic growth than initially envisaged, as well as by the cut in benchmark interest rates and the reduced spreads, as a result of the strategy of changing the mix to lower risk products. The strong increase in business volumes compensated this.

Operating expenses rose 7.2%, reflecting the new commercial projects and the greater installed capacity. Net operating income increased 5.2%.

Loan-loss provisions declined 1.6%, well below the natural growth that would accompany the 18% rise in lending. This was favoured by the one-off charges (mainly home developers) made in 2013.

The NPL ratio was 3.8%, and remained very stable throughout the year (3.7% in 2013). The coverage ratio was 86%.

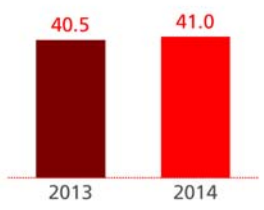
Pre-tax profit was 8.9% higher at EUR 1,057 million.

After deducting taxes (the tax rate rose from 7.8% to 19.5%) and minority interests, attributable profit was EUR 660 million.

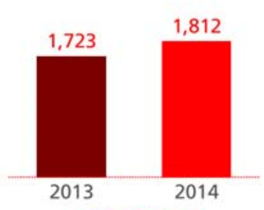
Strategy and objectives in 2015

- **Remain focused on SMEs, companies and individual customers.**
- **Promote business via technological innovation and multi channels, in order to increase the transactional linkage of customers.**
- **Position Santander as the leader in financing the government's infrastructure plan and the projects related to energy sector reform.**

Efficiency ratio
%



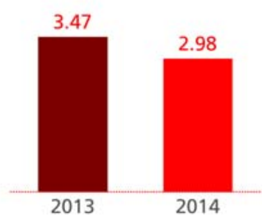
Net operating income
Constant EUR Million



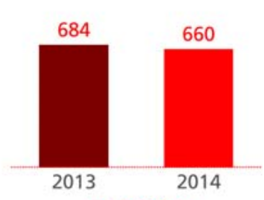
+5.2%*

(*) In euros: +0.9%

Cost of credit
%



Attributable profit
Constant EUR Million



-3,5%*

(*) En euros: -7,4%

Chile

EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**1,734**	**1,696**	**38**	**2.2**	**17.8**
Net fees	329	371	(42)	(11.4)	2.2
Gains (losses) on financial transactions	116	167	(51)	(30.5)	(19.9)
Other operating income*	18	14	3	22.5	41.2
Gross income	**2,197**	**2,249**	**(52)**	**(2.3)**	**12.6**
Operating expenses	(854)	(926)	72	(7.8)	6.3
General administrative expenses	(782)	(819)	36	(4.4)	10.2
Personnel	*(484)*	*(507)*	*23*	*(4.6)*	*10.0*
Other general administrative expenses	*(299)*	*(312)*	*13*	*(4.1)*	*10.5*
Depreciation and amortisation	(72)	(108)	36	(33.5)	(23.4)
Net operating income	**1,343**	**1,322**	**20**	**1.5**	**17.0**
Net loan-loss provisions	(521)	(597)	76	(12.8)	0.5
Other income	(24)	4	(28)	—	—
Profit before taxes	**798**	**730**	**68**	**9.3**	**26.0**
Tax on profit	(59)	(107)	48	(45.1)	(36.7)
Profit from continuing operations	**739**	**623**	**116**	**18.7**	**36.8**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**739**	**623**	**116**	**18.7**	**36.8**
Minority interests	230	187	42	22.7	41.4
Attributable profit to the Group	**509**	**435**	**74**	**17.0**	**34.8**

Balance sheet	2014	2013	Variation amount	%	% w/o FX
Customer loans**	30,550	28,783	1,767	6.1	8.0
Trading portfolio (w/o loans)	3,075	1,388	1,687	121.5	125.4
Available-for-sale financial assets	2,274	2,385	(111)	(4.7)	(3.0)
Due from credit institutions**	3,837	2,599	1,238	47.7	50.2
Intangible assets and property and equipment	347	327	20	6.2	8.1
Other assets	2,680	3,072	(392)	(12.8)	(11.2)
Total assets/liabilities & shareholders' equity	**42,763**	**38,553**	**4,210**	**10.9**	**12.9**
Customer deposits**	23,352	20,988	2,364	11.3	13.2
Marketable debt securities**	6,650	6,022	628	10.4	12.4
Subordinated debt**	985	1,147	(163)	(14.2)	(12.7)
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	4,382	4,253	129	3.0	4.8
Other liabilities	4,932	4,021	911	22.6	24.8
Shareholders' equity***	2,463	2,122	341	16.1	18.1
Other managed and marketed customer funds	**7,256**	**5,469**	**1,787**	**32.7**	**35.0**
Mutual and pension funds	5,564	4,067	1,497	36.8	39.2
Managed portfolios	1,693	1,402	291	20.7	22.8
Managed and marketed customer funds	**38,242**	**33,626**	**4,616**	**13.7**	**15.7**

Ratios (%) and operating means	2014	2013	Variation amount	%	% w/o FX
ROE	19.89	17.19	2.70		
Efficiency ratio (with amortisations)	38.9	41.2	(2.3)		
NPL ratio	5.97	5.91	0.06		
NPL coverage	52.4	51.1	1.3		
Number of employees	12,081	12,200	(119)	(1.0)	
Number of branches	475	493	(18)	(3.7)	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Chile (changes in local currency)

Attributable profit of EUR 509 million, 34.8% more than in 2013 .

- Gross income increased 12.6%, backed by net interest income (+17.8%) and fee income (+2.2%).
- Operating expenses rose 6.3%, a little above the inflation rate, because of investments in technology.
- Loan-loss provisions were unchanged and the cost of credit improved.

Lending rose 8%, particularly in the target segments of high-income clients (+16%) and companies (+8%). **Deposits** grew 13%, with demand deposits up 16%.

Santander is the leading bank in Chile in terms of assets and customers, with a marked focus on retail activity (individuals and SMEs). Its market share in loans is 19.2% and 17.6% in deposits. Of note is its share of loans to individuals; it is the leader in consumer finance (market share of 24.6%) and in mortgages (20.9%). These shares exclude the investment of Corpbanca in Colombia. The Bank has 475 branches, 1,645 ATMs and 3.6 million customers.

Environment and strategy

In 2014, the economy slowed down to a greater extent than expected, despite the cut in interest rates and the peso's sharp depreciation against the dollar and, to a lesser extent, the euro. The system's total lending (excluding the investment of Corbanca in Colombia) increased 11%, backed by loans to individuals, as credit to companies declined in line with investment. Deposits increased 10%, against a backdrop of lower interest rates and the greater attractiveness of money market funds. Deposits plus mutual funds grew 14%.

In this environment, the Group maintained its objective of improving the long-term profitability in a scenario of lower spreads and greater regulations. The strategic plan recognises the importance of positioning the customer in the centre of the strategy and seeks to consolidate the franchise in the leadership positions it historically maintained.

The strategy is based on three pillars:

- The quality of customer attention and experience;
- Netput a greater focus on retail banking, particularly medium and high income customers, SMEs and medium sized companies;
- Netconservative risk management and continuous improvement in processes to enhance operational efficiency.

This management is reflected in business. As regards the quality of service the net satisfaction index of customers improved in all networks and channels, closing the gap with the competition. The *Select* model was consolidated and the *NEO customer relationship management (CRM)* by business segments continued to make progress, as it was expanded to all the retail network via *NEO SMEs* and *NEO ONE* (a version for supervisors).

The above programmes are producing sustained growth in the number of customers (+7% since March 2013 when *Select* and *NEO CRM* were launched), together with a significant improvement in transaction linkage. Lastly, and within credit card business, the alliance with the LATAM airline (Lanpass) was renewed for another five years.

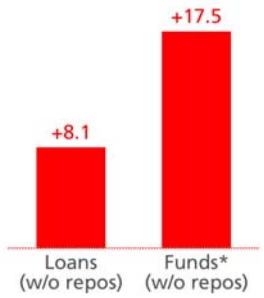
These efforts were reflected in the award by the magazine Euromoney to Santander as the best private bank in 2014, and the prize from Global Finance for the best website for customers.

In corporate banking, we continued to improve the model of specialised attention developed in 2013. This is aimed at strengthening growth in higher value added products, backed by differentiated offers such as *Santander Trade* and *Santander Passport,* the incorporation of eight company centres during the year and designing a new model of quality especially for the segment.

GBM successfully launched its *TOP 20* plan to reposition itself with the 20 main economic groups in Chile, which produced significant growth in revenues and profit. The focus was mainly on multinational customers, thanks to the advantages provided by the Group's global scope.

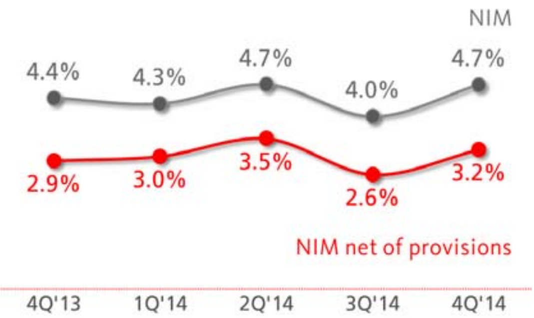
We placed $6,800 million in the international bond markets and we are leaders in the local market for funding the main

Activity
% var. 2014/2013 (constant EUR)



(*) Customer deposits + mutual funds

Net interest margin
%



Gross income
Constant EUR Million

(*) In euros: -2.3%

infrastructure works, including the Chacao bridge that will connect the island of Chiloé to the mainland.

Activity

The strategy followed produced an 8% rise in loans (+16% to high income customers and +8% to companies, objetive segments).

Deposits increased 13% (+16% demand deposits).

Several issues were made, among them an Australian dollar one by Santander Chile in February in the Australian market, the first of its kind by a Chilean bank.

Results

Gross income rose 12.6%, as follows:

- Net interest income increased 17.8%, spurred by growth of volumes in target segments, due to the better mix of deposits and the rise in revenues from the inflation-indexed UF portfolio.
- Fee income grew 2.2%, still impacted by the regulatory effects on insurance fees. Of note was the rise in fee income from means of payment (+11%), mutual funds (+17%) and transaction banking (+14%).
- Trading gains fell 19.9%, mainly due to lower gains from managing the portfolio of assets and liabilities. Activity with customers (*Santander Global Connect* and market-making), on the other hand, performed well due to the greater demand for exchange rate risk hedging because of the peso's depreciation.

Operating expenses rose 6.3%, above the inflation rate, due to contracts, rentals and salaries indexed to inflation, as well as the impact that the peso's depreciation had on technology services indexed to the dollar and the euro.

Loan-loss provisions were almost unchanged (+0.5%), which improved the cost of credit. The NPL ratio was 5.97% and the coverage ratio 52%.

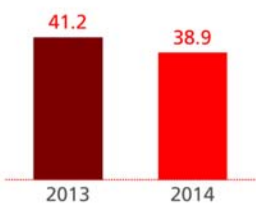
Pre-tax profit rose 26.0%. After deducting taxes (lower rate of 7% resulting from the updating of deferred taxes in accordance with the tax reform) and minority interests, attributable profit was 34.8% higher at EUR 509 million.

Strategy and objectives in 2015

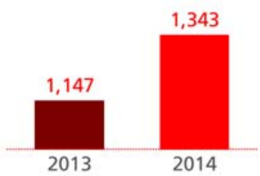
The strategy and objectives of the 2014-2017 plan include:

- Continue the transformation of retail and commercial banking in order to develop a new form of customer relations.
- Manage the development of employees, transforming them into drivers of the customer-focused culture.
- Grow in the segments of companies, institutions and GBM.
- Increase linkage via *Select*.

Efficiency ratio
%



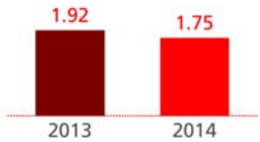
Net operating income
Constant EUR Million



+17.0%*

(*) In euros: +1.5%

Cost of credit
%



Attributable profit
Constant EUR Million

+34.8%*

(*) In euros: +17.0%

Argentina (changes in local currency)

Santander Río generated an attributable profit of EUR 298 million in 2014, 33.3% more in local currency.

Santander Rio is the country's leading private sector bank in terms of assets, loans and customer funds, with market shares of 9.2% in lending and 9.5% in deposits. It has 396 branches and 2.5 million customers.

Environment and strategy

In 2014, banking was conducted against a backdrop of economic shrinkage, high inflation and liquidity. The peso's sharp depreciation against strong currencies at the start of the year resulted in a 27% Badlar interest rate (April), a maximum, which was then cut and stabilised at around 20%. Lending, with shorter maturities (60% of the total at less than one year), decelerated (+20%), particularly to companies, while credit cards (+34%) increased their weight. Stronger growth of deposits (+31%), more stable and balanced between demand and time, raised the system's liquidity.

The Bank's commercial strategy continued to focus on strengthening penetration and linkage to the segments of high-income individuals and SMEs, developing improvements in the functionalities of key products and actions to enhance the quality of service.

The Bank continued to focus on transaction services, collections and means of payment, through an offer adjusted to the needs of each customer segment. The objective is to continue increasing recurring revenues, on the basis of funding with low cost demand deposits and higher revenues for services.

Noteworthy activities in 2014 included:

- Launching of *Select* in order to improve the value offer for high-income clients and personalised attention. The Bank continued to spur *Infinity Black* products and services and inaugurate *Select* spaces and corners. These actions boosted cross-selling, transaction linkage and the profitability of these customers.
- We also continued the plan to transform branches, adapting the attention model to customers' needs, improving computerisation and self-management. By the end of 2014 we had transformed 68 branches.
- Under the *Financial Inclusion* programme, the Bank opened two "bankarisation" offices in the metropolitan area of Buenos Aires that sought to incorporate to the financial system customers without bank accounts. The Bank also began to introduce micro credits in association with local governments.
- Launch of the project to build two new corporate buildings, estimated to be operating in 2017. This will strengthen efficient use of resources and spaces.

Santander Rio received several awards in 2014: best bank in Argentina from the magazine Euromoney; best online bank in Argentina and best company to work for from the Great Place to Work Institute.

Activity

Lending rose 23%, particularly to SMEs and companies. Deposits increased 31%, with similar growth in time deposits (+40%) and demand deposits (+26%). Loan and deposit growth and trends were very aligned with the market.

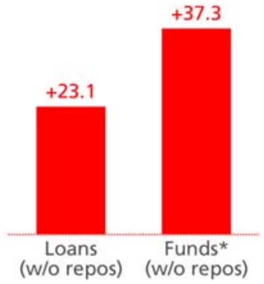
Results

The commercial strategy is reflected in a 38.8% rise in net interest income and 29.6% in fee income, which combined with higher trading gains pushed up gross income by 34.3%.

Operating expenses grew 41.8%, as a result of increasing and transforming the branch network. Net operating income increased 27.8%.

Loan-loss provisions rose 52.3% from a low starting point. The cost of credit was 2.54%, underscoring the excellent credit quality. The NPL ratio was 1.61% and the coverage ratio 143%.

Argentina. Activity
% var. 2014/2013 (constant EUR)



(*) Customer deposits + mutual funds

Argentina. Attributable profit
Constant EUR Million

(*) In euros: -10.5%

Strategy and objectives in 2015

- Greater penetration of high-income and SME segments through more linkage.
- Strengthen transaction products.
- Increase the branch network, mainly in the country's interior with high economic potential.
- Continue to transform branches and improve technology to increase efficiency and the quality of service.

Uruguay (changes in local currency)

Attributable profit of EUR 54 million, 16.2% more than in 2013.

The Group maintained its leadership in Uruguay. Santander is the largest private sector bank in the country, with a market share in lending of 17.7% and 15.1% in deposits. The consumer finance company Creditel is the best positioned and with the highest brand recognition. Overall, the Group has 89 branches and over 500,000 customers in the country.

Environment and strategy

In 2014, the economy registered solid growth (+3.4% estimated), compared to neighbouring countries, although lower than in 2013. With inflation declining (8.3% in December), the official interest rate remained high, in line with the peso's depreciation against the dollar (stable against the euro) and high volatility of one-day interbank rates. The system's total lending and deposits grew 21% and 20%, respectively.

The Bank's strategy remained focused on the quality of customer attention and on making an offer tailored to their needs and by the most appropriate channel in each case.

The following measures from the commercial standpoint were taken in 2014:

- Launch of the *Select* debit card, which was very well received in the market, and penetration of the customer base, which made *Select* customers link transactionally.
- Focus on being the transaction bank for companies, increasing linkage and developing innovative products in the market.
- The *Mi proyecto* was launched in SMEs. This is an innovative credit campaign supporting this segment, so that new companies can access the financial system.
- Continued support for state companies, financing important projects for the country.
- Improvements in the quality of service, with a reduced number of complaints and lower response times. Market research shows customer satisfaction on the up. Credit and debit cards are the most valued products.

Activity

Lending rose 17, particularly to individuals (+19%) and SMEs (+31%). Deposits rose 18%.

Results

Gross income increased 14.9% without the exchange rate impact, fuelled by net interest income (+20.5%) and fee income (+24.1%).

Operating expenses rose 11.2%, after absorbing the higher cost of the ongoing plan to improve efficiency.

The efficiency ratio improved by 2.1 p.p. to 62.0% and net operating income increased 21.6%.

Loan-loss provisions, from a low starting point, increased 37.5%. The NPL ratio was 1.22% and the coverage ratio 217%.

Net operating income after provisions rose 16.0% and attributable profit 16.2%.

In short, the Bank continued to make progress in its objectives of generating recurring results, with a greater share of customer business, on the basis of growth in retail banking business, optimisation of spending and an improved efficiency.

Uruguay. Activity
% var. 2014/2013 (constant EUR)

(*) Customer deposits + mutual funds

Uruguay. Attributable profit
Constant EUR Million

(*) In euros: +1.9%

Strategy and objectives in 2015

- Maintain the business strategy, focused on growth in the retail segment.
- Position our leadership in segments such as Select, SMEs, middle and mass.
- Improve efficiency.
- Maintain low levels of NPLs.

Peru (changes in local currency)

Attributable profit was EUR 24 million, 31.1% more in local currency.

Environment and strategy

The economy registered slower growth in 2014 (+2.6% estimated), and continued to be driven by domestic demand (around 5%). With inflation under control (+3.2%), the central bank cut interest rates, which contributed to the sol's depreciation against the dollar (6%), but not against the euro. The system's lending grew 13% and deposits 4%

Grupo Santander focuses on corporate banking, commercial banking for companies and providing service to the Group's global customers. Considerable importance is attached to a close relationship with customers and quality of service, while exploiting the synergies with other Group units.

A new auto finance company, guided by a well-known international partner with a lot of experience in Latin America, consolidated its activity in 2014. The company has a specialised business model, focused on service and with installments that enable customers to acquire a new car via all the brands and dealers in Peru.

Activity

Lending rose 28% and deposits 32%, with stable growth in medium term funding.

Results

Gross income grew 33.0%, mainly due to net interest income (+36.3%) and operating expenses rose 27.3%.

The efficiency ratio improved by 1.5 p.p. to 32.8% and net operating income rose 36.0%.

Loan-loss provisions increased 82.0% from a low starting point. The NPL ratio remained very low (0.23%) and the coverage ratio was very high.

Peru. Activity
% var. 2014/2013 (constant EUR)

(*) Customer deposits + mutual funds

Peru. Attributable profit
Constant EUR Million

(*) In euros: +24.7%

Strategy and objectives in 2015

- Increase lending to the corporate segment, global customers and big companies in the country.
- Promote the development of advisory services for investment banking and financial structuring for public infrastructure works through public-private funded projects.
- Continue developing auto finance, in a stable economic environment and of sustained growth.

Colombia

Banco Santander de Negocios Colombia, the Group's new subsidiary in the country, began to operate in January 2014.

Colombia is an important market for Grupo Santander. It is the third most populated country in Latin America and has a high growth potential, due to the country's plans for infrastructure and economic and social development. Foreign direct investment in the country underscores this potential; there is growing interest among companies to set up in Colombia.

The new bank has capital of $100 million. Its target market is the corporate and business one, with a special emphasis on global customers, customers of the Group's International Desk and those local customers becoming more international.

Banco Santander de Negocios Colombia has a banking licence that allows it to operate as a local bank for all purposes. It focuses on offering investment banking products, treasury and risk hedging products, foreign trade financing and working capital products in local currency, such as confirming.

United States

EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**4,642**	**4,172**	**471**	**11.3**	**11.2**
Net fees	683	600	83	13.9	13.7
Gains (losses) on financial transactions	162	96	66	69.5	69.4
Other operating income*	155	(6)	161	—	—
Gross income	**5,643**	**4,861**	**781**	**16.1**	**16.0**
Operating expenses	(2,031)	(1,887)	(145)	7.7	7.6
General administrative expenses	(1,813)	(1,705)	(107)	6.3	6.2
Personnel	*(1,029)*	*(958)*	*(71)*	*7.4*	*7.3*
Other general administrative expenses	*(784)*	*(747)*	*(36)*	*4.9*	*4.7*
Depreciation and amortisation	(219)	(181)	(38)	20.7	20.6
Net operating income	**3,611**	**2,975**	**636**	**21.4**	**21.3**
Net loan-loss provisions	(2,233)	(1,520)	(713)	46.9	46.8
Other income	11	(85)	95	—	—
Profit before taxes	**1,389**	**1,370**	**19**	**1.4**	**1.3**
Tax on profit	(370)	(395)	26	(6.5)	(6.6)
Profit from continuing operations	**1,019**	**975**	**45**	**4.6**	**4.5**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**1,019**	**975**	**45**	**4.6**	**4.5**
Minority interests	219	174	46	26.3	26.2
Attributable profit to the Group	**800**	**801**	**(1)**	**(0.1)**	**(0.2)**

Balance sheet	2014	2013	Variation amount	%	% w/o FX
Customer loans**	67,175	57,374	9,801	17.1	3.1
Trading portfolio (w/o loans)	926	149	777	521.6	447.3
Available-for-sale financial assets	12,695	8,978	3,716	41.4	24.5
Due from credit institutions**	2,462	1,649	813	49.3	31.5
Intangible assets and property and equipment	6,858	2,144	4,715	219.9	181.7
Other assets	6,864	6,474	390	6.0	(6.7)
Total assets/liabilities & shareholders' equity	**96,982**	**76,768**	**20,213**	**26.3**	**11.2**
Customer deposits**	46,575	39,206	7,369	18.8	4.6
Marketable debt securities**	16,000	11,989	4,010	33.4	17.5
Subordinated debt**	772	1,225	(453)	(37.0)	(44.5)
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	17,254	11,966	5,288	44.2	26.9
Other liabilities	5,910	4,464	1,446	32.4	16.5
Shareholders' equity***	10,472	7,918	2,554	32.2	16.4
Other managed and marketed customer funds	**7,552**	**5,392**	**2,160**	**40.1**	**23.3**
Mutual and pension funds	1,640	807	833	103.3	78.9
Managed portfolios	5,912	4,585	1,327	28.9	13.5
Managed and marketed customer funds	**70,897**	**57,811**	**13,086**	**22.6**	**8.0**

Ratios (%) and operating means	2014	2013	Variation amount	%	% w/o FX
ROE	7.96	9.04	(1.09)		
Efficiency ratio (with amortisations)	36.0	38.8	(2.8)		
NPL ratio	2.54	3.09	(0.55)		
NPL coverage	192.8	148.1	44.7		
Number of employees	15,919	15,334	585	3.8	
Number of branches	811	821	(10)	(1.2)	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

United States (changes in dollars)

→ **Attributable profit of $1,061 million virtually unchanged from 2013. Before minority interests, profit was up 4.5%.**

- Gross income increased 16.0%, with improvements in all lines.
- Operating expenses rose 7.6%, largely due to those associated with regulatory compliance.
- Loan-loss provisions were 46.8% higher because of SCUSA.

→ In activity:

- Santander Bank's loans to companies increased and the structure of funds was improved.
- Notable growth in originations and sales at SCUSA, due to the strategic alliance with Chrysler.

The perimeter of Santander US includes retail banking activity, via Santander Bank and Banco Santander Puerto Rico, and consumer finance business, via Santander Consumer USA (SCUSA).

The business model of Santander Bank, with 705 branches and two million customers, focuses on retail customers and companies. It conducts business in the north east of the US, an area that generates 22% of the country's GDP.

Santander Puerto Rico has 54 branches, 410,000 customers and market shares of 10.0% in lending and 11.7% in deposits, as well as a network of 52 shops that tend to consumer customers. It focuses on individuals and companies.

SCUSA, based in Dallas, specializes in consumer finance, mainly auto finance and leasing of new and used vehicles (mainly focused on retail customers, although also on vehicle dealers), and on consumer credits without guarantees, as well as servicing of portfolios for third parties.

Economic environment

In 2014, business was conducted in an environment of faster growth. With interest rates at historic lows, this enabled the Fed's quantitative stimulus measures to be reduced and the dollar to strengthen against the euro. With data at September and according to the FDIC Quarterly Banking Profile, total lending rose 5%, strongly backed by commercial and industrial companies, cards and auto finance to individuals. The latter reflects, the rise in sales and auto finance for new and used vehicles. Deposits grew 5% with a higher weight of demand than time deposits because of the interest rate environment.

Retail banking

Santander Bank and Banco Santander Puerto Rico conduct the retail banking strategy.

Santander Bank's(*) strategy in 2014 centred on growth in loans to companies and consolidating the business derived from auto finance, and on increasing and improving the quality of deposits. In addition, measures to optimise the balance sheet were implemented which will have a positive impact on results in the future.

Lending to commercial and industrial companies continued to grow, led by Global Banking and Markets. Auto finance operations were also consolidated, which is expected to be one of the main sources of growth for Santander Bank over the coming years, obtaining synergies from the Group's global experience and the local one of SCUSA.

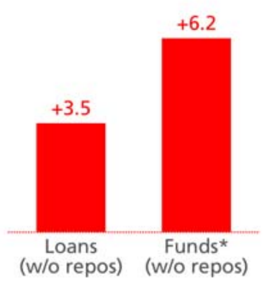
Of note in the retail segment was the good functioning of the innovative *Extra20* product launched at the end of 2013. Its main objective is to capture new customers, increase linkage and core deposits. Noteworthy in cards was the launch of the *Bravo* card, a product for high-income segments.

The strategy in deposits focused on increasing demand deposits and reducing time deposits. In addition, government banking continued to perform well.

The Bank's balance sheet was restructured in the second half of the year, with the selling of $700 million of unproductive assets and securitising $2,100 million of mortgages. The results from these operations were used to reposition the balance sheet in terms of profitability, cancelling historic long-term debt whose costs were above the market's.

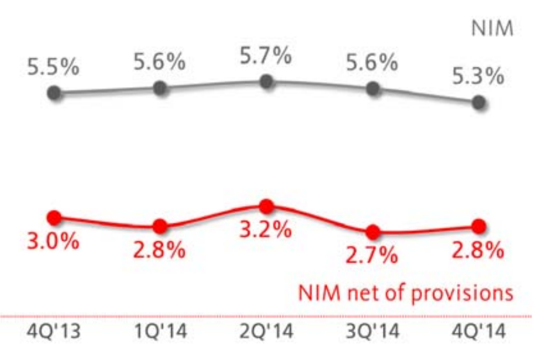
All of this was reflected in the evolution of lending, which would have risen 6% excluding the aforementioned balance sheet

Activity
% var. 2014/2013 (constant EUR)

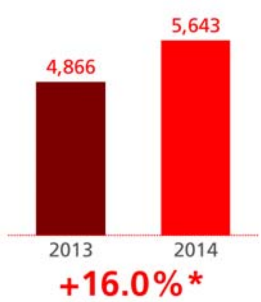


(*) Customer deposits + mutual funds

Net interest margin
%



Gross income
Constant EUR Million



(*) In euros: +16.1%

measures, as well as in deposit growth of 7% (+11% in core demand deposits).

Santander Bank's attributable profit fell 10.6% to $490 million.

Gross income declined 5.2%, affected by the reduction in the investments portfolio that impacted net interest income, as well as the decline in fee income largely due to the new regulations on overdrafts.

Operating expenses were 9.7% higher, due to the need to adapt to regulatory requirements, as well as investment in technology (ATMs, mobile banking and cards).

As regards credit quality, the performance remained good. The NPL ratio was 1.41% (-82 b.p. in twelve months) and coverage 109%, reflecting the portfolio's improved composition and strict risk management. As a result, provisions remained at very low levels.

Santander Puerto Rico stands out for its good credit quality, level of capitalisation, liquidity and quality of service.

The strategy of deleveraging led to a 16% fall in lending.

Attributable profit was $90 million, 12.1% less than in 2013, due to the recognition of deferred tax assets in 2013. Excluding them, pre-tax profit rose 5.2%.

The NPL ratio was 7.45% (+116 b.p. in the year) and coverage 56% (-6 p.p.).

Consumer finance

SCUSA completed in the first quarter of 2014 its public offering of shares and listing on the New York Stock Exchange.

SCUSA continued in 2014 its auto finance plan stemming from the agreement with Chrysler, as well as actions and agreements that enabled it to continue to grow in consumer credit without guarantees. The strategy of the last few quarters was centred on increasing originations, but maintaining more stable on-balance sheet balances, as a result of securitisations and sales of portfolios.

SCUSA continued to seek expansion opportunities in servicing, such as the agreement signed in the second quarter of 2014 with Citizens Bank of Pennsylvania to sell the prime portfolio of auto finance, maintaining collection management. This operation joined the agreement already existing with Bank of America.

New lending rose 25% and on-balance sheet balances 13%, mainly due to the agreement with Chrysler in 2013. Lower growth in recent quarters.

This evolution was reflected in growth in gross income of 32.3%, which did not feed through fully to profits because of the 45.6% rise in provisions, partly linked to greater new lending and the consumer credit portfolio without guarantee. Attributable profit was 16.5% higher at $481 million.

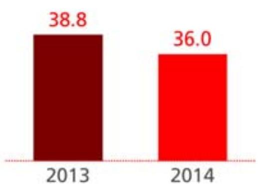
The NPL ratio declined 38 b.p. to 3.97% and the coverage ratio was very high (296%, compared to 240% in 2013).

(*) Including Santander Holding USA.

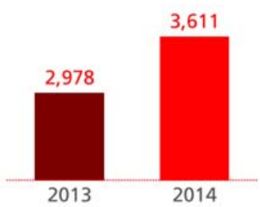
Strategy and objectives in 2015

- In commercial banking (Santander Bank and Puerto Rico):
  - In the retail segment, focus on capturing deposits and customer linkage. Consolidate *Select*.
  - In companies and GBM, growth in commercial and industrial companies loans, and transactional deposits.
- In consumer finance (SCUSA):
  - Consolidate the business in the agreement with Chrysler.
  - In auto finance and leasing, strategy of loan originations to sell, maintaining a flat balance sheet.
  - Increase servicing business for third parties.
- Strengthen the governance and control structures through more investments in technology, risks and regulatory compliance.

Efficiency ratio
%



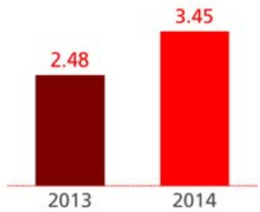
Net operating income
Constant EUR Million



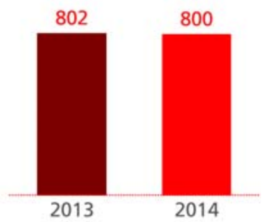
+21.3%*

(*) In euros: +21.4%

Cost of credit
%



Attributable profit
Constant EUR Million



-0.2%*

(*) In euros: -0.1%

Corporate Activities

EUR Million

Income statement	2014	2013	Variation amount	%
Net interest income	**(1,937)**	**(2,223)**	**286**	**(12.9)**
Net fees	(37)	(50)	13	(26.2)
Gains (losses) on financial transactions	1,456	1,186	270	22.8
Other operating income	60	139	(79)	(56.9)
Dividends	30	35	(5)	(13.8)
Income from equity-accounted method	(28)	(10)	(18)	170.1
Other operating income/expenses	58	114	(56)	(49.3)
Gross income	**(458)**	**(948)**	**490**	**(51.7)**
Operating expenses	(763)	(696)	(67)	9.7
General administrative expenses	(653)	(555)	(98)	17.7
Personnel	*(243)*	*(221)*	*(22)*	*9.8*
Other general administrative expenses	*(410)*	*(333)*	*(77)*	*23.0*
Depreciation and amortisation	(111)	(141)	31	(21.8)
Net operating income	**(1,221)**	**(1,644)**	**423**	**(25.7)**
Net loan-loss provisions	2	(201)	203	—
Other income	(571)	(436)	(135)	30.8
Ordinary profit before taxes	**(1,790)**	**(2,282)**	**491**	**(21.5)**
Tax on profit	6	218	(212)	(97.4)
Ordinary profit from continuing operations	**(1,785)**	**(2,064)**	**279**	**(13.5)**
Net profit from discontinued operations	—	(0)	0	(100.0)
Ordinary consolidated profit	**(1,785)**	**(2,064)**	**279**	**(13.5)**
Minority interests	4	7	(3)	(43.1)
Ordinary attributable profit to the Group	**(1,789)**	**(2,071)**	**282**	**(13.6)**
Net capital gains and provisions	—	—	—	—
Attributable profit to the Group	**(1,789)**	**(2,071)**	**282**	**(13.6)**

Balance sheet	2014	2013	Variation amount	%
Trading portfolio (w/o loans)	2,916	2,743	173	6.3
Available-for-sale financial assets	7,285	10,676	(3,391)	(31.8)
Investments	643	477	167	35.0
Goodwill	27,548	24,254	3,294	13.6
Liquidity lent to the Group	42,130	17,712	24,419	137.9
Capital assigned to Group areas	72,189	65,088	7,100	10.9
Other assets	56,127	61,880	(5,753)	(9.3)
Total assets/liabilities & shareholders' equity	**208,837**	**182,829**	**26,009**	**14.2**
Customer deposits*	5,279	2,851	2,428	85.2
Marketable debt securities*	59,954	64,470	(4,516)	(7.0)
Subordinated debt*	4,107	3,871	236	6.1
Other liabilities	53,179	30,926	22,253	72.0
Group capital and reserves**	86,318	80,711	5,608	6.9
Other managed and marketed customer funds	—	—	—	—
Mutual and pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Managed and marketed customer funds	**69,340**	**71,192**	**(1,852)**	**(2.6)**

Operating means	2014	2013	Variation amount	%
Number of employees	2,633	2,432	201	8.3

(*) Including all on-balance sheet balances for this item
(**) Not including profit of the year

Corporate Activities

→ Loss of EUR 1,789 million in 2014.

- **An improvement of 13.6% compared to the loss of EUR 2,071 million in 2013.**
- **This was due to improved net interest income from the lower cost of issues and trading gains (better results from management of assets and liabilities).**

Within Corporate Activities, the Financial Management area conducts the global functions of balance sheet management, both structural interest rate and liquidity risk (the latter via issues and securitizations), as well as the structural position of exchange rates.

- Interest rate risk is actively managed by taking market positions. This management seeks to soften the impact of interest rate changes on net interest income, and is done via bonds and derivatives of high credit quality and liquidity and low consumption of capital.
- The objective of structural liquidity management is to finance the Group's recurring activity in optimum conditions of maturity and cost, maintaining an appropriate profile (in volumes and maturities) by diversifying the funding sources.
- Management of the exposure to exchange rate movements in equity and in the counter value of units' results in euros is also conducted on a centralized basis. This management (which is dynamic) is conducted through exchange-rate derivatives, optimizing at all times the financial cost of hedging.

Hedging of net investments in the capital of businesses abroad aims to neutralize the impact on capital of converting into euros the balances of the main institutions that are consolidated and whose currency is not the euro.

The Group's policy seeks to immunize the impact, which, in situations of high volatility in the markets, sudden changes in interest rates would have on these exposures of a permanent nature. The investments that are currently hedged are those in Brazil, UK, Mexico, Chile, US, Poland and Norway and the instruments used are spot, FX forwards or tunnel options. EUR 15,546 million are currently hedged.

Exposures of a temporary nature – those regarding results that the Group's units will contribute in the next 12 months in non-euro currencies – are also managed on a centralized basis in order to limit their volatility in euros.

Meanwhile and separately from the financial management described here, Corporate Activities manages all capital and reserves and allocations of capital to each of the units, as well as providing the liquidity that some of the business units might need. The price at which these operations are carried out is the market rate (euribor or swap) plus the risk premium, which in concept of liquidity, the Group supports for immobilizing the funds during the life of the operation.

Lastly, and marginally, the equity stakes of a financial nature that the Group takes within its policy of optimizing investments are reflected in Corporate Activities.

The main developments in the income statement were:

- Net interest income was EUR 1,937 million negative compared to EUR 2,223 million negative in 2013. This improvement was due to the lower financial cost as a result of reduced outstanding average balance of wholesale funds, after the capturing by the parent bank of funds at lower maturities and amortisations (directly related to existing customer deposits whith balances higher than those of loans).
- Trading gains, which incorporate those derived from the centralized management of the interest rate and exchange rate risk of the parent bank as well as that from equities, were EUR 1,456 million positive, 22.8% more than in 2013.
- Operating expenses increased over the previous year because of the combined effect of stable recurring personnel costs (where the efficiency plans are producing their fruits), and the higher costs related to ongoing corporate transactions, which are recorded in the Corporate Centre until their effective entry into force. Costs related to the implementation of the various regulations are also recorded here.
- Loan-loss provisions recorded a release of EUR 2 million in 2014 as against an allocation of EUR 201 million in 2013, a year when a charge was made related to the integration of banks in Spain.
- Other income includes the net between various provisions and writedowns and positive results. This figure was EUR 571 million negative compared to EUR 436 million also negative in 2013. The difference was mainly due to provisions for contingencies made in the fourth quarter of 2014.
- Lastly, the tax line recorded a recovery of EUR 6 million (EUR 218 million in 2013), as a result of higher taxes, associated with the higher results of business units in Spain.

Retail Banking

- **Attributable profit of EUR 5,870 million,** 21.8% more than in 2013. Excluding the exchange rate impact, growth was 26.4%, due to:
  - Higher gross income from net interest income.
  - Control of costs.
  - Fewer provisions.
- The Group progressed in **transforming retail banking** via three drivers:
  - Specialised management in segments: implementation of *Santander Select, Santander Advance, Santander Trade* and *Santander Passport.*
  - Develop the multi channel distribution model.
  - Improve the customer experience.

Retail banking generated 85% of gross income and 72% of the attributable profit of the Group's operating areas in 2014.

Strategy

Significant advances were made during 2014 in the programme to transform retail banking. The main elements are to improve the knowledge of our customers, specialized management of each segment, develop a multi channel distribution model and continuous improvement in the customer experience, while fostering innovation and taking maximum advantage of the opportunities linked to Grupo Santander's international positioning.

As regards deepening knowledge of customers, progress was made in improving our analytical skills and a new commercial front was developed in order to put this knowledge at the disposal of all the channels and so enhance productivity and customer satisfaction.

This commercial tool, based on a best practice in Chile, is already being developed in Brazil, Spain, United States and United Kingdom. Installing the tool in all these countries will be completed in 2015 and extended to the rest of the Group.

Based on better knowledge of customers, significant progress was made in 2014 in installing the specialized models by segments. Advances were made on three fronts:

- Expansion of the *Select* model for high-income clients. It was installed during 2014 in Argentina, Uruguay, Portugal, United States and Germany, bringing the total number of countries to 11 (tending to two million customers).
- As part of the benefits for *Select* customers, we launched the *Global Select* debit card which received the prize for one of the "Best Ideas of 2014" from the magazine *Actualidad Económica*.
- Launch of the *Advance* programme to make us the reference partner for SMEs. This programme supports SMEs in their development and growth, offering a strong financial offer as well as non-financial support measures. It was launched during 2014 in Spain, Mexico and Portugal and will be extended to the rest of the Group's countries during 2015.
- Launch of the *Santander Trade Club* and *Santander Passport* to put the Bank's global reach at the service of our customers.

Retail Banking
EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**28,493**	**27,745**	**748**	**2.7**	**7.0**
Net fees	7,700	7,817	(117)	(1.5)	3.4
Gains (losses) on financial transactions	615	1,111	(497)	(44.7)	(41.8)
Other operating income*	(177)	(330)	153	(46.4)	(44.2)
Gross income	**36,631**	**36,343**	**288**	**0.8**	**5.2**
Operating expenses	(16,659)	(16,948)	289	(1.7)	2.2
Net operating income	**19,972**	**19,395**	**577**	**3.0**	**7.9**
Net loan-loss provisions	(9,736)	(10,874)	1,138	(10.5)	(5.9)
Other income	(1,335)	(1,057)	(279)	26.4	32.4
Profit before taxes	**8,901**	**7,464**	**1,437**	**19.2**	**24.5**
Tax on profit	(2,070)	(1,678)	(392)	23.4	29.6
Profit from continuing operations	**6,831**	**5,786**	**1,045**	**18.1**	**23.0**
Net profit from discontinued operations	(26)	(15)	(11)	73.2	70.2
Consolidated profit	**6,805**	**5,771**	**1,034**	**17.9**	**22.8**
Minority interests	935	952	(17)	(1.8)	4.2
Attributable profit to the Group	**5,870**	**4,819**	**1,050**	**21.8**	**26.4**

Business volumes					
Customer loans	629,874	583,915	45,959	7.9	4.0
Customer deposits	522,388	508,237	14,151	2.8	(0.6)

(*) Including dividends, income from the equity-accounted method and other operating income/expenses

Retail Banking. Income statement

EUR Million

	Gross income			Net operating income			Attributable profit		
	2014	%	% w/o FX	2014	%	% w/o FX	2014	%	% w/o FX
Continental Europe	10,125	5.9	6.1	5,046	18.5	18.8	1,694	71.4	72.4
United Kingdom	4,984	13.9	8.1	2,410	18.2	12.1	1,398	43.4	36.1
Latin America	16,058	(9.4)	0.5	9,018	(12.0)	(2.7)	2,037	(5.2)	5.8
United States	5,464	16.8	16.7	3,499	22.8	22.7	741	4.9	4.8
Total Retail Banking	**36,631**	**0.8**	**5.2**	**19,972**	**3.0**	**7.9**	**5,870**	**21.8**	**26.4**

The *Santander Trade Club* was launched in the middle of 2014, helping to generate new international business opportunities by facilitating connection between exporters and importers. The portal has received more than one million visitors.

Santander Passport is a specialized attention model, which enables our most international customers to be tended to in all Santander's subsidiaries in the same way, taking advantage of the Group's international positioning

Multi channel retail banking continued to be promoted so that customers can do business with the Bank in the most convenient way for them. Some examples include:

- New and better commercial websites in Argentina, Spain, Portugal and United Kingdom.
- New mobile apps in Germany, Brazil, Poland, Puerto Rico and Uruguay and the new concept of simple mobile banking in the UK *(Smartbank)* and in Spain *(sWallet)*.
- New services such as the virtual advisor in Poland which allows remote advising to customers, the customer-manager online collaboration in Spain and the possibility to make P2P payments between telephones in the UK, Poland, Spain and Mexico.
- Launch of the digital manager in Spain, a tablet application that supports the commercial activity of company managers.

In recognition of our value proposal in multi channels, the magazine Global Finance awarded our bank in Chile the prize for the best Latin American website for financial products and in payment of accounts and Santander Rio the best online bank in Argentina.

We continued to work in all countries to improve the customer experience. Of note was the UK, which, through its *Simple, Personal and Fair* programme and the success of the *1|2|3 account*, is improving on a sustained basis the customer satisfaction levels.

We also believe in the need to foster innovation as the key driver for leading the market in a changing environment. Reflecting this philosophy, **SANTANDER ideas:)**, a corporate social network that enables diversity, talent and the collective intelligence of all the Group's employees to be better exploited.

Three challenges have been launched, related to transforming retail banking, improving the management of talent and transforming branches, with the commitment to implement the best ideas generated by employees.

In the coming months, Santander will continue to make headway in the process of transforming retail banks, moving toward an increasingly simple, personal and fair model.

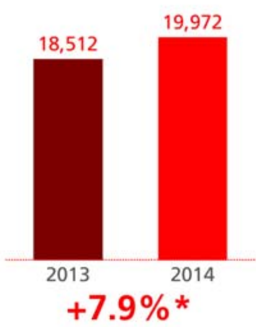
Results

Attributable profit was EUR 5,870 million, 21.8% more than in 2013. Excluding the exchange rate impact, growth was 26.4%.

This evolution was due to the good evolution of the main lines of the income statement. Gross income rose 5.2%, spurred by net interest income (+7.0%); control of costs, falling in real terms (-1.4%), and a 5.9% drop in loan-loss provisions.

Net operating income

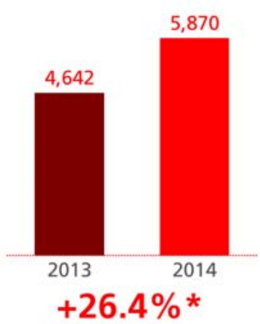
Constant EUR Million



(*) In euros: +3.0%

Attributable profit

Constant EUR Million



(*) In euros: +21.8%

Strategy and objectives in 2015

Continue the process of transforming the Group's retail banks, with a special focus on:

- Knowing our customers better by improving our business intelligence skills.
- Strengthening the Santander franchise by implementing specialized models and global proposals.
- Progressing in the multi channel transformation of retail banks and promoting digital channels.
- All of this, with a clear focus on the customer experience and taking maximum advantage of the opportunities linked to Grupo Santander's international positioning.

Global Wholesale Banking

Attributable profit of EUR 1,614 million (+10.0% and +16.3% in constant euros). Of note:

- **Solid revenues (+2.5%) and sharp fall in loan-loss provisions (-41.4%), both in constant euros.**
- **Higher operating expenses from investment in franchises being developed. The efficiency ratio of 36.4% is a benchmark for the sector.**

The focus remained on customers (89% of revenues) and on managing risks, liquidity and capital.

Santander Global Banking & Markets (SGB&M) contributed 12% of the operating areas' gross income and 20% of attributable profit.

Strategy

SGB&M maintained in 2014 the key pillars of its business model, focused on the customer, the global reach of the division and its interconnection with local units, within active management of risk, capital and liquidity.

The main actions of SGB&M were focused on:

- Developing together with Retail Banking a range of high value products for the various customer segments in all the Group's units.
- Promoting transaction business in the UK, US and Poland.
- Strengthening the results of the franchise of customers in the rest of the countries in order to gain market share.
- Building the Financial Solutions & Advisory unit in order to provide an integral solution to customers' advisory and structural financing needs.
- All with strict management of consumption of risk weighted assets in order to maximise the area's profitability.

Results and activity

Attributable profit was 10.0% higher at EUR 1,614 million. After eliminating the exchange rate impact, growth was 16.3%, fuelled by solid gross income and a sharp reduction in provisions.

Gross income rose 2.5%, backed by net interest income and fee income (+13.4% overall). The sharp fall in trading gains (-32.8%), due to the impact of markets on operations with customers and valuation adjustments, reduced the visibility of revenues.

Operating expenses (+6.5%) reflect investments in high potential markets, particularly in the UK and US. The combination of revenues and costs brought the efficiency ratio to 36.4%, levels that remain benchmarks for the sector, and net operating income was stable in constant euros (+0.4%).

The 41.4% drop in loan-loss provisions, basically due to Spain and Mexico, pushed up net operating income after provisions by 17.9%, and this growth fed through to attributable profit.

These results were backed by the strength and diversification of customer revenues, which accounted for 89% of the area's total

Global Wholesale Banking

EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**2,533**	**2,361**	**172**	**7.3**	**13.5**
Net fees	1,414	1,293	121	9.4	13.2
Gains (losses) on financial transactions	747	1,154	(407)	(35.3)	(32.8)
Other operating income*	302	279	23	8.4	8.2
Gross income	**4,997**	**5,088**	**(91)**	**(1.8)**	**2.5**
Operating expenses	(1,820)	(1,764)	(56)	3.2	6.5
Net operating income	**3,177**	**3,324**	**(147)**	**(4.4)**	**0.4**
Net loan-loss provisions	(546)	(953)	406	(42.7)	(41.4)
Other income	(107)	(70)	(36)	51.6	47.7
Profit before taxes	**2,524**	**2,301**	**223**	**9.7**	**16.9**
Tax on profit	(689)	(637)	(52)	8.2	16.6
Profit from continuing operations	**1,835**	**1,664**	**171**	**10.3**	**17.0**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**1,835**	**1,664**	**171**	**10.3**	**17.0**
Minority interests	220	197	24	12.1	22.5
Attributable profit to the Group	**1,614**	**1,468**	**147**	**10.0**	**16.3**

Business volumes	2014	2013	Variation amount	%	% w/o FX
Customer loans	86,589	85,390	1,199	1.4	(0.2)
Customer deposits	84,496	61,427	23,068	37.6	36.5

(*) Including dividends, income from the equity-accounted method and other operating income/expenses

and were 1.0% higher without the exchange rate impact (-2.9% in euros), with differences by business sub areas, as follows:

Transaction Banking

Global Transaction Banking[1] increased its customer revenues by 2.8% in constant euros, with a good contribution from most of activities in an environment of containment of spreads and low interest rates. The decline in euros was 2.3%, due to the impact of the depreciation of Latin American currencies.

By businesses, better evolution of trade finance, with strong growth in all countries. Of note was the UK, the units in Asia and the three large Latin American countries, a region that in 2014, once again, obtained awards for certain transactions.

Of note was Santander's leadership in export finance as a result of the help given to our customers in their large operations, as well as the strong growth in working capital solutions, a product in expansion in a context in which companies are aware of the competitive advantage generated by effective management of their supply chain.

Notable operations in 2014 included: the participation as lead arranger in a 12-year $300 million loan with the guarantee of the Multilateral Investment Guarantee Agency (MIGA); the participation as arranger in the Pemex bond of $1,000 million with a US Exim guarantee; as well as the signing of a $500 million receivable purchase programme with Vale, which incorporates risk mitigation structures through a credit insurance policy of Euler Hermes.

The solid contribution of cash management business was also maintained in 2014. Of note was the evolution of Brazil and Mexico, where Santander promoted a local offer combined with regional treasury management solutions, and there was an increasing contribution from the European units.

Custody and settlement also evolved well, strongly supported by the recovery in Spain and Brazil's contribution. The contribution of basic financing declined, however, due to a general containment of spreads in Europe, which was not offset by other countries.

Financing Solutions & Advisory

Financing Solutions & Advisory[2] increased its revenue contribution (+15.1% excluding the exchange rate effect and +11.6% in euros), thanks to the solid evolution of its various businesses.

In project finance, Santander remained one of the world's leading banks, actively contributing to the adjustment of the business and of the market to the new regulatory and financing conditions. In 2014, SGBM again stood out in placing project bonds for Europe, Mexico and Brazil, which means moving toward a less capital-intensive business. Also noteworthy were the results of the cooperation with the trade and export finance areas in structuring transactions that combine long-term financing with support for credit institutions (two deals closed in the year), as well as advisory activity, mainly in Latin America, where the Bank is in the top positions in the league tables.

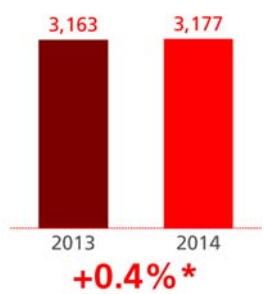
The most important operations include: issuance of a new $580 million project bond for a subsidiary of the Brazilian group Odebrecht where Santander acted as global coordinator and rating advisor; underwriting the tariff deficit and Capibara project in Spain; advice and future participation in the debt of Ramones together with the Ventika I and II project in Mexico, and Renova's Alto Sertao II wind complex in Brazil.

In syndicated corporate loans, Santander also maintained reference positions in Europe and Latin America. Of note was SGBM's participation throughout 2014 in syndicated loans for large companies such as Imperial Tobacco (£7,750 million) where it acted as underwriter, bookrunner and mandated lead arranger; Bayer ($14,200 million), as mandated lead arranger and BSkyB, in two operations (EUR 6,500 million and £1,450 million), where it was mandated lead arranger.

In the capital market, and in response to the scenario of disintermediation currently facing the financial industry, Santander strengthened its origination and distribution capacities, enabling it to lead the rankings in various countries and markets, from that of Brazilian issues in euros to one so specific and local as that of the Housing Associations in the UK. The issues in euros for the Treasuries in Brazil and Chile, as well as for Codelco (the first by a Chilean company in 15 years), are good examples. In addition, SGBM continues to strengthen its global capacities with growth projects in the high-grade market in the US, private placements and high yield in Europe.

In corporate finance, SGBM also took advantage of the Group's position in markets and customers to participate in significant operations. Of note were advisory services for American Tower's purchase of the Brazilian BR Towers; the capital increase of Fibra Uno in Mexico, the country's second largest placement, where Santander acted as global coordinator; the advisory services in

Net operating income
Constant EUR Million

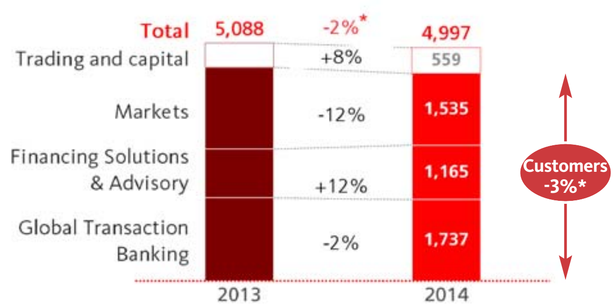


(*) In euros: -4.4%

Attributable profit
Constant EUR Million

(*) In euros: +10.0%

Gross income breakdown
EUR Million



(*) Excluding exchange rate impact: total revenues: +3%; customers: +2%

Orange's public offering to acquire 100% of Jazztel, the offering of Endesa and FCC's capital increase, all of them in Spain; as well as Enersis's takeover bid to increase its stake in Brazil's Coelce.

Lastly, the business of A&CS continued to increase its contribution to the Group in parallel with the growth in its portfolio of customers in all countries. Among the most notable operations was the leasing operation of three Boeing 777-300 ERs for Singapore Airlines and the bridge equity financing of a MW 138 wind farm project in Mexico for Renovalia and First Reserve.

Global Markets

Global markets[3] reduced its total customer revenues by 12.2% (-9.1% without the exchange rate impact), largely due to the smaller contribution form European units.

Positive evolution of revenues from the sales business, which accounted for more than half of the area's revenues, fuelled by double-digit growth in constant euros in the three big Latin American countries. There were also rises, although more moderate, in Spain and UK. By type of customer, growth in the retail and institutional segments in all units, with a varied contribution from the segment of corporate customers.

Sharp decline in revenues from the management of books in Europe, which was only partly offset by the rise for the whole of Latin America. Of note by products was the rise in primary placement of credit issues and the fall in the secondary market books of flow products in Europe.

Greater contribution from equities, which increased customer revenues in constant euros, backed by the strength of activity in Europe, both in the primary as well as the secondary market and offsetting the decline in Latin American countries. Weak organised derivative markets, where the Group has leadership positions in Spain (MEFF- Spanish Market of Financial Futures) and in Mexico, with market share in settlement and execution of orders of more than 20% in all the listed assets (exchange rates, interest rates and stock market indexes).

Strategy and objectives in 2015

The main priorities in 2015 are:

- **Continue the 2014 lines of action: cooperation with retail networks; commitment to transaction banking; develop franchises with high potential (UK, US and Poland).**
- **Increase our range of credit products for corporate clients and investors.**
- **Advance in our coverage in Asia and the Andean region, in line with the Group's stronger activity in these areas.**

Ranking in 2014

	Activity	Area	Country / region	Source
Award	Best Trade Advisor in Latin America	GTB	Latin America	Trade Finance
Award	Best Supply Chain Finance Bank in Latin America	GTB	Latin America	Trade Finance
Award	Best Commodity Finance Ban in Latin America	GTB	Latin America	Trade Finance
Award	Best Export Finance Arrager in Latin America	GTB	Latin America	Trade Finance
Award	Best Overall Trade Bank in Latin America	GTB	Latin America	Trade Finance
Award	Best Trade Finance Bank in Latin America	GTB	Latin America	GTR
Award	Americas Oil & Gas Deal of the Year: Los Ramones Sur	FS & Advisory	America	Project Finance International
Award	Europe Power Deal of Year: Gemini	FS & Advisory	Europa	Project Finance International
Award	Middle East & Africa Refinery Deal of the Year: Star Rafineri	FS & Advisory	Middle East y Africa	Project Finance International
Award	North American Renewables Deal of the Year - Regulus	FS & Advisory	North America	Infrastructure Journal
Award	SSAR Bond / Euro Bond: Spain´s € 10Bn 10-year bond	FS & Advisory	Spain	IFR
Award	Latin America Bond: Fibra Uno´s US$1Bn dual-tranche bond	FS & Advisory	Latin America	IFR
N1.	Equities Research Iberia	Global Markets	Iberia	Institutional Investors
N1.	Equities Research Iberia	Global Markets	Iberia	Thomson Reuters Extel
N1.	Equities Sales Iberia	Global Markets	Iberia	Thomson Reuters Extel
N1.	Equities Sales Trading Iberia	Global Markets	Iberia	Thomson Reuters Extel
N1.	Equities Corporate Access Iberia	Global Markets	Iberia	Thomson Reuters Extel

(*).- Ranking according to survey selection criteria

(1) Global Transaction Banking (GTB): includes the businesses of cash management, trade finance, basic financing and custody.

(2) Financing Solutions & Advisory (FS&A):): includes the units of origination and distribution of corporate loans or structured financing, the teams of origination of bonds and securitisation, the corporate finance units (mergers and acquisitions, primary equity markets, investment solutions for corporate clients via derivatives), as well as asset & capital structuring.

(3) Global Markets (GM): includes the sale and distribution of fixed income and equities, interest rates and inflation; trading and hedging of exchange rates and short-term money markets for the Group's wholesale and retail customers; management of the books associated with distribution; and brokerage of equities and derivatives for investment and hedging solutions.

Private Banking, Asset Management and Insurance

- **Attributable profit of EUR 703 million** (+18.4% more than in 2013).
  - Without the perimeter effect (sale of 50% of fund management entities in 2013) and the exchange rate impact, profit would have been 31.3% higher.
  - Total gross income for the Group (including that paid to the networks) represented 10% of the operating areas' total and increased 6.8% on a like-for-like basis (perimeter and exchange rates).
- **Private banking:** recovery of gross income and lower provisions spurred attributable profit, which grew 16.9% in constant euros.
- **Asset management:** on a like-for-like basis, total gross income increased 22.4% and attributable profit doubled.
- **Insurance:** 2.9% growth in constant euros in total gross income plus value of business recognized via corporate operations.

The area's attributable profit was EUR 703 million (8% of the operating areas' total).

Strategy

Private Banking. The process of developing and installing a homogeneous model, which offers comprehensive solutions for the financial needs of the Group's clients with the highest net worth, via commercial units specialized by countries and supported by the Group's other global areas, continued during 2014. Its three basic pillars are:

- Segmentation, as a tool to define a tailored and efficient value offer that also tends to the needs of the next generations.
- Customer linkage and satisfying customer needs.
- Decisive commitment to multi channels in an increasing digital environment.

An important milestone in 2014 was integrating the three specialized networks in Spain, consolidating Santander as the reference for high net worth clients in the country.

Asset Management. Under the strategic alliance with Warburg Pincus and General Atlantic to promote the global business of asset management, the area continued to advance in its marketing model, backed by the strength and knowledge of local markets. Of note among the key aspects in 2014 were:

- Review and general adjustment of the range of products, with a greater focus on clients and their saving-investment needs.
- An important effort in training commercial networks teams in order to strengthen the range of products and ensure their correct distribution in accordance with the features of each customer.
- Extending and consolidating investment solutions with profiled funds in eight of the Group's core countries, as well as launching specialized ranges for the *Select* segment in three of them.

Private Banking, Asset Management and Insurance
EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**462**	**498**	**(36)**	**(7.3)**	**(5.6)**
Net fees	610	547	63	11.5	13.4
Gains (losses) on financial transactions	32	43	(11)	(25.8)	(24.7)
Other operating income*	402	343	59	17.2	23.6
Gross income	**1,506**	**1,431**	**75**	**5.2**	**8.0**
Operating expenses	(579)	(575)	(4)	0.8	2.1
Net operating income	**927**	**857**	**70**	**8.2**	**11.9**
Net loan-loss provisions	(0)	(50)	50	(99.2)	(99.2)
Other income	(7)	(19)	12	(62.0)	(61.4)
Profit before taxes	**919**	**787**	**132**	**16.8**	**21.1**
Tax on profit	(193)	(171)	(22)	12.8	14.8
Profit from continuing operations	**726**	**616**	**110**	**17.9**	**23.0**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**726**	**616**	**110**	**17.9**	**23.0**
Minority interests	23	22	1	4.6	14.2
Attributable profit to the Group	**703**	**594**	**109**	**18.4**	**23.3**

(*) Including dividends, income from the equity-accounted method and other operating income/expenses

Insurance. The area continued to advance in building a sustainable business model focused on the customer and on their protection needs. The objective is to construct long-term relations of confidence on the basis of the customer's experience; protection solutions tailored to each segment and an innovative model of multi channel marketing.

The focuses in 2014 were:

- Increase the range of open market insurance, with a greater degree of segmentation and multi channel. With the launch in all countries of insurance products for different customer profiles, the main focus was on the *Select* (high income) and *Advance* (SMEs) segments.

- Strengthen bancassurance business via strategic alliances with insurers that are global leaders, thereby enabling Santander's clients to access a larger and more innovative range of products. An agreement was signed during 2014 with CNP to develop the insurance business of Santander Consumer Finance in Europe, and extend the cooperation agreement with Aegon to the Portuguese market.

- The strategic agreements with Zurich in five Latin American countries, with Aegon in Spain and Aviva in Poland continued to meet their goals.

Results and activity

The whole area registered a trend of sustained improvement in gross income and spreads that resulted in the highest attributable profit in two years being recorded in the fourth quarter.

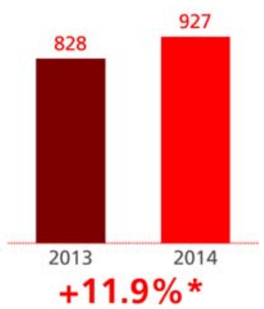
Of note was the 5.2% growth in 2014 in gross income, which absorbed the lower perimeter (sale of 50% of the fund management institutions in the fourth quarter of 2013) and the depreciation of Latin American currencies. Flat operating expenses and lower provisions lifted attributable profit by 18.4%. Eliminating these effects, growth was 11.2% and 31.3%, respectively.

The area's total contribution to the Group by these three global businesses (including revenues recorded by the distribution networks) amounted to EUR 4,528 million (+1.9% and +6.8% on a like-for-like basis and constant exchange rates). These revenues accounted for 10% of the operating areas' total.

Private Banking. Attributable profit was EUR 319 million (+15.7% and +16.9% in constant euros), with a good evolution of gross income, operating expenses and provisions.

Net operating income

Constant EUR Million



(*) In euros: +8.2%

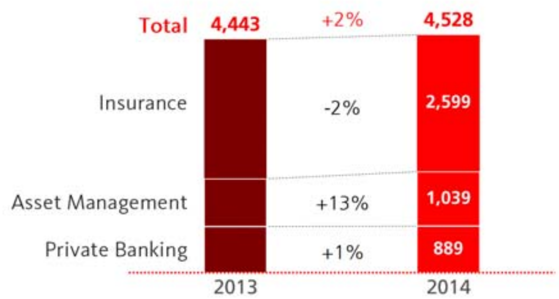
Attributable profit

Constant EUR Million

(*) In euros: +18.4%

Total Group revenues

EUR Million



(*) At constant perimeter and exchange rates:
Total +7%; Insurance +3%; Asset Management +22%; Private Banking: +2%

Private Banking, Asset Management and Insurance. Income statement

EUR Million

	Gross income			Net operating income			Attributable profit		
	2014	%	% w/o FX	2014	%	% w/o FX	2014	%	% w/o FX
Private Banking	889	1.0	2.4	481	1.9	3.0	319	15.7	16.9
Asset Management	162	29.8	33.7	121	50.0	57.0	114	36.8	43.1
Insurance	455	6.7	12.2	325	7.0	14.4	270	14.9	24.0
Total	**1,506**	**5.2**	**8.0**	**927**	**8.2**	**11.9**	**703**	**18.4**	**23.3**

Excluding the exchange rate impact, gross income recovered, thanks to more commercial revenues (+3.9%) and costs (+1.6%) rising at below the inflation rate. Net operating income increased 3.0% in constant euros and the efficiency ratio improved to 46%, a reference for the sector. Lastly, the sharp fall in loan-loss provisions explains the rate of profit growth.

Strategy and objectives in 2015

Private Banking

The global business of private banking will continue to focus on consolidating the comprehensive advisory model which increase in the number of clients and their level of satisfaction and assets under management. Key aspects of this strategy are the development of:

- **a value offer that includes transaction banking, financing and investment advice.**
- **a technological platform that guarantees the quality of services provided and adjusts the recommendations to the customer's risk profile.**

Of note were the greater contributions of Spain and Portugal and in Latin America of Brazil and Chile (flatter contributions from the rest of units).

Asset Management. Attributable profit was EUR 114 million, 36.8% more than in 2013, after absorbing the sale of 50% of the fund management entities and the depreciation of Latin American currencies. On a like-for-like basis in terms of the perimeter and exchange rates, attributable profit doubled (+100.4%), basically due to the greater contribution of the shared fund management entities.

Total gross income including the fee income paid to the networks was EUR 1,039 million, 13.3% more than in 2013 (+22.4% with constant perimeter and exchange rates).

The rise in the business volume contributed to this. Total funds marketed and managed were 17% higher than in 2013 at EUR 162,000 million at constant exchange rates, of which EUR 136,000 million were mutual and pension funds, and the rest clients' managed portfolios. Three countries have three-quarters of the business:

- Spain's assets under management increased 21% to EUR 59,000 million. Of note is Santander Asset Management which, backed by capturing of mixed and profiled products (four funds in the year's top 10), consolidated its leadership.
- In Latin America, Brazil's assets amounted to EUR 50,000 million (15% in local currency), spurred by the high income and corporate segments.
- Mexico's managed assets increased 10% to EUR 11,500 million, due to robust demand for the profiled funds *Select* and *Elite* during the year

Strategy and objectives in 2015

Asset Management

- **Continue to build a sustainable business model on the foundations of the institutional and distribution capacities of the strategic alliance underway.**
- **Continue with the extension to the markets where the Group operates of more diversified profiled solutions that are tailored to the different customer segments in order to offer them greater value added.**

Of note among the rest of units was the high growth in volumes in local currency of Chile (+35%), Portugal (+23%) and United States (+25%).

Insurance posted an attributable profit of EUR 270 million, 14.9% more than in 2013. Eliminating the exchange rate effect, attributable profit was 24.0% higher, strongly backed by the greater contribution of joint venture insurers (at 50%) in the strategic alliances.

In terms of the total contribution to the Group, the revenues generated by business (including fee income paid to the networks) amounted to EUR 2,600 million, 2.9% more than in 2013 at constant exchange rates (-1.7% in current euros).

There was a similar evolution of the total result for the Group (pre-tax profit plus fee income paid to the networks), which increased 3.0% in constant euros. The evolution by geographic area varied

- Europe's contribution was 0.4% lower. The better evolution of Santander Consumer Finance (+5.8%) and Poland (+42%) offset the declines in Spain, Portugal and United Kingdom.
- Latin America's contribution was up 8.1% in an increasingly strict regulatory environment. Greater impact in Chile (-4.1%). The rest of countries continued to increase their total contribution, particularly Mexico (+18.5%).

Strategy and objectives in 2015

Insurance

- **Increase the customer linkage of the Group's units, with a range of more segmented products tailored to clients' needs.**
- **Facilitate contracting via any of the channels available in the Bank.**
- **Boost the weight of non-linked protection products.**
- **Extract the maximum value from the strategic alliances with world insurance leaders in the development of a sustainable business model.**

5

Risk management report

Executive summary

Grupo Santander's risk management and control principles

pages 177 to 178

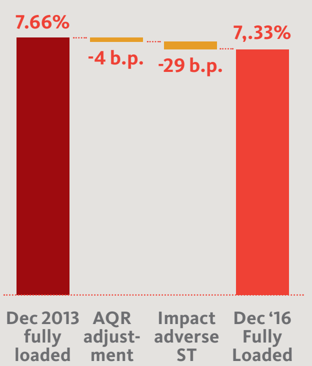
- Group Wide Risk Management (GWRM): comprehensive risk management integrated at all levels of the Group, efficiently aligning the strategic business objectives with a medium-low and stable risk profile.
- Integration of the risk culture throughout the Group, driven by senior management and with remuneration frameworks aligned with the risk appetite.
- The risk function is independent of the business functions.
- Powers and attributions with collegiate decisions that ensure opinions are contrasted.
- Formulation and monitoring of the risk appetite, analysis of scenarios using advanced models and metrics, establishing a framework of control, reporting and scaled that identifies the risks.

Regulatory capital

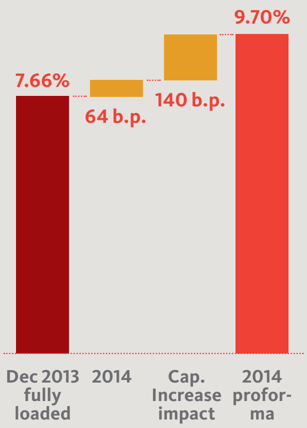
pages 275 to 280

CET1 fully loaded

Comprehensive Assessment



CET1 evolution 2014

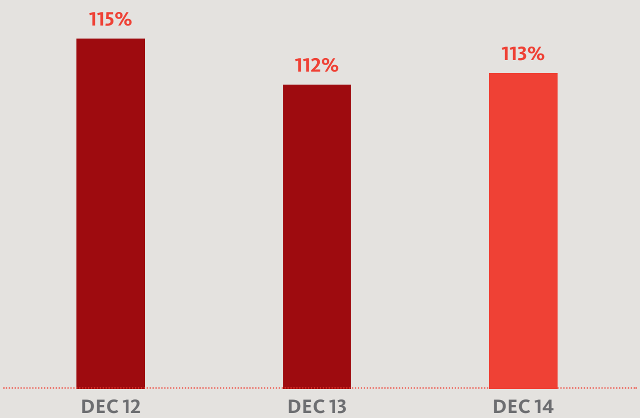


- The CET1 (Base III fully loaded) was 9.7% following the January 9, 2015 capital increase of EUR 7,500 million to support the Group's organic growth plans.
- The Comprehensive Assessment underscored the resilience of the Group's balance sheet.
  - Marginal adjustment (4 b.p. in CET1) of the AQR, reflecting correct classification of the risks and adequate coverage.
  - CET1 deterioration of only 29 b.p. in the stress tests, the smallest impact among our euro zone peers.

Liquidity risk and funding

pages 245 to 258

Net loan-to-deposit ratio total Group



Note: 2012 and 2013 figures on a like-for-like basis

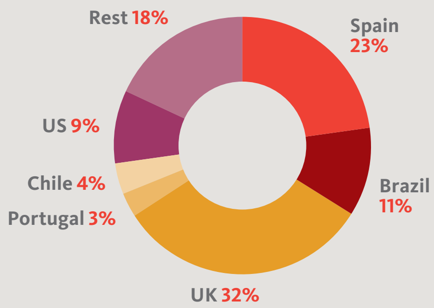
- Santander has a comfortable liquidity position, backed by its commercial strength and model of autonomous subsidiaries, with a high level of customer deposits.
- The net loan-to-deposit ratio at the Group level remained at very comfortable levels (113%).
- In a more favourable market environment, with abundant liquidity at lower cost, greater recourse in 2014 to medium and long-term wholesale funding: 18 units issuing in 15 countries and 13 currencies.
- Compliance ahead of schedule with the regulatory requirements, and further rise in the Group's liquidity reserve to EUR 230,000 million.

Improved credit risk profile

pages 194 to 222

Credit risk with clients by geographic areas

%



- More than 80% of risk is with commercial and retail banking.
- High geographic diversification and by sectors
- Better risk profile:
  - Group NPL ratio of 5.19%, 45 b.p. lower than in 2013. Of note Brazil (-59 b.p.), UK (-19 b.p.) and Spain (-11 b.p.).
  - Coverage ratio of 67% (+5 p.p.).
  - Provisions at the end of the year stood at EUR 10,562 million, and fell in all the large units.
  - Cost of credit 1.43% (1.53% end of 2013).

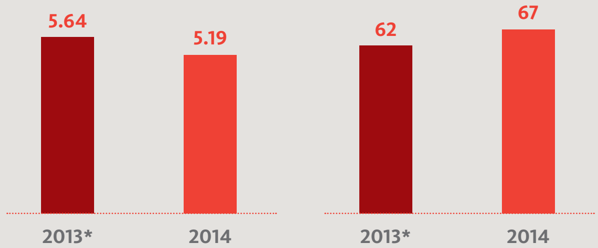
Main magnitudes

NPL ratio and coverage ratio

%

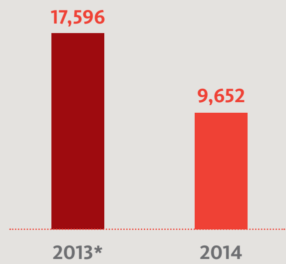
NPL ratio

Coverage ratio



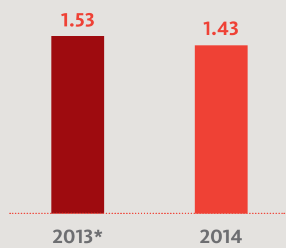
Net entries

Million euros



Cost of credit[1]

%



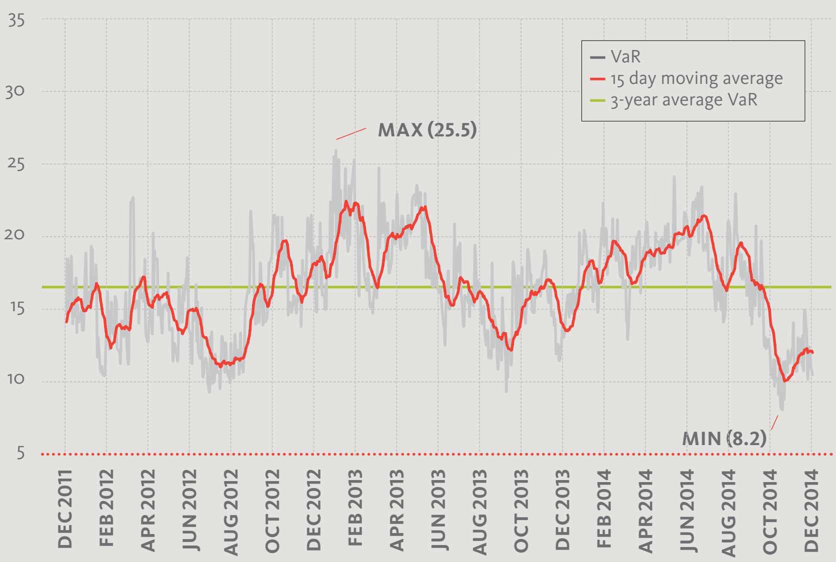
1. Cost of credit: 12 month loan-loss provisions/average lending.
* Excluded SCUSA.

Market trading and structural risks

pages 223 to 244

Evolution of VaR 2012- 2014

Million euros. VaR at 99%, with a time frame of one day



- The average VaR in trading activity of global wholesale banking remained at low levels due to the customer service focus and geographic diversification.
- The balance sheet structure enabled the changes in interest rates to have a low impact on net interest income and equity value.
- Coverage levels of the core capital ratio at around 100%, in the face of exchange rate movements.

This management report provides extensive information on the risks facing the Group, the way in which they are managed and controlled and how they are affecting the Group's activity and results. The actions taken by the Bank to minimise their occurrence and mitigate their severity are also set out.

In line with the best market practices, a map is included for navigating that enables the reader to track the main issues discussed in this risk management report through various documents published by the Group: Annual report, Auditor's report and annual consolidated accounts and Pillar 3. In this same line of fostering transparency, the IPR includes a glossary of terms that set out the basic terminology of risks used in this chapter, as well as in the IPR itself.

The appendix at the end of this report has a table showing the location in the information published by Grupo Santander of the recommendations of the Enhanced Disclosure Task Force (EDTF), promoted by the Financial Stability Board.

Map for navigating Grupo Santader's documents with risk management and control information

1. ECB comprehensive assessment

ECB comprehensive assessment

The European Central Bank began in October 2013 its comprehensive assessment with a view to launching as of November 4, 2014 the Single Supervisory Mechanism. This exercise submitted banks to an assessment of their risk, an analysis of their asset quality and a stress test. Its objective is to enhance transparency, control and credibility, so that the results strengthen private sector confidence in the solvency of European banks and in the quality of their balance sheets.

The EU's main banks participated, on the basis of meeting at least one of the following criteria: (1) Assets of more than EUR 30,000 million, (2) assets of more than 20% of the GDP of their country of origin and (3) being one of the three largest banks in a Member State.

The comprehensive assessment was based on three pillars:

- **Risk Assessment:** prior evaluation of the business model and the most relevant risks, including those related to liquidity, leverage and funding. Each bank's risk profile was taken into account, their relationship with other banks and their vulnerability to external factors.

- **Asset Quality Review (AQR):** qualitative and quantitative analysis of credit and market exposure at the end of 2013, including off-balance sheet assets, non-performing loans, refinancings and sovereign risk. Its objective is to assess whether the provisions and valuation of the collateral of credit exposure are adequate, as well as assess the complex instruments and high-risk assets. It was structured in three phases:

  - Portfolio selecion: at the proposal of each country's authorities, the portfolios to be included in the analysis were selected, complying with criteria on coverage at the bank level.

  - Execution: validation of the integrity of the data provided, assessment of the guarantees, and recalculation of the provisions and risk weighted assets.

  - Verification: analysis of the consistency in order to ensure the comparability of the results of all the portfolios and all banks in the European Union. Also included was an analysis of the control of quality, guidelines and definitions.

- **Stress Test:** analysis of the capacity of each bank to withstand an adverse scenario, carried out in conjunction with the European Banking Authority (EBA).

The exercise establishes baseline and adverse scenarios which impact a bank's performance, including its risks (credit, market, sovereign, securitisation and cost of funding), with a three-year time scale (2014-2016), using data at the end of 2013 and adjusted by the asset quality review. The adverse macroeconomic scenario took into account some systemic risks for the banking sector such as an increase in global bond yields, especially those linked to emerging economies or a further deterioration of asset quality in countries with weaker fundamentals and vulnerable financial sectors.

The minimum capital (CET1) is set at 8% in the baseline scenario and 5.5% in the adverse scenario, in accordance with the definition of Basel III (CRD IV/CRR) and its gradual schedule of introduction (phase-in).

The stress test results are based on scenarios defined in the methodology and are not forecasts of financial performance or capital ratios. The stress test is based on common methodology designed by the European Banking Authority, which includes a key hypothesis for simplifying the exercise (for example, a static balance sheet, a dividend distribution similar to the average of the last three years and valuation adjustments in sovereign debt).

Stress test 2014 basic data for the European Union as a whole (EBA perimeter)

Sample	Impact CET1 fully loaded	Capital shortfall
• 123 banks • EUR 28 trillion of assets (70% of EU banking system)	• AQR: -40 p.b. • Adverse scenario: -230 p.b. • Total: -270 p.b.	• Maximum: EUR 24.6 billion • Current: EUR 9.5 billion (after 2014 measures)

Results of the ECB's comprehensive assessment of Banco Santander

The ECB's comprehensive assessment of Banco Santander underscored the quality of its portfolios, the correct valuation of assets and adequate provisions, as well as the strength of its business model in the event of adverse macroeconomic scenarios.

As regards the **Asset Quality Review**, 16 large credit portfolios of several countries and various segments (residential, SMEs, corporates) which represented more than 50% of credit risks were analysed. Procedures and policies were revised, samples taken and cases reviewed, properties and guarantees assessed, as well as reviewing assessment of the trading portfolio.

The adjustment required as a result of this exhaustive analysis was marginal on the CET1 (-4 b.p.), the smallest impact among our peers and far from the average for the Spanish banking system (-40 b.p.). All of this reflects the correct classification and valuation of assets, as well as the adequate level of provisions for risks.

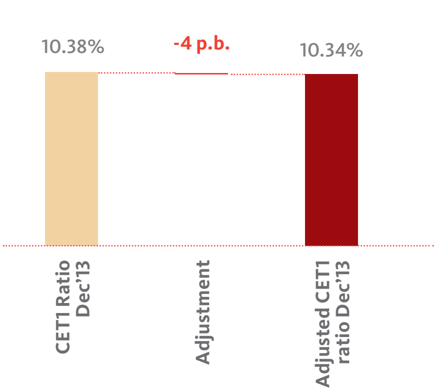
Furthermore, in terms of level 3 assets we are the bank with the least weight among the large European banks (0.13% of total assets), resulting from the low complexity of our balance sheet and our retail banking model.

As regards the **stress tests**, Santander comfortably exceeded the scenarios, particularly the adverse (and unlikely) one.

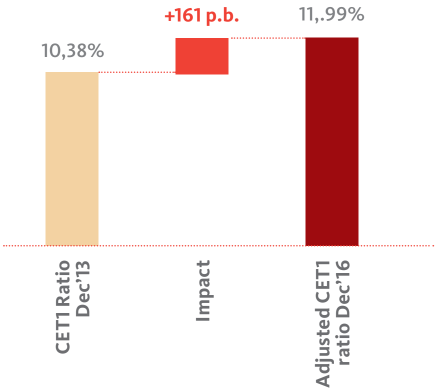
In the baseline scenario, Santander is one of the banks that generates the most capital in the three-year period (+161 b.p.). Its CET1 ratio reaches 12% in 2016. The surplus of capital over the minimum required in this scenario (8%) is around EUR 22,000 million, among the highest.

In the adverse scenario, Santander is the bank with the least negative impact among the major European banks. Its CET1 ratio in 2016 drops by 143 b.p. to 8.95%, which represents a surplus of 345 b.p. or EUR 19,456 million over the minimum requirement (5.5%). This is also among the system's highest.

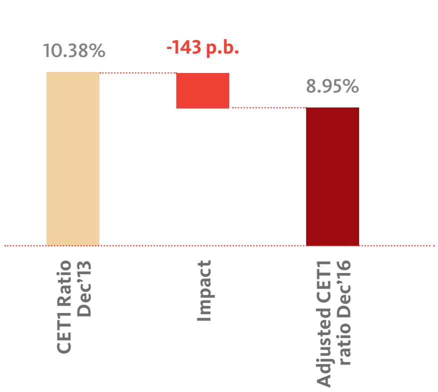
CET1 AQR ratio (%)



CET1 ST Baseline ratio (%)



CET1 ST Adverse ratio (%)

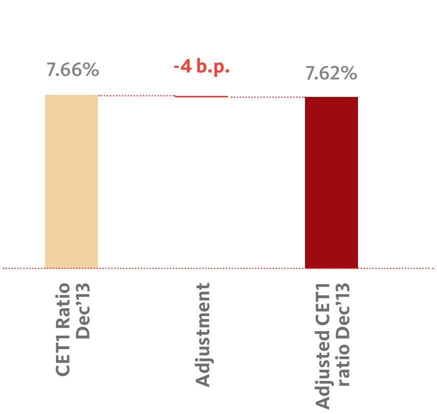


Considering the fully loaded version of the CET1 ratio, i.e., anticipating the Basel III impact, the results continue to be very satisfactory for the Group:

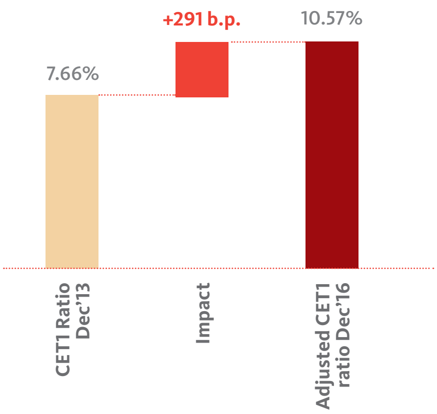
- In the baseline scenario, Santander is the second bank that generates the most capital over the period (+291 b.p.). Its CET1 ratio reaches 10.57% in 2016, which represents a surplus of around EUR 14,000 million over the minimum requirement in this scenario.

- In the adverse scenario, Santander is the bank with the least negative impact among the big European banks. Its CET1 ratio drops by only 33 b.p. to 7.33%, which represents a surplus of 183 b.p. or EUR 10,320 million over the minimum requirement (5.5%).

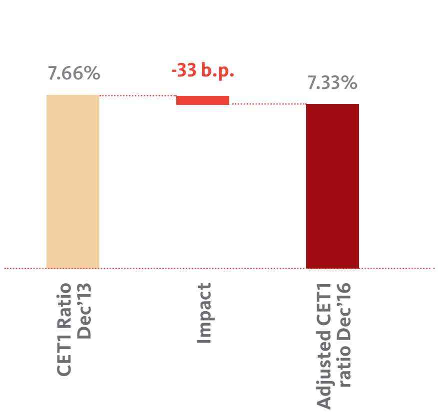
CET1 fully loaded ratio Asset Quality Review (%)



CET1 fully loaded baseline stress test (%)



CET1 fully loaded adverse stress test (%)



In short, the marginal adjustments from the AQR, the low impact in the scenarios envisaged in the stress tests and the capital surpluses make Grupo Santander stand out among its peers and confirm that it is operating with adequate levels of capital for its business model and medium-low risk profile.

The comprehensive assessment was the latest stress test to which Grupo Santander was submitted during the recent economic crisis. All of them showed that, largely thanks to its business model and geographic diversification, Banco Santander will continue to generate profits for its shareholders and comply with the most demanding regulatory requirements in the face of the severest macroeconomic scenarios.

In addition, the internal stress tests carried out by the Bank since 2008 within its self-assessment capital process (Pilar II) have also underscored Grupo Santander's capacity to meet the most difficult scenarios at both the global level as well as in the main countries where it operates. Also noteworthy is that in all cases and despite the severity of the latest crisis, the reality was not as harsh as the scenarios defined (for more details, see section 12.3).

2. Corporate principles of risk management and control

High quality management of risk is one of Grupo Santander's hallmarks and thus a priority in its activity. Throughout its more than 150 years, Santander has combined prudence in risk management with use of advanced risk management techniques, which have proven to be decisive in generating recurrent and balanced earnings and creating shareholder value.

Grupo Santander's risk policy focuses on maintaining a medium-low and predictable profile for all its risks. Its risk management model is a key factor for achieving the Group's strategic objectives.

The economic situation during the last few years has particularly tested the processes of identification, assessment, management and control of risks. In this context, management of the various risks has been positive when compared to the performance of the sector in these markets, which, combined with the high international diversification of the Group's businesses, enabled it to produce broadly satisfactory results. The experience resulting from confronting this adverse economic environment served to reaffirm the principles on which the Group's risk management model is based, as well as improve those aspects of the risk management systems which are necessary to ensure their adequate contribution to the Group's global results.

The activity of risks is governed by the following principles, which are aligned with Grupo Santander's strategy and business model and take into account the recommendations of the supervisory bodies, regulators and the market's best practices.

- A **culture of risks** integrated throughout the organisation. It embraces a series of attitudes, values, skills and ways of acting toward risks that are integrated into all processes, including taking decisions on change management and strategic and business planning. It is developed by **strongly involving senior management** in managing and taking decisions on risks, **remuneration frameworks aligned with the risk appetite**, training processes at all levels, robust control mechanisms and a complete and detailed framework of the policies and processes for managing and controlling risks.

- **Independence of the risk function,** covering all risks and providing an adequate separation between the risk generating units and those responsible for its control and supervision, and having the sufficient authority and direct access to the management and governance bodies which are responsible for setting and supervising the risk strategy and policies.

- **Comprehensive approach to all risks** as the objective for adequate management and control of them, including risks directly as well as indirectly originated (for example, from internal as well as external suppliers) but which can affect it. It is vital to have the capacity to draw up an all comprehensive view of the risks assumed, understand the relations between them and facilitate their overall assessment, without detriment to the differences of nature, degree of evolution and real possibilities of management and control of each type of risk, adapting the organisation, processes, reports and tools to the features of each one.

- **An organisational and governance model** that assigns to all risks those responsible for control and management, conserving the principle of independence and with clear and coherent reporting mechanisms both in each subsidiary of the Group as well as these with the corporation.

- Decision-taking is articulated by granting powers and attributions to each risk management unit, mainly via **collegiate bodies**, which are considered to be an effective instrument for facilitating adequate analysis and different perspectives to be taken into account in risk management, The decision-making process includes an ordered contrasting of opinions, proportionate to the potential impact of the decision and the complexity of factors affecting it.

- The Group promotes the use of **common management instruments among the different local units**, without detriment to their adjustment to regulations, the requirements of supervisors and the degree of progress of each unit.

- These instruments include formulating and monitoring the **risk appetite**, for which the Group determines the amount and type of risks considered reasonable to assume in the execution of its business strategy and its development in objective limits, contrastable and coherent with the risk appetite for each relevant risk; the use of **analysis of scenarios** and a vision that anticipates the risks in the management processes, using advanced **models and metrics** and establishing a **framework of control, reporting and grading** which enables risks to be identified and managed from different perspectives. In addition, the regular processes of identification and risk assessment and the contingency, business continuity and viability and resolution plans complete the essential management tools which, together with the rest of the instruments and principles, make up the components of group wide risk management.

The following sections develop the components common to all risks, leaving to the last ones to analysis of the components and the specific risk profile for each type of risk.

3. Corporate governance of the risk function

3.1. Structure of risk corporate governance

The board is responsible for approving the Bank's general policies and strategies and, in particular, the general policy of risks.

In addition to the executive committee, which pays particular attention to risks, the board is assisted by the committee of risk supervision, regulation and compliance.

The committee of risk supervision, regulation and compliance

The purpose of this committee is to assist the board in the sphere of risk supervision and control, define the Group's risk policies, relations with the supervisory authorities and matters of regulation and compliance.

By agreement of the 2014 general shareholders' meeting and at the proposal of the board, this committee was created in line with the European directive CRD IV and the market's best practices. It is made up of non-executive directors (mostly independent ones) and is chaired by an independent director.

The functions of the committee of risk supervision, regulation and compliance are:

- Support and advise the board in defining and assessing the risk policies that affect the Group and in determining the risk propensity and risk strategy. The Group's risk policies must include:

  i. Identifying the various types of risk which the Group faces, including among the financial or economic ones contingent liabilities and other off-balance sheet risks

  ii. Setting the risk appetite that the Group deems acceptable.

  iii. The measures envisaged for mitigating the impact of the risks identified, in the event that they materialise.

  iv. The information and internal control systems that will be used to control and manage these risks.

- Provide assistance to the board for overseeing implementation of the risk strategy.

- Systematically review the exposures with the main clients, economic sectors, geographic areas and types of risk.

- Know and assess the management tools, improvement measures, evolution of projects and any other relevant activity related to risk control, including the policy on internal models of risk and their internal validation.

- Support and advise the board as regards supervisors and regulators in the various countries where the Group operates.

- Supervise compliance with the general code of conduct, the anti-money laundering and terrorist financing manuals and procedures and, in general, the rules of governance and the Company's compliance programme and make the necessary proposals for its improvement. In particular, it is the committee's responsibility to receive information and, where necessary, issue reports on the disciplinary measures for senior management.

- Supervise the Group's policy and rules of governance and compliance and, in particular, adopt the actions and measures that results from the reports or the inspection measures of the administrative authorities of supervision and control.

- Monitor and assess the proposed regulations and regulatory developments that result from their implementation and the possible consequences for the Group.

1. The committee of risk supervision, regulation and compliance held its first meeting on July 23, 2014.

The executive risk committee (ERC)

This committee is a body with risk management powers delegated by the board and adopts decisions in the sphere of these powers to ensure that the Group's risk profile derived from the business strategy is aligned with the risk appetite limits and global policies approved by the board. Under these powers, the ERC approves risk operations, sets the risk policies and monitors the profile of global risks, ensuring that the Group has the structure, resources and necessary systems for managing and controlling risks adequately.

The ERC is chaired by an executive vice-chairman and four other of the Bank's directors also form part of it. The committee held 96 meetings in 2014, underscoring the importance that Grupo Santander pays to managing and controlling its risks adequately.

The committee's main responsibilities are:

- Resolve the operations that exceed the powers delegated to organs lower down the hierarchy, as well as the global limits of pre-classifications in favour of economic groups or in relation to exposures by classes of risk.
- Provide the committee of supervision of risks, regulation and compliance with the information needed to comply with the functions assigned to it by law, the By-laws and the board's regulations, without detriment to the obligation to keep the board regularly informed of its activities in the sphere of risk management.
- Monitor the general profile of the Group's risks consisting of all the risks set out in the risk map (see section 4.1 of this report).
- Manage exposures to different clients, economic sectors, geographic areas and types of risk.
- Authorise the management tools, improvement measures, evolution of projects and any other relevant activity related to risk control, including the policy on internal risk models and their internal validation.
- Follow, in the sphere of its activities, the indications formulated by the supervisory authorities in the exercise of its function.
- Ensure that the Group's actions are consistent with the risk appetite previously decided by the board, with the advice of the committee of risk supervision, regulations and compliance, and delegate in other committees lower down the hierarchy or in executives empowered to assume risks.

Basic committees in risk management

The ERC delegates some of its powers in corporate risk committees, structured by risk type and activity, which facilitates an adequate process for taking final decisions and continuous monitoring of the risk profile.

Each type of risk has its own framework of committees. Credit risk, for example, is governed by committees on the basis of the customer segment and market risk by the global committee of market risks. Actuarial and pension risks are governed by the committee of global business risks.

Management of operational risk was very important during 2014, promoting the participation of the first lines of defence and strengthening the figure of operational risk coordinator within the first lines of corporate defence. These coordinators participate actively in managing this risk and support managers in their tasks of management and control. The governance framework defined envisaged first line committees, which deal with the most relevant issues in relation to the management of the operational risk of each division, and a control committee (corporate committee of operational risk) that reviews the profile of this risk.

More information on the governance of liquidity and compliance risks can be found in the sections on liquidity risk and funding, and compliance, conduct and reputational risk in this report.

3.2. Model of responsibilities in the risk function

Lines of defence

Banco Santander's management and control model is based on three lines of defence.

The first line is constituted by the business units and the support areas (including those specialised in risk) which as part of their activity give rise to the Bank's risk exposure. These units are responsible for managing, monitoring and reporting adequately the risk generated, which must be adjusted to the risk appetite and the various limits of risk management. In order to tend to this function, the first line of defence must have the resources to identify, measure, manage and report the risks assumed.

The second line of defence is made up of teams of control and supervision of risks including the compliance function. This line vouches for effective control of the risks and ensures they are managed in accordance with the level of risk appetite defined.

Internal audit is the third line of defence and as the last layer of control in the Group regularly assesses the policies, methods and procedures to ensure they are adequate and are being implemented effectively.

The three lines of defence have a sufficient level of separation and independence to not compromise the effectiveness of the general framework. They operate in coordination with one another in order to maximise their efficiency and strengthen their effectiveness.

Over and above the defence lines, the board's committees and the executive risk committees, (see section 3.1 on the structure of committees) at both corporate level and in the units are responsible for adequate management and control of risks from the highest level of the organisation.

Structural organisation of the risk function

The chief risk officer (CRO) is responsible for the risk function and reports to the Bank's executive vice-chairman, who is a member of the board and chairman of the executive risk committee.

The CRO advises and challenges the executive line and reports independently in the risk, regulatory and compliance committee and to the board.

The risk management and control model is structured on the following pillars:

- Specialised management of risks, which enables the units to manage the risk they generate in accordance with the policies and limits established.
- Control of financial, non-financial and transversal risks (see the map of risks in section 4.1), verifying that management and exposure by type of risk is in line with what senior management establishes.
- Group wide risk management which involves an aggregated and comprehensive vision, assessing the global risk profile and supervising that it fits into the risk appetite and structure of limits established by the board and ensuring that the risk management and control systems are adequate and in line with the most demanding criteria and best practices observed in the industry and/or required by regulators.
- Develop in the sphere of risks regulations, methodologies and information infrastructure.
- Planning and internal governance.
- Internal validation of risk models in order to assess their suitability for management and regulatory purposes. Validation involves reviewing the model's theoretical foundations, the quality of the data used to build and calibrate it, the use to which it is put and the process of governance associated.
- Control and coordination of regulatory projects in order to supervise the design and implementation of the best regulatory risk management standards in the Group and comply with regulatory requirements in all countries consistently and effectively.

3.3. The Group's relationship with subsidiaries in risk management

Regarding the alignment of units with the corporation

The management and control model shares, in all the Group's units, basic principles via corporate frameworks.

Over and above these principles and basics, each unit adapts its risk management to its local reality, although they are based on corporate policies and structures, which enables a risk management model to be recognised in Grupo Santander.

One of the strengths of this model is the adoption of the best practices developed in each of the units and markets in which the Group operates. The corporate risk divisions act as centralisers and conveyors of these practices.

Regarding the structure of committees

The governance bodies of the Group's units are structured in accordance with the local regulatory and legal requirements and the dimension and complexity of each unit, being coherent with those of the Bank, as established in the internal governance framework, thereby facilitating communication, reporting and effective control.

The administration bodies of the subsidiaries, in accordance with the internal governance framework established in the Group, will define their own model of risk powers (quantitative and qualitative). These local models of assigning powers must follow the principles contained in the reference models and frameworks developed at the corporate level.

Given its capacity of comprehensive and aggregated vision of all risks, the Group will exercise a role of validation and questioning of the operations and management policies in the various units, insofar as they affect the Group's risk profile.

4. Management model and control of risks

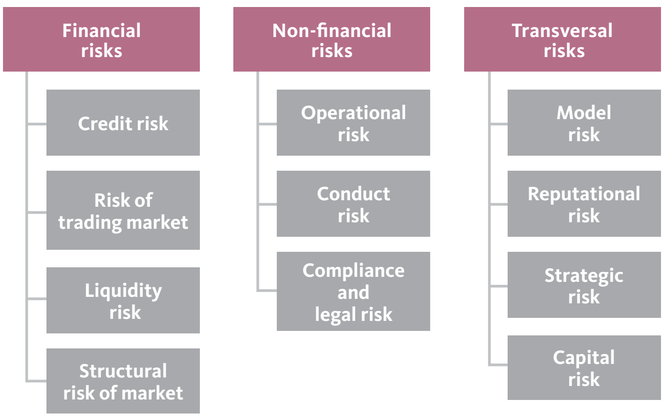
The model of managing and controlling risks ensures the risk profile is maintained within the levels set by the risk appetite and the other limits. It also incorporates the adoption of the necessary corrective and mitigation measures to maintain risk levels in line with the defined objectives.

The elements enabling adequate management and control of all these risks derived from Grupo Santander's activity arte set out below.

4.1. Map of risks

Identifying and evaluating all risks is a corner stone for controlling and managing risks. The risks map covers the main risk categories in which Grupo Santander has its most significant exposures, current and/or potential, facilitating this identification.

The first level includes the following risks:



Financial risks

- **Credit risk:** risk of loss derived from non-compliance with contractual obligations agreed in financial transactions.
- **Trading market risk:** risk that incurred as a result of the possibility of changes in market factors that affect the value of positions in trading portfolios.
- **Liquidity risk:** risk of not complying with payment obligations on time or doing so with an excessive cost.
- **Structural markets risks:** risk caused in managing different balance sheet items, including those related to the sufficiency of equity and those derived from insurance and pension activity.

Non-financial risks

- **Operational risk:** risk of losses due to the inadequacy or failure of procedures, people and internal systems, or external events.
- **Conduct risk:** risk caused by inadequate practices in the Bank's relationships with its customers, the treatment and products offered and their adequacy for each specific customer.
- **Compliance and legal risk:** risk due to not complying with the legal framework, the internal rules or the requirements of regulators and supervisors.

Transversal risks

- **Model risk:** risk of losses resulting from decisions mainly founded on the results of models, due to errors in the conception, application or use of these models.
- **Reputational risk:** risk of damage in the perception of the Bank by public opinion, its customers, investors or any other interested party.
- **Strategic risk:** risk that the results are significantly different from the strategy or the entity's business plan as a result of changes in the general business conditions and risks associated with strategic decisions. It includes the risk of badly implementing decisions or the lack of response capacity to changes in the business environment.

- **Capital risk:** risk that the Group or some of its companies do not have the amount and/or quality of sufficient equity to meet the minimum regulatory requirements set for operating as a bank; respond to the market's expectations as regards their credit solvency and support business growth and the strategic possibilities they present.

4.2. Group Wide Risk Management (GWRM)

The GWRM involves identifyinng, assessing, adequately managing and controlling all risks, with a comprehensive and integrated vision at all levels of the organisation. The implementation and coordinated management of all the elements that comprise it enables the Group's risk profile to be continuously assessed, as well as its global management, improving the capacities in risk management at all levels.

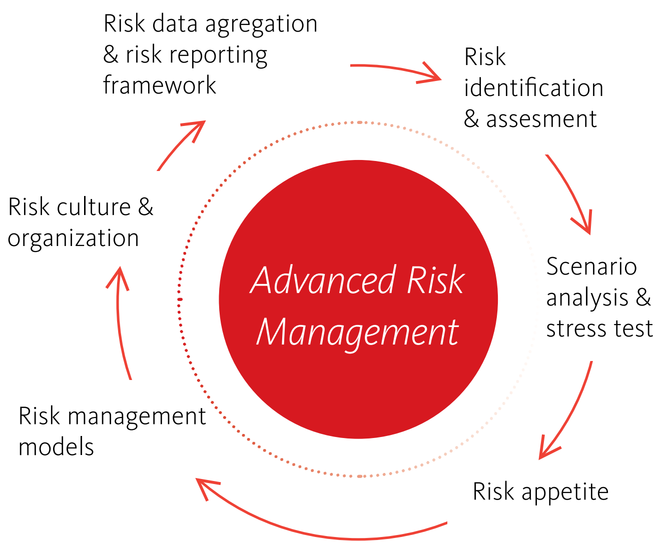
The Group launched the Santander Advanced Risk Management programme to accelerate the implementation of its strategic projects to improve risk management and control capacity, in order to position Grupo Santander as the best market practice in the current financial scenario.

The programme aims to attain excellence in risk management at both the corporate and local levels, always maintaining a vision focused on doing "more and better" business.

The programme is implemented in all the Group's units and ensures homogeneous management principles for the various regulatory and competitive environments.

With Advanced Risk Management Santander aims to be the best in class in risk management, efficiently aligning the strategic business objectives with a medium-low and stable risk profile.

The main development pillars of ARM are:



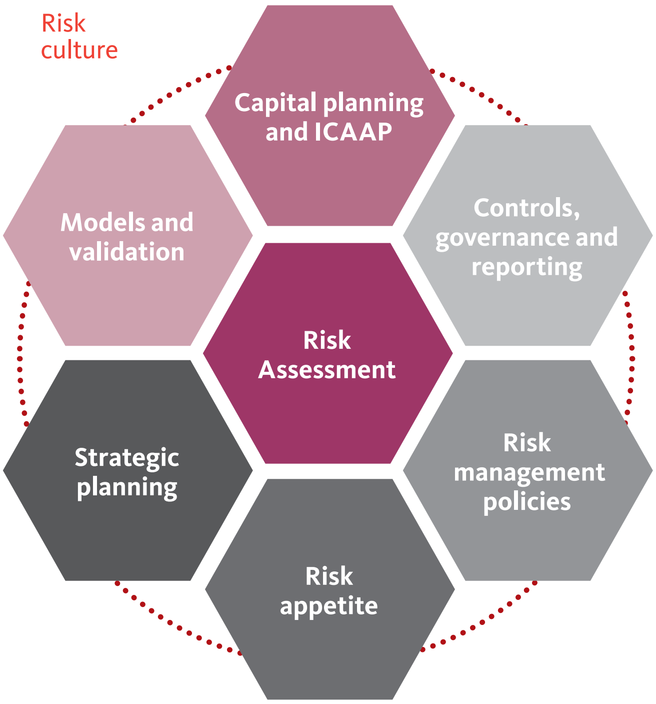
4.3. Risk Assessment

Banco Santander, as part of its routine management, identifies and assesses the financial and non-financial risks to which it is exposed in the countries in which it operates, and which are inherent in its activity.

In a process of continuous improvement, and in order to provide a more global vision and one consistent with this process, Banco Santander launched at the end of 2014 a corporate project to identify and assess risk. This project was created to increase robustness and standardisation in identifying and assessing the Group's risks and seeks to complement and add other initiatives being worked on until now in a parallel and independent way in the sphere of operational risk (self-assessment questionnaires of operational risk, see 9.2.2.), legal and compliance risk (regulatory risk assessment, see 10.3) and internal control.

The risk identification and assessment methodology enables the Group's residual risks to be identified and assessed by type of risk (in accordance with the risks described in section 4.1 of this report), business segment, unit and at the corporate level. These residual risks are assessed both in current conditions as well as in other potential ones, which involves a full analysis of the risk to which the Bank is submitted in the development of its activity.

The results of the exercise identify, as both the aggregate and granular levels, the Bank's main risks as well as weaknesses in the controls that mitigate them. These results are a base and an important source of information and basis for other key elements in risk management, as shown in the chart below:



4.4. Risk appetite and structure of limits

Santander defines risk appetite as the amount and type of risks considered reasonable to assume for implementing its business strategy, so that the Group can maintain its ordinary activity in the event of unexpected circumstances. Severe scenarios are taken into account that could have a negative impact on the levels of capital, liquidity, profitability and/or the share price.

The board is responsible for annually setting and updating the risk appetite, monitoring the Bank's risk profile and ensuring consistency between both of them. The risk appetite is set for the whole of the Group as well as for each of the main business units in accordance with a corporate methodology adapted to the circumstances of each unit/market. At the local level, the boards of the subsidiaries are responsible for approving the respective risk appetite proposals once they have been validated by the Group.

During 2014, implementing at the local level the risk appetite of the main units was extended to almost all the Group's units. Among other improvements, the capacity for analysis of scenarios was strengthened.

Banking business model and fundamentals of the risk appetite

The definition and establishment of the risk appetite in Grupo Santander is consistent with its risk culture and banking business model from the risk perspective. The main elements that define this business model and which are behind the risk appetite are:

- A general medium-low and predictable risk profile based on a diversified business model, focused on retail and commercial banking and with an internationally diversified presence and with important market shares, and a wholesale banking business model that gives priority to relations with clients in the Group's main markets.

- A stable and recurring policy to generate earnings and remunerate shareholders, on a strong capital and liquidity base and a strategy of diversification by sources and maturities.

- An organisational structure based on subsidiaries that are autonomous and self-sufficient in capital and liquidity, minimising the use of instrumental companies, and ensuring that no subsidiary has a risk profile that jeopardises the Group's solvency.

- An independent risk function with very active involvement of senior management that guarantees a strong risk culture focused on protecting and ensuring an adequate return on capital.

- A management model that ensures a global and inter-related view of all risks, through an environment of control and robust monitoring of risks, with global scope responsibilities: all risk, all businesses, all countries.

- Focus in the business model on those products that the Group knows sufficiently well and has the management capacity (systems, processes and resources).

- The development of its activity on the basis of a conduct model that oversees the interests of clients and shareholders.

- Adequate and sufficient availability of staff, systems and the tools that guarantee maintaining a risk profile compatible with the established risk appetite, both at the global and local levels.

- A remuneration policy that has the necessary incentives to ensure that the individual interests of employees and executives are aligned with the corporate framework of risk appetite and that these are consistent with the evolution of the Bank's long-term results.

Corporate principles of risk appetite

The following principles govern Grupo Santander's risk appetite in all its units:

- **Responsibility of the board and of senior management.** The board is the maximum body responsible for setting the risk appetite and supporting regulations, as well as supervising compliance.

- **Enterprise wide risk, contrasting and questioning of the risk profile.** The risk appetite must consider all significant risks to which the Bank is exposed, facilitating an aggregate vision of the risk profile through the use of quantitative metrics and qualitative indicators. This enables the board and senior management to question and assimilate the current risk profile and that envisaged in business and strategic plans and its coherence with the maximum risk limits.

- **Forward looking view.** The risk appetite must consider the desirable risk profile for the current moment as well as in the medium term, taking into account both the most probable circumstances as well as stress scenarios.

- **Linkage with strategic and business plans, and integration in management.** The risk appetite is a benchmark in strategic and business planning and is integrated into management through a bottom-up and top-down focus:

  - Top-down vision: the board must lead the setting of the risk appetite, vouching for the disaggregation, distribution and transfer of the aggregated limits to the management limits set at the portfolio level, unit or business line.

  - Bottom-up vision: the risk appetite must emanate from the board's effective interaction with senior management, the risk function and those responsible for the business lines and units. The risk profile contrasted with the risk appetite limits will be determined by aggregation of the measurements at the portfolio, unit and business line level.

- **Coherence in the risk appetite of the various units and common risk language throughout the organisation.** The risk appetite of each unit of the Group must be coherent with that defined in the remaining units and that defined for the Group as a whole.

- **Regular review, continuous contrasting and adapting to the best practices and regulatory requirements.** Assessing the risk profile and contrasting it with the limits set for the risk appetite must be an iterative process. Adequate mechanisms must be established for monitoring and control that ensure the risk profile is maintained within the levels set, as well as taking corrective and mitigating measures that are necessary in the event of non-compliance.

Structure of limits, monitoring and control

The risk appetite is formulated every year and includes a series of metrics and limits on these metric (statements) which express in quantitative and qualitative terms the maximum risk exposure that each unit of the Group or the Group as a whole is prepared to assume.

Fulfilling the risk appetite limits is continuously monitored. The specialised control functions report at least every quarter to the board and its risk committee on the adequacy of the risk profile with the risk appetite authorised.

The excesses and non-compliance with the risk appetite are reported by the risk control function to the relevant governance bodies. The presentation is accompanied by an analysis of the causes that provoke it, an estimation of the time they will remain this way as well as the proposed actions to correct the excess when the corresponding governance body deems it opportune.

Linkage of the risk appetite limits with the limits used to manage the business units and portfolios is a key element for making the risk appetite an effective risk management tool.

The management policies and structure of the limits used to manage the different types and categories of risk, which are described in greater detail in sections 6.5.2. planning and establishing limits, 7.2.3. and 7.3.3. systems of controlling limits in this report, have a direct and traceable relation with the principles and limits defined in the risk appetite.

In this way, the changes in the risk appetite are transferred to changes in the limits and controls used in Santander's risk management and each one of the business and risk areas is responsible for verifying that the limits and controls used in their daily management are set in such a way that they cannot fail to comply with the risk appetite limits. The risk control and supervision function will then validate this assessment, ensuring the adequacy of the management limits to the risk appetite.

Pillars of the risk appetite

The risk appetite is expressed via limits on quantitative metrics and qualitative indicators that measure the exposure or risk profile by type of risk, portfolio, segment and business line, both in current and stressed conditions. These metrics and risk appetite limits are articulated in five large areas that define the positioning that Santander's senior management wants to adopt or maintain in the development of its business model:

- The **volatility in the income statement** that the Group is prepared to assume.

- The **solvency** position that the Group wants to maintain.

- The minimum **liquidity** position that the Group wants to have.

- The maximum levels of **concentration** that the Group considers reasonable to assume.

- **Qualitative aspects** and supplementary **metrics**.

Pillars of Appetite and main metrics

Volatility Results	Solvency	Liquidity	Concentration	Supplementary aspects
• Maximum loss that the Group is prepared to assume in a harsh scenario. • Maximum losses from operational risk.	• Minimum capital position that the Group is prepared to assume in a harsh scenario.	• Minimum structural liquidity position. • Minimum position of liquidity horizons that the Group is prepared to assume in various harsh scenarios.	• Concentration by individual client (in absolute and relative terms). • Concentration by Top-N (in relative terms). • Concentration in non-investment grade counterparties. • Concentration by sectors. • Concentration in portfolios with high volatility profile.	• Qualitative indicators on non-financial risks. • Minimum assessment of the state of management of operational risk. • Indicator of compliance and reputational risk. • Qualitative restrictions.

Volatility of results
The volatility pillar determines the maximum level of potential losses that the Bank is prepared to assume in normal conditions and under stress scenarios, in order to be able to analyse the volatility of the income statement in environments of stressed and plausible management.

These stress scenarios mainly affect both the losses derived from the exposure to the credit risk of retail portfolios as well as wholesale ones (taking into account both the loss of direct credit as well as the reduction in spreads), and also the potential unfavourable impact derived from exposure to market risk. After applying these credit and market impacts to the budgeted results, in the context of risk appetite monitoring senior management assesses whether the resulting margin is sufficient to absorb the unexpected effects from operational, compliance, conduct and reputational risk, and establish a maximum ratio of net losses by operational risk on the gross margin (both for the Group as well as each unit). In line with the Basel specifications, the net losses figure includes that which could emanate from compliance risk.

The time frame for materialising the negative impacts for all risks considered is three years generally, and one year for market risk. Compliance with the risk appetite must thus be produced for each of the three following years.

Solvency
Santander operates with a comfortable capital base that enables it not only to meet the regulatory requirements but also have a reasonable capital surplus.

In addition, and with regard to the corresponding tension scenarios referred to in the previous section, Santander's risk appetite measures the unexpected impact of these scenarios on its solvency ratios (CET1).

This capital focus included in the risk appetite framework is supplementary and consistent with the Group's capital objective approved within the capital planning process implemented in the Group and which extends to a period of three years.

Liquidity position
Grupo Santander has developed a funding model based on autonomous subsidiaries that are responsible for covering their own liquidity needs. On this basis, liquidity management is conducted by each subsidiary within a corporate framework of management that develops its basic principles (decentralisation, equilibrium in the medium and long term of sources-applications, high weight of customer deposits, diversification of wholesale sources, reduced recourse to short-term funds, sufficient reserve of liquidity) and revolves around three main pillars (governance model, balance sheet analysis and measurement of liquidity risk, with management adapted to business needs). Section 7 on liquidity risk and funding has more information on the corporate framework of management, its principles and main pillars.

Santander's liquidity risk appetite establishes demanding objectives of position and time frames for systemic stress scenarios (local and global) and idiosyncratic. In addition, a limit is set on a structural funding ratio that relates customer deposits, equity and medium and long term issues to structural funding needs.

Concentration
Santander wants to maintain a widely diversified risk profile from the standpoint of its exposure to large risks, certain markets and specific products. In the first instance, this is achieved by virtue of Santander's retail and commercial banking focus with a high degree of international diversification.

Concentration risk: this is measured by the following metrics upon which risk appetite thresholds are established in terms of the proportion of equity or of lending (general character).

- Client (in proportion to equity): a) net individual maximum exposure to corporate clients (additionally, clients with internal ratings below investment grade and exceeding a certain exposure are also monitored); b) net maximum aggregate exposure with the Group's 20 largest corporate clients (Top 20); c) net maximum aggregate exposure of the exposures considered as large risks (corporate and financial clients); d) maximum impact on profit before tax of a simultaneous failure of the five largest corporate exposures (jump to default Top 5).

- Sector: maximum percentages of the exposure of the portfolio of companies in an economic sector, in relation to lending (at both the total level as well as for the segment of companies).

- Portfolios with high risk profile (defined as those retail portfolios with a percentage of risk premium that exceed an established threshold): maximum percentages of exposure to this type of portfolio in proportion to lending (at both the total and retail levels) and for different business units.

Qualitative aspects and other complementary metrics

This seeks to delimit risk exposures in a complementary way to the previous pillars.

Risk limits expressed both qualitatively (for example, the ban on operating with complex market products) as well as expressed in other quantitative metrics (for example, operational risk indicators) are studied so that relevant risks not considered in the other categories can be controlled. A qualitative indicator on the state of management is incorporated in operational risk, based on the results of indicators on other issues including governance and management, budgetary compliance, quality of the data bases of events, and corporate self-assessment questionnaires on the control environment. An indicator of compliance and reputational risk is also incorporated from an assessment matrix created for the purpose.

4.5. Analysis of scenarios

Banco Santander conducts advanced management of risks by analysing the impact that different scenarios could provoke on the environment in which the Bank operates. These scenarios are expressed both in terms of macroeconomic variables as well as other variables that affect management.

Analysis of scenarios is a very useful tool for senior management as it enables the Bank's resistance to stressed environments or scenarios to be tested, as well as put into effect measures to reduce the Bank's risk profile to these scenarios. The objective is to maximise the stability of the income statement and the levels of capital and liquidity.

This forward looking vision helped Santander to remain among the select group of international banks that throughout the crisis generated profits and maintained its dividend policy.

The robustness and consistency of the exercises of scenario analysis are based on three pillars:

- Developing mathematical models that estimate the future evolution of metrics (for example, credit losses), based on both historic information (internal of the Bank and external of the market), as well as simulation models.
- The inclusion of the expert judgement and know how of risk managers in the year's result, so that it questions and refines the result offered by the models of scenario analysis.
- Back testing the results of the models with the figures observed.

Uses of analysis of scenarios

- **Regulatory uses:** in those that conduct stress scenario exercises under guidelines set by the regulator. In this group of uses are to be found, for example, the resistance tests (comprehensive assessment and stress test) requested in 2014 by the European Central Bank under the methodology set by the European Banking Association (EBA). For more detail see section 1 on the comprehensive assessment of the European Central Bank.
- **Internal exercises** of self-assessment of capital (ICAAP) or liquidity (ILAAP) in which while the regulator can impose certain requirements, the Bank develops its own methodology to assess its capital and liquidity levels in the face of different stress scenarios. These tools enable capital and liquidity management to be planned.
- **Risk appetite** contains stressed metrics on which maximum levels of losses (or minimum of liquidity) are established that the Bank does not want to exceed. These exercises are related to those of the ICAAP and liquidity, although they have different frequencies and present different granularity levels. The Bank continues to work to improve the use of analysis of scenarios in risk appetite and ensure an adequate relation of these metrics with those used in daily risk management. For more detail see sections 4.4 risk appetite and structure of limits and 8 liquidity risk and funding.
- **Daily management of risks.** Analysis of scenarios is used in processes for budgeting provisions and other balance sheet items by type of risk, in the generation of commercial policies of risk admission, in the global analysis of risks by senior management or in specific analysis on the profile of activities or portfolios. More detail is provided in the section on credit risk (6.5.2. planning and establishing limits), market risk (7.2.1.6. and 7.2.2.3. analysis of scenarios) and liquidity (8.2.2. analysis of the balance sheet and measurement of risk).

Corporate project of analysis of scenarios

In order to respond to the growing regulatory pressure and the needs of advanced risk management so as to be a competitive bank, a project to develop a robust structure of analysis of scenarios at the corporate level began in 2014, which, during 2015, is expected to be extended to the Group's main units. This project has three fundamental pillars:

- **Tool for analysing scenarios:** installation of an advanced tool for estimating losses with greater soundness and computerisation of information handling, with the capacity to aggregate various types of risk and with an environment of multi user execution.
- **Governance:** review of the framework of governance of the exercises of scenario analysis in order to adjust to their growing importance, greater regulatory pressure and best market practices.
- **Stress methodologies:** preparing plans to develop mathematical models of advanced stress that enhance the capacity to predict risk, taking into account the organisation's calculation capacities.

4.6. Viability plans and living wills

Grupo Santander was the first international bank considered globally systemic by the Financial Stability Board to present (in 2010) to its consolidated supervisor (then the Bank of Spain) its corporate viability plan. Its most important part envisages the measures available to emerge on its own from a very severe crisis.

The fifth version of the corporate plan was prepared in 2014. As with the previous versions from 2010 to 2013, the Group presented the plan in July to the relevant authorities (in 2014 to the core supervisory college, unlike in other years when it was presented to the crisis management group).

This plan consists of the corporate plan (corresponding to Banco Santander) and the individual pans for the main local units (UK, Brazil, Mexico, US, Germany, Argentina, Chile, Poland and Portugal), thereby fulfilling the commitment made by the Bank with the authorities in 2010. It is important to mention the cases of the UK, Germany and Portugal where regardless of their obligation to form part of the corporate plan, its full development is equally due to local regulatory initiatives.

The Group's senior management is fully involved in preparing and regularly monitoring the content of the plans, through specific committees of a technical nature, as well as monitoring at the institutional level which guarantee that the content and structure of the documents are adapted to local and international regulations in crisis management matters, something in continuous development for the last five years.

The board is responsible for approving the corporate plan or, in the exercise of its delegated functions, the executive committee and the executive risk committee. The individual plans are approved by the local bodies and always in coordination with the Group, as these plans must form part of the corporate plan.

During 2015 the Group will continue to introduce improvements to the viability plans, seeking to adopt the evolutions in this sphere observed in the market (particularly in relation to defining scenarios, early warning indicators and in general the very structure of documents), as well as make the changes in the plans required by the local authorities in their case.

As regards the living wills, the authorities that form part of the Crisis Management Group (CMG) have adopted a common approach on the strategy to follow for the Group's living will that, given the legal and business structure with which Santander operates, corresponds to the so called multiple point of entry (MPE). They have signed the corresponding cooperation agreement and have developed the first living wills for the main countries (Spain, UK and Brazil), The Group continues to cooperate with the authorities in preparing the living wills, contributing all the information that the authorities, responsible for their preparation, require.

As an exception, preparing living wills in the US is the responsibility of the banks themselves. The Group has presented the second version of the local living wills (one for all of the Group's activities in the US, in line with the Federal Reserve's regulations, and the other only covering Santander Bank, as the deposit-taking institution subject to the regulations of the Federal Deposit Insurance Corporation (FDIC).

4.7. Independent reporting

One of the key elements of management is the framework of information on risks that sets standards which ensure a consolidated vision of all risks and enable the board and senior management to take the necessary decisions and actions.

This framework is in permanent evolution in order to reflect the best market practices. In this sense, Santander launched in 2014 a project to ensure that the information on risks for senior management incorporates the basic principles defined the risk data aggregation[2], which is summarised in the following principles:

- **Governance:** establish governance for the life cycle of data and reports, as well as a taxonomy of them.
- **Data base architecture:** guarantees the Bank's capacity to aggregate all the risk data in a reliable way, ensuring it is exact, integrated, complete, traceable, updated at the opportune moment, adaptable to the needs and flexible. It covers all risks on the basis of their materiality.
- **Draw up risk reports for senior management:** ensure that the reports take into account the following requirements:
    - **Exhaustive:** they cover all relevant aspects of the risk principles with the adequate weighting between them.
    - **Identification of emerging risks:** identify emerging risks and supply information in the context of limits and risk appetite.
    - **Focused on decision-taking:** recommend actions on risks when necessary.
    - **Usefulness:** with an adequate balance between data, analysis and qualitative comments. The greater the level of aggregation, the greater the degree of qualitative comments.
    - **Advanced metrics:** incorporate forward-looking measures and not just historic information.
    - **Frequency:** the board and senior management must determine the objectives of the risk reports as well as the frequency, which must increase when there is a crisis.

2. Basel Committee on Banking Supervision, "Principles for effective risk data aggregation and risk reporting".

4.8. Internal control framework

The risk management model has an environment of internal control that guarantees adequate control of all the risks, contributing a comprehensive vision of them. This control is carried out in all the Group's units and for each type of risk in order to ensure that the Group's exposures and global risk profile are within the mandates established by both the board as well as regulators.

The main functions that ensure effective risk control are:

1. **Supervision and aggregated consolidation of all risks.** The risk division, at corporate level as well as in each unit, supervises all risks in order to question or challenge independently the management and risk control mechanisms, contributing value judgements and elements for decision-taking by senior management, based on a series of reports that incorporate an aggregated assessment of all the risks. For more detail see 4.6. Independent reporting.

2. **Assessment of internal control mechanisms.** This consists of a systematic and regular review of all the necessary processes and procedures for control with a view to guaranteeing their effectiveness and validity. This assessment is done annually and is within the principles in the Sarbanes Oxley Law.

3. **Comprehensive control and internal validation of risks**
   The **comprehensive control** function includes among its main activities the following:

   - Verify that the management and control systems of the various risks inherent in Grupo Santander's activity meet the most demanding criteria and the best practices observed in the industry and/or required by regulators.

   - Supervise appropriate compliance in time and form with the recommendations drawn up for risk management matters following inspections by internal audit and by the supervisors to whom Santander is subject.

   The function has global and corporate scope and covers all risks, all businesses and all countries. This function is backed by an internally developed methodology and a series of tools that support this function, in order to systemise its exercise, adjusting it to Santander's specific needs. This enables it to be formalised and make traceable and objectify the application of this methodology.

   The function of **internal validation** of risk models constitutes a fundamental support for the executive risk committee and the local and corporate risk committees in their responsibilities of authorising the use (management and regulatory) of the models and their regular review.

   A specialised unit of the Bank with full independence issues a technical opinion on the adequacy of the internal models for the purposes used, whether they be internal management and/or of a regulatory nature (calculation of the regulatory capital, levels of provisions, etc), and concludes on their robustness, usefulness and effectiveness.

   Santander's internal validation covers all models used in the risk function, be they credit risk, market, structural or operational risk models or capital, economic and regulatory models. The scope of validation includes not only the most theoretical or methodological aspects but also the technological systems and the quality of the data that enable and support their effective functioning and, in general, all relevant aspects in management (controls, reporting, uses, involvement of senior management, etc).

   The function is global and corporate, in order to ensure homogeneous application, and is conducted via five regional centres located in Madrid, London, Sao Paulo, New York and Wroclaw (Poland). These centres have full functional dependence on the corporate centre, which ensures uniformity in the development of activities. This facilitates implementation of a corporate methodology that is supported by a series of tools developed internally in Grupo Santander, which provide a robust corporate framework for all the Group's units, computerising certain verifications in order to ensure that the reviews are carried out efficiently.

   This corporate framework of internal validation is fully aligned with the criteria for internal validation of the advanced models issued by the various supervisors to whom the Group is subjected. In this respect, the criterion is maintained of separating functions between the units of internal validation and internal audit, which is the last layer of control in the Group charged with reviewing the methodology, tools and work conducted by internal validation and expressing its opinion on its degree of effective independence.

4. The control by the **compliance** function that the risks assumed are within the legal framework, the internal regulations and the requirements of regulators and supervisors. For more detail, see section 10 on compliance, conduct and reputational risk.

5. **Assessment by internal audit,** as the third line of defence, provides an independent review of the first two lines of defence, ensuring that the policies, methods and procedures are adequate and integrated in management.

   Internal audit is a corporate function, permanent and independent of any other function or unit of the Group, whose mission, in order to provide security on these aspects to the board and senior management, thereby contributing to protecting the Bank and its reputation, is to supervise:

   - The quality and effectiveness of the internal control processes and systems, of management of all risks and of governance.

   - Compliance with the applicable regulations.

   - The reliability and integrity of financial and operational information.

   - Balance sheet integrity.

4.9. Risk culture

The Group's risk culture is specified in the principles of responsibility, prudence and compliance, as all units and employees (regardless of the function they carry out) are responsible for ensuring that not only does the institution comply, but also it is prudent and responsible in what it does. This risk culture is also based on the principles of Santander's risk management model and is transmitted to all business and management units and is supported, among other things, by the following drivers:

- **Involvement of senior management in risk control and management,** which is shaped in the board's approval of the risk appetite (for more detail, see 4.4 on risk appetite and structure of limits), corporate frameworks that regulate the risk activity and the internal governance framework, and regular revision of the Group's risk profile, the main potential threats and the relevant events produced in the Group and in the banking industry. In 2014 and under the risk data aggregation and risk reporting framework (RDA&RRF), the series of reports that facilitate regular and systematic review by senior management of the profile and risk strategy, the emerging risks and events of low probability but strong impact were reviewed, among others.

  The high frequency with which the corporate bodies of validation and risk monitoring meet (twice a week in the case of the executive risk committee) guarantees intense participation by senior management in the daily management of risks and great agility in identifying alerts, taking decisions and resolving operations, facilitating the clear transfer of a risk culture from senior management, with specific examples of taking decisions. In addition, it enables the grading processes to be efficient and there is an incentive for this, as well as a quick transmission of information between the different functions affected. For more information see section 3, Corporate governance of the risk function.

- **Independence of the control functions (risks, compliance and internal audit),** with sufficient authority and direct access to the governance bodies. These control functions are not conditioned by the business lines, and actively participate in taking important risk decisions.

- Santander **appropriately documents** risk activity, through detailed frameworks, models and policies for risk management and control. Within the systematic review process and updating of risk regulations, the board approved the complete updating of the corporate frameworks that regulate credit, market, structural, liquidity and operational risks and information of risks, as well as the general framework of risks. These documents are considered by the board and senior management as an instrument for disseminating the strategy and risk management fundamentals in the Group, strengthening the Bank's risk culture. They have been agreed by consensus and approved by the boards of the Group's various institutions, thereby ensuring a common and shared model of action and developing an internal governance framework for risk activity.

- The Group has **specific policies for compliance, conduct and reputational risks**, among which is the general code of conduct and the code of conduct in the securities markets, as well as the corporate framework for marketing products and services and the corporate framework for anti-money laundering and terrorist financing. There are also whistleblowing channels and various committees where risks and irregularities are analysed and the corresponding mitigation measures taken.

  For more information see section 10 on compliance, conduct and reputational risk.

- The consistency and **alignment between risk appetite, risk management and the Group's business strategy** is ensured by the budgetary process, governance of approval of operations and quantitative limits in which the risk appetite principles are specified.

- **The main risks are not only analysed when they are originated** or when irregular situations arise in the ordinary recovery process, but also on a continuous basis for all clients. Santander's information and exposure aggregation systems enable daily monitoring of exposures, verifying systematic compliance with the limits approved, as well as adopting, where necessary, the pertinent corrective measures.

- The remuneration and incentives policy **includes performance variables that take into account the quality of the risk** and the Group's long-term results.

  The remuneration policy for executive directors and other members of the Bank's senior management is based on the principle that variable remunerations be congruent with rigorous risk management without bringing about an inadequate assumption of risks and are aligned with shareholders' interests, fostering the creation of long-term value.

  The Group identified in 2014 the collective subject to Capital Requirements Directive IV, in accordance with the criteria stated by the European Banking Authority, and increased significantly over 2013 the number of executives whose variable remuneration is the object of deferment and payment in shares. All the collective identified is subject to the maximum ratio of variable remuneration set out by this directive, ensuring that the fixed remuneration represents a significant percentage of the total remuneration.

  Furthermore, the methodology for determining the variable remuneration of the Group's executives takes into account, as well as quantitative metrics of results and capital management, factors that incorporate adequate risk management, the level of customer satisfaction with respect to that of rival banks and other relevant management factors.

  As well as the functions of the remuneration committee, the Group has a specific committee to assess the risks in remuneration, comprising senior executives of the main functions of control (risk, financial control, financial management, auditing, compliance and human resources), which takes into account the quality of financial results, the risks and regulatory compliance via metrics and other qualitative factors used to calculate the variable remuneration. This committee also analyses the adjustments ex-post, in relation to the clauses of deferment and the release in their case of the amounts of deferred variable remuneration.

For more information see the 2014 report of the Group's remuneration committee.

There are also specific risk development programmes for all the Group's executives and a strategy of risk training and auditing for these divisions through the corporate schools of risks and auditing, which have global and local programmes and disseminate the culture of prudence in risks and control throughout the Group.

Furthermore, the Group has a global strategy for managing talent and planning ahead in order to ensure that the Group has the necessary talent for key positions and accelerates the development of executives in line to take over these positions. This strategy covers the main executive levels, including the control functions.

- **Other procedures** supporting the dissemination of Santander's risk culture are the training activities in the corporate risk schools, strict compliance by employees with the general codes of conduct, monitoring of supervisors' reports and systematic and independent action by the internal audit services whose recommendations are regularly reviewed to ensure their compliance.

Thanks to the strategies and procedures implemented to develop and support the risk culture, Grupo Santander is totally committed to the risk culture indicators identified by the Financial Stability Board in its document *Guidance on supervisory interaction with financial institutions on risk culture* published in April 2014.

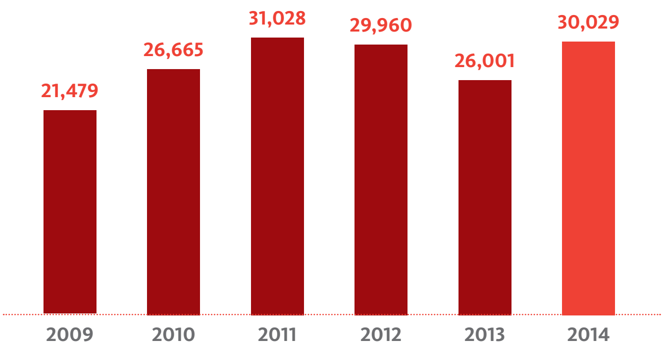
Risk training activities

Santander has risk schools whose objectives are to help to consolidate the risk management culture in the Bank, and guarantee the training and development of all risk professionals with the same criteria, as well participation in other schools to disseminate risk culture in their different practical aspects of application in businesses.

The corporate risk school, which gave a total of 30,029 hours of training to 9,254 employees in 2014 in 87 activities, is a key element for enhancing Santander's leadership in this sphere, continuously strengthening the skills of executives and employees.

The focus in 2014 was operational risk, with the development of a training programme for all employees which included training actions for different levels of the Bank. This explains the increase in the number of employees (from 3,778 in 2013 to 9,254 in 2014) who attended the corporate risk school.

Training hours



Furthermore, the risks corporate school trains professionals from other business areas, particularly retail banking, so as to align the demanding risk management criteria to business goals.

5. Risk environment

As a result of the environment in which Banco Santander operates, there are different potential risks that could threaten the development of business and meeting the Group's strategic objectives. The risk division identifies and assesses these risks and presents them regularly for analysis to senior management and the board, which take the opportune measures to mitigate and control them. The main focuses of risk are:

- **Macroeconomic environment:** at the end of 2014, the main sources of macroeconomic uncertainty were:

  - **Economic slowdown** in Europe.

  - The **adjustment** to the **Chinese economy**, which could impact emerging as well and developed markets.

  - **Change in the US interest rate scenario** and its possible impact on emerging markets (flight to quality).

  - **Evolution of commodity prices** and their possible impact on various economies.

  Banco Santander's business model, based on geographic diversification and a customer-focused bank, strengthens the stability of results in the face of macroeconomic uncertainty, ensuring a medium-low profile.

  The Group uses techniques of scenario analysis and stress tests to analyse the possible evolution of macroeconomic indicators and their impact on the income statement, capital and liquidity. These analyses are incorporated to risk management when planning capital (section 12.3), risk appetite (section 4.4) and risk management of the different types of risk (section 6.5.2 on credit, 7.2.1.6. on market and 8.2.2. on liquidity).

- **Competitive environment:** the financial industry has undergone in the last few years a process of restructuring and consolidation that could still continue in the coming years. These movements are changing the competitive environment, as a result of which senior management continuously monitors the competitive environment, reviewing the Bank's business and strategic plan. The risk division ensures that the changes in the plans are compatible with the risk appetite limits.

- **Regulatory environment:** a regulatory environment for the financial industry more demanding in capital and liquidity has been shaped in the last few years, as well as a greater supervisory focus on risk management and business processes.

  In this line the Single Supervisory Mechanism came into force in November 2014. Previously, during 2014, the European Central Bank, in coordination with the European Banking Authority, conducted a global evaluation to enhance the transparency, control and credibility of European banks (see more detail in section 1 of this chapter). This context will mark the regulatory environment of the coming months. Of note are the following aspects:

  - The entry into force of joint supervisory teams, formed from teams from the relevant national authorities and the European Central Bank.

  - The gradual harmonisation of criteria, concepts, authorisation procedures, etc, seeking an homogenisation that equals the regulation and supervision that affects European banks.

  - In the same line, supervision of all European banks under a common methodology: the Supervisory Review and Evaluation Process (SREP).

  - The importance of the relations established between the Single Supervisory Mechanism and the rest of supervisors in countries where the Group operates, through supervisory colleges and the signing of memories of understanding with them.

The Bank is attaching greater priority to these issues by permanently monitoring the changes in the regulatory environment, which enables it to rapidly adapt to the new requirements. The Group is strengthening teams in all spheres of its activity in order to comply with the supervisors' requirements.

The Group also has a coordination mechanism, fostered and backed by the board and senior management, among the different management areas and countries, in order to ensure a consistent response at Group level and implement the best practices in managing projects with regulatory impact.

Of note, among others, are the projects in order to adjust to:

- The requirements of the Basel capital regulations which have been transposed in most countries where the Group operates, particularly in Europe via the CRR/CRD IV.
- The international standards on risk data aggregation (RDA).
- The US Volcker rule that limits the own account operations that banks can carry out.
- The European investor protection rule (MIFID II) which strengthens the requirements related to the functioning of securities markets and marketing of financial products.

- **Non-financial and transversal risks** (operational, conduct, reputational, strategic, etc): these risks are assumin increasing importance because of the attention paid to them by regulators and supervisors, which see in them a reflection of the way banks behave toward their stakeholders (employees, clients, shareholders, investors and social agents). Of particular note in the financial industry are:

  - With operational risk, **cyber risk** or the risk of suffering attacks by third parties on the Bank's IT systems, which could alter the integrity of the information or normal development of operations. The Bank has been strengthening in the last few years its computer security system and continues to invest in this area in the face of potential threats (for more detail see section 9).

  - **Conduct risk:** in the last few years there has been a growing tightening of regulations regarding the treatment that banks must provide to their customers, These changes in regulations and their application could entail an impact for banks involving potential judicial demands or fines by supervisors as well as the necessary changes to processes and structure that must be carried out to comply with the new standards.

    Banco Santander is strengthening control of this risk and has launched a global plan to improve the marketing of investment products and analysis of the costs incurred (paid or provisioned) as a result of compensation to clients and sanctions.

  - In line with the regulatory recommendations in the corporate governance sphere, the board agreed to appoint an executive vice-chairman to whom the compliance function reports.

    More information is available in the section on compliance, conduct and reputational risk in this report.

6. Credit risk

6.0. Organization of the section

After an **introduction** to the concept of credit risk and the segmentation that the Group uses for its treatment, the **main magnitudes** of 2014 and their evolution are presented (pages 194-202).

This is followed by a look at the **main countries**, setting out the main features from the credit risk standpoint (pages 203-210).

The qualitative and quantitative aspects of **other credit risk matters** are then presented, including information on financial markets, risk concentration, country risk, sovereign risk and environmental risk (pages 210-217).

Lastly, there is a description of the Group's **credit risk cycle**, with a detailed explanation of the various stages that form part of the phases of pre-sale, and post-sale, as well as the main credit risk metrics (pages 218-222).

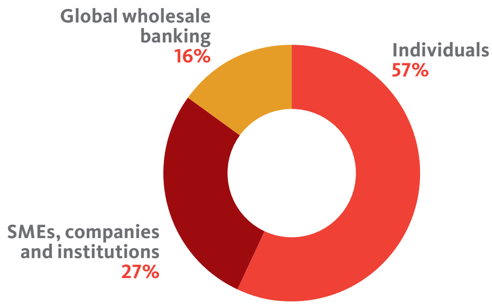
6.1. Introduction to the treatment of credit risk

Credit risk arises from the possibility of losses stemming from the failure of clients or counterparties to meet their financial obligations with the Group.

The Group's risks function is organised on the basis of three types of customers:

- The segment of **individuals** includes all physical persons, except those with a business activity. This segment, in turn, is divided into sub segments by income levels, which enables risk management adjusted to the type of client.
- The segment of **SMEs, companies and institutions** includes companies and physical persons with business activity. It also includes public sector activities in general and non-profit making private sector entities.
- The segment of **global wholesale banking** consists of corporate clients, financial institutions and sovereigns, who comprise a closed list revised annually. This list is determined on the basis of a full analysis of the company (business, countries where it operates, types of product used, volume of revenues it represents for the bank, length of relation with the client, etc).

The following chart shows the distribution of credit risk on the basis of the management model.



The Group's risk profile is mainly retail, accounting for 84% of total risk generated by the retail banking business.

6.2. Main magnitudes and evolution

6.2.1. Global map of credit risk, 2014

The table below sets out the global credit risk exposure in nominal amounts (except for derivatives and repos exposure which is expressed in equivalent credit) at December 31, 2014.

Grupo Santander - Gross exposure to credit risk classified in accordance with legal company criteria

Million euros. Data at 31 December 2014

	Credit to customers		Credit to entities[2]		Fixed income[3]		Derivatives and repos	
	Outstanding[1]	Commitments	Outstanding	Commitments	Sovereign	Private	REC[4]	Total
Continental Europe	**308,089**	**65,637**	**19,892**	**2,353**	**48,726**	**12,183**	**23,671**	**480,551**
Spain	198,175	53,326	14,506	2,219	37,256	7,713	20,032	**333,227**
Germany	30,896	592	1,191	-	-	233	18	**32,929**
Portugal	26,411	4,377	862	104	5,637	3,616	2,748	**43,754**
Others	52,608	7,342	3,333	30	5,833	622	873	**70,641**
United Kingdom	**250,921**	**42,153**	**28,633**	**-**	**6,078**	**6,883**	**14,501**	**349,169**
Latin America	**156,587**	**43,986**	**21,397**	**19**	**25,283**	**6,152**	**11,035**	**264,459**
Brazil	86,892	30,594	12,344	18	17,892	4,940	7,851	**160,532**
Chile	33,291	7,460	1,360	0	1,396	844	1,733	**46,084**
Mexico	27,198	5,685	4,395	-	4,621	341	1,399	**43,639**
Others	9,206	248	3,298	-	1,374	27	52	**14,204**
United States	**73,664**	**28,709**	**7,319**	**69**	**5,159**	**8,038**	**800**	**123,758**
Rest of world	**351**	**30**	**68**	**-**	**-**	**2**	**-**	**450**
Total Group	**789,613**	**180,515**	**77,308**	**2,440**	**85,246**	**33,258**	**50,007**	**1,218,387**
% of total	64.8%	14.8%	6.3%	0.2%	7.0%	2.7%	4.1%	**100.0%**
% change/Dec 13	10.9%	16.7%	-17.9%	28.5%	46.3%	9.8%	-14.4%	**9.8%**

Evolution of gross exposure to credit risk

Million euros

	2014	2013	2012	Var.s/13	Var.s/12
Continental Europe	**480,551**	**473,267**	**540,435**	**1.5%**	**-11.1%**
Spain	333,227	327,900	396,474	1.6%	-16.0%
Germany	32,929	33,481	40,659	-1.6%	-19.0%
Portugal	43,754	41,013	39,243	6.7%	11.5%
Others	70,641	70,872	64,059	-0.3%	10.3%
United Kingdom	**349,169**	**320,571**	**344,413**	**8.9%**	**1.4%**
Latin America	**264,459**	**241,592**	**266,304**	**9.5%**	**-0.7%**
Brazil	160,532	141,119	163,915	13.8%	-2.1%
Chile	46,084	44,147	46,722	4.4%	-1.4%
Mexico	43,639	39,066	37,836	11.7%	15.3%
Others	14,204	17,260	17,832	-17.7%	-20.3%
United States	**123,758**	**73,945**	**79,707**	**67.4%**	**55.3%**
Rest of world	**450**	**265**	**539**	**69.9%**	**-16.4%**
Total Group	**1,218,387**	**1,109,640**	**1,231,398**	**9.8%**	**-1.1%**

1. Balances with customers include contingent risks (see the auditor's report and annual consolidates statements, note 35) and exclude Repos (1,639 million euros) and other customer financial assets (12,832 million euros).
2. Balances with credit entities and central banks include contingent risks and exclude repos, the trading portfolio and other financial assets.
3. Total fixed income excludes the trading portfolio.
4. ECR (equivalent credit risk: net value of replacement plus the maximum potential value. Includes mitigants).

The gross credit exposure (customer loans, entities, fixed income, derivatives and repos) in 2014 was EUR 1,218,387 million, most of it with customers and credit entities (86% of the total).

Risk is diversified among the main regions where the Group operates: Continental Europe (39%), UK (29%), Latin America (22%) and the US (10%).

Credit risk exposure rose 9.8% in 2014, largely due to the combined impact of the increase in lending in UK, Brazil, the US and Spain.

Excluding the exchange-rate impact of the main currencies against the euro, the exposure increased 5% in 2014.

There were various **changes in** 2014 **in the Group's perimeter** of gross credit exposure. Of note was the incorporation of SCUSA, as well as the acquisitions of the portfolio of GE Nordics and Financiera El Corte Inglés (FECI) in the sphere of Santander Consumer Finance, The SCUSA portfolio was integrated globally into the Group, with a coverage ratio of 296%. The main line of business in SCUSA is auto finance, distinguishing between core auto (loans generated via intermediaries) and Chrysler Capital (operations granted via Chrysler dealers and financing of commercial fleets). The acquisition of GE Nordics consolidated the commitment to growth in the business of direct consumer finance in the northern part of Europe, incorporating a portfolio that at the end of 2014 had a coverage ratio of 82%. The agreement with FECI increases the customer base with growth potential (coverage ratio of 109%).

6.2.2. Performance of magnitudes in 2014

The table below sets out the main items related to credit risk derived from our activity with customers.

Grupo Santander -risk, NPLs, coverage, provisions and cost of credit*

Data at 31 December

	Credit risk with customers[2] (million euros)			Non-performing loans (million euros)			NPL ratio (%)		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Continental Europe	**308,205**	**312,167**	**332,261**	**27,514**	**28,496**	**20,904**	**8.93**	**9.13**	**6.29**
Spain	182,974	189,783	210,536	13,512	14,223	8,093	7.38	7.49	3.84
Santander Consumer Finance[1]	63,654	58,628	59,387	3,067	2,351	2,315	4.82	4.01	3.90
Portugal	25,588	26,810	28,188	2,275	2,177	1,849	8.89	8.12	6.56
Poland	18,920	18,101	10,601	1,405	1,419	500	7.42	7.84	4.72
United Kingdom	**256,337**	**235,627**	**254,066**	**4,590**	**4,663**	**5,202**	**1.79**	**1.98**	**2.05**
Latin America	**167,065**	**146,956**	**155,846**	**7,767**	**7,342**	**8,369**	**4.65**	**5.00**	**5.37**
Brazil	90,572	79,216	89,142	4,572	4,469	6,113	5.05	5.64	6.86
Mexico	27,893	24,024	22,038	1,071	878	428	3.84	3.66	1.94
Chile	33,514	31,645	32,697	1,999	1,872	1,691	5.97	5.91	5.17
Argentina	5,703	5,283	5,378	92	75	92	1.61	1.42	1.71
United States	**72,477**	**44,372**	**49,245**	**1,838**	**1,151**	**1,351**	**2.54**	**2.60**	**2.74**
Puerto Rico	3,871	4,023	4,567	288	253	326	7.45	6.29	7.14
Santander Bank	45,825	40,349	44,678	647	898	1,025	1.41	2.23	2.29
SC USA	22,782	—	—	903	—	—	3.97	—	—
Total Group	**804,084**	**738,558**	**793,448**	**41,709**	**41,652**	**36,061**	**5.19**	**5.64**	**4.54**

	Coverage ratio (%)			Spec. provs. net of recovered write-offs[3] (million euros)			Credit cost (% of risk)[4]		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Continental Europe	**57.2**	**57.3**	**73.0**	**2,880**	**3,603**	**4,104**	**1.02**	**1.23**	**3.16**
Spain	45.5	44.0	50.0	1,745	2,411	2,473	1.06	1.38	1.34
Santander Consumer Finance[1]	100.1	105.3	109.5	544	565	753	0.90	0.96	1.27
Portugal	51.8	50.0	53.1	124	192	393	0.50	0.73	1.40
Poland	60.3	61.8	68.0	186	167	112	1.04	1.01	1.00
United Kingdom	**41.9**	**41.6**	**44.1**	**332**	**580**	**806**	**0.14**	**0.24**	**0.30**
Latin America	**84.7**	**85.4**	**87.5**	**5,119**	**6,435**	**7,300**	**3.56**	**4.43**	**4.93**
Brazil	95.4	95.1	90.2	3,682	4,894	6,124	4.84	6.34	7.38
Mexico	86.1	97.5	157.3	756	801	466	2.98	3.47	2.23
Chile	52.4	51.1	57.7	521	597	573	1.75	1.92	1.90
Argentina	143.3	140.4	143.3	121	119	108	2.54	2.12	2.05
United States	**192.8**	**86.6**	**95.3**	**2,233**	**43**	**345**	**3.45**	**0.00**	**0.72**
Puerto Rico	55.6	61.6	62.0	55	48	81	1.43	1.13	1.80
Santander Bank	109.4	93.6	105.9	26	(5)	265	0.06	(0.01)	0.61
SC USA	296.2	—	—	2,152	—	—	10.76	—	—
Total Group	**67.2**	**61.7**	**72.4**	**10,562**	**10,863**	**12,640**	**1.43**	**1.53**	**2.38**

* 2013 excludes SCUSA.

1. SCF includes GE Nordics in the 2014 figures.

2. Includes gross loans to customers, guarantees and documentary credits.

3. Bad debts recovered (EUR 1,336 million).

4. Cost of credit= loan-loss provisions 12 months/average lending.

At the end of 2014, credit risk with customers was 9% higher. This growth occurred in all countries except for Spain (although taking into account just customer loans, there was slight growth), Portugal and Puerto Rico. These levels of lending, together with non-performing loans (NPLs) of EUR 41,709 million (-1.4%) reduced the Group's NPL ratio to 5.19% (-45 b.p.).

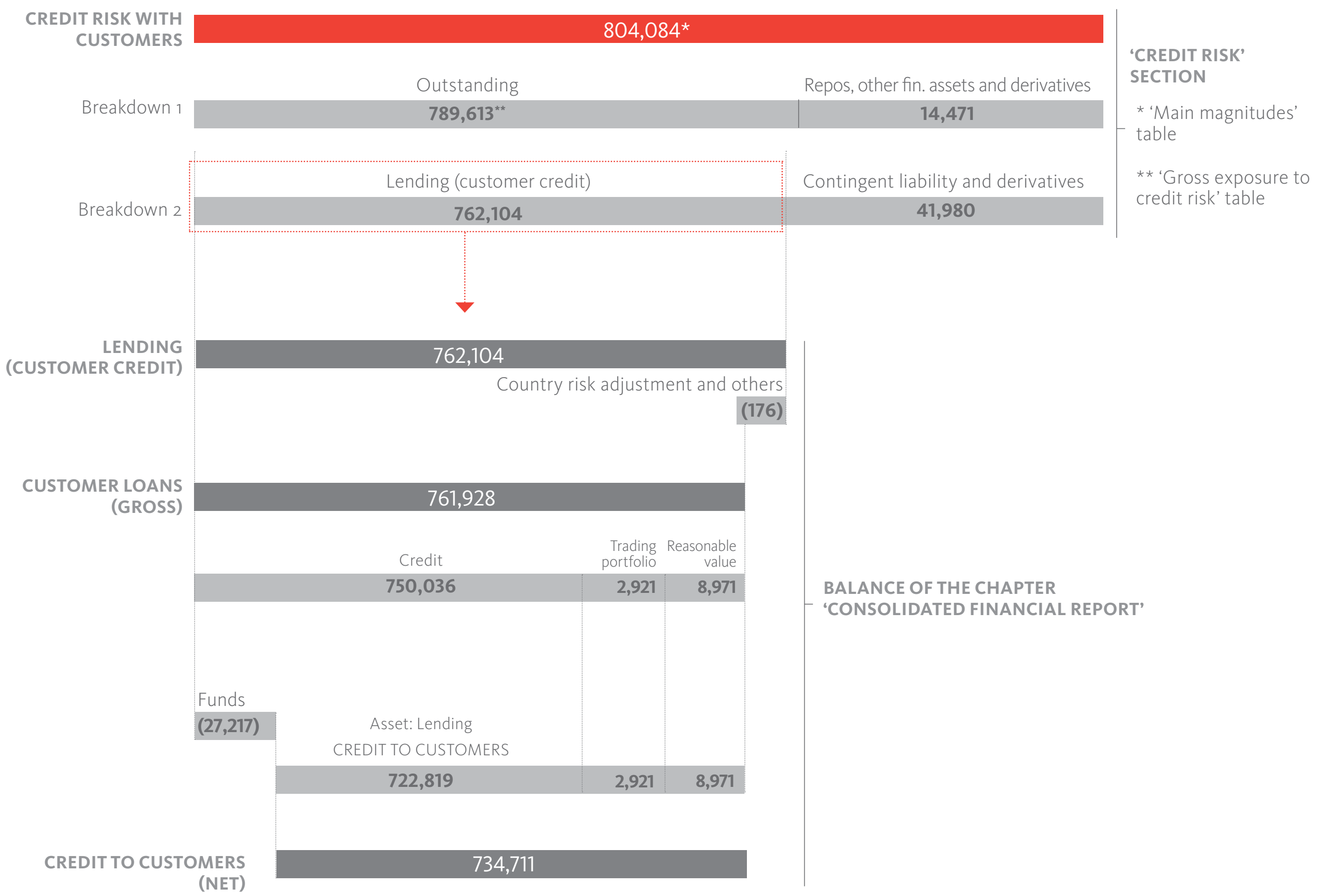
For coverage of these NPLs, the Group recorded net credit losses of EUR 10,562 million (-3%), after deducting write-off recoveries. This decline is materialised in a fall in the cost of credit to 1.43% (10 b.p. less than in 2013).

Total loan-loss provisions were EUR 28,046 million, bringing the Group's coverage ratio to 67%. It is important to bear in mind that this ratio is affected downwards by the weight of mortgage portfolios (particularly in the UK and Spain), which require fewer provisions as they have collateral.

Conciliation of the main magnitudes

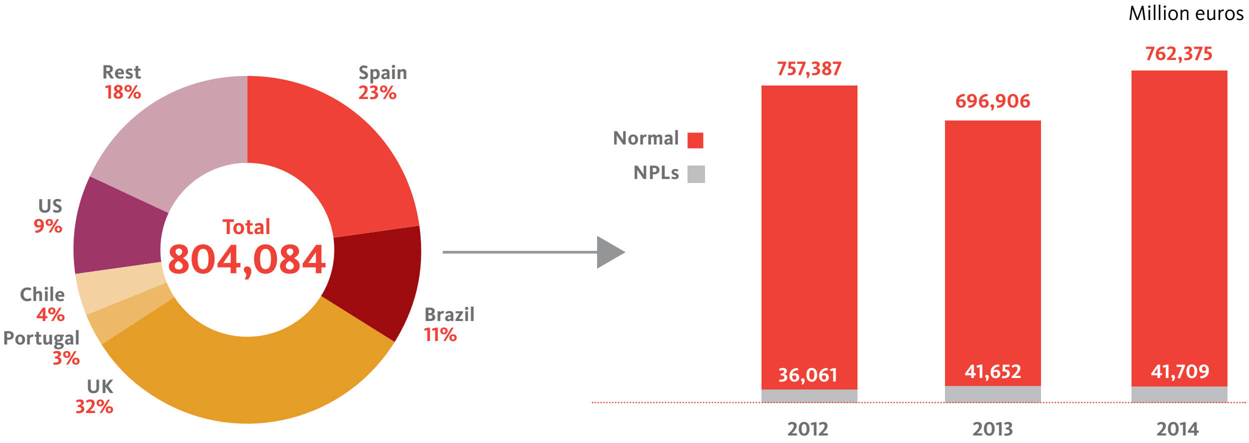
The consolidated financial report details the portfolio of customer loans, both gross and net of funds. The following chart shows the relation between the concepts that comprise these magnitudes.

Figures in million euros

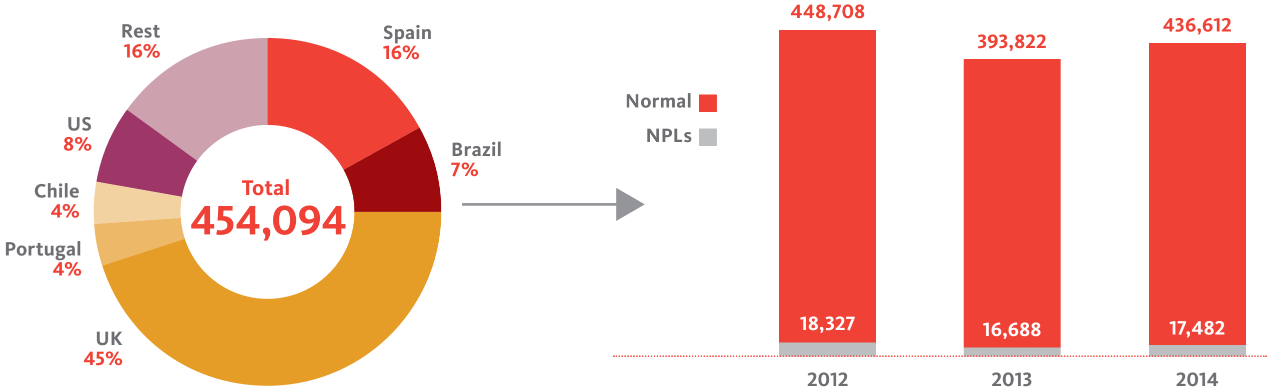


Geographic distribution and segmentation
On the basis of the aforementioned segmentation, the geographic distribution and situation of the portfolio is shown in the following charts. The distribution is as follows:

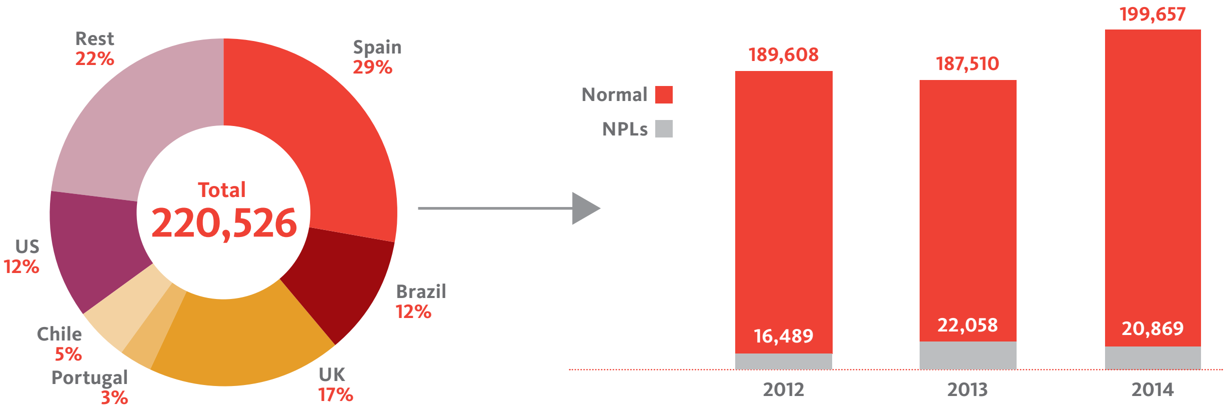
Total



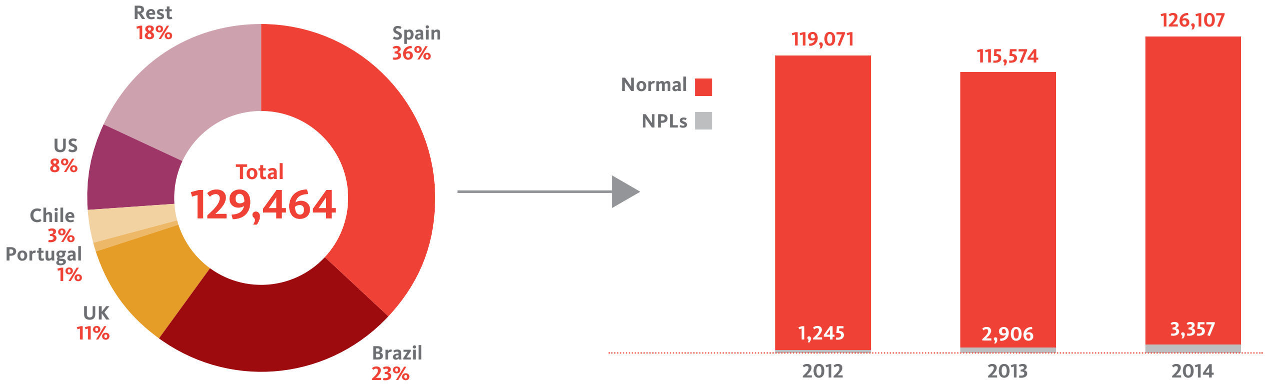
Individuals



SME+Comp+Inst



Global wholesale



The structure of the main magnitudes by geographic area :

- **Continental Europe**
  - **Spain's** NPL ratio[3] was 7.38%, (11 b.p. lower than in 2013), despite the reduction in the denominator and due to the favourable evolution of NPLs, mainly at companies. The coverage ratio increased to 46%.
  - **Portugal** ended the year with a higher NPL ratio (8.89%). The ratio was partly affected by the decline in lending, in line with the financial system's deleveraging process. The coverage ratio rose by 2 p.p. to 52%.
  - **Poland's** NPL ratio fell to 7.42% (42 b.p. less than in 2013), and is on a path of normalisation after the rise in 2013 following the integration of Kredyt Bank.The coverage ratio was 60%.
  - **Santander Consumer's** NPL ratio, after the increase in the perimeter, was 4.82%, with a good general performance of portfolios in all countries. The coverage ratio was 100%.
- The **UK**[4] reduced its NPL ratio to 1.79% (-19 b.p.), due to the good performance in all segments, particularly retail and especially the mortgage portfolio. The coverage ratio increased to 42% (0.3 p.p. more than 2013).
- **Brazil's** NPL ratio[5] fell to 5.05% (-59b.p.), with a positive performance in most portfolios. The coverage ratio was 95%.
- **Chile** increased its NPL ratio to 5.97% (+ 6 b.p.), although the portfolio's risk premium came down. The coverage ratio was 52%. (+ 1.3 p.p.) Lending grew 6%.
- **Mexico's** NPL ratio increased to 3.84% (+ 18 b.p.), mainly affected by the greater regulatory requirements in the country's financial system and a macroeconomic environment less favourable than envisaged. The coverage ratio dropped to 86% (-11 p.p.).
- The **United States'** NPL ratio declined to 2.54% (-6 b.p.) and the coverage ratio rose to 193% (+106 p.p.).
  - The NPL ratio at Santander Bank was 1.41% (-82 b.p.), as a result of the good performance of the retail and company portfolios, while the coverage ratio was higher at 109%.
  - SCUSA's cost of credit was 10.76%. The high rotation of the portfolio and the unit's active credit management brought the NPL ratio to 3.97% and the coverage ratio increased to 296%.
  - Puerto Rico's NPL ratio increased to 7.45% and the coverage ratio dropped to 56%.

Portfolio in normal situation: matured amounts pending collection

The amounts matured pending collection of three months or less represented 0.42% of total credit risk with customers. The following table shows the structure at December 31 2014, classified on the basis of the maturity of the first maturity:

Matured amounts pending

Million euros. Data at 31 December 2014

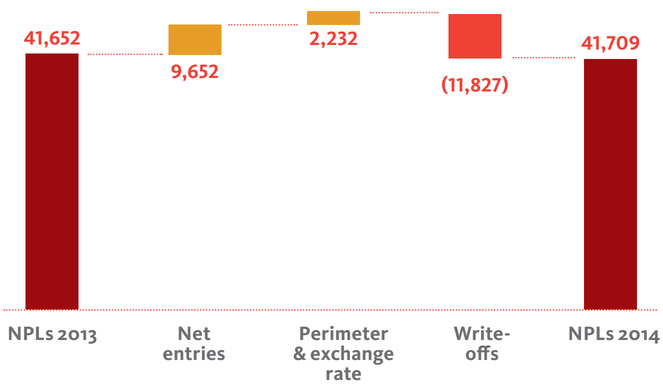
	Less than 1 month	1-2 months	2-3 months
Deposits in credit entities	5	-	3
Customer loans	**2,222**	**710**	**406**
Public administrations	8	0	0
Other private sectors	2,215	710	406
Securities representing debt	-	-	-
Total	**2,228**	**710**	**409**

Doubtful loans and provisions: performance and structure

The table below shows the performance of doubtful balances by the concepts that comprise them:

Evolution of non-performing loans by the concepts that comprise them

Million euros



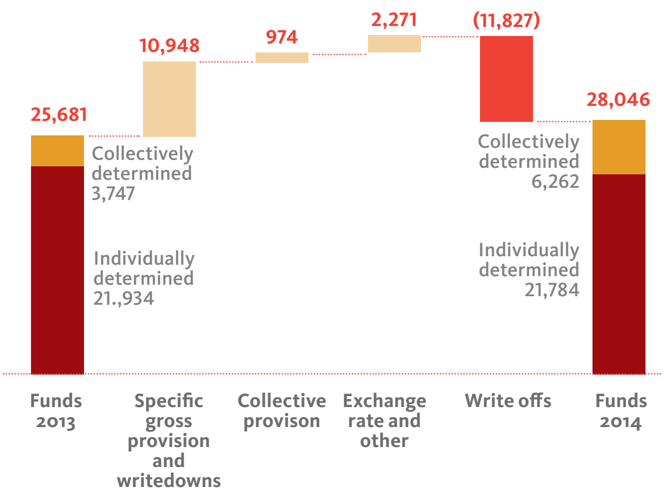
2012-2014 Evolution

	2012	2013	2014
NPLs (start of he period)	**32,006**	**36,061**	**41,652**
Entries	16,538	17,596	9,652
Perimeter	(628)	743	497
Exchange rate and other	(491)	(2,122)	1,734
Write-offs	(11,364)	(10,626)	(11,827)
NPLs (end of period)	**36,061**	**41,652**	**41,709**

3. Excluding run-off real estate activity. More detail at 6.3.2. Spain.
4. More detail at 6.3.1. United Kingdom
5. More detail at 6.3.3. Brazil

Evolution of funds by the concepts that comprise them

Million euros. Data at 31 December 2014



Performance 2012-2014

	2012	2013	2014
Funds (start of period)	**19,531**	**26,111**	**25,681**
Collectively determined	4,058	4,319	3,747
Individually determined	15,474	21,793	21,934
Gross allocation determined individually and writedowns	**19,508**	**12,335**	**10,948**
Allocation	13,869	12,140	10,948
Writedowns	5,639	195	—
Capital gains	**358**	**(212)**	**974**
Exchange rate and other	**(1,939)**	**(1,928)**	**2,271**
Write-offs	**(11,347)**	**(10,626)**	**(11,827)**
Funds (end of period)	**26,111**	**25,681**	**28,046**

Forbearance portfolio

The term forbearance portfolio refers for the purposes of the Group's risk management to operations which the client has presented, or financial difficulties are envisaged for meeting payment obligations in the prevailing contractual terms and, for this reason, steps were taken to modify, cancel or even formalise a new transaction.

Grupo Santander has a detailed corporate policy for forbearance which acts as a reference in the various local transpositions of all the financial institutions that form part of the Group, and share the general principles established in Bank of Spain circular 6/2012 and the technical criteria published in 2014 by the European Banking Authority, developing them in a more granular way on the basis of the level of deterioration of clients.

This corporate policy sets rigorous criteria of prudence for assessing these risks:

- There must be restrictive use of restructurings, avoiding actions that delay recognising deterioration.
- The main aim must be to recover all the amounts owed, which entails recognising as soon as possible the amounts that it is estimated cannot be recovered.
- The restructuring must always envisage maintaining the existing guarantees and, if possible, improving them. Effective guarantees not only serve to mitigate the severity, but also can reduce the probability of default.
- This practice must not involve granting additional financing to the client, serve to refinance the debt of other banks, or be used as an instrument of cross-selling.
- It is necessary to assess all the forbearance alternatives and their effects, ensuring that the results would be better than those likely to be achieved in the event of not doing it.
- Severer criteria are applied for the classification of forbearance operations which prudently ensure the re-establishment of the client's payment capacity, from the moment of forbearance and for an adequate period of time.
- In addition, in the case of clients assigned a risk analyst, individualised analysis of each case is particularly important, both for their correct identification as well as subsequent classification, monitoring and adequate provisions.

The policy also establishes various criteria related to determining the perimeter of operations considered as forbearance, through defining a detailed series of objective indicators that enable situations of financial difficulty to be identified.

In this way, operations not classified as doubtful at the date of forbearance are generally considered as being in financial difficulties if at this date non-payment exceeds a month. If there is no non-payment or if this does not exceed the month of maturity, other indicators are taken into account including:

- Operations of clients who already have problems with other transactions.
- When the modification is made necessary prematurely, without there yet existing a previous and satisfactory experience with the client.
- In the event that the necessary modifications involve granting special conditions such as the need to have to establish a temporary grace period in the payment or, when these new conditions are regarded as more favourable for the client than those granted in an ordinary admission.
- Request for successive modifications over an unreasonable period of time.

- In any case, once the modification is made, if any irregularity arises in the payment during an established period of observation, even if there are no other symptoms, the operation will be considered within the perimeter of forbearance (backtesting).

As soon as it is determined that the reasons giving rise to the modification are due to financial difficulties, two types of forbearance are distinguished for management purposes on the basis of the management situation of these operations in origin: ex ante forbearance when the original operation is considered a doubtful risk and ex post forbearance when arising from a doubtful situation.

In addition, within ex post forbearance treatments applicable for cases of advanced deterioration are distinguished, whose requirements and classification criteria are even more severe than for the rest of forbearance.

Once the forbearance is done, those operations that remain classified as doubtful risk for not meeting at the time of forbearance the requirements for their reclassification to another category, must fulfil a schedule of prudent payments in order to ensure with reasonable certainty that the client has recovered his payment capacity.

If there is any irregularity (non-technical) in payments during this period, the observation period is begun again.

Once this period is over, conditioned by the customer's situation and by the operation's features (maturity and guarantees granted), the operation is no longer considered doubtful, although it remains subject to a test period with special monitoring.

This tracking is maintained as long as a series of requirements are not met, including: a minimum period of observation, amortisation of a substantial percentage of the amounts pending and having met the unpaid amounts at the time of forbearance.

The forbearance of a doubtful operation, regardless of whether, as a result of it, the transaction remains current in payment, does not modify the date of non-payment considered for determining the provisions. At the same time, the forbearance of a doubtful operation does not give rise to any release of the corresponding provisions.

The total volume of forbearance stood at EUR 56,703 million at the end of 2014 (7% of the Group's total customer loans), with the following structure [6]:

Million euros

	Non-doubtful	Doubtful	Risk Total	
	Amount	Amount	Amount	% spec. cov.
Total	**33,135**	**23,568**	**56,703**	**21%**

On a like-for-like basis with 2013, the Group's level of forbearance declined 6% (-EUR 3,229 million), continuing the reduction of the previous year.

As regards loan classification, 58% is non-doubtful. Of note is the high level of guarantees (75% with real guarantees) and adequate coverage through specific provisions (21% of the total forbearance portfolio and 45% of the doubtful portfolio).

Management metrics[7]
Credit risk management uses other metrics to those already commented on, particularly management of non-performing loans variation plus net write-offs (known in Spanish as VMG) and expected loss. Both enable risk managers to form a complete idea of the portfolio's evolution and future prospects.

Unlike non-performing loans, the **VMG** refers to the total portfolio deteriorated over a period of time, regardless of the situation in which it finds itself (doubtful loans and write-offs). This makes the metric a main driver when it comes to establishing measures to manage the portfolio.

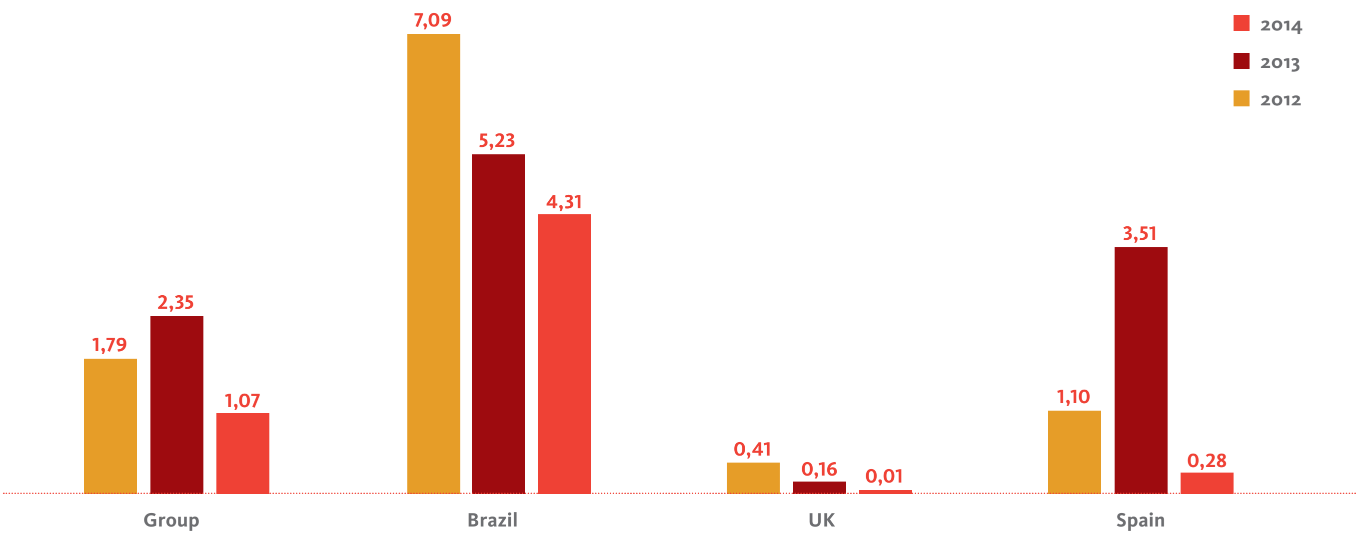
6. The figures of the non-doubtful portfolio include the portfolio in normal and substandard classification of Bank of Spain circular 4/04. For more detail, see note 54 of the auditor's report and annual financial statements.

7. For more detail on these metrics see 6.5.5. measurement and control, in this section.

The VMG is frequently considered in relation to the average loan that generated them, giving rise to what is known as the **risk premium**, whose evolution can be seen below.

Risk premium (Change in doubtful loans plus net write-offs over average balances)

%. Figures at constant exchange rates



The Group's risk premium dropped sharply, in a context of growth in lending.

Unlike the loss incurred, used by the Group to estimate loan-loss provisions, **the expected loss** is the estimate of the economic loss which will occur during the following year in the existing portfolio at a given moment. Its forward-looking component complements the view provided by the VMG when analysing the portfolio and its evolution.

The expected loss reflects the portfolio's features as regards the exposure at default (EaD), the probability of default (PD) and the severity or recovery once the default occurs (loss given default, LGD).

The table below sets out the distribution by segments in terms of EaD, PD and LGD. For example, it can be seen how the consideration of the LGD in the metrics makes the portfolios with mortgage guarantee generally produce a lower expected loss, fruit of the recovery that occurs in the event of a default via the mortgaged property.

The expected loss with clients of the portfolio in normal situation is 1.01% (down from 1.20% in 2013) and 0.82% for the whole of the Group's credit exposure (0.98% in 2013), which underscores the medium-low risk profile assumed.

Segmentation of the credit risk exposure

Segment	EAD[1]	%	Average PD	Average LGD	Expected loss
Sovereign debt	150,890	14.3%	0.02%	46.90%	0.01%
Banks and other fin. instit.	64,271	6.1%	0.32%	51.81%	0.17%
Public sector	21,150	2.0%	1.87%	8.29%	0.16%
Corporate	149,339	14.2%	0.61%	32.48%	0.20%
SMEs	156,424	14.8%	3.15%	38.60%	1.22%
Individual mortgages	325,181	30.8%	2.60%	8.46%	0.22%
Consumer credit (individuals)	125,580	11.9%	6.59%	52.61%	3.47%
Credit cards (individuals)	42,499	4.0%	3.49%	63.58%	2.22%
Other assets	19,849	1.9%	3.05%	50.08%	1.52%
Memorandum item[2]	*820,173*	*77.7%*	*2.98%*	*33.73%*	*1.01%*
Total	**1,055,182**	**100.0%**	**2.40%**	**34.28%**	**0.82%**

Data at December 2014.

1. Excludes doubtful loans.

2. Excludes sovereign debt, banks and other financial institutions and other assets.

6.3. Detail of the main countries

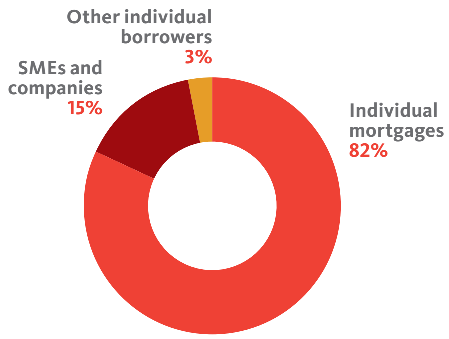
The portfolios with the largest concentration of risk are set out below, based on the figures in 6.2.2. Performance of magnitudes in 2014.

6.3.1. United Kingdom

6.3.1.1. General view of the portfolio

Santander UK's total outstanding was EUR 256,337 million at the end of 2014 (32% of the Group's total), with the following distribution by segments:

Segmentation of the portfolio
%



6.3.1.2. Mortgage portfolio

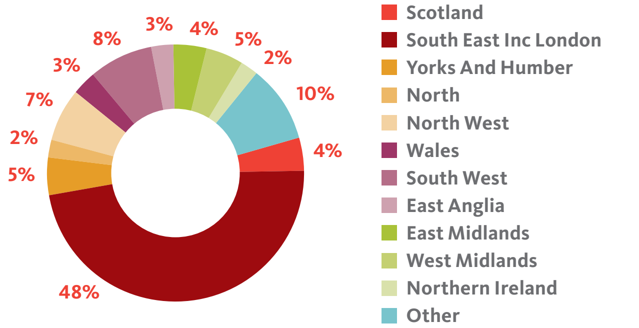
Because of its importance not just for Santander UK but for all of the Group's outstanding, it is worth highlighting the mortgages' portfolio, which stood at EUR 193,048 million at the end of 2014.

This portfolio consists of mortgages for acquisition or reforming homes, granted to new as well as existing clients and always constituting the first mortgage. There are no operations that entail second or successive charges on mortgaged properties.

The mortgaged property must always be located within UK territory, regardless of the destiny of the financing except in the case of some one-off operations in the Isle of Man. Mortgages can be granted for properties outside the UK, but the collateral for such mortgages must consists of a property in the UK.

Most of the credit exposure is in the south east of the UK, and particularly in the metropolitan area of London, where housing prices are more stable even during periods of economic slowdown.

Geographic concentration
%

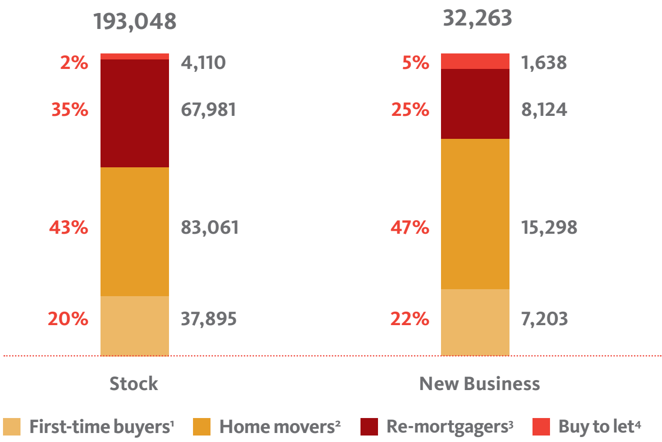


All the properties are valued independently before each new operation is approved, in accordance with the Group's risk management principles.

Mortgages that have already been granted are subject to a quarterly updating of the value of the property in guarantee, by an independent agency, using an automatic valuation system in accordance with the market's usual practices and in compliance with prevailing legislation.

The distribution of the portfolio by type of borrowers is shown in the chart below:

Typology of loans of the mortgage portfolio
Million euros



1. *First time buyer*: clients who acquire a home for the first time.
2. *Home mover*: clients who change home, with or without changing the bank that granted the loan.
3. *Remortgage*: clients who transfer the mortgage from another bank.
4. *Buy to let*: Homes acquired with the purpose of renting them out.

There are varies types of products with different risk profiles, all of them subject to the limits inherent in the policies of a prime lender such as Santander UK. The features of some of them (in brackets the percentage of the portfolio of UK mortgages they represent):

- Interest only loans (41.1%)*: The customer pays every month the interest and amortises the capital at maturity. An appropriate repayment vehicle such as a pension plan, mutual funds, etc is needed. This is a regular product in the UK market for which

* Percentage calculated on the total or some component of interest only.

Santander UK applies restrictive policies in order to mitigate the risks inherent in it. For example, maximum LTV of 50%, higher cut-off in the admission score or the evaluation of the payment capacity simulating the amortization of capital and interest payments instead of just interest.

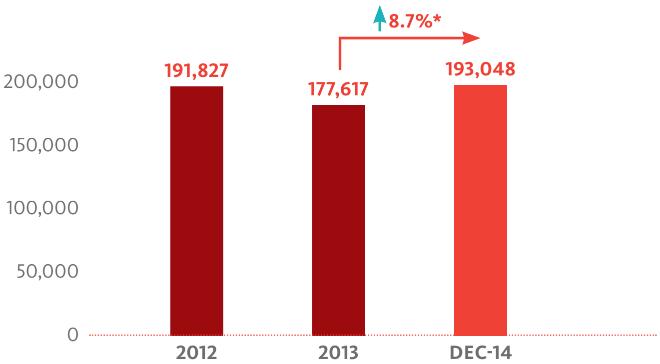
- Flexible loans (14.2%): This type of loan contractually enables the customer to modify the monthly payments or make additional provision of funds up to a pre-established limit, as well as having disbursements from previously paid amounts above that limit.

- Buy to Let (2.2%): Buy to let mortgages (purchase of a property to then rent it out) account for a small percentage of the total portfolio. Admission was halted between 2009 and 2013 when it was reactivated following the improvement in market conditions and approval with strict rick policies. In 2014, these mortgages represented around 5% of the total monthly admission.

The evolution of the mortgage portfolio over the last three years is shown below:

Evolution of the mortgage portfolio

Million euros

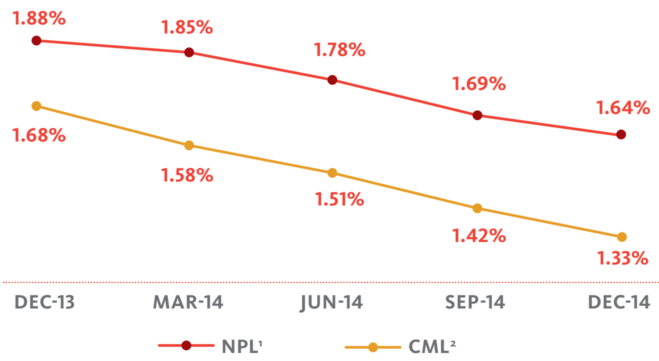


* Real growth, discounting the exchange rate impact, was 1.3%

There was slight growth of 1.3% (discounting the exchange rate impact) in 2014, accompanied by a favourable environment partly sustained by the UK government's help to buy scheme. This programme enables first residency buyers, as well as those who are already property owners, under a series of conditions, to acquire a home by contributing a minimum of 5% of its value and obtaining financing for the rest, The government guarantees lenders if the value of the property falls by up to 15%.

In 2014, as can be seen in the chart below, the NPL ratio of this portfolio dropped from 1.88% in 2013 to 1.64%, slightly above that of the UK banking industry as a whole, according to the Council of Mortgage Lenders (CML).

Evolution of the NPL ratio of the mortgage portfolio



1. Figures of Santander UK in accordance with the amount of the cases.
2. CML figures in accordance with the volume of cases.

The decline in the NPL ratio was sustained by the evolution of non-performing loans, which improved significantly thanks to a more favourable economic environment, as well as the increased NPL exits due to the improvements in the efficiency of the recovery teams. NPLs fell 11.9% to EUR 3,162 million (growth of 1.1% in 2013).

It is also necessary to point out the more conservative focus adopted in Santander UK's definition of a NPL, in line with the criteria set by the Bank of Spain and Grupo Santander, with regard to the standard applied in the UK market. This focus includes the classification as doubtful of the following operations:

- Clients with payment delays of between 30 and 90 days and who have been declared publically insolvent (via bankruptcy process) in the previous two years.

- Operations in which once the maturity date is reached there is still capital of the loan pending payment with a maturity of more than 90 days, although the client remains up to date with the monthly payments.

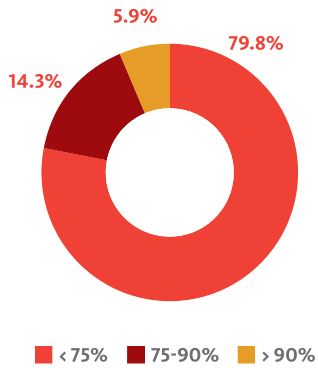
- Forbearance operations which, in accordance with the corporate policy, are considered as "payment agreements" and thus classified as doubtful.

Excluding these concepts, which are not included for calculating the NPL ratio in the UK market, and under which EUR 419 million were classified as NPLs at the end of 2014, the ratio of the mortgage portfolio was 1.42%, well below the aforementioned 1.64% and close to that published by the Council of Mortgage Lenders.

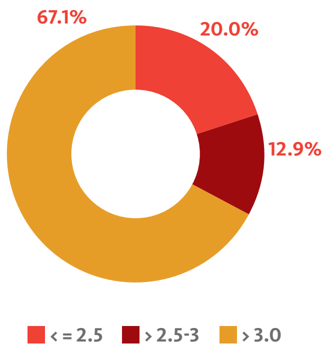
The strict credit policies limit the maximum loan-to-value (LTV) to 90% for those loans that amortize interest payments and capital, and to 50% for those that amortize interest regularly and the capital at maturity. Applying these policies enabled the simple arithmetic average LTV of the portfolio to be 47.2% and the average weighted LTV 42.8%. The proportion of the portfolio with a LTV of more than 100% was reduced to 2.4% from 4.4% in 2013.

The following charts show the LTV structure for the stock of residential mortgages and the distribution in terms of the income multiple of new loans in 2014:

Loan-to-Value
(average 47,2%)[1]



Income multiple
(average 2.9%)[2]



1. *Loan to value*: Relation between the amount of the loan and the appraised value of the property. Based on indices.
2. *Income multiple*: Relation between the total original amount of the mortgage and the customer's annual gross income declared in the loan request.

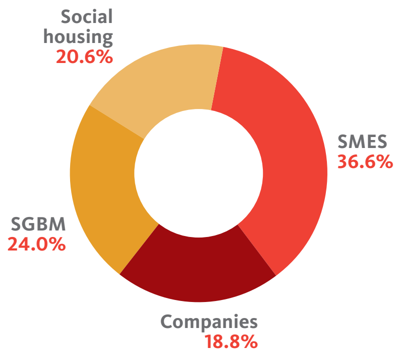
The credit risk policies explicitly forbid loans regarded as high risk (subprime mortgages) and establish demanding requirements for credit quality, both for operations and for clients. For example, as of 2009 mortgages with a loan-to-value of more than 100% have not been allowed.

An additional indicator of the portfolio's good performance is the reduced volume of foreclosed properties, which in 2014 amounted to EUR 75 million, less than 0.1% of the total mortgage exposure. Efficient management of these cases and the existence of a dynamic market for this type of housing enables sales to take place in a short period of time (around 18 weeks on average), contributing to the good results.

6.3.1.3. SMEs and companiess
As shown in the chart on the segmentation of the portfolio at the beginning of this section, lending to SMEs and companies (EUR 47,674 million) represented 15.4% of the total at Santander UK.

The following sub-segments are included in these portfolios:

SMEs and company portfolio segments



SMEs: This segment includes those small firms which, from the risk management standpoint, are in the standardised model. Specifically, those belonging to the business lines of small business banking and regional business centres. Total outstanding at the end of 2014 was EUR 17,427 million, with a NPL ratio of 4.4% (5.9% at the start of the year).

Companies: This includes companies who have a risk analyst assigned. Also included are portfolios considered as not strategic (legacy and non-core). Outstanding at the end of 2014 was EUR 8,978 million, with a NPL ratio of 3.1% (3.6% at the start of the year).

SGBM: This includes companies under the risk management model of Global Wholesale Banking. Outstanding was EUR 11,457 million at the end of 2014 (NPL ratio of 0.03%).

Social housing: This includes lending to companies that build, sell and rent social housing. This segment is supported by local governments and the central government and has no NPLs. Outstanding stood at EUR 9,810 million at the end of 2014.

In line with the objective of becoming the reference bank for SMEs and companies, the most representative portfolios of this segment grew by around 6% in 2014 in net terms.

6.3.2. Spain

6.3.2.1. General view of the portfolio
The total credit risk (including guarantees and documentary credits) in Spain (excluding the run-off real estate unit, commented on later) amounted to EUR 182,974 million at the end of 2014 (23% of the Group), with an adequate level of diversification by both product and customer segment.

The year 2014 was a turning point in the downward trend in total credit risk. Although in annual terms it still fell 4%, it rose moderately in the second part of the year, reflecting the economic situation and the various strategies implemented.

Million euros

	2014	2013	2012**	Var 14/13	Var 13/12
Total credit risk*	**182,974**	**189,783**	**210,536**	**-4%**	**-10%**
Home mortgages	49,894	52,016	52,834	-4%	-2%
Rest of loans to individuals	17,072	17,445	20,042	-2%	-13%
Companies	96,884	106,042	119,808	-9%	-11%
Public administrations	19,124	13,996	17,852	37%	-22%

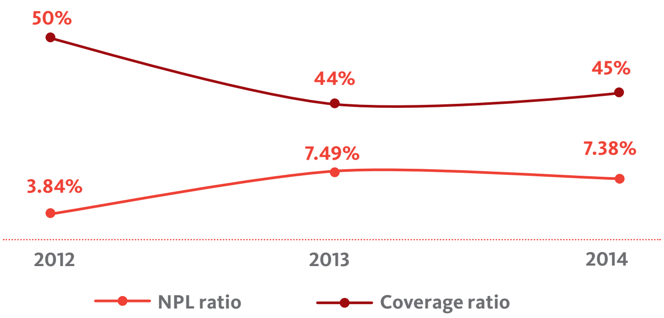
* Including guarantees and documentary credits.

** In order to facilitate like-for-like comparisons with prior years the figures for 2012 have been restated.

The NPL ratio for the total portfolio was 7.38%, 11 b.p less than in 2013. The fall in lending (which increased the NPL ratio by 26 b.p.) was offset by the better NPL figure (which reduced the ratio by 37 b.p.). This was largely due to the lower NPL entries (-40% on average below 2013 in all portfolios), and to the clean-up period of part of the substandard operations reclassified in June 2013 in the mortgage portfolio.

The coverage ratio increased by one p.p. to 45%, after the decline in 2013 as a result of the reclassification of substandard operations.

NPL ratio and coverage ratio



Below are the main portfolios.

6.3.2.2 Home mortgages

Lending to households to acquire a home in Spain amounted to EUR 50,388 million at the end of 2014 (27% of total credit), of which 99% has a mortgage guarantee.

Lending to households to acquire homes*

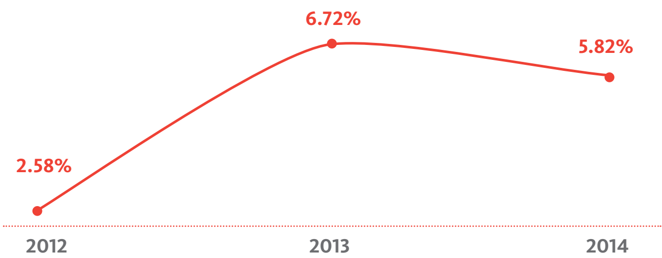
Million euros

	2014	2013
Gross amount	**50,388**	**52,879**
Without mortgage guarantee	493	863
With mortgage guarantee	49,894	52,016
Of which doubtful	**2,964**	**3,956**
Without mortgage guarantee	61	461
With mortgage guarantee	2,903	3,495

* Excluding the mortgage portfolio of Santander Consumer Spain (EUR 2,555 million in 2014), with doubtful loans of EUR 95 million.

The NPL ratio of mortgages to households to acquire a home was 5.82%, 90 b.p.less than in 2013, supported by gross NPL entries that were 50% lower and the clean-up period of part of the operations classified in June 2013 as doubtful for subjective reasons.

NPL ratio of mortgages for homes in Spain



The portfolio of mortgages for homes in Spain kept its medium-low profile and with limited expectations of a further deterioration:

- All mortgages pay principle right from the start.
- Early amortization is usual and so the average life of the operation is well below that in the contract.
- The borrower responds with all his assets and not just the home.
- High quality of collateral concentrated almost exclusively in financing the first home.
- Average affordability rate of close to 29%.
- Some 73% of the portfolio has a loan-to-value of less than 80% (total risk/latest available valuation of the home). In 2014, an appraisal took place which covered almost all the mortgage portfolio, in line with the supervisor's requirements.

Ranges of total LTV*

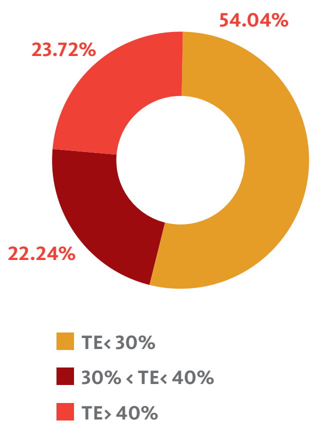
Million euros

	2014	2013
Gross amount with mortgage guarantee	**49,894**	**52,016**
LTV < 40%	4,773	12,339
LTV between 40% and 60%	9,566	16,105
LTV between 60% and 80%	22,036	17,364
LTV between 80% and 100%	10,985	5,392
LTV > 100%	2,535	815
of which doubtful	**2,903**	**3,496**
LTV < 40%	85	273
LTV between 40% and 60%	223	634
LTV between 60% and 80%	671	1,335
LTV between 80% and 100%	681	931
LTV > 100%	1,242	323

* Excluding Santander Consumer Spain.

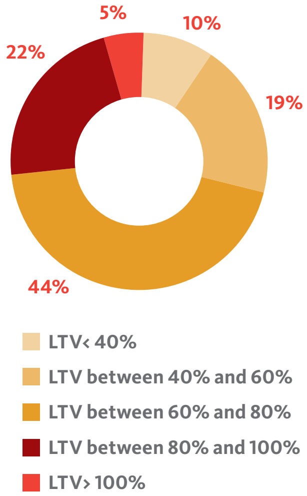
Affordability rate

Average: 29.41%



Loan to value

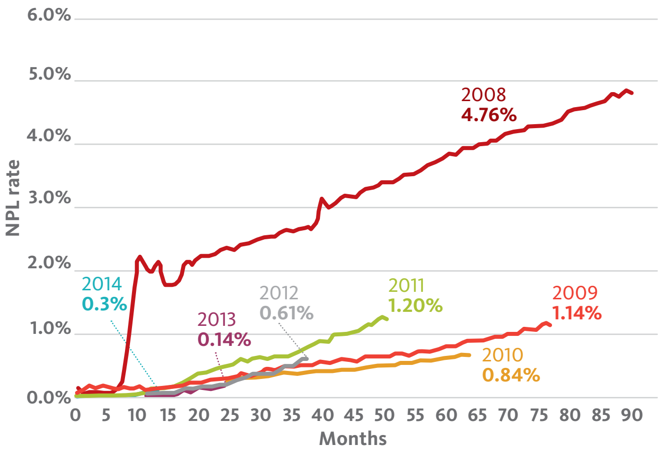
%



Loan-to-value: Percentage total risk/amount of the latest valuation appraisal.
Affordability rate: relation between the annual quotas and the customer's net income.

Despite the economic situation and the gradual deterioration over the last few years, the loan admission measures implemented in admission since 2008 and a change in demand toward better profiles produced a good evolution of vintages as of then.

Maturity of mortgage vintages. Santander Branch Network Spain



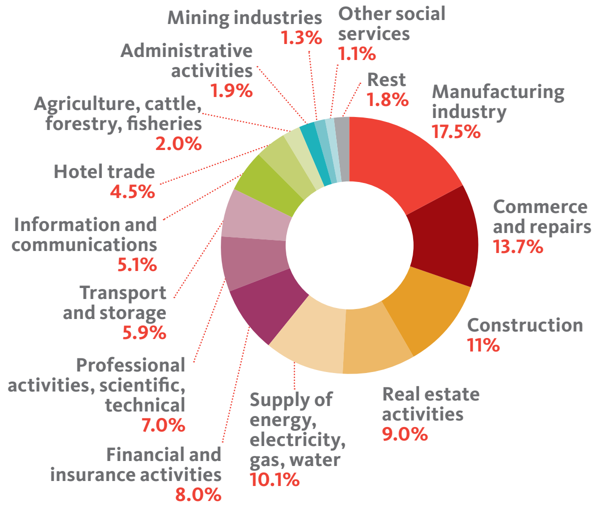
6.3.2.3 Companies' portfolio

Credit risk assumed directly with SMEs and companies (EUR 96,884 million) is the main segment in lending in Spain (53% of the total).

Most of the portfolio (94%) corresponds to clients who have been assigned a analyst who monitors the borrower continuously throughout the risk cycle. In 2014, as part of the Santander Advance project, the criteria of clients with an individual analyst was changed and the number of clients with continuous monitoring increased.

The portfolio is well diversified, with more than 192,000 active clients and no significant concentrations by sector.

Distribution of the companies' portfolio without real estate purpose



The NPL ratio of this portfolio was 8.91% at the end of 2014, mainly affected by the fall in lending.

6.3.2.4. Run-off real estate activity in Spain

The Group manages in a separate unit run-off real estate activity in Spain[8], which includes loans to clients mainly for real estate promotion, and has a specialised management model, stakes in Sareb[9] and foreclosed assets.

The Group's strategy in the last few years has been to reduce the volume of these loans which at the end of 2014 stood at EUR 8,114 million in net terms (around 3% of loans in Spain and less than 1% of the Group's loans). The portfolio's composition is as follows:

- Net loans of EUR 3,787 million, EUR 1,948 million less than in 2013 and with a coverage of 54%.
- Net foreclosed assets ended 2014 at EUR 3,533 million, with coverage of 55%.
- The value of the stake in Sareb was EUR 794 million.

8. For more detail on the real estate portfolio see note 54 of the auditor's report and the annual financial statements.
9. As of the end of 2014, the stake in Metrocavesa was consolidated by global integration.

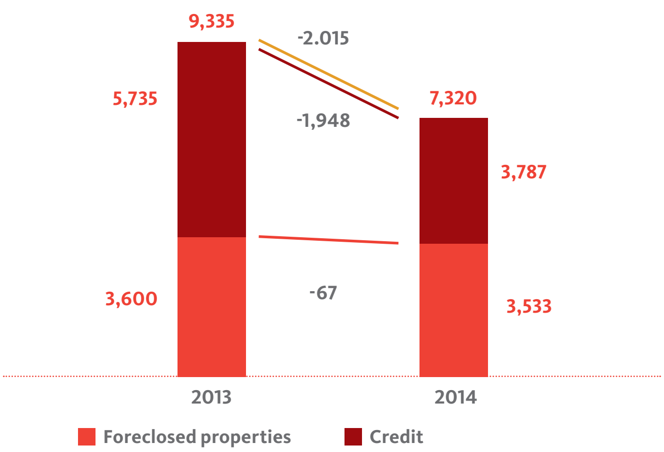
The gross exposure in loans and foreclosures continued the downward trend of previous years and fell 53.3% between 2008 and 2014.

The following table shows the evolution and classification of the lending and foreclosed portfolio:

	2014			2013		
	Gross balance	% coverage	Net balance	Gross balance	% coverage	Net balance
1. Credit	8,276	54%	3,787	11,355	49%	5,735
a. Normal	102	0%	102	424	0%	424
b. Sub-standard	1,209	35%	784	2,815	36%	1,797
c. Doubtful	6,965	58%	2,901	8,116	57%	3,514
2. Foreclosed	7,904	55%	3,533	7,990	55%	3,600
TOTAL 1+2	**16,180**	**55%**	**7,320**	**19,345**	**52%**	**9,335**

Millone euros

Under the perimeter of management of the real estate unit, net exposure was reduced by 22% in 2014.



By type of real estate that guarantees the loans and foreclosed assets, the coverage levels are as follows:

	Real estate loans		Foreclosed assets		Total	
	Exposure	Coverage	Exposure	Coverage	Exposure	Coverage
Completed buildings	3,577	38%	2,269	43%	5,846	40%
Promotions under construction	130	49%	716	46%	846	47%
Land	3,393	69%	4,864	62%	8,257	65%
Other guarantees	1,176	61%	55	64%	1,231	61%
TOTAL	**8,276**	**54%**	**7,904**	**55%**	**16,180**	**55%**

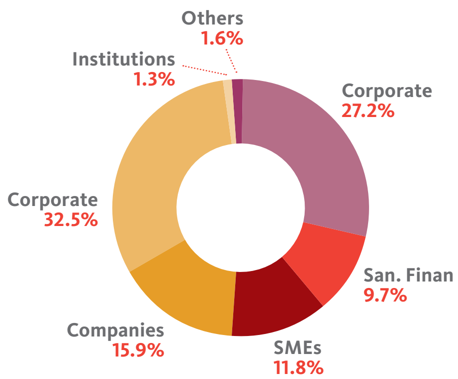
Million euros

6.3.3. Brazil

Brazil's credit risk is EUR 90,572 million (11.2% of the Group's total). It is adequately diversified and with a mainly retail profile (51% to individuals, consumer finance and SMEs).

Portfolio mix

%



* Santander Financiamentos: unit specialised in consumer finance (mainly auto finance).

Loans grew 13% (at constant exchange rate) in 2014 compared to 7.1% in 2013. This growth was in line with the average of Brazil's private sector banks.

Below are the levels of lending and growth of the main segments.

Lending: segmentation

Million euros. Constant exchange rates, 2014

	2014	2013	2012	14 / 13	13 / 12	12 / 11
Individuals	**24,635**	**23,230**	**21,734**	**6%**	**7%**	**11%**
Mortgages	6,919	5,060	3,860	37%	31%	24%
Consumer	10,506	11,676	11,947	-10%	-2%	8%
Cards	5,711	5,286	4,965	8%	6%	14%
Others	1,499	1,207	962	24%	25%	-2%
Santander Financiamentos	**8,742**	**8,976**	**9,302**	**-3%**	**-4%**	**-3%**
SMEs and large companies	**54,547**	**45,057**	**41,164**	**21%**	**9%**	**13%**
SMEs	10,679	11,137	11,477	-4%	-3%	20%
Companies	14,415	11,940	10,496	21%	14%	4%
Corporate	29,453	21,981	19,190	34%	15%	13%

Growth was stronger in the segments with a more conservative risk profile, in line with the Bank's policy of giving greater weight in the portfolio's composition to segments with a better credit profile.

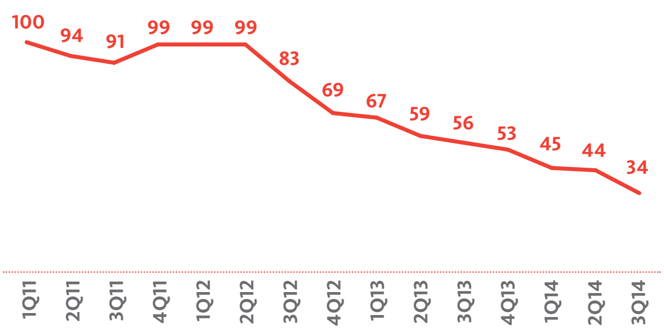
Of note in the segment of individuals was growth in mortgages (28% of total lending as against 22% in 2013), and the stronger rise to companies and corporations.

The Bank also continued during 2014 the measures started two years ago to strengthen the quality of loan admission, which has led to a sustained improvement in the leading indicators on the credit profile of new loans (vintages). The following charts show these indicators for the portfolios of loans to individuals and SMEs, which accounted for 62% of NPLs and 76% of provisions.

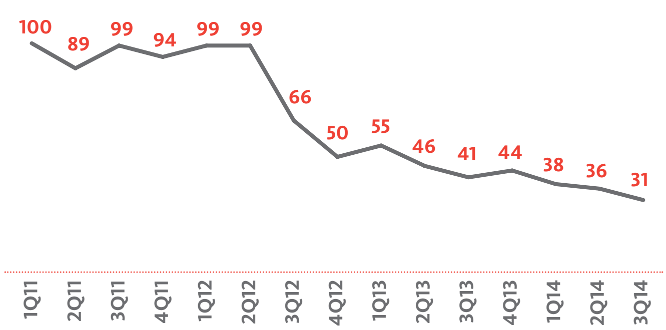
Vintages. Evolution of the over30 ratio at three months of the admission of each vintage

Q1/2011=100

Individuals



SMEs

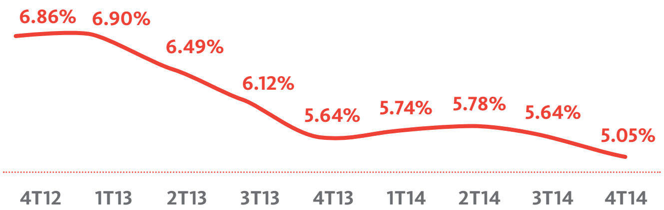


* Ratio calculated as the total amount of operations that are more than 30 days overdue on the total amount of the vintage.

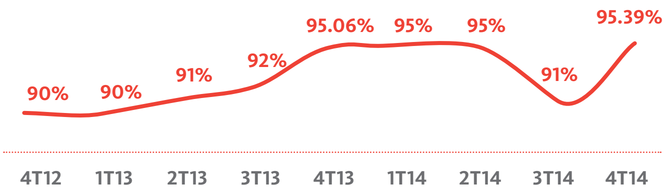
As a result of these improvement policies in loan admission and the change of mix, the NPL ratio fell by 59 b.p. in 2014 to 5.05%.

The coverage ratio was 95% at the end of 2014, a rise of 33 b.p. This improvement was due to the better performance of the portfolio, which reduced the level of NPLs.

NPL ratio



Coverage ratio



6.4. Other credit risk optics

6.4.1. Credit risk by activity in the financial markets

This section covers credit risk generated in treasury activities with clients, mainly with credit institutions. This is developed through financing products in the money market with different financial institutions, as well as derivatives to provide service to Group clients.

According to chapter six of the CRR (EU regulation 575/2013), the credit risk of the counterparty is the risk that the client in an operation could enter into non-payment before the definitive settlement of the cash flows of this operation. It includes the following types of operations: derivative instruments, operations with repurchase commitment, stock lending commodities, operations with deferred settlement and financing of guarantees.

There are two methodologies for measuring the exposure, one is with MtM methodology (replacement value of derivatives or amount available in committed credit lines) and the other, introduced in the middle of 2014 for some countries and products, which incorporates the calculation of the exposure by Monte Carlo simulation. The capital at risk or unexpected loss is also calculated, i.e. the loss which, once the expected loss has been subtracted, constitutes the economic capital, net of guarantees and recovery.

After markets close, exposures are re-calculated by adjusting all operations to their new time frame, adjusting the potential future exposure and applying mitigation measures (netting, collateral, etc), so that the exposures can be controlled directly against the limits approved by senior management. Risk control is done through an integrated system and in real time, enabling the exposure limit available with any counterparty, product and maturity and in any Group unit to be known at each moment.

Exposures in counterparty risk

The total exposure at the end of 2014 on the basis of management criteria in terms of positive market value after applying netting agreements and collateral by counterparty risk activities was EUR 17,260 million (net exposure of EUR 50,006 million) and was concentrated in high credit quality counterparties (75.2% of risk with counterparties has a rating equal to or more than A-).

In addition, at the end of 2014 credit valuation adjustments of EUR 785.6 million were registered (-16.8%[10] due mainly to the general fall in credit spreads during 2014) and debt valuation adjustments of EUR 227.5 million (-2.7%)[11].

Around 93% of the counterparty risk operations in nominal terms was with financial institutions and central counterparty institutions (CCP in English) with whom we operate almost entirely under netting and collateral agreements. The rest of operations with customers who are not financial institutions are, in general, operations whose purpose is hedging. Occasionally, operations are conducted for purposes other than hedging, always with specialised clients.

Distribution of counterparty risk by client rating (in nominal terms)*

AAA	1.39%
AA	2.30%
A	71.52%
BBB	20.84%
BB	3.91%
B	0.03%
RESTO	0.02%

* Ratings based on equivalences between internal ratings and ratings of agencies.

10. 2013 figures recalculated for those counterparties without listed CDS for which, as of 2014, market proxies are used, calculated by CDS on the basis of the rating/sector/country of the counterparty (the figure published in 2013 for these counterparties uses the internal PD).

11. The definition and methodology for calculating the CVA and DVA are set out in 7.2.2.6.

Counterparty risk: distribution by nominal risk and market value *

Million euros

	2014			2013			2012		
		Market value			Market value			Market value	
	Nominal	Positive	Negative	Nominal	Positive	Negative	Nominal	Positive	Negative
CDS protection acquired**	38,094	60	769	45,968	86	887	52,332	476	680
CDS protection sold	31,565	658	48	38,675	763	89	42,697	453	333
Total credit derivatives	**69,659**	**717**	**817**	**84,642**	**849**	**976**	**95,030**	**930**	**1,013**
Equity forwards	1,055	117	17	2,125	76	20	4,630	338	132
Equity options	36,616	1,403	2,192	58,964	1,686	2,420	60,689	1,376	1,438
Equity spot	19,947	421	-	10,041	1,103	0	6,616	999	0
Equity swaps	472	-	701	685	-	265	88	0	266
Total equity derivatives	**58,089**	**1,941**	**2,910**	**71,814**	**2,865**	**2,705**	**72,022**	**2,713**	**1,835**
Fixed-income forwards	3,905	3	124	3,089	1	0	4,855	5	4
Fixed-income options	423	4	0	-	0	0	0	0	0
Fixed-income spot	5,055	-	-	1,906	-	0	1,693	0	0
Total fixed income derivatives	**9,383**	**8**	**124**	**4,995**	**1**	**0**	**6,548**	**5**	**4**
Forward and spot rates	151,172	3,633	2,828	101,216	2,594	1,504	105,089	1,380	1,342
Exchange-rate options	44,105	530	790	46,290	604	345	70,298	232	496
Other exchange rate derivatives	354	3	6	125	2	1	41	1	0
Exchange-rate swaps	458,555	14,771	15,549	411,603	9,738	8,530	418,930	9,617	9,550
Total exchange rate derivatives	**654,187**	**18,936**	**19,173**	**559,233**	**12,940**	**10,380**	**594,358**	**11,231**	**11,388**
Asset swaps	22,617	999	1,749	22,594	901	1,634	22,322	870	1,623
Call money swaps	264,723	1,228	1,150	235,981	698	608	215,404	673	1,011
Interest rate structures	23,491	2,215	2,940	37,398	1,997	2,553	6,640	2,180	2,339
Forward interest rates- FRAs	171,207	13	63	117,011	16	18	304,041	41	49
IRS	2,899,760	95,654	94,624	2,711,552	58,164	54,774	2,038,235	81,091	77,005
Other interest-rate derivatives	218,167	4,357	3,728	230,735	3,870	3,456	251,526	4,255	3,726
Total interest-rate derivatives	**3,599,966**	**104,466**	**104,253**	**3,355,272**	**65,648**	**63,043**	**2,838,168**	**89,109**	**85,752**
Commodities	1,020	243	112	1,363	265	78	1,871	308	104
Total commodity derivatives	**1,020**	**243**	**112**	**1,363**	**265**	**78**	**1,871**	**308**	**104**
Total gross derivatives	**4,392,304**	**126,312**	**127,389**	**4,077,320**	**82,568**	**77,183**	**3,607,996**	**104,295**	**100,097**
Repos	166,047	3,871	5,524	152,105	9,933	7,439	123,784	2,453	3,315
Stock lending	27,963	3,432	628	19,170	2,919	672	18,857	3,476	774
Total counterparty risk	**4,586,314**	**133,615**	**133,541**	**4,248,595**	**95,419**	**85,294**	**3,750,638**	**110,223**	**104,186**

* Figures with management criteria. Excluding organised markets.

**Credit derivatives acquired including hedging of loans.

Counterparty risk: exposure in terms of market value and equivalent credit risk including mitigation effect[1]

Million euros

	2014	2013	2012
Market value netting effect[2]	28,544	27,587	28,192
Collateral received	11,284	9,451	11,454
Exposure by market value[3]	17,260	18,136	16,738
Net ECR[4]	50,006	58,425	56,088

1. Data with management criteria. Excluding organised markets.
2. Market value used to include the effects of mitigant agreements to calculate the exposure by counterparty risk.
3 Taking into account the mitigation of netting agreements and after discounting the collateral received.
4 ERC (equivalent credit risk: net replacement value plus the maximum potential value less the collateral received).

Counterparty risk: Notional OTC derivative products by maturity*

Million euros

	1 year**	1-5 years	5-10 years	Over 10 years	TOTAL
CDS protection acquired***	37,852	72	0	170	38,094
CDS protection sold	31,565	0	0	0	31,565
Total credit derivatives	**69,417**	**72**	**0**	**170**	**69,659**
Equity forwards	1,055	0	0	0	1,055
Equity options	34,302	1,529	557	228	36,616
Equity spot	19,842	105	0	0	19,947
Equity swaps	472	0	0	0	472
Total equity derivatives	**55,670**	**1,634**	**557**	**228**	**58,089**
Fixed-income forwards	3,283	622	0	0	3,905
Fixed-income options	423	0	0	0	423
Fixed-income spot	4,514	318	207	17	5,055
Total fixed-income derivatives	**8,219**	**940**	**207**	**17**	**9,383**
Forward and spot rates	147,542	3,574	56	1	151,172
Exchange-rate options	41,082	3,024	0	0	44,105
Other exchange rate derivatives	345	9	0	0	354
Exchange-rate swaps	427,937	17,900	9,422	3,296	458,555
Total exchange rate derivatives	**616,905**	**24,507**	**9,478**	**3,298**	**654,187**
Asset swaps	21,310	315	777	215	22,617
Call money swaps	262,828	1,650	175	69	264,723
Interest rate structures	20,747	405	848	1,492	23,491
Forward interest rates - FRAs	171,207	0	0	0	171,207
IRS	2,739,575	85,442	42,082	32,662	2,899,760
Other interest-rate derivatives	202,853	8,346	6,578	390	218,167
Total interest-rate derivatives	**3,418,520**	**96,158**	**50,459**	**34,829**	**3,599,966**
Commodities	823	197	0	0	1,020
Total commodity derivatives	**823**	**197**	**0**	**0**	**1,020**
Total derivatives	**4,169,554**	**123,508**	**60,701**	**38,541**	**4,392,304**
Repos	165,947	100	0	0	166,047
Stock lending	27,509	301	131	22	27,963
Total counterparty risk	**4,363,010**	**123,909**	**60,831**	**38,563**	**4,586,314**

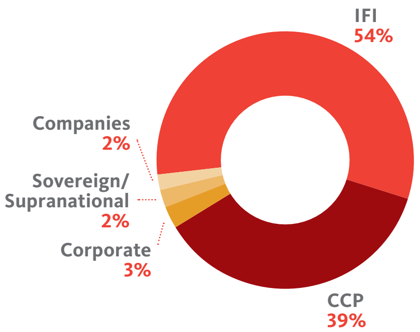
* Figures on the basis of management criteria. Excluding organised markets.

** In operations under collateral agreement the period of the collateral replacement is considered as maturity.

*** Credit derivatives acquired including hedging of loans.

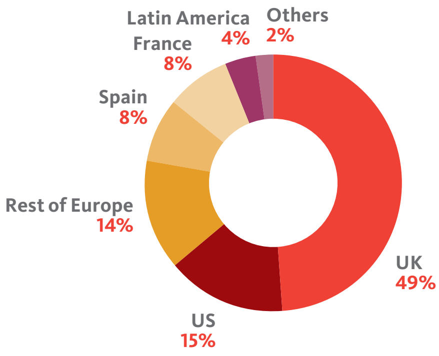
The distribution of risk in notional derivatives by type of counterparty was 54% with financial institutions and 39% with clearing houses.

Counterparty risk by type of client



As regards the geographic distribution, 49% of notional derivatives are with UK counterparties (whose weight within the total is due to the increasing use of clearing houses), 15% with North American counterparties, 8% with Spanish ones. 8% with French ones and of note among the rest is 14% with other European countries and 4% with Latin America.

Counterparty risk by geographic areas



Counterparty risk, organised markets and clearing houses
The Group's policies seek to anticipate wherever possible the implementation of measures resulting from new regulations regarding operations of OTC derivatives, repos and stock lending, both if settled by clearing house or if remaining bilateral. In recent years, there has been a gradual standardisation of OTC operations in order to conduct clearing and settlement via houses of all new trading operations required by the new rules, as well as foster internal use of the electronic execution systems.

As regards the operations of organised markets, within counterparty risk management credit risk for this type of operation is not considered, as this risk is eliminated by the organised markets acting as counterparty in the operations, given that they have mechanisms that enable them to protect their financial position via systems of deposits and improved guarantees and processes that ensure the liquidity and transparency of transactions. As of 2014, with the entry into force of the new CRD IV (Capital Requirements Directive) and the CRR (Capital Requirements Regulations), which transfer the Basel III principles, credit risk is considered for this type of operation as regards calculating capital.

The following table show the relative share in total derivatives of new operations settled by clearing house at the end of 2014 and the significant evolution of operations settled by clearing house since 2012.

Distribution of counterparty risk on the basis of the channel of clearing and type of derivative*

Nominal in million euros

	Bilateral		CCP**		
	Nominal	%	Nominal	%	Total
Derivatives	67,895	97%	1,764	2.5%	69,659
Equity derivatives	58,019	100%	70	0.1%	58,089
Fixed-income derivatives	9,368	99.8%	15	0.2%	9,383
Exchange rate derivatives	653,702	99.9%	484	0.1%	654,187
Interest rate derivatives	1,860,694	51.7%	1,739,272	48.3%	3,599,966
Commodities derivatives	1,020	100.0%	-	0.0%	1,020
Repos	108,153	65.1%	57,894	34.9%	166,047
Stock lending	27,963	100.0%	-	0.0%	27,963
Total	**2,786,814**	**60.8%**	**1,799,499**	**39.2%**	**4,586,314**

* Figures based on management criteria. Excluding organised markets.

** Central counterparty institutions (CCPs)

Risk distribution on the basis of settlement in CCPs and by type of derivative and evolution*

Gross exposure. Nominal in million euros

	2014	2013	2012
Credit derivatives	1,764	949	-
Equity derivatives	70	111	138
Fixed-income derivatives	15	1	33
Exchange rate derivatives	484	616	988
Interest rate derivatives	1,739,272	1,290,496	669,750
Commodities derivatives	-	-	-
Repos	57,894	55,435	63,875
Stock lending	-	46	34
Total	**1,799,499**	**1,347,653**	**734,817**

* Data on the basis of management criteria. Excluding organised markets.

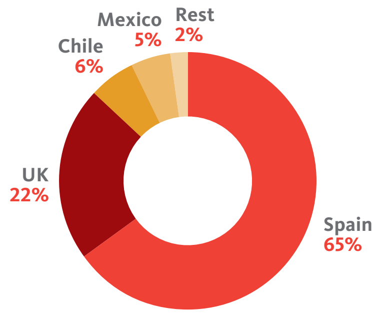
The Group actively manages operations not settled by clearing house and seeks to optimise their volume, given the requirements of spreads and capital that the new regulations impose on them.

In general, the operations with financial institutions are done under netting and collateral agreements, and a continued effort is being made to ensure that the rest of operations are covered under this type of agreement. Generally, the collateral agreements that the Group signs are bilateral ones with some exceptions mainly with multilateral institutions and securitisation funds.

The collateral received under the different types of collateral (CSA, OSLA, ISMA, GMRA, etc) signed by the Group amounted to EUR 11,284 million (of which EUR 9,643 million corresponded to collateral received by derivatives), mostly effective (92.9%), and the rest of the collateral types are subject to strict policies of quality as regards the type of issuer and its rating, debt seniority and haircuts applied.

The chart below shows the geographic distribution:

Geographic distribution of collateral received



Off-balance sheet credit risk

The off-balance sheet risk corresponding to funding and guarantee commitments with wholesale clients was EUR 80,980 million and with the following distribution by products:

Off-balance sheet exposure

In million euros

	Maturity				
Product	< 1 YEAR	1-3 YEARS	3-5 YEARS	> 5 YEARS	TOTAL
Funding*	10,103	10,310	29,673	2,434	**52,520**
Technical guarantees	4,568	8,013	1,677	4,081	**18,339**
Financial and commercial guarantees	3,281	4,356	1,105	663	**9,406**
Foreign trade**	0	217	0	499	**716**
Total	**17,952**	**22,896**	**32,455**	**7,677**	**80,980**

* Mainly including credit lines committed bilaterally and syndicated.

** Mainly including stand-by letters of credit.

Activity in credit derivatives

Grupo Santander uses credit derivatives to cover loans, customer business in financial markets and within trading operations. The volume of this activity is small compared to that of our peers and, moreover, is subject to a solid environment of internal controls and minimising operational risk.

The risk of these activities is controlled via a broad series of limits such as VaR[12], nominal by rating, sensitivity to the spread by rating and name, sensitivity to the rate of recovery and to correlation. Jump-to-default limits are also set by individual name, geographic area, sector and liquidity.

In notional terms, the CDS position incorporates EUR 35,646 million of acquired protection[13] and EUR 31,556 million of sold protection.

At December 31, 2014, the sensitivity of lending to increases in spreads of one basis point was minus EUR 1.5 million, higher than 2013, and the average VaR was EUR 2.9 million, above 2013 and 2012 (average VaR of EUR 2.1 million and EUR 2.9 million, respectively).

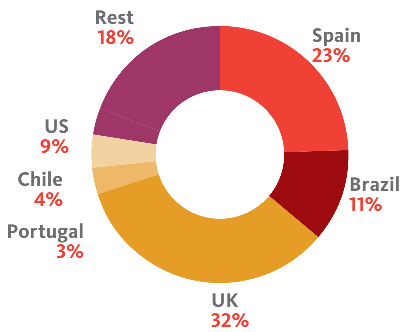
6.4.2. Risk of concentration

Control of risk concentration is a vital part of management. The Group continuously tracks the degree of concentration of its credit risk portfolios using various criteria: geographic areas and countries, economic sectors, products and groups of clients.

The board, via the risk appetite, determines the maximum levels of concentration, as detailed in section 4.4. on risk appetite and structure of limits. In line with the risk appetite, the executive risk committee establishes the risk policies and reviews the exposure levels appropriate for adequate management of the degree of concentration of the credit risk portfolios.

In **geographic terms** the credit risk with clients is diversified in the main markets in which the Group operates, as shown in the chart below.

Credit risk with customer

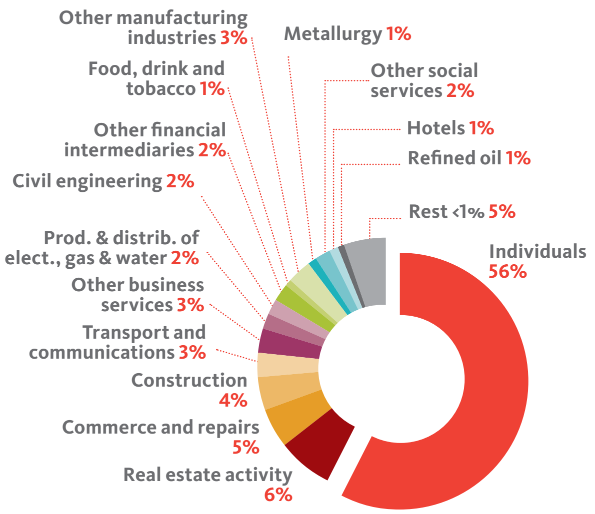


Some 56% of the Group's credit risk corresponds to individual customers, who, due to their inherent nature, are highly diversified. In addition, the portfolio is also well distributed by **sectors**, with no significant concentrations in specific sectors. The following chart shows the distribution at the end of the year.

12. The definition and methodology of the VaR calculation is in 7.2.2.1.

13. This figures excludes around EUR 1,760 million nominal of CDS which cover loans that for accounting purposes are recorded as financial guarantees instead of credit derivatives as their change in value has no impact on results or reserves in order to avoid accounting asymmetry.

Risk diversification by economic sector



The Group is subject to the regulation on large risks contained in the fourth part of the CRR (EU regulations 575/2013), according to which the exposure contracted by an entity with a client or group of clients linked among themselves will be considered a "large exposure" when its value is equal to or more than 10% of the eligible capital. In addition, in order to limit the large exposures no entity can assume with a client or group of linked clients an exposure whose value exceeds 25% of its eligible capital, after taking into account the impact of the reduction of credit risk contained in the regulation.

At the end of 2014, after applying risk mitigation techniques and regulations applicable to large risks, all the declared groups were below 4.7% of eligible equity except for a central EU counterparty entity which was 7.3%.

The regulatory credit exposure with the 20 largest groups within the sphere of large risks represented 5.5% of outstanding credit risk with clients (lending plus balance sheet risks). As for regulatory credit exposure with financial institutions, the top 10 represented EUR 18,378 million.

The Group's risks division works closely with the financial division to actively manage credit portfolios. Its activities include reducing the concentration of exposures through various techniques such as using credit derivatives and securitisation to optimise the risk-return relation of the whole portfolio

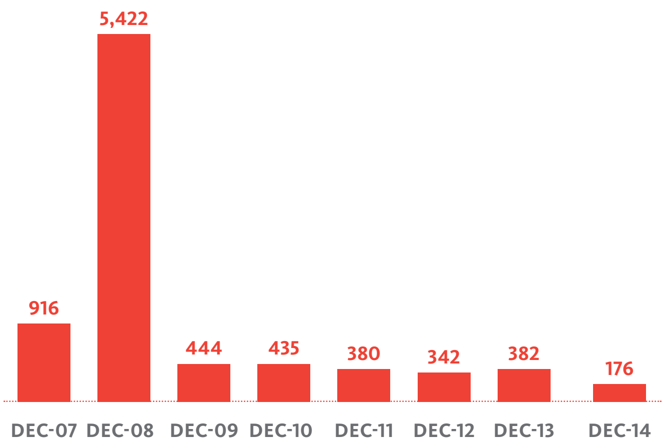
6.4.3. Country risk

Country risk is a component of credit risk in all cross-border credit operations for circumstances different to the usual commercial risk. Its main elements are sovereign risk, the risk of transfer and other risks that could affect international financial activity (wars, natural disasters, balance of payments crisis, etc).

The exposure susceptible to country-risk provisions at the end of 2014 was EUR 176 million (EUR 382 million in 2013). Total provisions stood at EUR 22 million compared with EUR 47 million in 2013. Of note in 2014 was Colombia which changed its classification, in accordance with Bank of Spain criteria, from Group 2 to Group 3[14].

Evolution of country-risk subject to provisions

Million euros



The exposure is moderate and has been on a downward path in recent years, particularly in 2014 due to the maturities of operations. The only exception was in 2008 when there was a significant increase due to the incorporation of transactions with Brazilian clients resulting from the purchase of ABN/Banco Real. This increase was reduced in 2009, with the reclassification of Brazil to Group 2.

The total exposure to country risk, regardless of whether it requires provisions or not, is also moderate. Except for Group 1 countries (considered by the Bank of Spain as those of less risk[15]), the individual exposure by country does not exceed in any cases 1% of Grupo Santander's total assets.

The principles of country risk management continued to follow criteria of maximum prudence; country risk is assumed very selectively in operations that are clearly profitable for the bank, and which enhance the global relationship with customers.

6.4.4. Sovereign risk and vis-á-vis the rest of public administrations

As a general criterion, sovereign risk is that contracted in transactions with a central bank (including the regulatory cash reserve requirement), the issuer risk of the Treasury or similar entity (portfolio of public debt) and that arising from operations with public institutions with the following features: their funds only come from the state's budgeted income and the activities are of a non-commercial nature.

14. The typology of countries for each risk group is defined in Bank of Spain circular 4/2004 .
15. This group includes operations with final debtor resident in the European Union, Norway, Switzerland, Iceland, the US, Canada, Japan, Australia and New Zealand.

This criterion, historically used by Grupo Santander, has some differences with that of the European Banking Authority (EBA) used for its regular stress exercises. The main ones are that the EBA's criterion does not include risk with central banks, exposures with insurance companies, indirect exposures via guarantees and other instruments. On the other hand, it includes public administrations in general (including regional and local ones) and not only the state sector.

Exposure to sovereign risk (according to the criteria applied in the Group) mainly emanates from the obligations to which our subsidiary banks are subject regarding the establishment of certain deposits in central banks, the establishment of deposits with the excess of liquidity and of fixed-income portfolios maintained within the risk management strategy for structural interest of the balance sheet and in trading books in treasuries. The great majority of these exposures are in local currency and are funded on the basis of customer deposits captured locally, and also in local currency.

The exposures in the local sovereign but in currencies different to the official one of the country of issuance is not very significant (EUR 8,633 million, 4.5% of the total sovereign risk), and less so the exposure in non-local sovereign issuers, which means cross-border risk[16] (EUR 3,257 million, 1.68% of the total sovereign risk).

In general, the total exposure to sovereign risk has remained at adequate levels to support the regulatory and strategic motives of this portfolio.

The investment strategy for sovereign risk also takes into account the credit quality of each country when setting the maximum exposure limits. The following table shows the percentage of exposure by rating levels[17].

Exposure by level of rating

%

	2014	2013	2012	2011
AAA	29%	36%	34%	29%
AA	4%	6%	3%	26%
A	28%	27%	29%	6%
BBB	32%	26%	31%	38%
Under BBB	7%	5%	4%	1%

The sovereign risk distribution by rating level was affected in the last few years by many rating revisions of the sovereign issuers of the countries where the Group operates (Spain, Portugal, US, Chile, etc.).

On the basis of the EBA criteria already mentioned, the exposure to public administrations at the end of each of the last three years was as follows (figures in million euros)[18]:

The exposure increased 40% in 2014, mainly due to the acquisition of fixed-income portfolios available for sale in Brazil, Spain and Portugal. The sovereign risk exposure of Spain (where the Group has its headquarters) is not high in terms of total assets (3.4% at the end of 2014), compared to its peers.

The sovereign exposure in Latin America is almost all in local currency, recorded in local books and concentrated in short-term maturities of lower interest rate risk and greater liquidity.

Exposure to sovereign risk (EBA criteria)

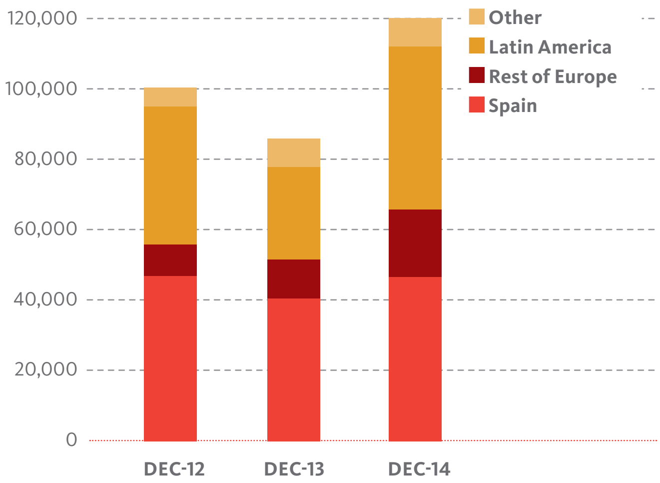
Million euros

DEC. 31, 2014	Portfolio			
	Trading & others to VR	Available for sale	Lending	Net total direct exposure
Spain	5,778	23,893	15,098	**44,769**
Portugal	104	7,811	589	**8,504**
Italy	1,725	0	0	**1,725**
Greece	0	0	0	**0**
Ireland	0	0	0	**0**
Rest of euro zone	(1,070)	3	1	**(1,066)**
UK	(613)	6,669	144	**6,200**
Poland	5	5,831	30	**5,866**
Rest of Europe	1,165	444	46	**1,655**
US	88	2,897	664	**3,649**
Brazil	11,144	17,685	783	**29,612**
Mexico	2,344	2,467	3,464	**8,275**
Chile	593	1,340	248	**2,181**
Rest of Latam	181	1,248	520	**1,949**
Rest of world	4,840	906	618	**6,364**
Total	**26,284**	**71,194**	**22,205**	**119,683**

DEC. 31, 2013	Portfolio			
	Trading & others to VR	Available for sale	Lending	Net total direct exposure
Spain	4,359	21,144	12,864	**38,367**
Portugal	149	2,076	583	**2,807**
Italy	1,310	77	0	**1,386**
Greece	0	0	0	**0**
Ireland	0	0	0	**0**
Rest of euro zone	(1,229)	67	0	**(1,161)**
UK	(1,375)	3,777	0	**2,402**
Poland	216	4,770	43	**5,030**
Rest of Europe	5	117	0	**122**
US	519	2,089	63	**2,671**
Brazil	8,618	8,901	223	**17,743**
Mexico	3,188	2,362	2,145	**7,695**
Chile	(485)	1,037	534	**1,086**
Rest of Latam	268	619	663	**1,550**
Rest of world	5,219	596	148	**5,964**
Total	**20,762**	**47,632**	**17,268**	**85,661**

16. Countries classified as low risk by the Bank of Spain (Group 1 according to its terminology) are not considered.
17. Internal ratings used.
18. In addition at December 31, 2014, the Group maintained direct net exposures in derivatives whose reasonable value was EUR 1,028 million, as well as indirect net exposures in derivatives whose reasonable value was EUR 5 million. Grupo Santander has no exposure to portfolios at maturity.

Sovereign risk and compared to other public administrations: direct net exposure (EBA criteria)
Million euros



6.4.5. Environmental risk
Analysis of the environmental risk of credit operations is one of the main aspects of the strategic plan of corporate social responsibility. It revolves around the following two large points:

- Equator principles: this is an initiative of the World Bank's International Financial Corporation. It is an international standard for analysing the social and environmental impact of project finance operations and corporate loans with known destiny (bridging loans with forebearance envisaged via project finance and corporate financing to construct or increase a specific project). The assumption of these principles represents a commitment to assess and take into account the social and environmental risks, and thus to finance only those projects that can accredit adequate management of the social and environmental impacts. The methodology used is set out below.

    - For project finance operations with an amount equal to or more than $10 million, corporate loans with known destiny for a project with an amount equal to more than $100 million, with Santander's share equal to or more than $50 million, an initial questionnaire is filled out, of a generic nature, designed to establish the project's risk in the socio-environmental sphere (according to categories A, B and C, from greater to lower risk, respectively) and the operation's degree of compliance with the Equator Principles.

    - For those projects classified within the categories of greater risk (categories A and B), a more detailed questionnaire has to be filled out, adapted according to the sector of activity.

    - According to the category and location of the projects a social and environmental audit is carried out (by independent external auditors). The Bank also gives training courses in social and environmental matters to risk teams as well as to those responsible for business of all the areas involved. An online course was launched in 2014 for more than 2,500 Group employees in all countries.

    In 2014, 79 projects were analysed under the Equator principles for a total amount of EUR 35.911 million.

- VIDA tool: used since 2004, its main purpose is to assess the environmental risk of corporate clients, both current and potential, through a system that classifies in seven categories each of the companies on the basis of the environmental risk contracted. In 2014, 45.384 clients were assessed by this tool in Spain (total risk of EUR 86,356 million).

DEC. 31, 2012	Portfolio			
	Trading & others to VR	Available for sale	Lending	Net total direct exposure
Spain	4,403	24,654	16,528	**45,586**
Portugal	0	1,684	616	**2,299**
Italy	(71)	76	0	**4**
Greece	0	0	0	**0**
Ireland	0	0	0	**0**
Rest of euro zone	943	789	0	**1,731**
UK	(2,628)	4,419	0	**1,792**
Poland	669	2,898	26	**3,592**
Rest of Europe	10	0	0	**10**
US	(101)	1,783	30	**1,712**
Brazil	14,067	11,745	351	**26,163**
Mexico	4,510	2,444	2,381	**9,335**
Chile	(293)	1,667	521	**1,895**
Rest of Latam	214	916	771	**1,900**
Rest of world	1,757	645	234	**2,636**
Total	**23,480**	**53,718**	**21,457**	**98,655**

Environmental risk classification
Million euros

Note: VIDA assessment in the retail banking network in Spain
VL: very low; L: low; M: medium and A: high.

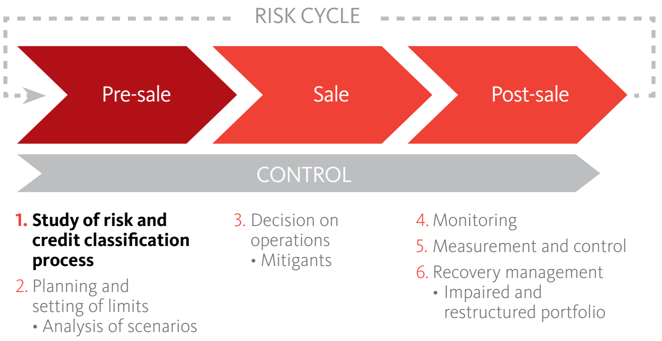
Low or very low environmental risk represents 66% of total risk, lower than in 2013 due to the incorporation of the perimeter of global wholesale banking.

6.5. Credit risk cycle

The process of credit risk management consists of identifying, analysing, controlling and deciding on the risks incurred by the Group's operations. The business areas, senior management and the risk areas are all involved.

The board and the executive committee participate in the process, as well as the executive risk committee, which sets the risk policies and procedures, the limits and delegation of powers, and approves and supervises the framework of the risk function.

The risk cycle has three phases: pre-sale, sale and post-sale. The process is constantly revised, incorporating the results and conclusions of the after-sale phase to the study of risk and pre-sale planning.



6.5.1. Study of risk and credit rating process

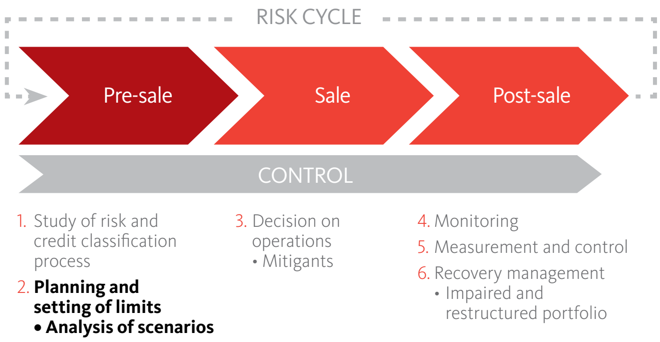
Risk study consists of analysing a customer's capacity to meet his contractual commitments with the bank. This entails analysing the customer's credit quality, risk operations, solvency and profitability to be obtained on the basis of the risk assumed.

With this objective, the Group has used since 1993 models for assigning solvency ratings. These mechanisms are used in all individualised management segments, both wholesale (sovereign, financial institutions and corporate banking), as well as the rest of companies and institutions in this category.

The rating is the result of a quantitative model based on balance sheet ratios or macroeconomic variables, which is supplemented by the expert advice of the analyst.

The ratings given to customers are regularly reviewed, incorporating the latest available financial information and experience in the development of banking relations. The regularity of the reviews increases in the case of customers who reach certain levels in the automatic warning systems and in those classified as special watch. The rating tools are also revised in order to adjust the accuracy of the rating granted.

While ratings are used for companies under individualised management, scoring techniques are used for the standardised segment, which automatically assign a score to operations, as set out in the section "decisions on operations."



6.5.2. Planning and setting limits

The purpose of this phase is to limit efficiently and comprehensively the risk levels assumed by the Group.

The credit risk planning process serves to set the budgets and limits at portfolio or customer level on the basis of the segment.

The planning and setting of limits is conducted via documents agreed between the business and risk areas and approved by the executive risk committee or committees delegated by it, and in which the expected results of business, in terms of risk and return are set out, as well as the limits to which this activity is subject and management of the associated risks.

Planning is articulated via the strategic commercial plan, ensuring the conjunction of the business plan, the credit policy on the basis of the risk appetite and of the necessary resources to achieve it. It acts as a reference for all retail and commercial banking businesses. The maximum executive committee of each unit is responsible for approving and monitoring the plan.

At the same time, in the wholesale sphere and the rest of companies and institutions analysis is conducted at the client level. When certain circumstances concur, the client is assigned an individual limit (pre-classification).

In this way, a pre-classification model based on a system for measuring and monitoring economic capital is used for large corporate groups. The result of pre-classification is the maximum risk level that a client or group can assume in terms of amount of maturity. A more streamlined version of pre-classifications is used for those companies which meet certain requirements (high knowledge, rating, etc).

Analysis of scenarios

In line with what is described in section 4.5. of this report, analysis of credit risk scenarios enables senior management to better understand the portfolio's evolution in the face of market conditions and changes in the environment. It is a key tool for assessing the sufficiency of the provisions made and the capital to stress scenarios.

These exercises are carried out for all the Group's relevant portfolios and are articulated as follows:

- Definition of reference scenarios (at both the global level as well as for each of the Group's units).
- Determining the value of the risk parameters and metrics (probability of default, loss at default, NPLs, etc) to different scenarios.
- Estimating the expected loss associated with each of the scenarios raised and contrasted with the levels of provisions.
- Analysis of the evolution of the credit risk profile at the portfolio, segment, unit and Group levels in the face of different scenarios and compared to previous years.

The simulation models employed by the Group use data from a complete economic cycle in order to calibrate the performance of risk factors in the face of changes in macroeconomic variables. These models are submitted to backtesting processes and regular fine tuning in order to guarantee they reflect correctly the relationship between macroeconomic variables and risk parameters.

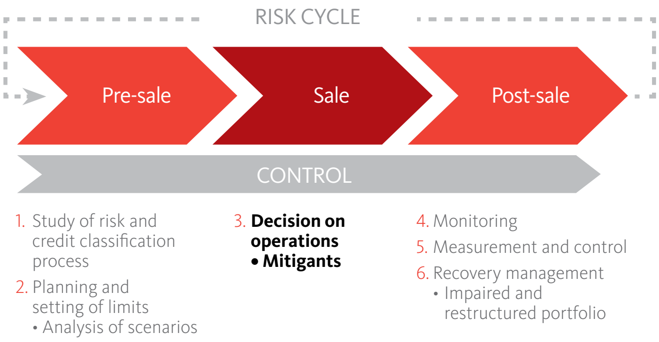
The projections of the risk and loss parameters, normally with a time frame of three years, are executed under various economic scenarios which include the main macroeconomic variables (GDP, unemployment rate, house prices, inflation, etc).

The economic scenarios defined are backed by different levels of stress, from the baseline scenario or the most probable one to stress scenarios which, although unlikely, are possible.

These scenarios are defined by Grupo Santander's research department in coordination with the counterparts of each unit and using as a reference the figures published by the main international institutions.

A global stress scenario is defined describing a world crisis situation and the way it would affect each of the countries in which the Group operates. In addition, a local stress scenario is defined which affects in an isolated way some of the main units and with a greater degree of stress than the global stress scenario.

In the executive risk committee the Group's senior management takes note, proposes the changes it deems necessary and formally approves the set of definitive scenarios to be used in the execution of the Group's stress test.



6.5.3. Decisions on operations

The sales phase consists of the decision-taking process which analyses and resolves operations. Approval by the risks area is a prior requirement before contracting any risk operation. This process must take into account the policies defined for approving operations and take into consideration both the risk appetite as well as those elements of the operation that are relevant in the search for the right balance between risk and profitability.

In the sphere of **individual clients, businesses and SMEs with low turnover**, the administration of large volumes of credit operations with the use of automatic decision models is facilitated for classifying the client/operation binomial. Lending is classified into homogeneous risk groups, on the basis of the information on the features of the operation and of its owner. These models are used in banking with individuals, businesses and standardised SMEs.

As already indicated, the prior phase of setting limits can follow two different paths, giving rise to different types of decision in the sphere of **companies**:

- Automatic and verifying if there is capacity for the proposed operation (in amount, product, maturity and other conditions) within the limits authorised under the framework of pre-classification. This process is generally applied to corporate pre-classifications.
- Always requiring the authorisation of the analyst although the operation meets the amount, maturity and other conditions set in the pre-classified limit. This process applies to the pre-classification of companies under individualised management of retail banking.

Credit risk mitigation techniques

Grupo Santander applies various forms of credit risk reduction on the basis, among other factors, of the type of client and product. As we will later see, some are inherent in specific operations (for example, real estate guarantees) while others apply to a series of operations (for example, netting and collateral).

The various mitigation techniques can be grouped into the following categories:

Determination of a net balance by counterparty

The concept of netting is the possibility of determining a net balance between operations of the same type, under the umbrella of a framework agreement such as ISDA or similar.

It consists of aggregating the positive and negative market values of derivative transactions that Santander has with a certain counterparty, so that in the event of default it owes (or Santander owes, if the net is negative) a single net figure and not a series of positive or negative values corresponding to each operation closed with the counterparty.

An important aspect of the contracts framework is that they represent a single legal obligation that covers all operations. This is fundamental when it comes to being able to net the risks of all operations covered by the contract with a same counterparty.

Real guarantees
These are those goods that are subject to compliance with the guaranteed obligation and which can be provided not only by the client but also by a third party. The real goods or rights that are the object of the guarantee can be:

- Financial: cash, deposit of securities, gold, etc.

- Non-financial: real estate (both properties as well as commercial premises, etc), other property goods.

From the standpoint of risk admission, the highest level of real guarantees is required. In order to calculate the regulatory capital, only those guarantees that meet the minimum qualitative requirements set out in the Basel agreements are taken into consideration.

A very important example of a real financial guarantee is **collateral**. This is a series of instruments with a certain economic value and high liquidity that are deposited/transferred by a counterparty in favour of another in order to guarantee/reduce the credit risk of the counterparty that could result from portfolios of transactions of derivatives with risk existing between them.

The nature of these agreements is diverse, but whatever the specific form of collateralisation, the final purpose, as in the netting technique, is to reduce the counterparty risk.

The operations subject to the collateral agreement are regularly valued (normally day to day) and, on the net balance resulting from this valuation, the parameters defined in the contract are applied so that a collateral amount is obtained (normally cash or securities), which is to be paid to or received from the counterparty.

As regards **real estate guarantees**, there are regular re-appraisal processes, based on real market values for the different types of property, which meet all the requirements set by the regulator.

Implementation of the mitigation techniques follows the minimum requirements established in the manual of credit risk management policies, and consists of ensuring:

- Legal certainty. The possibility of legally requiring the settlement of guarantees must be examined and ensured at all times.

- The non-existence of substantial positive correlation between the counterparty and the value of the collateral.

- The correct documentation of all guarantees.

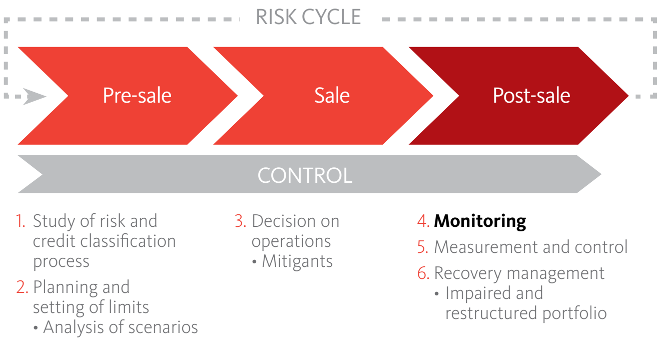
- The availability of documentation of the methodologies used for each mitigation technique.

- Adequate monitoring and regular control.

Personal guarantees and credit derivatives
This typology of guarantees corresponds to those that place a third party in a position of having to respond to obligations acquired by another to the Group. It includes, for example, sureties, guarantees, stand-by letters of credit, etc. The only ones that can be recognised, for the purposes of calculating capital, are those provided by third parties that meet the minimum requirements set by the supervisor.

Credit derivatives are financial instruments whose main objective is to cover the credit risk by acquiring protection from a third party, through which the bank transfers the issuer risk of the underlying asset. Credit derivatives are over the counter (OTC) instruments that are traded in non-organised markets. The coverage with credit derivatives, mainly through credit default swaps, is contracted with front line banks.

The information on mitigation techniques is in “Credit risk reduction techniques of the Prudential Relevance Report (Pillar III)”. There is also more information on credit derivatives in the section “Activity in credit derivatives” in item “6.4.1. Credit risk by activities in financial markets” of this report.



6.5.4. Monitoring

Monitoring is a continuous process of constant observation, which allows changes that could affect the credit quality of clients to be detected early on, in order to take measures to correct the deviations that impact negatively.

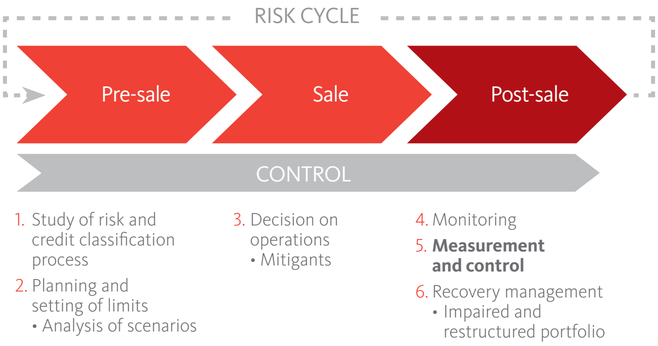
Monitoring is based on segmentation of customers, and is carried out by local and global risk dedicated teams, supplemented by internal audit.

The function consists, among other things, of identifying and tracking clients under special watch, reviewing ratings and continuous monitoring of indicators of standardised clients.

The system called **companies in special watch** (FEVE) identifies four levels on the basis of the degree of concern arising from the circumstances observed (extinguish, secure, reduce, monitor). The inclusion of a company in FEVE does not mean there have been defaults, but rather the advisability of adopting a specific policy toward that company and establishing the person and time frame for it. Clients in FEVE are reviewed at least every six months, and every quarter for the most serious cases. A company can end up in special watch as a result of monitoring, a review conducted by internal audit, a decision of the person responsible for the company or the entry into functioning of the system established for automatic warnings.

Ratings are reviewed at least every year, but if weaknesses are detected, or on the basis of the rating, it is done more regularly.

As regards the risks of individual clients, businesses and SMEs with a low turnover, the main indicators are monitored in order to detect shifts in the performance of the loan portfolio with respect to the forecasts made in the credit management programmes.



6.5.5. Measurement and control

As well as monitoring clients' credit quality, Grupo Santander establishes the control procedures needed to analyse the current credit risk profile and its evolution, through different credit risk phases.

The function is developed by assessing the risks from various perspectives that complement one another, establishing as the main elements control by countries, business areas, management models, products, etc, facilitating early detection of points of specific attention, as well as preparing action plans to correct any deteriorations.

Each element of control admits two types of analysis:

1. Quantitative and qualitative analysis of the portfolio.
Analysis of the portfolio controls, permanently and systematically, the evolution of risk with respect to budgets, limits and standards of reference, assessing the impacts of future situations, exogenous as well as those resulting from strategic decisions, in order to establish measures that put the profile and volume of the risks portfolio within the parameters set by the Group.

The credit risk control phase uses, among others and in addition to traditional metrics, the following metrics:

- **Management of non-performing loans variation plus net write-offs (VMG)**

The VMG measures how NPLs change during a period, discounting write-offs and taking loan loss recoveries into account.

It is an aggregate measure at portfolio level that allows a response to deteriorations observed in the evolution of NPLs.

It is the result of the final balance less the initial balance of non-performing loans of the period under consideration, plus the write-offs in this period less loan loss recoveries in the same period.

The VMG and its components play a key role as variables of monitoring.

- **Expected loss (EL) and capital**

Expected loss is the estimate of the economic loss that would occur during the next year of the portfolio existing at a given moment.

It is one more cost of activity, and must impact on the price of operations. Its calculation is mainly based on three parameters:

- Exposure at default (EaD): maximum amount that could be lost as a result of a default.
- Probability of default (PD): the probability of a client's default during the year.
- Loss Given Default (LGD): this reflects the percentage of exposure that could not be recovered in the event of a default. It is calculated by discounting at the time of the default the amounts recovered during the whole recovery process and this figure is then compared in percentage terms with the amount owed by the client at that moment.

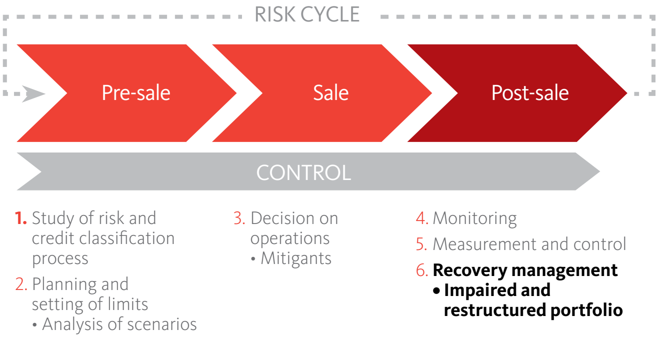
Other relevant aspects regarding the risk of operations are covered, such as quantification of off-balance sheet exposures or the expected percentage of recoveries, related to the guarantees associated with the operation, as well as other issues such as the type of product, maturity, etc.

The risk parameters also enable economic and regulatory capital to be calculated. The integration in management of the metrics of capital is vital for rationalising its use. More detail is available in chapter 12 on capital management and control of capital risk.

2. Evaluation of the control processes
Evaluation of the control processes includes systematic and regular revision of the procedures and methodology, developed throughout the credit risk cycle, in order to guarantees their effectiveness and validity.

In 2006, within the corporate framework established in the Group for compliance with the Sarbanes Oxley law, a corporate tool was established in the Group's intranet to document and certificate all the sub processes, operational risks and controls that mitigate them. The risks division assesses every year the efficiency of internal control of its activities.

The function of comprehensive control and internal validation of risks, as part of its mission of supervising the quality of the Group's risk management, guarantees that the management and control systems of the different risks inherent in its activity fulfil the most demanding requirements and the best practices observed in industry and/or required by regulators. In addition, internal audit is responsible for ensuring that the policies, methods and procedures are adequate, effectively implemented and regularly reviewed.



6.5.6. Recovery management

Recovery activity is a significant element in the Bank's risk management. This function is developed by the area of recoveries and cleaning up of assets, which was created in July 2013 in order to obtain greater efficiencies in the process of asset recovery, while developing a global strategy and a focus of recovery management.

The Group has a corporate management model which sets the guidelines and general lines of action to be applied in the various countries, always taking into account the local particularities that the recovery activity requires (economic environment, business model or a mixture of both). The recovery areas are business areas that directly manage clients; the corporate model thus has a business focus, whose creation of value on a sustained basis is based on effective and efficient collection management, whether by regularisation of balances pending payment or by total recovery.

The recovery management model requires adequate co-ordination of all the management areas (business of recoveries, commercial, technology and operations, human resources and risks). It is subject to constant review and continuous improvement in the processes and management methodology that sustain it, through applying the best practices developed in the various countries.

In order to conduct recovery management adequately, it is done in four phases: irregularity or early non-payment, recovery of non-performing loans, recovery of write-offs and management of foreclosed assets. Indeed, the recovery function begins before the first non-payment when the client shows signs of deterioration and ends when the debt has been paid or regularised. The function aims to anticipate non-compliance and is focused on preventative management.

The current macroeconomic environment directly impacts the non-payment index and customers' bad loans. The quality of portfolios is thus fundamental for the development and growth of our businesses in different countries. Debt reimbursement and recovery functions are given a special and continuous focus, in order to ensure that this quality always remains within the expected levels.

The diverse features of our clients makes segmentation necessary in order to manage recoveries adequately. Massive management of large collectives of clients with similar profiles and products is conducted through processes with a high technological component, while personalised management focuses on customers that, because of their profile, require a specific manager and more individualised management.

Recovery activity has been aligned with the socio-economic reality of various countries and different risk management mechanisms, with adequate criteria of prudence, have been used on the basis of their age, guarantees and conditions, always ensuring, as a minimum, the required classification and provisions.

Particular emphasis in the recovery function is placed on management of the aforementioned mechanisms for early management, in line with corporate policies, taking account of the various local realities and closely tracking vintages, stocks and performance. These policies are renewed and regularly adopted in order to reflect both the better management practices as well as the regulatory changes applied.

As well as measures focused on adapting operations to the client's payment capacity, also noteworthy is recovery management seeking solutions other than judicial ones for advance payment of debts.

One of the ways to recover debt from clients, who have suffered a severe deterioration in their repayment capacity, is repossession (judicial or in lieu of payment) of the real estate assets that serve as guarantees of the loans. In countries with a high exposure to real estate risk, such as Spain, there are very efficient sales management instruments which enable the capital to be returned to the bank and reduce the stock in the balance sheet at a much faster speed than the rest of banks.

7. Trading market risk and structural risks

7.0. Organisation of this section

We will first describe the activities subject to market risk, setting out the different types and risk factors.

Then we will look at each one of the market risks on the basis of the finality of the risk, distinguishing the risk of market trading and structural risks, and, within the latter, structural risks of the balance sheet and pension, actuarial and fiduciary risks.

The most relevant aspects to take into account such as the principal magnitudes and their evolution in 2014 are set out for each type of risk, the methodologies and metrics employed in Santander and the limits used for their control.

7.1. Activities subject to market risk and types of market risk

The **perimeter** of activities subject to market risk covers those operations where capital risk is assumed as a result of changes in market factors, including both trading risks as well as structural risks that are also affected by movements in markets.

This risk comes from the change in **risk factors** - interest rates, inflation rates, exchange rates, share prices, the spread on loans, commodity prices and the volatility of each of these elements - as well as from the liquidity risk of the various products and markets in which the Group operates.

- The **Interest rate risk** is the possibility that changes in interest rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects, among others, loans, deposits, debt securities, most assets and liabilities of trading portfolios as well as derivatives.

- The **inflation rate risk** is the possibility that changes in inflation rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects, among others, loans, debt securities and derivatives, whose yield is linked to inflation or to a real rate of variation.

- The **exchange rate risk** is the sensitivity of the value of a position in a currency different to the base currency to a potential movement in exchange rates. A long position or one bought in a foreign currency would produce a loss in the event that the currency depreciated against the base currency. Among the positions affected by this risk are non-euro investments in subsidiaries, as well as loans, securities and derivatives denominated in foreign currencies.

- The **equity risk** is the sensitivity of the value of positions opened in equities to adverse movements in the market prices or in expectations of future dividends. Among other instruments, this affects positions in shares, stock market indices, convertible bonds and derivatives using shares as the underlying asset (put, call, and equity swaps).

- The **credit spread risk** is the risk or sensitivity of the value of positions opened in fixed income securities or in credit derivatives to movements in credit spread curves or in recovery rates associated with issuers and specific types of debt. The spread is a differential between financial instruments that trade with a spread over other reference instruments, mainly the yield on government securities and interbank rates.

- The **commodities price risk** is the risk derived from the effect of potential changes in prices. The Group's exposure to this risk is not significant and is concentrated in derivative operations on commodities with clients.

- The **volatility risk** is the risk or sensitivity of the value of a portfolio to changes in the volatility of risk factors: interest rates, exchange rates, shares, credit spreads and commodities. This risk is incurred by financial instruments which have volatility as a variable in their valuation model. The most significant case is portfolios of financial options.

All these market risks can be partly or fully mitigated by using options, futures, forwards and swaps.

There are **other types of market risk**, whose coverage is more complex. They are the following:

- **Correlation risk** is the sensitivity of the value of a portfolio to changes in the relation between risk factors, be they of the same type (for example, between two exchange rates) or of a different nature (for example, between an interest rate and the price of a commodity).

- **Market liquidity risk** is that of a Group entity or the Group as whole finding itself unable to get out of or close a position in time without impacting on the market price or on the cost of the transaction. This risk can be caused by a fall in the number of market makers or institutional investors, the execution of large volumes of operations and market instability, increasing with the concentration existing in certain products and currencies.

- **Risk of prepayment or cancellation.** When in certain operations the contract allows, explicitly or implicitly, cancellation before the maturity without negotiation there is a risk that the cash flows have to be reinvested at a potentially lower interest rate. This mainly affects loans or mortgage securities.

- **Underwriting risk.** This occurs as a result of an entity's participation in underwriting a placement of securities or another type of debt, assuming the risk of partially owning the issue or the loan due to non-placement of all of it among potential buyers.

Pension, actuarial and fiduciary risks, which are described later on, also depend on movements in market factors.

On the basis of the finality of the risk, activities are segmented in the following way:

a) **Trading:** financial services to customers and purchase-sale and positioning mainly in fixed-income, equity and currency products. The Global Banking and Markets (GBM) division is mainly responsible for managing it.

b) **Structural risks:** we distinguish between balance sheet risks and pension and actuarial risks:

b1) Structural balance sheet risks: market risks inherent in the balance sheet excluding the trading portfolio. Management decisions on these risks are taken by the ALCO committees of each country in coordination with the Group's ALCO committee and are executed by the financial management division. This management seeks to inject stability and recurrence into the financial margin of commercial activity and to the Group's economic value, maintaining adequate levels of liquidity and solvency. The risks are:

- **Structural interest rate risk.** This arises from mismatches in the maturities and repricing of all assets and liabilities.

- **Structural exchange rate risk/hedging** of results. Exchange rate risk occurs when the currency in which the investment is made is different from the euro in companies that consolidate and those that do not (structural exchange rate). In addition, the positions of exchange rate hedging of future results generated in currencies other than the euro (hedging of results) are also included.

- **Structural equity risk.** This involves investments via stakes in financial or non-financial companies that are not consolidated, as well as portfolios available for sale formed by equity positions.

b2) Pension and actuarial risk

- **Pension risk:** the risk assumed by the Bank in relation to the pension commitments with its employees. The risk lies in the possibility that the fund does not cover these commitments in the period of accrual of the provision and the profitability obtained by the portfolio is not sufficient and obliges the Group to increase the level of contributions.

- **Actuarial risk:** unexpected losses produced as a result of an increase in the commitments with the insurance takers, as well as losses from an unforeseen rise in costs.

7.2. Trading market risks

7.2.1. Main magnitudes and evolution

Grupo Santander's trading risk profile remained low in 2014, in line with previous years, due to the fact that most of the activity involves providing services to its clients, as well as geographic diversification and by risk factor.

7.2.1.1. VaR analysis[19]

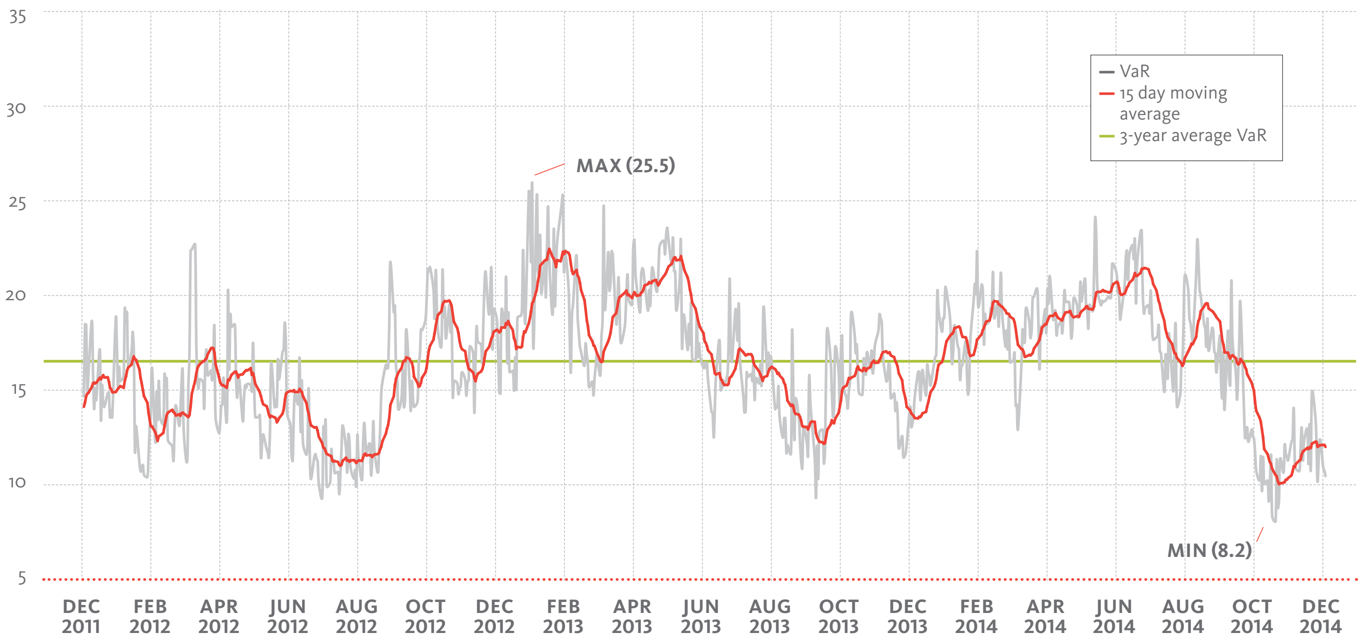
Grupo Santander maintained its strategy of concentrating its trading activity on customer business, minimising where possible exposures of directional risk opened in net terms. This was reflected in the VaR evolution of the trading portfolio of global wholesale banking, which was around the average of the last three years and ended 2014 at EUR 10.5 million[20].

19. The definition and methodology for calculating VaR is in section 7.2.2.1.

20. Relative to the trading activity of global wholesale banking (GWB) in financial markets. As well as the trading activity of GWB, there are other positions catalogued for accounting purposes. The total VaR of trading of this accounting perimeter was EUR 11.3 million.

Evolution of VaR 2012- 2014

Million euros. VaR at 99%, with a time frame of one day



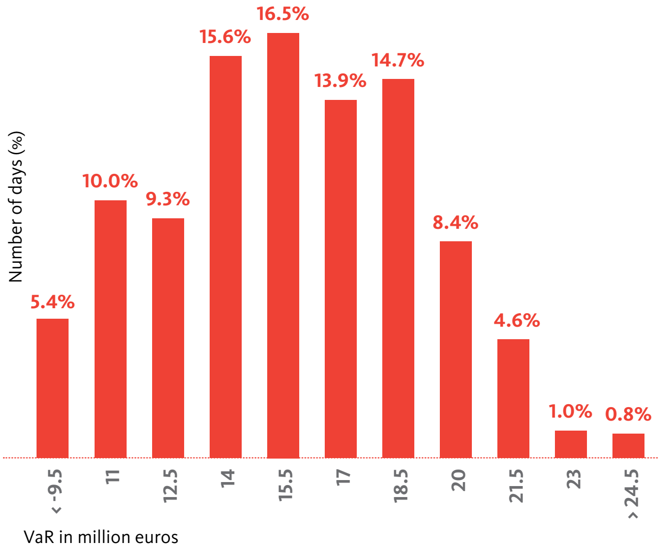
VaR during 2014 fluctuated between EUR 8.2 million and EUR 23.8 million. The main increases were linked to the Brazilian Treasury's changes in exposure to exchange rates and Spain's Treasury to interest rates and credit spreads.

The average VaR in 2014 was EUR 16.9 million, very similar to the two previous years (EUR 17.4 million in 2013 and EUR 14.9 million in 2012) for the reason already mentioned of the concentration of activity in customers.

The histogram below shows the distribution of average risk in terms of VaR between 2012 and 2014 where the accumulation of days with levels between EUR 9.5 million and EUR 21.5 million can be seen (93%). The higher values of EUR 21.5 million (2%) were concentrated in periods mainly affected by one-off rises of volatility in the Brazilian currency and by the euro zone's sovereign debt crisis.

VaR risk histogram

Var at 99% with a time frame of one day.
Number of days (%) in each range



Risk by factor

The average and year-end values in VaR terms at 99% for the last three years, as well as their minimum and maximum values and the expected shortfall (ES) at 97.5%[21] in 2014, were as follows:

VaR statistics by risk factor[22, 23]

Million euros. VaR at 99% and ES at 97.5%, with a time frame of one day

		2014					2013		2012	
		VaR (99%)				ES (97.5%)	VaR		VaR	
		Minimum	Average	Maximum	Year-end	Year-end	Average	Year-end	Average	Year-end
Total trading	**Total**	**8.2**	**16.9**	**23.8**	**10.5**	**11.4**	**17.4**	**13.1**	**14.9**	**18.5**
	Diversification effect	**(5.2)**	**(13.0)**	**(27.9)**	**(9.3)**	**(9.9)**	**(16.2)**	**(12.3)**	**(15.2)**	**(13.5)**
	Interest rate VaR	8.1	14.2	22.2	10.5	11.7	12.7	8.5	11.8	12.0
	Equity VaR	1.1	2.7	8.9	1.8	1.3	5.6	4.7	7.0	7.1
	FX VaR	1.3	3.5	10.2	2.9	2.8	5.4	4.7	5.0	3.5
	Credit spread VaR	4.2	9.3	15.9	4.6	5.3	9.6	7.2	6.1	9.1
	Commodities VaR	0.1	0.3	0.5	0.1	0.2	0.3	0.3	0.4	0.3
Europe	**Total**	**5.9**	**12.2**	**18.0**	**7.3**	**7.3**	**13.9**	**9.9**	**11.0**	**16.4**
	Diversification effect	**(1.9)**	**(9.2)**	**(22.8)**	**(5.5)**	**(5.8)**	**(14.1)**	**(9.0)**	**(12.9)**	**(9.9)**
	Interest rate VaR	4.6	8.9	13.0	6.2	6.3	9.3	6.6	7.9	6.8
	Equity VaR	0.8	1.7	8.1	1.0	0.8	4.3	2.6	6.2	6.3
	FX VaR	0.7	2.9	9.8	1.5	1.8	5.2	3.7	4.1	4.0
	Credit spread VaR	2.7	7.6	14.1	3.9	4.1	9.0	5.8	5.4	8.9
	Commodities VaR	0.1	0.3	0.5	0.1	0.2	0.3	0.3	0.4	0.3
Latin America	**Total**	**6.3**	**12.3**	**26.7**	**9.8**	**10.1**	**11.1**	**6.9**	**10.1**	**8.9**
	Diversification effect	**0.4**	**(3.5)**	**(12.2)**	**(12.2)**	**(3.7)**	**(5.3)**	**(6.7)**	**(6.4)**	**(3.8)**
	Interest rate VaR	5.2	11.8	24.2	9.8	10.6	9.6	5.9	8.8	8.8
	Equity VaR	0.7	2.1	5.0	3.0	1.4	3.2	2.9	3.1	1.6
	FX VaR	0.7	2.0	9.2	9.2	1.9	3.5	4.7	3.1	1.3
US and Asia	**Total**	**0.4**	**0.7**	**1.6**	**0.7**	**0.9**	**0.8**	**0.5**	**0.9**	**0.8**
	Diversification effect	**(0.1)**	**(0.3)**	**(1.0)**	**(0.2)**	**(0.7)**	**(0.4)**	**(0.2)**	**(0.5)**	**(0.3)**
	Interest rateVaR	0.3	0.7	1.6	0.7	0.7	0.7	0.5	0.7	0.6
	Equity VaR	0.0	0.1	0.5	0.0	0.0	0.1	0.0	0.2	0.1
	FX VaR	0.1	0.3	0.6	0.2	0.9	0.4	0.2	0.6	0.4
Global activities	**Total**	**1.6**	**2.3**	**9.0**	**1.9**	**2.2**	**1.5**	**2.0**	**2.7**	**1.2**
	Diversification effect	**0.0**	**(0.6)**	**(3.4)**	**(0.6)**	**(0.5)**	**(0.3)**	**(0.5)**	**(0.6)**	**(0.3)**
	Interest rate VaR	0.2	0.6	3.0	0.4	0.4	0.3	0.4	0.3	0.2
	Credit spread VaR	1.4	2.2	9.3	1.9	2.1	1.5	2.1	2.6	1.3
	FX VaR	0.0	0.0	0.2	0.2	0.2	0.1	0.0	0.4	0.1

21. Item 7.2.2.2. sets out the definition of this metric. Following the recommendation of the Basel Committee in its "Fundamental review of the trading book: A revised market risk framework" (October 2013), the confidence level of 97.5% means approximately a risk level similar to that which the VaR captures with a 99% confidence level.
22. The VaR of global activities includes operations that are not assigned to any particular country.
23. In Latin America, United States and Asia, the VaR levels of the credit spread and commodity factors are not shown separately because of their scant or zero materiality.

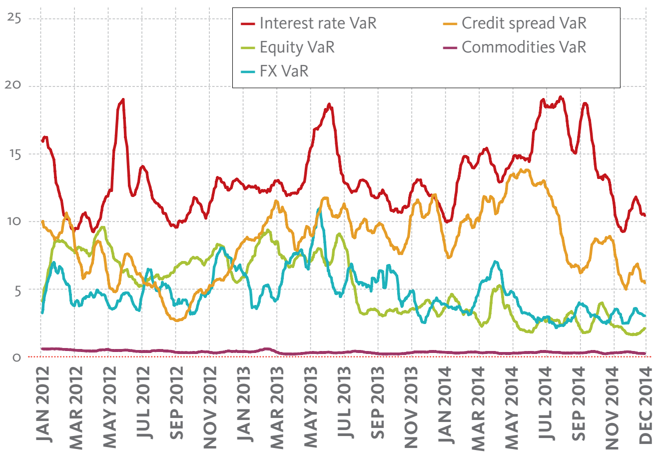
The proximity of the expected shortfall to VaR shows that the risk of high losses of low probability (tail risk) is not high, at least bearing in mind the historic window of the last two years.

The average VaR dropped a little in 2014 by EUR 0.4 million, and by EUR 2.5 million if compared with the year-end figures. By risk factor, the average VaR increased in interest rates and dropped in exchange rates, equities and credit spread. By geographic zones, it rose in Latin America and Global Activities and declined in Europe, United States and Asia.

The Var evolution by risk factor in general was stable in the last few years. The transitory rises in VaR of various factors is explained more by transitory increases in the volatility of market prices than by significant changes in positions.

VaR by risk factor

Million euros. VaR at 99% with a time frame of one day (15 day moving average)



Lastly, the table below compares the VaR figures with stressed VaR figures[24] for trading activity in Spain and Brazil, whose treasuries were those that experienced the Group's largest average VaR in 2014.

Stressed VaR statistics vs, VaR in 2014: treasuries in Spain and Brazil

Million euros. Stressed VaR and VaR at 99% with time frame of one day

		2014				2013	
		Min	Avg.	Max	Year-end	Avg.	Year-end
Spain	VaR (99%)	3.2	7.1	12.9	4.1	10.7	2.3
	Stressed VaR (99%)	7.9	15.3	24.8	21.4	12.2	5.7
Brazil	VaR (99%)	4.9	10.4	23.7	8.5	9.1	4.8
	Stressed VaR (99%)	6.0	14.2	35.3	25.6	17.2	11.4

7.2.1.2. Gauging and contrasting measures

The real losses can differ from the forecasts by the VaR for various reasons related to the limitations of this metric, which is set out in detail later in the section on the methodologies. The Group regularly analyses and contrasts the accuracy of the VaR calculation model in order to confirm its reliability.

The most important test consists of backtesting exercises, analysed at the local and global levels and in all cases with the same methodology. Backtesting consists of comparing the forecast VaR measurements, with a certain level of confidence and time frame, with the real results of losses obtained in a same time frame. This enables anomalies in the VaR model of the portfolio in question to be detected (for example, shortcomings in the parameterisation of the valuation models of certain instruments, not very adequate proxies, etc).

Santander calculates and evaluates three types of backtesting:

- "Clean" backtesting: the daily VaR is compared with the results obtained without taking into account the intraday results or the changes in the portfolio's positions. This method contrasts the effectiveness of the individual models used to assess and measure the risks of the different positions.
- Backtesting on complete results: the daily VaR is compared with the day's net results, including the results of the intraday operations and those generated by commissions.
- Backtesting on complete results without mark-ups or commissions: the daily VaR is compared with the day's net results from intraday operations but excluding those generated by mark-ups and commissions. This method aims to give an idea of the intraday risk assumed by the Group's treasuries.

For the first case and the total portfolio, there was one exception in 2014 of Value at Earnings (VaE)[25] at 99% (days when the daily loss was higher than the VaR) on June 6, mainly due to Mexico because of the drop in sovereign yield curves and swaps (nominal and indexed to inflation UDI), following the Bank of Mexico's cut of 50 b.p. to 3% in the benchmark interest rate, which was not discounted by the market.

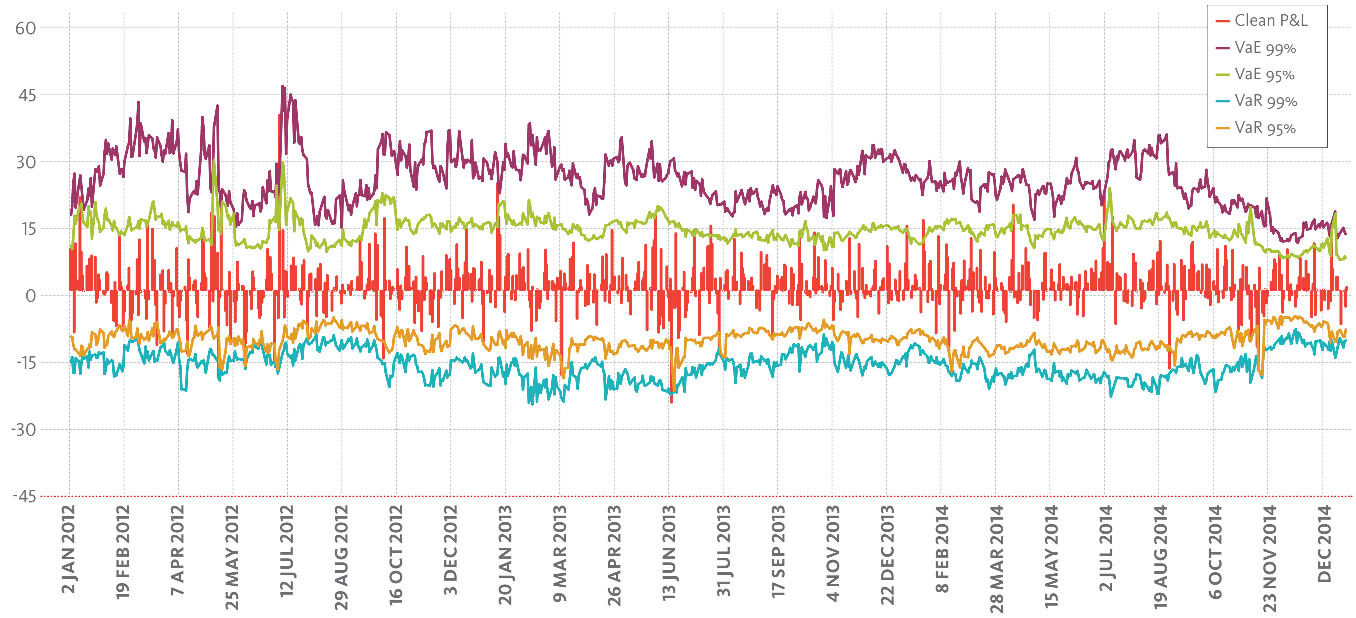
There was also an exception of VaR at 99% (days when the daily loss was higher than the VaR) on October 16, mainly due to Spain, because of the rise in credit spreads in Europe and the decline in stock market indexes.

The number of exceptions responded to the expected performance of the VaR calculation model, which works with a confidence level of 99% and an analysis period of one year (over a longer period of time, an average of two or three exceptions a year is expected).

24. Description in 7.2.2.2.

25. The definition and methodology of the VaE calculation is contained in 7.2.2.1.

Backtesting of business portfolios: daily results versus previous day's value at risk
Million euros



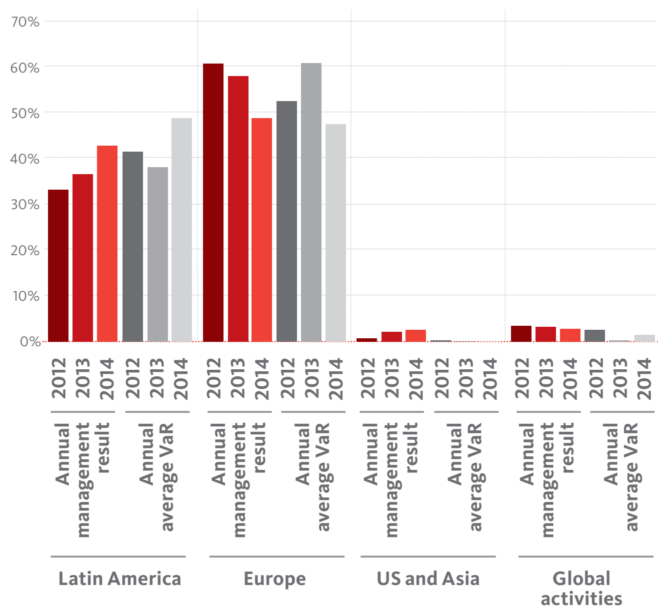
7.2.1.3. Distribution of risks and management results[26]

7.2.1.3.1. Geographic distribution

In trading activity, the average contribution of Latin America to the Group's total VaR in 2014 was 49.4% compared with a contribution of 44.7% in economic results. Europe, with 48.6% of global risk, contributed 49.1% of results. In relation to prior years, there was a gradual homogenisation in the profile of activity in the Group's different units, focused generally on providing service to professional and institutional clients.

Below is the geographic contribution (by percentage) to the Group total, both in risks, measured in VaR terms, as well as in results, measured in economic terms.

VaR binomial-management results: geographic distribution
Average VaR (at 99% with a time frame of one day) and annual accumulated management result (million euros) % of annual totals



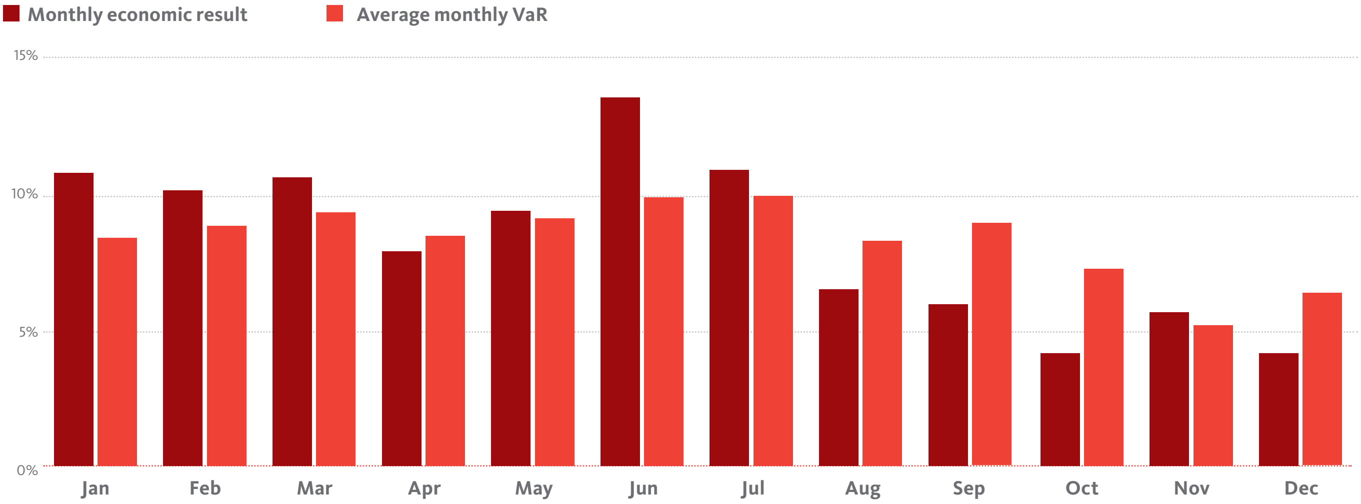
7.2.1.3.2. Distribution of risk by time

The next chart shows the risk assumption profile, in terms of VaR, compared to results in 2014. The average VaR remained relatively stable, although on a downward path to some extent in the second half of the year, while results evolved in a more irregular way during the year. January and June were positive months and from August less positive.

26. Results in terms that can be likened to the gross margin (excluding operating expenses, the only cost is financial).

Distribution of risk by time and results in 2014: percentages of annual totals

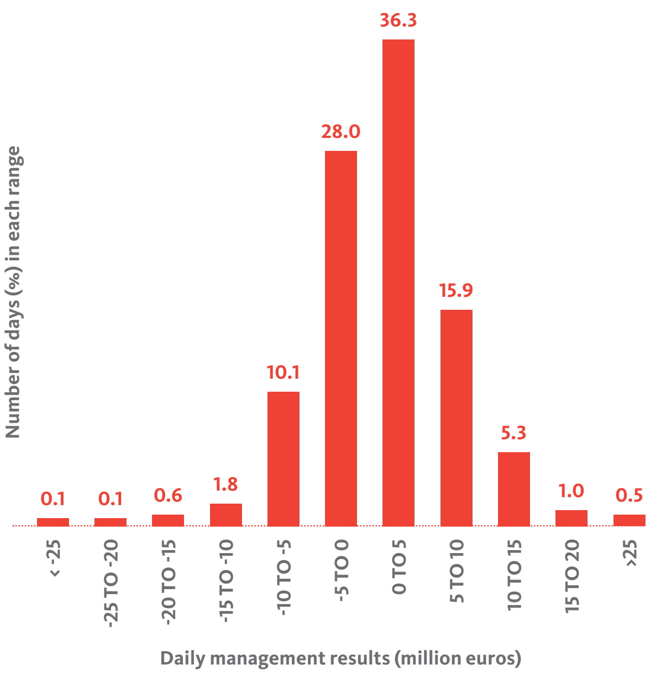
VaR (at 99% with a time frame of one day) and annual accumulated management result (million euros). % of annual totals



The following histogram of frequencies shows the distribution of daily economic results on the basis of their size between 2012 and 2014. The daily yield[27] was between -EUR 15 and +EUR 15 million on more than 97% of days when the market was open.

Histogram of the frequency of daily results (MtM)

Daily results of management "clean" of commissions and intraday operations (million euros). Number of days (%) in each range



7.2.1.4. Risk management of derivatives

Derivatives activity is mainly focused on marketing investment products and hedging risks for clients. Management is focused on ensuring that the net risk opened is the lowest possible.

These transactions include options on equities, fixed-income and exchange rates. The units where this activity mainly takes place are: Spain, Santander UK, and, to a lesser extent, Brazil and Mexico.

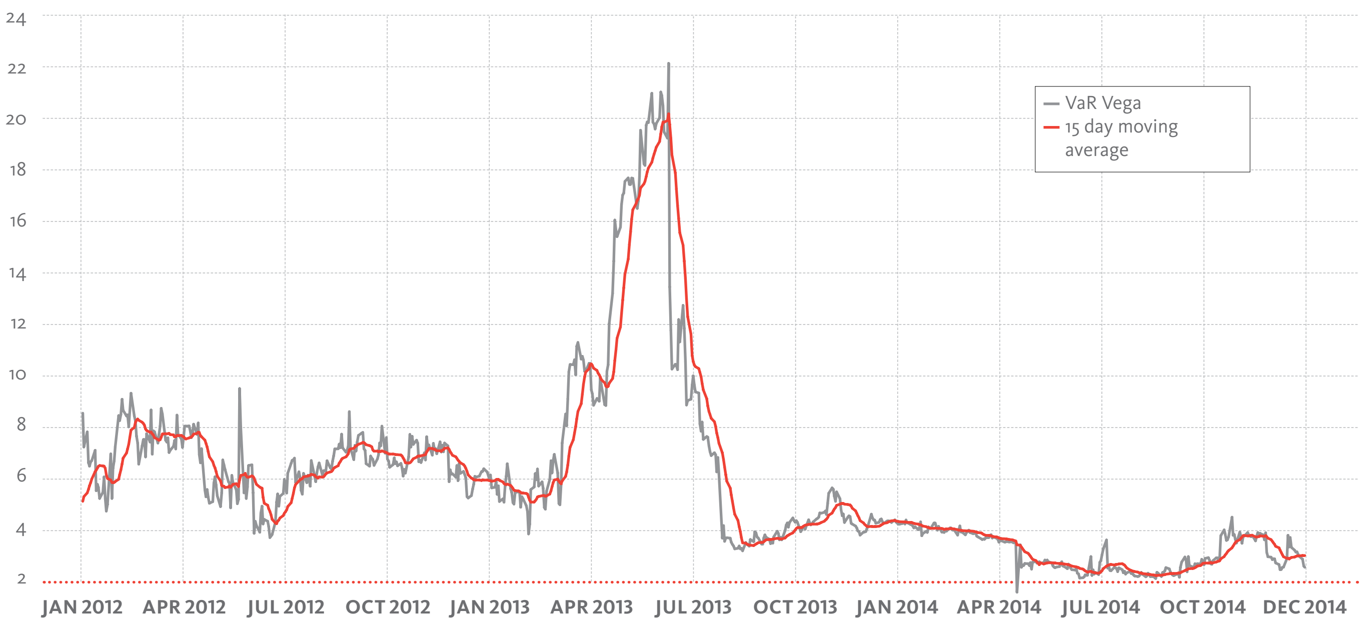
The chart below shows the VaR Vega[28] performance of structured derivatives business over the last three years. It fluctuated at around an average of EUR 6 million. In general, the periods with higher VaR levels related to episodes of significant rises in volatility in the markets. The evolution of VaR Vega in the second quarter of 2013 was the result of the increased volatility of euro and US dollar interest rate curves, coinciding with a strategy of hedging client operations of significant amounts. The VaR Vega during 2014 gradually declined due to greater market tranquillity.

27. Yields "clean" of commissions and results of intraday derivative operations.

28. Vega, a Greek term, means here the sensitivity of the value of a portfolio to changes in the price of market volatility.

Evolution of risk (VaR) of the business of financial derivatives

Million euros. VaR at 99% with a time frame of one day



As regards the VaR by risk factor, on average, the exposure was concentrated, in this order, in interest rates, equities, exchange rates and commodities. This is shown in the table below:

Financial derivatives. Risk (VaR) by risk factor

Million euros. VaR at 99% with a time frame of one day

	2014				2013		2012	
	Minimum	Average	Maximum	Year-end	Average	Year-end	Average	Year-end
Total VaR Vega	**1.7**	**3.3**	**4.7**	**2.7**	**8.0**	**4.5**	**6.8**	**6.5**
Diversification impact	0.1	(2.1)	(8.4)	(2.6)	(3.8)	(2.7)	(3.0)	(3.4)
Interest rate VaR	1.2	2.4	4.3	1.7	6.6	4.1	2.3	2.8
Equity VaR	0.5	1.8	3.6	2.0	3.4	1.8	6.5	5.5
FX VaR	0.0	1.2	7.2	1.6	1.7	1.3	0.7	1.3
Commodities VaR	0.0	0.0	0.1	0.1	0.1	0.1	0.3	0.2

As regards the distribution by business unit, the exposure is concentrated, in this order, in Spain, Santander UK, Mexico and Brazil.

Financial derivatives. Risk (VaR) by unit

Million euros. VaR at 99% with a time frame of one day

	2014				2013		2012	
	Minimum	Average	Maximum	Year-end	Average	Year-end	Average	Year-end
Total VaR Vega	**1.7**	**3.3**	**4.7**	**2.7**	**8.0**	**4.5**	**6.8**	**6.5**
Spain	1.3	2.4	3.9	1.5	7.0	3.8	5.9	5.4
Santander UK	0.9	1.4	1.9	0.9	2.2	1.6	2.8	2.0
Brazil	0.3	0.8	7.2	0.7	1.2	0.9	1.0	2.8
Mexico	0.6	0.9	1.7	1.3	1.2	1.2	0.7	0.6

The average risk in 2014 (EUR 3.3 million) is low compared to the last three years, for the previously explained reasons.

Grupo Santander continues to have a very limited exposure to instruments or complex structured vehicles, reflecting a management culture one of whose hallmarks is prudence in risk management. At the end of 2014, the Group had:

- CDOs and CLOs: the position continues to be not very significant (EUR 99 million).

- Hedge funds: the total exposure is not significant (EUR 192 million at the end of 2014) and most of it is via the financing of these funds (EUR 20 million), with the rest direct participation in portfolio or via counterparty by derivatives to hedge funds. This exposure has low loan-to-value levels of around 31% (collateral of EUR 620 million at the end of 2014). The risk with this type of counterparty is analysed case by case, establishing percentages of collateralisation on the basis of the features and assets of each fund.

- Conduits: no exposure.

- Monolines: Santander's exposure to bond insurance companies (monolines) was EUR 137 million[29] at the end of 2014, mainly indirect exposure, and EUR 136 million by virtue of the guarantee provided by this type of entity to various financing or traditional securitisation operations. The exposure in this case is to double default, as the primary underlying assets are of high credit quality. The small remaining amount is direct exposure (for example, via purchase of protection from the risk of non-payment by any of these insurance companies through a credit default swap). The exposure was 2% lower than in 2013.

In short, the exposure to this type of instrument, as the result of the Group's usual operations, continued to decline in 2014. This was mainly due to the integration of positions of institutions acquired by the Group, as Sovereign in 2009. All these positions were known at the time of purchase, having been duly provisioned. These positions, since their integration in the Group, have been notably reduced, with the ultimate goal of eliminating them from the balance sheet.

Santander's policy for approving new transactions related to these products remains very prudent and conservative. It is subject to strict supervision by the Group's senior management. Before approving a new transaction, product or underlying asset, the risks division verifies:

- The existence of an appropriate valuation model to monitor the value of each exposure: Mark-to-Market, Mark-to-Model or Mark-to-Liquidity.

- The availability in the market of observable data (inputs) needed to be able to apply this valuation model.

And provided these two points are always met:

- The availability of appropriate systems, duly adapted to calculate and monitor every day the results, positions and risks of new operations.

- The degree of liquidity of the product or underlying asset, in order to make possible their coverage when deemed opportune.

7.2.1.5. Issuer risk in trading portfolios

Trading activity in credit risk is mainly conducted in the Treasury Units in Spain. It is done by taking positions in bonds and credit default swaps (CDS) at different maturities on corporate and financial references, as well as indexes (Itraxx, CDX).

The table below shows the largest positions at the end of the year, distinguishing between long positions (bond purchase or protection sale via CDS) and short positions (bond sale or purchase protection via CDS):

Million euros. Data at 31 December 2014

	Largest "long" positions (protection sale)		Largest "short" positions (protection purchase)	
	Exposure at default (EaD)	% of total EaD	Exposure at default (EaD)	% of total EaD
1st reference	213	5.5%	(48)	6.2%
2nd reference	129	3.3%	(27)	3.4%
3rd reference	128	3.3%	(26)	3.4%
4th reference	97	2.5%	(24)	3.1%
5th reference	85	2.2%	(19)	2.5%
Top 5 sub-total	**651**	**16.9%**	**(144)**	**18.5%**
Total	**3,848**	**100.0%**	**-775**	**100.0%**

Note: zero recoveries are supposed (LCR=0) in the EaD calculation

29. Guarantees provided by monolines for bonds issued by US states (municipal bonds) are not considered as exposure. They amounted to EUR 744 million at the end of 2014.

7.2.1.6. Analysis of scenarios

Various stress scenarios were calculated and analysed regularly in 2014 (at least monthly) at the local and global levels for all the trading portfolios and using the same assumptions by risk factor.

Maximum volatility scenario (worst case)

This scenario is given particular attention as it combines historic movements of risk factors with an ad-hoc analysis in order to reject very unlikely combinations of variations (for example, sharp falls in stock markets together with a decline in volatility). As regards the variations, an historic volatility equivalent to six standard deviations is applied. The scenario is defined by taking for each risk factor the movement which represents the greatest potential loss in the portfolio, rejecting the most unlikely combinations in economic-financial terms. For year-end, that scenario implied, for the global portfolio, interest rate rises, falls in stock markets, depreciation of all currencies against the euro, rise in credit spreads and mixed volatility movements. The following table shows the results of this scenario at the end of 2014.

Maximum volatility stress scenario (worst case)

Million euros. Dec-31-14

	Interest rates	Equities	Exchange rates	Credit Spread	Commodities	Total
Total trading	**(33.6)**	**(10.0)**	**(10.5)**	**(26.7)**	**(0.2)**	**(81.0)**
Europe	(3.4)	(0.7)	(3.3)	(23.7)	(0.2)	(31.4)
Latin America	(27.9)	(9.3)	(4.6)	0.0	0.0	(41.8)
US	(1.3)	0.0	(2.1)	0.0	0.0	(3.5)
Global activities	(0.8)	0.0	(0.5)	(3.0)	0.0	(4.3)
Asia	(0.1)	0.0	(0.5)	0.0	0.0	(0.1)

The stress test shows that the economic loss suffered by the Group in its trading portfolios, in terms of the mark to market (MtM) result would be, if the stress movements defined in the scenario materialized in the market, EUR 81.0 million, a loss that would be concentrated in Latin America (in this order, interest rates, equities and exchange rates) and Europe (basically concentrated in credit spreads).

Other global stress test scenarios

Various global scenarios (similar for all the Group's units) are established:

Abrupt crisis: ad hoc scenario with very sudden movements in markets. Rise in interest rate curves, sharp falls in stock markets, large appreciation of the dollar against the rest of currencies, rise in volatility and in credit spreads.

11S Crisis: historic scenario of the 11 September 2001 attacks with a significant impact on the US and global markets. It is sub-divided into two scenarios: 1) maximum accumulated loss until the worst moment of the crisis and 2) maximum loss in a day. In both cases, there are drops in stock markets and in interest rates in core markets and rises in emerging markets, and the dollar appreciates against the rest of currencies.

Subprime crisis: Historic scenario of the US mortgage crisis. The objective of the analysis is to capture the impact on results of the reduction in liquidity in the markets. The scenarios have two time frames (one day and 10 days): in both cases there are falls in stock markets and in interest rates in core markets and rises in emerging markets, and the dollar appreciates against the rest of currencies.

Sovereign crisis: the severest historic scenario for banks carried out by the Committee of European Banking Supervisors (CEBS) to measure the market's shock capacity between April 15 and September 1, 2010. Given the Group's international sphere, four geographic zones are distinguished (US, Europe, Latin America and Asia), interest rate rises, falls in stock markets and volatilities are established, rises in credit spreads and depreciation of the euro and Latin American currencies and appreciation of Asian currencies against the dollar.

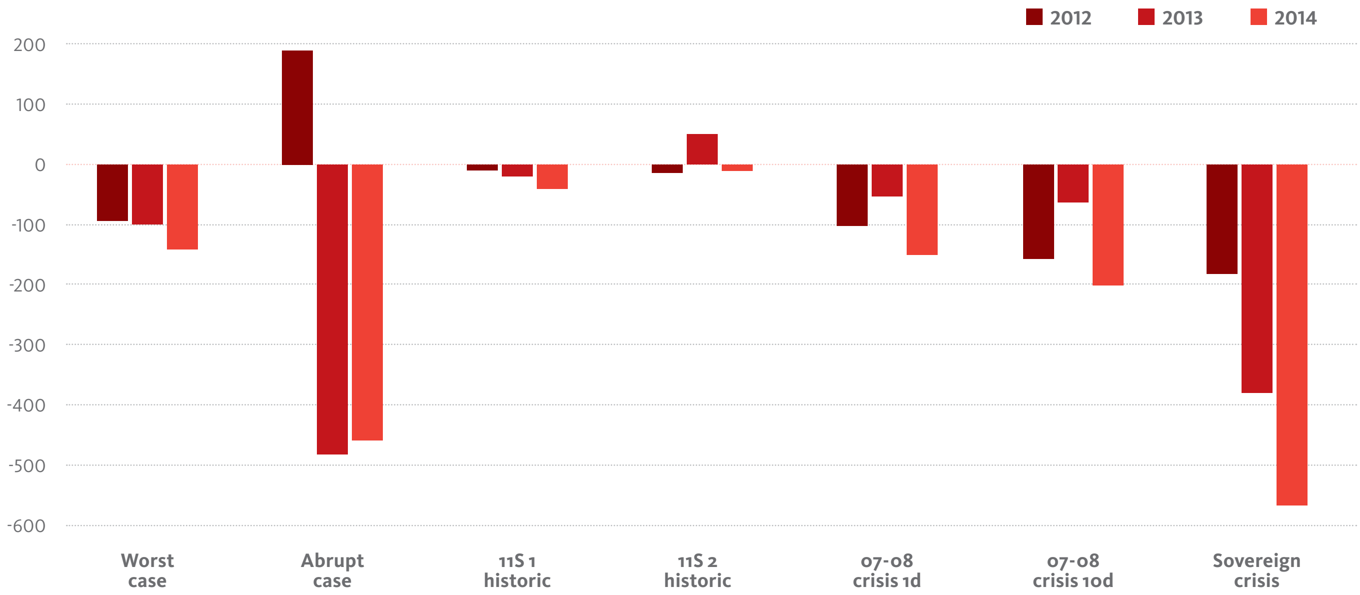
As of November 2014, this latter scenario has been replaced by the adverse scenario proposed by the EBA in April in its stress test exercise ("The EBA 2014 EU-Wide Stress Test"), obtaining a result of EUR 223.9 million at December 31, 2014.

Every month a consolidated stress test report is drawn up, supervised by the global committee of market risks, with explanations of the main changes in results for the various scenarios and units. An early warning mechanism has also been established so that when the loss of a scenario is high in historic terms and/or the capital consumed by the portfolio in question, the relevant business executive is informed.

Here we show the results of the global scenarios for the last three years.

Stress test results: comparison of the 2012-2014 scenarios (annual averages)

Million euros



7.2.1.7. Linkage with balance sheet items. Other alternative risk measures

Below are the balance sheet items of the Group's consolidated position that are subject to market risk, distinguishing the positions whose main risk metric is the VaR from those where monitoring is carried out with other metrics. The items subject to the risk of market trading are set out.

Relation of risk metrics with balances of group's consolidated position

Million euros. dec-31-14

		Main market risk metrics		
	Balance	VaR	Others	Main risk factor for balance in "·others"
Assets subject to market risk	**1,266,296**	**196,351**	**1,069,945**	
Cash and deposits in central banks	69,428	-	69,428	Interest rate
Trading portfolios	148,888	147,012	1,876	Interest rate, credit spread
Other financial assets at reasonable value	42,673	41,993	680	Interest rate, credit spread
Financial assets available for sale	115,250	-	115,250	Interest rate, equities
Equity stakes	3,471	-	3,471	Equities
Hedging derivatives	7,346	7,346	-	Interest rate
Lending	781,635	-	781,635	Interest rate
Other financial assets [1]	35,798	-	35,798	Interest rate
Other no-financial assets [2]	61,807	-	61,807	
Liabilities subject to market risk	**1,266,296**	**178,805**	**1,087,491**	
Trading portfolio	109,792	109,249	543	Interest rate, credit spread
Other financial liabilities at reasonable value	62,317	62,301	16	Interest rate, credit spread
Hedging derivatives	7,255	7,255	-	
Financial liabilities at amortised cost [3]	961,083	-	961,083	Interest rate
Provisions	15,376	-	15,376	Interest rate
Other financial liabilities	10,113	-	10,113	Interest rate
Equity	89,714	-	89,714	
Other non-financial liabilities	10,646	-	10,646	

1. Includes adjustments to macro hedging, non-current assets on sale, assets for reinsurance, and insurance contracts linked to pensions and fiscal assets.
2. Includes intangible assets, material assets and other assets.
3. Adjusted for macro hedging.

For activity managed with metrics different to the VaR, alternative measures are used, mainly: sensitivity to different risk factors (interest rate, credit spread, etc).

In the case of the trading portfolio, the securitisations and "level III" exposures (those in which not observable market data constitute significant inputs in their corresponding internal models of valuation) are excluded from VaR measurement.

Securitisations are mainly treated as if they were credit risk portfolio (in terms of default, rate of recovery, etc). For "level III" exposures, which are not very significant in Grupo Santander (basically derivatives linked to the home price index (HPI) in market activity in Santander UK, and the not very significant portfolio of illiquid CDOs in the parent bank's market activity), as well as in general for inputs that cannot be observed in the market (correlation, dividends, etc), a very conservative policy is followed, reflected in valuation adjustments as well as sensitivity.

7.2.2. Methodologies

7.2.2.1. Value at Risk (VaR)

The standard methodology that Grupo Santander applied to trading activities during 2014 was Value at Risk (VaR), which measures the maximum expected loss with a certain confidence level and time frame. The standard for historic simulation is a confidence level of 99% and a time frame of one day. Statistical adjustments are applied enabling the most recent developments that condition the levels of risk assumed to be efficiently and quickly incorporated. A time frame of two years or at least 520 days from the reference date of the VaR calculation is used, obtained from the reference date of calculating the VaR. Two figures are calculated every day, one applying an exponential decline factor which accords less weight to the observations furthest away in time and another with the same weight for all observations. The reported VaR is the higher of the two.

The Value at Earnings (VaE) is also calculated, which measures the maximum potential gain with a certain level of confidence and time frame, applying the same methodology as for the VaR.

The VaR by historic simulation has many advantages as a risk metric (it sums up in a single number the market risk of a portfolio, is based on market movements that really occurred without the need to make assumptions of formal functions nor of correlations between market factors, etc), but also has limitations.

Some limitations are intrinsic to the VaR metrics, regardless of the methodology used for its calculation, including:

- The VaR calculation is calibrated at a certain level of confidence which does not indicate the levels of possible losses beyond it.
- There are some products in the portfolio with a liquidity horizon greater than that specified in the VaR model.
- The VaR is a static analysis of the risk of the portfolio, and the situation could change significantly during the following day, although the likelihood of this occurring is very low.

Other limitations come from using the historic simulation methodology:

- High sensitivity to the historic window used.
- Incapacity to capture plausible events of big impact if they do not occur in the historic window used.
- The existence of parameters of valuation with no market input (such as correlations, dividend and recovery rate).
- Slow adjustment to the new volatilities and correlations, if the most recent data receives the same weight as the oldest data.

Part of these limitations are corrected by using the stressed VaR and expected shortfall, the calculation of a VaR with exponential decline and applying conservative valuation adjustments. Furthermore, as previously stated, the Group regularly conducts analysis and backtesting of the accuracy of the VaR calculation model.

7.2.2.2. Stressed VaR (sVaR) and Expected Shortfall (ES)

As well as the usual VaR, Santander calculates every day a stressed VaR for the main portfolios. The methodology for calculation is the same as that used for the VaR, with the following two exceptions:

- Historic period of observation of factors: the stressed VaR uses a window of 250 days, instead of one of 520 for the VaR. Furthermore, it is not just the latest data that is used but a continuous period of stress relevant for the portfolio in question. As regards determining the period of observation, for each relevant portfolio, the methodology area has analysed the history of a subseries of market risk factors that were chosen on the basis of expert criteria and the most relevant positions of the books.
- In order to obtain the stressed VaR, unlike when calculating the VaR, the maximum between the percentile uniformly weighted and the one exponentially weighted is not applied. Instead, the percentile uniformly weighted is used directly.

Meanwhile, the expected shortfall (ES) is also calculated in order to estimate the expected value of the potential loss when this is higher than the level set by the VaR. The ES, unlike the VaR, has the advantage of capturing better the tail risk and of being a sub-additive metric[30]. With regard to the near future, the Basel Committee recommends replacing VaR with the expected shortfall as the reference metric for calculating the regulatory capital of the trading portfolios.[31] The committee believes that the confidence level of 97.5% is a risk level similar to that which VaR captures with a confidence level of 99%.

30. The sub-additive metric is one of the desirable properties which, according to financial literature, should present a coherent risk metric. This property establishes that f (a+b) be lower or equal to f(a)+f(b). Intuitively, it supposes that the more instruments or risk factors there are, the less risky a portfolio due to the benefits of diversification. VaR does not meet this property for certain distributions, while the ES always does.

31. "Fundamental review of the trading book: a revised market risk framework" (consultative documents of the Basel Committee on banking supervision, October 2013).

7.2.2.3. Analysis of scenarios

As well as VaR, the Group uses other measures that enable it to have greater control of the risks in all the markets in which it operates. These measures include analysis of scenarios, which consists of defining alternatives to the performance of different financial variables and obtaining the impact on results of applying them on activities. These scenarios can replicate events that occurred in the past (such as a crisis) or determine plausible alternatives that do not correspond to past events.

The potential impact on results of applying different stress scenarios on all the trading portfolios and considering the same assumptions by risk factor is calculated and analysed regularly. As a minimum three types of scenarios are defined: plausible, severe and extreme, obtaining with the VaR a fuller spectrum of the risk profile.

In addition, levels of warning (triggers) are set for global scenarios, on the basis of the historic results of these scenarios and of the capital associated with the portfolio in question. In the event of surpassing these levels, those responsible for management of the portfolio are informed so they can take the necessary measures. At the same time, the results of the stress exercises at the global level, as well as the possible breaching of the levels set, are regularly reviewed and communicated to senior management if deemed pertinent.

7.2.2.4. Analysis of positions, sensitivities and results

The positions are used to quantify the net volume of market securities of the transactions in portfolio, grouped by main risk factor, considering the delta value of the futures and options that could exist. All the risk positions can be expressed in the base currency of the unit and in the currency for homogenising information. The changes in positions are controlled every day, in order to detect possible incidents that might occur and correct immediately.

The market risk sensitivity measures are those that estimate the variation (sensitivity) of the market value of an instrument or portfolio to changes in each of the risk factors. The sensitivity of value of an instrument to changes in market factors can be obtained through analytical approximations by partial derivatives or by the complete revaluation of the portfolio.

The daily drawing up of the income statement is an excellent indicator of risks, as it enables the impact of changes in financial variables on portfolios to be identified.

7.2.2.5. Derivative activities and credit management

Also noteworthy is the control of derivative activities and credit management which, because of its atypical nature, is conducted daily with specific measures. First, the sensitivities to price movements of the underlying asset (delta and gamma), volatility (vega) and time (theta) are controlled. Second, measures such as the sensitivity to the spread, jump-to-default, concentrations of positions by level of rating, etc, are reviewed systematically.

As regards the credit risk inherent in the trading portfolios, and in line with the recommendations of the Basel Committee on Banking Supervision and prevailing regulations, an additional metric, the incremental risk charge (IRC), is calculated in order to cover the risk of non-compliance and of migration of rating that is not adequately captured in the VaR, via the variation of the corresponding credit spreads. The products controlled are basically fixed-income bonds, both public and private, derivatives on bonds (forwards, options, etc) and credit derivatives (credit default swaps, asset backed securities, etc). The method for calculating the IRC is based on direct measurements on the tails of the distribution of losses to the appropriate percentile (99.9%), with a time frame of one year. Monte Carlo methodology is used, applying one million simulations.

7.2.2.6. Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA)

Grupo Santander incorporates credit valuation adjustment (CVA) and debt valuation adjustment (DVA) when calculating the results of trading portfolios. The CVA is a valuation adjustment of over-the-counter (OTC) derivatives, as a result of the risk associated with the credit exposure assumed by each counterparty.

The CVA is calculated by taking into account the potential exposure with each counterparty in each future maturity. The CVA for a certain counterparty would be equal to the sum of the CVA for all maturities. It is calculated on the basis of the following inputs:

- Expected exposure: including, for each operation the current market value (MtM) as well as the potential future risk (add-on) to each maturity. Mitigants such as collateral and netting contracts are taken into account, as well as a factor of temporary decay for those derivatives with intermediate payments.

- Severity: the percentage of final loss assumed in case of credit/non-payment of the counterparty.

- Probability of default: for cases where there is no market information (spread curve traded via CDS, etc) general proxies generated on the basis of companies with listed CDS of the same sector and external rating as the counterparty are used.

- Discount factors curve.

The DVA is a valuation adjustment similar to the CVA, but in this case as a result of Grupo Santander's risk that counterparties assume in the OTC derivatives.

7.2.3. System for controlling limits

Setting market risk and liquidity limits is designed as a dynamic process which responds to the Group's risk appetite level (described in section 4.4 of this report). This process is part of the annual limits plan, which is drawn up by the Group's senior management in a way that involves all the Group's institutions.

The market risk limits used in Grupo Santander are established on different metrics and try to cover all activity subject to market risk from many perspectives, applying a conservative criterion. The main ones are:

- VaR limits.

- Limits of equivalent positions and/or nominal.

- Sensitivity limits to interest rates.

- Vega limits.
- Risk limits of delivery by short positions in securities (fixed income and equities).
- Limits aimed at reducing the volume of effective losses or protecting results generated during the period:
  - Loss trigger.
  - Stop loss.
- Credit limits:
  - Limit on the total exposure.
  - Limit to the jump to default by issuer.
  - Others.
- Limits for origination operations.

These general limits are complemented by sub-limits. In this way, the market risk area has a structure of limits sufficiently granular to conduct an effective control of the various types of market risk factors on which an exposure is maintained. Positions are tracked daily, both of each unit as well as globally. An exhaustive control is made of the changes in the portfolios, in order to detect possible incidents for their immediate correction. Meanwhile, the daily drawing up of the income statement by the market risks area is an excellent indicator of risks, as it allows the impact that changes in financial variables have had on portfolios to be identified.

Three categories of limits are established on the basis of its sphere of approval and control: limits of approval and global controls, limits of global approval and local controls and limits of approval and local controls. The limits are requested by the business executive of each country/institution, tending to the particular nature of the business and achieving the budget established, seeking consistency between the limits and the risk/return ratio, and approved by the corresponding risk bodies.

The business units must at all times comply with the limits approved. In the event of a limit being exceeded, the local business executives have to explain, in writing and on the day, the reasons for the excess and the action plan to correct the situation, which in general can consist of reducing the position until it reaches the prevailing limits or set out the strategy that justifies an increase in the limits.

If the business unit fails to respond to the situation of excess within three days, the global business executives will be asked to set out the measures to be taken in order to make the adjustment to the existing limits. If this situation lasts for 10 days as of the first excess, senior risk management will be informed so that a decision can be taken, and the risk takers could be made to reduce the levels of risk assumed.

7.3. Structural balance sheet risks[32]

7.3.1. Main magnitudes and evolution

The market risk profile inherent in Grupo Santander's balance sheet, in relation to the volume of assets and shareholders' funds, as well as the financial margin budgeted, remained at low levels in 2014 and in line with previous years.

7.3.1.1. Structural interest rate risk

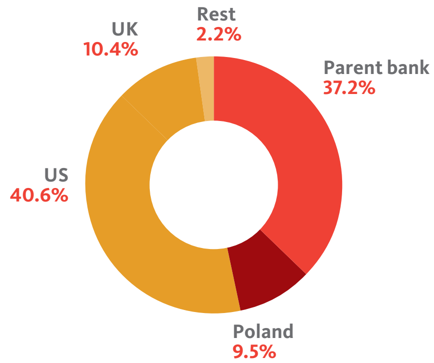
7.3.1.1. Europe and the United States

The main balances in Europe (parent bank and UK) show positive economic value sensitivities to interest rate rises, given the expectations of long-term rates on the basis of economic indicators, while short-term rates maintains a very low net interest margin (NIM) exposure. The US balance sheet has a positive sensitivity to short and well as long-term interest rate rises.

In any case, the level of exposure in all countries is moderate in relation to the annual budget and the amount of equity.

At the end of 2014, the risk of the NIM at one year, measured as its sensitivity to parallel changes of ±100 basis points, was concentrated in the US dollar yield curve with EUR 67 million in risk to interest rate cuts (very low probability scenario in the current environment). Of note also was the risk to interest rate cuts in the Polish zloty curve (EUR 21 million).

NIM sensitivity by countries to 100 b.p.[33]
% of the total



Other: SCF and Portugal.

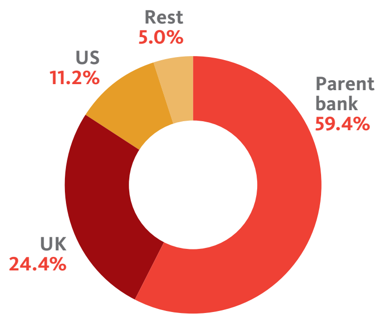
At the same date, the main risk of economic value, measured as its sensitivity to parallel changes in the yield curve of ±100 basis points was in the euro interest rate curve (EUR 2,149 million in risk to interest rate cuts). As regards the dollar and sterling curves, the amounts were EUR 865 million and EUR 343 million, respectively, also in risk to interest rate cuts.

As previously stated, these scenarios a very unlikely.

32. Includes the entire balance sheet except for the trading portfolios.
33. Sensitivity for the worst scenario between +100 and -100 b.p.

MVE sensitivity by countries to 100 b.p.[34]

% of the total



Other: Portugal, SCF and Poland.

The tables below give the structure by maturity of the balance sheet's interest rate risk at the parent bank and Santander UK at the end of 2014.

Santander parent bank: interest rate repricing gap[35]

Million euros. 31 december 2014

	Total	3 months	1 year	3 years	5 years	> 5 years	Not sensitive
Assets	394,976	148,766	70,591	25,194	15,919	19,812	114,693
Liabilities	431,401	166,111	63,114	59,981	30,499	40,457	71,238
Off-balance sheet	36,425	21,971	(1,040)	13,849	2,087	(441)	0
Net gap	**0**	**4,626**	**6,437**	**(20,939)**	**(12,494)**	**(21,086)**	**43,455**

Santander UK: interest rate repricing gap[36]

Million euros. 31 december 2014

	Total	3 months	1 year	1-3 years	3-5 years	> 5 years	Not sensitive
Assets	324,674	193,356	30,189	49,580	23,806	7,192	20,551
Liabilities	324,342	210,648	25,153	26,559	11,494	14,779	35,710
Off-balance sheet	(332)	10,815	3,246	(512)	(7,603)	(6,280)	1
Net gap	**0**	**(6,477)**	**8,282**	**22,509**	**4,710**	**(13,867)**	**(15,158)**

In general, the gaps by maturities remained at very low levels in relation to the size of the balance sheet, in order to minimise the interest rate risk.

7.3.1.1.2. Latin America

The long-term balances are positioned to interest rate cuts due to the slower economic growth. The situation in the short term is very similar, except in the case of Mexico, as it invests in the short term its liquidity excess in local currency.

A moderate level of exposure was maintained during 2014 in all countries in relation to the annual budget and the amount of equity.

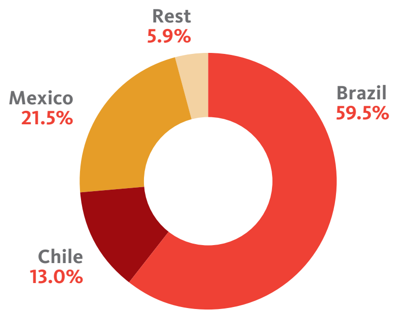
34. Sensitivity for the worst scenario between +100 and -100 b.p.

35. Aggregate gap of all foreign currencies in the balance sheet of Santander parent bank, expressed in euros.

36. Aggregate gap of all foreign currencies in the balance sheet of Santander UK, expressed in euros.

At the end of 2014, the financial margin risk measured in sensitivity to ±100 b.p., was concentrated in three countries, Brazil (EUR 152 million), Mexico (EUR 55 million) and Chile (EUR 33 million), as shown in the chart below:

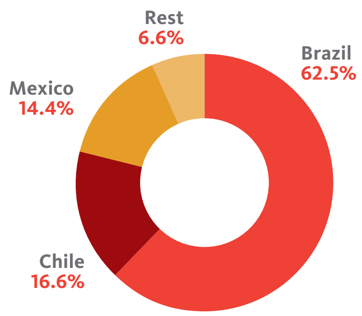
NIM sensitivity by countries to 100 b.p.[37]
% of the total



Other: Argentina, Panama, Peru, Puerto Rico, Santander Overseas and Uruguay.

Equity value risk, measured by its sensitivity to parallel changes of +/- 100 b.p., is also concentrated in Brazil (EUR 572 million), Chile (EUR 152 million) and Mexico (EUR 132 million).

MVE sensitivity by countries to 100 b.p[38]
% of the total



Other countries: Argentina, Panama, Peru, Puerto Rico, Santander Overseas and Uruguay.

The gap tables show the structure by maturity of risk of the balance sheet in Brazil in December 2014.

Brazil: interest rate frepricing gap[39]
Million euros. 31 december 2014

	Total	3 months	1 year	3 years	5 years	> 5 years	Not sensitive
Assets	191,635	79,913	30,171	27,540	9,676	14,086	30,250
Liabilities	191,635	119,076	10,640	12,014	7,288	6,603	36,015
Off-balance sheet	0	(14,156)	12,975	(973)	1,517	637	1
Net neto	**0**	**(53,319)**	**32,505**	**14,553**	**3,905**	**8,120**	**(5,764)**

7.3.1.1.3. balance sheet structural interest rate risk (var)
As well as sensitivity to interest rate movements (not just movements of +/-100 b.p, but also those of +/- 25, +/- 50, +/-75, in order to better characterise the risk in countries with very low interest rates), Santander uses other methods to monitor the structural interest rate risk of the balance sheet including analysis of scenarios and calculation of the VaR, using methodology similar to that used for the trading portfolios.

37. Sensitivity for the worst scenario between +100 and -100 b.p..
38. Sensitivity for the worst scenario between +100 and -100 b.p.
39. Aggregate gap of all currencies in the balance sheet of the Brazil unit, expressed in euros.

The table below shows the average, minimum, maximum and year-end values of the VaR of structural interest rate risk over the last three years.

Balance sheet structural interest rate risk (var)

Million euros. VaR at 99% with a time frame of one day

	2014			
	Minimum	**Average**	**Maximum**	**Year-end**
Structural interest rate risk (VaR)*	**411.3**	**539.0**	**698.0**	**493.6**
Diversification impact	(109.2)	(160.4)	(236.2)	(148.7)
Europe and US	412.9	523.0	704.9	412.9
Latin America	107.6	176.4	229.4	229.4

* Includes VaR by credit spread in the ALCO portfolios.

	2013			
	Minimum	**Average**	**Maximum**	**Year-end**
Structural interest rate risk (VaR)*	**580.6**	**782.5**	**931.0**	**681.0**
Diversification impact	(142.3)	(164.7)	(182.0)	(150.3)
Europe and US	607.7	792.5	922.0	670.0
Latin America	115.2	154.6	191.0	161.3

* Incluye VaR por *spread* crediticio en las carteras ALCO.

	2012			
	Minimum	**Average**	**Maximum**	**Year-end**
Structural interest rate risk (VaR)*	**361.7**	**446.4**	**525.7**	**517.5**
Diversification impact	(78.1)	(124.4)	(168.1)	(144.9)
Europe and US	334.4	451.4	560.8	552.0
Latin America	105.5	119.5	133.0	110.3

* Incluye VaR por *spread* crediticio en las carteras ALCO.

The structural interest rate risk, measured in VaR terms at one day and at 99%, was an average of EUR 539 million in 2014. The contribution to it of the balances of Europe and the US was significantly higher than that of Latin America. Of note was the high diversification between both areas and the decline in VaR in Europe and US, due to the narrowing of bond spreads, particularly in Spain and Portugal.

7.3.1.2. Structural exchange-rate risk/hedging of results

Structural exchange rate risk arises from Group operations in currencies, mainly related to permanent financial investments, and the results and the hedging of these investments.

This management is dynamic and seeks to limit the impact on the core capital ratio of movements in exchange rates.

At the end of 2014, the largest exposures of permanent investments (with their potential impact on equity) were in Brazilian reales, followed by sterling, US dollars, Mexican pesos, Chilean pesos and Polish zlotys. The Group covers part of these positions of a permanent nature with exchange-rate derivatives.

In addition, financial management at the consolidated level is responsible for exchange-rate management of the Group's expected results and dividends in those units whose currency is not the euro.

7.3.1.3. Structural equity risk

Santander maintains equity positions in its banking book in addition to those of the trading portfolio. These positions are maintained as portfolios available for sale (capital instruments) or as equity stakes, depending on their envisaged time in the portfolio.

The equity portfolio of the banking book at the end of 2014 was diversified in securities in various countries, mainly Spain, Brazil, US, Netherlands and China. Most of the portfolio is invested in the financial and insurance sectors; other sectors, to a lesser extent, are professional, scientific and technical activities, public administrations (stake in Sareb), energy supply and the hotel and restaurant trade.

The structural equity positions are exposed to market risk. VaR calculations are made for these positions, using market price series for listed shares and proxies for those that do not. At the end of 2014, the VaR at 99% with a one day time frame was EUR 208.5 million (EUR 235.3 million and EUR 281.4 million at the end of 2013 and 2012, respectively).

7.3.1.4. Structural VaR

In short, with a homogeneous metric such as the VaR, the total market risk of the balance sheet can be monitored excluding the trading activity of global wholesale banking (the VaR evolution of this activity is reflected in section 6.2.1.1., distinguishing between fixed income (both interest rate as well the credit spread for the ALCO portfolios), exchange rates and equities.

In general, the structural VaR is not high in terms of the Group's volume of assets or equity.

VaR of the balance sheet excluding trading activity

Million euros. VaR at 99% with a time frame of one day

	2014				2013		2012	
	Minimum	Average	Maximum	Year-end	Average	Year-end	Average	Year-end
Non-trading VaR	**597.3**	**718.6**	**814.2**	**809.8**	**857.6**	**733.9**	**593.1**	**659.0**
Diversification effect	(241.5)	(364.1)	(693.5)	(426.1)	(448.3)	(380.2)	(390.7)	(347.1)
Interest rate VaR*	411.3	539.0	698.0	493.6	782.5	681.0	446.4	517.5
Exchange rate VaR	256.9	315.3	533.8	533.8	254.5	197.8	237.0	207.3
Equity VaR	170.6	228.4	275.8	208.5	269.0	235.3	300.4	281.4

* Includes VaR by credit spread in the ALCO portfolios.

7.3.2. Methodologies

7.3.2.1. Structural interest rate risk

The Group analyses the sensitivity of net interest margin and of equity value to changes in interest rates. This sensitivity arises from gaps in maturity dates and the review of interest rates in the different asset and liability items.

On the basis of the positioning of balance sheet interest rates, as well as the situation and outlook for the market, the financial measures are agreed to adjust the positioning to that desired by the bank. These measures range from taking positions in markets to defining the interest rate features of commercial products.

The metrics used by the Group to control interest rate risk in these activities are the interest rate gap, the sensitivity of net interest margin and of equity value to changes in interest rate levels, the duration of equity and Value at Risk (VaR), for the purposes of calculating economic capital.

7.3.2.1.1. 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. It provides a basic representation of the balance sheet structure and allows for the detection of interest rate risk by concentration of risk in maturities. It is also a useful tool for estimating the impact of eventual interest rate movements on net interest margin or the Bank's equity value.

All on- and off-balance sheet items must be disaggregated by their flows and looked at in terms of repricing/maturity. In the case of those items that do not have a contractual maturity, an internal model of analysis is used and estimates made of the duration and sensitivity of them.

7.3.2.1.2. Net interest margin sensitivity (NIM)

The sensitivity of net interest margin measures the change in the short/medium term in the accruals expected over a particular period (12 months), in response to a shift in the yield curve.

It is calculated by simulating the net interest margin, both for a scenario of a shift in the yield curve as well as for the current situation. The sensitivity is the difference between the two margins calculated.

7.3.2.1.3. Market value of equity sensitivity (MVE)

The sensitivity of equity value is an additional measure to the sensitivity of the net interest margin.

It measures the interest risk implicit in net worth (equity) on the basis of the impact of a change in interest rates on the current values of financial assets and liabilities.

7.3.2.1.4. Treatment of liabilities without defined maturity

In the corporate model, the total volume of the balances of accounts without maturity is divided between stable and unstable balances. This separation between the stable and unstable balances is obtained from a model that is based on the relation between balances and their own moving averages.

From this simplified model the monthly cash flows are obtained and used to calculate the NIM and MVE sensitivities.

The model requires a variety of inputs:

- Parameters inherent in the product.
- Performance parameters of the client (in this case analysis of historic data is combined with the expert business view).
- Market data.
- Historic data of the portfolio.

7.3.2.1.5. Pre-payment treatment for certain assets

The pre-payment issue mainly affects fixed-rate mortgages in units where the relevant interest rate curves for the balance sheet (specifically for the portfolio of investment in fixed rate mortgages) are at low levels. In these units the risk is modelised and some changes can also be made to assets without defined maturity (credit card businesses and similar).

The usual techniques used to value options cannot be applied directly because of the complexity of the factors that determine the pre-payment of borrowers. As a result, the models for assessing options must be combined with empirical statistical models that seek to capture the pre-payment performance. Some of the factors conditioning this performance are:

- Interest rate: the differential between the fixed rate of the mortgage and the market rate at which it could be refinanced, net of cancellation and opening costs.
- Seasoning: pre-payment trend downward at the start of the instrument's life cycle (signing of the contract) and upward and stabilising as time passes.

- Seasonality: the amortisations or early cancellations tend to take place at specific dates.

- Burnout: decreasing trend in the speed of pre-payment as the instrument's maturity approaches, which includes:

a) Age: defines low rates of pre-payment .

b) Cash pooling: defines as more stable those loans that have already overcome various waves of interest rate falls. In other words, when a portfolio of loans has passed one or more cycles of downward rates and thus high levels of pre-payment, the "surviving" loans have a significantly lower pre-payment probability.

c) Others: geographic mobility, demographic, social, available income factors, etc.

The series of econometric relations that seek to capture the impact of all these factors is the probability of pre-payment of a loan or pool of loans and is denominated the pre-payment model.

7.3.2.1.6. Value at Risk (VaR)

The Value at Risk for balance sheet activity and investment portfolios is calculated with the same standard as for trading: maximum expected loss under historic simulation with a confidence level of 99% and a time frame of one day. As for the trading portfolios, a time frame of two years, or 520 daily figures, is used, obtained from the reference date of the VaR calculation back in time.

7.3.2.2. Structural exchange rate risk/hedging of results

These activities are monitored via position measurements, VaR and results, on a daily basis.

7.3.2.3. Structural equity risk

These activities are monitored via position measurements, VaR and results, on a monthly basis.

7.3.3. System of control of limits

As already stated for the market risk of trading, under the framework of the annual limits plan limits are set for balance sheet structural risks, responding to Grupo Santander's risk appetite level.

The main ones are:

- Balance sheet structural interest rate risk:
  - Limit on the sensitivity of the net interest margin to 1 year.
  - Limit of the sensitivity of equity value.
- Structural exchange rate risk:
  - Net position in each currency (for hedging positions of results).

In the event of exceeding one of these limits or their sub limits, the relevant risk management executives must explain the reasons why and facilitate the measures to correct it.

7.4. Pension, actuarial and fiduciary risks

7.4.1. Pension risks

When managing the pension fund risks of employees (defined benefit), the Group assumes the financial, market, credit and liquidity risks in which it incurs for the asset and investment of the fund, as well as the actuarial risks derived from the liability, and the responsibilities for pensions to its employees.

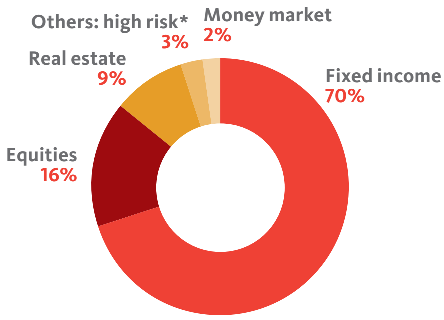
The Group's objective in the sphere of controlling and managing pension risk focuses on identifying, measuring/assessing, monitoring, controlling, mitigating and communicating this risk. The Group's priority is thus to identify and eliminate all the focuses of risk, regardless of whether they have produced losses or not.

This is why the methodology used by Grupo Santander estimates every year the combined losses in assets and liabilities in a defined stress scenario from changes in interest rates and discount rates, inflation, stocks markets and properties, as well as the credit and operational risk.

Main magnitudes

The main magnitudes regarding the pension funds of employees of defined contribution are set out in note 25 of the Group's auditor's report and annual consolidated financial statements, which report the details and movements of provisions for pensions, as well as the main hypotheses used to calculate the actuarial risk and the risk of the fund, including changes in the value of assets and liabilities and details on the investment portfolios assigned to them.

The investor profile of the aggregated portfolio of employees' pension funds is low risk, as around 70% of the total portfolio is invested in fixed-income assets, as set out in the chart below.



* Includes positions in hedge funds, private equity and derivatives.

7.4.2. Actuarial risk

Actuarial risk is produced by biometric changes in the life expectancy of those with life assurance, from the unexpected increase in the indemnity envisaged in non-life insurance and, in any case, from unexpected changes in the performance of insurance takers in the exercise of the options envisaged in contracts.

The following are actuarial risks:

Risk of life liability: the risk of loss in the value of the liabilities of life assurance caused by fluctuations in risk factors that affect these liabilities.

i. Mortality/longevity risk: risk of loss from movements in the value of the liabilities derived from changes in estimating the probability of death/survival of those insured.

ii. Morbidity risk: risk of the loss from movements in the value of the liability derived from changes in estimating the probability of disability/incapacity of those insured.

iii. Rescue/fall risk: the risk of loss from movements in the value of the liability as a result of the early cancellation of the contract, of changes in the exercise of the right of rescue by the insurance holders, as well as options of extraordinary contribution and/or suspending contributions.

iv. Risk of costs: risk of the loss from changes in the value of the liability derived from negative variances in envisaged costs.

v. Catastrophe risk: losses caused by catastrophic events that increase the life liability of the institution.

Risk of non-life liability: risk of loss from the change in the value of the liability of non-life insurance caused by fluctuations in risk factors that affect these liabilities:

i. Premium risk: loss derived from the insufficiency of premiums to meet the disasters that might occur.

ii. Reserve risk: loss derived from the insufficiency of reserves for disasters, already incurred but not settled, including costs from management of these disasters.

iii. Catastrophe risk: losses caused by catastrophic events that increase the non-life liability of the institution.

Main magnitudes

In the case of Grupo Santander, actuarial risk embraces the activity of the Group's fully-owned subsidiaries which are subject not only to a risk of actuarial nature, but also their activity is impacted by the rest of financial, non-financial and transversal risks, defined by the Group.

The volume of assets managed by the companies in Spain and Portugal that belong 100% to Grupo Santander amounted to EUR 25,576 million, of which EUR 23,276 million are directly related to commitments with insurance holders, as follows:

- EUR 14,479 million are commitments guaranteed (wholly or partly) by the companies themselves.
- EUR 8,797 million are commitments where the risks are assumed by the insurance holders:

7.4.3. Fiduciary risk

Fiduciary risk comes from the management and/or administration by clients of products and assets, as well as when acting as trustee for third parties. It is mostly associated with activities related to investment and protection products linked to asset management and insurance activities.

It is the risk incurred when acting as trustee for third parties or managing assets for the benefit of third parties, where mismanagement of assets could result in losses for the client and the fiduciary could be responsible for these losses, with the consequent economic and/or reputational impact.

The fiduciary risk can also be defined as the potential loss that could occur due to significant fluctuations in the value of the portfolios managed by the fiduciary for third parties (settler/beneficiaries) and the image and reputation of the trust.

In this sense, there is a relation between fiduciary risks and the risk of conduct, which is the risk caused by inadequate practices in the Bank's relationship with its clients, the treatment and products offered to the client and their adequacy for each specific client, as well as the compliance and reputational risks.

The main factor of all activities and/or businesses that involve a fiduciary risk is the duty to act in the client's best interest ("Look after the money of clients as if it was your own"). This principle obliges one to always act in the client's interest, in accordance with the mandate, instructions or orders.

This principle is backed by basic pillars for managing fiduciary risk and defending clients' interests.

- **Knowledge of the client:** risk management should be orientated by adequate knowledge, within the organisation, of the reality and needs of clients. This knowledge embraces the adequacy of the product offered to clients in asset management and insurance, ensuring that it fits into the marketing policy in accordance with the client profile.
- **Mandate compliance:** the process of risk management requires analysis and control of the mandates through regular assessment of compliance with them. The risk associated with clients' positions will be cared for by applying the same general principles as those applied in the analysis and control of the Group's own risks.
- **Transparency:** all the relevant information on management of positions, the risks entailed in them and the evolution and results generated by these positions must be transmitted to the client.
- **Management of conflicts of interest:** potential or actual conflicts of interest can be derived from the interrelation between the activity of management and that of other business units or Group areas. In order to avoid these circumstances the criteria established by the Group will be followed in all cases, safeguarding in all of them the interests of clients, participants, partners or those insured.
- **Monitoring and adapting to regulations:** both of products as well as fund management companies so as to always provide the highest quality service and foresee regulatory risk.

The largest component of fiduciary risk is associated with asset management by third parties: discretional management of vehicles and portfolios by fund management and insurance companies in which the Group has a stake and/or with whom distribution agreements are maintained, as well as activity carried out by the Group's private banking units which provide advisory services and discretional management of client portfolios.

The regulations impose on fund management companies as well as companies that provide investment services the obligation to always safeguard the interests of clients.

This obligation is specified in the management contract or fiduciary mandate, which determines the conditions of how the fiduciary operates and its relation with clients. In order to guarantee compliance with the mandate granted by clients, risk is managed from the different vectors that could affect the portfolios and which are explained later on.

In order for the fiduciary to be able to carry out these services, there must be at the local level a legal structure subject to the requirements of its local supervisor. It is also necessary to have adequate technical and human resources, and conduct the control and monitoring of risks in a risk and compliance unit that is independent of business.

The three fundamental vectors of fiduciary risk control are:

- The financial, market, credit and liquidity risks which are incurred by investing the wealth of clients in financial products and instruments.
- The regulatory risk of complying with the limits established by regulations and the strictly fiduciary risk, complying with the investment mandates, as well the security of the investor circuit.
- The importance of monitoring the final result of the investments both with regard to the fiduciary relations with the client who expects the best result as well as with regard to competitors. Always with the objective of offering a product of the highest possible quality and without losing the Group's risk principles.

Management and control model

Grupo Santander's business and asset management activities were changed during the course of 2014, following the corporate restructuring at Santander Asset Management (SAM), a vehicle that integrates asset management activity and which, under the marketing agreement made, offers a wide range of savings and investment products that cover the various needs of clients and which are distributed by the Group's commercial networks and by external distribution channels.

Asset management activity can vary as regards the assets managed:

- Management of mutual funds and companies, discretional management portfolios and pension funds, currently developed by SAM and by countries' private banking teams and vehicles.
- Private equity management, specialised in managing venture capital vehicles.
- Real estate management, specialised in managing property products.

Grupo Santander markets and manages these assets in accordance with the rules and recommendations of local supervisors, following minimum standards that ensure the best interests of its clients.

The mission and objectives of Grupo Santander's department of fiduciary risks are synthesised in the admission and monitoring of the risks assumed with clients and businesses, participating in the decision-making processes on the admission of new products and the mandates of defined management; and, subsequently, monitoring all the fiduciary risks.

In order to comply with this mission, the fiduciary risk team has the following functions:

- Define the risk profile of the new products/portfolios/mandates and underlying assets, participating in the approval process, as well as approving the companies that manage and administer them.
- Identify, know, control, analyse and monitor the fiduciary risks globally in the business of private banking, asset management and insurance.
- Cooperate in designing and defining the fiduciary risk policies: products, underlying assets and management policies.
- Disseminate, implement, cooperate in applying and overseeing compliance in the local units and in each of the business units of the risk policies, procedures and any other rule applicable in the fiduciary risk sphere.
- Design the control and monitoring policies of fiduciary risk on products, portfolios, mandates and underlying assets, guaranteeing both the vision of control as well as that of management.
- Supervise the result of the control processes conducted, make improvement proposals and recommendations for fiduciary risk.
- Design and implement mitigating measures for the risks detected.

Implementing these functions is structured in the corporate and local spheres in the following way:

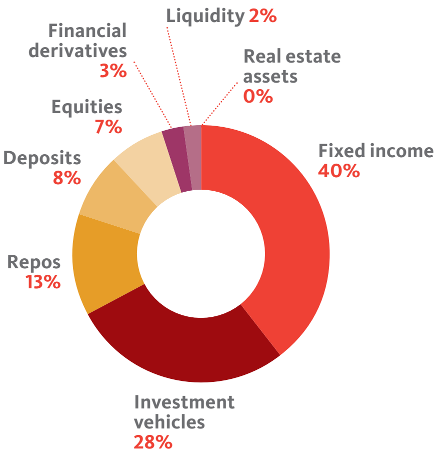
In the corporate sphere, the area of fiduciary risks is in charge of designing and defining the financial risk policies and procedures, compliance and performance at the global level; disseminating and cooperating in their implementation in the local units; supervising the result of the control processes carried out locally and implementing, when necessary, the mitigating measures for the risks detected.

In the local sphere, the areas of local risks must have the structure and necessary means to conduct its activity as hitherto described, as they are in charge of executing the various controls established, assuming the responsibility of reporting the results to the interlocutors at the local level (business, risk supervision, regulators and supervisors, etc), as well as to their interlocutors at the corporate level.

Main metrics

At the end of 2014, Grupo Santander clients had in their portfolios EUR 122,026 million of mutual funds and EUR 19,127 million in pension funds, all managed by Santander Asset Management, the holding company participated by the Group.

The risk profile of the total mutual and pension funds is influenced by the type of assets incorporated in the different products, as shown below.



8. Liquidity risk and funding

8.0. Structure of this section

Following an **introduction** to the liquidity risk and funding concept in Grupo Santander (page 245), we present the **liquidity management framework** set by the Group, including monitoring and control of liquidity risk (pages 246-250).

We then look at the **funding strategy developed by the Group and its subsidiaries** over the last few years (pages 250-253), with particular attention to the **liquidity evolution** in 2014. The evolution of the liquidity management ratios in 2014 and business and market trends that gave rise to it (pages 253-258).

The section ends with a qualitative description of the **prospects** for funding in 2015 for the Group and its main countries (page 258).

8.1. Introduction to the treatment of liquidity risk and funding

- Santander has developed a funding model based on autonomous subsidiaries responsible for covering their own liquidity needs.
- This structure makes it possible for Santander to take advantage of its solid retail banking business model in order to maintain comfortable liquidity positions at Group level and in its main units, even during stress in the markets.
- In the last few years, as a result of the tensions arising from the global economic and financial crisis, it has been necessary to adapt the funding strategies to the new commercial business trends, the markets' conditions and the new regulatory requirements.
- In 2014, and in a better market environment, Santander continued to improve in specific aspects such as a very comfortable liquidity position at Group level and in subsidiaries. All of this enables us to face 2015 from a good starting point, without growth restrictions.

Liquidity management and funding have always been basic elements in Banco Santander's business strategy and a fundamental pillar, together with capital, in supporting its balance sheet strength.

Liquidity has gained importance in managing banks in the last few years because of the tensions in financial markets against the backdrop of a global economic crisis. This scenario has enhanced the importance for banks of having appropriate funding structures and strategies to ensure their intermediation activity.

During this period of stress, Santander has enjoyed an appropriate liquidity position, higher than that of its peers, which has given it a competitive advantage to develop and expand its activity in an increasingly demanding environment.

Today, in a more favourable liquidity environment, the Group continues to benefit from the advantage of financial soundness in the face of the new challenge of optimising in cost terms the demanding liquidity standards required by regulators, while pushing growth in countries which were deleveraging.

This better position for the whole Group has been supported by a decentralised funding model consisting of autonomous subsidiaries self-sufficient in liquidity. Each subsidiary is responsible for covering the liquidity needs of its current and future activity, either through deposits captured from its customers in its area of influence or through recourse to the wholesale markets in which it operates, within a framework of management and supervision coordinated at the Group level.

The funding structure is one that shows its greatest effectiveness in situations of high levels of market stress, as it prevents the difficulties of one area from affecting the funding capacity of other areas and thus of the Group as a whole, as could happen in the case of a centralized funding model.

Moreover, at Grupo Santander this funding structure benefits from the advantages of a solid retail banking model with a significant presence in 10 high potential markets and focused on retail clients and high efficiency. All of this gives our subsidiaries a big capacity to attract stable deposits, as well as a strong issuance capacity in the wholesale markets of these countries, generally in their own currency, and backed by the strength of their franchise and belonging to a leading group.

8.2. Liquidity management framework - monitoring and control of liquidity risk

Management of structural liquidity aims to fund the Group's recurring activity in optimum conditions of maturity and cost, avoiding the assumption of undesired liquidity risks.

Santander's **liquidity management** is based on the following **principles:**

- **Decentralized liquidity model**.
- **Needs derived from medium and long term activity must be financed by medium and long term instruments**.
- **High contribution from customer deposits**, derived from the retail nature of the balance sheet.
- **Diversification of wholesale funding sources** by instruments/ investors, markets/currencies and terms.
- **Limited recourse to wholesale short-term funding**.
- **Availability of sufficient liquidity reserve**, which includes the discount capacity in central banks to be used in adverse situations.
- **Compliance with regulatory requirements** of liquidity required at Group level and subsidiaries, as a new **management conditionality**.

The effective application of these principles by all the institutions that comprise the Group required development of a unique **management framework** built around three essential pillars:

- A solid organizational and governance model that ensures the involvement of the senior management of subsidiaries in decision-taking and its integration into the Group's global strategy.
- Deep balance sheet analysis and measurement of liquidity risk, which supports decision-taking and its control.
- Management adapted in practice to the liquidity needs of each business.

8.2.1. Organisational model and governance

The decision-taking process regarding structural risks, including liquidity risk, is carried out by local asset and liability committees (ALCO) in coordination with the global ALCO.

The global ALCO is the body empowered by Banco Santander's board to coordinate asset and liability management (ALM) throughout the Group, including liquidity and funding management, which is conducted via the local ALCos and in accordance with the ALM corporate framework.

This body is headed by the Bank's executive chairman and comprises an executive vice-chairman (who is, in turn, chairman of the executive risk committee), the chief executive officer, the chief financial officer, the executive vice president for risk and others senior executives responsible for the business and analysis units who provide advice.

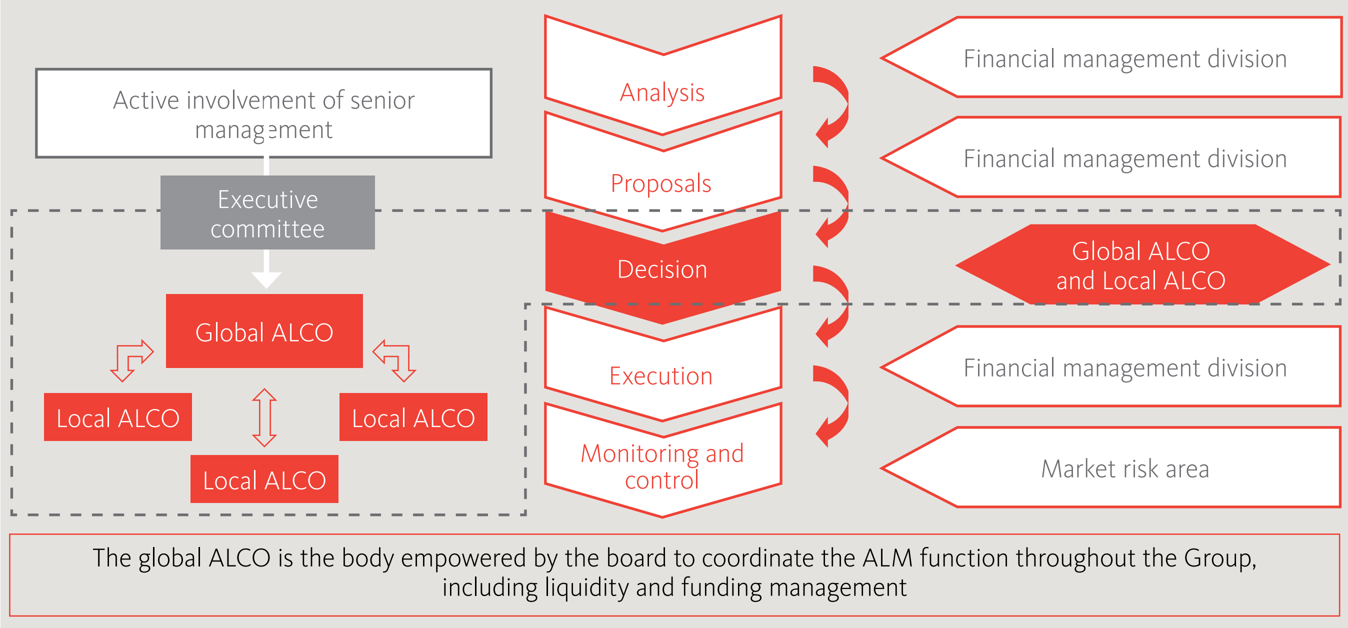
In line with these principles and the ALM corporate framework, the function of liquidity and funding management is backed by:

- The board as the maximum organ responsible for management of the Group.
- The local ALCO committees, which define at each moment the objective positioning of liquidity and the strategies that ensure and/or anticipate the funding needs derived from their business, always within the risk appetite set by the board and the regulatory requirements.
- The global ALCO, which conducts the parent bank's ALM management, as well as coordinating and monitoring the function in the Group's other units.
- The Financial Management area, which manages on a day to day basis, conducting analysis, proposing strategies and carrying out the measures adopted within the positioning defined by the ALCOs.
- The Market Risk area, responsible for monitoring and permanently controlling compliance with the limits established. This independent control function is completed a posteriori by regular reviews conducted by Internal audit.
- All of this supported by an area of independent operations that guarantees the integrity and quality of the information used for managing and controlling liquidity.

This clear division of functions traditionally established in the Group, between executing liquidity management (the responsibility of the Financial Management area) and monitoring and control (the responsibility of the Market Risk area), has put Santander among the function's best governance practices.

Grupo Santander governance: liquidity risk and funding

Structure of decision-taking and functions



This governance model has been strengthened in the last few years by being integrated within a more global view of the Group's risks (Santander's risk appetite framework), which responds to the demand of regulators and market players emanating from the financial crisis to strengthen banks' risk management and control systems.

The liquidity risk profile and appetite aims to reflect the Group's strategy for developing its businesses, which consists of structuring the balance sheet in the most resistant way possible to potential liquidity tension scenarios. Liquidity appetite metrics have been articulated which reflect the application at the individual level of the principles of the Group's liquidity management model, with specific levels for the ratio of structural funding and minimum liquidity horizons under various tension scenarios, as indicated in the following sections.

Over the next few years, the metrics used in the liquidity risk appetite framework will be increased with the incorporation of those monitored and controlled by the financial management area at Group level and of the main units, be they regulatory metrics or another type.

8.2.2. Balance sheet analysis and measurement of liquidity risk

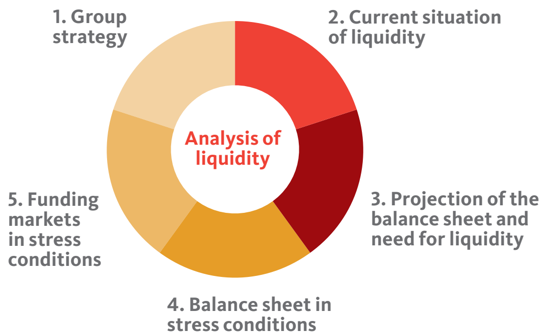
Decision-making on funding and liquidity is based on a deep understanding of the Group's current situation (environment, strategy, balance sheet and state of liquidity), of the future liquidity needs of the various units and businesses (projection of liquidity), as well as access to and the situation of funding sources in the wholesale markets.

The objective is to ensure the Group maintains optimum levels of liquidity to cover its short and long-term needs with stable funding sources, optimising the impact of its cost on the income statement.

This requires monitoring of the structure of balance sheets, forecasting short and medium-term liquidity and establishing the basic metrics.

At the same time, various analyses of scenarios are conducted which take into account the additional needs that could arise from various extreme, unlikely but possible, events. These could affect the various items of the balance sheet and/funding sources differently (degree of renewal of wholesale funding, deposit outflows, deterioration in the value of liquid assets, etc), whether for global market reasons or specific ones of the Group.

Analysis of the balance sheet and measurement of liquidity risk



The inputs for drawing up the Group's various contingency plans are obtained from the results of the analysis of balance sheets, forecasts and scenarios, which, in turn, enable a whole spectrum of potential adverse circumstances to be anticipated.

All these actions are in line with the practices being fostered by the Basel Committee and the various regulators in the European Union and the European Banking Authority to strengthen the liquidity of banks. Their objective is to define a framework of principles and metrics that, in some cases, are close to being implemented and, in others, still being developed.

Greater detail on the measures, metrics and analysis used by the Group and its subsidiaries to manage and control liquidity risk is set out below:

Methodology for monitoring and controlling liquidity risk
The Group's liquidity risk metrics aim to:

- **Achieve greater efficiency** in measuring and controlling liquidity risk.
- **Support financial management**, with measures adapted to the form of managing the Group's liquidity.
- **Alignment with the regulatory requirements** derived from the transposition of Basel III in the European Union (basically CRDIV in EU and others), in order to avoid conflicts between limits and facilitate management.
- **Serve as an early warning system**, anticipating potential risk situations by monitoring certain indicators.
- **Attain the involvement of countries**. The metrics are developed on the basis of common and homogeneous concepts that affect liquidity, but they require analysis and adaptation by each unit.

There are two types of basic metrics used to control liquidity risk: short term and structural. The first category basically includes the liquidity gap and the second one the balance sheet's net structural position. As an additional element, the Group develops various stress scenarios. These three metrics are as follows:

a) Liquidity gap
The liquidity gap provides information on the potential cash inflows and outflows for a certain period of time, both contractual and estimated. They are drawn up for each of the currencies in which the Group operates.

The gap provides information on the sources and uses of funds expected in specific time periods, in relation to the total on- and off-balance sheet items. This analysis tool is obtained from the net of the structure of maturities and flows for each period established. The liquidity available is contrasted with the needs arising from maturities.

In practice, and given the different performances of a same item in the Group's subsidiaries, there are common standards and methodologies to homogenize the building of liquidity risk profiles for each unit, so they can be presented in a comparable way to the Bank's senior management.

As a result, and given that this analysis must be conducted at the individual level of each subsidiary for its autonomous management, a consolidated view of the liquidity gaps is of very limited use for managing and understanding liquidity risk.

Of note in the various analysis made using the liquidity gap is that for **wholesale funding**. On the basis of this analysis a **metric** has been defined whose objective is to guarantee that sufficient liquid assets are maintained in order to attain a minimum **liquidity horizon**, under the assumption of not renewing wholesale funding at maturity.

The minimum liquidity horizons are determined in a corporate and homogeneous way for all units/countries, which must calculate their wholesale liquidity metric in the main currencies in which they operate.

Bearing in mind the market tensions in the last few years of global crisis, this wholesale liquidity gap is closely monitored in the parent bank and in the euro zone units.

At the end of 2014, all units were in a comfortable position in the horizons established for this scenario.

b) Net structural position
The objective of this metric is to determine the reasonability of the funding structure of the balance sheet. The Group's criterion is to ensure that the structural needs (lending, fixed assets, etc) are covered by an adequate combination of wholesale sources and a stable base of retail deposits, to which is added the capital and the rest of permanent liabilities.

Each unit draws up its liquidity balance sheet in accordance with the features of their businesses and compares them with the various funding sources they have. The main factors taken into account when determining this metric are the recurrence of the businesses to be financed, the stability of funding sources and the capacity of assets to become liquid.

In practice, each subsidiary draws up its liquidity balance sheet (different from the accounting one), classifying the various asset and liability items and off-balance sheet ones on the basis of their type for the purposes of liquidity. This determines the funding structure that must be met at all times with a key premise: basic businesses must be financed with stable funds and medium- and long-term funding. All of this guarantees the Bank's sound financial structure and the sustainability of business plans.

At the end of 2014, the Group had a structural liquidity surplus of around EUR 153,000 million (15% of net liabilities as against 16% in 2013). This surplus is almost five times higher than that at the start of the crisis (EUR 33,000 million and 4% of net liabilities in December 2008), thanks to the efforts made during these years.

c) Analysis of scenarios
As an additional element to the metrics, the Group develops various stress scenarios. The main objective is to identify the critical aspects of potential crisis and define the most appropriate management measures to tackle each of these situations.

Generally speaking the units take into account three scenarios in their liquidity analysis: idiosyncratic, local systemic and global systemic. These scenarios represent the minimum standard analysis established for all the Group's units and which are provided to senior management. Each of the units also develops ad hoc scenarios that replicate significant historic crises or specific liquidity risks of their environment.

The main features of the three basic scenarios are:

- An idiosyncratic crisis only affects the Bank but not its environment. This is basically reflected in wholesale funds and in retail deposits, with various percentages of outflows depending on the severity defined.

  Within this category a specific crisis scenario that a local unit could suffer as a result of a crisis in the parent bank (Banco Santander) is studied. This scenario was particularly relevant in 2012 because of strong tensions registered by markets on Spain and the rest of countries on the periphery of the euro zone, a situation amply overcome since then.

- A local systemic crisis is an attack by the international financial markets on the country where the unit is located. Each unit would be affected to varying degrees, depending on its relative position in the local market and the image of soundness it transmits. Among other factors which would be affected in this scenario are, for example, the wholesale funding lines from the closure of markets or the liquid assets linked to the country that would be significantly reduced.

- Global systemic crisis. In this scenario some of the factors mentioned in the scenarios above are stressed. Particular attention is paid to the most sensitive aspects from the standpoint of the unit's liquidity risk.

Defining scenarios and calculating the metrics under each of them are directly linked to the process by the financial management area of drawing up and executing the contingency plan, which is the responsibility of the financial management area.

At the end of 2014, and in a scenario of a potential systemic crisis affecting the wholesale funding of units in Spain (following the previously mentioned 2012 scenario), Grupo Santander maintained an adequate liquidity position. The wholesale liquidity metric horizon in Spain (included within the liquidity gap measures) showed levels higher than the minimums established, during which the liquidity reserve would cover all the maturities of wholesale funding, in the event of not being renewed.

As well as these three metrics a series of internal and market variables was defined as **early warning indicators of possible crises**, which can also state their nature and severity. Their integration into daily liquidity management enables situations that could affect the Group's liquidity risk to be anticipated. Although these alerts vary from country to country and from bank to bank on the basis of specific determinants, some of the parameters used are common in the Group, such as Banco Santander's CDS level, the evolution of deposits from customers and the official interest rate trend of central banks.

8.2.3. Management adapted to business needs

As already pointed out, Grupo Santander's liquidity management is carried out at the level of subsidiaries and/or business units in order to finance their recurring activities in appropriate maturities and prices. The main balance sheet items related to business and funding the Group's largest business units are as follows:

Main units and balance sheet items

Billion euros. December 2014

	Total assets	Net loans *	Deposits**	M/LT funding***
Spain	314.9	157.0	178.7	64.4
Portugal	41.6	23.2	24.0	2.7
SCF	71.5	60.4	30.8	13.3
Poland	27.8	17.0	20.1	0.6
UK	354.2	251.2	202.3	67.4
Brazil	156.3	74.4	68.5	21.5
Mexico	53.7	25.9	28.6	1.7
Chile	42.8	30.6	23.4	6.9
Argentina	9.3	5.5	6.8	0.1
US	96.9	67.2	46.6	24.3
GROUP TOTAL	**1,266.3**	**734.7**	**647.9**	**202.8**

* Customer loans excluding loan-loss provisions.

** Including retail commercial paper in Spain.

*** M/LT issues in markets, securitisations and other collateralised funding in the market and funds taken from FHLB lines. All in their nominal value.

In practice, and in line with the financing principles set out, liquidity management in these units consists of:

- Drawing up every year a liquidity plan based on the funding needs derived from the budgets of each business and the methodology already described. On the basis of these liquidity needs and taking into account prudent limits of recourse to short-term markets, the Financial Management area establishes an issuance and securitisation plan for the year for each subsidiary/global business.

- Monitor during the year the evolution of the balance sheet and of the funding needs of the subsidiaries/businesses, which gives rise to updating the plan.

- Monitor and manage compliance with the regulatory ratios by units, as well as oversee the level of asset encumbrance in each unit's funding, from both the structural standpoint as well as its component with the shortest maturity.

- Maintain an active presence in a large number of wholesale funding markets that enables an appropriate structure of issues to be sustained, diversified by products and with an average conservative maturity.

The effectiveness of this management at Group level is based on implementation in all subsidiaries. Each subsidiary budgets the liquidity needs based on their activity of intermediation and assesses its capacity of recourse to wholesale markets in order to establish an issuance and securitisation plan, in coordination with the Group.

Traditionally, the Group's main subsidiaries have been self-sufficient as regards their structural financing. The exception is Santander Consumer Finance (SCF) which needs the support of other Group units, particularly that of the parent bank, given its nature as a consumer finance specialist operating mainly via dealers.

This support, always at the market price on the basis of the maturity and internal rating of the borrowing unit, has been on a sustained downward trend on a like-for-like basis (from EUR 15,000 million in 2009 to less than EUR 3,000 million in 2014 including hybrid positions in capital). This has made it necessary for SCF to develop internal structures for capturing retail and wholesale funds and opening new securitisation markets. This constitutes a good example of the subsidiaries managing and developing autonomous sources of liquidity.

The incorporation of new portfolios and business units in 2015 (GE Money in Nordic countries; joint ventures with Banque PSA in 11 European countries), will require in the short term greater financial support from the rest of the Group's units. In the medium term, the greater wholesale funding capacity of SCF and access to European Central Bank long-term funding (TLTROs) will enable the unit to return to the path of reduction set in the last few years.

8.3. Funding strategy and evolution of liquidity in 2014

8.3.1. Funding strategy

Santander's activity over the last few years has achieved its objective of adequately funding the Group's recurring activity in a more demanding environment. Its peak, during the global economic and financial crisis, required managing sharp rises in risk that led to scant levels of liquidity in certain maturities and at very high costs. These market conditions relaxed significantly during 2013 and, particularly, in 2014 following the interventions by the main central banks.

Santander's good performance was supported by extending the management model to all the Group's subsidiaries, including the new incorporations, and, above all, adapting the subsidiaries' strategy to the increasing requirements of both the markets as well as regulators. These requirements have not been the same for all markets and reached much higher levels of difficulty and pressure in some areas, such as on the periphery of Europe.

It is possible, however, to extract a series of **general trends** implemented by Santander's subsidiaries in their funding and liquidity management strategies since **the beginning of the crisis**. They are the following:

- **Strong liquidity generation from commercial business due to lower growth in lending and greater emphasis on capturing funds from customers.**
  The evolution in the last few years of the Group's lending is the result of combining sharp falls in the units in Spain and Portugal, due to the strong deleveraging of these economies, with growth in other countries, either through the expansion of units and businesses under development (United States, Germany, Poland, UK companies), or through sustained growth in emerging countries (Latin America). Overall, the Group's net lending increased by EUR 108,000 million since December 2008 (+17%).

  At the same time, the focus on liquidity during the crisis together with the Group's capacity to attract retail deposits via branches, made possible a rise in customer deposits of EUR 227,000 million, 54% higher than the December 2008 balance, and more than double the rise in net lending balances during this period.

  All the commercial units boosted their deposits, both the units in countries undergoing deleveraging as well as those in growth areas where they matched their evolution to that of loans.

  This liquidity generation was particularly intense in Spain (close to EUR 100,000 million since December 2008). This was as a result of the reflection in the credit volumes of private sector indebtedness during the crisis and the strong capturing of deposits in an environment of savers seeking security. The combination resulted in turning a surplus of loans over deposits in 2008 into the current surplus of deposits.

  These trends on loans and deposits changed in 2014 at Group level. Lower deleveraging and recovery of new lending in the countries most affected by the crisis, on the one hand and, on the other, the focus on reducing the cost of funds in mature markets with interest rates at historic lows explain why the spread between the balances of credits and of deposits has stopped falling and even increased moderately during the year.

- **Maintaining adequate and stable levels of medium and long term wholesale funding at the Group level.** This funding represented 21% of the balance of liquidity at the end of 2014, similar to that of the last two years (21% average in 2010-2013), but well below the 28% at the end of 2008, when wholesale liquidity, more abundant and of lower cost, had still not suffered the tensions of the crisis.

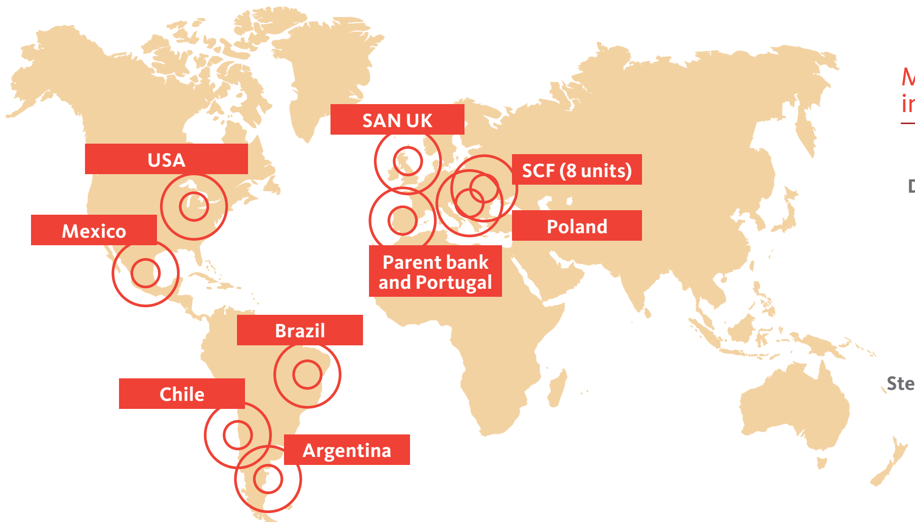
  Following the tightening of conditions in wholesale markets, the Group's decentralised model of subsidiaries, with its own programmes of issues and ratings, helped to maintain Santander's strong participation in developed wholesale markets even in periods of maximum requirements such as 2011-2012.

  Of note in this period was the United Kingdom's issuance capacity, the re-launch of the activity of large Latin American countries and the incorporation of new units to the pool of the Group's important issues, both in the United States (issues from its holding and securitisations of the specialised consumer unit) as well as in Europe. In this continent, Santander Consumer Finance extended its activity of issues and securitisations to new markets such as the Nordic countries, converting its units into pioneers of auto finance securitisation and laying the foundations to advance in their self-funding.

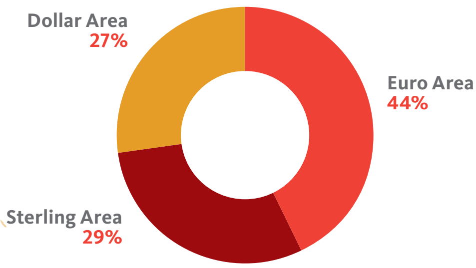
  In general, this wholesale activity has been modulated in each unit on the basis of the requirements of regulation, the generation of internal funds of business and decisions to ensure sufficient liquidity reserves, A good example is Spain where, despite the strong generation of liquidity from the aforementioned business and the capacity of recourse to the European Central Bank, the Group has implemented a conservative issuance policy. Over the last four years, with two years of maximum tension and two of softening, Santander has issued close to EUR 50,000 million of medium and long term debt, backed by the strength of the brand and Santander's credit quality.

Comfortable access to wholesale markets through autonomous subsidiaries, with own issuance programmes and ratings

Main issuing units



M/L Term funding captured in the market in 2014*



*Including issues, securitisations and structured financing.

- **Ensure a sufficient volume of assets that can be discounted in central banks** as part of the liquidity reserve (as defined on page 256 of this section) to cater for stress situations in wholesale markets.

  The Group has significantly increased its total discounting capacity in the last few years from EUR 85,000 million at the end of 2008 to close to EUR 170,000 million. This volume at the end of 2014 almost doubled the commercial gap (i.e. the difference between net loans and deposits), following the reduction in the gap due to the aforementioned business dynamics.

  The growth in the volume that can be discounted is due to a strategy coordinated at the Group level during the crisis and conducted by subsidiaries to generate assets that can be discounted and which offset the reduction in the value of guarantees, as a result of the downgrading of ratings, particularly of sovereign debt and related assets. A large part of this total discounting capacity is concentrated in units in the euro zone following the extraordinary measures implemented by the European Central Bank (ECB) in 2011 and 2012 (basically, increased collateral and three-year liquidity auctions) to ensure the area's liquidity buffer.

  During 2012, and faced with the tensions in the euro markets, Santander pursued a prudent strategy of depositing in the central banks of the Eurosystem most of the funds raised in the three-year auctions, as an immediate liquidity reserve, while maintaining a very limited global net borrowing position. The reduction in tensions enabled the Group in 2013 to return to the ECB all the funds borrowed from Spain in the three-year auctions. Net recourse at the end of the year was at a five-year low, mainly concentrated in Portugal.

  In the fourth quarter of 2014, and within the ECB's strategy of promoting credit and contributing to a sustained recovery in the euro zone, the Group's units in the area (parent bank, Portugal and SCF) took part in the auctions of TLTROs, taking the maximum volume of funds available (EUR 8,200 million, overall). These funds and those to be obtained in successive quarterly auctions during 2015 and 2016 will facilitate the financing of household consumption and lending to business activities.

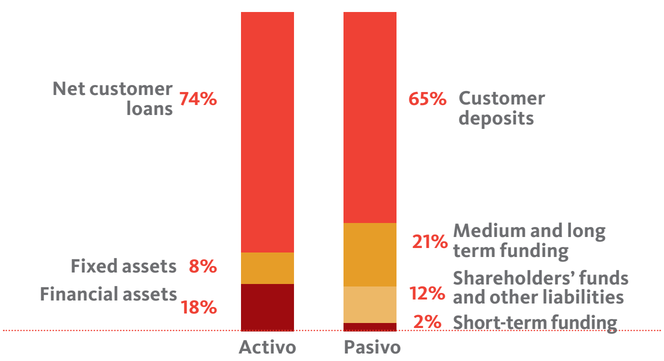
All these development of businesses and markets, made on the foundations of a solid liquidity management model, enabled Santander to enjoy today a very robust **funding structure**. The **basic features** of this structure are:

- **High relative share of customer deposits in an essentially retail banking balance sheet.**
  Customer deposits are the main source of the Group's funding. They represent around two-thirds of the Group's net funding (i.e. of the balance of liquidity) and 88% of net loans at the end of 2014.

  They are also very stable funds given their origin of mainly business with retail customers (84% of the Group's deposits come from retail and private banks and the remaining 16% from large corporate and institutional clients).

Grupo Santander liquidity balance sheet*

% 2014 year-end



* Balance sheet for the purposes of liquidity management: total balance sheet net of trading derivatives and interbank balances.

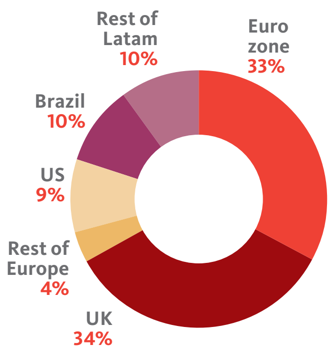
- **Diversified wholesale funding focused on the medium and long term and with a very small relative share of short term.** Medium and long term wholesale funding accounts for 21% of the Group's net funding and comfortably covers the rest of lending not financed by customer deposits (commercial gap).

  This funding is well balanced by instruments (approximately 1/3 senior debt, 1/3 securitisations and structured with guarantees, 1/4 covered bonds and the rest preferred shares and subordinated debt) and also by markets so that those with the highest weight in issues are those where investor activity is the stronger.

The charts showing the geographic distribution of customer loans and of medium and long term funding are set out below so that their similarity can be appreciated.

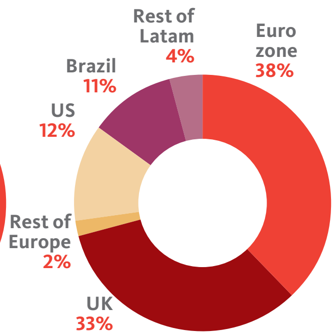
Net customer loans

December 2014



M/LT wholesale funding

December 2014



The bulk of medium and long term wholesale funding consists of debt issues. Their outstanding balance at the end of 2014 was EUR 140,000 million nominal, with an adequate profile of maturities (average maturity of 3.5 years).

Its recent evolution reflects, on the one hand, the impact of the euro's depreciation against the main currencies and, on the other, the greater recourse to markets in 2014 with the capturing of funds higher than the year's maturities and amortisations. The distribution by instruments, the evolution over the last three years and their maturity profile was as follows.

Medium and long term debt issues, Grupo Santander

Million euros

	Evolution of outstanding balances in nominal value		
	December 2014	December 2013	December 2012
Preferred shares	7,340	4,376	4,765
Subordinated debt	8,360	10,030	11,004
Senior debt	68,457	60,195	69,916
Covered bonds	56,189	58,188	67,468
Total*	**140,346**	**132,789**	**153,152**

Distribution by maturity. December 2014*

	0-1 month	1-3 months	3-6 months	6-9 months	9-12 months	12-24 months	2-5 years	Over 5 years	Total
Preferred shares	0	0	0	0	0	0	0	7,340	7,340
Subordinated debt	0	0	0	0	152	1,682	3,352	3,173	8,360
Senior debt	1,470	4,066	7,092	2,931	6,313	16,808	21,386	8,392	68,457
Covered bonds	2,842	5,549	2,250	894	2,389	9,303	15,478	17,484	56,189
Total*	**4,312**	**9,615**	**9,342**	**3,825**	**8,854**	**27,793**	**40,216**	**36,388**	**140,346**

* In the case of issues with put option in favour of the holder, the maturity of the put option will be considered instead of the contractual maturity.

Note: the entire senior debt issued by the Group's subsidiaries does not have additional guarantees.

As well as debt issues, the medium and long term wholesale funding is completed by lines from the Federal Home Loan Banks in the US (around EUR 8,000 million) and by funds obtained from securitisation activities. The latter includes securitisation bonds placed in the market, collateralised financing and other special ones for a total amount of close to EUR 55,000 million and an average maturity of more than two years.

The wholesale funding of short-term issuance programmes is a marginal part of the structure as it accounts for less than 2% of net funding, which is related to treasury activities and is well covered by liquid financial assets.

The outstanding balance at the end of 2014 was EUR 21,400 million, mainly captured by the UK unit and the parent bank through existing issuance programmes: various programmes of CDs and commercial paper of the UK (49%); European commercial paper and US commercial paper and domestic programmes of the parent bank (22%), and from other units (29%).

In short, Santander enjoys a very solid and robust financing structure based on an essentially retail banking balance sheet that enables the Grupo Santander to cover comfortably its structural liquidity needs (loans and fixed assets) with permanent structural funds (deposits, medium and long term funding and equity), which generates a large surplus of structural liquidity.

8.3.2. Evolution of liquidity in 2014

The key aspects of liquidity in 2014 were:

- **Comfortable liquidity ratios**, backed by a balanced commercial activity at constant perimeter and a greater capturing of medium and long term wholesale funds (+44% more than 2013), which absorb credit growth.
- **Compliance ahead of schedule with regulatory ratios**: at the end of 2014, LCR levels of more than 100%, both at the level of the Group and its subsidiaries, compared to a minimum requirement of 60% as of October 2015.
- **High liquidity reserve**, stronger than 2013 in quantity (EUR 227,000 million) and quality (45% of the total are high quality liquid assets).
- **Reduced weight of encumbered assets** in structural medium and long term funding operations, around 13% of the Group's extended balance sheet (European Banking Authority criteria, EBA) at the end of 2014.

From the funding standpoint, 2014 saw a further improvement in markets compared to previous years. The advances mainly occurred in the first half of the year when, in an environment of recovery, particularly in mature economies, the global perception of risk decreased notably, stock market indices rose and the risk premiums of public and private debt fell substantially. This produced an even more fluid access to markets, both for banks as well as large companies, and a lower competitive pressure for retail deposits.

This performance, mainly due to central banks' very accommodating monetary policies with ample liquidity and interest rates at historic lows (even negative in the euro zone for the European Central Bank's deposit facility), led to the consequent search for profitability. Another important determinant was the progress made in European banking union and the idea that the most extreme risks were over.

In the second half of the year, there was a correction and a greater differentiation of risk according to the nature of assets and each economy's prospects, all conditioned by the downgrading of global growth forecasts, the end of the asset buying programme in the United States and the sharp fall in commodity prices (particularly, oil). The markets continued to offer high maturities and good spreads to the best risks.

In this context Santander maintained its **comfortable liquidity position in 2014**, reflected in four **basic aspects:**

i. Basic liquidity ratios at comfortable levels

The table shows the evolution in the last few years of the basic metrics for monitoring liquidity at the Group level:

Grupo Santander monitoring metrics

	2008	2012	2013	2014
Net loans/net assets*	79%	75%	74%	74%
Net loan-to-deposit ratio (LTD ratio)	150%	113%	112%	113%
Customer deposits and medium and long term funding/net loans	104%	117%	118%	116%
Short term wholesale funding/ net liabilities*	7%	2%	2%	2%
Structural liquidity surplus (% /net liabilities*)	4%	16%	16%	15%

*Balance sheet for liquidity management purposes.

Note: in 2012 and 2013 customer deposits include retail commercial paper in Spain (excluding short term wholesale funding). The 2012 and 2013 ratios include SCUSA by global integration, the same as in 2014.

At the end of 2014, and compared to 2013, Grupo Santander registered:

- A stable ratio of net loans/net assets (total assets less trading derivatives and interbank balances) at 74%, as a result of the improvement in credit, following the end of deleveraging in mature markets and the increased perimeter. Its high level in comparison with European competitors reflects the retail nature of Grupo Santander's balance sheet.
- Slight rise in the net loan-to-deposit ratio (LTD ratio) to 113% (112% in 2013), which remains at very comfortable levels (below 120%). This evolution shows the recovery of credit in mature markets, both organic as well as inorganic (incorporation of consumer businesses in Europe) and the greater focus on optimising the cost of retail deposits in countries with low interest rates.

- Slight decline in the ratio of customer deposits and medium- and long-term financing/lending, and for similar reasons to the LTD case, given that the rise in the Group's capturing of wholesale funds was also lower than that in lending. The ratio was 116% (118% in 2013), well above the average of the last few years (2008-13: 112%).

- The reduced recourse in the Group to short term wholesale funding was maintained. The ratio was around 2%, in line with previous years.

- Lastly, the Group's structural surplus (i.e., the excess of structural funding resources - deposits, medium- and long-term funding and capital - over structural liquidity needs - fixed assets and loans) continued to rise in 2014 to an average balance of EUR 158,000 million, 8% more than in 2013.

  This structural surplus at the end of 2014 stood at EUR 153,000 million on a consolidated basis and consists of fixed-income assets (EUR 151,000 million), equities (EUR 14,000 million) and net interbank deposits (EUR 9,000 million) in other credit institutions and central banks, partly offset by short-term wholesale funding (EUR 21,000 million). In relative terms, the total volume represented 15.4% of the Group's net liabilities, a similar level to that at the end of 2013.

In short, Grupo Santander had a comfortable liquidity position at the end of 2014, as a result of the evolution in the subsidiaries. Only one of the units, SCF, increased its LTD considerably over 2013, due to integration of businesses. However, its greater effort in issues and securitisations enabled the ratio of customer deposits and medium- and long-term financing/net lending to remain stable.

The rest of units remained stable or improved their liquidity positions. Of note among those that improved the most was Portugal which, together with a deleveraging process in its final phases, took advantage of the flight to quality to capture retail deposits and access markets ahead of its competitors.

The table below sets out the most frequently used liquidity ratios for Santander's main units at the end of 2014:

Liquidity ratios for the main units

%. December 2014

	Net loan-to-deposit ratio	Deposits+M & LT funding/net loans
Spain	88%	155%
Portugal	97%	115%
Santander Consumer Finance	196%	73%
Poland	84%	122%
UK	124%	107%
Brazil	109%	121%
Mexico	90%	117%
Chile	131%	99%
Argentina	81%	125%
US	144%	106%
Total Group	**113%**	**116%**

Note: in Spain, including retail commercial paper in deposits.

Generally speaking, there were **two drivers in 2014 behind the evolution** of the Group's liquidity and that of its subsidiaries:

1. Arise in the commercial gap, after several years of declines, due to the perimeter and reduced deleveraging in mature markets.

2. More intense issuance activity, particularly by the European units, in a more favourable situation of wholesale markets.

As regards the first driver, **the Group increased its gap between net credits and deposits** by EUR 13,500 million. The greater differential was largely due to three large units: UK, US and Santander Consumer Finance.

The first two, liquidity generators in the years before the deleveraging of their economies, registered growth in lending in 2014 in environments of strong recovery. SCF also reflects the consumer recovery in Europe, although it is still weak, and, above all, the incorporations to its business perimeter in Spain and in Nordic countries.

The rest of mature European units, such as Spain and Portugal, still show the impact of deleveraging on lending although at a much slower pace (in Spain it is even increasing if repos are excluded).

Meanwhile, growth in deposits in mature markets continued although at a slower pace, as a result of a greater focus on reducing the cost of deposits, as the main driver for recovering net interest income in environments of interest rates at minimums. This management led to rises in demand deposits and shifts of expensive deposits to mutual funds, strategies favoured by the improvement in markets and reduced competition for retail savings in an environment of high wholesale liquidity.

In Latin American units, the balanced growth of loans and deposits hides slight differences by countries: rises in the commercial gap in Mexico and Chile, well covered by the good starting position and the growing access to markets, compared to liquidity generation in Brazil and Argentina, in lower growth environments.

The second driver is the **greater recourse to medium and long term funding**. Following the decline in 2013 due to the surplus liquidity generated by commercial businesses, in 2014 the Group's subsidiaries, particularly the European ones, took advantage of the easing of markets and central banks' liquidity injections to increase this volume. The Group captured EUR 52,000 million in medium and long-term wholesale markets, 44% more than in 2013.

Medium and long-term fixed-income issues (senior debt, covered bonds, subordinated debt and preferred shares) were the ones that increased the most (+70% to more than EUR 38,000 million), with a greater weight of senior debt than covered bonds (two-thirds of the total). Spain was the largest issuer, followed by UK and Santander Consumer Finance's units (the three accounted for 79% of that issued).

The remaining EUR 13,400 million of medium and long-term funding corresponded to activities related to securitisations and funding with guarantees, and remained stable. The specialised consumer credit units in US and Europe represented 90% of the total.

All units operating in mature markets increased their wholesale fund capturing in line with the aforementioned trends. Latin American countries, on the other hand, reduced their capturing in an environment of markets very influenced by the end of the Federal Reserve's asset purchase programme.

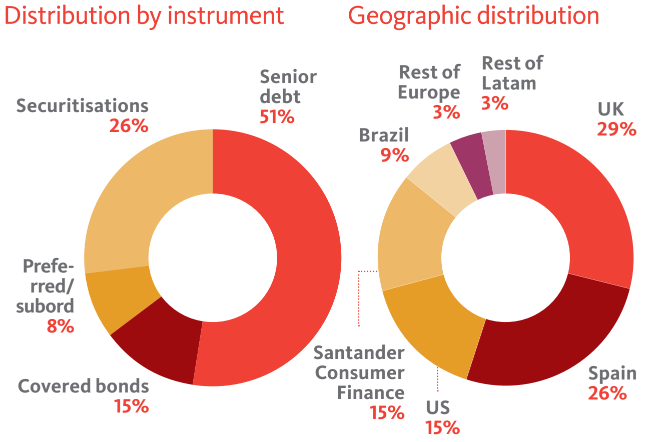
United Kingdom and Spain registered the strongest growth. In the first case, due to the return to lending growth and the improvement in the regulatory ratios which more than doubled the long-term senior debt issues (average life of 5 years). In the case of the parent bank, due to three Additional Tier 1 issues to reinforce and optimise the Group's capital ratios, and the issue of very long term covered bonds (10 and 20 years), the first made at these maturities since the onset of the crisis in a favourable market environment.

In United States, SCUSA continued to increase its securitisation activity and its recourse to warehouse lines to fund the strong growth in new lending and portfolio. Santander Consumer Finance notched up a new record, capturing more than EUR 7,600 million (+24%), with a greater weight of senior debt than securitisations and funding with guarantees. These funds represented 30% of the year's total capturing.

These four units accounted for 85% of the medium and long-term finding obtained in 2014. The chart below sets out in greater detail their distribution by instruments and geographic areas:

Medium and long term issues and securitisations placed in the market

January-December 2014



In short, Grupo Santander maintained comfortable access to the various markets in which it operates, strengthened by the incorporation of new issuance units. It made issues and securitisations in 2014 in 13 currencies, in which 18 issuers from 15 countries participated and with an average maturity of around 3.8 years, slightly higher than in 2013.

ii. Compliance ahead of schedule with regulatory coefficients

Under its liquidity management model, Grupo Santander has been managing in the last few years the launch, monitoring and compliance ahead of schedule of the new liquidity requirements established by international financial regulations.

Liquidity coverage ratio (LCR)

In 2014, and after approval by the Basel Committee of the final definition of the liquidity coverage ratio (LCR), the delegated act of the European Commission was adopted which, in the CRDIV sphere, defined the criteria for calculating and implementing this metric in the European Union. In a new development, implementation was delayed until October 2015, although the initial compliance level of 60% was maintained. This percentage will be gradually increased to 100% in 2018.

The good starting position of short-term liquidity combined with autonomous management of the ratio in all the big units enabled compliance levels of more than 100% to be maintained throughout the year, at both the consolidated as well as individual levels in all of them.

Net stable funding ratio (NSFR)

The final definition of the net stable funding ratio was approved by the Basel Committee in October 2014, and is pending transposition to local regulations. This ratio will come into force as of January 1, 2018.

As regards the ratio, Santander benefits from a high weight of customer deposits, which are more stable, permanent liquidity needs derived from the commercial activity funded by medium and long-term instruments and limited recourse to short-term funds. All of this enables it to maintain a balanced liquidity structure, which is reflected in NSFR ratio levels that, at Group level as well as for most of the subsidiaries, were above 100% at the end of 2014.

In short, management and the liquidity level enable the Group and the main subsidiaries to meet ahead of schedule both regulatory metrics by the.

iii. Strengthened position with a high liquidity reserve
This is the third main aspect reflecting the Group's comfortable liquidity position during 2014.

The liquidity reserve is the total of the highly liquid assets of the Group and its subsidiaries. It serves as a last resort recourse at times of maximum stress in markets, when it is impossible to obtain funding with adequate maturities and prices.

As a result, this reserve includes deposits in central banks and cash, unencumbered sovereign debt, the discounting capacity in central banks, as well as those assets eligible as collateral and undrawn credit lines in official institutions (Federal Home Loans Banks in US). All of this reinforces the solid liquidity position that Santander's business model (diversified, retail banking focus, autonomous subsidiaries) confers on the Group and its subsidiaries.

At the end of 2014, Grupo Santander's liquidity reserve amounted to EUR 230,000 million, 15% higher than in 2013 and 4% above the year's average. This volume represents 26% of the total Group's external funding in net terms and more than 100% of the total wholesale funds captured (short, medium and long term). The structure of this volume by type of asset according to the effective value (net of haircuts) was as follows:

Liquidity reserve at 31/12/2014
Effective value (net of haircuts) in million euros

	31/12/2014	Average 2014	31/12/2013
Cash and holdings at central banks	47,654	46,584	45,091
Unencumbered sovereign debt	52,884	50,056	36,382
Undrawn credit lines granted by central banks	115,105	111,215	107,520
Assets eligible as collateral and undrawn credit lines	14,314	13,060	10,757
Liquidity reserve	**229,957**	**220,915**	**199,750**

Note: the reserve excludes other assets of high liquidity such as listed fixed income and equity portfolios.

This increase was accompanied by a qualitative rise in the Group's liquidity reserve, derived from the differentiated evolution by its assets. The first two categories (cash and deposits in central banks+ unencumbered sovereign debt), the most liquid (or high quality liquidity assets in Basel's terminology, as first line of liquidity) increased more than the average. They rose by EUR 19,000 million, lifting their share of total reserves at the end of the year to 44% (41% in 2013).

Also noteworthy was the increased discounting capacity in central banks during 2014, in line with the strategy developed by the Group and its subsidiaries in the last few years. After reaching its maximum in September, it declined in the fourth quarter as a result of the use of TLTROs by the euro zone units (parent bank, Portugal, SCF), a trend which will continue in 2015.

All the main subsidiaries and management units increased their liquidity reserve volumes in absolute and relative terms, ensuring adequate reserve levels. Of note were the rises in volumes by SCF, Portugal and Poland, with the first two ending the year at levels that almost doubled the averages of 2013.

As regards its potential application, the main units covered with their liquidity reserve at least 75% of the wholesale funding captured at the end of 2014, with four units well over 100% (UK, Mexico, Poland and Portugal). Only two, SCF and Chile, had lower coverage levels although comfortable (34% and 62%, respectively), which continued to increase during the year.

Within the autonomy conferred by the funding model, each subsidiary maintains a composition of assets of its liquidity reserve adequate for its business and market conditions (for example, capacity to mobilise their assets, recourse to additional discounting lines such as in the US). Most of the assets are denominated in the currency of the country, and so there are no restrictions on their use.

iv. Asset encumbrance
Lastly, it is worth pointing out Grupo Santander's moderate use of assets as a guarantee in the balance sheet's structural funding sources.

In line with the guidelines established by the European Banking Authority (EBA) in 2014, the concept of asset encumbrance includes both assets on the balance sheet contributed as guarantee in operations to obtain liquidity as well as those off-balance sheet ones received and re-used with a similar purpose, as well as other assets associated with liabilities for different funding reasons.

The table below sets out Grupo Santander's information as required by the EBA at the end of:

Grupo Santander
Assets

Billion euros	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	**296.0**		**970.3**	
Loans and loans on demand	186.3		692.1	
Equity instruments	7.4	7.4	11.4	11.4
Debt securities	84.2	84.2	92.2	92.2
Other assets	18.1		174.7	

Grupo Santander
Collateral received

Billion euros	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	**57.5**	**37.4**
Loans and loans on demand	1.6	0.3
Equity instruments	1.8	0.6
Debt securities	54.2	31.4
Other collateral received	0.0	5.3
Own debt securities issued other than own covered bonds or ABSs	0.0	0.0

Grupo Santander
Encumbered assets and collateral received and associated liabilities

Billion euros	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Total sources of encoumbrance	291.7	353.5

On balance sheet asset encumbrance amounted to EUR 296.0 billion, close to two-thirds of which are loans (mortgages, corporate). Off-balance sheet asset encumbrance was EUR 57.5 billion and mainly relates to debt securities received in guarantees in operations to acquire assets and which were re-used. The total for the two categories was EUR 353.5 billion, which gave rise to a volume of associated liabilities of EUR 291.7 billion.

At the end of 2014, total asset encumbrance in financing operations represented 26% of the Group's extended balance sheet under EBA criteria (total assets plus guarantees received: EUR 1,361 billion).

It is necessary to distinguish within them the different nature of the sources of encumbrance as well as their role in funding the Group:

- 50% of the total of asset encumbrance corresponds to guarantees contributed in medium and long-term funding operations (with an average maturity of more than two years) to finance the balance sheet's commercial activity. This puts the level of asset encumbrance understood as "structural" at 13% of the extended balance sheet using EBA criteria.
- The other 50% corresponds to short-term market operations (with an average maturity of less than three months) or guarantees contributed in operations with derivatives and whose purpose is not to finance the ordinary activity of businesses but efficient management of short-term liquidity.

Lastly, and in relation to 2013, it should be noted that total asset encumbrance increased significantly due to methodological and perimeter changes. Specifically, the widening of the definition of encumbrance applied by the EBA and the consolidation by global integration of Santander Consumer USA (unit specialised in consumer finance and almost entirely funded by securitisations and guaranteed credit lines) explain more than three-quarters of the change. To this must be added the greater recourse to the European Central Bank's conditioned long-term funding (TLTROs).

Of note is that the volume of asset encumbrance in medium and long term funding operations ("structural") remained stable on a like-for-like basis.

8.4. Funding outlook for 2015

Grupo Santander began 2015 with a comfortable liquidity position in an environment of more favourable markets due to recovery expectations and stability, although not free of risks, and due to the large liquidity injections started by the European Central Bank, via auctions and public debt purchases, which will last until the middle of 2016.

With maturities which can be assumed in the coming quarters, due to the reduced weight of short term and a dynamic of medium and long term issues similar to that of a year ago, the Group will manage these needs in each country together with the specific ones of each business, including the envisaged incorporation of new portfolios and businesses, particularly consumer business in Europe.

The envisaged scenario of stronger growth with low interest rates will generate liquidity needs in many units in both mature and emerging countries, in some cases from the recovery in lending and in others from profit-making of liability positions.

In order to cover these greater commercial needs, the units ended 2014 with surplus positions in most cases. They also have ample access to wholesale markets, which are currently offering higher maturities and lower spreads than in previous years, particularly in Europe due to the European Central Bank's quantitative easing. All of this will enable the Group's subsidiaries to maintain appropriate liquidity structures for their balance sheets.

Spain fits this description. With a surplus of deposits over loans, a moderate recovery in lending is envisaged after a long period of deleveraging, while continuing to focus on optimising the cost of the funds. This could require the use of part of the existing surplus of the ECB's long-term conditioned liquidity (TLTROs) and, if the market conditions in maturities and interest rates remain favourable, greater recourse to wholesale funding.

A similar description can be applied to the unit in Portugal, although with some mismatch regarding the evolution in Spain derived from the less intensive economic recovery and the high existing needs of deleveraging.

Of note in the rest of European units will be the increasing activity Santander Consumer Finance's issues and securitisations, backed by the strength of its business and the quality of its assets. In 2015, as already commented on, the consolidation of new portfolios will require a greater dependence of the rest of the Group on short term funds. On the other hand, Poland, without maturities of wholesale issues in the market and with a surplus of deposits over loans, will concentrate on maintaining this comfortable situation while improving the profitability of its deposits.

In the UK, the good performance of commercial activity and the capturing of clients will strengthen the deposit base as the basic source of credit growth. The favourable situation of wholesale markets will make it possible to optimise the unit's wide borrowing positions in the medium and long term. The United States, also with balanced growth in loans and deposits, will focus its activity on diversifying its wholesale funding sources, both in Santander Bank as well as SCUSA, which will contribute to reducing its degree of leveraging with respect to the funds guaranteed.

In Latin America, as in 2013, the emphasis will remain on deposits for funding business activities while strengthening issuance in wholesale markets opened to the Group's big units.

In addition, and at Group level, Santander maintains its long-term plan to issue funds eligible as capital. Begun in 2014 in order to strengthen regulatory ratios efficiently as well as increase its total capacity to absorb losses, this issuance plan could mean new requirements for the market in 2015 if adequate conditions concur.

Under this general framework, the Group's various units took advantage of the good conditions in the markets at the beginning of 2015 to make issues and securitisations at very tight spreads, capturing more than EUR 4,000 million in January. To this is added the liquidity from the Group's capital increase in the same month, lifting total liquidity captured in the market to more than EUR 11,500 million.

9. Operational Risk

9.1. Definition and objectives

Grupo Santander defines operational risk (OR) as the risk of losses from defects or failures in its internal processes, employees or systems, or those arising from unforeseen circumstances.

Operational risk is inherent to all products, activities, processes and systems and is generated in all business and support areas. For this reason, all employees are responsible for managing and controlling the operational risks generated in their sphere of action.

The Group's objective in control and management of operational risk is to identify, measure/valuate, control/mitigate, monitor and communicate this risk.

The Group's priority is to identify and eliminate risk focuses, regardless of whether they produce losses or not. Measurement also helps to establish priorities in management of operational risk.

Grupo Santander has been using the standard method envisaged in BIS II rules for calculating regulatory capital by operational risk. During 2014, however, the Group started a project to evolve toward a focus of advanced models (AMAs), for which it already has met most of the regulatory requirements. It is important to note that the priority in operational risk management continues to centre on its mitigation.

The report on Prudential Significance/Pillar III in section 5 includes information on calculating the equity requirements by operational risk.

9.2. Management model and control of operational risk

9.2.1. Management cycle of operational risk

The Group's operational risk management incorporates the following elements:

The various phases of the operational risk management and control model are:

- Identify the operational risk inherent in all the Group's activities, products, processes and systems.
- Define the target profile of operational risk, specifying the strategies by unit and time frame, the OR appetite and tolerance and monitoring.
- Promote the involvement of all employees in the operational risk culture, through adequate training at all spheres and levels.
- Measure and assess the operational risk objectively, continuously and coherent with the regulatory standards (Basel, Bank of Spain) and the sector.
- Continuously monitor the exposure of operational risk, implement control procedures, improve internal knowledge and mitigate losses.

- Establish mitigation measures that eliminate or minimise operational risk.

- Produce regular reports on the exposure to operational risk and the level of control for senior management and the Group's areas/units, as well as inform the market and regulatory bodies.

- Define and implement the methodology needed to calculate the capital in terms of expected and unexpected loss.

For each of the aforementioned processes, the following are needed:

- Define and implement systems that enable operational risk exposure, integrated into the Group's daily management, to be monitored and controlled, taking advantage of the existing technology and achieving the maximum computerisation of applications.

- Define and document the policies for managing and controlling operational risk, and install management tools for this risk in accordance with the rules and best practices.

Grupo Santander's operational risk management model contributes the following advantages:

- Promotes development of an operational risk culture.

- Allows comprehensive and effective management of operational risk (identification, measurement/assessment, control/ mitigation and information).

- Improves knowledge of existing and potential operational risks and assigns responsibility for them to the business and support lines.

- Operational risk information helps to improve the processes and controls, reduce losses and the volatility of revenues.

- Facilitates the establishment of operational risk appetite limits.

9.2.2. Model of identification, measurement and risk assessment

A series of quantitative and qualitative corporate techniques/ tools has been defined to measure and assess technological and operational risk, which are combined to make a diagnosis (on the basis of the risks identified) and obtain an assessment (through measurement/evaluation) of the area/unit.

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

- An internal database of events, whose objective is to capture all the Group's losses from operational risk. The capturing of events related to operational risk is not restricted by setting thresholds (i.e. there are no exclusions for reasons of amount) and there are both events with accounting impact (including positive effects) as well as non-accounting ones.

  There are accounting conciliation processes to guarantee the quality of the information gathered in the databases. The main events of the Group and of each operational risk unit are particularly documented and reviewed.

- An external database of events, as the Grupo Santander participates in international consortiums, such as the Operational Risk Exchange (ORX). The use of external data bases was strengthened in 2014, which provide quantitative and qualitative information, enabling a more detailed and structured analysis of the events produced in the sector.

- Analysis of OR scenarios. An expert opinion is obtained from the business lines and from the risk and control managers whose purpose is to identify potential events with a very low probability of occurring, but which could mean a very high loss for an institution. Their possible effect is assessed and extra controls and mitigating measures identified that reduce the eventuality of a high economic impact.

  Meanwhile and as a relevant part of the process of the evolution toward advanced models (AMA), a corporate methodology of scenarios was developed during 2014, which was implemented in Spain and Brazil. The UK is already developing operational risk scenarios. The Group also continued to participate in the exercise led by the ORX consortium.

- Capital calculation by the standard method (see the corresponding section in the report on Prudential Relevance Report/Pillar III).

The tools defined for qualitative analysis seek to assess aspects (coverage/exposure) linked to risk profile, enabling the existing environment of control to be captured.

These tools are mainly:

- Map of processes and risks and self-assessment questions. An adequate evaluation of the risks, on the basis of the expert criterion of the managers, enables a qualitative view of the Group's main focuses of risk to be obtained, regardless of having materialised before.

  The Group's units continued to make progress in exercises of risk self-evaluation. This tool bases its methodology on estimating inherent and residual loss and qualitative VaR according to the map of processes and risks. Specifically, the experts of the various business and support areas assess the risks associated with the processes and activities, estimating the average frequency of occurrence in the materialisation of risks, as well as the average severity. The exercise also incorporates evaluating the greatest loss, assessing the environment of control and linkage to reputational and regulatory risk. The information obtained is analysed locally and corporately and integrated within the strategy of reducing operational risk through measures to mitigate the main risks.

  The corporate areas participated during 2014 in a pilot exercise, based on a methodology of workshops with the participation of risk managers and OR co-ordinators, in order to improve the Bank's active participation. The result, in terms of inherent and residual loss for the area's main risks, produced an improvement in the perception of risk of the first lines of defence at all levels (executive and management).

- Corporate system of operational risk indicators, in continuous evolution and in coordination with the internal control area. They are various types of statistics or parameters that provide information on an institution's exposure to risk. These indicators are regularly reviewed in order to alert them to changes that could reveal problems with risk.

- Auditing recommendations. Relevant information is provided on inherent risk due to internal and external factors which enables weaknesses in the controls to be identified.

- Other specific instruments that enable a more detailed analysis of the technology risk such as, for example, control of critical incidents in systems and cyber-security events.

9.2.3. Implementation of the model and initiatives

Almost all the Group's units are incorporated to the model and with a high degree of uniformity. However, due to the different pace of implementation, phases, schedules and the historical depth of the respective databases, the degree of progress varies from country to country.

As indicated in section 9.1., the Group started a transformation project toward an AMA focus. During 2014, the state of the pillars of the OR model was analysed, both at the corporate level as well as in the relevant units, and a series of actions was planned in order to cover the management and regulatory expectations in the management and control of OR.

The main functions, activities and global initiatives adopted seek to ensure effective management of operational risk are:

- Define and implement the operational risk framework.

- Designate OR coordinators and create operational risk departments in the local units.

- Training and interchange of experiences: continuation of best practices within the Group.

- Foster mitigation plans: ensure control of implementation of corrective measures as well as ongoing projects.

- Define policies and structures to minimise the impact on the Group of big disasters.

- Maintain adequate control of activities carried out by third parties in order to meet potential critical situations.

- Supply adequate information on this type of risk.

- Develop a methodology to calculate the capital based on VaR models with a confidence interval of 99.9%.

The corporate function enhances management of technological risk, strengthening the following aspects among others:

- Protection against and prevention of cyber attacks and in general aspects related to the security of information systems.

- Foster contingency and business continuity plans.

- Management of risk associated with the use of technologies (development and maintenance of applications, design, implementation and maintenance of technology platforms, output of computer processes, etc).

Following the approval in 2013 of the corporate framework for agreements with third parties and control of suppliers, applied to all the institutions where Grupo Santander has affective control, in 2014 work was begun on drawing up a model developing this framework and formulating the policies of homologation of suppliers, identifying the detail of the principles that will govern relations of the Group's entities with suppliers, from the beginning to their termination, and paying particular attention to:

- The decision to outsource new activities and services.

- The selection of the supplier.

- Establishing the rights and obligations of each of the parties.

- Control of service and regular review of agreements made with suppliers.

- The ending of agreements established.

The Group is in the process of implementing the model, analysing the current processes of the institutions in matters of control of suppliers, standardising certain controls and verifying compliance with the aspects defined in the model.

9.2.4. System of operational risk information

The Group has a corporate information system that supports the operational risk management tools and facilitates information and reporting functions and needs at both the local and corporate levels.

This system has modules to register events, risks and assessment map, indicators, mitigation and reporting systems, and is applied to all the Group's units.

The various areas that the platform covers are shown below:

Corporate operational risk system

- General administration module
- Association with processes, business lines and organisation
- Administration of static data

Operational risk events

- Registry of losses, quasi losses and recoveries
- Individual registry, massive or by interface
- Workflow of capturing and quality filters
- Management of events, multi-impact

Map of risks and self-evaluation and recoveries

- Map of risks and controls
- Evaluation of inherent and residual risk
- Frequency and severity estimates
- Workflow of questionnaires
- Analysis of scenarios

Indicators of operational risk

- Registry of indicators
- Individual capturing, massive or by interface
- Methodological application of normalisation and aggregation of the Group
- Monitoring of indicators and setting of alert thresholds

Reporting

- Information at the country and corporate level
- Static and dynamic reports

Mitigation

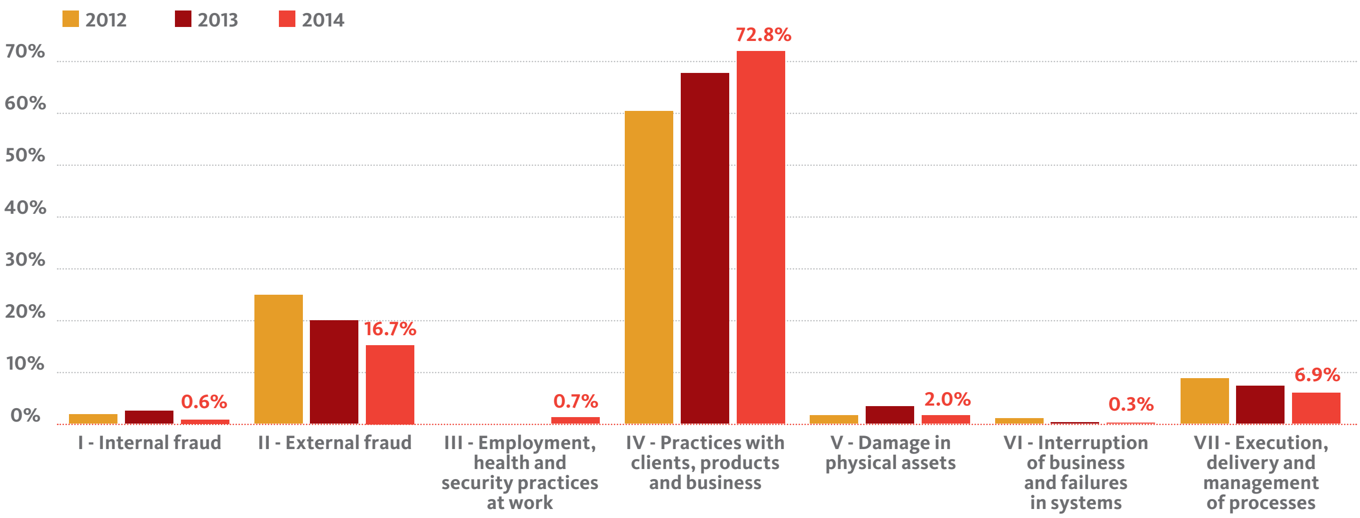
- Identification of mitigation plans
- Evaluation and monitoring of mitigation plans

As part of the establishment of advanced models, and taking into account the synergies that will be produced in the control sphere, the Group is in the process of installing a governance, risk and compliance tool (GRC) that supports comprehensively not only operational risk management and control, but also the internal control and compliance functions.

9.3. Evolution of the main metrics

As regards the databases of events, and after consolidating the information received, the evolution of net losses by Basel risk category in the last three years is set out in the chart below:

Distribution of net losses by operational risk category[40]
% of total



The evolution of losses by category shows a reduction in relative terms of external fraud and execution, delivery and management of processes, thanks to the measures taken for their mitigation.

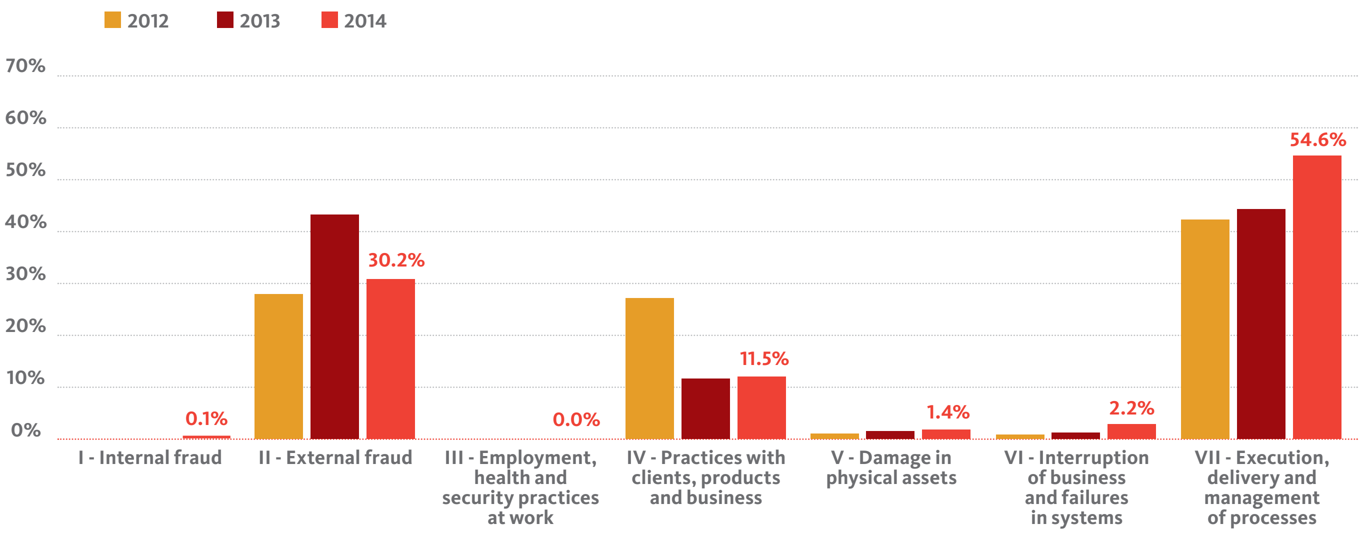
The category of practices with clients, products and business – which includes customer complaints on erroneous marketing, incomplete information and inexact products – increased in relation to the rest of categories. However, despite the increase in the relative share of this category, the net losses were lower than in 2013. Of note among the main elements was the increase in judicial cases in Brazil, as well as compensation for clients in the UK (payment protection insurance). In the latter case, the complaints presented to the Group relate to a general problem in the UK banking sector, and the volume of complaints against the bank is considered proportionate to its market share. Although these events were sufficiently provisioned in 2011 by the Group, the settlements for these clients was maintained in 2014, in accordance with the planning by the unit.

In addition and, as a result of a judicial ruling that means a change in the interpretation of legislation, Santander Consumer Germany began to return to its clients management commissions linked to consumer credits. This event affected all the German banking sector.

40. In accordance with local practice, employee compensation in Brazil is managed as part of the personnel cost without detriment to its treatment according to the categorisation applicable in the Basel operational risk framework, as a result of which it is not included.

The chart below sets out the evolution of the number of operational risk events by Basel category over the last three years:

Distribution of number of events by operational risk category[41]
% of total

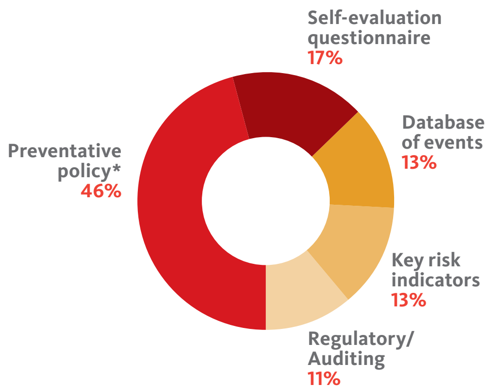


9.4. Mitigation measures

The Group has a stock of mitigation measures (500 active ones), established in response to the main risk sources, which have been identified by analysing the tools used to manage operational risk, as well as the organisational and development model and by implementing preventative policies and procedures for managing and controlling technology and operational risk.

The percentage of measures on the basis of the source and management tool, which identified the risk necessary to mitigate, was as follows:

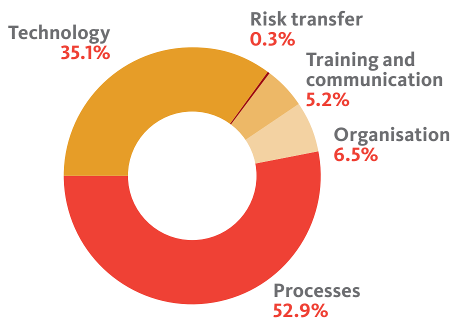
2014 mitigation – sources of origin
%



*The preventative policy concept includes measures from the corporate and local committees, the business continuation plan, training for employees and continuous improvement in the controls established.

These measures are turned into action plans which are then distributed in the following spheres:

2014 mitigation – type of measure
%



The main mitigation measures centred on improving the security of customers in their usual operations, as well as continued improvements in processes and technology and in management for a sale of products and providing adequate services.

Regarding the reduction of fraud, the main specific measures were:

- Electronic fraud:
  - Updating the corporate anti-fraud reference model in order to incorporate specific protection measures to mitigate the new patterns of fraud, as well as strengthen the measures already implemented.

41. In accordance with local practice, employee compensation in Brazil is managed as part of the personnel cost without detriment to its treatment according to the categorisation applicable in the Basel operational risk framework, as a result of which it is not included.

- Deploy protection measures in the new channels/applications, such as the robust authentication mechanism in mobile banking, so that operations via these devices have a level of security analogous to that of online banking.

- Fraud in the use of cards:

  - Continue to use chip cards (standard EMV), in line with the schedule established by the means of payment industry for each country, and issuing new cards based on encrypted algorithms that offer better protection against the current cloning techniques.

  - Application of more robust protocols to validate cards when used for purchases in shops.

  - As regards online shopping, we continued to install 3DSecure and mechanisms that enable authentication of transactions to be adapted according to a specific risk analysis.

  - Improved security in ATMs, including anti-skimming devices).

As regards measures relating to practices with clients, products and business, Grupo Santander establishes corporate policies for the marketing of products and services, as described in 10.4 Compliance and reputation risk management model.

Of particular note is the *Trabalhar Bem* (Work Well) project being developed in Brazil in order to provide a better service to the Bank's clients and, with it, reduce the volume of incidents and complaints. This project incorporates various lines of action to improve marketing and customer protection practices: influence in the design decisions of products and services, analysis and solution of the incident that is the root of clients' complaints, development of a single management and monitoring framework, and improvement in the protection networks in the points of contact.

Anti-cyber risk measures

The upward trend in the number and impact of incidents related to cyber security in 2014 was confirmed, affecting all types of companies and institutions including banks. This situation, which generates concern among entities and regulators, spurred preventative measures to be taken in order to be prepared for such attacks.

The Group developed an internal cyber security reference model, inspired in international standards (among others, the US NIST framework –National Institute of Standards and Technology). Implementing the cyber security strategy in the Group's units resulted in various initiatives and lines of action, such as:

- Assessment of the situation of each unit with regard to the reference internal model in order to identify improvement possibilities and prioritise points of action on cyber risks.

- Strengthen the technological solutions and services to detect and prevent cyber attacks and information leaks, as well as the registry, correlation and management of security events.

- Improve the security monitoring services (security operations centre) and widen the scope.

- Participation in cyber exercises promoted by the National Institute of Cybersecurity to assess companies' response to this type of incident.

- Cooperation with international forums in order to identify the best practices and share information on threats.

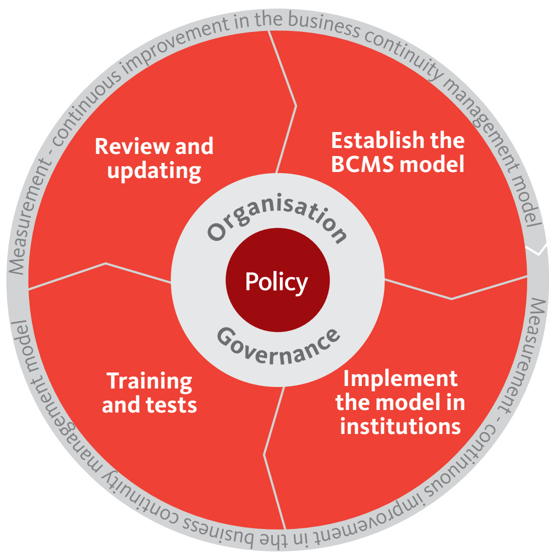
Measures also began to be taken to update the training programmes in this sphere for the Group's employees, which will lead to a new course in the e-learning platform in 2015. This course will give precise steps, as well as examples of the main patterns of cyber attacks and electronic fraud currently occurring.

In addition, observation and study of the events in the sector and in other industries, from an analytical standpoint, enables us to update and adapt our models to the emerging threats.

Lastly, we have prepared a global programme of insurance for cyber risk that covers the Group's units against such events.

9.5. Business continuity plan

The Group has a business continuity management system (BCMS), which ensures that the business processes of our institutions continue to operate in the event of a disaster or serious incident.



The basic objective is to:

- Minimise the possible damage from an interruption in normal business operations on people and financial and adverse business impacts for the Group.

- Reduce the operational effects of a disaster, supplying a series of predefined and flexible guides and procedures to be used to re-launch and recover processes.

- Renew business operations and associated support functions that are time sensitive, in order to achieve business continuity, stable profits and planned growth.

- Re-establish technology operations and support for business operations that are time sensitive, in the event of existing technologies not working.

- Protect the public image of and confidence in Grupo Santander.

- Meet the Group's obligations to its employees, customers, shareholders and other interested third parties.

The Group continued to advance during 2014 in implementing and continuously improving its business continuity management system, placing particular emphasis on strengthening controls for monitoring the continuity plans of suppliers who provide services regarded as essential for the Bank.

9.6. Other aspects of control and monitoring of operational risk

Analysis and monitoring of controls in market operations

Due to the specific nature and complexity of financial markets, the Group considers it necessary to strengthen continuously operational control procedures of this activity. In 2014, it continued to improve the control model of this business, attaching particular importance to the following points:

- Analyse the individual operations of each Treasury operator in order to detect possible anomalous behaviour.

- Implementation of a new tool that enables compliance with the new requirements in recording and control of listening in to operations.

- Strengthen controls on cancelling and modifying operations.

- Strengthen controls on the contributions of prices to market indexes.

- Develop extra controls to detect and prevent irregular operations.

- Develop extra controls on access to systems registering front office operations (for example, with the purpose of detecting shared users).

The business is also undergoing a global transformation that involves modernising the technology platforms and operational processes which incorporate a robust control model, enabling the operational risk associated with business to be reduced.

Corporate information

The function of operational risk control has an operational risk management information system that provides data on the Group's main elements of risk. The information available for each country/unit is the operational risk sphere is consolidated in such a way as to obtain a global vision with the following features:

- Two levels of information: corporate with consolidated information and the other individualized for each country/unit.

- Dissemination of the best practices between Grupo Santander's countries/units, obtained through a combined study of the results of qualitative and quantitative analysis of operational risk.

Information on the following aspects is drawn up:

- Grupo Santander's operational risk management model and in the Group's main units and countries.

- Perimeter of operational risk management.

- Monitoring of appetite metrics.

- Analysis of the internal database of incidents and relevant external incidents.

- Analysis of the main risks, detected via various sources of information, such as self-evaluation exercises of operational and technology risks.

- Assessment and analysis of risk indicators.

- Mitigating/active management measures

- Business continuity and contingency plans.

This information is the basis for complying with the reporting needs to the executive risk committee, senior management, regulators, rating agencies, etc.

Insurance in the management of operational risk

Grupo Santander regards insurance as a key element in management of operational risk. Common guidelines of co-ordination were established in 2014 among the various functions involved in the insurance management cycle which mitigate operational risk, mainly the areas of insurance itself and control of operational risk, but also the different areas of first line risk management.

These guidelines incorporate the following activities:

- Identification of all those risks in the Group which can be the object of insurance coverage, including identification of new coverages of insurance on risks already identified in the market.

- Establishment and implementation of criteria to quantify the risk to be insured, backed by analysis of losses and scenarios of losses that enable the Group's level of exposure to each risk to be determined.

- Analysis of coverage available in the insurance market, as well as preliminary design of the conditions that best adjust to previously identified and assessed needs.

- Technical assessment of the protection level provided by the policy, costs and levels of retention that the Group will assume (franchises and other elements at the responsibility of the insured) in order to decide on their contracting.

- Negotiating with suppliers and awarding of contracts in accordance with the procedures established by the Group.

- Monitoring of incidents declared in the policies, as well as of those not declared or not recovered by an incorrect declaration.

- Analysis of the adequacy of the Group's policies to risks covered, taking the opportune corrective measures for the shortcomings detected.

- Close cooperation between local operational risk executives and local coordinators of insurance to strengthen mitigation of operational risk.

- Regular meetings on specific activities, states of situation and projects in both areas.

- Active participation of both areas in the unit for global sourcing of insurance, the Group's maximum technical body for defining coverage strategies and contracting insurance.

10. Compliance, conduct and reputational risk

10.1. Definitions and objective

The compliance risk is the risk of receiving economic or other sanctions, or other types of disciplinary measures imposed by supervisory bodies for not complying with laws, regulations, rules, standards of self-regulation or codes of conduct applicable to the activity developed.

Conduct risk is that caused by inadequate practices in the Bank's relations with its clients, the treatment and products offered to clients and the suitability and appropiateness of them to each specific client.

Reputational risk is the risk of damage in the perception of the Bank by public opinion, its clients, investors or any other interested party.

The Group's objective in the sphere of managing compliance and conduct risks is: (i) to minimise the probability that irregularities occur; and (ii) that the irregularities that could eventually occur are identified, reported and those that could eventually occur are identified, reported and quickly resolved. As for reputational risk, bearing in mind the diversity of sources from which it can arise, the objective of management is to identify them and ensure that they are duly tended to so that their probability is reduced and the eventual impact is mitigated.

10.2. Corporate governance and the organisational model

In the exercise of its general function of supervision, the Bank's board is responsible for approving the general policy of risks. In the sphere of compliance, conduct and reputational risk, the board is holder of the Group's General Code of Conduct, the global policy for the prevention of money laundering and the financing of terrorism and the marketing policy for products and services.

Reporting on the compliance function to the board will de done as follows: (i) in a permanent way and directly via an executive vice-chairman of the board who supervises Grupo Santander's compliance function; and (ii) via the report presented monthly to the risk supervision, regulation and compliance committee. This committee supports and advises the board regarding the Group's relationship with the supervisors and regulators of the countries in which the Group operates, as well as on the supervision of the codes and rules of an internal nature.

At its meeting on January 16, 2015, the board agreed to appoint an executive vice-chairman of the board to whom the compliance function reports, in accordance with the regulatory recommendations on corporate governance.

In addition and in order to strengthen the importance of the compliance function, the executive committee, at its meeting on February 2, 2015, agreed to appoint an executive vice-president as chief compliance officer.

As collegiate bodies with basic powers in this sphere, there are the corporate committees of regulatory compliance, analysis and resolution and marketing (the latter two, specialised in their respective spheres: anti-money laundering and marketing of products and services), with a global reach (all countries/all businesses) and replicated at the local level.

The risk division supervises the control framework applied in the compliance sphere, from both the area of comprehensive control and internal validation of risks, in the exercise of its functions of supporting the executive risk committee, as well as from the non-financial risk control area created in 2013.

The organisational model revolves around the corporate area of compliance and reputational risk, which is responsible for managing the Group's compliance, conduct and reputational risks. Within the area is the corporate office of risk management of regulatory compliance, the corporate office of conduct risk management and the corporate unit of financial intelligence (CUFI), with anti-money laundering and terrorist financing powers. This structure is replicated in all local units and also in global businesses, having established the opportune functional reports for the corporate area.

10.3. Risk appetite model and exercise of regulatory risk assessment

The Group's risk appetite model applicable to compliance and conduct risks is characterised by the following three elements:

- It stems from a zero appetite declaration for the sphere of compliance and conduct risk.
- The Group's objective is to minimise compliance and conduct risk incidents. Systematic monitoring is carried out via the compliance and conduct risk indicator resulting from assessment matrices prepared for each country.
- Quarterly monitoring of the risk level is conducted country by country.

The assessment matrix is fed with data from the communications received every month from the various supervisors. Each one of these communications is assigned a score on the basis of the risk they represent as regards: (i) costs from fines; (ii) costs of reorganising processes; and (iii) the impact on the brand and reputational risk. These assessments are supplemented by ratings of internal audit in the compliance sphere. Each local unit is assigned a weighting depending on its attributable profit and volume of assets, with which a complete score for the Group is obtained.

The corporate area of compliance assessed regulatory risk (risk assessment) in 2014, focusing on the Group's main countries. This exercise, which stems from identifying regulatory obligations that affect the Group's units, was based on the risk assessment of each obligation, conducted in two phases: the first, of the so called inherent risk, which comes from the very activity of business, and the second, residual risk, once the impact of controls is taken into account.

This regulatory risk assessment exercise will complement the risk appetite model, contributing new metrics.

10.4. Risk management model

The main responsibility of compliance and reputational risk management is shared between the function of compliance and reputational risk and the different business and support units that conduct the activities that give rise to risk. The responsibility for developing corporate policies throughout the Group, establishing controls and monitoring and verifying their application, as well as reporting incidents, lies with the compliance function and reputational risk, which is also responsible for advising senior management in this sphere and for fostering a compliance culture, all of this in the framework of an annual programme whose effectiveness is regularly assessed.

The function directly manages the basic components of these risks (money-laundering, codes of conduct, marketing of products, etc) and ensures that the rest is duly tended to by the corresponding unit of the Group (responsible financing, data protection, customers' complaints, etc), having established the opportune control and verification systems.

The correct execution of the risk management model is supervised by the comprehensive control and internal validation of risk area. At the same time, within its functions, internal audit carries out the tests and reviews required to ensure that the rules and procedures established in the Group are being fulfilled.

The general code of conduct is the central element of the Group's compliance programme. This code, which enshrines the ethical principles and rules of conduct that must govern the actions of all Grupo Santander's employees, is complemented in certain matters by the rules that are in codes and sector manuals[42].

The code also establishes: i) the functions and responsibilities in matters of compliance of the governance organs and of the Group's management areas affected; ii) the rules that regulate the consequences of non-compliance; and iii) a whistle blowing channel for formulating and handling communications for presumably illicit activity.

42. The following form part of the codes and manuals of sectors: the Manual for Anti-Money Laundering and Terrorist Financing, the Code of Conduct in Securities Market, the Manual of Procedures for the Sale of Financial Products, the Code of Conduct for Analysis Activity, the Research Policy Manual, the Manual of Conduct in the Use of Information and Communication Technologies (ICT), the Manual of Conduct in the Management of Real Estate, the Manual of Conduct in Suppliers Relationship, etc, as well as the notes and circulars that develop specific points of these codes and manuals, particularly the corporate circular on the corporate programme to prevent corruption.

The corporate office of regulatory compliance, under the supervision of the committee of risk supervision, regulations and compliance and of the committee of regulatory compliance, is responsible for the effective implementation and monitoring of the general code of conduct.

The committee of regulatory compliance has powers in all matters inherent in the compliance function, without detriment to those assigned to the two specialised bodies in the area (corporate committee of marketing as regards the commercialisation of products and services and the committee of analysis and resolution in the sphere of anti-money laundering and terrorist financing). It is made up of representatives of the general secretariat, risks, human resources, organisation and costs, technology and operations, internal audit, financial management and public policy.

The committee held four meetings in 2014.

The Group's compliance management has the following functions as regards management of compliance, conduct and reputational risks:

1. Implement the Group's general code of conduct and other codes and sector manuals.

2. Supervise the training activity of the compliance programme conducted by the human resources area.

3. Direct investigations into the possible committing of acts of non-compliance, being able to request help from internal audit and propose to the irregularities' committee the sanctions that might be applicable in each case.

4. Cooperate with internal audit in the regular reviews of compliance with the general code and with the codes and sector manuals, without detriment to the regular reviews which, on matters of regulatory compliance, are conducted by compliance management directly.

5. Receive and handle the accusations made by employees or third parties via the whistle blowing channel.

6. Advise on resolving doubts that arise from implementing codes and manuals.

7. Draw up an annual report on implementing the compliance programme to be submitted to the committee of supervision of risks, regulations and compliance.

8. Regularly inform the general secretary, the committee of supervision of risks, regulations and compliance and the board on the implementation of the compliance policy and compliance programme.

9. Assess every year the changes that need to be introduced into the compliance programme, particularly in the event of detecting unregulated business areas and procedures susceptible to improvement, and propose the changes to the committee of supervision of risks, regulations and compliance.

As regards the codes and manuals of the sectors, the focus of the compliance programme is on the following operational spheres, among others:

- Anti-money laundering and terrorist financing.

- Marketing of products and services.

- Conduct in the securities markets.

- Corporate defence.

- Relationships with regulators and supervisors.

- Drawing up and disseminating the Group's institutional information.

Anti-money laundering and terrorist financing

Policies

As a socially responsible institution, it is a strategic objective for Grupo Santander to have an advanced and efficient anti-money laundering and terrorist financing system, constantly adapted to the latest international regulations and with the capacity to confront the appearance of new techniques of criminal organisations.

The function of anti-money laundering and terrorist financing revolves around policies that set minimum standards that Grupo Santander's units must observe. It is formulated in accordance with the principles contained in the 40 recommendations of the Financial Action Task Force (FATF) and the obligations in Directive 2005/60/EC of the European Parliament and of the Council of 26 October, 2005, on anti-money laundering and terrorist financing.

The corporate policy and rules that develop it have to be fulfilled by all the Group's units in the world. By units we mean all those banks, subsidiaries, departments or branches of Banco Santander, both in Spain and abroad, which, in accordance with their legal statute, must submit to the regulations on anti-money laundering and terrorist financing.

Governance and organization

The organisation of the function of anti-money laundering and terrorist financing. (AML/TF) in Grupo Santander rests on the following figures: (i) The board, (ii) The analysis and resolution committee (ARC), (iii) The corporate unit of financial intelligence (CUFI), (iv) Local ARCs, (v) AML/TF local units and (vi) the AML executives at various levels.

The board approves the internal governance framework for anti-money laundering and terrorist financing.

Grupo Santander's CAR is a collegiate body of corporate scope. It comprises representatives from the divisions of risk, internal audit, retail banking, global wholesale banking, human resources, organisation and costs, technology and operations, financial accounting and control, consumer finance and the general secretariat, which defines the general policies and objectives and formulate the rules of the Group's various bodies and entities in the sphere of AML and coordination.

Due to the separation of the local sphere of Spain from the corporate level, a local ARC for Spain was created in 2014 (previously integrated into the corporate ARC) and totally differentiated from the corporate ARC, which assumes the functions of an internal organ of AML/TF control with powers at the local level.

The corporate unit of financial intelligence (CUFI) manages, supervises and coordinates the systems for the prevention of money laundering and financing of terrorism of Grupo Santander's subsidiaries, branches and business areas, requiring the adoption of programmes, measures and necessary improvements.

The local ARCs are internal control organs designed for the prevention of money laundering and financing of terrorism with powers at the local level and comprise representatives of the most directly involved departments.

The local UPBCs are technical units responsible for managing and coordinating the systems and procedures for anti-money laundering and terrorist financing in the countries where the Group operates, as well as the investigation and treatment of communications of suspicious operations and of the information requirements of the corresponding authorities.

There are also executives for the prevention of money laundering and the financing of terrorism at four different levels: area, unit, branch and account. In each case their mission is to support the CUFI and the local UPBCs from a position of proximity to clients and operations.

At the consolidated level, a total of 954 people (83% of them full time) work in prevention activities and tend to 149 units in 35 countries.

Grupo Santander has established in all its units and business areas corporate systems based on decentralised IT applications. These enable operations and customers who, because of their risk, need to be analysed to be presented to the branches of the account or customer relationship managers. These tools are complemented by others of centralised use which are operated by teams of analysts from AML/TF units who, on the basis of certain risk profiles and changes in certain patterns of customer behaviour, enable operations susceptible of being linked to money laundering and/or the financing of terrorism to be analysed, identified early on and monitored.

Banco Santander is a founder member of the Wolfsberg Group, and forms part of it along with 10 other large international banks. The Group's objective is to establish international standards that increase the effectiveness of programmes to combat money laundering and the financing of terrorism in the financial community. Various initiatives have been developed which have treated issues such the prevention of money laundering in private banking, correspondent banking and the financing of terrorism, among others. Regulatory authorities and experts in this area believe that the principles and guidelines set by the Wolfsberg Group represent an important step in the fight against money laundering, corruption, terrorism and other serious crimes.

Main actions
The Group analysed a total of 22.9 million operations in 2014 (27.6 million in 2013) both by the commercial networks as well as by money laundering prevention teams, of which more than one million were by the units in Spain.

The CUFI and the local AML/TF departments conduct annual reviews of all the Group's units in the world.

In 2014, 123 units were reviewed (146 in 2013), 11 of them in Spain and the rest abroad, and reports were issued in all cases stating the measures to be taken (recommendations) to improve and strengthen systems. In 2014, 229 measures to be adopted were established (201 in 2013), which are being monitored until their full and effective implementation.

Training courses were given in 2014 for the prevention of money-laundering to a total of 129,233 employees (108,592 in 2013).

Lastly, many units are submitted to regular reviews by external auditors.

Main indicators of activity

2014	Subsidiaries reviewed *	Cases investigated	Communications to authorities	Employees trained
TOTAL	**123**	**79,978**	**23,844**	**129,233**

* Subsidiaries supervised by the financial intelligence corporate unit and local money laundering prevention units.

Marketing of products and services

Policies
At Grupo Santander management of the risk that could arise from an inadequate sale of products or from an incorrect provision of services by the Group is conducted in accordance with the corporate policies of marketing of products and services.

The corporate framework aims to establish a homogeneous system to market Grupo Santander's products and services, in order to minimise the Group's exposure to risks stemming from marketing, covering all its phases (admission, pre-sale, sale and monitoring).

In order to adapt the framework to Banco Santander and the Group's subsidiaries, these adopt the framework at their corresponding board meetings, adhere to it and make the necessary changes to ensure compliance with the local regulatory requirements.

Governance and organisation
The organisational structure in the risk management sphere that could arise from an inadequate marketing of products or services is based, at both the corporate and local levels, on marketing committees, monitoring committees and conduct risk management offices.

The corporate committee of marketing (CCM) is the maximum decision-making body for approving products and services. It comprises representatives from the divisions of risks, financial management technology and operations, general secretariat, financial accounting and control, internal audit, retail banking and global wholesale banking.

The CCM attaches particular importance to adjusting products and services to the framework where they are going to be marketed, paying special attention to ensuring that:

- Each product or service is sold by suitable staff.
- Customers are provided with the necessary and adequate information.
- The product or service fits the customer's risk profile.
- Each product of service is assigned to the right market, not only for legal or tax reasons, but also to meet the market's financial culture of them.
- The products and services fulfil the requirements of the corporate marketing policies and, in general, the applicable internal and external rules.

At the local level, local marketing committees (LCM) approve new products and channel to the LCM proposals for their validation.

The marketing committees, in the respective approval processes, take a risk-focused approach from the double perspective of bank/client.

The corporate monitoring committee (CMC) is the Group's decision-making body for monitoring products and services. It comprises representatives from the divisions of internal audit, general secretariat, risks and the business areas affected (with permanent representation of commercial banking). It meets every week to raise and resolve specific issues related to the marketing of products and services in all the Group's units.

The corporate office of conduct risk management (COCRM) provides the governance bodies with the information needed for: (i) adequate analysis of risk when validating the product, from a double focus: impact on the Bank and on the client; and (ii) monitoring of products throughout their life cycle.

At the local level there are reputational risk management offices, which are responsible for promoting the risk culture and ensuring that approval and monitoring of products is developed in their respective local sphere in line with the corporate framework.

Main actions
The CCM met 12 times in 2014 (12 in 2013 and 14 in 2012) and analysed 103 new products/services. Moreover, 31 products/ services were presented to the corporate office of reputational risk, considered not new for approval and resolved 135 consultations from several areas and countries.

Monitoring of products and services approved is done locally (local committee of monitoring of products or equivalent local body, such as the LCM). The conclusions are set out in reports every four months for the COCRM.

The CMC held 41 meetings in 2014 (41 in 2013 and 44 in 2012) at which incidents were resolved and information analysed on the monitoring of products and services of the Group's units abroad.

Code of Conduct in Securities Markets (CCSM)

Policy
This is set by the code of conduct in securities markets (CCSM), complemented, among others, by the code of conduct for analysis activity, the research policy manual and the procedure for detecting, analysing and communicating operations suspected of market abuse.

Governance and organisation
The organisation revolves around the corporate office of compliance together with local compliance management and that of subsidiaries.

The functions of compliance management with regard to the code of conduct in securities markets are as follows:

1. Register and control sensitive information known and/or generated by the Group.
2. Maintain the lists of securities affected and related personnel, and watch the transactions conducted with these securities.
3. Monitor transactions with restricted securities according to the type of activity, portfolios or collectives to whom the restriction is applicable.
4. Receive and deal with communications and requests to carry out own account trading.
5. Control own account trading of the relevant personnel.
6. Manage failures to comply of the CCSM.
7. Resolve doubts on the CCSM.
8. Register and resolve conflicts of interest and situations that could give rise to them.
9. Assess and manage conflicts arising from the analysis activity.
10. Keep the necessary records to control compliance with the obligations envisaged in the CCSM.
11. Develop ordinary contact with the regulators.

12. Organise the training and, in general, conduct the actions needed to apply the code.

13. Analyse activities suspicious of constituting market abuse and, where appropriate, report them to the supervisory authorities.

Main actions

The compliance corporate office, together with local compliance executives and of the subsidiaries, ensure that the obligations contained in the CCSM are observed by around 12,000 Group employees throughout the world.

The market abuse investigation unit continued to review many transactions that gave rise to opportune communications to the National Securities Market Commission. Moreover, a new unit of market compliance was created in 2014, focusing on controlling operations in the capital markets.

Corporate defence

The Group's compliance management is also responsible for managing the corporate defence management model, created after the entry into force of Organic Law 5/2010, which introduced the penal responsibility of companies for crimes committed on account of and for the benefit of them by administrators or representatives and by employees as a result of the lack of control.

The system of managing risks for the prevention of penal crimes, a key element of which is the whistle blowing channel, obtained the AENOR certification in 2014.

The Group has established 26 such channels, and in 2014 received denunciations in six of them (Germany, Brazil, US, UK, Poland and Spain).

In 2014, more than 400 denunciations were received by any channel. They were handled in accordance with the Group's internal procedures. The most common reasons for the denunciations were failure to comply with the internal rules for employees, either because of inadequate behaviour or for not observing the Group's policies or procedures.

Relationships with the supervisory authorities and dissemination of information to the markets

Compliance management is responsible for tending to the information requirements of the regulatory and supervisory bodies, both those in Spain as well as in other countries where the Group operates, monitoring implementation of the measures resulting from the reports or inspections of these bodies and supervising the way in which the Group disseminates institutional information in the markets transparently and in accordance with the regulators' requirements. The committee of supervision of risks, regulations and compliance (before its creation in June 2014 the audit committee) is informed of the main issues at each of its meetings.

Banco Santander made public 90 relevant facts in 2014, which are available on the Group's web site and that of the National Securities Market Commission (CNMV).

Other actions

Compliance management continued to carry out other activities in 2014 inherent to its sphere (reviewing the bank's internal rules before their publication, ensuring treasury stock operations are in line with internal and external rules, maintaining the section on regulatory information on the corporate website, reviewing the vote recommendation reports for shareholders' meetings drawn up by the leading consultancies in this area, sending periodic regulatory information to the supervisory bodies, etc). It also co-operated in new corporate projects such as the Group's adjustment to the US Volker Rule, the listing of the Santander share on the stock markets of Sao Paulo (via BDRs) and Warsaw and implementing corporate data protection models and prevention of penal risks, among others.

The losses incurred by the Group from compliance, conduct and reputational risks are included in the data base of events which the Group's corporate area of operational risk (CAOR) manages.

11. Model risk

The use of risk management models entails the appearance of model risk, understood as the losses that come from decisions mainly founded on the results of models, due to errors in the definition, application or use of the models.

The risk is manifested in both operational risk (that associated with errors in the data, in the construction, implementation and use), as well as implicitly in the risk associated with the activity it is supporting (be it credit, market or another risk, due to data, construction or inadequate use of the model).

Extending the use of the models to a wide series of activities makes it necessary to establish a series of actions and controls throughout the life cycle of these models in order to know and minimise the risks associated.

Model risk management is structured around three lines of defence that are specified in the following way:

- First line of defence, consisting of owners and developers as well as generators of exposure to this risk.
- Second line of defence, made up of teams specialised in controlling and supervising risks and charged with complementing the control functions of the first line of defence, questioning whether its approaches are opportune and issuing an opinion on this.
- Third line of defence, constituted by Internal audit.

The model risk can be mitigated through an environment of control and management, i.e. a series of controls on the model's life cycle. The cycle covers the very definition of the standards to be used in its development through to regular monitoring and its final completion.

Of particular importance is the **planning phase**, where the priorities of development and management of the models are determined. By drawing up the plans, the needs to be covered are identified and the materiality of the risk involved assessed.

Extracting and validating the information as well as the very **development** of the model are also two fundamental phases. In the case of the development, points of control must be established that enable aspects such as verifying whether the data used is adequate, that the objectives are in accord with what is requested, that the construction has been done following the established lines and that the implementation is viable before the model is put into operation, which will take place once formally approved.

A process of **validation** conducted by a function independent of the developer of the model must exist in order to control the risk associated with the development of models. The scope of the validation will depend on the type of the model, the materiality and the type of development applied.

Lastly, all developments of a new model or changes to the one already existing, or a new use of a model must be reviewed and approved, in accordance with its materiality, by the government established. This process represents the recognition by those involved that they know and are aware of all the risks associated with use of the model, as well as the different assumptions made in its construction and the limitations existing, according to the model's envisaged uses.

Once installed, the models will be supervised regularly to ensure they are used for the purposes for which they were approved and continue to function as expected.

12. Capital management and capital risk control

The Group manages capital in a comprehensive way, seeking to guarantee its solvency and maximise profitability and determined by the strategic objectives and the risk appetite set by the board. A series of practices are defined that shape the focus that the Group wants to give to management of capital:

- Establish adequate planning of capital that enables current needs to be covered and provides the necessary equity to cover the needs of business plans and the short and medium term risks, while maintaining the risk profile approved by the board.
- Ensure that under stress scenarios the Group and its companies maintain sufficient capital to cover the needs arising from the increase in risks resulting from the deterioration of macroeconomic conditions.
- Optimise the use of capital by adequately assigning it among the businesses, based on the relative return on regulatory and economic capital, taking into account the risk appetite, its growth and the strategic objectives.

Santander defines capital risk as the risk that the Group or its companies have an insufficient amount and/or quality of capital to tend to the expectations of its stakeholders, and in accordance with its strategic planning. Of note are the following objectives:

- Comply with the internal objectives for capital and solvency.
- Meet the regulatory requirements.
- Align the Bank's strategic plan with the capital expectations of external agents (rating agencies, shareholders and investors, customers, supervisors, etc).
- Support business growth and the strategic possibilities that arise.

Solvency position

Grupo Santander maintains a very solid solvency position, significantly above the minimum levels required by regulations. In 2014, the Group strengthened its main capital ratios in response to the difficult economic and financial environment and the new regulatory requirements.

The stress tests conducted by the ECB on Europe's financial industry underscored the quality of Banco Santander's portfolios, the correct valuation of its assets and adequate provisions, as well as the strength of its business model for adverse macroeconomic scenarios. For more detail see item 1 of this chapter.

The Bank completed on January 9, 2015 its EUR 7,500 million capital increase. As a result, it meets the main objective of being able to sustain the organic growth of business, increasing loans and market share in its main markets, accompanying its clients in a new stage of economic growth.

After the capital increase, the Common Equity Tier 1 (CET1 fully loaded) ratio, which represents coverage of risks with the maximum quality capital, increased to 9.7% from 8.3%, in line with Santander's peers. Furthermore, if we take into account the Group's business model, characterised by its high geographic diversification, recurrent results and resilience to adverse environments, as manifested in the recent European stress exercise, the Group's capital standards are among the best in the sector.

The Group's objective is to increase the CET1 fully loaded ratio even more to around 10%-11% in 2017.

The table below shows risk-weighted assets (RWAs) in the main geographic areas and type of risk.

Grupo Santander
Total RWAs: 585,829

Million euros

Continental Europe Total: 241,186	UK Total: 102,379	Latin America Total: 170,825	US Total: 71,203	Rest Total: 236
Credit: 83%	Credit: 83%	Credit: 78%	Credit: 87%	Credit: 100%
Operational: 9%	Operational: 9%	Operational: 18%	Operational: 12%	Operational: 0%
Market: 8%	Market: 8%	Market: 4%	Market: 1%	Market: 0%

As regards credit risk, Grupo Santander continued its plan to implement Basel's advanced internal rating-based (AIRB) approach for almost all the Group's banks (up to covering more than 90% of net exposure of the credit portfolio under these models). Meeting this objective in the short term will also be conditioned by the acquisition of new entities, as well as by the need for coordination between supervisors of the validation processes of internal models.

The Group operates in countries where the legal framework among supervisors is the same, as is the case in Europe via the Capital Directive. However, in other jurisdictions, the same process is subject to the cooperation framework between the supervisor in the home country and that in the host country with different legislations. This means, in practice, adapting to different criteria and calendars in order to attain authorisation for the use of advanced models on a consolidated basis.

With this objective in mind, Santander continued during 2014 to gradually install the necessary technology platforms and methodological developments that will make it possible to progressively apply advanced internal models for calculating regulatory capital in the rest of the Group's units.

At the moment, Grupo Santander has the supervisory authorisation to use advanced focuses for calculating the regulatory capital requirements by credit risk for the parent bank and the main subsidiaries in Spain, UK, Portugal, and certain portfolios in Mexico, Brazil, Chile, Santander Consumer Finance Spain and the US. The strategy of implementing Basel in the Group is focused on achieving use of advanced models in the main institutions in the Americas and Europe. The calculation of minimum regulatory capital requirements during 2014 of the following portfolios, with a total EAD of around EUR 25,000 million, moved from standard focus to advanced IRB focus: consumer credit portfolios of SC Germany; companies and cards of SC Spain; state governments and promoters of Santander Mexico.

In operational risk, Grupo Santander uses the standard focus for calculating regulatory capital. The Group's project to evolve toward a focus of advanced management models (AMA) is in an advanced phase, gathering sufficient information on the basis of its own management model.

As regards the rest of risks explicitly envisaged in Pillar 1 of Basel, in market risk we have authorisation to use its internal model for the trading activity of treasuries in Spain, Chile, Portugal and Mexico, thereby continuing the plan of gradual implementation for the rest of units presented to the Bank of Spain.

Leverage ratio requirements

The new CRD IV introduces a new leverage ratio that is not sensitive to the risk profile of entities. It is calculated as the ratio between Tier 1 divided by the exposure.

This exposure is calculated as the sum of total assets plus off-balance sheet items (guarantees, unused credit limits granted, documentary credits, mainly). Some technical corrections are made on this sum, such as replacing the value in the asset of derivatives and financing operations of securities by the EaD considered for calculating risk-weighted assets and eliminating the value of assets considered as deductions in Tier 1. In addition, the regulators have incorporated some reduction in the value for off-balance operations related to commerce.

At the moment this ratio does not have to be fulfilled. It must be published as of 2015. The supervisors have made public the intention to make it obligatory to meet a minimum ratio as of 2018, indicating 3% as the minimum reference.

At the end of 2014, the leverage ratio phase-in was 4.5% and the fully-loaded ratio 3.7%. Including the January 2015 capital increase and reflecting the change in the EU Regulation 575/2013 published in January 17, 2015, the ratio would increase by close to one percentage point.

More information on this ratio can be found in the 2014 prudential relevance report (Pillar III).

12.1. New regulatory framework

The regulations known as Basel III came into force in 2014, setting new global standards for banks' capital and liquidity.

From the standpoint of capital, Basel III redefines what is considered as available capital in financial institutions (including new deductions and raising the requirements of eligible capital instruments), increases the minimum capital required, demands that institutions operate permanently with capital buffers and adds new requirements in the risks considered.

Grupo Santander shares the ultimate objective that the regulator pursues with this new framework, which is to make the international financial system more stable and solid. In this sense, for years we have participated in the studies promoted by the Basel Committee and the European Banking Authority (EBA), and coordinated at the local level by the Bank of Spain to calibrate the new regulations.

In Europe, the new regulations have been implemented via EU directive 2013/36, known as CRD IV, and its regulations 575/2013 (CRR), which is directly, applied in all EU countries (single rule book). In addition, these rules are subject to legal developments entrusted to the EBA, some of which will be produced in the coming months/years.

This regulation entered into force on January 1, 2014, with many of the rules subject to different schedules of implementation. This phase of implementation mainly affected the definition of funds that are eligible as capital and will be completed at the end of 2017, except for the deduction of deferred tax credits (DTAs) whose schedule lasts until 2023.

Subsequent to the European legal transposition, the Basel Committee continued to publish additional regulations, some of them as public consultation, which will entail a future modification of the CRD IV directive and of its regulations. Grupo Santander will continue to support regulators, with its opinions and participation in impact studies.

12.2. Economic capital

Economic capital is the capital needed, in accordance with an internally developed model, to support all the risks of business with a certain level of solvency. In the case of Santander, the solvency level is determined by the long term rating objective of AA-/A+, which means a confidence level of 99.95% (above the regulatory 99.90%) to calculate the necessary capital.

Complementing the regulatory focus, Santander's economic capital model includes in its measurement all the significant risks incurred by the Group in its operations (risk of concentration, structural interest, business, pensions and others beyond the sphere of Pillar 1 regulatory capital). Moreover, economic capital incorporates the diversification impact, which in the case of Grupo Santander is vital, because of its multinational nature and many businesses, in order to determine the global risk profile and solvency.

Economic capital is a key tool for the internal management and development of the Group's strategy, both from the standpoint of assessing solvency, as well as risk management of portfolios and businesses.

From the solvency standpoint, the Group uses, in the context of Basel Pillar II, its economic model for the capital self-assessment process (ICAAP). For this, the business evolution and capital needs are planned under a central scenario and alternative stress scenarios. The Group is assured in this planning of maintaining its solvency objectives even in adverse scenarios.

The economic capital metrics also enable risk-return objectives to be assessed, setting the prices of operations on the basis of risk, evaluating the economic viability of projects, units and lines of business, with the overriding objective of maximising the generation of shareholder value.

As a homogeneous measurement of risk, economic capital can be used to explain the risk distribution throughout the Group, putting in a metric comparable activities and different types of risk.

The economic capital requirement at the end of 2014 was EUR 66,457 million, EUR 21,524 million above the EUR 87,980 million available economic capital.

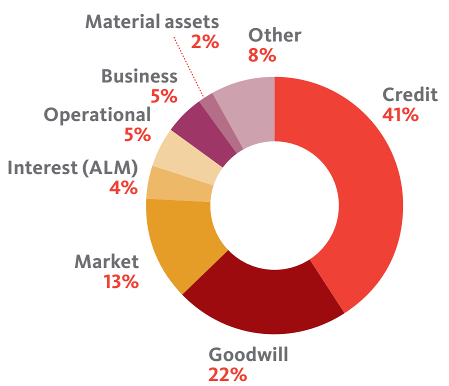
The table below sets out the available economic capital:

Million euros	
Net capital and issue premium	44,851
Reserves	46,227
Retained earnings and valuation adjustments	(9,980)
Minority interests	6,663
Net capital gains of the AFS* portfolio	1,983
Pension deduction	(2,175)
Available economic capital	**87,569**

* Available for sale.

The main difference with the regulatory CET1 comes from the treatment of goodwill and other intangibles, which we consider as one more requirement of capital instead of as a deduction from the available capital.

The distribution of economic capital needs by type of risk at the end of 2014 is shown in the folllowing chart:



The table below sets out Grupo Santander's distribution by types of risk and geographic area at the end of 2014:

Thousand euros

Grupo Santander
Total requirements: 66,785

Continental Europe	United Kingdom	Latin America	United States	Corporate centre
Total risks: 16,898	**Total risks: 7,645**	**Total risks: 13,498**	**Total risks: 6,059**	**Total risks: 22,685**
Credit: 64%	Credit: 60%	Credit: 61%	Credit: 61%	Goodwill: 65%
Operational: 8%	Structural (pensions): 18%	Structural (interest): 9%	Operational: 9%	Estructural (FX): 15%
Market: 10%	Structural (interest): 4%	Operational: 6%	Market: 5%	Structural (interest): 3%
Other: 18%	Operational: 9%	Market: 4%	Structural (interest): 5%	Market: 12%
	Other: 9%	Other: 20%	Other: 20%	Other: 5%

The distribution of economic capital among the main business areas reflects the diversified nature of the Group's business and risk. Continental Europe represents 25% of the capital, Latin America including Brazil 20%, the UK 11% and the US 9%.

Outside the operating areas, the corporate centre assumes, principally, the risk from goodwill and the risk derived from the exposure to structural exchange rate risk (risk derived from maintaining stakes in subsidiaries abroad denominated in currencies other than the euro).

The benefit of diversification contemplated in the economic capital model, including both the intra-risk diversification (equivalent to geographic) as well as inter-risks amounted to approximately 30%.

Return on risk adjusted capital (RORAC) and creation of value

Grupo Santander has been using RORAC methodology in its credit risk management since 1993 in order to:

- Calculate the consumption of economic capital and the return on it of the Group's business units, as well as segments, portfolios and customers, in order to facilitate optimum assigning of economic capital.
- Budget the capital consumption and RORAC of the Group's business units.
- Analyse and set prices in the decision-taking process for operations (admission) and clients (monitoring).

RORAC methodology enables one to compare, on a like-for-like basis, the return on operations, customers, portfolios and businesses, identifying those that obtain a risk- adjusted return higher than the cost of the Group's capital, aligning risk and business management with the intention of maximising the creation of value, the ultimate aim of the Group's senior management.

The Group regularly assesses the level and evolution of value creation (VC) and the risk-adjusted return (RORAC) of its main business units. The VC is the profit generated above the cost of the economic capital (EC) employed, and is calculated as follows:

Value creation =profit – (average EC x cost of capital)

The profit used is obtained by making the necessary adjustments to the accounting profit so as to extract just the recurrent profit that each unit generates in the year of its activity.

The minimum return on capital that an operation must attain is determined by the cost of capital, which is the minimum required by shareholders. It is calculated objectively by adding to the free return of risk the premium that shareholders demand to invest in our Group. This premium depends essentially on the degree of volatility in the price of the Banco Santander share in relation to the market's performance. The cost of capital in 2014 applied to the Group's various units was 11.59%. As well as reviewing every year the cost of the Group's capital, in a parallel way and for the purposes of internal management, the cost of capital for each business unit is also estimated, taking into account the specific features of each market, under the philosophy of subsidiaries autonomous in capital and liquidity, in order to assess if each business is capable of generating value individually.

A positive return from an operation or portfolio means it is contributing to the Group's profits, but it is only creating shareholder value when that return exceeds the cost of capital.

The performance of the business units in 2014 in value creation varied. The Group's results, and thus the RORAC figures and value creation, are conditioned by the different evolution of the economic cycle in the Group's units.

The creation of value and the RORAC for the Group's main business areas are shown below:

Main segments	RORAC	Value creation
Continental Europe	13.6%	358
UK	20.4%	634
Latin America	29.7%	2,401
US	19.5%	412
Total business units	**20.4%**	**3,805**

12.3 Planning of capital and stress exercises

Stress exercises on capital have assumed particular importance as a dynamic evaluation tool of the risks and solvency of banks. A new model of evaluation, based on a forward-looking approach, is becoming a key element for analysing the solvency of banks.

It is a forward-looking assessment, based on macroeconomic as well as idiosyncratic scenarios of little probability but plausible. It is necessary to have for it robust planning models, capable of transferring the impact defined in projected scenarios to the different elements that influence a bank's solvency.

The ultimate objective of the stress exercises is to carry out a full assessment of the risks and solvency of banks, which enables possible capital requirements to be calculated in the event that they are needed because of banks' failure to meet the capital objectives set, both regulatory and internal.

Internally, Grupo Santander has defined a process of stress and capital planning not only to respond to the various regulatory exercises, but also as a key tool integrated in the Bank's management and strategy.

The goal of the internal process of stress and capital planning is to ensure sufficient current and future capital, including for adverse though plausible economic scenarios. Starting from the Group's initial situation (defined by its financial statements, capital base, risk parameters and regulatory ratios), the envisaged results are estimated for different business environments (including severe recessions as well as "normal" macroeconomic situations), and the Group's solvency ratios are obtained for a period usually of three years.

This process provides a comprehensive view of the Group for the time frame analysed and in each of the scenarios defined. It incorporates the metrics of regulatory capital, economic capital and available capital.

The structure of the process is shown below:

1 Macroeconomic scenarios	→ **Central** and of **recession** → **Idiosyncratic:** based on specific risks → **Multiannual** time frame
2 Projection of the balance sheet and income statement	→ Projection of **volumes. Business** strategy → **Spreads** and **cost of funding** → **Commissions** and **operating** costs → **Market** shocks and **operational** losses → Credit losses and **provisions**. PD and LGD PIT models
3 Projection of capital requirements	→ **Consistent** with the projected **balance** sheet → **Risk parameters** (PD, LGD and EaD)
4 Solvency analysis	→ **Capital base** available. Profit and dividends → **Impact of regulations and regulatory requirements** → **Capital and solvency ratios** → **Compliance** with capital **objectives**
5 Action plan	→ In the event of not meeting objectives or regulatory requirements

The recently presented structure facilitates achieving the ultimate objective which is capital planning, by turning it into an element of strategic importance for the Group which:

- Ensures the solvency of current and future capital, including in adverse economic scenarios.
- Enables comprehensive management of capital and incorporates an analysis of the specific impacts, facilitating their integration into the Group's strategic planning.
- Enables a more efficient use of capital.
- Supports the design of the Group's capital management strategy.
- Facilitates communication with the market and supervisors.

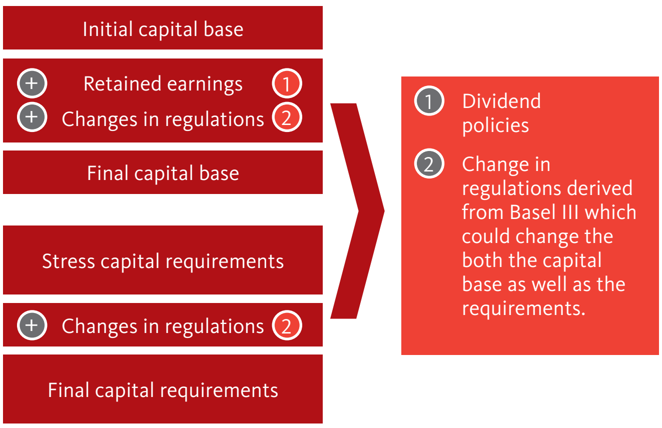
In addition, the whole process is developed with the maximum involvement of senior management and its close supervision, as well as under a framework that ensures that the governance is the suitable one and that all elements that configure it are subject to adequate levels of challenge, review and analysis.

One of the key elements in capital planning and stress analysis exercises, due to its particular importance in forecasting the income statement under defined stress scenarios, consists of calculating the provisions needed under these scenarios, mainly those to cover losses in the credit portfolio. Grupo Santander uses a methodology that ensures that at all times there is a level of provisions that covers all the projected credit losses for its internal models of expected loss, based on the parameters of exposure at default (EaD), probability of default (PD) and loss given default (LGD).

This methodology is widely accepted and it similar to that used in previous stress exercises (for example, the EBA stress exercises in 2011 and 2014 or the health check on the Spanish banking sector in 2012).

Lastly, the capital planning and stress analysis process culminates with analysis of solvency under the various scenarios designed and over a defined time frame, in order to assess the sufficiency of capital and ensure the Group fulfils both the capital objectives defined internally as well as all the regulatory requirements.

Quantification of the sufficiency of capital



In the event of not meeting the capital objectives set, an action plan will be prepared which envisages the measures needed to be able to attain the desired minimum capital. These measures are analysed and quantified as part of the internal exercises, although it is not necessary to put them into force as Santander exceeds the minimum capital thresholds.

This internal process of stress and capital planning is conducted in a transversal way throughout Grupo Santander, not only at the consolidated level, but also locally in the Group's units as they use the process of stress and capital planning as an internal management tool and to respond to their local regulatory requirements.

Throughout the recent economic crisis, Grupo Santander was submitted to five stress tests which demonstrated its strength and solvency in the most extreme and severe macroeconomic scenarios. All of them, thanks mainly to the business model and geographic diversification in the Group, showed that Banco Santander will continue to generate profits for its shareholders and comply with the most demanding regulatory requirements.

In the first one (CEBS 2010), the Group was the entity with a low impact on its solvency ratio, except for those banks that benefited from not distributing a dividend, In the second one, carried out by the EBA in 2011, Santander was not only among the small group of banks that improved its solvency in the stress scenario, but also the one with the highest level of profits.

In the stress exercises conducted by Oliver Wyman on Spanish banks in 2012 (top-down and then bottom-up), Banco Santander again showed its strength to gave with full solvency the most extreme economic scenarios. It was the only bank that improved its core capital ratio, with a surplus of more than EUR 25,000 million over the minimum requirement.

Lastly, in the recent stress test carried out in 2014 by the European Central Bank, in conjunction with the European Banking Authority, as previously commented on, Grupo Santander was the bank with the smallest impact from the adverse scenario among its international peers (EUR 20,000 million capital surplus above the minimum requirement). These results show, once again, that Grupo Santander's business model enables it to face with greater robustness the most severe international crises.

As already mentioned, as well as the regulatory exercises of stress, Grupo Santander annually conducts since 2008 internal exercises of resilience within its self-assessment process of capital (Pillar II). All of them showed, in the same way, Grupo Santander's capacity to meet the most difficult scenarios, both globally as well as in the main countries in which it operates.

13. Appendix: EDTF transparency

Banco Santander has traditionally maintained a clear commitment to transparency, by virtue of which it has participated actively in the Enchanced Disclosure Task Force (EDTF) promoted by the Financial Stability Board (FSB) in order to improve the quality and comparability of the risk information that banks provide to the market, Several studies have analysed the degree of adoption of the 32 recommendations formulated by the EDTF in October 2012, in which Santander stands out as one of the banks that is leading globally the practical application of this initiative.

The table below sets out where the EDTF recommendations can be found in the information published by Grupo Santander.

		EDTF recommendations	Annual report*
General	1	Index with risk information	Executive summary
	2	Terminology and risk measures	4.1; 6.5; 7.1-7.4; 8.2
	3	Top and emerging risk	5
	4	New regulatory ratios and compliance plans	1; 8.3; 12
Risk governance and risk management and bussines model	5	Organisation of risk management, processes and functions	3; 4.2;4.8; 8.2
	6	Risk culture and internal measures	2;4.9
	7	Business model risks, risk management and appetite	4; 12
	8	Stress test uses and process	1; 4.4-4.5; 6.5; 7.2-7.3; 8.2; 12.3
Capital adequacy and risk-weighted assets	9	Minimum capital requirements (Pillar 1)	12; Pillar III - 5.5
	10	Composition of regulatory capital and conciliation with the balance sheet	Pillar III - 3.2; 5.5
	11	Flow statement of movements in regulatory capital	Pillar III - 5.5
	12	Capital planning	12.3; Pillar III - 5.6
	13	Business activities and RWAs	12; Pillar III - 5.5
	14	Capital requirements by method of calculation and portfolio	Pillar III - 5.5
	15	Credit risk by Basel portfolios	Pillar III - 5.5; 7.2-7.4
	16	RWA flow statement by type of risk	Pillar III - 5.5
	17	Backtesting of models (Pillar III)	Pillar III - 7.7; 7.9; 9.2
Liquidity	18	Liquidity needs, management and liquidity reserve	8.2; 8.3
Funding	19	Encumbered and unencumbered assets	8.3
	20	Contractual maturities of assets, liabilities and off-balance sheet balances	8.3
	21	Funding plan	8.3; 8.4
Market risk	22	Balance sheet conciliation with trading and non-trading positions	7.2
	23	Significant market risk factors	7.1-7.3
	24	Market risk measurement model limitations	4.8; 7.2
	25	Management techniques for measuring and assessing the risk of loss	7.2
Credit risk	26	Credit risk profile and conciliation with balance sheet items	6.2
	27	Policies for impaired or non-performing loans and forbearance portfolio	6.2
	28	Conciliation of non-performing loans and provisions	6.2
	29	Counterparty risk resulting from derivative transactions	6.4
	30	Credit risk mitigation	6.5
Other risks	31	Other risks	9; 10; 11
	32	Discussion of risk events in the public domain	9; 10

* The location refers to chapters or sections of this Annual report. In the case of capital recommendations and risk-weighted assets, they also refer to sections of the information of prudential relevance (Pillar III).
In addition, the navigation map has the cross-references of the information published by the Group (Annual report, Pillar III, Auditor's report and annual consolidated accounts).

Annex

Historical data. 2004 - 2014

		2014	2013	2012	2011	2010
Balance sheet	US$ Mill.	EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.
Total assets	1,537,410	1,266,296	1,134,128	1,282,880	1,251,008	1,217,501
Net customer loans	892,012	734,711	684,690	731,572	748,541	724,154
Customer deposits	786,285	647,628	607,836	626,639	632,533	616,376
Customer funds under management	1,242,555	1,023,437	946,210	990,096	984,353	985,269
Stockholders' equity	98,106	80,806	70,327	71,797	74,459	75,018
Total managed funds	1,733,836	1,428,083	1,270,042	1,412,617	1,382,464	1,362,289
Income statement						
Net interest income	39,185	29,548	28,419	31,914	28,883	27,728
Gross income	56,510	42,612	41,920	44,989	42,466	40,586
Net operating income	29,937	22,574	21,762	24,753	23,055	22,682
Profit before taxes	14,162	10,679	7,378	3,565	7,858	12,052
Attributable profit to the Group	7,713	5,816	4,175	2,283	5,330	8,181

		2014	2013	2012	2011	2010
Per share data (1)	US$	Euros	Euros	Euros	Euros	Euros
Attributable profit to the Group	0.64	0.48	0.39	0.23	0.60	0.94
Dividend	0.73	0.60	0.60	0.60	0.60	0.60
Share price	8.494	6.996	6.506	6.100	5.870	7.928
Market capitalisation (million)	106,890	88,041	73,735	62,959	50,290	66,033

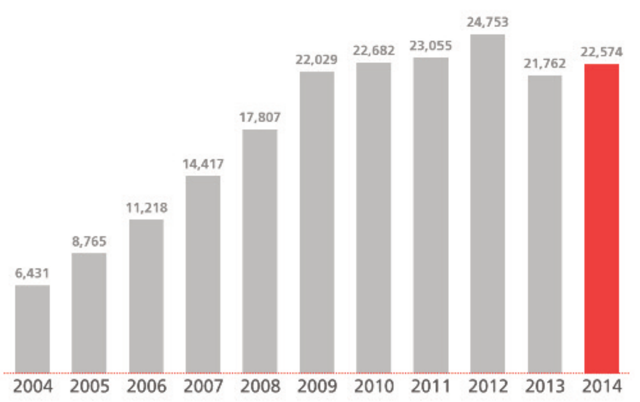
Euro / US$ = 1.214 (balance sheet) and 1.326 (income statement)

(1) Figures adjusted to capital increase in 2008

(2) Compound Annual Growth Rate

Customer loans and total managed funds
EUR Billion

Pre-provision profit (net operating income)
EUR Million



Historical data. 2004 - 2014

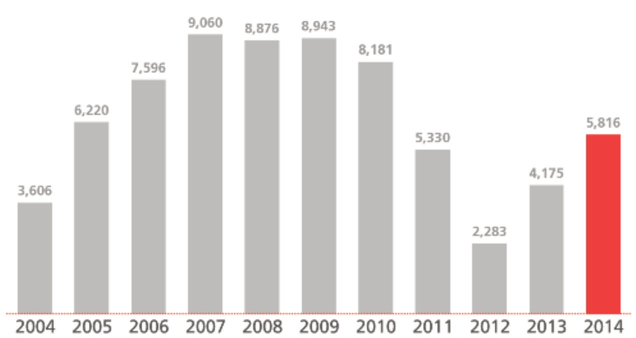
2009	2008	2007	2006	2005	2004	CAGR[2]
EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.	(%)
1,110,529	1,049,632	912,915	833,873	809,107	664,486	6.7
682,551	626,888	571,099	523,346	435,829	369,350	7.1
506,976	420,229	355,407	331,223	305,765	283,212	8.6
900,057	826,567	784,872	739,223	651,360	595,380	5.6
69,678	57,587	55,200	44,852	39,778	34,415	8.9
1,245,420	1,168,355	1,063,892	1,000,996	961,953	793,001	6.1

25,140	20,019	14,443	12,480	10,659	7,562	14.6
38,238	32,624	26,441	22,333	19,076	13,999	11.8
22,029	17,807	14,417	11,218	8,765	6,431	13.4
10,588	10,849	10,970	8,995	7,661	4,387	9.3
8,943	8,876	9,060	7,596	6,220	3,606	4.9

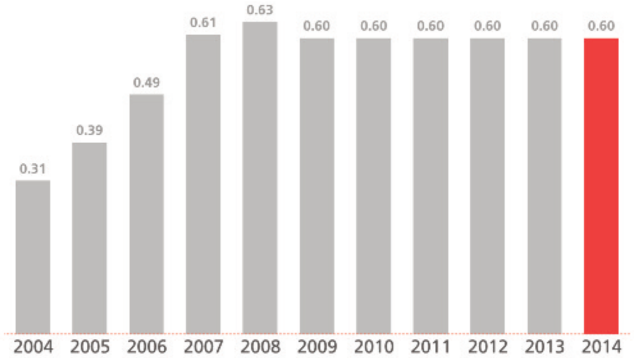
2009	2008	2007	2006	2005	2004	CAGR[2]
Euros	Euros	Euros	Euros	Euros	Euros	(%)
1.05	1.22	1.33	1.13	0.93	0.68	(3.4)
0.60	0.63	0.61	0.49	0.39	0.31	6.9
11.550	6.750	13.790	13.183	10.396	8.512	(1.9)

95,043	53,960	92,501	88,436	69,735	57,102	4.4

Attributable profit to the Group
EUR Million



Remuneration per share*
Euros



(*) Figures adjusted to capital increase in 2008

General information

Banco Santander, S.A.

The parent group of Grupo Santander was established on 21 March 1857 and incorporated in its present form by a public deed executed in Santander, Spain, on 14 January 1875, recorded in the Mercantile Registry of the Finance Section of the Government of the Province of Santander, on folio 157 and following, entry number 859. The Bank's By-laws were amended to conform with current legislation regarding limited liability companies. The amendment was registered on 8 June 1992 and entered into the Mercantile Registry of Santander (volume 448, general section, folio 1, page 1,960, first inscription of adaptation).

The Bank is also recorded in the Special Registry of Banks and Bankers 0049, and its fiscal identification number is A-39000013. It is a member of the Bank Deposit Guarantee Fund.

Registered office

The Corporate By-laws and additional public information regarding the Company may be inspected at its registered office at Paseo de la Pereda, numbers 9 to 12, Santander.

Operational headquarters

Santander Group City
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28660 Boadilla del Monte
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Ombudsman

Mr José Luis Gómez-Dégano,
Apartado de Correos 14019
28080 Madrid
Spain

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Photographs:
Miguel Sánchez Moñita, Lucía M. Diz, Javier Vázquez

Production:
MRM Worldwide

Printing:
Alborada

Legal deposit:

At Banco Santander, we take advantage of new communications technologies and the social networks to improve dialogue with our stakeholders.

Banco Santander, S.A. and Companies composing Santander Group

Consolidated Financial Statements and 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 55). In the event of a discrepancy, the Spanish-language version prevails.

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INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Banco Santander, S.A.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Banco Santander, S.A. ("the Bank") and subsidiaries composing, together with the Bank, Santander Group ("the Group"), which comprise the consolidated balance sheet as at 31 December 2014, and the consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in total equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Bank'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 Group 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 preparation by the Bank's directors 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.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Santander 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 Bank'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 Banco Santander, S.A. and subsidiaries.

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

Ignacio Gutiérrez

24 February 2015

Banco Santander, S.A. and Companies composing Santander Group

Consolidated Financial Statements
and Directors' Report for the year ended
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 55). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER GROUP

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2014, 2013 AND 2012

(Millions of Euros)

ASSETS	Note	2014	2013 (*)	2012 (*)
CASH AND BALANCES WITH CENTRAL BANKS		69,428	77,103	118,488
FINANCIAL ASSETS HELD FOR TRADING:		148,888	115,289	177,917
Loans and advances to credit institutions	6	*1,815*	*5,503*	*9,843*
Loans and advances to customers	10	*2,921*	*5,079*	*9,162*
Debt instruments	7	*54,374*	*40,841*	*43,101*
Equity instruments	8	*12,920*	*4,967*	*5,492*
Trading derivatives	9	*76,858*	*58,899*	*110,319*
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS:		42,673	31,381	28,356
Loans and advances to credit institutions	6	*28,592*	*13,444*	*10,272*
Loans and advances to customers	10	*8,971*	*13,196*	*13,936*
Debt instruments	7	*4,231*	*3,875*	*3,460*
Equity instruments	8	*879*	*866*	*688*
AVAILABLE-FOR-SALE FINANCIAL ASSETS:		115,250	83,799	92,266
Debt instruments	7	*110,249*	*79,844*	*87,724*
Equity instruments	8	*5,001*	*3,955*	*4,542*
LOANS AND RECEIVABLES:		781,635	714,484	756,858
Loans and advances to credit institutions	6	*51,306*	*56,017*	*53,785*
Loans and advances to customers	10	*722,819*	*650,581*	*696,014*
Debt instruments	7	*7,510*	*7,886*	*7,059*
HELD-TO-MATURITY INVESTMENTS		-	-	-
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	36	1,782	1,627	2,274
HEDGING DERIVATIVES	11	7,346	8,301	7,936
NON-CURRENT ASSETS HELD FOR SALE	12	5,376	4,892	5,700
INVESTMENTS:	13	3,471	5,536	4,454
Associates	13	*1,775*	*1,829*	*1,957*
Jointly controlled entities	13	*1,696*	*3,707*	*2,497*
INSURANCE CONTRACTS LINKED TO PENSIONS	14	345	342	405
REINSURANCE ASSETS	15	340	356	424
TANGIBLE ASSETS:		23,256	13,654	13,860
Property, plant and equipment-		*16,889*	*9,974*	*10,315*
For own use	16	*8,324*	*7,787*	*8,136*
Leased out under an operating lease	16	*8,565*	*2,187*	*2,179*
Investment property	16	*6,367*	*3,680*	*3,545*
INTANGIBLE ASSETS:		30,401	26,241	28,062
Goodwill	17	*27,548*	*23,281*	*24,626*
Other intangible assets	18	*2,853*	*2,960*	*3,436*
TAX ASSETS:		27,956	26,944	27,098
Current		*5,792*	*5,751*	*6,111*
Deferred	27	*22,164*	*21,193*	*20,987*
OTHER ASSETS	19	8,149	5,814	5,547
Inventories		*1,099*	*80*	*173*
Other		*7,050*	*5,734*	*5,374*
TOTAL ASSETS		**1,266,296**	**1,115,763**	**1,269,645**

LIABILITIES AND EQUITY	Note	2014	2013 (*)	2012 (*)
FINANCIAL LIABILITIES HELD FOR TRADING:		109,792	94,673	143,242
Deposits from central banks	20	2,041	3,866	1,128
Deposits from credit institutions	20	5,531	7,468	8,292
Customer deposits	21	5,544	8,500	8,897
Marketable debt securities	22	-	1	1
Trading derivatives	9	79,048	58,887	109,743
Short positions	9	17,628	15,951	15,181
Other financial liabilities		-	-	-
OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS:		62,317	42,311	45,418
Deposits from central banks	20	6,321	2,097	1,014
Deposits from credit institutions	20	19,039	9,644	10,862
Customer deposits	21	33,127	26,484	28,638
Marketable debt securities	22	3,830	4,086	4,904
Subordinated liabilities		-	-	-
Other financial liabilities		-	-	-
FINANCIAL LIABILITIES AT AMORTISED COST:		961,052	863,114	959,321
Deposits from central banks	20	17,290	9,788	50,938
Deposits from credit institutions	20	105,147	76,534	80,732
Customer deposits	21	608,956	572,853	589,104
Marketable debt securities	22	193,059	171,390	201,064
Subordinated liabilities	23	17,132	16,139	18,238
Other financial liabilities	24	19,468	16,410	19,245
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	36	31	87	598
HEDGING DERIVATIVES	11	7,255	5,283	6,444
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		21	1	2
LIABILITIES UNDER INSURANCE CONTRACTS	15	713	1,430	1,425
PROVISIONS:		15,376	14,589	16,002
Provision for pensions and similar obligations	25	9,412	9,126	10,353
Provisions for taxes and other legal contingencies	25	2,916	2,727	3,100
Provisions for contingent liabilities and commitments	25	654	693	617
Other provisions	25	2,394	2,043	1,932
TAX LIABILITIES:		9,379	6,079	7,765
Current		4,852	4,254	5,162
Deferred	27	4,527	1,825	2,603
OTHER LIABILITIES	26	10,646	8,554	8,216
TOTAL LIABILITIES		**1,176,582**	**1,036,121**	**1,188,433**
EQUITY				
SHAREHOLDERS' EQUITY:	30	91,663	84,480	81,269
Share capital	31	*6,292*	*5,667*	*5,161*
Registered		*6,292*	*5,667*	*5,161*
Less: Uncalled capital		-	-	-
Share premium	32	*38,611*	*36,804*	*37,412*
Reserves	33	*41,160*	*38,056*	*37,100*
Accumulated reserves (losses)	33	*40,973*	*37,793*	*36,845*
Reserves (losses) of entities accounted for using the equity method	33	*187*	*263*	*255*
Other equity instruments	34	*265*	*193*	*250*
Equity component of compound financial instruments	34	-	-	-
Other	34	*265*	*193*	*250*
Less: Treasury shares	34	*(10)*	*(9)*	*(287)*
Profit for the year attributable to the Parent		*5,816*	*4,175*	*2,283*
Less: Dividends and remuneration	4	*(471)*	*(406)*	*(650)*
VALUATION ADJUSTMENTS		(10,858)	(14,152)	(9,472)
Available-for-sale financial assets	29	*1,560*	*35*	*(249)*
Cash flow hedges	36	*204*	*(233)*	*(219)*
Hedges of net investments in foreign operations	29	*(3,570)*	*(1,874)*	*(2,957)*
Exchange differences	29	*(5,385)*	*(8,768)*	*(3,011)*
Non-current assets held for sale		-	-	-
Entities accounted for using the equity method	29	*(85)*	*(446)*	*(152)*
Other valuation adjustments	29	*(3,582)*	*(2,866)*	*(2,884)*
NON-CONTROLLING INTERESTS	28	8,909	9,314	9,415
Valuation adjustments		*(655)*	*(1,541)*	*(308)*
Other		*9,564*	*10,855*	*9,723*
TOTAL EQUITY		**89,714**	**79,642**	**81,212**
TOTAL LIABILITIES AND EQUITY		**1,266,296**	**1,115,763**	**1,269,645**
MEMORANDUM ITEMS:				
CONTINGENT LIABILITIES	35	44,078	41,049	45,033
CONTINGENT COMMITMENTS	35	208,040	172,797	216,042

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 55 and Appendices 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 55). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER GROUP

CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2014, 2013 AND 2012
(Millions of Euros)

		(Debit) Credit		
	Notes	2014	2013 (*)	2012 (*)
Interest and similar income	38	54,656	51,447	58,791
Interest expense and similar charges	39	(25,109)	(25,512)	(28,868)
NET INTEREST INCOME		**29,547**	**25,935**	**29,923**
Income from equity instruments	40	435	378	423
Share of results of entities accounted for using the equity method	13 & 41	243	500	427
Fee and commission income	42	12,515	12,473	12,732
Fee and commission expense	43	(2,819)	(2,712)	(2,471)
Gains/losses on financial assets and liabilities (net)	44	3,974	3,234	3,329
Held for trading		*2,377*	*1,733*	*1,460*
Other financial instruments at fair value through profit or loss		*239*	*(6)*	*159*
Financial instruments not measured at fair value through profit or loss		*1,427*	*1,622*	*1,789*
Other		*(69)*	*(115)*	*(79)*
Exchange differences (net)	45	(1,124)	160	(189)
Other operating income		5,214	5,903	6,693
Income from insurance and reinsurance contracts issued	46	*3,532*	*4,724*	*5,541*
Sales and income from the provision of non-financial services	46	*343*	*322*	*369*
Other	46	*1,339*	*857*	*783*
Other operating expenses		(5,373)	(6,205)	(6,607)
Expenses of insurance and reinsurance contracts	46	*(3,395)*	*(4,607)*	*(4,948)*
Changes in inventories	46	*(255)*	*(229)*	*(232)*
Other	46	*(1,723)*	*(1,369)*	*(1,427)*
GROSS INCOME		**42,612**	**39,666**	**44,260**
Administrative expenses		(17,899)	(17,452)	(17,801)
Staff costs	47	*(10,242)*	*(10,069)*	*(10,306)*
Other general administrative expenses	48	*(7,657)*	*(7,383)*	*(7,495)*
Depreciation and amortisation charge	16 & 18	(2,287)	(2,391)	(2,183)
Provisions (net)	25	(3,009)	(2,445)	(1,472)
Impairment losses on financial assets (net)		(10,710)	(11,227)	(18,880)
Loans and receivables	10	*(10,521)*	*(10,986)*	*(18,523)*
Other financial instruments not measured at fair value through profit or loss	7 & 29	*(189)*	*(241)*	*(357)*
PROFIT FROM OPERATIONS		**8,707**	**6,151**	**3,924**
Impairment losses on other assets (net)		(938)	(503)	(508)
Goodwill and other intangible assets	17 & 18	*(701)*	*(41)*	*(151)*
Other assets		*(237)*	*(462)*	*(357)*
Gains/(losses) on disposal of assets not classified as non-current assets held for sale	49	3,136	2,152	906
Gains from bargain purchases arising in business combinations		17	-	-
Gains/(losses) on non-current assets held for sale not classified as discontinued operations	50	(243)	(422)	(757)
PROFIT BEFORE TAX		**10,679**	**7,378**	**3,565**
Income tax	27	(3,718)	(2,034)	(584)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**6,961**	**5,344**	**2,981**
PROFIT (LOSS) FROM DISCONTINUED OPERATIONS (net)	37	(26)	(15)	70
CONSOLIDATED PROFIT FOR THE YEAR		**6,935**	**5,329**	**3,051**
Profit attributable to the Parent		*5,816*	*4,175*	*2,283*
Profit attributable to non-controlling interests	28	*1,119*	*1,154*	*768*
EARNINGS PER SHARE				
From continuing and discontinued operations				
Basic earnings per share (euros)	4	*0.48*	*0.39*	*0.23*
Diluted earnings per share (euros)	4	*0.48*	*0.38*	*0.23*
From continuing operations				
Basic earnings per share (euros)	4	*0.48*	*0.39*	*0.22*
Diluted earnings per share (euros)	4	*0.48*	*0.38*	*0.22*

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated income statement for the year ended 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 55). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER GROUP

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2014, 2013 AND 2012

(Millions of Euros)

	2014	2013 (*)	2012 (*)
CONSOLIDATED PROFIT FOR THE YEAR	**6,935**	**5,329**	**3,051**
OTHER RECOGNISED INCOME AND EXPENSE	**4,180**	**(5,913)**	**(3,709)**
Items that will not be reclassified to profit or loss	**(703)**	**188**	**(1,123)**
Actuarial gains/(losses) on defined benefit pension plans	(1,009)	502	(1,708)
Non-current assets held for sale	-	-	-
Income tax relating to items that will not be reclassified to profit or loss	306	(314)	585
Items that may be reclassified to profit or loss	**4,883**	**(6,101)**	**(2,586)**
Available-for-sale financial assets:	2,324	(99)	1,171
Revaluation gains/(losses)	*3,604*	*1,150*	*1,729*
Amounts transferred to income statement	*(1,280)*	*(1,250)*	*(558)*
Other reclassifications	-	*1*	-
Cash flow hedges:	589	47	(84)
Revaluation gains/(losses)	*934*	*463*	*129*
Amounts transferred to income statement	*(345)*	*(416)*	*(249)*
Amounts transferred to initial carrying amount of hedged items	-	-	-
Other reclassifications	-	-	*36*
Hedges of net investments in foreign operations:	(1,730)	1,117	(1,107)
Revaluation gains/(losses)	*(1,730)*	*1,074*	*(1,336)*
Amounts transferred to income statement	-	*38*	*229*
Other reclassifications	-	*5*	-
Exchange differences:	4,189	(7,028)	(2,168)
Revaluation gains/(losses)	*4,184*	*(7,020)*	*(1,831)*
Amounts transferred to income statement	*5*	*(37)*	*(330)*
Other reclassifications	-	*29*	*(7)*
Non-current assets held for sale:	-	-	-
Revaluation gains/(losses)	-	-	-
Amounts transferred to income statement	-	-	-
Other reclassifications	-	-	-
Entities accounted for using the equity method:	361	(294)	(57)
Revaluation gains/(losses)	*266*	*(283)*	*(61)*
Amounts transferred to income statement	*95*	*23*	*21*
Other reclassifications	-	*(34)*	*(17)*
Other recognised income and expense	-	-	-
Income tax relating to items that may be reclassified to profit or loss	(850)	156	(341)
TOTAL RECOGNISED INCOME AND EXPENSE	**11,115**	**(584)**	**(658)**
Attributable to the Parent	*9,110*	*(504)*	*(774)*
Attributable to non-controlling interests	*2,005*	*(80)*	*116*

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of recognised income and expense for the year ended 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 55). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2014, 2013 AND 2012

(Millions of Euros)

	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 as at 31/12/13	**5,667**	**36,804**	**37,858**	**263**	**193**	**(9)**	**4,370**	**(406)**	**84,740**	**(14,152)**	**70,588**	**9,314**	**79,902**
Adjustments due to changes in accounting policies	-	-	(65)	-	-	-	(195)	-	(260)	-	(260)	-	(260)
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**5,667**	**36,804**	**37,793**	**263**	**193**	**(9)**	**4,175**	**(406)**	**84,480**	**(14,152)**	**70,328**	**9,314**	**79,642**
Total recognised income and expense	-	-	-	-	-	-	**5,816**	-	**5,816**	**3,294**	**9,110**	**2,005**	**11,115**
Other changes in equity	**625**	**1,807**	**3,180**	**(76)**	**72**	**(1)**	**(4,175)**	**(65)**	**1,367**	-	**1,367**	**(2,410)**	**(1,043)**
Capital increases	625	1,932	(30)	-	-	-	-	-	2,527	-	2,527	(524)	2,003
Capital reductions	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-
Increases in other equity instruments	-	-	-	-	78	-	-	-	78	-	78	-	78
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	(438)	-	-	-	-	(471)	(909)	-	(909)	(380)	(1,289)
Transactions involving own equity instruments (net)	-	-	40	-	-	(1)	-	-	39	-	39	-	39
Transfers between equity items	-	(125)	4,033	(76)	(63)	-	(4,175)	406	-	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	1,465	1,465
Equity-instrument-based payments	-	-	-	-	(51)	-	-	-	(51)	-	(51)	-	(51)
Other increases/(decreases) in equity	-	-	(425)	-	108	-	-	-	(317)	-	(317)	(2,971)	(3,288)
Ending balance as at 31/12/14	**6,292**	**38,611**	**40,973**	**187**	**265**	**(10)**	**5,816**	**(471)**	**91,663**	**(10,858)**	**80,805**	**8,909**	**89,714**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of changes in total equity for the year ended 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 55). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2014, 2013 AND 2012

(Millions of Euros)

	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 as at 31/12/12	**5,161**	**37,412**	**36,898**	**255**	**250**	**(287)**	**2,205**	**(650)**	**81,244**	**(6,590)**	**74,654**	**9,672**	**84,326**
Adjustments due to changes in accounting policies	-	-	(53)	-	-	-	78	-	25	(2,882)	(2,857)	(257)	(3,114)
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**5,161**	**37,412**	**36,845**	**255**	**250**	**(287)**	**2,283**	**(650)**	**81,269**	**(9,472)**	**71,797**	**9,415**	**81,212**
Total recognised income and expense	-	-	-	-	-	-	**4,175**	-	**4,175**	**(4,680)**	**(504)**	**(80)**	**(584)**
Other changes in equity	**506**	**(608)**	**948**	**8**	**(57)**	**278**	**(2,283)**	**244**	**(964)**	**-**	**(964)**	**(21)**	**(985)**
Capital increases	506	(506)	(7)	-	-	-	-	-	(7)	-	(7)	(2)	(9)
Capital reductions	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-
Increases in other equity instruments	-	-	-	-	103	-	-	-	103	-	103	-	103
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	(412)	-	-	-	-	(406)	(818)	-	(818)	(747)	(1,565)
Transactions involving own equity instruments (net)	-	-	(28)	-	-	278	-	-	250	-	250	-	250
Transfers between equity items	-	(102)	1,836	8	(109)	-	(2,283)	650	-	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	169	169
Equity-instrument-based payments	-	-	-	-	(41)	-	-	-	(41)	-	(41)	-	(41)
Other increases/(decreases) in equity	-	-	(441)	-	(10)	-	-	-	(451)	-	(451)	559	108
Ending balance as at 31/12/13	**5,667**	**36,804**	**37,793**	**263**	**193**	**(9)**	**4,175**	**(406)**	**84,480**	**(14,152)**	**70,328**	**9,314**	**79,642**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of changes in total equity for the year ended 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 55).
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SANTANDER GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2014, 2013 AND 2012

(Millions of Euros)

	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 as at 31/12/11	**4,455**	**31,223**	**32,921**	**59**	**8,708**	**(251)**	**5,351**	**(1,570)**	**80,896**	**(4,482)**	**76,414**	**6,445**	**82,859**
Adjustments due to changes in accounting policies	-	-	(12)	-	-	-	(62)	-	(74)	(1,933)	(2,007)	(91)	(2,098)
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**4,455**	**31,223**	**32,909**	**59**	**8,708**	**(251)**	**5,289**	**(1,570)**	**80,822**	**(6,415)**	**74,407**	**6,354**	**80,761**
Total recognised income and expense	-	-	-	-	-	-	**2,283**	-	**2,283**	**(3,057)**	**(774)**	**116**	**(658)**
Other changes in equity	**706**	**6,189**	**3,936**	**196**	**(8,458)**	**(36)**	**(5,289)**	**920**	**(1,836)**	-	**(1,836)**	**2,945**	**1,109**
Capital increases	706	6,330	(235)	-	(6,811)	-	-	-	(10)	-	(10)	22	12
Capital reductions	-	-	-	-	-	-	-	-	-	-	-	(112)	(112)
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-
Increases in other equity instruments	-	-	-	-	133	-	-	-	133	-	133	-	133
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	(496)	-	-	-	-	(650)	(1,146)	-	(1,146)	(409)	(1,555)
Transactions involving own equity instruments (net)	-	-	85	-	-	(36)	-	-	49	-	49	-	49
Transfers between equity items	-	(141)	3,727	196	(63)	-	(5,289)	1,570	-	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	5	5
Equity-instrument-based payments	-	-	(2)	-	(40)	-	-	-	(42)	-	(42)	-	(42)
Other increases/(decreases) in equity	-	-	857	-	(1,677)	-	-	-	(820)	-	(820)	3,439	2,619
Ending balance as at 31/12/12	**5,161**	**37,412**	**36,845**	**255**	**250**	**(287)**	**2,283**	**(650)**	**81,269**	**(9,472)**	**71,797**	**9,415**	**81,212**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of changes in total equity for the year ended 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 55). In the event of a discrepancy, the Spanish-language version prevails.

SANTANDER GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2014, 2013 AND 2012

(Millions of Euros)

	2014	2013 (*)	2012 (*)
A. CASH FLOWS FROM OPERATING ACTIVITIES:	**(3,939)**	**(34,852)**	**24,133**
Consolidated profit for the year	6,935	5,329	3,051
Adjustments made to obtain the cash flows from operating activities-	18,772	17,894	24,385
Depreciation and amortisation charge	2,287	2,391	2,183
Other adjustments	16,485	15,503	22,202
Net increase/decrease in operating assets-	88,438	(13,533)	27,343
Financial assets held for trading	12,931	(8,440)	381
Other financial assets at fair value through profit or loss	11,012	3,426	5,207
Available-for-sale financial assets	27,968	(4,149)	7,334
Loans and receivables	35,644	(2,767)	11,854
Other operating assets	883	(1,603)	2,567
Net increase/decrease in operating liabilities-	60,144	(68,031)	27,202
Financial liabilities held for trading	(4,667)	4,320	(9,970)
Other financial liabilities at fair value through profit or loss	19,786	(2,781)	(3,010)
Financial liabilities at amortised cost	46,747	(63,939)	39,216
Other operating liabilities	(1,722)	(5,631)	966
Income tax recovered/paid	(1,352)	(3,577)	(3,162)
B. CASH FLOWS FROM INVESTING ACTIVITIES:	**(6,005)**	**677**	**126**
Payments-	9,246	3,322	3,920
Tangible assets	6,695	1,877	2,161
Intangible assets	1,218	1,264	1,726
Investments	18	181	33
Subsidiaries and other business units	1,315	-	-
Non-current assets held for sale and associated liabilities	-	-	-
Held-to-maturity investments	-	-	-
Other payments related to investing activities	-	-	-
Proceeds-	3,241	3,999	4,046
Tangible assets	986	500	815
Intangible assets	-	39	6
Investments	324	295	2
Subsidiaries and other business units	1,004	1,578	991
Non-current assets held for sale and associated liabilities	927	1,587	2,232
Held-to-maturity investments	-	-	-
Other proceeds related to investing activities	-	-	-
C. CASH FLOWS FROM FINANCING ACTIVITIES:	**(62)**	**(1,676)**	**(703)**
Payments-	8,094	8,528	12,549
Dividends	909	818	1,287
Subordinated liabilities	3,743	1,915	4,080
Redemption of own equity instruments	-	-	-
Acquisition of own equity instruments	3,442	5,592	6,957
Other payments related to financing activities	-	203	225
Proceeds-	8,032	6,852	11,846
Subordinated liabilities	4,351	1,027	2
Issuance of own equity instruments	-	-	-
Disposal of own equity instruments	3,498	5,560	7,005
Other proceeds related to financing activities	183	265	4,839
D. EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**2,331**	**(5,534)**	**(1,592)**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(7,675)**	**(41,385)**	**21,964**
F. CASH AND CASH EQUIVALENTS AS AT BEGINNING OF YEAR	**77,103**	**118,488**	**96,524**
G. CASH AND CASH EQUIVALENTS AS AT END OF YEAR	**69,428**	**77,103**	**118,488**
COMPONENTS OF CASH AND CASH EQUIVALENTS AS AT END OF YEAR:			
Cash	7,491	6,697	7,214
Cash equivalents at central banks	61,937	70,406	111,274
Other financial assets	-	-	-
Less: Bank overdrafts refundable on demand	-	-	-
TOTAL CASH AND CASH EQUIVALENTS AS AT END OF YEAR	**69,428**	**77,103**	**118,488**

(*) Presented for comparison purposes only. See Notes 1.d and 37.

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of cash flows for the year ended 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 55). In the event of a discrepancy, the Spanish-language version prevails.

Banco Santander, S.A. and Companies composing Santander Group

Notes to the consolidated financial statements
for the year ended 31 December 2014

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

a) Introduction

Banco Santander, S.A. ("the Bank" or "Banco Santander") is a private-law entity subject to the rules and regulations applicable to banks operating in Spain. The Bylaws and other public information on the Bank can be consulted on the website of the Bank (www.santander.com) and at its registered office at Paseo de Pereda 9-12, Santander.

In addition to the operations carried on directly by it, the Bank is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, Santander Group ("the Group" or "Santander Group"). Therefore, the Bank is obliged to prepare, in addition to its own separate financial statements, the Group's consolidated financial statements, which also include the interests in joint ventures and investments in associates.

The Group's consolidated financial statements for 2012 were approved by the shareholders at the Bank's annual general meeting on 22 March 2013. The Group's consolidated financial statements for 2013 were approved by the shareholders at the Bank's annual general meeting on 28 March 2014. The 2014 consolidated financial statements of the Group and the 2014 financial statements of the Bank and of substantially all the Group companies 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.

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 Bank's directors (at the board meeting on 23 February 2015) in accordance with International Financial Reporting Standards as adopted by the European Union and with Bank of Spain Circular 4/2004 and Spanish corporate and commercial law applicable to the Group, using the basis of consolidation, accounting policies and measurement bases set forth in Note 2 to these consolidated financial statements and, accordingly, they present fairly the Group's equity and financial position at 31 December 2014 and the consolidated results of its operations, the consolidated recognised income and expense, the changes in its consolidated equity and the consolidated cash flows in 2014. These consolidated financial statements were prepared from the accounting records kept by the Bank and by the other Group entities, and include the adjustments and reclassifications required to unify the accounting policies and measurement bases applied by the Group.

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.

Adoption of new standards and interpretations issued

The following standards 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.

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

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 reporting periods beginning on or after 1 July 2014, early application permitted) - these amendments allow employee contributions to be deducted from the service cost in the same period in which they are paid, provided certain requirements are met, without the need to make calculations to attribute the reduction to each year of service. The application of this accounting standard is not expected to have any material effects on the Group's consolidated financial statements.

Also, the Group decided to apply early, with respect to the date of obligatory first-time application pursuant to the endorsement issued by the European Union, IFRIC 21, Levies, which addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37. Under the interpretation: 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.

The adoption of IFRIC 21 by the Group gave rise to a change in the recognition of the contributions made by Santander UK to the Financial Services Compensation Scheme, which will not be recognised until 1 April each year, and of the contributions made by the Group's Spanish financial institutions to the Deposit Guarantee Fund, which will be recognised at 31 December each year. Pursuant to the applicable standard, this change was applied retrospectively, giving rise to changes in the comparative balances as indicated in Note 1.d.

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 and hedge accounting. IFRS 9 presents significant differences regarding financial assets with respect to the current standard, including the approval of a new classification model based on only two categories, namely instruments measured at amortised cost and those measured at fair value, the disappearance of the current Held-to-maturity investments and Available-for-sale financial assets categories, impairment analyses only for assets measured at amortised cost and the non-separation of derivatives embedded in financial contracts. The main change introduced with regard to financial liabilities affects liabilities that an entity elects to measure at fair value. The portion of the change in the fair value of these liabilities attributable to changes in the entity’s own credit risk must be presented in Valuation adjustments instead of in the income statement. In relation to hedge accounting, the new model attempts to 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. It supersedes the following standards 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. Under IFRS 15, an entity recognises revenue in accordance with the core principle of the standard by applying the following five 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, 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.

- 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.

The Group is currently analysing the possible effects of these new standards and interpretations.

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

c) Use of 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 main accounting policies and measurement bases are set forth in Note 2.

In the consolidated financial statements estimates were occasionally made by the senior management of the Bank and of the consolidated entities in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates, which were made on the basis of the best information available, relate basically to the following:

- The impairment losses on certain assets (see Notes 6, 7, 8, 10, 12, 13, 16, 17 and 18);

- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations (see Note 25);

- The useful life of the tangible and intangible assets (see Notes 16 and 18);

- The measurement of goodwill arising on consolidation (see Note 17);

- The calculation of provisions and the consideration of contingent liabilities (see Note 25);

- The fair value of certain unquoted assets and liabilities (see Notes 6, 7, 8, 9, 10, 11, 20, 21 and 22); and

- The recoverability of deferred tax assets (see Note 27).

Although these estimates were made on the basis of the best information available at 2014 year-end, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively, recognising the effects of the change in estimates in the related consolidated income statement.

d) Information relating to 2013 and 2012

The information relating to 2013 and 2012 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 constitute the Group's statutory consolidated financial statements for 2013 and 2012.

Pursuant to the applicable accounting standards, the balances relating to the years ended 31 December 2013 and 2012 presented in these consolidated financial statements were adjusted with respect to the amounts shown in the consolidated financial statements for 2013, by the amounts and for the items indicated below, in order to allow for a better comparison of information:

a) Application of IFRIC 21, Levies (see Note 1.b): set forth below are the effects arising from the retrospective application of the aforementioned interpretation (the positive or negative sign shows whether the figures are increases or decreases with respect to the figures shown in the consolidated financial statements for said years):

	Millions of euros	
	2013	2012
BALANCE SHEET		
Deferred tax assets	125	45
Total assets	125	45
Other provisions	114	(146)
Other liabilities	271	254
Total liabilities	385	108
Reserves	(65)	(53)
Consolidated profit for the year	(195)	(12)
Valuation adjustments	-	2
Total equity	(260)	(63)
INCOME STATEMENT		
Other operating expenses	(11)	(24)
Provisions (net)	(263)	6
Income tax	79	6
Consolidated profit for the year	(195)	(12)
Of which:		
Profit attributable to the Parent	*(195)*	*(12)*
Profit attributable to non-controlling interests	-	-

The additional information required by IAS 1 in the case of retrospective application of a new accounting policy -the consolidated balance sheet at the beginning of the year prior to that in which the new policy is applied, i.e. as at 1 January 2013, in this case- is reflected in the consolidated balance sheet as at 31 December 2012, since the balances in that balance sheet are the same as those that would relate to the consolidated balance sheet at the aforementioned date.

b) Note 52 includes a description of certain changes made in the business segment reporting.

In 2013 the Group applied the accounting changes introduced by the amendment to IAS 19, Employee Benefits, which, inter alia, eliminated the possibility of deferring recognition of a portion of actuarial gains and losses. The consolidated statements of changes in total equity for 2013 and 2012 include the impact on equity at the beginning of each of those years arising from the retrospective application of the aforementioned amendment, which gave rise to a reduction in equity of EUR 3,051 million at 1 January 2013 (1 January 2012: EUR 2,045 million).

e) Capital management

i. Regulatory and economic capital

The Group's capital management is performed at regulatory and economic levels.

Regulatory capital management is based on the analysis of the capital base, the capital ratios using various regulatory criteria and the scenarios used for capital planning. The aim is to achieve a capital structure that is as efficient as possible in terms of both cost and any requirement that might be issued by regulators, rating agencies and investors.

Following is a brief description of the regulatory capital framework to which Santander Group is subject.

In December 2010 the Basel Committee on Banking Supervision published a new global regulatory framework for international capital standards (Basel III) which strengthened the requirements of the previous frameworks, known as Basel I and Basel II, and other requirements additional to Basel II (Basel 2.5), by enhancing the quality, consistency and transparency of the capital base and improving risk coverage. On 26 June 2013, the Basel III legal framework was included in European law through Directive 2013/36 (CRD IV), repealing Directives 2006/48 and 2006/49, and through Regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR). Regulation 575/2013 is directly applicable in EU Member States as from 1 January 2014 and repeals all lower-ranking rules providing for additional capital requirements.

Directive 2013/36 (CRD IV) was transposed into Spanish legislation through Law 10/2014 on the regulation, supervision and capital adequacy of credit institutions, and its subsequent regulatory implementation in the form of Royal Decree-Law 84/2015. Regulation 575/2013 is directly applicable in EU Member States as from 1 January 2014 and repeals all lower-ranking rules providing for additional capital requirements.

Regulation 575/2013 (CRR) establishes a timetable for gradual phase-in that will permit a progressive adaptation to the new requirements in the European Union. These transitional arrangements, which were incorporated into Spanish regulations through the approval of Royal Decree-Law 14/2013 and Bank of Spain Circular 2/2014, began to apply in 2014 and, in certain cases, will end in 2024. They affect both the new deductions and the issues and items of own funds which cease to be eligible as such under this new regulation. There is also a series of Common Equity Tier 1 (CET 1) capital requirements additional to those established in Regulation 575/2013, namely the so-called "capital buffers", which are applicable for the first time in 2016 and must be fully implemented by 2019.

The Basel regulatory framework is based on three pillars. Pillar I sets out the minimum capital requirements to be met, and provides for the possibility of using internal ratings and models (AIRB approach) in the calculation of risk-weighted exposures and including operational risk therein. The aim is to render regulatory requirements more sensitive to the risks actually borne by entities in carrying on their business activities. Pillar II establishes a supervisory review system to improve internal risk management and internal capital adequacy assessment based on the risk profile. Lastly, Pillar III defines the elements relating to disclosures and market discipline.

At 31 December 2014, the Group met all the minimum capital requirements established by current legislation.

From an economic standpoint, capital management seeks to optimise value creation at the Group and at its constituent business units. To this end, the economic capital, RORAC and value creation data for each business unit are generated, analysed and reported to the capital committee on a quarterly basis. Within the framework of the internal capital adequacy assessment process (Pillar II of the Basel Capital Accord), the Group uses an economic capital measurement model with the objective of ensuring that there is sufficient capital available to support all the risks of its activity in various economic scenarios, with the solvency levels agreed upon by the Group.

In order to adequately manage the Group's capital, it is essential to estimate and analyse future needs, in anticipation of the various phases of the business cycle. Projections of regulatory and economic capital are made based on the budgetary information (balance sheet, income statement, etc.), macroeconomic scenarios defined by the Group's economic research service, and the impact, if any, of foreseeable regulatory changes. These estimates are used by the Group as a reference to plan the management actions (issues, securitisations, etc.) required to achieve its capital targets.

In addition, certain stress scenarios are simulated in order to assess the availability of capital in adverse situations. These scenarios are based on sharp fluctuations in macroeconomic variables, GDP, interest rates, values of equity instruments, etc. that mirror historical crises that could happen again or plausible but unlikely stress situations.

ii. Plan for the roll-out of advanced approaches and authorisation from the supervisory authorities

The Group intends to adopt, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks, until the percentage of exposure of the loan portfolio covered by this approach exceeds 90%.

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 various Group units.

To date, the Group has obtained authorisation from the supervisory authorities to use advanced internal rating-based approaches for the calculation of regulatory capital requirements for credit risk for the Parent and the main subsidiaries in Spain, the UK and Portugal, non-retail portfolios in Mexico and large corporate portfolios in Brazil, Chile and the US. In 2014 the Group obtained approval for the individualised corporate portfolios (upgrade from the foundation internal rating-based approach to the AIRB approach), developers and institutions in Mexico; the extension of use of the slotting criteria approach for specialised lending exposures in the UK was authorised; and authorisation was obtained for the individualised corporate portfolios and credit cards at Santander Consumer España, as well as for the extension of use of the global wholesale banking model. Lastly, approval was obtained for the consumer portfolios in Germany, including most notably the car and personal loan portfolios.

As regards the other risks explicitly addressed under Basel Pillar I, the Group is authorised to use its internal model for market risk for its treasury trading activities in Madrid, Chile, Portugal and Mexico.

Also, the Group has regulatory approval for its corporate methodology, enabling it to calculate, for the market risk of the trading book, the incremental default and migration risk charge (IRC) and stressed value at risk (VaR).

As far as operational risk is concerned, the Group uses the standardised approach for regulatory capital calculation purposes but is working towards requesting authorisation for the use of AMA approaches, with the objective of gaining regulatory approval in the short term.

f) Environmental impact

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

g) Events after the reporting period

It should be noted that from 1 January 2015 to the date on which these consolidated financial statements were authorised for issue, the following significant events occurred:

- On 8 January 2015, the Group announced that its board of directors had resolved to increase capital through an accelerated bookbuilt offering with disapplication of pre-emption rights. The capital increase amounted to EUR 7,500 million, of which EUR 607 million related to the par value of the 1,213,592,234 new shares issued and EUR 6,893 million to the share premium.

- At its meeting of 12 January 2015, the Bank's executive committee resolved to apply the Santander Dividendo Elección scrip dividend scheme on the dates on which the third interim dividend is traditionally paid, whereby the shareholders were offered the option of receiving an amount equivalent to said dividend, the gross amount of which was EUR 0.146 per share, in shares or cash.

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 balances

Foreign currency balances are translated to euros in two consecutive stages:

- Translation of foreign currency to the functional currency (currency of the main economic environment in which the entity operates), and

- Translation to euros of the balances held in the functional currencies of entities whose functional currency is not the euro.

Translation of foreign currency to the functional currency

Foreign currency transactions performed by consolidated entities (or entities accounted for using the equity method) not located in EMU countries are initially recognised in their respective currencies. Monetary items in foreign currency are subsequently translated to their functional currencies using the closing rate.

Furthermore:

- 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.

- Income and expenses are translated at the average exchange rates for the year for all the transactions performed during the year. When applying this criterion, the Group considers whether there have been significant changes in the exchange rates in the year which, in view of their materiality with respect to the consolidated financial statements taken as a whole, would make it necessary to use the exchange rates at the transaction date rather than the aforementioned average exchange rates.

- 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

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

- Assets and liabilities, at the closing rates.

- Income and expenses, at the average exchange rates for 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.

The exchange differences arising on the translation to euros of the financial statements denominated in functional currencies other than the euro are recognised in equity under Valuation adjustments - Exchange differences in the consolidated balance sheet, whereas those arising on the translation to euros of the financial statements of entities accounted for using the equity method are recognised in equity under Valuation adjustments - Entities accounted for using the equity method, until the related item is derecognised, at which time they are recognised in the consolidated income statement.

iv. Entities located in hyperinflationary economies

In 2009 the Group sold substantially all its businesses in Venezuela and at 31 December 2013 its net assets in that country amounted to only EUR 1 million (31 December 2012: EUR 3 million). At 31 December 2014, the Group did not have any net assets in Venezuela.

In view of the foregoing, at 31 December 2014, 2013 and 2012 none of the functional currencies of the consolidated entities and associates located abroad related to hyperinflationary economies as defined by International Financial Reporting Standards as adopted by the European Union. Accordingly, at the end of the last three reporting periods it was not necessary to adjust the financial statements of any of the consolidated entities or associates to correct for the effect of inflation.

v. Exposure to foreign currency risk

The Group hedges a portion of these permanent positions using foreign exchange derivative financial instruments (see Note 36). Also, the Group manages foreign currency risk by dynamically hedging its position over time (with a potential impact on profit or loss) and attempting to limit the impact of currency depreciations and, in turn, optimising the finance cost of the hedges.

The following tables show the sensitivity of consolidated profit and consolidated equity to changes in the foreign currency positions arising from all the Group's items denominated in foreign currencies to 1% variations in the various foreign currencies in which the Group has material balances.

The estimated effect on the consolidated equity attributable to the Group and on the consolidated profit of a 1% appreciation of the euro against the related currency is as follows:

	Millions of euros					
	Effect on consolidated equity			Effect on consolidated profit		
Currency	2014	2013	2012	2014	2013	2012
US dollar	(114.6)	(74.2)	(71.6)	(14.9)	(9.0)	(8.3)
Chilean peso	(23.3)	(16.2)	(19.3)	(6.2)	(6.7)	(4.8)
Pound sterling	(195.0)	(173.1)	(165.4)	(12.6)	(7.9)	(11.0)
Mexican peso	(18.1)	(9.7)	(11.6)	(6.7)	(7.8)	(9.8)
Brazilian real	(138.9)	(73.8)	(149.6)	(3.5)	(3.9)	(20.0)
Polish zloty	(34.1)	(32.5)	(44.3)	(3.8)	(3.8)	(3.3)

Similarly, the estimated effect on the Group's consolidated equity and consolidated profit of a 1% depreciation of the euro against the related currency is as follows:

	Millions of euros					
	Effect on consolidated equity			Effect on consolidated profit		
Currency	2014	2013	2012	2014	2013	2012
US dollar	117.0	75.7	73.1	15.2	9.2	8.5
Chilean peso	23.8	16.5	19.6	6.4	6.9	4.9
Pound sterling	198.9	176.6	168.8	12.8	8.0	11.2
Mexican peso	18.5	9.9	11.8	6.8	8.0	10.0
Brazilian real	141.8	75.4	147.8	3.6	4.0	20.5
Polish zloty	34.8	33.1	40.5	3.9	3.8	3.4

The foregoing data were obtained as follows:

a. Effect on consolidated equity: in accordance with the accounting policy detailed in Note 2.a.iii, the exchange differences arising on the translation to euros of the financial statements in the functional currencies of the Group entities whose functional currency is not the euro are recognised in consolidated equity. The possible effect that a change in the exchange rates of the related currency would have on the Group's consolidated equity was therefore determined by applying the aforementioned change to the net value of each unit's assets and liabilities -including, where appropriate, the related goodwill- and by taking into consideration the offsetting effect of the hedges of net investments in foreign operations.

b. Effect on consolidated profit: the effect was determined by applying the fluctuations in the average exchange rates used for the year, as indicated in Note 2.a.ii, to translate to euros the income and expenses of the consolidated entities whose functional currency is not the euro, taking into consideration, where appropriate, the offsetting effect of the various hedging transactions in place.

The estimates used to obtain the foregoing data were performed considering the effects of the exchange rate fluctuations in isolation from the effect of the performance of other variables, the changes in which would affect equity and profit, such as variations in the interest rates of the reference currencies or other market factors. Accordingly, all variables other than the exchange rate fluctuations were kept constant with respect to their positions as at 31 December 2014, 2013 and 2012.

b) 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 17). 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.

As at 31 December 2014, the Group controlled the following companies in which it held an ownership interest of less than 50% of the share capital: (i) Luri 1, S.A., (ii) Luri 2, S.A. and (iii) Luri Land, S.A. The percentage ownership interests in the aforementioned companies were 5.8%, 10% and 8.11%, respectively (see Appendix I). Although the Group holds less than half the voting power, it manages and, as a result, exercises control over these entities. The company object of these entities is the acquisition of real estate and other general operations relating thereto, including the rental, purchase and sale of properties.

The impact of the consolidation of these companies on the Group's consolidated financial statements is immaterial.

The Appendices contain significant information on the 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 have interests in entities so that decisions on significant activities require the unanimous consent of all the parties sharing control.

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.

As at 31 December 2014, the Group exercised joint control of Luri 3, S.A., despite holding 10% of its share capital. This decision is based on the Group's presence on the company's board of directors, in which the agreement of all members is required for decision-making.

The Appendices contain significant information on the 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. It is presumed that the Bank exercises significant influence if it 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.

There are certain investments in entities (in which the Group owns 20% or more of the voting power) that are not considered to be associates, since the Group is not in a position to exercise significant influence over them. These investments are not significant for the Group and are recognised under Available-for-sale financial assets.

The Appendices contain significant information on the associates.

iv. Structured entities

When the Group incorporates entities, or holds ownership interests therein, to enable its customers to access certain investments, or for the transfer of risks or other purposes, also called structured entities since the voting or similar power is not a key factor in deciding who controls the entity, the Group determines, using internal criteria and procedures and taking into consideration the applicable legislation, whether control (as defined above) exists and, therefore, whether these entities should be consolidated. Specifically, for those entities to which it applies (investment funds and pension funds, mainly), the Group analyses the following factors:

- Percentage of ownership held by the Group, 20% being established as the threshold from which a more in-depth analysis is performed.

- Identification of the fund manager, and verification as to whether it is a company controlled by the Group since this could affect the Group's ability to direct the relevant activities.

- Existence of agreements between investors that might require decisions to be taken jointly by the investors, rather than by the fund manager.

- Existence of currently exercisable removal rights (possibility of removing the manager from his position) since the existence of such rights might limit the manager's power over the fund, and it may be concluded that the manager is acting as an agent of the investors.

- Analysis of the fund manager's remuneration regime, taking into consideration that a remuneration regime that is proportionate to the service rendered does not, generally, create exposure of such importance to indicate that the manager is acting as the principal Conversely, if the remuneration regime is not proportionate to the service rendered, this might give rise to such an exposure that might lead the Group to a different conclusion.

These structured entities also include the securitisation special purpose vehicles, which are consolidated in the case of the SPVs over which, based on the aforementioned analysis, it is considered that the Group continues to exercise control.

The balances associated with unconsolidated structured entities are not material with respect to the Group's 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 are recognised for accounting purposes as follows:

- The Group measures the cost of the business combination, which is normally the consideration transferred, defined as the acquisition-date fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity instruments issued, if any, by the acquirer. In cases where the amount of the consideration to be transferred has not been definitively established at the acquisition date, but rather depends on future events, any contingent consideration is recognised as part of the consideration transferred and measured at its acquisition-date fair value; also, acquisition-related costs do not for these purposes form part of the cost of the business combination.

- The fair values of the assets, liabilities and contingent liabilities of the acquired entity or business, including any intangible assets which might not have been recognised by the acquiree, are estimated and recognised in the consolidated balance sheet; the Group also estimates the amount of any non-controlling interests and the fair value of the previously held equity interest in the acquiree.

- Any positive difference between the aforementioned items is recognised as discussed in Note 2.m. Any negative difference is recognised under Gains from bargain purchases arising in business combinations in the consolidated income statement.

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 profit or loss.

vii. Acquisitions and disposals

Note 3 provides information on the most significant acquisitions and disposals in 2014, 2013 and 2012.

c) *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.

Compound financial instruments are contracts that simultaneously create for their issuer a financial liability and an own equity instrument (such as convertible bonds, which entitle their holders to convert them into equity instruments of the issuer).

The preference shares contingently convertible into ordinary shares eligible as Additional Tier 1 capital ("CCPSs") -perpetual preference shares, which may be repurchased by the issuer in certain circumstances, the interest on which is discretionary, and would convert into a variable number of newly issued ordinary shares if the capital ratio of the Bank or its consolidable group falls below a given percentage (trigger event), as those two terms are defined in the related issue prospectuses- are recognised for accounting purposes by the Group as compound instruments. The liability component reflects the issuer's obligation to deliver a variable number of shares and the equity component reflects the issuer's discretion in relation to the payment of the related coupons. In order to effect the initial allocation, the Group estimates the fair value of the liability as the amount that would have to be delivered if the trigger event were to occur immediately and, accordingly, the equity component, as a residual amount, is zero. In view of the aforementioned discretionary nature of the payment of the coupons, they are deducted directly from equity.

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 25).

- Rights and obligations under insurance contracts (see Note 15).

- Contracts and obligations relating to employee remuneration based on own equity instruments (see Note 34).

ii. Classification of financial assets for measurement purposes

Financial assets are initially 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, Changes in the fair value of hedged items in portfolio hedges of interest rate risk (asset side), Hedging derivatives 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.

- Other financial assets at fair value through profit or loss: this category includes hybrid financial assets not held for trading that are measured entirely at fair value and financial assets not held for trading that are included in this category in order to obtain more relevant information, either because this eliminates or significantly reduces recognition or measurement inconsistencies (accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or because a group of financial assets or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Group's key management personnel. Financial assets may only be included in this category on the date they are acquired or originated.

- Available-for-sale financial assets: this category includes debt instruments not classified as Held-to-maturity investments, Loans and receivables or 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 or as Other financial assets at fair value through profit or loss.

- Loans and receivables: this category includes the investment arising from ordinary lending activities, such as the cash amounts of loans drawn down and not yet repaid by customers or the deposits placed with other institutions, whatever the legal instrument, unquoted debt securities and receivables from the purchasers of goods, or the users of services, constituting part of the Group's business.

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

- Held-to-maturity investments: this category includes debt instruments traded in an active market, with fixed maturity and with fixed or determinable payments, for which the Group has both the intention and proven ability to hold to maturity.

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 securities, as well as finance lease receivables and other debit balances of a financial nature in favour of the Group, such as cheques drawn on credit institutions, balances receivable 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 transactions and services, such as the collection of rentals and similar items. They are classified, depending on the institutional sector to which the debtor belongs, under:

- Loans and advances to credit institutions: credit of any nature, including deposits and money market operations, in the name of credit institutions.

- Loans and advances to customers: includes the remaining credit, 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, which have the nature of equity instruments for the issuer, unless they are investments in subsidiaries, jointly controlled entities or associates. Investment fund units are included in this item.

- Trading derivatives: includes the fair value in favour of the Group of derivatives which do not form part of hedge accounting, including embedded derivatives separated from hybrid financial instruments.

- 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, including embedded derivatives separated from hybrid financial instruments, designated as hedging instruments in hedge accounting.

iv. Classification of financial liabilities for measurement purposes

Financial liabilities are initially classified into the various categories 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 or Changes in the fair value of hedged items in portfolio hedges of interest rate risk (liability side), which are reported separately.

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

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

- Other financial liabilities at fair value through profit or loss: financial liabilities are included in this category when more relevant information is obtained, either because this eliminates or significantly reduces recognition or measurement inconsistencies (accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or because a group of financial liabilities or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Group's key management personnel. Liabilities may only be included in this category on the date when they are issued or originated.

- Financial liabilities at amortised cost: financial liabilities, irrespective of their instrumentation and maturity, not included in any of the above-mentioned categories which 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, other than those instrumented as marketable securities and those having the substance of subordinated liabilities. This item also includes cash bonds and cash consignments received the amount of which may be invested without restriction. Deposits are classified on the basis of the creditor's institutional sector into:

    - Deposits from central banks: deposits of any nature, including credit received and money market operations 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 those having the substance of subordinated liabilities. This item includes the component considered to be a financial liability of issued securities that are compound financial instruments.

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

- Short positions: includes the amount of financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements or borrowed.

- Subordinated liabilities: amount of financing received which, for the purposes of payment priority, ranks behind ordinary debt. This category also includes the financial instruments issued by the Group which, although capital for legal purposes, do not meet the requirements for classification as equity, such as certain preference shares issued.

- Other financial liabilities: includes the amount of payment obligations having the nature of financial liabilities not included in other items, and liabilities under financial guarantee contracts, unless they have been classified as doubtful.

- Changes in the fair value of hedged items in portfolio hedges of interest rate risk: this item is the balancing entry for the amounts charged 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 of the Group's liability in respect of derivatives, including embedded derivatives separated from hybrid financial instruments, designated as hedging instruments in hedge accounting.

d) Measurement of financial assets and liabilities and recognition of fair value changes

In general, 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. Financial instruments not measured at fair value through profit or loss are adjusted by the transaction costs. Financial assets and liabilities are subsequently measured at each year-end as follows:

i. Measurement of financial assets

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

The fair value of a financial asset on a given date is taken to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market (quoted price or market price). At 31 December 2014, there were no significant investments in quoted financial instruments which have ceased to be recognised at their quoted price because their market cannot be deemed to be active.

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

All derivatives are recognised in the 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 in Gains/losses on financial assets and liabilities (net) in the consolidated income statement. Specifically, the fair value of financial derivatives traded in organised markets included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

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

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

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

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

The amounts at which the financial assets are recognised represent, in all material respects, the Group’s maximum exposure to credit risk at each reporting date. Also, the Group has received collateral and other credit enhancements to mitigate its exposure to credit risk, which consist mainly of mortgage guarantees, cash collateral, equity instruments and personal security, assets leased out under finance lease and full-service lease agreements, assets acquired under repurchase agreements, securities loans and credit derivatives.

ii. Measurement of financial liabilities

In general, financial liabilities are measured at amortised cost, as defined above, except for those included under Financial liabilities held for trading and Other financial liabilities at fair value through profit or loss and financial liabilities designated as hedged items (or hedging instruments) in fair value hedges, which are measured at fair value.

iii. Valuation techniques

The following table shows a summary of the fair values, at 2014, 2013 and 2012 year-end, of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by the Group to determine their fair value:

	Millions of euros								
	2014			2013			2012		
	Published price quotations in active markets	Internal models	Total	Published price quotations in active markets	Internal models	Total	Published price quotations in active markets	Internal models	Total
Financial assets held for trading	67,319	81,569	148,888	46,472	68,817	115,289	48,014	129,903	177,917
Other financial assets at fair value through profit or loss	3,670	39,003	42,673	3,687	27,694	31,381	3,387	24,969	28,356
Available-for-sale financial assets (1)	90,149	23,455	113,604	62,343	20,415	82,758	65,720	25,256	90,976
Hedging derivatives (assets)	26	7,320	7,346	221	8,080	8,301	128	7,808	7,936
Financial liabilities held for trading	17,409	92,383	109,792	14,643	80,030	94,673	15,985	127,257	143,242
Other financial liabilities at fair value through profit or loss	-	62,317	62,317	-	42,311	42,311	-	45,418	45,418
Hedging derivatives (liabilities)	226	7,029	7,255	187	5,096	5,283	96	6,348	6,444
Liabilities under insurance contracts	-	713	713	-	1,430	1,430	-	1,425	1,425

(1) In addition to the financial instruments measured at fair value shown in the foregoing table, at 31 December 2014, 2013 and 2012, the Group held equity instruments classified as available-for-sale financial assets and carried at cost amounting to EUR 1,646 million, EUR 1,041 million and EUR 1,290 million, respectively (see Note 51.c).

Financial instruments at fair value, determined on the basis of published price quotations in active markets (Level 1), include government debt securities, private-sector debt securities, derivatives traded in organised markets, securitised assets, shares, short positions and fixed-income securities issued.

In cases where price quotations cannot be observed, management makes its best estimate of the price that the market would set, using its own internal models. In most cases, these internal models use data based on observable market parameters as significant inputs (Level 2) and, in very specific cases, they use significant inputs not observable in market data (Level 3). 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.

General measurement bases

The Group has developed a formal process for the systematic valuation and management of financial instruments, which has been implemented worldwide across all the 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 and inflation

The fixed income asset class includes basic instruments such as interest rate forwards, interest rate swaps and cross currency swaps, which are valued using the net present value of the discounted estimated future cash flows taking into account basis swap and cross currency spreads, depending on the payment frequency and currency of each leg of the derivative. Vanilla options, including caps, floors and swaptions, are priced using the Black-Scholes model, which is one of the benchmark industry models. More exotic derivatives are priced using more complex models which are generally accepted as standard across institutions.

These pricing models are fed with observable market data such as deposit interest rates, futures rates, cross currency swap and constant maturity swap rates, and basis spreads, on the basis of which different yield curves are calculated, depending on the payment frequency and discounting curves for each currency. In the case of options, implied volatilities are also used as model inputs. These volatilities are observable in the market for cap and floor options and swaptions, and interpolation and extrapolation of volatilities from the quoted ranges are carried out using generally accepted industry models. The pricing of more exotic derivatives may require the use of non-observable data or parameters, such as correlation (among interest rates and cross-asset), mean reversion rates and prepayment rates, which are usually defined from historical data or through calibration.

Inflation-related assets include inflation-linked bonds and zero-coupon or year-on-year inflation-linked swaps, valued with the present value method using forward estimation and discounting. Derivatives on inflation indices are priced using standard and more complex bespoke models, as appropriate. Valuation inputs of these models consider inflation-linked swap spreads observable in the market and estimations of inflation seasonality, on the basis of which a forward inflation curve is calculated. Also, implied volatilities taken from zero-coupon and year-on-year inflation options are also inputs for the pricing of more complex derivatives.

Equity and foreign exchange

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

The inputs of equity models consider yield curves, spot prices, dividends, asset borrowing costs (repo margin spreads), implied volatilities, correlation among equity stocks and indices, and cross-asset correlation. Implied volatilities are obtained from market quotes of European and American vanilla call and put options. Various interpolation and extrapolation techniques are used to obtain continuous volatility surfaces for illiquid stocks. Dividends are usually estimated for the mid and long term. Correlations are implied, when possible, from market quotes of correlation-dependent products. In all other cases, proxies are used for correlations between benchmark underlyings or correlations are obtained from historical data.

The inputs of foreign exchange models include the yield curve for each currency, the spot foreign exchange price and the implied volatilities and correlation among assets of this type. Volatilities are obtained from European call and put options which are quoted in markets as at-the-money, risk reversal or butterfly options. Illiquid currency pairs are usually handled by using the data of the liquid pairs from which the illiquid currency can be derived. For more exotic products, unobservable model parameters may be estimated by fitting to reference prices provided by other non-quoted market sources.

Credit

The most common instrument in this asset class is the credit default swap (CDS), which is used to hedge credit exposure to third parties. In addition, models for first-to-default (FTD), n-to-default (NTD) and single-tranche collateralised debt obligation (CDO) products are also available. These products are valued with standard industry models, which estimate probability of default of a single issuer (for CDSs) or the joint probability of default of more than one issuer for FTDs, NTDs and CDOs.

Valuation inputs are the yield curve, the CDS spread curve and the recovery rate. The CDS spread curve is obtained in the market for indices and important individual issuers. For less liquid issuers, this spread curve is estimated using proxies or other credit-dependent instruments. Recovery rates are usually set to standard values. For listed single-tranche CDOs, the correlation of joint default of several issuers is implied from the market. For FTDs, NTDs and bespoke CDOs, the correlation is estimated from proxies or historical data when no other option is available.

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.), proxies based on companies holding exchange-listed CDSs, in the same industry and with the same external rating as the counterparty, 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 786 million and EUR 228 million, respectively.

Valuation adjustments due to model risk

The valuation models described above 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. However, fair value adjustments may be necessary when market quoted prices are not available for comparison purposes.

The sources of risk are associated with uncertain model parameters, illiquid underlying issuers, low quality market data or missing risk factors (sometimes the best available option is to use limited models with controllable risk). In these situations, the Group calculates and applies valuation adjustments in accordance with general industry practice. The main sources of model risk are described below:

In fixed income markets, model risks include the correlation among fixed income indices, basis spread modelling, calibration risk of model parameters and the treatment of near-zero or negative interest rates. Other sources of risk arise from the estimation of market data, such as volatilities or interest rate curves, whether used for estimation or cash flow discounting purposes.

In equity markets, model risks include forward skew modelling, the impact of stochastic interest rates, correlation and multi-curve modelling. Also, other sources of risk arise from the hedging management of digital, callable and barrier option payments. In addition, the estimation of market data such as dividends and correlation for quanto and composite basket options must also be considered as sources of risk.

For specific financial instruments relating to home mortgage loans secured by financial institutions in the UK (which are regulated and partially financed by the Government) and property asset derivatives, the main input is the Halifax Home Price Index (HPI). In these cases, risk assumptions include estimates of the future growth and the volatility of the HPI, mortality and the implied credit spreads.

Inflation markets are exposed to model risk resulting from the uncertainty of modelling the correlation structure among various CPI rates. Another source of risk may arise from the bid-offer spread of inflation-linked swaps.

Foreign exchange markets are exposed to model risk resulting from forward skew modelling, the impact of stochastic interest rate and correlation modelling for multi-asset instruments. Risk may also arise from market data, due to the existence of specific illiquid foreign exchange pairs.

The most important source of model risk for credit derivatives relates to the estimation of the correlation between the probabilities of default of different underlying issuers. For illiquid underlying issuers, the CDS spread may not be well defined.

Set forth below are the financial instruments at fair value whose measurement was based on internal models (Levels 2 and 3) as at 31 December 2014, 2013 and 2012:

	Millions of euros			
	Fair values calculated using internal models as at 31/12/14			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS:	**148,760**	**2,587**		
Financial assets held for trading	**80,378**	**1,191**		
Loans and advances to credit institutions	1,815	-	Present Value Method	Observable market data
Loans and advances to customers (a)	2,921	-	Present Value Method	Observable market data
Debt and equity instruments	1,768	85	Present Value Method	Observable market data, HPI
Trading derivatives	73,874	1,106		
Swaps	*55,794*	*116*	Present Value Method, Gaussian Copula (b)	Observable market data, basis, liquidity
Exchange rate options	*1,000*	-	Black-Scholes Model	Observable market data, liquidity
Interest rate options	*8,385*	*768*	Black's Model, Heath-Jarrow-Morton Model	Observable market data, liquidity, correlation
Interest rate futures	*132*	-	Present Value Method	Observable market data
Index and securities options	*2,420*	*111*	Black-Scholes Model	Observable market data, dividends, correlation, liquidity, HPI
Other	*6,143*	*111*	Present Value Method, Monte Carlo simulation and other	Observable market data and other
Hedging derivatives	**7,320**	-		
Swaps	*7,058*	-	Present Value Method	Observable market data, basis
Exchange rate options	*40*	-	Black-Scholes Model	Observable market data
Interest rate options	*28*	-	Black's Model	Observable market data
Other	*194*	-	N/A	N/A
Other financial assets at fair value through profit or loss	**38,323**	**680**		
Loans and advances to credit institutions	28,592	-	Present Value Method	Observable market data
Loans and advances to customers (c)	8,892	78	Present Value Method	Observable market data, HPI
Debt and equity instruments	839	602	Present Value Method	Observable market data
Available-for-sale financial assets	**22,739**	**716**		
Debt and equity instruments	22,739	716	Present Value Method	Observable market data
LIABILITIES:	**161,890**	**552**		
Financial liabilities held for trading	**91,847**	**536**		
Deposits from central banks	2,041	-	Present Value Method	Observable market data
Deposits from credit institutions	5,531	-	Present Value Method	Observable market data
Customer deposits	5,544	-	Present Value Method	Observable market data
Debt and equity instruments	-	-	Present Value Method	Observable market data, liquidity
Trading derivatives	76,644	536		
Swaps	*56,586*	*49*	Present Value Method, Gaussian Copula (b)	Observable market data, basis, liquidity, HPI
Exchange rate options	*1,033*	-	Black-Scholes Model	Observable market data, liquidity
Interest rate options	*9,816*	*294*	Black's Model, Heath-Jarrow-Morton Model	Observable market data, liquidity, correlation
Index and securities options	*3,499*	*193*	Black-Scholes Model	Observable market data, dividends, correlation, liquidity, HPI
Interest rate and equity futures	*165*	-	Present Value Method	Observable market data
Other	*5,545*	-	Present Value Method, Monte Carlo simulation and other	Observable market data and other
Short positions	2,087	-	Present Value Method	Observable market data
Hedging derivatives	**7,029**	-		
Swaps	*6,901*	-	Present Value Method	Observable market data, basis
Exchange rate options	*2*	-	Black-Scholes Model	Observable market data
Interest rate options	*14*	-	Black's Model	Observable market data
Other	*112*	-	N/A	N/A
Other financial liabilities at fair value through profit or loss	**62,301**	**16**	Present Value Method	Observable market data
Liabilities under insurance contracts	**713**	-	See Note 15	

	Millions of euros				
	Fair values calculated using internal models				
	31/12/13		31/12/12		
	Level 2	Level 3	Level 2	Level 3	Valuation techniques
ASSETS:	**123,499**	**1,507**	**186,648**	**1,288**	
Financial assets held for trading	**68,535**	**282**	**129,508**	**395**	
Loans and advances to credit institutions	5,502	-	9,843	-	Present Value Method
Loans and advances to customers (a)	5,079	-	9,162	-	Present Value Method
Debt and equity instruments	1,585	50	1,320	-	Present Value Method
Trading derivatives	56,369	232	109,183	395	
Swaps	*40,380*	*56*	*90,759*	*109*	Present Value Method, Gaussian Copula (b)
Exchange rate options	*849*	*16*	*708*	*46*	Black-Scholes Model
Interest rate options	*7,375*	-	*9,141*	-	Black's Model, Heath-Jarrow-Morton Model
Interest rate futures	*16*	-	*78*	-	Present Value Method
Index and securities options	*2,953*	*56*	*3,188*	-	Black-Scholes Model
Other	*4,796*	*104*	*5,309*	*240*	Present Value Method, Monte Carlo simulation and other
Hedging derivatives	**8,080**	-	**7,808**	-	
Swaps	*6,920*	-	*7,609*	-	Present Value Method
Exchange rate options	*400*	-	*43*	-	Black-Scholes Model
Interest rate options	*24*	-	*36*	-	Black's Model
Other	*736*	-	*120*	-	N/A
Other financial assets at fair value through profit or loss	**27,184**	**510**	**24,500**	**469**	
Loans and advances to credit institutions	13,444	-	10,272	-	Present Value Method
Loans and advances to customers (c)	13,135	61	13,863	74	Present Value Method
Debt and equity instruments	605	449	365	395	Present Value Method
Available-for-sale financial assets	**19,700**	**715**	**24,832**	**424**	
Debt and equity instruments	19,700	715	24,832	424	Present Value Method
LIABILITIES:	**128,762**	**105**	**180,243**	**205**	
Financial liabilities held for trading	**79,970**	**60**	**127,158**	**99**	
Deposits from central banks	3,866	-	1,128	-	Present Value Method
Deposits from credit institutions	7,468	-	8,292	-	Present Value Method
Customer deposits	8,500	-	8,890	7	Present Value Method
Debt and equity instruments	1	-	1	-	Present Value Method
Trading derivatives	57,260	60	108,847	92	
Swaps	*41,156*	*2*	*88,450*	*8*	Present Value Method, Gaussian Copula (b)
Exchange rate options	*660*	-	*766*	*6*	Black-Scholes Model
Interest rate options	*8,457*	-	*10,772*	-	Black's Model, Heath-Jarrow-Morton Model
Index and securities options	*4,252*	-	*121*	-	Black-Scholes Model
Interest rate and equity futures	*88*	-	*4,816*	-	Present Value Method
Other	*2,647*	*58*	*3,922*	*78*	Present Value Method, Monte Carlo simulation and other
Short positions	2,875	-	-	-	
Hedging derivatives	**5,096**	-	**6,348**	-	Present Value Method
Swaps	*4,961*	-	*5,860*	-	Present Value Method
Exchange rate options	*1*	-	*76*	-	Black-Scholes Model
Interest rate options	*13*	-	*17*	-	Black's Model
Other	*121*	-	*395*	-	N/A
Other financial liabilities at fair value through profit or loss	**42,266**	**45**	**45,312**	**106**	
Liabilities under insurance contracts	**1,430**	-	**1,425**	-	Present Value Method See Note 15

(a) Includes mainly short-term loans and reverse repurchase agreements with corporate customers (mainly brokerage and investment companies).

(b) Includes credit risk derivatives with a net fair value of EUR 83 million at 31 December 2014 (31 December 2013 and 2012: positive net fair value of EUR 56 million and EUR 18 million, respectively). These assets and liabilities are measured using the Standard Gaussian Copula Model.

(c) Includes home mortgage loans to financial institutions in the UK (which are regulated and partly financed by the Government). The fair value of these loans was obtained using observable market variables, including current market transactions with similar amounts and collateral facilitated by the UK Housing Association. Since the Government is involved in these financial institutions, the credit risk spreads have remained stable and are homogeneous in this sector. The results arising from the valuation model are checked against current market transactions.

The measurements obtained using the internal models might have been different had other methods or assumptions been used with respect to interest rate risk, to credit risk, market risk and foreign currency risk spreads, or to their related correlations and volatilities. Nevertheless, the Bank's directors consider that the fair value of the financial assets and liabilities recognised in the consolidated balance sheet and the gains and losses arising from these financial instruments are reasonable.

The net gain recognised in the income statement for 2014 arising from the aforementioned valuation models amounted to EUR 206 million (2013 and 2012: net losses of EUR 298 million and EUR 229 million, respectively), of which EUR 302 million related to models whose significant inputs are unobservable market data (2013 and 2012: gains of EUR 46 million and EUR 20 million, respectively).

Level 3 financial instruments

Set forth below are the Group's main financial instruments measured using unobservable market data that constitute significant inputs of the internal models (Level 3):

- Instruments in Santander UK's portfolio (loans, debt instruments and derivatives) linked to the House Price Index (HPI). Even if the valuation techniques used for these instruments may be the same as those used to value similar products (present value in the case of loans and debt instruments, and the Black-Scholes model for derivatives), the main factors used in the valuation of these instruments are the HPI spot rate, the growth rate of that rate, its volatility and mortality rates, which are not always observable in the market and, accordingly, these instruments are considered illiquid.
    - The HPI spot rate: for some instruments the NSA HPI spot rate, which is directly observable and published on a monthly basis, is used. For other instruments where regional HPI rates must be used (published quarterly), adjustments are made to reflect the different composition of the rates and adapt them to the regional composition of Santander UK's portfolio.
    - HPI growth rate: this is not always directly observable in the market, especially for long maturities, and is estimated in accordance with existing quoted prices. To reflect the uncertainty implicit in these estimates, adjustments are made based on an analysis of the historical volatility of the HPI, incorporating reversion to the mean.
    - HPI volatility: the long-term volatility is not directly observable in the market but is estimated on the basis of more short-term quoted prices and by making an adjustment to reflect the existing uncertainty, based on the standard deviation of historical volatility over various time periods.
    - Mortality rates: these are based on published official tables and adjusted to reflect the composition of the customer portfolio for this type of product at Santander UK.
- Illiquid CDOs and CLOs in the portfolio of the treasury unit in Madrid. These are measured by grouping together the securities by type of underlying (sector/country), payment hierarchy (prime, mezzanine, junior, etc.), and assuming forecast conditional prepayment rates (CPR) and default rates, adopting conservative criteria.
- Trading derivatives on baskets of shares. These are measured using advanced local and stochastic volatility models, using Monte Carlo simulations; the main unobservable input is the correlation between the prices of the shares in each basket in question.
- Callable interest rate trading derivatives (Bermudan-style options) where the main unobservable input is mean reversion of interest rates.

With respect to 2013 year-end the Group reclassified to Level 3 the interest-rate derivatives with periodic call options and options on baskets of listed shares. The reason for the reclassification was the greater significance in the fair value of the aforementioned financial instruments of the illiquidity in the inputs used (the mean reversion of interest rates and the correlations between the underlyings, respectively). These products relate almost exclusively to derivatives transactions performed to serve the Group's clients.

The table below shows the effect, at 31 December 2014, on the fair value of the main financial instruments classified as Level 3 of a reasonable change in the assumptions used in the valuation. This effect was determined by applying the probable valuation ranges of the main unobservable inputs detailed in the following table:

Portfolio/Instrument (Level 3)	Valuation technique	Main unobservable inputs	Range	Weighted average	Impacts (in millions of euros) Unfavourable scenario	Favourable scenario
Financial assets held for trading						
Debt instruments	Partial differential equations	Long-term volatility	27% - 41%	33.21%	(1.2)	0.9
Trading derivatives	Present Value Method	Curves on TAB indices (*)	(a)	(a)	(3)	3
	Present Value Method, Modified Black-Scholes Model	HPI forward growth rate	0%-5%	2.6%	(37)	33
	Present Value Method, Modified Black-Scholes Model	HPI spot rate	n/a	630 (**)	(11)	12
	Standard Gaussian Copula Model	Probability of default	0%-5%	2.14%	(10)	7
	Advanced local and stochastic volatility models	Correlation between share prices	55%-75%	61%	(9.9)	9.9
	Advanced multi-factor interest rate models	Mean reversion of interest rates	0.0001-0.03	0.01 (***)	-	39.4
Other financial assets at fair value through profit or loss						
Loans and advances to customers	Weighted average by probability (according to forecast mortality rates) of European HPI options, using the Black-Scholes model	HPI forward growth rate	0%-5%	2.8%	(7)	6
Debt and equity instruments	Weighted average by probability (according to forecast mortality rates) of HPI forwards, using the present value model	HPI forward growth rate	0%-5%	2.6%	(53)	48
	Weighted average by probability (according to forecast mortality rates) of HPI forwards, using the present value model	HPI spot rate	n/a	630 (**)	(26)	26
Available-for-sale financial assets						
Debt and equity instruments	Present Value Method, others	Non-performing loans and prepayment ratios, cost of capital, long-term earnings growth rate	(a)	(a)	(2.4)	2.4
Financial liabilities held for trading						
Trading derivatives	Present Value Method, Modified Black-Scholes Model	HPI forward growth rate	0%-5%	2.1%	(15)	12
	Present Value Method, Modified Black-Scholes Model	HPI spot rate	n/a	607 (**)	(21)	17
	Present Value Method, Modified Black-Scholes Model	Curves on TAB indices (*)	(a)	(a)	-	-
	Advanced local and stochastic volatility models	Correlation between share prices	55%-75%	61%	(b)	(b)
	Advanced multi-factor interest rate models	Mean reversion of interest rates	0.0001-0.03	0.01 (***)	(b)	(b)
Other financial liabilities at fair value through profit or loss	-	-	-	-	(b)	(b)

(*) TAB: "Tasa Activa Bancaria" (Active Bank Rate). Average deposit interest rates (over 30, 90, 180 and 360 days) published by the Chilean Association of Banks and Financial Institutions (ABIF) in nominal currency (Chilean peso) and in real terms, adjusted for inflation (Unidad de Fomento - UF).

(**) There are national and regional HPI indices. The HPI spot value is the weighted average of the indices that correspond to the positions of each portfolio. The impact reported is a change of 10%.

(***) Theoretical average value of the parameter. The change arising on a favourable scenario is from 0.0001 to 0.03. An unfavourable scenario is not considered as there is insufficient margin for an adverse change from the current parameter level. The Group is also exposed, to a lesser extent, to this type of derivative in currencies other than the euro and, therefore, both the average and the range of the unobservable inputs are different. The impact in an unfavourable scenario would be losses of EUR 9.2 million.

(a) The exercise was conducted for the unobservable inputs described in the Main unobservable inputs column under probable scenarios. The range and weighted average value used are not shown because the aforementioned exercise was conducted jointly for various inputs or variants thereof (e.g. the TAB input comprises vector-time curves, for which there are also nominal yield curves and inflation-indexed yield curves), and it was not possible to break down the results separately by type of input. In the case of the TAB curve the gain or loss is reported for changes of +/-100 b.p. for the total sensitivity to this index in Chilean pesos and UFs.

(b) The Group calculates the potential effect on the valuation of each of these instruments on a joint basis, irrespective of whether their individual valuation is positive (Asset) or negative (Liability), and the global effect associated with the corresponding instruments recognised on the asset side of the consolidated balance sheet is broken down.

Lastly, the changes in the financial instruments classified as Level 3 in 2014 and 2013 were as follows:

	2013	Changes									2014
Millions of euros	Fair value calculated using internal models (Level 3)	Purchases	Sales	Issues	Settlements	Changes in fair value recognised in profit or loss (unrealised)	Changes in fair value recognised in profit or loss (realised)	Changes in fair value recognised in equity	Level reclassifications	Other	Fair value calculated using internal models (Level 3)
Financial assets held for trading	**282**	**182**	**(14)**	**-**	**-**	**174**	**(7)**	**-**	**575**	**(1)**	**1,191**
Debt and equity instruments	50	4	(1)	-	-	-	-	-	32	-	85
Trading derivatives	232	*178*	(13)	-	-	*174*	(7)	-	543	(1)	1,106
Swaps	*56*	-	*(2)*	-	-	*(7)*	*(7)*	-	*52*	*24*	*116*
Exchange rate options	*16*	-	-	-	-	-	-	-	-	*(16)*	-
Interest rate options	-	*162*	*(5)*	-	-	*257*	-	-	*359*	*(5)*	*768*
Index and securities options	*56*	*16*	-	-	-	*(100)*	-	-	*132*	*7*	*111*
Other	*104*	-	*(6)*	-	-	**24**	-	-	-	*(11)*	*111*
Other financial assets at fair value through profit or loss	**510**	**37**	**(5)**	**-**	**-**	**61**	**-**	**-**	**90**	**(13)**	**680**
Loans and advances to customers	61	-	(5)	-	-	18	-	-	-	**4**	78
Debt and equity instruments	449	37	-	-	-	43	-	-	90	(17)	602
Available-for-sale financial assets	**715**	**35**	**(55)**	**-**	**(36)**	**-**	**-**	**(35)**	**78**	**14**	**716**
TOTAL ASSETS	**1,507**	**254**	**(74)**	**-**	**(36)**	**235**	**(7)**	**(35)**	**743**	**-**	**2,587**
Financial assets held for trading	**60**	**48**	**(6)**	**-**	**-**	**(71)**	**(2)**	**-**	**503**	**4**	**536**
Trading derivatives	60	48	(6)	-	-	(71)	(2)	-	503	4	536
Swaps	*2*	-	-	-	-	*2*	*(2)*	-	*47*	-	*49*
Interest rate options	-	*41*	-	-	-	*56*	-	-	*197*	-	*294*
Index and securities options	-	*7*	*(6)*	-	-	*(128)*	-	-	*259*	*61*	*193*
Other	*58*	-	-	-	-	*(1)*	-	-	-	*(57)*	-
Other financial liabilities at fair value through profit or loss	**45**	**-**	**(26)**	**-**	**-**	**(1)**	**-**	**-**	**-**	**(2)**	**16**
TOTAL LIABILITIES	**105**	**48**	**(32)**	**-**	**-**	**(72)**	**(2)**	**-**	**503**	**2**	**552**

Millions of euros	2012	Changes								2013
	Fair value calculated using internal models (Level 3)	Purchases	Sales	Issues	Settlements	Changes in fair value recognised in profit or loss (unrealised)	Changes in fair value recognised in profit or loss (realised)	Changes in fair value recognised in equity	Other	Fair value calculated using internal models (Level 3)
Financial assets held for trading	**395**	**131**	**(164)**	**-**	**(44)**	**(4)**	**2**	**-**	**(34)**	**282**
Debt and equity instruments	-	46	-	-	-	8	-	-	(4)	50
Trading derivatives	395	85	(164)	-	(44)	(12)	2	-	(30)	232
Swaps	*109*	-	*(62)*	-	-	*19*	-	-	*(10)*	*56*
Exchange rate options	*46*	-	*(1)*	-	-	*(8)*	*(3)*	-	*(18)*	*16*
Index and securities options	-	*85*	-	-	*(39)*	-	-	-	*10*	*56*
Other	*240*	-	*(101)*	-	*(5)*	*(23)*	*5*	-	*(12)*	*104*
Hedging derivatives	-	-	-	-	-	-	-	-	-	-
Swaps	-	-	-	-	-	-	-	-	-	-
Other financial assets at fair value through profit or loss	**469**	**111**	**(32)**	**-**	**(17)**	**18**	**9**	**-**	**(48)**	**510**
Loans and advances to customers	74	-	-	-	(11)	(8)	6	-	-	61
Debt and equity instruments	395	111	(32)	-	(6)	26	3	-	(48)	449
Available-for-sale financial assets	**424**	**277**	**(48)**	**-**	**-**	**(1)**	**(2)**	**73**	**(8)**	**715**
TOTAL ASSETS	**1,288**	**519**	**(244)**	**-**	**(61)**	**13**	**9**	**73**	**(89)**	**1,507**
Financial liabilities held for trading	**99**	**-**	**(18)**	**-**	**(14)**	**(11)**	**13**	**-**	**(9)**	**60**
Customer deposits	7	-	-	-	-	-	-	-	(7)	-
Trading derivatives	92	-	(18)	-	(14)	(11)	13	-	(2)	60
Swaps	*8*	-	*(6)*	-	-	*(1)*	-	-	*1*	*2*
Exchange rate options	*6*	-	*(6)*	-	-	-	-	-	-	-
Other	*78*	-	*(6)*	-	*(14)*	*(10)*	*13*	-	*(3)*	*58*
Other financial liabilities at fair value through profit or loss	**106**	**-**	**(42)**	**-**	**-**	**(14)**	**(12)**	**-**	**7**	**45**
TOTAL LIABILITIES	**205**	**-**	**(60)**	**-**	**(14)**	**(25)**	**1**	**-**	**(2)**	**105**

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).

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 equity under Valuation adjustments - Exchange differences (net), or to exchange differences arising on monetary financial assets, in which case they are recognised in 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 (net) in equity remain in the Group's consolidated equity until the asset giving rise to them is impaired or derecognised, at which time they are recognised in the consolidated income statement.

- Unrealised gains on available-for-sale financial assets classified as Non-current assets held for sale because they form part of a disposal group or a discontinued operation are recognised in equity under Valuation adjustments - Non-current assets held for sale.

v. Hedging transactions

The consolidated entities use financial derivatives for the following purposes: i) to facilitate these instruments to customers who request them in the management of their market and credit risks; ii) to use these derivatives in the management of the risks of the Group entities' own positions and assets and liabilities (hedging derivatives); and iii) to obtain gains from changes in the prices of these derivatives (trading 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:

    a. 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);

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

    c. 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:

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

   b. 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 results of the hedged item.

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

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

   a. 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 balance sheet, as appropriate.

   b. In cash flow hedges, the effective portion of the change in value of the hedging instrument is recognised temporarily in equity under Valuation adjustments - Cash flow hedges 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.

   c. In hedges of a net investment in a foreign operation, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in equity under Valuation adjustments - Hedges of net investments in foreign operations until the gains or losses on the hedged item are recognised in the income statement.

   d. The ineffective portion of the gains and losses on the hedging instruments of cash flow hedges and hedges of a net investment in a foreign operation are recognised directly under Gains/losses on financial assets and liabilities (net) in the consolidated income statement.

If a derivative designated as a hedge no longer meets the requirements described above due to expiration, ineffectiveness or for any other reason, the derivative is classified for accounting purposes as a trading derivative.

When fair value hedge accounting is discontinued, the adjustments previously recognised on the hedged item 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 (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.

vi. Derivatives embedded in hybrid financial instruments

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.

e) 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:

1. 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.

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

    a. An associated financial liability, which is recognised for an amount equal to the consideration received and is subsequently measured at amortised cost, unless it meets the requirements for classification under Other financial liabilities at fair value through profit or loss.

    b. The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability, without offsetting.

3. 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:

    a. 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.

    b. 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 net 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 on the cash flows they generate have been extinguished 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.

f) 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 Group 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.

Following is the detail of financial assets and liabilities that were offset in the consolidated balance sheets as at 31 December 2014 and 2013:

	31 December 2014		
	Millions of euros		
Assets	Gross amount of financial assets	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial assets presented in the balance sheet
Derivatives	128,076	(43,872)	84,204
Reverse repurchase agreements	57,882	(7,064)	50,818
Total	**185,958**	**(50,936)**	**135,022**

	31 December 2013		
	Millions of euros		
Assets	Gross amount of financial assets	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial assets presented in the balance sheet
Derivatives	86,813	(19,613)	67,200
Reverse repurchase agreements	59,990	(12,463)	47,527
Total	**146,803**	**(32,076)**	**114,727**

Liabilities	31 December 2014		
	Millions of euros		
	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet
Derivatives	130,175	(43,872)	86,303
Repurchase agreements	113,075	(7,064)	106,011
Total	**243,250**	**(50,936)**	**192,314**

Liabilities	31 December 2013		
	Millions of euros		
	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet
Derivatives	83,783	(19,613)	64,170
Repurchase agreements	103,621	(12,463)	91,158
Total	**187,404**	**(32,076)**	**155,328**

Also, the Group has offset other items for EUR 2,084 million (31 December 2013: EUR 2,267 million).

Most of the derivatives and repos not offset in the balance sheet are subject to netting and collateral arrangements.

g) 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.

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

Transactions classified as doubtful due to arrears are reclassified as standard if, as a result of the collection of a portion or the sum of the unpaid instalments, the reasons for classifying such transactions as doubtful cease to exist, i.e. they no longer have any amount more than three months past due, unless other subjective reasons remain for classifying them as doubtful. The refinancing of doubtful loans does not result in their reclassification to standard unless: there is certainty that the customer can make payment in accordance with the new schedule; the customer provides effective guarantees or collateral; the customer pays the current interest receivable; and the customer complies with the established cure period (see Note 54).

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

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

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

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

ii. Debt instruments carried at amortised cost

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

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

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

As regards impairment losses resulting from materialisation of the insolvency risk of the obligors (credit risk), a debt instrument is impaired due to insolvency:

- When there is evidence of a deterioration of the obligor's ability to pay, either because it is in arrears or for other reasons, and/or

- When country risk materialises: country risk is considered to be the risk associated with debtors resident in a given country due to circumstances other than normal commercial risk.

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

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

a. Specific allowance (individuals):

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

   i. Assets classified as doubtful due to counterparty arrears:

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

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

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

b. General allowance for inherent losses (collective):

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

c. Country risk allowance:

Country risk is considered to be the risk associated with counterparties resident in a given country due to circumstances other than normal commercial risk (sovereign risk, transfer risk and risks arising from international financial activity). Based on the countries' economic performance, political situation, regulatory and institutional framework, and payment capacity and record, the Group classifies all the transactions performed with third parties into six different groups, from group 1 (transactions with ultimate obligors resident in European Union countries, Norway, Switzerland, Iceland, the United States, Canada, Japan, Australia and New Zealand) to group 6 (transactions the recovery of which is considered remote due to circumstances attributable to the country), assigning to each group the credit loss allowance percentages resulting from the aforementioned analyses. However, due to the size of the Group and to the proactive management of its country risk exposure, the allowances recognised in this connection are not material with respect to the credit loss allowances recognised.

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

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

The amount of an impairment loss incurred on these debt instruments is equal to the difference between their carrying amount and the present value of their estimated future cash flows. 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 by multiplying three factors: exposure at default, probability of default and loss given default. These parameters are also used to calculate economic capital and to calculate BIS II regulatory capital under internal models (see Note 1.e).

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

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

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

- Loss given default (LGD) is the loss arising in the event of default. It depends mainly on 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 materially from the allowances calculated on the basis of the Bank of Spain's requirements.

iii. Debt or equity instruments classified as available for sale

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

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

If all or part of the impairment losses are subsequently reversed, the reversed amount is recognised, in the case of debt instruments, in the consolidated income statement for the year in which the reversal occurs (or in equity under Valuation adjustments - Available-for-sale financial assets in the case of equity instruments).

iv. Equity instruments carried at cost

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

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

h) Repurchase agreements and reverse repurchase agreements

Purchases (sales) of financial instruments 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.

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

Non-current assets held for sale includes the carrying amount of individual items, disposal groups or items forming part of a business unit earmarked for disposal (discontinued operations), whose sale in their present condition is highly likely to be completed within one year from the reporting date. Therefore, the carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably be recovered through the proceeds from their disposal.

Specifically, property or other non-current assets received by the consolidated entities as total or partial settlement of their debtors' payment obligations to them are deemed to be non-current assets held for sale, unless the consolidated entities have decided to make continuing use of these assets. In this connection, for the purpose of its consideration in the initial recognition of these assets, the Group obtains, at the foreclosure date, the fair value of the related asset through a request for appraisal by external appraisal agencies.

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 independence, neutrality and credibility requirements, so that the use of their estimates does not reduce the reliability of its valuations. This policy establishes that all the appraisal companies and agencies with which the Group works in Spain should be registered in the Official Register of the Bank of Spain and that the appraisals performed by them should follow the methodology established in Ministry of Economy Order ECO/805/2003, of 27 March. The main appraisal companies and agencies with which the Group worked in Spain in 2014 are as follows: Eurovaloraciones, S.A., Ibertasa, S.A., Tinsa Tasaciones Inmobiliarias, S.A.U., Tasaciones Hipotecarias Renta, S.A., Krata, S.A. and Compañía Hispania de Tasaciones y Valoraciones, S.A. Also, this policy establishes that the various subsidiaries abroad 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. 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.

Liabilities associated with non-current assets held for sale includes the balances payable arising from the assets held for sale or disposal groups and from discontinued operations.

Non-current assets held for sale are generally measured at the lower of fair value less costs to sell and their carrying amount at the date of classification in this category. Non-current assets held for sale are not depreciated as long as they remain in this category.

Subsequent to initial recognition, the Group measures its non-current assets at the lower of their fair value less costs to sell and their carrying amount. 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. Property assets under construction are measured taking into account the current situation of the property, not the final value. In addition, in order to check at the end of each reporting period that the measurement made using the aforementioned criteria does not differ from fair value, the Group requests an independent expert to perform an appraisal.

Impairment losses on an asset or disposal group arising from a reduction in its carrying amount to its fair value (less costs to sell) are recognised under 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.

j) Reinsurance assets and Liabilities under insurance contracts

Insurance contracts involve the transfer of a certain quantifiable risk in exchange for a periodic or one-off premium. The effects on the Group's cash flows will arise from a deviation in the payments forecast and/or an insufficiency in the premium set.

The Group controls its insurance risk as follows:

- By applying a strict methodology in the launch of products and in the assignment of value thereto.

- By using deterministic and stochastic actuarial models for measuring commitments.

- By using reinsurance as a risk mitigation technique as part of the credit quality guidelines in line with the Group's general risk policy.

- By establishing an operating framework for credit risks.

- By actively managing asset and liability matching.

- By applying security measures in processes.

Reinsurance assets includes the amounts that the consolidated entities are entitled to receive for reinsurance contracts with third parties and, specifically, the reinsurer's share of the technical provisions recorded by the consolidated insurance entities.

At least once a year these assets are reviewed to ascertain whether they are impaired (i.e. there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract and the amount that will not be received can be reliably measured), and any impairment loss is recognised in the consolidated income statement and the assets are written down.

Liabilities under insurance contracts includes the technical provisions recorded by the consolidated entities to cover claims arising from insurance contracts in force at year-end.

Insurers' results relating to their insurance business are recognised, according to their nature, under the related consolidated income statement items.

In accordance with standard accounting practice in the insurance industry, the consolidated insurance entities credit to the income statement the amounts of the premiums written and charge to income the cost of the claims incurred on final settlement thereof. Insurance entities are therefore required to accrue at period-end the unearned revenues credited to their income statements and the accrued costs not charged to income.

At least at each reporting date the Group assesses whether the insurance contract liabilities recognised in the consolidated balance sheet are adequate. For this purpose, it calculates the difference between the following amounts:

- Current estimates of future cash flows under the insurance contracts of the consolidated entities. These estimates include all contractual cash flows and any related cash flows, such as claims handling costs; and

- The carrying amount recognised in the consolidated balance sheet of its insurance contract liabilities (see Note 15), less any related deferred acquisition costs or related intangible assets, such as the amount paid to acquire, in the event of purchase by the entity, the economic rights held by a broker deriving from policies in the entity's portfolio.

If the calculation results in a positive amount, this deficiency is charged to the consolidated income statement. When unrealised gains or losses on assets of the Group's insurance companies affect the measurement of liabilities under insurance contracts and/or the related deferred acquisition costs and/or the related intangible assets, these gains or losses are recognised directly in equity. The corresponding adjustment in the liabilities under insurance contracts (or in the deferred acquisition costs or in intangible assets) is also recognised in equity.

The most significant items forming part of the technical provisions (see Note 15) are detailed below:

- Non-life insurance provisions:

  i) Provision for unearned premiums: relates to the portion of the premiums received at year-end that is allocable to the period from the reporting date to the end of the policy cover period.

  ii) Provision for unexpired risks: this supplements the provision for unearned premiums to the extent that the amount of the latter is not sufficient to reflect all the assessed risks and expenses to be covered by the insurance companies in the policy period not elapsed at the reporting date.

- Life insurance provisions: represent the value of the net obligations acquired vis-à-vis life insurance policyholders. These provisions include:

  i) Provision for unearned premiums and unexpired risks: this relates to the portion of the premiums received at year-end that is allocable to the period from the reporting date to the end of the policy cover period.

  ii) Mathematical provisions: these relate to the value of the insurance companies' obligations, net of the policyholders' obligations. These provisions are calculated on a policy-by-policy basis using an individual capitalisation system, taking as a basis for the calculation the premium accrued in the year, and in accordance with the technical bases of each type of insurance updated, where appropriate, by the local mortality tables.

- Provision for claims outstanding: this reflects the total obligations outstanding arising from claims incurred prior to the reporting date. This provision is calculated as the difference between the total estimated or certain cost of the claims not yet reported, settled or paid and all the amounts already paid in relation to such claims.

- Provision for bonuses and rebates: this provision includes the amount of the bonuses accruing to policyholders, insureds or beneficiaries and that of any premiums to be returned to policyholders or insureds, to the extent that such amounts have not been assigned at the reporting date. These amounts are calculated on the basis of the conditions of the related individual policies.

- Technical provisions for life insurance policies where the investment risk is borne by the policyholders: these provisions are calculated on the basis of the indices established as a reference to determine the economic value of the policyholders' rights.

k) *Tangible assets*

Tangible assets includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the consolidated entities or acquired under finance leases. Tangible assets are classified by use as follows:

i. Property, plant and equipment for own use

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

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The period tangible asset depreciation charge is recognised in the consolidated income statement and is calculated using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Average annual rate
Buildings for own use	2.0%
Furniture	7.7%
Fixtures	7.0%
Office and IT equipment	25.0%
Leasehold improvements	7.0%

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 the reporting period with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognised in the consolidated income statement in future years on the basis of the new useful lives.

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognised as an expense in the period in which they are incurred, since they do not increase the useful lives of the assets.

ii. Investment property

Investment property reflects the net values of the land, buildings and other structures held either to earn rentals or for capital appreciation.

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

iii. Assets leased out under an operating lease

Property, plant and equipment - Leased out under an operating lease reflects the amount of the tangible assets, other than land and buildings, leased out by the Group 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.

l) Accounting for 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, including the exercise price of the lessee's purchase option at the end of the lease term when such exercise price is sufficiently below fair value at the option date such that it is reasonably certain that the option will be exercised, is recognised as lending to third parties and is therefore included under Loans and receivables in the consolidated balance sheet.

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

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

ii. Operating leases

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

When the consolidated entities act as the lessors, they present the acquisition cost of the leased assets under Tangible assets (see Note 16). The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use, and income from operating leases is recognised on a straight-line basis under Other operating income in the consolidated income statement.

When the consolidated entities act as the lessees, the lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to Other general administrative expenses in their consolidated income statements.

iii. Sale and leaseback transactions

In sale and leaseback transactions where the sale is at fair value and the leaseback is an operating lease, any profit or loss is recognised at the time of sale. In the case of finance leasebacks, any profit or loss is amortised over the lease term.

In accordance with IAS 17, in determining whether a sale and leaseback transaction results in an operating lease, the Group should analyse, inter alia, whether at the inception of the lease there are purchase options whose terms and conditions make it reasonably certain that they will be exercised, and to whom the gains or losses from the fluctuations in the fair value of the residual value of the related asset will accrue.

m) Intangible assets

Intangible assets are 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 assets whose cost can be estimated reliably and from which the consolidated entities consider it probable that future economic benefits will be generated are recognised.

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

i. Goodwill

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

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

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

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

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

At the end of each reporting period or whenever there is any indication of impairment goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and, if there is any impairment, the goodwill is written down with a charge to Impairment losses on other assets (net) - Goodwill and other intangible assets in the consolidated income statement.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

ii. Other intangible assets

Other intangible assets includes the amount of identifiable intangible assets (such as purchased customer lists and computer software).

Other 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 or whenever there is any indication of impairment 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) 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.k).

Internally developed computer software

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

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

n) Other assets

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

- Inventories: this item includes the amount of assets, other than financial instruments, that are held for sale in the ordinary course of business, that are in the process of production, construction or development for such purpose, or that are to be consumed in the production process or in the provision of services. Inventories includes land and other property held for sale in the property development business.

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 impairment losses are recognised as expenses for the year in which the impairment or loss occurs. Subsequent reversals are recognised in the consolidated income statement for the year in which they occur.

The carrying amount of inventories is derecognised and recognised as an expense in the period in which the revenue from their sale is recognised.

- Other: this item includes the balance of all prepayments and accrued income (excluding accrued interest, fees and commissions), the net amount of the difference between pension plan obligations and the value of the plan assets with a balance in the entity'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.

ñ) Other liabilities

Other liabilities 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.

o) Provisions and contingent assets and liabilities

When preparing the financial statements of the consolidated entities, the Bank's directors made a distinction between:

- Provisions: credit balances covering present obligations at the reporting 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.

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

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

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 accounting standards, contingent liabilities must not be recognised in the consolidated financial statements, but must rather be 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 (see Note 25):

- Provision for pensions and similar obligations: includes the amount of all the provisions made to cover post-employment benefits, including obligations to pre-retirees and similar obligations.

- 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.

- Provisions for taxes and other legal contingencies and Other provisions: include the amount of the provisions recognised to cover tax and legal contingencies and litigation and the other provisions recognised by the consolidated entities. Other provisions includes, inter alia, any provisions for restructuring costs and environmental measures.

p) Court proceedings and/or claims in process

In addition to the disclosures made in Note 1, at the end of 2014 certain court proceedings and claims were in process against the consolidated entities arising from the ordinary course of their operations (see Note 25).

q) Own equity instruments

Own equity instruments are those meeting both of the following conditions:

- The instruments do not include any contractual obligation for the issuer: (i) to deliver cash or another financial asset to a third party; or (ii) to exchange financial assets or financial liabilities with a third party under conditions that are potentially unfavourable to the issuer.

- The instruments will or may be settled in the issuer's own equity instruments and are: (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or (ii) a derivative that will be settled by the issuer through the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Transactions involving own equity instruments, including their issuance and cancellation, are deducted directly from equity.

Changes in the value of instruments classified as own equity instruments are not recognised in the consolidated financial statements. Consideration received or paid in exchange for such instruments, including the coupons on preference shares contingently convertible into ordinary shares, is directly added to or deducted from equity.

r) Equity-instrument-based employee remuneration

Own equity instruments delivered to employees in consideration for their services, if the instruments are delivered once the specific period of service has ended, are recognised as an expense for services (with the corresponding increase in equity) as the services are rendered by employees during the service period. At the grant date the services received (and the related increase in equity) are measured at the fair value of the equity instruments granted. If the equity instruments granted are vested immediately, the Group recognises in full, at the grant date, the expense for the services received.

When the requirements stipulated in the remuneration agreement include external market conditions (such as equity instruments reaching a certain quoted price), the amount ultimately to be recognised in equity will depend on the other conditions being met by the employees (normally length of service requirements), irrespective of whether the market conditions are satisfied. If the conditions of the agreement are met but the external market conditions are not satisfied, the amounts previously recognised in equity are not reversed, even if the employees do not exercise their right to receive the equity instruments.

s) *Recognition of income and expenses*

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

i. Interest income, interest expenses and similar items

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

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

ii. Commissions, fees and similar items

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

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

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

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

iii. Non-finance income and expenses

These are recognised for accounting purposes on an accrual basis.

iv. Deferred collections and payments

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

v. Loan arrangement fees

Loan arrangement fees, mainly loan origination, application and information fees, are accrued and recognised in income over the term of the loan. In the case of loan origination fees, the portion relating to the associated direct costs incurred in the loan arrangement is recognised immediately in the consolidated income statement.

t) 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 the amount of the fees, commissions and similar interest received at the inception of the transactions and a credit on the asset side of the consolidated balance sheet for 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.g above).

The provisions made for these transactions are recognised under Provisions - Provisions for contingent liabilities and commitments in the consolidated balance sheet (see Note 25). These provisions are recognised and reversed with a charge or credit, respectively, to Provisions (net) in the consolidated income statement.

If a specific provision is required for financial guarantees, the related unearned commissions recognised under Financial liabilities at amortised cost - Other financial liabilities in the consolidated balance sheet are reclassified to the appropriate provision.

u) Assets under management and investment and pension funds managed by the Group

Assets owned by third parties and managed by the consolidated entities are not presented on the face of the consolidated balance sheet. Management fees are included in Fee and commission income in the consolidated income statement.

The investment funds and pension funds managed by the consolidated entities are not presented on the face of the Group's consolidated balance sheet since the related assets are owned by third parties. The fees and commissions earned in the year for the services rendered by the Group entities to these funds (asset management and custody services) are recognised under Fee and commission income in the consolidated income statement.

Note 2.b.iv describes the internal criteria and procedures used to determine whether control exists over the structured entities, which include, inter alia, investment funds and pension funds.

v) Post-employment benefits

Under the collective agreements currently in force and other arrangements, the Spanish banks included in the Group and certain other Spanish and foreign consolidated entities have undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability or death, and the post-employment 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 (recognised under Staff costs in the consolidated income statement) 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 25).

Defined contribution plans

The contributions made in this connection in each year are recognised under Staff costs in the consolidated income statement. The amounts not yet contributed at each year-end are recognised, at their present value, under Provisions - Provision for pensions and similar obligations on the liability side of the consolidated balance sheet.

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.

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

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

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

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

Post-employment benefits are recognised as follows:

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

    - Current service cost, i.e. the increase in the present value of the obligations resulting from employee service in the current period, is recognised under Staff costs.

  - The past service cost, which arises from changes to existing post-employment benefits or from the introduction of new benefits and includes the cost of reductions, is recognised under Provisions (net).

  - Any gain or loss arising from plan settlements is recognised under Provisions (net).

- Net interest on the net defined benefit liability (asset), i.e. the change during the period in the net defined benefit liability (asset) that arises from 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.

- The remeasurement of the net defined benefit liability (asset) is recognised in equity under Valuation adjustments and includes:

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

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

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

w) *Other long-term employee benefits*

Other long-term employee benefits, defined as obligations to pre-retirees -taken to be those who have ceased to render services at the entity but who, without being legally retired, continue to have economic rights vis-à-vis the entity until they acquire the legal status of retiree-, long-service bonuses, obligations for death of spouse or disability before retirement that depend on the employee's length of service at the entity and other similar items, are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that actuarial gains and losses are recognised under Provisions (net) in the consolidated income statement (see Note 25).

x) *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.

y) *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 sum of the current tax resulting from application of the appropriate tax rate to the taxable profit for the year (net of any deductions allowable for tax purposes), and of the changes in deferred tax assets and liabilities recognised in the consolidated income statement.

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

Tax assets 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 or tax credit carryforwards.

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

Deferred tax assets are only 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.

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

The deferred tax assets and liabilities are reassessed at the reporting date in order to ascertain whether any adjustments need to be made on the basis of the findings of the analyses performed.

z) Residual maturity periods and average interest rates

The analysis of the maturities of the balances of certain items in the consolidated balance sheet and the average interest rates at the end of the reporting periods is provided in Note 51.

aa) 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, irrespective of the portfolio in which they are classified.

  The Group classifies as cash and cash equivalents the balances recognised under Cash and balances with central banks in the consolidated balance sheet.

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

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

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

ab) Consolidated statements of recognised income and expense

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

Accordingly, this statement presents:

a. Consolidated profit for the year.

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

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

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

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

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

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

ac) Statements of changes in total equity

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

a. Adjustments due to changes in accounting policies and to errors: include the changes in consolidated equity arising as a result of the retrospective restatement of the balances in the consolidated financial statements, distinguishing between those resulting from changes in accounting policies and those relating to the correction of errors.

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

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

3. Santander Group

a) *Banco Santander, S.A. and international Group structure*

The growth of the Group in the last decade has led the Bank to also act, in practice, as a holding entity of the shares of the various companies in its Group, and its results are becoming progressively less representative of the performance and earnings of the Group. Therefore, each year the Bank determines the amount of the dividends to be distributed to its shareholders on the basis of the consolidated net profit, while maintaining the Group's traditionally high level of capitalisation and taking into account that the transactions of the Bank and of the rest of the Group are managed on a consolidated basis (notwithstanding the allocation to each company of the related net worth effect).

At international level, the various banks and other subsidiaries, jointly controlled entities and associates of the Group are integrated in a corporate structure comprising various holding companies which are the ultimate shareholders of the banks and subsidiaries abroad.

The purpose of this structure, all of which is controlled by the Bank, is to optimise the international organisation from the strategic, economic, financial and tax standpoints, since it makes it possible to define the most appropriate units to be entrusted with acquiring, selling or holding stakes in other international entities, the most appropriate financing method for these transactions and the most appropriate means of remitting the profits obtained by the Group's various operating units to Spain.

The Appendices provide relevant data on the consolidated Group companies and on the companies accounted for using the equity method.

b) *Acquisitions and disposals*

Following is a summary of the main acquisitions and disposals of ownership interests in the share capital of other entities and other significant corporate transactions performed by the Group in the last three years:

i. Colombia

In December 2011 the Group entered into an agreement with the Chilean group Corpbanca to sell its shareholding in Banco Santander Colombia S.A. and its other business subsidiaries in this country (Santander Investment Valores Colombia S.A., Comisionista de Bolsa Comercial; Santander Investment Colombia S.A.; Santander Investment Trust Colombia S.A., Sociedad Fiduciaria and Agencia de Seguros Santander, Ltda.).

Following the obtainment of the regulatory authorisations from the competent authorities and the delisting of the shares of Banco Santander Colombia S.A., in the second quarter of 2012 the Group sold its shareholding in Banco Santander Colombia S.A. and its other business subsidiaries in this country to the Corpbanca Group for a total of USD 1,229 million (EUR 983 million), giving rise to a gain of EUR 619 million which was recognised by the Group under Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the consolidated income statement for 2012 (see Note 49).

ii. Grupo Financiero Santander México, S.A.B. de C.V.

In August 2012 the Group announced its intention to file prospectuses with the Mexican National Banking and Securities Commission (CNBV) and the US Securities and Exchange Commission for the placement of shares of the subsidiary Grupo Financiero Santander México, S.A.B. de C.V. in the secondary market.

The public offering for 1,469,402,029 series B shares of Grupo Financiero Santander México, S.A.B. de C.V. was completed on 26 September 2012. The transaction was made up of a Mexican tranche, consisting of shares, and an international tranche, including the United States, consisting of American Depositary Shares (ADSs) representing five shares each.

The share placement was priced at MXN 31.25 (USD 2.437) per share.

Also, the underwriters involved in the offering were granted an option, exercisable before 25 October, to purchase an additional 220,410,304 shares.

Once the global offering had been completed and the underwriters had exercised their options, the percentage sold was 24.9%, which gave rise to increases of EUR 1,092 million in Reserves, EUR 1,493 million in Non-controlling interests and EUR 263 million in Valuation adjustments - Exchange differences in 2012.

iii. Bank Zachodni WBK S.A.

In August 2012 Bank Zachodni WBK S.A. performed a capital increase amounting to PLN 332 million (EUR 81 million) which was not subscribed by the Group, giving rise to reductions of EUR 12 million in Reserves and EUR 5 million in Valuation adjustments, and to an increase of EUR 93 million in Non-controlling interests, considering the Group's effective ownership interest in the entity. Following the aforementioned transaction, the Group held 94.23% of the entity's share capital.

iv. Merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A.

On 28 February 2012, the Group announced that Banco Santander, S.A. and KBC Bank NV (KBC) had entered into an investment agreement to merge their two subsidiaries in Poland, Bank Zachodni WBK S.A. and Kredyt Bank S.A., respectively, following which the Group would control approximately 76.5% of the entity resulting from the merger and KBC 16.4%, with the remaining 7.1% being owned by non-controlling interests. Also, the Group undertook to place a portion of its ownership interest among investors and to acquire up to 5% of the entity resulting from the merger in order to help KBC to reduce its holding in the merged entity to below 10%. KBC's objective is to dispose of its entire investment in order to maximise its value.

It was agreed to carry out the transaction through a capital increase at Bank Zachodni WBK S.A., whose new shares would be offered to KBC and the other shareholders of Kredyt Bank S.A. in exchange for their shares in Kredyt Bank S.A. The related exchange ratio was established at 6.96 shares of Bank Zachodni S.A. for every 100 shares of Kredyt Bank S.A.

In the first few days of 2013, following obtainment of the related authorisation from the Polish financial regulator (KNF), the aforementioned transaction was carried out. As a result, the Group controlled approximately 75.2% of the post-merger entity and KBC controlled approximately 16.2%, with the remaining 8.6% being owned by non-controlling interests. This transaction gave rise to an increase of EUR 1,037 million in Non-controlling interests – EUR 169 million as a result of the acquisition of control of Kredyt Bank S.A. and EUR 868 million as a result of the reduction in the percentage of ownership of Bank Zachodni WBK S.A.

The detail of the fair values of the identifiable assets acquired and liabilities assumed at the business combination date, the cost of the investment and the goodwill is as follows:

	Millions of euros
Cash and balances with central banks	351
Loans and receivables - Loans and advances to customers (*)	6,767
Available-for-sale assets	2,547
Other assets (**)	692
Total assets	10,357
Deposits from credit institutions	1,414
Customer deposits	7,620
Other liabilities	642
Total liabilities	9,676
Net asset value	681
Non-controlling interests	(169)
Cost of investment	838
Goodwill at January 2013 (***)	**326**

(*) EUR 122 million of additional impairment losses were considered in estimating the fair value of the loans and receivables.
(**) The estimate identified intangible assets amounting to EUR 51 million.
(***)Belongs to the Bank Zachodni WBK S.A. cash-generating unit (see Note 17).

On 22 March 2013, Banco Santander, S.A. and KBC completed the placement of all the shares owned by KBC and 5.2% of the share capital of Bank Zachodni WBK S.A. held by the Group in the market for EUR 285 million, which gave rise to an increase of EUR 292 million in Non-controlling interests.

Following these transactions, the Group held 70% of the share capital of Bank Zachodni WBK S.A. and the remaining 30% was held by non-controlling interests.

v. Agreement to purchase Royal Bank of Scotland branch offices

In August 2010 Santander UK plc announced that it had entered into an agreement to acquire the portion of the banking business carried on by Royal Bank of Scotland (RBS) through its branches in England and Wales and the NatWest network in Scotland, as well as certain SME and corporate banking centres.

On 12 October 2012, the Group announced that the agreement had become null and void due to the foreseeable breach of the terms and conditions thereof by the agreed deadline (February 2013).

vi. Merger by absorption of Banesto and Banco Banif

On 17 December 2012, Banco Santander, S.A. announced that it had resolved to approve the plan for the merger by absorption of Banco Español de Crédito, S.A. (Banesto) and Banco Banif, S.A. Unipersonal as part of the restructuring of the Spanish financial sector.

On 9 January 2013, the boards of directors of Banco Santander, S.A. and Banesto approved the common draft terms of merger. Also, on 28 January 2013, the boards of directors of Banco Santander, S.A. and Banco Banif, S.A. Unipersonal approved the related common draft terms of merger. The draft terms of merger were approved by the shareholders of Banco Santander, S.A. and Banesto at the annual general meetings held on 22 and 21 March, respectively.

On 29 April 2013, pursuant to the common draft terms of merger and the resolutions of the annual general meetings of the two companies, Banco Santander, S.A. announced the regime and procedure for the exchange of shares of Banesto for shares of Banco Santander, S.A. Banco Santander, S.A. exchanged the Banesto shares for treasury shares at a ratio of 0.633 shares of Banco Santander, S.A., of EUR 0.5 par value each, for each share of Banesto, of EUR 0.79 par value each, without any additional cash payment. As a result of this exchange, Non-controlling interests fell by EUR 455 million.

On 3 May 2013, the public deed of the merger by absorption of Banesto, which was extinguished, was registered at the Cantabria Mercantile Registry. Also, on 30 April the public deed of the merger by absorption of Banco Banif, S.A. Unipersonal was executed, and this entity was extinguished. The public deed was registered at the Cantabria Mercantile Registry on 7 May 2013.

vii. Insurance business in Spain

On 20 December 2012, the Group announced that it had reached an agreement with Aegon to strengthen the bancassurance business in Spain. The agreement does not affect savings, health and vehicle insurance, which continue to be managed by Santander.

In June 2013, having obtained the relevant authorisations from the Directorate-General of Insurance and Pension Funds and from the European competition authorities, Aegon acquired a 51% ownership interest in the two insurance companies created by the Group for these purposes, one for life insurance and the other for general insurance (currently Aegon Santander Vida Seguros y Reaseguros, S.A. and Aegon Santander Generales Seguros y Reaseguros, S.A.), for which it paid EUR 220 million, thereby gaining joint control together with the Group over the aforementioned companies. The agreement also includes payments to Aegon that are deferred over two years and amounts receivable by the Group that are deferred over five years, based on the business plan.

The aforementioned agreement included the execution of a 25-year distribution agreement for the sale of insurance products through the commercial networks in Spain, for which the Group will receive commissions at market rates.

This transaction gave rise to the recognition of a gain of EUR 385 million under Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the consolidated income statement for 2013 (EUR 270 million net of tax), of which EUR 186 million related to the fair value recognition of the 49% ownership interest retained by the Group.

viii. Agreement with Elavon Financial Services Limited

On 19 October 2012, Banco Santander, S.A. announced that it had entered into an agreement with Elavon Financial Services Limited to jointly develop the payment services business in Spain through point-of-sale credit and debit card terminals at merchants.

This transaction involved the creation of a joint venture, 51% owned by Elavon and 49% owned by Santander, to which Santander Group transferred its aforementioned payment services business in Spain (excluding the former Banesto).

The transaction was completed in the first half of 2013 and generated a gain of EUR 122 million (EUR 85 million net of tax).

ix. Agreement with Warburg Pincus and General Atlantic

On 30 May 2013, the Group announced that it had entered into an agreement with subsidiaries of Warburg Pincus and General Atlantic to foster the global development of its asset management unit, Santander Asset Management (SAM). According to the terms and conditions of the agreement, Warburg Pincus and General Atlantic would together own 50% of the holding company which would comprise the Group's eleven management companies, mainly in Europe and Latin America, while the other 50% would be held by the Group.

The purpose of the alliance was to enable SAM to improve its ability to compete with the large independent international management companies, and the businesses to be strengthened included asset management in the global institutional market, with the additional advantage of having knowledge and experience in the markets in which the Group is present. The agreement also envisaged the distribution of products managed by SAM in the countries in which the Group has a commercial network for a period of ten years, renewable for five additional two-year periods, for which the Group would receive commissions at market rates, thus benefiting from broadening the range of products and services to offer its customers. SAM would also distribute its products and services internationally, outside the Group's commercial network.

Since the aforementioned management companies belonged to different Group companies, prior to the completion of the transaction a corporate restructuring took place whereby each of the management companies was sold by its shareholders, for its fair value, to SAM Investment Holdings Limited (SAM), a holding company created by the Group. The aggregate value of the management companies was approximately EUR 1,700 million.

Subsequently, in December 2013, once the required authorisations had been obtained from the various regulators, the agreement was executed through the acquisition of a 50% ownership interest in SAM's share capital by Sherbrooke Acquisition Corp SPC (an investee of Warburg Pincus and General Atlantic) for EUR 449 million. At that date, SAM had financing from third parties amounting to EUR 845 million. The agreement included deferred contingent amounts payable and receivable for the Group based on the achievement of the business plan targets over the coming five years.

Also, the Group entered into a shareholders agreement with the aforementioned shareholders regulating, inter alia, the taking of strategic, financial, operational and other significant decisions regarding the ordinary management of SAM on a joint basis. Certain restrictions on the transferability of the shares were also agreed, and a commitment was made by the two parties to retain the shares for at least 18 months. Lastly, Sherbrooke Acquisition Corp SPC will be entitled to sell to the Group its ownership interest in the share capital of SAM at market value on the fifth and seventh anniversaries of the transaction, unless a public offering of SAM shares has taken place prior to those dates.

Following these transactions, at the end of 2013 and 2014 the Group held a 50% ownership interest in SAM and controlled this company jointly with the aforementioned shareholders (see Note 13).

As a result of the above-mentioned transaction, the Group recognised a gain of EUR 1,372 million under Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the consolidated income statement for 2013 (see Note 49), of which EUR 671 million related to the fair value of the 50% ownership interest retained by the Group.

x. Sale of Altamira Asset Management

On 21 November 2013, the Group announced that it had reached a preliminary agreement with Apollo European Principal Finance Fund II, a fund managed by subsidiaries of Apollo Global Management, LLC, for the sale of the platform for managing the loan recovery activities of Banco Santander, S.A. in Spain and for managing and marketing the properties relating to this activity (Altamira Asset Management, S.L.).

On 3 January 2014, the Group announced that it had sold 85% of the share capital of Altamira Asset Management, S.L. to Altamira Asset Management Holdings, S.L., an investee of Apollo European Principal Finance Fund II, for EUR 664 million, giving rise to a net gain of EUR 385 million, which was recognised at its gross amount under Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the consolidated income statement for 2014.

Following this transaction, the Group retained the aforementioned property assets and loan portfolio on its balance sheet, while management of these assets is carried out from the platform owned by Apollo.

xi. Santander Consumer USA

In January 2014 the public offering of shares of Santander Consumer USA Inc. (SCUSA) was completed and the company was admitted to trading on the New York Stock Exchange. The placement represented 21.6% of SCUSA's share capital, of which 4.23% related to the holding sold by the Group. Following this sale, the Group held 60.74% of the share capital of SCUSA (31 December 2014: 60.46%). Both Sponsor Auto Finance Holdings Series LP (Sponsor Holdings) -an investee of funds controlled by Warburg Pincus LLC, Kohlberg Kravis Roberts & Co. L.P. and Centerbridge Partners L.P.- and DDFS LLC (DDFS) -a company controlled by Thomas G. Dundon, the Chief Executive Officer of SCUSA- also reduced their holdings.

Following the placement, since the ownership interests of the aforementioned shareholders were reduced to below certain percentages established in the shareholders agreement previously entered into with the Group by the shareholders, the agreement was terminated, pursuant to the terms and conditions established therein. This entailed the termination of the agreements which, inter alia, had granted Sponsor Holdings and DDFS representation on the board of directors of SCUSA and had established a voting system under which the strategic, financial and operating decisions, and other significant decisions associated with the ordinary management of SCUSA, were subject to joint approval by the Group and the aforementioned shareholders. Therefore, SCUSA ceased to be controlled jointly by all the above and is now controlled by the Group on the basis of the percentage held in its share capital ("change of control").

Prior to the aforementioned change of control, the Group accounted for its ownership interest in SCUSA using the equity method. Following the obtainment of control, the Group now recognises its investment in SCUSA using the full consolidation method and, at the date of obtainment of control, it included each of SCUSA's assets and liabilities in its consolidated balance sheet at their fair value.

The Group did not make any disbursement in relation to this change of control and, therefore, goodwill was determined by reference to the fair value of SCUSA implicit in the public offering. The detail of the fair values of the identifiable assets acquired and liabilities assumed at the business combination date is as follows:

	Millions of euros
Cash and balances with central banks	1,185
Financial assets held for trading	22
Loans and receivables - Loans and advances to customers (*)	16,113
Tangible assets	1,636
Intangible assets (**)	503
Other assets	1,172
Total assets	20,631
Deposits from credit institutions	6,191
Marketable debt securities and other financial liabilities (***)	11,256
Provisions	11
Other liabilities	935
Total liabilities	18,393
Net asset value	2,238
Non-controlling interests	(879)
Fair value of employee share option plans	(94)
Fair value of previously held investment	3,747
Goodwill	**2,482**

(*) The estimate of fair value included gains of EUR 18 million.

(**) The valuation work identified the following intangible assets additional to those already existing:

- Relationships with dealer networks amounting to EUR 429 million with an average amortisation period of approximately 17 years.
- Trademarks amounting to EUR 37 million.

(***) In the estimate of fair value, the value of marketable debt securities increased by EUR 117 million.

In order to determine the fair value of loans and receivables, the loans and receivables were segregated into portfolios of loans with similar features and for each portfolio the present value of the cash flows expected to be received was calculated on the basis of the estimated future losses and prepayment rates.

The goodwill is attributable to the capability and experience of SCUSA’s employees and management team.

As a result of the aforementioned transaction, the Group recognised a gain net of tax of EUR 730 million at its gross amount under Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the consolidated income statement for 2014 (see Notes 27 and 49), of which EUR 688 million relate to the recognition at fair value of the ownership interest held by the Group.

Had the business combination taken place on 1 January 2014, the results contributed to the Group by SCUSA would not have varied significantly from those recognised in the consolidated income statement for 2014.

xii. Agreement with El Corte Inglés

On 7 October 2013, the Group announced that it had entered into a strategic agreement through its subsidiary Santander Consumer Finance, S.A. with El Corte Inglés, S.A. in the area of consumer finance, which included the acquisition of 51% of the share capital of Financiera El Corte Inglés E.F.C., S.A., with El Corte Inglés, S.A. retaining the remaining 49%. On 27 February 2014, following the obtainment of the relevant regulatory and competition authorisations, the acquisition was completed. Santander Consumer Finance, S.A. paid EUR 140 million for 51% of the share capital of Financiera El Corte Inglés E.F.C., S.A.

The detail of the provisional fair values of the identifiable assets acquired and liabilities assumed at the business combination date is 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	1,344
Deposits from credit institutions	173
Customer deposits	81
Marketable debt securities	585
Provisions	3
Other liabilities	290
Total liabilities	1,132
Net asset value	212
Non-controlling interests	(104)
Consideration paid	140
Goodwill	**32**

The foregoing values are based on the information available at that date and they may be adjusted in the next month, as provided for in IFRS 3.

In 2014 Financiera El Corte Inglés E.F.C., S.A. contributed EUR 26 million to the Group's profit. Had the business combination taken place on 1 January 2014, the profit contributed would not have varied significantly.

xiii. Getnet Tecnologia em Captura e Processamento de Transações H.U.A.H., S.A.

On 7 April 2014, Banco Santander (Brasil) S.A. announced that it had reached an agreement to purchase through an investee all the shares of Getnet Tecnologia em Captura e Processamento de Transações H.U.A.H. S.A. ("Getnet"). The transaction was completed on 31 July 2014 and the price was set at BRL 1,156 million (approximately EUR 383 million), giving rise to goodwill of EUR 229 million, which was included in the Banco Santander (Brazil) cash-generating unit (see Note 17).

Among the agreements reached, the Group has granted a put option to the non-controlling shareholders of Santander Getnet Serviços para Meios de Pagamento S.A. on all the shares held by them (11.5% of the share capital of this company). The Group recognised the corresponding liability amounting to EUR 308 million with a charge to equity.

In 2014 Getnet Tecnologia em Captura e Processamento de Transações H.U.A.H. S.A. contributed EUR 11 million to the Group's profit. Had the business combination taken place on 1 January 2014, the profit contributed to the Group in 2014 would have been approximately EUR 21 million.

xiv. Banco Santander (Brasil) S.A.

In January and March 2012 the Group transferred shares representing 4.41% and 0.77% of Banco Santander (Brasil) S.A. to two leading international financial institutions that undertook to deliver these shares to the holders of the bonds convertible into shares of Banco Santander (Brasil) S.A. issued by Banco Santander, S.A. in October 2010 upon the maturity of the bonds. This transaction did not give rise to any change in the Group's equity.

The delivery of the aforementioned shares took place on 7 November 2013.

Acquisition of non-controlling interests in Banco Santander (Brasil) S.A.

On 28 April 2014, the Bank's board of directors approved a bid for the acquisition of all the shares of Banco Santander (Brasil) S.A. not then owned by the Group, which represented approximately 25% of the share capital of Banco Santander (Brasil) S.A., offering in consideration Bank shares in the form of Brazilian Depositary Receipts (BDRs) or American Depositary Receipts (ADRs). As part of the bid, the Bank requested that its shares be listed on the São Paulo Stock Exchange in the form of BDRs.

The offer was voluntary, in that the non-controlling shareholders of Banco Santander (Brasil) S.A. were not obliged to participate, and it was not conditional upon a minimum acceptance level. The consideration offered, following the adjustment made as a result of the application of the Santander Dividendo Elección scrip dividend scheme in October 2014, consisted of 0.7152 new Banco Santander shares for each unit or ADR of Banco Santander (Brasil) S.A. and 0.3576 new Banco Santander shares for each ordinary or preference share of Banco Santander (Brasil) S.A.

The bid was accepted by holders of 13.65% of the share capital of Banco Santander (Brasil) S.A. Accordingly, the Group's ownership interest in Banco Santander (Brasil) S.A. rose to 88.30% of its share capital. To cater for the exchange, the Bank, executing the agreement adopted by the extraordinary general meeting held on 15 September 2014, issued 370,937,066 shares, representing approximately 3.09% of the Bank's share capital at the issue date. The aforementioned transaction gave rise to an increase of EUR 185 million in Share capital, EUR 2,372 million in Share premium and EUR 15 million in Reserves, and a reduction of EUR 2,572 million in Non-controlling interests.

The shares of Banco Santander (Brasil) S.A. continue to be listed on the São Paulo and New York stock exchanges.

xv. Agreement with CNP

On 10 July 2014, the Bank announced that it had reached an agreement for the French insurance company CNP to acquire a 51% stake in the three insurance companies based in Ireland (Santander Insurance Life Limited, Santander Insurance Europe Limited and Santander Insurance Services Ireland Limited) that distribute life and non-life products through the Santander Consumer Finance network.

In December 2014, after the regulatory authorisations had been obtained, CNP paid EUR 297 million to acquire 51% of the share capital of the three aforementioned insurance companies and, therefore, control thereof. The agreement also includes deferred payments to CNP in 2017 and 2020, and deferred amounts receivable by the Group in 2017, 2020 and 2023, based on the business plan.

The aforementioned agreement included the execution of a 20-year retail agreement, renewable for five-year periods, for the sale of life and non-life insurance products through the Santander Consumer Finance network, for which the Group will receive commissions at market rates.

This transaction gave rise to the recognition of a gain of EUR 413 million under Gains/(losses) on disposal of assets not classified as non-current assets held for sale (see Note 49), of which EUR 207 million related to the fair value recognition of the 49% ownership interest retained by the Group.

xvi. Metrovacesa, S.A.

On 19 December 2012, the creditor entities that had participated in a debt restructuring agreement for the Sanahuja Group, under which they received shares of Metrovacesa, S.A. as dation in payment for that group's debt, announced that they had reached an agreement to promote the delisting of the shares of Metrovacesa, S.A. and they voted in favour of this at the general meeting held for this purpose on 29 January 2013. Following the approval of the delisting and the public takeover offer at the Metrovacesa, S.A. general meeting, the entities made a delisting public takeover offer of EUR 2.28 per share to the Metrovacesa, S.A. shareholders that had not entered into the agreement. The Group participated in the delisting public takeover offer by acquiring an additional 1.953% of Metrovacesa, S.A. for EUR 44 million.

Following this transaction, at 31 December 2013, the Group held an ownership interest of 36.82% in the share capital of Metrovacesa, S.A.

On 23 December 2014, the Group acquired 19.07% of Metrovacesa, S.A. from Bankia, S.A. for EUR 98.9 million, as a result of which its stake increased to 55.89%, thus obtaining control over this company.

The detail of the provisional fair values of the identifiable assets acquired and liabilities assumed at the business combination date is as follows:

	Millions of euros
Loans and receivables	256
Tangible assets (*)	3,522
Deferred tax assets	364
Other assets (**)	1,181
Total assets	5,323
Deposits from credit institutions	3,359
Deferred tax liabilities	382
Other liabilities	226
Total liabilities	3,967
Net asset value	1,356
Non-controlling interests	(598)
Consideration paid plus fair value of the previously held investment	598
Gain on the acquisition	*160*
Effect of the fair value recognition of the previously held investment on profit or loss	*(143)*
Net effect recognised in profit or loss	17

(*) Relating mainly to leased assets recognised at fair value by the acquiree and recognised under Tangible assets - Investment property.

(**) Including mainly Inventories. The estimate of fair value includes gains of EUR 268 million.

The foregoing values are based on the information available at that date and they may be adjusted in the next eleven months, as provided for in IFRS 3.

The fair value of the investment held was calculated using the fair value of the net assets and liabilities at the acquisition-date fair value.

The measurement at fair value of the investment held prior to the acquisition of control had an adverse effect of EUR 143 million on profit or loss. Consequently, the aforementioned transaction gave rise to the recognition of a gain of EUR 17 million in the consolidated income statement.

The results contributed by Metrovacesa, S.A. until 23 December 2014, the date of the business combination, are broken down in Note 41.

xvii. Agreement with GE Capital

On 23 June 2014, the Group announced that Santander Consumer Finance, S.A., the Group's consumer finance unit, had reached an agreement with GE Money Nordic Holding AB to acquire GE Capital's business in Sweden, Denmark and Norway for approximately EUR 693 million (SEK 6,408 million). On 6 November 2014, following the obtainment of the relevant authorisations, the acquisition was completed.

The detail of the provisional fair values of the identifiable assets acquired and liabilities assumed at the business combination date is 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
Consideration paid	693
Goodwill	**408**

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

The foregoing values are based on the information available at that date and they may be adjusted in the next ten months, as provided for in IFRS 3.

In 2014 this business contributed EUR 8 million to the Group’s profit. Had the business combination taken place on 1 January 2014, the profit contributed to the Group in 2014 would have been approximately EUR 94 million.

xviii. Agreement with Banque PSA Finance

The Group, through its subsidiary Santander Consumer Finance, S.A., and Banque PSA Finance, the vehicle financing unit of the PSA Peugeot Citroën Group, entered into an agreement for the operation of the vehicle financing business in twelve European countries. Pursuant to the terms of the 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. In addition, in certain countries, the Group will purchase a portion of the current lending portfolio of Banque PSA Finance. A cooperation agreement for the insurance business in all these countries is also included. The transaction is subject to approval by the relevant regulatory and competition authorities.

In January 2015 the relevant regulatory authorisations were obtained for the commencement of activities in France and the United Kingdom.

xix. Custody business

On 19 June 2014, the Group announced that it had reached an agreement with FINESP Holdings II B.V., a subsidiary of Warburg Pincus, to sell a 50% stake in Santander's custody business in Spain, Mexico and Brazil, with this business valued at EUR 975 million. The remaining 50% will be retained by the Group. The sale is subject to the obtainment of the relevant regulatory authorisations which, in accordance with the agreement, should be obtained in the first half of 2015.

xx. Carfinco Financial Group

On 16 September 2014, the Bank announced that it had reached an agreement to purchase the listed Canadian company Carfinco Financial Group Inc. ("Carfinco"), a company specialising in vehicle financing, for CAD 298 million (approximately EUR 210 million -at the date of the announcement). Carfinco's board of directors and its shareholders have approved the transaction. The transaction, which is subject to regulatory authorisation, is expected to be completed in 2015.

c) Off-shore entities

At the reporting date, under current Spanish legislation, the Group had eleven subsidiaries resident in off-shore territories, although these territories are not considered to be tax havens as defined by the OECD. Two of these subsidiaries are currently in liquidation and, over the next few years, five more subsidiaries are expected to be liquidated (two issuers and three substantially inactive or inactive companies).

Following these planned disposals, the Group would have a total of four off-shore subsidiaries, with 126 employees, mainly in Jersey and the Isle of Man:

- Abbey National International Limited in Jersey, which engages mainly in remote banking for British customers, who are offered traditional savings products.

- Serfin International Bank and Trust, Limited (Cayman Islands), an inactive bank.

- Whitewick Limited (Jersey), an inactive company.

- ALIL Services Limited (Isle of Man), currently providing substantially reduced services.

The individual results of the four subsidiaries listed above, calculated in accordance with local accounting principles, are shown in the Appendices to these notes to the consolidated financial statements together with other data thereon.

It should be noted that the individual results include transactions performed with other Group companies, such as dividend collection, recognition and reversal of provisions and corporate restructuring results which, in accordance with accounting standards, are eliminated on consolidation in order to avoid the duplication of profit or the recognition of intra-Group results. Therefore, they are not representative of the Group's operations in these countries or of the results contributed to Santander Group.

The four subsidiaries referred to above contributed a profit of approximately EUR 14 million to the Group's consolidated profit in 2014.

Also, the Group has five branches: three in the Cayman Islands, one in the Isle of Man and one in Jersey. These branches report to, and consolidate their balance sheets and income statements with, their respective foreign parents.

Spain will foreseeably enter into information exchange agreements with the Cayman Islands, the Isle of Man, Jersey and Guernsey and, accordingly, these territories would cease to be tax havens under Spanish law and, consequently, the Group would no longer have any entities in off-shore territories. In addition, these jurisdictions have successfully passed the evaluations conducted by the Global Forum on Transparency and Exchange of Information for Tax Purposes, and are not considered to be tax havens by the OECD.

Also, from Brazil the Group controls a securitisation company called Brazil Foreign Diversified Payment Rights Finance Company (in liquidation) and it manages a segregated portfolio company called Santander Brazil Global Investment Fund SPC in the Cayman Islands, and from the UK it manages a protected cell company in Guernsey called Guaranteed Investment Product 1 PCC Ltd. Additionally, the Group has, directly or indirectly, various financial investments located in tax havens including, inter alia, Asia Bridge Fund I LLC in Mauritius, Olivant Limited in Guernsey and JC Flowers in the Cayman Islands.

The Group also has five subsidiaries domiciled in off-shore territories that are not considered to be off-shore entities since they are resident for tax purposes in, and operate exclusively from, the UK (one of these subsidiaries is expected to be liquidated in 2015).

The Group has established appropriate procedures and controls (risk management, supervision, verification and review plans and periodic reports) to prevent reputational and legal risk arising at these entities. Also, the Group has continued to implement its policy to reduce the number of off-shore units. The financial statements of the Group's off-shore units are audited by member firms of Deloitte.

4. Distribution of the Bank's profit, Shareholder remuneration scheme and Earnings per share

a) Distribution of the Bank's profit and Shareholder remuneration scheme

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:

	Millions of euros
Acquisition, with a waiver of exercise, of bonus share rights from the shareholders which, under the Santander Dividendo Elección scrip dividend scheme, opted to receive in cash remuneration equivalent to the first, second and third interim dividend -EUR 799 million- and from the shareholders which are expected to opt to receive in cash remuneration equivalent to the final dividend (EUR 337 million):	1,136
Of which:	
Distributed at 31 December 2014 (*)	*471*
Third interim dividend	*328*
Fourth interim dividend (**)	*337*
To voluntary reserves	299
Net profit for the year	**1,435**

(*) Recognised under Shareholders' equity - Dividends and remuneration.

(**) Assuming a percentage of cash requests of 16%. If the amount used to acquire rights from shareholders opting to receive in cash the remuneration equivalent to the final dividend were less than the figure indicated, the difference would be automatically allocated to increase voluntary reserves. Otherwise, the difference would be deducted from the amount allocated to increase voluntary reserves.

In addition to the EUR 1,136 million indicated above, EUR 4,817 million in shares were allocated to the remuneration of shareholders under the shareholder remuneration scheme (Santander Dividendo Elección) approved by the shareholders at the annual general meeting held on 28 March 2014, whereby the Bank offered shareholders the possibility to opt to receive an amount equivalent to the first, second and third interim dividends out of 2014 profit in cash or new shares.

Similarly, within the framework of the shareholder remuneration scheme (Santander Dividendo Elección) the implementation of which will be submitted for approval by the annual general meeting, the Bank will offer shareholders the possibility of opting to receive an amount equivalent to the final dividend for 2014 in cash or new shares. The Bank's directors consider that 84% of shareholders will request remuneration in shares and, therefore, it is anticipated that the shareholders will be paid approximately EUR 1,772 million in shares.

The board of directors will propose to the shareholders at the annual general meeting that remuneration of approximately EUR 0.60 per share be paid for 2014.

b) *Earnings per share from continuing and discontinued operations*

i. Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in equity (see Note 23) by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares held in the year.

Accordingly:

	31-12-14	31-12-13	31-12-12
Profit attributable to the Group (millions of euros)	5,816	4,175	2,283
Remuneration of contingently convertible preference shares (millions of euros)	(131)	-	-
	5,685	4,175	2,283
Of which:			
Profit (Loss) from discontinued operations (net of non-controlling interests) (millions of euros)	*(26)*	*(15)*	*70*
Profit from continuing operations (net of non-controlling interests) (millions of euros)	*5,711*	*4,190*	*2,213*
Weighted average number of shares outstanding	11,858,689,721	10,836,110,583	9,451,734,994
Assumed conversion of convertible debt	-	-	314,953,901
Adjusted number of shares	11,858,689,721	10,836,110,583	9,766,688,895
Basic earnings per share (euros)	**0.48**	**0.39**	**0.23**
Basic earnings per share from discontinued operations (euros)	**(0.00)**	**(0.00)**	**0.01**
Basic earnings per share from continuing operations (euros)	**0.48**	**0.39**	**0.22**

ii. Diluted earnings per share

Diluted earnings per share are calculated by dividing the net profit attributable to the Group adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in equity (see Note 23) by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares and adjusted for all the dilutive effects inherent to potential ordinary shares (share options, and convertible debt instruments).

Accordingly, diluted earnings per share were determined as follows:

	31/12/14	31/12/13	31/12/12
Profit attributable to the Group (millions of euros)	5,816	4,175	2,283
Remuneration of contingently convertible preference shares (millions of euros)	(131)	-	-
Dilutive effect of changes in profit for the year arising from potential conversion of ordinary shares	-	-	-
	5,685	4,175	2,283
Of which:			
Profit (Loss) from discontinued operations (net of non-controlling interests) (millions of euros)	*(26)*	*(15)*	*70*
Profit from continuing operations (net of non-controlling interests) (millions of euros)	*5,711*	*4,190*	*2,213*
Weighted average number of shares outstanding	11,858,689,721	10,836,110,583	9,451,734,994
Assumed conversion of convertible debt	-	-	314,953,901
Dilutive effect of options/rights on shares	29,829,103	51,722,251	66,057,677
Adjusted number of shares	11,888,518,824	10,887,832,834	9,832,746,572
Diluted earnings per share (euros)	**0.48**	**0.38**	**0.23**
Diluted earnings per share from discontinued operations (euros)	**(0.00)**	**(0.00)**	**0.01**
Diluted earnings per share from continuing operations (euros)	**0.48**	**0.38**	**0.22**

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

a) Remuneration of directors

i. Bylaw-stipulated emoluments

The annual general meeting held on 22 March 2013 approved an amendment to the Bylaws, whereby the remuneration of directors in their capacity as board members became an annual fixed amount determined by the annual general meeting. This amount shall remain in effect unless the shareholders resolve to change it at a general meeting. However, the board of directors may elect to reduce the amount in any years in which it deems such action justified. The remuneration established for 2014 by the annual general meeting, as for 2013, was EUR 6 million, with two components: (a) an annual emolument and (b) attendance fees.

The specific amount payable for the above-mentioned items to each of the directors is determined by the board of directors. For such purpose, it takes into consideration the positions held by each director on the board, their attendance of board meetings, their membership of the various committees, their attendance of committee meetings and any other objective circumstances considered by the board.

The total bylaw-stipulated emoluments earned by the directors in 2014 amounted to EUR 4.4 million (2013: EUR 4.3 million).

Annual emolument

The amounts received individually by the directors in 2014 and 2013 based on the positions held by them on the board and their membership of the board committees were as follows:

	Euros	
	2014	2013
Members of the board of directors	84,954	84,954
Members of the executive committee	170,383	170,383
Members of the audit committee	39,551	39,551
Members of the appointments committee (1)	23,730	23,730
Members of the remuneration committee (1)	23,730	23,730
Members of the risk, regulation and compliance oversight committee (2)	20,697	-
Chairman of the risk, regulation and compliance oversight committee (2)	26,164	-
Non-executive deputy chairmen (3)	28,477	28,477

(1) In 2014 the former appointments and remuneration committee was divided into two, namely the appointments committee and the remuneration committee. The amount indicated relates to the entire year, the corresponding proportional part for each case having been paid.

(2) Held its first meeting on 23 July 2014.

(3) In 2013 the total amount of EUR 28,477 was paid to Mr Guillermo de la Dehesa and Mr Manuel Soto Serrano in proportion to the time during which each held office in the year.

Attendance fees

The directors receive fees for attending board and committee meetings, excluding executive committee meetings, since no attendance fees are received for this committee.

By resolution of the board of directors, at the proposal of the remuneration committee, the fees for attending board and committee meetings -excluding executive committee meetings, for which no attendance fees have been established- have remained unchanged since 2008.

	Euros
Board meeting attendance fees	2008-2014
Board of directors	
Resident directors	2,540
Non-resident directors	2,057
Executive risk committee, audit committee and risk, regulation and compliance oversight committee	
Resident directors	1,650
Non-resident directors	1,335
Other committees (except the executive committee)	
Resident directors	1,270
Non-resident directors	1,028

ii. Salaries

Fixed remuneration

The executive directors' gross annual salary for 2014 and 2013 was as follows:

	Thousands of euros	
	2014	2013
Ms Ana Botín-Sanz de Sautuola y O'Shea (1)		
Chief executive officer of Santander UK	1,392	2,005
Chair	833	-
Mr Matías Rodríguez Inciarte	1,710	1,710
Mr Juan Rodríguez Inciarte	1,200	987
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos (2)	930	1,344
Mr Javier Marín Romano (3)		
Executive vice president	-	267
Chief executive officer	2,000	1,333
Mr Alfredo Sáenz Abad (4)	-	-
Total	**8,065**	**7,646**

(1) As indicated in the annual remuneration report for 2013, which was approved, on a consultation basis, by the Bank's annual general meeting on 28 March 2014, the gross annual salary that corresponded to her in 2014 for her duties as chief executive officer of Santander UK amounted to GBP 1,702 thousand (EUR 2,005 thousand, considering the average exchange rate for 2013). Following her designation as chair of Banco Santander on 10 September 2014, this amount was revised to reflect her new responsibilities and was established at EUR 2.5 million.

The amounts in euros in the above table for 2014 include the portion relating to her duties as chief executive officer of Santander UK and the portion relating to her duties as chair of the Group.

(2) Ceased to be a member of the board due to his death on 9 September 2014.

(3) The amount actually received in 2013 was EUR 1,600 thousand, which is the sum of his remuneration as executive vice president of the Bank for the first four months of the year (EUR 267 thousand) and his remuneration as chief executive officer for the remaining eight (EUR 1,333 thousand). Ceased to be a member of the board on 12 January 2015.

(4) Retired from the board on 29 April 2013. The gross salary received until that date is shown, together with his other remuneration, in section iii) below.

Variable remuneration

In 2013 the variable remuneration was instrumented through a deferred conditional variable remuneration plan (bonus) payable partly in cash and partly in shares and deferred over a three-year period. In 2014 the board, at the proposal of the appointments and remuneration committee, included in this variable remuneration a multiannual component consisting of a new long-term incentive (performance share plan, "ILP" – see Note 47 for terms and conditions) based on the performance of certain variables of the Bank over the above period.

Bonus

The maximum variable remuneration (bonus) of the executive directors for 2014 and 2013 approved by the board at the proposal of the appointments and remuneration committee (in 2014, the remuneration committee) was as follows:

	Thousands of euros	
	2014	2013
Ms Ana Botín-Sanz de Sautuola y O'Shea (1)		
Chief executive officer of Santander UK	2,212	2,212
Chair	1,550	-
Mr Matías Rodríguez Inciarte	2,868	2,308
Mr Juan Rodríguez Inciarte	2,223	1,480
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	-	1,412
Mr Javier Marín Romano (2)		
Executive vice president	-	500
Chief executive officer	3,966	2,000
Mr Alfredo Sáenz Abad	-	-
Total	**12,819**	**9,912**

(1) The amounts in euros in the above table for 2014 include the portion relating to her duties as chief executive officer of Santander UK and the portion relating to her duties as chair of the Group.

(2) The amounts in euros in the above table for 2013 include the portion relating to his duties as executive vice president for the first four months of the year and the portion relating to his duties as chief executive officer of the Bank for the remaining eight months.

The third and fourth cycles of the deferred conditional variable remuneration plan (bonus) were approved in 2013 and 2014 under the same payment terms as the first cycle of the plan (see Note 5.e), whereby payment of a portion of the variable remuneration for these years is deferred over three years for it to be paid, where appropriate, in three equal portions, 50% in cash and 50% in Santander shares, provided that the conditions for entitlement to the remuneration are met. Similarly, the portion of the variable remuneration that is not deferred (immediate payment) is paid 50% in cash and 50% in shares.

The amounts shown in the foregoing table reflect the maximum total variable remuneration allocated to the executive directors for each year. These amounts include both the cash-based and share-based variable remuneration (according to the plans agreed in each year) and both the remuneration payable immediately and that which, as the case may be, is payable following a deferral period.

The following table shows the form of payment of the aforementioned variable remuneration for 2014 and 2013:

	Thousands of euros							
	2014				2013			
	Immediate payment in cash (20%)	Immediate payment in shares (20%)	Deferred payment in cash (30%) (1)	Deferred payment in shares (30%) (1)	Immediate payment in cash (20%)	Immediate payment in shares (20%)	Deferred payment in cash (30%) (2)	Deferred payment in shares (30%) (2)
Ms Ana Botín-Sanz de Sautuola y O'Shea (3)	752	752	1,129	1,129	442	442	664	664
Mr Matías Rodríguez Inciarte	574	574	860	860	462	462	692	692
Mr Juan Rodríguez Inciarte	445	445	667	667	296	296	444	444
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-	-	-	282	282	424	424
Mr Javier Marín Romano	793	793	1,190	1,190	500	500	750	750
Mr Alfredo Sáenz Abad	-	-	-	-	-	-	-	-
Total	**2,564**	**2,564**	**3,846**	**3,846**	**1,982**	**1,982**	**2,974**	**2,974**

(1) In 3 years: 2016, 2017 and 2018 subject to continued service, with the exceptions provided for, and the non-applicability of "malus" clauses.

(2) In 3 years: 2015, 2016 and 2017 subject to continued service, with the exceptions provided for, and the non-applicability of "malus" clauses.

(3) In 2013, euro equivalent value of the original amount in pounds sterling.

The amounts of immediate and deferred payments in shares shown in the table above correspond to the following numbers of shares:

	Number of shares					
	2014			2013		
	Immediate payment	Deferred payment (1)	Total	Immediate payment	Deferred payment (2)	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	121,629	182,444	304,073	66,241	99,362	165,603
Mr Matías Rodríguez Inciarte	92,726	139,088	231,814	69,092	103,639	172,731
Mr Juan Rodríguez Inciarte	71,872	107,808	179,680	44,299	66,448	110,747
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-	-	42,287	63,431	105,718
Mr Javier Marín Romano	128,225	192,338	320,563	74,850	112,275	187,125
Mr Alfredo Sáenz Abad	-	-	-	-	-	-
Total	**414,452**	**621,678**	**1,036,130**	**296,769**	**445,155**	**741,924**

(1) In 3 years: 2016, 2017 and 2018 subject to continued service, with the exceptions provided for, and the non-applicability of "malus" clauses.

(2) In 3 years: 2015, 2016 and 2017 subject to continued service, with the exceptions provided for, and the non-applicability of "malus" clauses.

ILP 2014

The ILP for the executive directors was set by the board, at the proposal of the remuneration committee, at an amount equal to 15% of the bonus.

The ILP thus established for each beneficiary is called the "Agreed ILP Amount", and its accrual and its amount are linked to the degree of achievement of the multiannual targets established in the plan (see Note 47). The Agreed ILP Amount determines, for each executive director, the maximum number of shares that the director may, if appropriate, receive; this number was calculated taking into account the market price of the Santander share in the 15 trading sessions prior to 16 January 2015, which was EUR 6.186 per share.

Following is a detail of the maximum number of shares corresponding to each executive director and the estimated fair value of this variable remuneration:

	2014	
	Fair value (thousands of euros) (1)	Maximum number of shares
Ms Ana Botín-Sanz de Sautuola y O'Shea (1)	140	62,395
Mr Matías Rodríguez Inciarte	170	75,655
Mr Juan Rodríguez Inciarte	120	53,346
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-
Mr Javier Marín Romano	147	65,470
Total	**577**	**256,866**

(1) Estimated fair value at the plan award date, taking into account various possible scenarios regarding Banco Santander's TSR performance in relation to that of the benchmark group entities in the measurement periods.

The accrual of the ILP and its amount are conditional on the performance of Banco Santander's TSR in relation to that of the entities in the benchmark group over a multiannual period. Thus, in 2016, 2017 and 2018, the amount, if any, to be received by each executive director under the ILP (the annual amount of the ILP) will be determined by applying to one third of the agreed amount of the ILP the percentage resulting from the performance of the TSR according to the table approved in the plan (see Note 47).

iii. Detail by director

The detail, by Bank director, for 2014 and 2013 is provided below. The salaries of the executive directors shown in the table below correspond to the gross annual salary received and to the maximum amount of the bonus approved by the board as period remuneration, irrespective of the year of payment and of the amount which may ultimately be paid to the directors under the agreed deferred remuneration scheme. Also, the figures for 2014 include, for each director, the estimated fair value of the new long-term incentive (ILP), irrespective of the year of payment and of the amount which may ultimately be paid under the agreed deferred remuneration scheme. Note 5.e) below includes disclosures on the shares delivered by virtue of the deferred remuneration schemes in place in previous years the conditions for delivery of which were met in the corresponding years.

Directors	Thousands of euros																			
	2014																		2013	
	Bylaw-stipulated emoluments									Salaries of executive directors										
	Annual emolument							Attendance fees		Fixed	Variable - immediate payment		Variable - deferred payment (a)		ILP (b)	Total	Other remuneration (c)	Total	Total (d)	
	Board	Executive committee	Audit and compliance committee	Appointments and remuneration committee	Appointments committee	Remuneration committee	Risk, regulation and compliance oversight committee	Board	Other fees		In cash	In shares	In cash	In shares						
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea																				
Chief executive officer of Santander UK	85	170	-	-	-	-	-	29	2	1,392	442	442	664	664	140	3,744	448	4,478	4,840	
Chair	-	-	-	-	-	-	-	-	-	833	310	310	465	465	-	2,383	-	2,383	-	
Mr Matías Rodríguez Inciarte	85	170	-	-	-	-	-	38	158	1,710	574	574	860	860	170	4,748	175	5,375	4,729	
Mr Guillermo de la Dehesa Romero (1)	113	170	40	19	4	4	-	38	48	-	-	-	-	-	-	-	-	438	394	
Mr Rodrigo Echenique Gordillo (2)	85	170	12	19	4	4	21	36	152	-	-	-	-	-	-	-	23	527	493	
Ms Sheila Bair (3)	79	-	-	-	-	-	21	23	7	-	-	-	-	-	-	-	-	129	-	
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea (4)	85	-	-	-	-	-	-	25	-	-	-	-	-	-	-	-	-	110	113	
Ms Esther Giménez-Salinas i Colomer	85	-	-	-	-	-	-	36	-	-	-	-	-	-	-	-	-	121	114	
Mr Ángel Jado Becerro de Bengoa	85	-	-	-	-	-	21	38	8	-	-	-	-	-	-	-	-	152	115	
Mr Juan Rodríguez Inciarte	85	-	-	-	-	-	-	38	87	1,200	445	445	667	667	120	3.543	184	3,937	2,830	
Ms Isabel Tocino Biscarolasaga (5)	85	170	-	19	-	4	-	36	171	-	-	-	-	-	-	-	-	485	432	
Mr Juan Miguel Villar Mir (6)	85	-	-	-	-	-	-	20	-	-	-	-	-	-	-	-	-	105	71	
Mr Emilio Botín-Sanz de Sautuola															-					
y García de los Ríos (7)	59	118	-	-	-	-	-	20	1	930	-	-	-	-	-	930	1	1,129	3,051	
Mr Javier Marín Romano (8)																				
Executive vice president	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	767	
Chief executive officer	85	170	-	-	-	-	-	36	3	2,000	793	793	1,190	1,190	147	6,113	54	6,460	3,574	
Mr Fernando de Asúa Álvarez (9)	113	170	40	19	4	4	47	36	211	-	-	-	-	-	-	-	-	645	579	
Mr Vittorio Corbo Lioi (10)	48	-	-	-	-	-	-	8	-	-	-	-	-	-	-	-	-	56	106	
Mr Abel Matutes Juan (11)	85	-	40	-	4	-	-	28	26	-	-	-	-	-	-	-	-	183	169	
Lord Burns (Terence) (12)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	103	
Mr Alfredo Sáenz Abad (13)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,899	
Mr Manuel Soto Serrano (13)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	137	
Total 2014	**1,347**	**1,310**	**131**	**77**	**18**	**18**	**109**	**484**	**873**	**8,065**	**2,564**	**2,564**	**3,846**	**3,846**	**577**	**21,461**	**884**	**26,713**	**-**	**8.9%**
Total 2013	**1,415**	**1,308**	**158**	**103**	**-**	**-**	**-**	**468**	**874**	**8,880**	**1,982**	**1,982**	**2,974**	**2,974**	**-**	**18,792**	**1.398**	**-**	**24,517**	

(1) Member of the audit committee and third deputy chairman since 29 April 2013.
(2) Executive director since 16 January 2015.
(3) Appointed director on 27 January 2014.
(4) All the amounts received were repaid to the Fundación Marcelino Botín.
(5) Member of the executive committee since 29 April 2013.
(6) Board member since 7 May 2013.
(7) Ceased to be a member of the board due to his death on 9 September 2014.
(8) Member of the board and the executive committee since 29 April 2013. Retired from the board on 12 January 2015.
(9) Retired from the board on 12 February 2015.
(10) Retired from the board on 24 July 2014.
(11) Retired from the board on 18 February 2015.
(12) Retired from the board on 31 December 2013.
(13) Retired from the board on 29 April 2013.
(a) Maximum deferred bonus for the period approved by the board of directors at the related meetings.
(b) Fair value of the ILP granted in 2014.
(c) Includes, inter alia, the life and medical insurance costs borne by the Group relating to Bank directors.
(d) Includes the corresponding deferred variable remuneration.

b) Remuneration of the board members as representatives of the Bank

By resolution of the executive committee, all the remuneration received by the Bank's directors who represent the Bank on the boards of directors of listed companies in which the Bank has a stake, paid by those companies and relating to appointments made after 18 March 2002, accrues to the Group. In 2014 and 2013 the Bank's directors did not receive any remuneration in respect of these representative duties.

Two directors of the Bank received a total of EUR 295 thousand in 2014 as members of the boards of directors of Group companies (2013: EUR 1,184 thousand), the detail being as follows: Mr Matías Rodríguez Inciarte received EUR 42 thousand as non-executive director of U.C.I., S.A. and Mr Vittorio Corbo Lioi – who resigned as a director of the Bank with effect from 24 July 2014 – received EUR 253 thousand prior to his resignation, of which he received EUR 89 thousand as chairman and non-executive director of Banco Santander - Chile, EUR 156 thousand for advisory services provided to that entity and EUR 8 thousand as non-executive director of Grupo Financiero Santander México, S.A.B. de C.V.

c) Post-employment and other long-term benefits

In 2012, within the framework of the measures implemented by the Group in order to mitigate the risks arising from the defined-benefit pension obligations payable to certain employees, which led to an agreement with the workers' representatives to convert the defined-benefit obligations existing under the collective agreement into defined-contribution plans (see Note 25), the contracts of the executive directors and the other members of the Bank's senior management -the senior executives- which provided for defined-benefit pension obligations were amended to convert these obligations into a defined-contribution employee welfare system, which was externalised to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A. The new system grants the executive directors the right to receive a pension benefit upon retirement, regardless of whether or not they are in the Bank's employ on that date, based on the contributions made to the aforementioned system, and replaced the right to receive a pension supplement which had previously been payable to them upon retirement. The new system expressly excludes any obligation of the Bank to the executive directors other than the conversion of the previous system into the new employee welfare system, which took place in 2012, and, as the case may be, the annual contributions to be made as described below[1]. In the event of pre-retirement, the executive directors who have not exercised the option to receive their pensions in the form of a lump sum are entitled to receive an annual emolument until the date of retirement.

The initial balance for each executive director in the new defined-contribution welfare system was that corresponding to the market value of the assets in which the provisions for the respective accrued obligations had been invested, at the date on which the former pension obligations were converted into the new welfare system[2].

1 As provided for in the contracts of the executive directors and members of senior management prior to their modification, Mr Emilio Botín-Sanz de Sautuola y García de los Ríos and Mr Matías Rodríguez Inciarte had exercised the option to receive the accrued pensions -or amounts similar thereto- in the form of a lump sum (i.e. in a single payment), which meant that no further pension benefit would accrue to them from that time, and the lump sum to be received, which would be updated at the agreed-upon interest rate, was fixed.

2 In the case of Mr Emilio Botín-Sanz de Sautuola y García de los Ríos and Mr Matías Rodríguez Inciarte, the initial balance corresponded to the amounts that were set when, as described above, they exercised the option to receive a lump sum, and includes the interest accrued on these amounts from that date.

Since 2013 the Bank makes annual contributions to the employee welfare system for the benefit of the executive directors and senior executives, in proportion to their respective pensionable bases, until they leave the Group, or until their retirement from the Group, death or disability (including, as the case may be, during the pre-retirement period). No contributions are made for the executive directors and senior executives who, prior to the conversion of the defined-benefit pension obligations into the current defined-contribution employee welfare system, had exercised the option to receive their pension rights in a lump sum[3].

The terms of the employee welfare system regulate the impact of the deferral of the computable variable remuneration on the benefit payments covered by the system upon retirement and, as the case may be, the withholding tax on shares arising from such remuneration.

In 2013, as a result of his appointment as chief executive officer, changes were introduced to the contract of Mr Javier Marín Romano with respect to the pension obligations stipulated in his senior management contract. The annual contribution to the employee welfare system was thereafter calculated as 80% of the sum of: (i) fixed annual remuneration; and (ii) 30% of the arithmetic mean of the last three gross amounts of variable remuneration. Also, the pensionable base in relation to the death and permanent disability scheme provided for in his senior management contract became 100% of fixed annual remuneration. Under his senior management contract the annual contribution was 55% of his fixed remuneration, and the pensionable base in the event of death or disability was 80% of his fixed remuneration.

Following is a detail of the balances relating to each of the current executive directors under the welfare system at 31 December 2014 and 2013:

	Thousands of euros	
	2014	2013
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea (1)	40,134	37,202
Mr Matías Rodríguez Inciarte	47,255	46,058
Mr Juan Rodríguez Inciarte	13,730	13,410
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	- (2)	25,864
Mr Javier Marín Romano (3)	4,523	4,346
Mr Alfredo Sáenz Abad (4)	-	-
	105,642	**126,880**

(1) Includes the amounts relating to the period of provision of services at Banesto, externalised with another insurance company.

(2) Following his death on 9 September 2014, a death benefit of the amount of the accumulated rights (EUR 26,498 thousand) is payable to the beneficiaries designated in the policy instrumenting the welfare system.

(3) Ceased to be a director on 12 January 2015 and took voluntary pre-retirement, as provided for in his contract, opting to receive the annual pre-retirement emoluments to which he is entitled (EUR 800 thousand gross) in a single payment (EUR 10,861 thousand gross). As stipulated in his contract, the Bank will make annual contributions to the welfare system, amounting to 55% of this director's annual emolument during the pre-retirement period, and Mr Marín will be entitled to receive, at the time of his retirement, the retirement benefit recognised in the welfare system, equal to the amount of the balance accumulated in the system corresponding to him at that time. As regards the deferred variable remuneration corresponding to Mr Marín in relation to years prior to his pre-retirement, the scheme described in the relevant sections of this report shall apply, and Mr Marín will receive this remuneration, if appropriate, on the dates envisaged in the corresponding plans, subject to the stipulated conditions for its accrual being met.

(4) In April 2013, upon his retirement, Mr Alfredo Sáenz Abad requested payment of the pensions to which he was entitled in a lump sum (EUR 88.5 million gross). For such purpose, his pension

3 Mr Rodrigo Echenique, appointed executive director on 16 January 2015, does not participate in the welfare system and is not entitled to have any contributions made in his favour by the Bank in this connection, notwithstanding the pension rights to which he was entitled prior to his appointment as executive director.

rights were settled, in accordance with the applicable contractual and legal terms, through: i) the payment in cash of EUR 38.2 million relating to the net amount of the pension calculated taking into account the fixed remuneration, and EUR 12.2 million relating to the net amount of the pension calculated taking into account the accrued variable remuneration at the retirement date, and ii) the investment by Mr Sáenz of those EUR 12.2 million in Santander shares (2,216,082 shares), which were deposited at the Bank on a restricted basis until 29 April 2018.

The Group also has pension obligations to other directors amounting to EUR 18 million (31 December 2013: EUR 18 million). The payments made in 2014 to the members of the board entitled to post-employment benefits amounted to EUR 1.2 million (2013: EUR 1.2 million), of which EUR 0.9 million relate to Mr Rodrigo Echenique Gordillo (appointed executive director on 16 January 2015).

Lastly, the contracts of the executive directors who had not exercised the option referred to above prior to the conversion of the defined-benefit pension obligations into the current welfare system include a supplementary welfare regime for the contingency of death (surviving spouse and child benefits) and permanent disability of serving directors.

The provisions recognised in 2014 and 2013 for retirement pensions and supplementary benefits (surviving spouse and child benefits, and permanent disability) were as follows:

	Thousands of euros	
	2014	2013
Ms Ana Botín-Sanz de Sautuola y O'Shea	2,140	1,443
Mr Matías Rodríguez Inciarte	-	-
Mr Juan Rodríguez Inciarte	718	609
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-
Mr Javier Marín Romano	2,126	2,006
Mr Alfredo Sáenz Abad	-	-
	4,984	**4,058**

d) Insurance

The Group has taken out life insurance policies for the Bank's directors, who will be entitled to receive benefits if they are declared disabled; in the event of death, the benefits will be payable to their heirs. The premiums paid by the Group are included in the Other remuneration column of the table shown in Note 5.a.iii above. Also, the following table provides information on the sums insured for the Bank's executive directors:

	Insured sum (Thousands of euros)	
	2014	2013
Ms Ana Botín-Sanz de Sautuola y O'Shea	7,500	6,000
Mr Matías Rodríguez Inciarte	5,131	5,131
Mr Juan Rodríguez Inciarte	2,961	2,961
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-
Mr Javier Marín Romano	2,400	2,400
Mr Alfredo Sáenz Abad	-	-
	17,992	**16,492**

Additionally, other directors have life insurance policies the cost of which is borne by the Group, the related insured sum being EUR 1.4 million at 31 December 2014 (2013: EUR 1.4 million).

e) Deferred variable remuneration systems

Following is information on the maximum number of shares to which the executive directors are entitled at the beginning and end of 2013 and 2014 due to their participation in the deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to prior years, as well as on the payments, in shares or in cash, made to them in 2013 and 2014 where the terms and conditions for the receipt thereof had been met (see Note 47):

i) Obligatory investment share plan

Pursuant to the obligatory investment share plan (see Note 47), as deferred share-based variable remuneration in 2009, the executive directors acquired, prior to 28 February 2010, the number of Bank shares shown in the table below, corresponding to the third cycle of this plan. Executive directors who retain the shares acquired in the obligatory investment and remain in the Group's employ for three years from the date on which the obligatory investment is made are entitled to receive the same number of Bank shares as that composing their initial obligatory investment and where none of the following circumstances exist in the three-year period from the investment in the shares: (i) poor financial performance of the 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 Group's financial statements, except when it is required pursuant to a change in accounting standards, are entitled to receive the same number of Bank shares as that composing their initial obligatory investment.

The conditions having been met for their receipt, in February 2013, as approved by the board, 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.

	Maximum number of shares to be delivered (2)
	3rd cycle 2010-2012
Ms Ana Botín-Sanz de Sautuola y O'Shea (1)	18,446
Mr Matías Rodríguez Inciarte	25,849
Mr Juan Rodríguez Inciarte	15,142
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	20,515
Mr Javier Marín Romano	11,092
	91,044

(1) The maximum number of shares corresponding to Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea as beneficiary of this plan is in line with the resolution adopted by the shareholders at the annual general meeting of Banesto held on 24 February 2010.

(2) In addition, Mr Alfredo Sáenz Abad received 49,000 shares as a result of his participation in the third cycle of the aforementioned plan.

ii) Performance share plan (Plan I13)

The table below shows 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) which instrumented a portion of the variable remuneration for 2010. As established in the plan, the number of shares received was determined by the degree of achievement of the targets to which the plan was tied, and the necessary minimum not having been reached, their options under the plan were cancelled.

	Options at 1 January 2013	Shares delivered in 2013 (number)	Options cancelled in 2013 (number)	Options at 31 December 2013	Grant date	Share delivery deadline
Plan I13						
Ms Ana Botín-Sanz de Sautuola y O'Shea (1)	56,447	-	(56,447)	-	11-06-10	31-07-13
Mr Matías Rodríguez Inciarte	105,520	-	(105,520)	-	11-06-10	31-07-13
Mr Juan Rodríguez Inciarte	60,904	-	(60,904)	-	11-06-10	31-07-13
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	82,941	-	(82,941)	-	11-06-10	31-07-13
Mr Alfredo Sáenz Abad (2)	228,445	-	(228,445)	-	11-06-10	31-07-13
	534,257	-	**(534,257)**	-		

(1) Without prejudice to the Banesto shares corresponding to Ms Ana Botín-Sanz de Sautuola y O'Shea by virtue of the various Banesto share-based incentive plans approved by the shareholders at the general meeting of Banesto (a maximum of 32,358 Banesto shares relating to her participation in the Banesto Share-Based Incentive Plan expiring in 2013).

(2) Following his resignation on 29 April 2013, Mr Alfredo Sáenz Abad lost his entitlement arising from his participation in these plans since he did not meet all the conditions stipulated for the shares to be received.

iii) Deferred conditional delivery share plan

The 2010 variable remuneration of the executive directors and Group executives or employees whose variable remuneration or annual bonus for 2010 exceeded, in general, EUR 300,000 (gross) was approved by the board of directors through the instrumentation of the first cycle of the deferred conditional delivery share plan, whereby a portion of the aforementioned variable remuneration or bonus was deferred over a period of three years for it to be paid, where appropriate, in Santander shares. Application of this cycle, insofar as it entails the delivery of shares to the plan beneficiaries, was authorised by the annual general meeting held on 11 June 2010.

In addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations, the accrual of the share-based deferred remuneration is conditional upon none of the following circumstances existing, in the opinion of the board of directors, during the period prior to each of the deliveries: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in economic capital and the qualitative assessment of risk.

The share-based bonus is being deferred over three years and will be paid, where appropriate, in three instalments starting after the first year.

The number of shares allocated to the executive directors for deferral purposes in 2010 and the shares delivered in 2013 (second third) and in February 2014 (third third), once the conditions for receiving them had been met, are as follows (the plan having been settled):

	Number of shares deferred on bonus for 2010 (2)	*Number of shares delivered in 2013 (2nd third) (2)*	*Number of shares delivered in 2014 (3rd third) (2)*
Ms Ana Botín-Sanz de Sautuola y O'Shea (1)	91,187	*30,395*	*19,240*
Mr Matías Rodríguez Inciarte	135,188	*45,063*	*45,063*
Mr Juan Rodríguez Inciarte	61,386	*20,462*	*20,462*
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	94,345	*31,448*	*31,448*
Mr Javier Marín Romano	37,749	*12,583*	*12,583*

(1) Shares of Banesto, as authorised by the shareholders of that entity at the annual general meeting of 23 February 2011. Following the merger of Banesto with the Bank, 19,240 shares of the Bank were delivered in 2014, equal to the 30,395 shares of Banesto authorised by the annual general meeting.

(2) On 23 January 2012, Mr Francisco Luzón López took pre-retirement and resigned from his positions as director and head of the Americas division. In accordance with the plan regulations, Mr Francisco Luzón López retained the right to receive the shares corresponding to his participation in the plan, subject to compliance with the conditions established for them to be received. In both 2013 and 2014 he received 51,660 shares relating to the number of shares to which he was entitled as a result of the vesting of the second and third thirds of the deferred portion of his 2010 bonus.

Furthermore, Mr Alfredo Sáenz Abad ceased to discharge his duties as director on 29 April 2013. In accordance with the plan regulations, Mr Alfredo Sáenz Abad retained the right to receive the shares corresponding to his participation in the plan, subject to compliance with the conditions established for them to be received. In both 2013 and 2014 he received 104,150 shares relating to the number of shares to which he was entitled as a result of the vesting of the second and third thirds of the deferred portion of his 2010 bonus.

iv) Deferred conditional variable remuneration plan

Since 2011, the bonuses of executive directors and certain executives (including senior management) and employees who assume risk, who perform control functions or receive an overall remuneration that puts them on the same remuneration level as senior executives and employees who assume risk (all of whom are referred to as identified staff) have been approved by the board of directors and instrumented, respectively, through various cycles of the deferred conditional variable remuneration plan. Application of these cycles, insofar as they entail the delivery of shares to the plan beneficiaries, was authorised by the related annual general meetings.

The purpose of these plans is to defer a portion of the bonus of the beneficiaries thereof (60% in the case of executive directors) over a period of three years for it to be paid, where appropriate, in cash and in Santander shares; the other portion of the bonus is also to be paid in cash and Santander shares, upon commencement of the cycles, in accordance with the rules set forth below.

In addition to the requirement that the beneficiary remains in Santander Group's employ, the accrual of the deferred remuneration is conditional upon none of the following circumstances existing -in the opinion of the board of directors following a proposal of the remuneration committee- in relation to the corresponding year in the period prior to each of the deliveries: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or its risk profile. All the foregoing shall in each case be governed by the rules of the relevant plan cycle.

On each delivery, the beneficiaries will be paid an amount in cash equal to the dividends paid for the amount deferred in shares and the interest on the amount deferred in cash. If the *Santander Dividendo*

Elección scrip dividend scheme is applied, they will be paid the price offered by the Bank for the bonus share rights corresponding to those shares.

The maximum number of shares to be delivered is calculated taking into account 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 executive directors for each year.

The table below shows the number of Santander shares assigned to each executive director and not yet delivered at 1 January 2013, 31 December 2013 and 31 December 2014, and the gross shares delivered to them in 2013 and 2014, by way of either immediate payment or deferred payment, in the latter case once the board had determined, at the proposal of the appointments and remuneration committee, that the third relating to each plan had accrued. The shares resulted from each of the plans which instrumented the variable remuneration of 2011, 2012, 2013 and 2014, as shown in the following table:

Share-based variable remuneration	**Maximum number of shares to be delivered at 1 January 2013**	Shares delivered in 2013 (immediate payment 2012 variable remuneration)	Shares delivered in 2013 (deferred payment 2011 variable remuneration)	2013 variable remuneration (maximum number of shares to be delivered)	**Maximum number of shares to be delivered at 31 December 2013**	Shares delivered in 2014 (immediate payment 2013 variable remuneration)	Shares delivered in 2014 (deferred payment 2012 variable remuneration)	Shares delivered in 2014 (deferred payment 2011 variable remuneration)	2014 variable remuneration (maximum number of shares to be delivered)	**Maximum number of shares to be delivered at 31 December 2014**
2011 variable remuneration										
Ms Ana Botín-Sanz Sautuola y O'Shea	141,002	-	(47,001)	-	94,001	-	-	(47,001)	-	47,000
Mr Matías Rodríguez Inciarte	188,634	-	(62,878)	-	125,756	-	-	(62,878)	-	62,878
Mr Juan Rodríguez Inciarte	110,070	-	(36,690)	-	73,380	-	-	(36,690)	-	36,690
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	149,327	-	(49,776)	-	99,551	-	-	(49,776)	-	49,775
Mr Javier Marín Romano	77,882	-	(25,961)	-	51,921	-	-	(25,961)	-	25,960
Mr Francisco Luzón López (1)	196,494	-	(65,498)	-	130,996	-	-	(65,498)	-	65,498
Mr Alfredo Sáenz Abad (2)	371,049	-	(123,683)	-	247,366	-	-	(123,683)	-	123,683
	1,234,458	-	(411,487)	-	**822,971**	-	-	(411,487)	-	411,484
2012 variable remuneration										
Ms Ana Botín-Sanz Sautuola y O'Shea	174,790	(69,916)	-	-	104,874	-	(34,958)	-	-	69,916
Mr Matías Rodríguez Inciarte	207,648	(83,059)	-	-	124,589	-	(41,530)	-	-	83,059
Mr Juan Rodríguez Inciarte	121,165	(48,466)	-	-	72,699	-	(24,233)	-	-	48,466
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	109,879	(43,952)	-	-	65,927	-	(21,976)	-	-	43,951
Mr Javier Marín Romano	116,908	(58,454)			58,454	-	(19,485)	-	-	38,969
Mr Alfredo Sáenz Abad (2)	273,028	(109,211)	-	-	163,817	-	(54,605)	-	-	109,212
	1,003,418	(413,058)	-	-	**590,360**	-	(196,787)	-	**-**	**393,573**
2013 variable remuneration										
Ms Ana Botín-Sanz Sautuola y O'Shea	-	-	-	165,603	165,603	(66,241)	-	-	-	99,362
Mr Matías Rodríguez Inciarte	-	-	-	172,731	172,731	(69,092)	-	-	-	103,639
Mr Juan Rodríguez Inciarte	-	-	-	110,747	110,747	(44,299)	-	-	-	66,448
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-	-	105,718	105,718	(42,287)	-	-	-	63,431
Mr Javier Marín Romano	-	-	-	187,125	187,125	(74,850)	-	-	-	112,275
	-	-	-	741,924	**741,924**	(296,769)	-	-	-	**445,155**
2014 variable remuneration										
Ms Ana Botín-Sanz Sautuola y O'Shea	-	-	-	-	-	-	-	-	304,073	304,073
Mr Matías Rodríguez Inciarte	-	-	-	-	-	-	-	-	231,814	231,814
Mr Juan Rodríguez Inciarte	-	-	-	-	-	-	-	-	179,680	179,680
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-	-	-	-	-	-	-	-	-
Mr Javier Marín Romano	-	-	-	-	-	-	-	-	320,563	320,563
	-	-	-	-	-	-	-	-	1,036,130	**1,036,130**

(1) On 23 January 2012, Mr Francisco Luzón López took pre-retirement and resigned from his positions as director and head of the Americas division. In relation to his 2011 variable remuneration to be received in cash and in Santander shares, the board resolved, at the committee's proposal, to deliver him EUR 743 thousand and 130,996 shares as an immediate payment. The deferred amount in cash and in shares relating to the first, second and third thirds was paid in February 2013, 2014 and 2015, the requirements of the plan for the receipt thereof having been met. Upon each delivery of shares, he was paid an amount in cash equal to the dividends paid on those shares and, if the Santander Dividendo Elección scrip dividend scheme is applied, the price offered by the Bank for the bonus share rights relating to the aforementioned shares, as well as the interest accrued on the amount deferred in cash.

(2) Mr Alfredo Sáenz Abad ceased to discharge his duties as director on 29 April 2013. The deferred amounts, in cash (two gross payments of EUR 702 thousand each, relating to the deferred variable remuneration for 2011, and three of EUR 351 thousand each, relating to the deferred variable remuneration for 2012) and in shares (see table above), relating to the deferred variable remuneration for 2011 and 2012, have or will be paid to him on the corresponding maturity dates, together with the remuneration relating to the shares (dividends and amounts offered for the bonus share rights if the Santander Dividendo Elección scrip dividend scheme is applied) and the interest accrued on the cash amounts, subject to compliance with the requirements set forth in the related resolutions of the general meetings and the plans' regulations, as well as all other terms set forth therein.

Furthermore, the table below shows the cash delivered in 2013 and 2014, by way of either immediate payment or deferred payment, in the latter case once the board had determined, at the proposal of the appointments and remuneration committee that the third relating to each plan had accrued:

	Thousands of euros			
	2014		2013	
	Cash paid (immediate payment 2013 variable remuneration)	Cash paid (third of deferred payment 2012 and 2011 variable remuneration)	Cash paid (immediate payment 2012 variable remuneration)	Cash paid (1st third deferred payment 2011 variable remuneration)
Ms Ana Botín-Sanz de Sautuola y O'Shea[(1)]	466	513	449	286
Mr Matías Rodríguez Inciarte	462	624	534	357
Mr Juan Rodríguez Inciarte	296	364	311	208
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	282	423	282	282
Mr Javier Marín Romano	500	272	376	147
Mr Francisco Luzón López	-	-[(2)]	-	371
Mr Alfredo Sáenz Abad	-	-[(3)]	702	702
	2,005	**2,197**	**2,654**	**2,353**

(1) Euro equivalent value of the original amount in pounds sterling.

(2) In 2014 he received EUR 371 thousand relating to the second third of the conditional deferred variable remuneration plan of 2011, the requirements for the accrual thereof having been met.

(3) In 2014 he received EUR 1,053 thousand relating to the second and first thirds of the conditional deferred variable remuneration plans of 2011 and 2012, the requirements for the accrual thereof having been met.

v) Performance share plan (ILP)

The table below shows the maximum number of shares to which the executive directors are entitled, as part of their variable remuneration for 2014, as a result of their participation in the ILP (see Note 47).

	Maximum number of shares
Ms Ana Botín-Sanz de Sautuola y O'Shea	62,395
Mr Matías Rodríguez Inciarte	75,655
Mr Juan Rodríguez Inciarte	53,346
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	-
Mr Javier Marín Romano	65,470
Total	**256,866**

The accrual and amount of the ILP are conditional upon the performance of Santander's TSR compared to that of the companies in the benchmark group over a multiannual period. Therefore, in 2016, 2017 and 2018 the amount to be received by each executive director in relation to the ILP (the ILP Annual Amount) will be determined by applying to the third of the ILP Agreed Amount the percentage relating to the performance of the TSR in accordance with the table approved in the plan (see Note 47).

The shares to be delivered on each ILP payment date, based on compliance with the related multiannual TSR target will be conditional, in addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations, upon none of the following circumstances existing -in the opinion of the board of directors following a proposal of the remuneration committee-, during the period prior to each of the deliveries as a result of actions performed in 2014: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or risk profile.

f) Loans

The Group's direct risk exposure to the Bank's directors and the guarantees provided for them are detailed below. These transactions were made on an arm's-length basis or the related compensation in kind was recognised:

	Thousands of euros					
	2014			2013		
	Loans and credits	Guarantees	Total	Loans and credits	Guarantees	Total
Mr Matías Rodríguez Inciarte	8	-	8	17	-	17
Mr Juan Rodríguez Inciarte	4,182	-	4,182	4,734	-	4,734
Mr Rodrigo Echenique Gordillo	317	-	317	650	-	650
Mr Javier Botín-Sanz de Sautuola y O'Shea	18	-	18	22	-	22
Mr Ángel Jado Becerro de Bengoa	1	-	1	7	-	7
Ms Isabel Tocino Biscarolasaga	7	-	7	20	-	20
Mr Vittorio Corbo Lioi	-	-	-	4	-	4
Mr Javier Marín Romano	723	-	723	707	-	707
	5,255	**-**	**5,255**	**6,161**	**-**	**6,161**

g) Senior managers

Following is a detail of the remuneration, in terms of gross salary, maximum bonus amount and in 2014 fair value of the remuneration for participation in the ILP plan, approved for the Bank's executive vice presidents (*) in 2014 and 2013:

		Thousands of euros								
		Salaries								
			Variable - Immediate payment		Variable - Deferred payment (2)					
	Number of persons (1)	Fixed	In cash	In shares	In cash	In shares	ILP	Total	Other remuneration (3)	Total
2014	27	26,211	9,990	9,990	12,422	12,422	2,264	73,299	7,493(4)	80,792
2013	28	26,040	9,521	9,521	9,588	9,588	-	64,257	8,416	72,673

(*) Excluding executive directors' remuneration, which is detailed above.

(1) Persons who at some point in the year occupied the position of executive vice president. The amounts reflect the remuneration for the full year regardless of the number of months in which the position of executive vice president was occupied.

(2) The shareholders at the annual general meetings of 22 March 2013 and 28 March 2014 approved the third and fourth cycles of the deferred conditional variable remuneration plan, whereby payment of a portion of the variable remuneration for 2013 and 2014 will be deferred over three years for it to be paid, where appropriate, in three equal portions, 50% in cash and 50% in Santander shares, provided that the conditions for entitlement to the remuneration are met. The amount of the immediate payment in shares for 2014 relates to 1,514,738 Santander shares and 148,631 Banco Santander (Brasil) S.A. shares (2013: 1,331,781 Santander shares and

165,100 Banco Santander (Brasil) S.A. shares). The shares relating to the amount of the deferred payment in shares are shown in the table below.

(3) Includes other remuneration items such as life insurance premiums totalling EUR 1,290 thousand (2013: EUR 1,499 thousand).

(4) In addition, USD 6.9 million were paid in relation to the extraordinary taxation in the United States due to the transformation of the pension plans of Banco Santander, S.A.

The maximum amount of the ILP to which the executive vice presidents are entitled was set by the board of directors at a total of EUR 6,238 thousand (with a fair value of EUR 2,264 thousand). The accrual and amount of the ILP are subject, inter alia, to achievement of the multiannual TSR targets envisaged in the plan. Any ILP payments will be received in full in shares and deferred in thirds (to be received in 2016, 2017 and 2018).

Following is a detail of the maximum number of Santander shares that the Bank's executive vice presidents (excluding executive directors) were entitled to receive at 31 December 2014 and 2013 relating to the deferred portion under the various plans then in force (see Note 47):

Maximum number of shares to be delivered	31/12/14	31/12/13
Deferred conditional delivery plan (2010)	-	482,495
Deferred conditional variable remuneration plan (2011)	637,995	1,480,251
Deferred conditional variable remuneration plan (2012)	1,014,196	1,660,832 (1)
Deferred conditional variable remuneration plan (2013)	1,412,164	1,341,718
Deferred conditional variable remuneration plan (2014)	1,857,841 (2)	-
ILP (2014)	1,008,398	-

(1) For the executives who joined from Banesto, the Banesto shares were converted into Santander shares at EUR 0.633 per share.

(2) In addition, at 31 December 2014 they were entitled to a maximum of 222,946 Banco Santander (Brasil) S.A. shares (the maximum number of shares corresponding to the deferred portion of the 2014 bonus)

In addition, at 31 December 2013 they were entitled to a maximum of 167,943 Banco Santander (Brasil) S.A. shares and to a maximum of 843,718 options on Banco Santander (Brasil) S.A. shares (343,718 under the share option plan approved in 2011, the exercise of which, subject to the plan's terms and conditions, commenced in July 2014, plus 500,000 under the share option plan approved in 2013, the exercise of which, subject to the plan's terms and conditions, may commence in July 2016). In 2014, 51,558 share options under the plan approved in 2011 were exercised and the remainder of these options were cancelled. All other options remained in force at 31 December 2014, in accordance with the terms and conditions of the corresponding plans.

In 2014 and 2013, since the conditions established in the corresponding deferred share-based remuneration schemes for prior years had been met, in addition to the payment of the related cash amounts, the following number of Santander shares was delivered to the executive vice presidents:

Number of shares delivered	2014	2013
Third cycle - obligatory investment plan	-	275,325
Deferred conditional delivery plan (2010)	365,487	482,494 (1)
Deferred conditional variable remuneration plan (2011)	637,996	708,375 (2)
Deferred conditional variable remuneration plan (2012)	507,098	-

(1) In addition, 14,705 Banesto shares were delivered.

(2) In addition, 50,159 Banesto shares were delivered.

As indicated in section c) of this Note, in 2012 the contracts of the members of the Bank's senior management which provided for defined-benefit pension obligations were amended to convert these obligations into a defined-contribution employee welfare system, which was externalised to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A. The new system grants the senior executives the right to receive a pension benefit upon retirement, regardless of whether or not they are in the Bank's employ on that date, based on the contributions made to the aforementioned system, and replaces the right to receive a pension supplement which had previously been payable to them upon retirement. The new system expressly excludes any obligation of the Bank to the executives other than the conversion of the previous system into the new employee welfare system, which took place in 2012, and, as the case may be, the annual contributions to be made. In the event of pre-retirement, the senior executives who have not exercised the option described in Note 5.c are entitled to an annual emolument until the date of retirement.

The senior executives' beginning balance under the new employee welfare system amounted to EUR 287 million. This balance reflects the market value, at the date of conversion of the former pension obligations into the new employee welfare system, of the assets in which the provisions for the respective accrued obligations had been invested. The balance at 31 December 2014 amounted to EUR 296 million (31 December 2013: EUR 312 million).

The contracts of the senior executives who had not exercised the option referred to in Note 5.c) prior to the conversion of the defined-benefit pension obligations into the current welfare system include a supplementary welfare regime for the contingencies of death (surviving spouse and child benefits) and permanent disability of serving executives.

Additionally, the total sum insured under life and accident insurance policies relating to this group of employees amounted to EUR 154 million at 31 December 2014 (31 December 2013: EUR 92 million).

Lastly, the net charge to the consolidated income statement amounted to EUR 20 million in 2014 (2013: EUR 19.7 million).

h) Post-employment benefits to former directors and former executive vice presidents

The post-employment benefits and settlements paid in 2014 to former directors of the Bank, other than those detailed in Note 5.c and below[4], amounted to EUR 8.9 million (2013: EUR 7.2 million). Also, the post-employment benefits and settlements paid in 2014 to former executive vice presidents amounted to EUR 37.2 million (2013: EUR 21 million).

In 2014 a period provision of EUR 250 thousand was recognised in the consolidated income statement in connection with the Group's pension and similar obligations to former directors of the Bank (including the insurance premiums for the supplementary surviving spouse/child and permanent disability benefits), and

4 In January 2013, upon his retirement, Mr Francisco Luzón López requested payment of the pensions to which he was entitled in a lump sum (EUR 65.4 million gross). For such purpose, his pension rights were settled, in accordance with the applicable contractual and legal terms, through: i) the payment in cash of EUR 21.1 million relating to the net amount of the pension calculated taking into account the fixed remuneration and the bylaw-stipulated emoluments, and EUR 7.1 million relating to the net amount of the pension calculated taking into account the accrued variable remuneration at the retirement date, ii) the investment by Mr Luzón of those EUR 7.1 million in Santander shares (1,144,110 shares), which shall be deposited on a restricted basis until 23 January 2017 and iii) the investment by the Bank of the gross remaining amount of the pension (EUR 6.6 million), calculated taking into account the unaccrued variable remuneration, in Santander shares (1,061,602 shares) pending delivery to Mr Luzón (subject to the same restriction period mentioned above and net of tax) subject to whether or not the variable remuneration giving rise to them finally accrued to him. Of these 1,061,602 shares, in January 2014 and in January 2015, 800,296 and 261,306 shares, respectively, were delivered to Mr Luzón, on the accrual of the variable remuneration giving rise to them, and have been deposited on a restricted basis until 23 January 2017.

provisions of EUR 3,272 thousand were released in relation to former executive vice presidents (2013: period provisions of EUR 1,153 thousand and EUR 707 thousand were recognised, respectively).

Furthermore, Provisions - Provision for pensions and similar obligations in the consolidated balance sheet at 31 December 2014 included EUR 91 million in respect of the post-employment benefit obligations to former directors of the Bank (31 December 2013: EUR 93 million) and EUR 114 million corresponding to former executive vice presidents (2013: EUR 121 million).

i) Pre-retirement and retirement

The following executive directors will be entitled to take pre-retirement in the event of termination, if they have not yet reached the age of retirement, on the terms indicated below:

- Ms Ana Botín-Sanz de Sautuola y O'Shea will be entitled to take pre-retirement in the event of termination for reasons other than breach or resignation before the age of 55. In any event, she will be entitled to an annual emolument equivalent to her fixed remuneration and 30% of the average of her latest amounts of variable remuneration, up to a maximum of three. This emolument would be reduced by up to 20% in the event of voluntary retirement before the age of 60.
- Mr Juan Rodríguez Inciarte will be entitled to take pre-retirement for reasons other than breach or resignation. In that case, he will be entitled to an annual emolument equivalent to his fixed remuneration.

If Ms Ana Botín-Sanz de Sautuola y O'Shea or Mr Juan Rodríguez Inciarte take pre-retirement, they have the right to opt to receive the annual emoluments in the form of an annuity or a lump sum -i.e. in a single payment- in full but not in part.

For his part, Mr Matías Rodríguez Inciarte may take retirement at any time and, therefore, claim from the insurer the benefits corresponding to him under the externalised employee welfare system described in Note 5.c, with no obligation whatsoever being incumbent upon the Bank in such circumstances.

j) Contract termination

The executive directors and senior executives have indefinite-term employment contracts. 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 Bank terminates the contract for any other reason, they will be entitled to the corresponding legally-stipulated termination benefit.

However, should Mr Rodrigo Echenique Gordillo's contract be terminated prior to 1 January 2018, unless it is terminated voluntarily or due to his death, permanent disability, or serious breach of his duties, he shall be entitled to receive compensation of twice his fixed salary.

If the Bank were to terminate her contract, Ms Ana Botín-Sanz de Sautuola y O'Shea would have to remain at the Bank's disposal for a period of four months in order to ensure an adequate transition, and would receive her fixed salary during that period.

Other non-director members of the Group's senior management, other than those whose contracts were amended in 2012 as indicated above, have contracts which entitle them, in certain circumstances, to an extraordinary contribution to their welfare system in the event of termination for reasons other than voluntary redundancy, retirement, disability or serious breach of duties. These benefits are recognised as a provision for pensions and similar obligations and as a staff cost only when the employment relationship between the Bank and its executives is terminated before the normal retirement date.

k) 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 Banco Santander, S.A., or that, in any other way, place the directors in an ongoing conflict with the interests of Banco Santander, 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	Number of shares	Functions
Ms Ana Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A. (*) Santander UK plc	6,000,000 -	- Director (1)
Mr Matías Rodríguez Inciarte	Financiera El Corte Inglés, E.F.C., S.A.	-	Director (1)
Mr Guillermo de la Dehesa Romero	Goldman, Sachs & Co. (The Goldman Sachs Group. Inc.) Banco Popular Español, S.A.	19,546 2,789	- -
Mr Rodrigo Echenique Gordillo	Wells Fargo & Co. Bank of America Corporation Mitsubishi UFJ Financial Group Santander Investment, S.A. Allfunds Bank, S.A. Banco Santander International	4,500 12,000 17,500 - - -	- - - Director (1) Deputy chairman (1) Director (1)
Mr Javier Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A.	7,929,853	-
Ms Esther Giménez-Salinas i Colomer	Gawa Capital Partners SL	-	Director (1)
Mr Ángel Jado Becerro de Bengoa	Bankinter, S.A. (2)	1,774,000	-
Mr Juan Rodríguez Inciarte	Banco Bilbao Vizcaya Argentaria, S.A. (3) Wells Fargo & Co. Santander UK plc Santander Consumer Finance, S.A.	1,118 107 - -	- - Director (1) Director (1)
Ms Isabel Tocino Biscarolasaga	Banco Bilbao Vizcaya Argentaria, S.A.	9,348	-
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos (4)	Bankinter, S.A. (5) Bank of America Corporation	330,314 560	- -
Mr Javier Marín Romano (6)	Allfunds Bank, S.A. Santander Investment, S.A. Santander Private Banking s.p.a.	- - -	Director (1) Deputy chairman (1) Chairman (1)
Mr Abel Matutes Juan (7)	Banco Bilbao Vizcaya Argentaria, S.A. (*) Citibank	716,136 109,062	- -
Mr Vittorio Corbo Lioi (8)	Banco Santander - Chile Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México Santander Consumo, S.A. de C.V., SOFOM, E.R. Santander Hipotecario, S.A. de C.V., SOFOM, E.R.	- - - -	Director (1) Director (1) Director (1) Director (1)

(*) Ownership interests held by related persons.

(1) Non-executive.

(2) Of the shares indicated, 274,000 are held by related persons.

(3) Held jointly with a related person.

(4) Died 9 September 2014. Data at 2013 year-end.

(5) In addition, he was the direct holder of the right of usufruct over 3,422,836 shares of Bankinter, S.A. at 2013 year-end.

(6) Ceased to be a director on 12 January 2015.

(7) Ceased to be a director on 18 February 2015.

(8) Ceased to be a director on 24 July 2014. Data at 2013 year-end.

With regard to situations of conflict of interest, as stipulated in Article 30 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 board, without the involvement of the interested party and following a favourable report by the remuneration committee, authorised the sale by the Bank, on an arm's-length basis, of 2,403,923 shares of MED 2001 Inversiones, SICAV, S.A. held by Mr Ángel Jado Becerro de Bengoa and companies in his family group.

In addition to the matter described above, in 2014 there were a further 136 occasions on which other directors abstained from participating in and voting on the deliberations of the meetings of the board of directors and its committees.

The breakdown of the 136 cases is as follows: 52 occasions related to proposals for the appointment, re-election or removal of directors or the grant of powers of attorney to them; 43 occasions related to the approval of remuneration conditions; on 27 occasions the subject of debate were proposals to provide funding or other risk transactions to companies related to various directors; 5 occasions referred to the procedure required of the Bank, as a credit institution, to assess the suitability of the members of the board of directors and the holders of key functions, pursuant to Royal Decree 1245/1995, as worded in Royal Decree 256/2013; on 4 occasions the abstention occurred in connection with the annual verification of the directors' status which, pursuant to Article 6.3 of the Rules and Regulations of the Board, was performed by the appointments and remuneration committee; 3 occasions related to the assessment commended to the appointments committee under Article 17.4 g) of the Rules and Regulations of the Board, in order to ascertain whether the professional obligations of directors might interfere with the dedication required of them for the efficient discharge of their duties; one occasion related to the approval of a transaction with a related party; and one other occasion concerned the attendance of a director as a guest at board committee meetings after the director has ceased to be a member of the board.

6. Loans and advances to credit institutions

The detail, by classification, type and currency, of Loans and advances to credit institutions in the consolidated balance sheets is as follows:

	Millions of euros		
	2014	2013	2012
Classification:			
Financial assets held for trading	1,815	5,503	9,843
Other financial assets at fair value through profit or loss	28,592	13,444	10,272
Loans and receivables	51,306	56,017	53,785
	81,713	**74,964**	**73,900**
Type:			
Reciprocal accounts	1,571	1,858	1,863
Time deposits	8,177	16,284	15,669
Reverse repurchase agreements	39,807	29,702	25,486
Other accounts	32,158	27,120	30,882
	81,713	**74,964**	**73,900**
Currency:			
Euro	49,099	33,699	36,955
Pound sterling	4,348	4,964	3,787
US dollar	15,964	14,915	13,567
Other currencies	12,381	21,423	19,621
Impairment losses (Note 10)	(79)	(37)	(30)
Of which: due to country risk	*(13)*	*(11)*	-
	81,713	**74,964**	**73,900**

The loans and advances to credit institutions classified under Financial assets held for trading consist mainly of securities of foreign institutions acquired under reverse repurchase agreements, whereas those classified under Other financial assets at fair value through profit or loss consist of assets of Spanish and foreign institutions acquired under reverse repurchase agreements.

The loans and advances to credit institutions classified under Loans and receivables are mainly time deposits and guarantees given in cash to credit institutions.

The impairment losses on financial assets recognised in Loans and receivables are disclosed in Note 10.

Note 51 contains a detail of the residual maturity periods of Loans and receivables and of the related average interest rates.

7. Debt instruments

a) Detail

The detail, by classification, type and currency, of Debt instruments in the consolidated balance sheets is as follows:

	Millions of euros		
	2014	2013	2012
Classification:			
Financial assets held for trading	54,374	40,841	43,101
Other financial assets at fair value through profit or loss	4,231	3,875	3,460
Available-for-sale financial assets	110,249	79,844	87,724
Loans and receivables	7,510	7,886	7,059
	176,364	**132,446**	**141,344**
Type:			
Spanish government debt securities	39,182	32,880	37,141
Foreign government debt securities	93,037	59,660	67,222
Issued by financial institutions	18,041	17,206	12,297
Other fixed-income securities	26,248	22,907	24,828
Impairment losses	(144)	(207)	(144)
	176,364	**132,446**	**141,344**
Currency:			
Euro	74,833	63,263	63,169
Pound sterling	9,983	7,709	9,240
US dollar	20,452	14,195	18,183
Other currencies	71,240	47,486	50,896
Impairment losses	(144)	(207)	(144)
	176,364	**132,446**	**141,344**

b) Breakdown

The breakdown, by origin of the issuer, of Debt instruments at 31 December 2014, 2013 and 2012, net of impairment losses, is as follows:

	Millions of euros											
	2014				2013				2012			
	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%
Spain	8,542	39,182	47,724	27.06%	11,752	32,880	44,632	33.70%	10,046	37,141	47,187	33.38%
United Kingdom	3,502	7,577	11,079	6.28%	3,268	5,112	8,380	6.33%	3,865	7,528	11,393	8.06%
Portugal	3,543	8,698	12,241	6.94%	2,634	3,465	6,099	4.60%	2,843	2,217	5,060	3.58%
Poland	745	6,373	7,118	4.04%	723	5,184	5,907	4.46%	462	2,611	3,073	2.17%
Italy	1,670	4,170	5,840	3.31%	733	2,857	3,590	2.71%	375	619	994	0.70%
Ireland	405	-	405	0.23%	848	-	848	0.64%	739	-	739	0.52%
Greece	-	-	-	-	-	-	-	-	-	-	-	-
Other European countries	7,327	4,267	11,594	6.57%	5,357	3,607	8,964	6.77%	4,244	6,009	10,253	7.25%
United States	8,793	5,847	14,640	8.30%	5,945	3,997	9,942	7.51%	5,994	6,965	12,959	9.17%
Brazil	5,673	37,792	43,465	24.65%	4,954	19,852	24,806	18.73%	4,810	27,359	32,169	22.76%
Mexico	847	9,071	9,918	5.62%	566	8,156	8,722	6.59%	501	8,817	9,318	6.59%
Chile	909	2,389	3,298	1.87%	1,467	1,272	2,739	2.07%	1,377	2,124	3,501	2.48%
Other American countries	1,558	1,514	3,072	1.74%	1,384	995	2,379	1.80%	1,208	1,163	2,371	1.68%
Rest of the world	631	5,339	5,970	3.38%	275	5,163	5,438	4.11%	517	1,810	2,327	1.65%
	44,145	**132,219**	**176,364**	**100%**	**39,906**	**92,540**	**132,446**	**100%**	**36,981**	**104,363**	**141,344**	**100%**

The detail, by issuer rating, of Debt instruments at 31 December 2014, 2013 and 2012 is as follows:

	Millions of euros											
	2014				2013				2012			
	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%
AAA	17,737	10,647	28,384	16.09%	10,357	7,847	18,204	13.74%	15,754	11,711	27,465	19.43%
AA	2,763	14,770	17,533	9.94%	2,884	11,304	14,188	10.71%	714	12,724	13,438	9.51%
A	5,711	6,373	12,084	6.85%	5,036	5,184	10,220	7.72%	5,524	2,611	8,135	5.76%
BBB	5,215	90,505	95,720	54.27%	7,158	64,341	71,499	53.98%	3,460	74,435	77,895	55.11%
Below BBB	3,092	8,698	11,790	6.69%	6,386	3,864	10,250	7.74%	4,052	2,882	6,934	4.90%
Unrated	9,627	1,226	10,853	6.15%	8,085	-	8,085	6.10%	7,477	-	7,477	5.29%
	44,145	**132,219**	**176,364**	**100.00%**	**39,906**	**92,540**	**132,446**	**100.00%**	**36,981**	**104,363**	**141,344**	**100.00%**

The distribution of exposure by rating shown in the foregoing table has been affected by the various reviews of sovereign issuer ratings conducted in recent years, the main review in 2014 having been that of Argentina (from Below BBB in 2013 to Unrated in 2014). Also, at 31 December 2014 the exposures with BBB ratings included mainly the Spanish sovereign exposures and the sovereign exposures in Mexico and Brazil, while those with ratings Below BBB included the Portuguese sovereign exposures (BB).

The detail, by type of financial instrument, of Private fixed-income securities at 31 December 2014, 2013 and 2012, net of impairment losses, is as follows:

	Millions of euros		
	2014	2013	2012
Securitised mortgage bonds	3,388	2,936	6,835
Other asset-backed bonds	2,315	2,781	1,497
Floating rate debt	13,172	10,857	15,883
Fixed rate debt	25,270	23,332	12,766
Total	**44,145**	**39,906**	**36,981**

c) Impairment losses

The changes in the impairment losses on Available-for-sale financial assets - Debt instruments are summarised below:

	Millions of euros		
	2014	2013	2012
Balance at beginning of year	188	129	235
Net impairment losses for the year	42	72	13
Of which:			
Impairment losses charged to income (Note 29)	*42*	*89*	*18*
Impairment losses reversed with a credit to income	-	*(18)*	*(5)*
Assets written off	(110)	-	(109)
Exchange differences and other items	(1)	(13)	(10)
Balance at end of year	**119**	**188**	**129**
Of which:			
By geographical location of risk:			
European Union	*9*	*105*	*51*
Latin America	*110*	*83*	*78*

Also, the impairment losses on Loans and receivables (EUR 25 million, EUR 19 million and EUR 15 million at 31 December 2014, 2013 and 2012, respectively) are disclosed in Note 10.

d) Other information

At 31 December 2014, the nominal amount of debt securities assigned to certain own or third-party commitments, mainly to secure financing facilities received by the Group, amounted to EUR 84,231 million. Of these securities, EUR 27,881 million related to Spanish government debt.

The detail, by term to maturity, of the debt instruments pledged as security for certain commitments, is as follows:

	Millions of euros							
	1 day	1 week	1 month	3 months	6 months	1 year	More than 12 months	Total
Government debt securities	12,590	29,778	13,476	6,623	5,154	4,713	1,012	73,346
Other debt instruments	5,078	240	1,202	982	703	910	1,770	10,885
Total	**17,668**	**30,018**	**14,678**	**7,605**	**5,857**	**5,623**	**2,782**	**84,231**

There are no particular conditions relating to the pledge of these assets that need to be disclosed.

Note 29 contains a detail of the valuation adjustments recognised in equity on available-for-sale financial assets.

Note 51 contains a detail of the residual maturity periods of Available-for-sale financial assets and of Loans and receivables and of the related average interest rates.

8. Equity instruments

a) Breakdown

The detail, by classification and type, of Equity instruments in the consolidated balance sheets is as follows:

	Millions of euros		
	2014	2013	2012
Classification:			
Financial assets held for trading	12,920	4,967	5,492
Other financial assets at fair value through profit or loss	879	866	688
Available-for-sale financial assets	5,001	3,955	4,542
	18,800	**9,788**	**10,722**
Type:			
Shares of Spanish companies	3,102	2,629	3,338
Shares of foreign companies	12,773	4,711	4,726
Investment fund units and shares	2,925	2,448	2,658
	18,800	**9,788**	**10,722**

Note 29 contains a detail of the valuation adjustments recognised in equity on available-for-sale financial assets, and also the related impairment losses.

b) Changes

The changes in Available-for-sale financial assets-Equity instruments were as follows:

	Millions of euros		
	2014	2013	2012
Balance at beginning of year	3,955	4,542	5,024
Changes in the scope of consolidation	-	-	-
Net additions (disposals)	743	(722)	(666)
Of which:			
Bank of Shanghai Co., Ltd.	*396*	-	-
SAREB	-	*44*	*164*
Valuation adjustments and other items	303	135	184
Balance at end of year	**5,001**	**3,955**	**4,542**

The main acquisitions and disposals made in 2014, 2013 and 2012 were as follows:

i. Bank of Shanghai Co., Ltd.

In May 2014 the Group acquired 8% of Bank of Shanghai Co., Ltd. for EUR 396 million.

ii. Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB)

In December 2012 the Group, together with other Spanish financial institutions, entered into an agreement to invest in the Spanish Bank Restructuring Asset Management Company (SAREB). The Group undertook to make an investment of up to EUR 840 million (25% in capital and 75% in subordinated debt), and at 31 December 2012, it had paid EUR 164 million of capital and EUR 490 million of subordinated debt.

In February 2013, following the review of the own funds that SAREB required, the aforementioned undertaking was reduced to EUR 806 million, and the Group disbursed the remaining EUR 44 million of capital and EUR 108 million of subordinated debt.

c) Notifications of acquisitions of investments

The notifications made by the Bank in 2014, in compliance with Article 155 of the Spanish Limited Liability Companies Law and Article 53 of Spanish Securities Market Law 24/1998, of the acquisitions and disposals of holdings in investees are listed in Appendix IV.

9. Trading derivatives (assets and liabilities) and Short positions

a) Trading derivatives

The detail, by type of inherent risk, of the fair value of the trading derivatives arranged by the Group is as follows (see Note 36):

	Millions of euros					
	2014		2013		2012	
	Debit balance	Credit balance	Debit balance	Credit balance	Debit balance	Credit balance
Interest rate risk	56,878	56,710	43,185	43,154	89,404	86,956
Currency risk	16,201	17,418	11,315	10,181	16,516	16,692
Price risk	2,800	4,118	3,247	4,609	3,289	5,081
Other risks	979	802	1,152	943	1,110	1,014
	76,858	**79,048**	**58,899**	**58,887**	**110,319**	**109,743**

b) Short positions

Following is a breakdown of the short positions:

	Millions of euros		
	2014	2013	2012
Borrowed securities:			
Debt instruments	3,303	3,921	5,371
Of which: Santander UK plc	*2,537*	*3,260*	*4,989*
Equity instruments	1,557	189	551
Of which: Santander UK plc	*1,435*	*7*	*59*
Short sales:			
Debt instruments	12,768	11,840	9,259
Of which:			
Banco Santander, S.A.	*7,093*	*6,509*	*5,946*
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander, Mexico	*1,561*	*2,882*	*3,266*
Banco Santander (Brasil) S.A.	*3,476*	*2,388*	-
Equity instruments	-	1	-
	17,628	**15,951**	**15,181**

10. Loans and advances to customers

a) Detail

The detail, by classification, of Loans and advances to customers in the consolidated balance sheets is as follows:

	Millions of euros		
	2014	2013	2012
Financial assets held for trading	2,921	5,079	9,162
Other financial assets at fair value through profit or loss	8,971	13,196	13,936
Loans and receivables	722,819	650,581	696,014
Of which:			
Disregarding impairment losses	*750,036*	*675,484*	*721,436*
Impairment losses	*(27,217)*	*(24,903)*	*(25,422)*
Of which, due to country risk	*(7)*	*(31)*	*(42)*
	734,711	668,856	719,112
Loans and advances to customers disregarding impairment losses (*)	**761,928**	**693,759**	**744,534**

(*) Includes Valuation adjustments for accrued interest receivable and other items amounting to EUR 3,402 million at 31 December 2014 (2013: EUR 2,593 million; 2012: EUR 3,481 million).

Note 51 contains a detail of the residual maturity periods of loans and receivables and of the related average interest rates.

Note 54 shows the Group's total exposure, by origin of the issuer.

There are no loans and advances to customers for material amounts without fixed maturity dates.

b) Breakdown

Following is a breakdown, by loan type and status, geographical area of residence and interest rate formula, of the loans and advances to customers of the Group, which reflect the Group's exposure to credit risk in its core business, disregarding impairment losses:

	Millions of euros		
	2014	2013	2012
Loan type and status:			
Commercial credit	18,900	11,898	12,054
Secured loans	440,827	396,432	428,259
Reverse repurchase agreements	3,993	13,223	19,383
Other term loans	228,752	203,267	218,728
Finance leases	15,353	15,871	16,241
Receivable on demand	10,329	10,155	11,087
Impaired assets	40,372	40,320	35,301
Valuation adjustments for Accrued interest receivable and other items	3,402	2,593	3,481
	761,928	**693,759**	**744,534**
Geographical area:			
Spain	172,371	173,852	200,014
European Union (excluding Spain)	353,674	328,118	335,727
United States and Puerto Rico	71,764	43,566	51,186
Other OECD countries	60,450	54,713	56,474
Latin America (non-OECD)	93,145	84,000	92,491
Rest of the world	10,524	9,510	8,642
	761,928	**693,759**	**744,534**
Interest rate formula:			
Fixed rate	363,679	280,188	299,937
Floating rate	398,249	413,571	444,597
	761,928	**693,759**	**744,534**

At 31 December 2014, the Group had granted loans amounting to EUR 17,465 million (31 December 2013: EUR 13,374 million; 31 December 2012: EUR 16,884 million) to the Spanish public sector (which had ratings of BBB at 31 December 2014, 2013 and 2012), and EUR 7,053 million to the public sector in other countries (31 December 2013: EUR 4,402 million; 31 December 2012: EUR 4,983 million). At 31 December 2014, the breakdown of this amount by issuer rating was as follows: 1.9% AAA, 37% AA, 0.4% A, 51.6% BBB and 9.1% below BBB.

At 31 December 2014, the Group had EUR 697,038 million of loans and advances to customers classified as other than doubtful (excluding loans granted to the public sector). The percentage breakdown of these loans and advances by counterparty credit quality is as follows: 7.3% AAA, 16.2% AA, 17.06% A, 25.81% BBB and 33.62% below BBB.

The above-mentioned ratings were obtained by converting the internal ratings awarded to customers by the Group into the external ratings classification established by Standard & Poor's, in order to make them more readily comparable.

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

	Millions of euros								
			Secured loans						
			Net exposure		*Loan to value ratio (a)*				
	Total	Without collateral	Of which: Property collateral	Of which: 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%
Public sector	24,473	22,930	318	1,225	311	309	134	163	626
Other financial institutions	26,776	20,584	467	5,725	2,652	359	713	2,166	302
Non-financial companies and individual traders	249,171	128,943	62,510	57,718	24,916	19,063	21,750	39,524	14,975
Of which:									
Construction and property development	*23,484*	*1,799*	*16,269*	*5,416*	*5,061*	*2,868*	*2,873*	*9,290*	*1,593*
Civil engineering construction	*2,695*	*1,610*	*180*	*905*	*155*	*61*	*359*	*84*	*426*
Large companies	*133,940*	*87,678*	*12,665*	*33,597*	*6,671*	*5,191*	*5,310*	*20,361*	*8,729*
SMEs and individual traders	*89,052*	*37,856*	*33,396*	*17,800*	*13,029*	*10,943*	*13,208*	*9,789*	*4,227*
Other households and non-profit institutions serving households	440,156	94,125	308,046	37,985	58,867	92,151	114,028	48,525	32,460
Of which:									
Residential	*305,484*	*3,327*	*300,824*	*1,333*	*53,933*	*86,828*	*108,676*	*43,322*	*9,398*
Consumer loans	*120,495*	*86,379*	*1,887*	*32,229*	*2,905*	*3,760*	*3,404*	*1,835*	*22,212*
Other purposes	*14,177*	*4,419*	*5,335*	*4,423*	*2,029*	*1,563*	*1,948*	*3,368*	*850*
Subtotal	**740,576**	**266,582**	**371,341**	**102,653**	**86,746**	**111,882**	**136,625**	**90,378**	**48,363**
Less: collectively assessed impairment losses	5,865								
Total	**734,711**								
Memorandum item									
Refinanced and restructured transactions	*44,634*	*10,044*	*17,157*	*17,433*	*4,472*	*5,830*	*9,384*	*5,802*	*9,102*

(a) The ratio of the carrying amount of the transactions at 31 December 2014 to the latest available appraisal value of the collateral.

Note 54 contains information relating to the restructured/refinanced loan book.

c) *Impairment losses*

The changes in the impairment losses on the assets making up the balances of Loans and receivables - Loans and advances to customers, Loans and receivables - Loans and advances to credit institutions (see Note 6) and Loans and receivables - Debt instruments (see Note 7) were as follows:

	Millions of euros		
	2014	2013	2012
Balance at beginning of year	24,959	25,467	18,858
Net impairment losses charged to income for the year	11,857	12,054	19,839
Of which:			
Impairment losses charged to income	*16,518*	*17,551*	*23,002*
Impairment losses reversed with a credit to income	*(4,661)*	*(5,497)*	*(3,163)*
Changes in the scope of consolidation (Note 3)	-	-	(266)
Write-off of impaired balances against recorded impairment allowance	(11,827)	(10,626)	(11,346)
Exchange differences and other changes	2,332	(1,936)	(1,618)
Balance at end of year	**27,321**	**24,959**	**25,467**
Of which:			
By method of assessment:			
Individually assessed	*21,449*	*21,604*	*21,540*
Of which: due to country risk (Note 2.g)	*20*	*42*	*42*
Collectively assessed	*5,872*	*3,355*	*3,927*
By classification of assets:			
Loans and advances to credit institutions (Note 6)	*79*	*37*	*30*
Debt instruments (Note 7)	*25*	*19*	*15*
Loans and advances to customers	*27,217*	*24,903*	*25,422*

The decrease in credit loss provisions experienced in 2013 was associated with two factors: (i) lower levels of provisioning in Brazil, the United Kingdom, Portugal, Santander Consumer Finance and the United States; and (ii) the progressive stabilisation of the Spanish economy, featuring a slower pace of GDP shrinkage in the year - in comparison with 2012 -, together with positive growth in the last two quarters, for the first time since 2011, a certain improvement in private consumer spending and a containment of the unemployment rate. In 2014 the credit loss provisions remained stable in overall terms. The amount of these provisions was influenced by two factors: (i) lower provisions, particularly in Spain, Portugal, the United Kingdom and Brazil; and (ii) growth in the USA as a result of the consolidation of Santander Consumer USA Holdings, Inc.

Previously written-off assets recovered in 2014, 2013 and 2012 amounted to EUR 1,336 million, EUR 1,068 million and EUR 1,316 million, respectively. Taking into account these amounts and those recognised in Impairment losses charged to income for the year in the foregoing table, impairment losses on Loans and receivables amounted to EUR 10,521 million in 2014, EUR 10,986 million in 2013 and EUR 18,523 million in 2012.

d) *Impaired and non-performing assets*

The detail of the changes in the balance of the financial assets classified as Loans and receivables - Loans and advances to customers and considered to be impaired due to credit risk is as follows:

	Millions of euros		
	2014	2013	2012
Balance at beginning of year	40,320	35,301	31,257
Net additions	9,841	16,438	16,167
Written-off assets	(11,827)	(10,626)	(11,346)
Changes in the scope of consolidation	497	699	(626)
Exchange differences and other	1,541	(1,492)	(151)
Balance at end of year	**40,372**	**40,320**	**35,301**

This amount, after deducting the related allowances, represents the Group's best estimate of the discounted value of the flows that are expected to be recovered from the impaired assets.

At 31 December 2014, the Group’s written-off assets totalled EUR 35,654 million (31 December 2013: EUR 30,006 million; 31 December 2012: EUR 28,745 million).

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

	Millions 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	6,664	2,764	909	866	9,404	20,607
European Union (excluding Spain)	2,027	2,520	908	767	3,532	9,754
United States and Puerto Rico	661	626	58	29	329	1,703
Other OECD countries	272	1,364	259	239	1,726	3,860
Latin America (non-OECD)	1,324	338	933	841	1,012	4,448
Rest of the world	-	-	-	-	-	-
	10,948	**7,612**	**3,067**	**2,742**	**16,003**	**40,372**

The detail at 31 December 2013 is as follows:

	Millions 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	6,876	3,327	1,707	1,700	8,255	21,865
European Union (excluding Spain)	1,791	3,141	994	763	3,461	10,150
United States and Puerto Rico	322	178	78	43	417	1,038
Other OECD countries	231	1,377	346	273	626	2,853
Latin America (non-OECD)	600	1,332	877	787	816	4,412
Rest of the world	-	-	-	-	2	2
	9,820	**9,355**	**4,002**	**3,566**	**13,577**	**40,320**

The detail at 31 December 2012 is as follows:

	Millions 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	3,268	3,364	2,058	1,263	6,372	16,325
European Union (excluding Spain)	233	3,782	1,232	821	3,280	9,348
United States and Puerto Rico	327	216	111	83	484	1,221
Other OECD countries	117	1,209	235	206	476	2,243
Latin America (non-OECD)	430	2,096	1,446	1,119	1,072	6,163
Rest of the world	-	-	-	-	1	1
	4,375	**10,667**	**5,082**	**3,492**	**11,685**	**35,301**

Set forth below for each class of impaired assets are the gross amount, associated allowances and information relating to the collateral and/or other credit enhancements obtained at 31 December 2014:

	Millions of euros		
	Gross amount	Allowance recognised	Estimated collateral value (*)
Without associated collateral	15,532	10,482	-
With property collateral	23,718	8,241	14,271
With other collateral	1,122	623	482
Balance as at end of year	**40,372**	**19,346**	**14,753**

(*) Including the estimated value of the collateral associated with each loan. Accordingly, any other cash flows that may be obtained, such as those arising from borrowers' personal guarantees, are not included.

When classifying assets in the foregoing table, the main factors considered by the Group to determine whether an asset has become impaired are the existence of amounts past due -assets impaired due to arrears- or other circumstances that lead it to believe that not all the contractual cash flows will be recovered -assets impaired for reasons other than arrears-, such as a deterioration of the borrower's financial situation, the worsening of its capacity to generate funds or difficulties experienced by it in accessing credit.

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:

	Millions of euros		
	Less than1 month	1 to 2 months	2 to 3 months
Loans and advances to customers	2,222	710	406
Public sector	*8*	-	-
Private sector	*2,214*	*710*	*406*
Total	**2,222**	**710**	**406**

e) Securitisation

Loans and advances to customers includes, inter alia, the securitised loans transferred to third parties on which the Group has retained the risks and rewards, albeit partially, and which therefore, in accordance with the applicable accounting standards, cannot be derecognised. The breakdown of the securitised loans, by type of original financial instrument, and of the securitised loans derecognised because the stipulated requirements were met (see Note 2.e) is shown below. Note 22 details the liabilities associated with these securitisation transactions.

	Millions of euros		
	2014	2013	2012
Derecognised	2,391	3,618	6,251
Of which			
Securitised mortgage assets	*2,391*	*3,618*	*6,249*
Other securitised assets	-	-	*2*
Retained on the balance sheet	100,503	78,229	95,981
Of which			
Securitised mortgage assets	*57,808*	*56,277*	*69,354*
Of which: UK assets	*36,475*	*45,296*	*56,037*
Other securitised assets(*)	*42,695*	*21,952*	*26,627*
Total	**102,894**	**81,847**	**102,232**

(*) The increase in Other securitised assets with respect to 31 December 2013 relates mainly to the acquisition of control of SCUSA by the Group in January 2014 (see Note 3).

Securitisation is used as a tool for the management of regulatory capital and as a means of diversifying the Group's liquidity sources. In 2014, 2013 and 2012 the Group did not derecognise any of the securitisations performed, and the balance shown as derecognised for those years relates to securitisations performed in prior years.

The loans derecognised include assets of Santander Holdings USA, Inc. amounting to approximately EUR 1,942 million at 31 December 2014 (31 December 2013: EUR 3,082 million; 31 December 2012: EUR 5,603 million) that were sold, prior to this company's inclusion in the Group, on the secondary market for multifamily loans, and over which control was transferred and substantially all the associated risks and rewards were not retained. At 31 December 2014, the Group recognised under Other liabilities an obligation amounting to EUR 34 million (31 December 2013: EUR 49 million; 31 December 2012: EUR 91 million), which represents the fair value of the retained credit risk.

The loans retained on the face of the balance sheet include the loans associated with securitisations in which the Group retains a subordinated debt and/or grants any manner of credit enhancements to the new holders. In 2012, following the Bank of England's decision to accept, as collateral in its liquidity programmes, not only securitisations but also all mortgage loans with a given credit quality, the Group companies in the UK redeemed GBP 33,800 million of securitised mortgage assets in order to manage more efficiently the on-balance-sheet liquidity of Santander UK.

The loans transferred through securitisation are mainly mortgage loans, loans to companies and consumer loans.

11. Hedging derivatives

The detail, by type of risk hedged, of the fair value of the derivatives qualifying for hedge accounting is as follows (see Note 36):

	Millions of euros					
	2014		2013		2012	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Fair value hedges	5,072	5,321	5,403	4,146	7,467	5,492
Of which: Portfolio hedges	*413*	*2,319*	*610*	*1,703*	*544*	*2,621*
Cash flow hedges	2,094	1,650	1,766	1,023	344	553
Hedges of net investments in foreign operations	180	284	1,132	114	125	399
	7,346	**7,255**	**8,301**	**5,283**	**7,936**	**6,444**

Note 36 contains a description of the Group's main hedges.

12. Non-current assets held for sale

The detail of Non-current assets held for sale in the consolidated balance sheets is as follows:

	Millions of euros		
	2014	2013	2012
Tangible assets	5,256	4,845	4,259
Of which:			
Foreclosed assets	*5,139*	*4,742*	*4,196*
Of which: Property assets in Spain (Note 54)	*4,597*	*4,146*	*3,674*
Other tangible assets held for sale	*117*	*103*	*63*
Other assets	120	47	1,441
	5,376	**4,892**	**5,700**

At 31 December 2014, the allowance covering the value of the foreclosed and acquired assets amounted to EUR 5,404 million (2013: EUR 4,955 million; 2012: EUR 4,416 million), which represents a coverage ratio of 51.3% of the assets' gross value (2013: 51.1%; 2012: 51.3%). The net charges recorded in those years amounted to EUR 339 million, EUR 335 million and EUR 449 million, respectively (see Note 50).

In 2014 the Group sold, for EUR 863 million, foreclosed properties with a gross carrying amount of EUR 1,246 million, for which provisions totalling EUR 425 million had been recognised. These sales gave rise to gains of EUR 42 million; in addition, other tangible assets were sold for EUR 64 million, giving rise to a gain of EUR 6 million (see Note 50).

At 31 December 2012, Other assets included assets amounting to EUR 1,370 million corresponding to the Santander UK credit card business. This business was sold for EUR 770 million on 10 May 2013, giving rise to a loss of EUR 14 million, which was recognised under Profit (loss) from discontinued operations (net) in the 2013 consolidated income statement.

13. Investments

a) Breakdown

The detail, by company, of Investments (see Note 2.b) is as follows:

	Millions of euros		
	2014	2013	2012
Associates			
Zurich Santander Insurance América, S.L.	997	826	1,013
Santander Insurance (Ireland)	288	-	-
Metrovacesa, S.A.	-	647	649
Other companies	490	356	295
	1,775	**1,829**	**1,957**
Jointly controlled entities			
SAM Investment Holdings Limited	456	449	-
Aegon Santander Seguros	227	213	-
Unión de Créditos Inmobiliarios, S.A., EFC	178	189	172
Santander Consumer USA Inc.	-	2,159	2,026
Other companies	835	697	299
	1,696	**3,707**	**2,497**

b) Changes

The changes in Investments were as follows:

	Millions of euros		
	2014	2013	2012
Balance at beginning of year	5,536	4,454	4,155
Acquisitions (disposals) and capital increases (reductions)	80	422	34
Changes in the scope of consolidation (Note 3)	(2,383)	769	394
Of which:			
Santander Consumer USA Inc.	*(2,159)*	-	-
Metrovacesa Group	*(642)*	-	-
Santander Insurance (Ireland)	*285*	-	-
SAM Investment Holdings Limited	-	*449*	-
Aegon Santander Seguros	-	*211*	-
Effect of equity accounting (Note 41)	243	500	427
Dividends paid and reimbursements of share premium	(178)	(303)	(508)
Exchange differences and other changes	173	(306)	(48)
Balance at end of year	**3,471**	**5,536**	**4,454**

c) *Impairment losses*

In 2014, 2013 and 2012 there was no evidence of material impairment on the Group's investments.

d) *Other information*

Following is a summary of the financial information on the companies accounted for using the equity method (obtained from the information available at the date of preparation of the financial statements):

	Millions of euros		
	2014	2013	2012
Total assets	40,749	63,443	54,367
Total liabilities	(36,120)	(55,483)	(46,933)
Net assets	**4,629**	**7,960**	**7,434**
Group's share of net assets	2,272	3,755	2,769
Goodwill	1,199	1,781	1,685
Of which:			
Zurich Santander Insurance América, S.L.	526	526	526
Santander Insurance (Ireland)	205	-	-
Santander Consumer USA Inc.	-	*937*	*979*
Total Group share	**3,471**	**5,536**	**4,454**
Total income	9,780	11,756	10,232
Total profit	750	1,029	612
Group's share of profit	**243**	**500**	**427**

Following is a summary of the financial information for 2014 on the main associates and jointly controlled entities (obtained from the information available at the date of preparation of the financial statements):

	Millions of euros			
	Total assets	Total liabilities	Total income	Total profit
Associates	**18,042**	**(15,768)**	**6,285**	**514**
Of which:				
Zurich Santander Insurance América, S.L.	*11,515*	*(10,551)*	*4,031*	*338*
Jointly controlled entities	**22,707**	**(20,352)**	**3,495**	**236**
Of which:				
SAM Investment Holdings Limited	*963*	*(406)*	*1,016*	*118*
Unión de Créditos Inmobiliarios, S.A., EFC	*12,357*	*(12,002)*	*485*	*(3)*
Aegon Santander Seguros	*544*	*(230)*	*274*	*22*
Total	**40,749**	**(36,120)**	**9,780**	**750**

At 31 December 2014 and 2013, the Group did not hold any ownership interests in jointly controlled entities or associates whose shares are listed. At 31 December 2012, the only investment in listed associates was the

investment held in Metrovacesa, S.A., the fair value of which, taking into consideration its quoted price at 31 December 2012, was EUR 761 million (EUR 2.21 per share).

14. Insurance contracts linked to pensions

The detail of Insurance contracts linked to pensions in the consolidated balance sheets is as follows:

	Millions of euros		
	2014	2013	2012
Assets relating to insurance contracts covering post-employment benefit plan obligations:			
Banco Santander, S.A.	345	342	214
Banco Español de Crédito, S.A.	-	-	190
Other Spanish companies	-	-	1
	345	**342**	**405**

In 2012 the Group entered into an agreement with Generali España, S.A. to terminate a portion of the insurance contracts linked to pensions which it held with this insurance company (see Note 25.c).

15. Liabilities under insurance contracts and Reinsurance assets

The detail of Liabilities under insurance contracts and Reinsurance assets in the consolidated balance sheets (see Note 2.j) is as follows:

	Millions of euros								
	2014			2013			2012		
Technical provisions for:	Direct insurance and reinsurance assumed	Reinsurance ceded	Total (balance payable)	Direct insurance and reinsurance assumed	Reinsurance ceded	Total (balance payable)	Direct insurance and reinsurance assumed	Reinsurance ceded	Total (balance payable)
Unearned premiums and unexpired risks	107	(34)	73	245	(36)	209	137	(68)	69
Life insurance	157	(146)	11	546	(183)	363	479	(229)	250
Claims outstanding	378	(107)	271	315	(55)	261	391	(61)	330
Bonuses and rebates	15	(8)	7	25	(6)	19	14	-	14
Other technical provisions	56	(45)	11	299	(76)	222	404	(66)	338
	713	**(340)**	**373**	**1,430**	**(356)**	**1,074**	**1,425**	**(424)**	**1,001**

The reduction in the amount of Direct insurance and reinsurance assumed at 31 December 2014 is due to the sale of the insurance companies in Ireland -Santander Insurance Life Limited, Santander Insurance Europe Limited and Santander Insurance Services Ireland Limited- (see Note 3).

On 19 July 2012 the Group entered into an agreement with Abbey Life Assurance Company Limited ("Abbey Life Assurance"), a subsidiary of Deutsche Bank, for Abbey Life Assurance to reinsure the entire individual life risk portfolios of the Santander Group insurance companies in Spain and Portugal. Under this agreement, the Group transferred to Abbey Life Assurance, in exchange for a non-refundable up-front amount calculated on the basis of market conditions, its annual renewable life insurance policy portfolio at 30 June 2012 and the potential renewals of these policies. Abbey Life Assurance assumed, from the agreement date, all the risks and rewards relating to the term of these policies and their potential renewals (i.e. both the risk of changes in the actual rates of mortality and permanent total disability compared with the estimated rates, and the lapse risk of the portfolio, credit risk on the part of the insureds, etc.). The Group is continuing to carry out the administrative management (servicing) of these policies, as agent, and receives in exchange from Abbey Life Assurance a market consideration independent of the up-front amount received.

Since the significant risks and rewards have been transferred, this transaction gave rise to income of EUR 435 million recognised under Other operating income - Income from insurance and reinsurance contracts issued in the 2012 consolidated income statement (EUR 308 million net of tax).

16. Tangible assets

a) Changes

The changes in Tangible assets in the consolidated balance sheets were as follows:

	Millions of euros			
	For own use	Leased out under an operating lease	Investment property	Total
Cost:				
Balances as at 1 January 2012	14,602	3,076	4,307	21,985
Additions/disposals (net) due to change in the scope of consolidation	41	(11)	(69)	(39)
Additions/disposals (net)	795	(105)	105	795
Transfers, exchange differences and other items	342	157	(78)	421
Balances as at 31 December 2012	15,780	3,117	4,265	23,162
Additions/disposals (net) due to change in the scope of consolidation	(17)	-	541	524
Additions/disposals (net)	1,021	(124)	(23)	874
Transfers, exchange differences and other items	(989)	212	(139)	(916)
Balances as at 31 December 2013	15,795	3,205	4,644	23,644
Additions/disposals (net) due to change in the scope of consolidation	229	2,472	3,296	5,997
Additions/disposals (net)	952	4,868	(774)	5,046
Transfers, exchange differences and other items	375	(79)	258	554
Balances as at 31 December 2014	**17,351**	**10,466**	**7,424**	**35,241**
Accumulated depreciation:				
Balances as at 01 January 2012	(6,782)	(832)	(129)	(7,743)
Disposals due to change in the scope of consolidation	44	-	7	51
Disposals	423	229	8	660
Charge for the year	(1,059)	(1)	(13)	(1,073)
Transfers, exchange differences and other items	(252)	(265)	(37)	(554)
Balances as at 31 December 2012	(7,626)	(869)	(164)	(8,659)
Disposals due to change in the scope of consolidation	16	-	-	16
Disposals	280	179	14	473
Charge for the year	(1,020)	(1)	(17)	(1,038)
Transfers, exchange differences and other items	416	(235)	(36)	145
Balances as at 31 December 2013	(7,934)	(926)	(203)	(9,063)
Disposals due to change in the scope of consolidation	4	-	-	4
Disposals	403	157	43	603
Charge for the year	(1,048)	-	(12)	(1,060)
Transfers, exchange differences and other items	(404)	(1,009)	(22)	(1,435)
Balances as at 31 December 2014	**(8,979)**	**(1,778)**	**(194)**	**(10,951)**

	Millions of euros			
	For own use	Leased out under an operating lease	Investment property	Total
Impairment losses:				
Balances as at 01 January 2012	(23)	(46)	(327)	(396)
Impairment charge for the year	(10)	(23)	(185)	(218)
Disposals due to change in the scope of consolidation	-	-	(50)	(50)
Exchange differences	15	1	6	22
Balances as at 31 December 2012	(18)	(68)	(556)	(642)
Impairment charge for the year	(53)	(24)	(260)	(337)
Disposals due to change in the scope of consolidation	-	-	39	39
Exchange differences	(3)	-	16	13
Balances as at 31 December 2013	(74)	(92)	(761)	(927)
Impairment charge for the year	(5)	(31)	(112)	(148)
Disposals due to change in the scope of consolidation	-	-	28	28
Exchange differences	31	-	(18)	13
Balances as at 31 December 2014	**(48)**	**(123)**	**(863)**	**(1,034)**
Tangible assets, net:				
Balances as at 31 December 2012	8,136	2,179	3,545	13,860
Balances as at 31 December 2013	7,787	2,187	3,680	13,654
Balances as at 31 December 2014	8,324	8,565(*)	6,367(*)	23,256

(*) The increases in 2014 in Tangible assets - Leased out under an operating lease and Tangible assets - Investment property are due to the business combinations of SCUSA and Metrovacesa, S.A, respectively (see Note 3.b.xi and 3.b.xvi).

b) *Property, plant and equipment for own use*

The detail, by class of asset, of Property, plant and equipment - For own use in the consolidated balance sheets is as follows:

	Millions of euros			
	Cost	Accumulated depreciation	Impairment losses	Carrying amount
Land and buildings	5,735	(1,583)	(18)	4,134
IT equipment and fixtures	4,174	(3,087)	-	1,087
Furniture and vehicles	5,403	(2,873)	-	2,530
Construction in progress and other items	468	(83)	-	385
Balances as at 31 December 2012	**15,780**	**(7,626)**	**(18)**	**8,136**
Land and buildings	5,781	(1,624)	(74)	4,083
IT equipment and fixtures	4,168	(3,271)	-	897
Furniture and vehicles	5,616	(2,983)	-	2,633
Construction in progress and other items	230	(56)	-	174
Balances as at 31 December 2013	**15,795**	**(7,934)**	**(74)**	**7,787**
Land and buildings	5,829	(1,790)	(48)	3,991
IT equipment and fixtures	4,716	(3,722)	-	994
Furniture and vehicles	6,494	(3,409)	-	3,085
Construction in progress and other items	312	(58)	-	254
Balances as at 31 December 2014	**17,351**	**(8,979)**	**(48)**	**8,324**

The carrying amount at 31 December 2014 in the foregoing table includes the following approximate amounts:

- EUR 6,161 million (31 December 2013 and 2012: EUR 5,615 million) relating to property, plant and equipment owned by Group entities and branches located abroad.

- EUR 187 million (31 December 2013: EUR 138 million; 31 December 2012: EUR 208 million) relating to property, plant and equipment being acquired under finance and operating leases by the consolidated entities.

c) *Investment property*

The fair value of investment property at 31 December 2014 amounted to EUR 6,366 million (2013: EUR 3,689 million; 2012: EUR 3,548 million). A comparison of the fair value of investment property at 31 December 2014 with the carrying amount gives rise to unrealised gross losses of EUR 1 million (gross gains of EUR 9 million and EUR 3 million at 31 December 2013 and 2012, respectively).

The rental income earned from investment property and the direct costs related both to investment properties that generated rental income in 2014, 2013 and 2012 and to investment properties that did not generate rental income in those years are not material in the context of the consolidated financial statements.

d) *Sale of properties*

In 2007 and 2008 the Group sold ten hallmark properties, 1,152 Bank branch offices in Spain and its head office complex (Ciudad Financiera or Santander Business Campus) to various buyers. Also, the Group entered into operating leases (with maintenance, insurance and taxes payable by the Group) on those properties with the buyers for various compulsory terms (12 to 15 years for the hallmark properties, 24 to 26 years for the branch offices and 40 years for the Santander Business Campus), with various rent review agreements applicable during those periods and the possible extensions thereof. The agreements between the parties also provided for purchase options that in general are exercisable by the Group on final expiry of the leases at the market value of the properties on the expiry dates; the market value will be determined, where appropriate, by independent experts.

The rental expense recognised by the Group in 2014 in connection with these operating lease agreements amounted to EUR 292 million (2013: EUR 286 million; 2012: EUR 269 million). At 31 December 2014, the present value of the minimum future payments that the Group will incur in the compulsory term amounted to EUR 239 million payable within one year, EUR 820 million payable at between one and five years and EUR 1,708 million payable at more than five years.

17. Intangible assets - Goodwill

The detail of Goodwill, based on the cash-generating units giving rise thereto, is as follows:

	Millions of euros		
	2014	2013	2012
Santander UK	9,540	8,913	9,105
Banco Santander (Brazil)	6,129	5,840	7,035
Santander Consumer USA (Note 3)	2,762	-	-
Bank Zachodni WBK	2,418	2,487	2,210
Santander Bank NA	1,691	1,489	1,556
Santander Consumer Germany	1,315	1,315	1,315
Banco Santander Totta	1,040	1,040	1,040
Banco Santander - Chile	675	687	788
Santander Consumer Bank (Nordics) (Note 3)	564	171	186
Grupo Financiero Santander (Mexico)	561	541	558
Other companies	853	798	833
Total goodwill	**27,548**	**23,281**	**24,626**

The changes in Goodwill were as follows:

	Millions of euros		
	2014	2013	2012
Balance at beginning of year	23,281	24,626	25,089
Additions (Note 3)	3,176	398	87
Of which:			
Santander Consumer USA	*2,482*	-	-
Santander Consumer Bank (Nordics)	*408*	-	-
Getnet Tecnologia Em Captura e Processamento de Transações H.U.A.H. S.A. - Banco Santander (Brazil)	*229*	-	-
Financiera El Corte Inglés, E.F.C., S.A.	*32*	-	-
Bank Zachodni WBK	-	*326*	-
Impairment losses	(2)	(40)	(156)
Of which:			
Santander Consumer Bank S.p.A. (Italy)	-	-	*(156)*
Disposals or changes in scope of consolidation (Note 3)	-	(39)	-
Exchange differences and other items	1,093	(1,664)	(394)
Balance at end of year	**27,548**	**23,281**	**24,626**

The Group has goodwill generated by cash-generating units located in non-euro currency countries (mainly the UK, Brazil, the United States, Poland, Chile, Norway, Sweden and Mexico) and, therefore, this gives rise to exchange differences on the translation to euros, at closing rates, of the amounts of goodwill denominated in foreign currencies. Accordingly, in 2014 goodwill increased by EUR 1,093 million due to exchange differences (see Note 29-c) which, pursuant to current regulations, were recognised with a credit to Valuation adjustments - Exchange differences in equity in the consolidated statement of recognised income and expense.

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 value to below its carrying amount). The first step that must be taken in order to perform this analysis is the identification of the cash-generating units, i.e. the Group's smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

The amount to be recovered of the cash-generating unit is compared with its recoverable amount in order to determine whether there is any impairment.

The Group's directors assess the existence of any indication that might be considered to be evidence of impairment of the cash-generating unit by reviewing information including the following: (i) certain macroeconomic variables that might affect its investments (population data, political situation, 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, return on equity, among others).

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

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

In addition, the Group performs estimates of the recoverable amounts of certain cash-generating units by calculating their value in use using discounted cash flow projections. The main assumptions used in this calculation are: (i) earnings projections based on the financial budgets approved by the Group's 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 extrapolate 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 units which were valued using the discounted cash flow method:

	Projected period	Discount rate (*)	Nominal perpetual growth rate
Santander UK	5 years	9.9%	2.5%
Banco Santander (Brazil)	5 years	14.4%	7.0%
Santander Bank NA	5 years	9.6%	2.5%
Santander Consumer Germany	5 years	9.2%	2.5%
Santander Consumer USA	3 years	10.5%	3.0%
Banco Santander Totta	5 years	11.2%	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 basis points and the perpetuity growth rate by +/-50 basis points. Following the sensitivity analysis performed, the value in use of all the cash-generating units still exceeds their recoverable amount.

The recoverable amount of Bank Zachodni WBK, Banco Santander - Chile and Grupo Financiero Santander (México) was calculated as the fair values of the aforementioned cash-generating units obtained from the market prices of their shares at year-end. This value exceeded the recoverable amount.

Based on the foregoing, and in accordance with the estimates, projections and sensitivity analyses available to the Bank's directors, in 2014 the Group recognised impairment losses on goodwill totalling EUR 2 million (2013: EUR 40 million; 2012: EUR 156 million) under Impairment losses on other assets (net) - Goodwill and other intangible assets. In 2012 the impairment losses recognised, which were due mainly to the deterioration of business expectations, related mainly to Group subsidiaries in Italy.

At 31 December 2014, none of the cash-generating units with significant goodwill had a recoverable amount approximating their carrying amount, except for Santander Consumer USA, the recoverable amount of which is very close to its carrying amount since the business combination took place in 2014. The recoverable amount is considered to be close to the carrying amount when reasonable changes in the main assumptions used in the valuation cause the recoverable amount to be below the carrying amount.

18. Intangible assets - Other intangible assets

The detail of Intangible assets - Other intangible assets in the consolidated balance sheets and of the changes therein in 2014, 2013 and 2012 is as follows:

		Millions of euros						
	Estimated useful life	31 December 2013	Net additions and disposals	Change in scope of consolidation	Amortisation and impairment	Application of amortisation and impairment	Exchange differences and other	31 December 2014
With indefinite useful life:								
Brand names		15	-	43	-	-	3	61
With finite useful life:								
IT developments	3 to 7 years	5,546	1,345	63	-	(1,731)	127	5,350
Other		1,132	(127)	525	-	(250)	14	1,294
Accumulated amortisation		(3,603)	-	-	(1,227)	1,269	(62)	(3,623)
Impairment losses		(130)	-	-	(699)	712	(112)	(229)
		2,960	**1,218**	**631**	**(1,926)**	**-**	**30**	**2,853**

		Millions of euros						
	Estimated useful life	31 December 2012	Net additions and disposals	Change in scope of consolidation	Amortisation and impairment	Application of amortisation and impairment	Exchange differences and other	31 December 2013
With indefinite useful life:								
Brand names		14	2	-	-	-	(1)	15
With finite useful life:								
IT developments	3 to 7 years	5,285	1,229	4	-	(679)	(293)	5,546
Other		1,373	(46)	37	-	(37)	(195)	1,132
Accumulated amortisation		(3,106)	-	(3)	(1,353)	715	144	(3,603)
Impairment losses		(130)	-	-	(1)	1	-	(130)
		3,436	**1,185**	**38**	**(1,354)**	-	**(345)**	**2,960**

		Millions of euros						
	Estimated useful life	31 December 2011	Net additions and disposals	Change in scope of consolidation	Amortisation and impairment	Application of amortisation and impairment	Exchange differences and other	31 December 2012
With indefinite useful life:								
Brand names		14	-	-	-	-	-	14
With finite useful life:								
IT developments	3 to 7 years	5,127	1,098	45	-	(911)	(74)	5,285
Other		1,494	545	11	-	(552)	(125)	1,373
Accumulated amortisation		(3,150)	-	(28)	(1,110)	1,139	43	(3,106)
Impairment losses		(491)	-	-	5	324	32	(130)
		2,994	**1,643**	**28**	**(1,105)**	-	**(124)**	**3,436**

Impairment losses of EUR 699 million were recognised under Impairment losses on other assets (net) 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 applications as a result of the processes initiated by the Group to adapt to the various regulatory changes and to transform or integrate businesses.

19. Other assets

The detail of Other assets is as follows:

	Millions of euros		
	2014	2013	2012
Transactions in transit	726	127	224
Net pension plan assets (Note 25)	413	149	348
Prepayments and accrued income	2,001	2,114	1,756
Other	3,909	3,344	3,046
Inventories	1,099	80	173
	8,149	**5,814**	**5,547**

The increase in Inventories in 2014 relates mainly to the consolidation of the assets of Metrovacesa, S.A. (see Note 3).

20. Deposits from central banks and Deposits from credit institutions

The detail, by classification, counterparty, type and currency, of Deposits from central banks and Deposits from credit institutions in the consolidated balance sheets is as follows:

	Millions of euros		
	2014	2013	2012
Classification:			
Financial liabilities held for trading	7,572	11,334	9,420
Of which:			
Deposits from central banks	*2,041*	*3,866*	*1,128*
Deposits from credit institutions	*5,531*	*7,468*	*8,292*
Other financial liabilities at fair value through profit or loss	25,360	11,741	11,876
Of which:			
Deposits from central banks	*6,321*	*2,097*	*1,014*
Deposits from credit institutions	*19,039*	*9,644*	*10,862*
Financial liabilities at amortised cost	122,437	86,322	131,670
Of which:			
Deposits from central banks	*17,290*	*9,788*	*50,938*
Deposits from credit institutions	*105,147*	*76,534*	*80,732*
	155,369	**109,397**	**152,966**
Type:			
Reciprocal accounts	704	755	508
Time deposits	85,178	55,839	92,491
Other demand accounts	4,893	3,425	3,225
Repurchase agreements	64,594	49,378	50,742
Central bank credit account drawdowns	-	-	6,000
	155,369	**109,397**	**152,966**
Currency:			
Euro	86,539	63,947	98,808
Pound sterling	8,107	6,993	8,566
US dollar	34,646	27,509	34,904
Other currencies	26,077	10,948	10,688
	155,369	**109,397**	**152,966**

The increase in Deposits from central banks in 2014 is due to the Group's participation in the European Central Bank's targeted longer-term refinancing operations (TLTROs) in the last quarter of the year for the approximate amount of EUR 8.2 thousand million.

Both asset and liability balances with central banks increased in 2012 following the liquidity injections by the central banks in countries where the Group operates, particularly in the euro zone. The Group continued to attend these auctions and deposit at the ECB most of the funds captured, significantly increasing the liquidity buffer and improving its structure by replacing short-term maturities with longer term funding. The Group repaid most of these amounts in January 2013.

Note 51 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

21. Customer deposits

The detail, by classification, geographical area and type, of Customer deposits is as follows:

	Millions of euros		
	2014	2013	2012
Classification:			
Financial liabilities held for trading	5,544	8,500	8,897
Other financial liabilities at fair value through profit or loss	33,127	26,484	28,638
Financial liabilities at amortised cost	608,956	572,853	589,104
	647,627	**607,837**	**626,639**
Geographical area:			
Spain	186,051	185,460	192,588
European Union (excluding Spain)	275,291	259,903	261,135
United States and Puerto Rico	51,291	43,773	45,129
Other OECD countries	55,003	47,541	47,948
Latin America (non-OECD)	79,848	71,004	79,682
Rest of the world	143	156	157
	647,627	**607,837**	**626,639**
Type:			
Demand deposits-			
Current accounts	200,752	167,787	144,305
Savings accounts	173,105	164,214	167,389
Other demand deposits	5,046	3,512	3,443
Time deposits-			
Fixed-term deposits	222,756	225,471	257,583
Home-purchase savings accounts	71	102	132
Discount deposits	448	1,156	1,345
Hybrid financial liabilities	3,525	3,324	3,128
Other term deposits	484	463	590
Notice deposits	22	21	969
Repurchase agreements	41,418	41,787	47,755
	647,627	**607,837**	**626,639**

Note 51 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

22. Marketable debt securities

a) Breakdown

The detail, by classification and type, of Marketable debt securities is as follows:

	Millions of euros		
	2014	2013	2012
Classification:			
Financial liabilities held for trading	-	1	1
Other financial liabilities at fair value through profit or loss	3,830	4,086	4,904
Financial liabilities at amortised cost	193,059	171,390	201,064
	196,889	**175,477**	**205,969**
Type:			
Bonds and debentures outstanding	178,710	161,274	183,686
Notes and other securities	18,179	14,203	22,283
	196,889	**175,477**	**205,969**

Note 51 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates in those years.

b) Bonds and debentures outstanding

The detail, by currency of issue, of Bonds and debentures outstanding is as follows:

				31 December 2014	
	Millions of euros			Outstanding issue amount in foreign currency (millions)	Annual interest rate (%)
Currency of issue	2014	2013	2012		
Euro	89,803	85,120	111,173	89,803	2.65%
US dollar	39,992	25,641	26,186	48,554	2.31%
Pound sterling	19,613	20,237	24,707	15,276	2.89%
Brazilian real	18,707	15,017	14,581	60,251	10.82%
Hong Kong dollar	41	5,026	170	390	4.62%
Chilean peso	3,596	3,360	3,906	2,651,462	3.61%
Other currencies	6,958	6,873	2,963		
Balance at end of year	**178,710**	**161,274**	**183,686**		

The changes in Bonds and debentures outstanding were as follows:

	Millions of euros		
	2014	2013	2012
Balance at beginning of year	161,274	183,686	185,530
Net inclusion of entities in the Group	7,024	-	(1,649)
Of which:			
Santander Consumer USA Holdings Inc.(Note 3)	*7,024*	-	-
Issues	66,360	61,754	80,817
Of which:			
Santander UK Group			
Bonds in other currencies	*18,608*	*23,491*	*32,162*
Bond in pounds sterling	*2,769*	*5,877*	*13,281*
Banco Santander (Brasil) S.A.			
Real estate letters of credit	*9,551*	*4,989*	*5,359*
Bonds	*4,511*	*5,777*	*6,461*
Agricultural letters of credit	*1,756*	*478*	*1,612*
Santander Consumer USA Holdings Inc.			
Asset-backed securities	*7,600*	-	-
Santander International Debt, S.A. Sole-Shareholder Company:			
Bonds - floating/fixed rate	*4,853*	*4,654*	*9,727*
Banco Santander, S.A.			
Mortgage backed bonds – fixed rate	*2,944*	*1,990*	*4,089*
Territorial bonds - fixed rate	*218*	*4,000*	-
Bonds	-	*323*	-
Santander Consumer Finance, S.A. - Bonds	*3,602*	*2,325*	*1,012*
Banco Santander - Chile - Bonds	*1,979*	*1,469*	*1,436*
Banco Santander Totta S.A.- Mortgage debentures	*1,746*	-	-
Santander Consumer Bank AS - Bonds	*470*	*443*	*816*
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander – México Bonds	*1,099*	*392*	*780*
Motor 2014 PLC - Asset-backed securities	*736*	-	-
Bilkreditt 6 Limited - Asset-backed securities	*638*	-	-
Fondo de Titulización de Activos Pymes Santander 10 - Asset-backed securities	*590*	-	-
Svensk Autofinans WH 1 Ltd - Asset-backed securities	*474*	-	-
Santander International Products, Plc. - Bonds	*341*	*65*	-
SC Germany Auto 2014-1 UG (Haftungsbeschränkt) - Asset-backed securities	*389*	-	-
Santander Consumer Bank SA - Bonds	*188*	*256*	*112*
Santander Consumer Bank S.P.A. - Bonds - floating rate	*35*	*100*	-
Motor 2013 PLC - Asset-backed securities	-	*598*	-
Bilkreditt 5 Limited - Asset-backed securities	-	*494*	-
Bilkreditt 3 Limited - Asset-backed securities	-	*468*	-
SC Germany Auto 2013-12 UG - Asset-backed securities	-	*466*	-
Dansk Auto Finansiering 1 Ltd - Asset-backed securities	-	*416*	-
SC Germany Auto 2013-2 UG (Haftungsbeschränkt) - Asset-backed securities	-	*407*	-
SCF Rahoituspalvelut 2013 Limited - Asset-backed securities	-	*384*	-
Santander Holdings USA, Inc. - Bonds	-	*362*	*453*
Bilkreditt 4 Limited- Asset-backed securities	-	*357*	-
Trade Maps 3 Ireland Limited - Debentures - floating rate	-	*313*	-
Fondo de Titulización de Activos PYMES Santander 6 - Asset-backed securities	-	*235*	-
Banco Español de Crédito, S.A.			
Mortgage-backed bonds - fixed rate	-	-	*955*
Bonds	-	-	*949*
Motor 2012 PLC - Asset-backed securities	-	-	*895*
Svensk Autofinans 1 Limited - Asset-backed securities	-	-	*407*
SCF Rahoituspalvelut Limited - Asset-backed securities	-	-	*237*
Redemptions	(60,883)	(73,619)	(78,706)
Of which:			
Santander UK Group	*(19,213)*	*(37,388)*	*(41,862)*
Banco Santander (Brasil) S.A.	*(14,359)*	*(8,246)*	*(9,346)*
Banco Santander, S.A.	*(12,391)*	*(11,434)*	*(6,542)*
Santander International Debt, S.A. Sole-Shareholder Company	*(6,967)*	*(10,437)*	*(8,479)*
Banco Santander - Chile	*(2,186)*	*(1,263)*	*(1,112)*
Santander Consumer Finance, S.A.	*(1,422)*	*(1,012)*	*(481)*
Banco Santander Totta, S.A.	*(1,095)*	*(962)*	*(1,014)*
Banco Santander (México), S.A., Institución de Banca Múltiple,Grupo Financiero Santander México	*(726)*	*(62)*	*(11)*
Brazil Foreign Diversified Payment Rights Finance Company	*(655)*	-	-
Santander International Products, Plc.	*(610)*	*(1,605)*	-
Santander Consumer Bank SA	*(200)*	*(48)*	*(68)*
Santander US Debt, S.A. Sole-Shareholder Company	-	*(947)*	*(1,146)*
Santander Consumer Bank AG	-	*(6)*	*(863)*
Banco Español de Crédito, S.A.	-	-	*(6,401)*
Santander Holdings USA, Inc.	-	-	*(1,236)*
Exchange differences	6,706	(5,590)	(636)
Other changes	(1,771)	(4,957)	(1,670)
Balance at end of year	**178,710**	**161,274**	**183,686**

c) Notes and other securities

These notes were issued basically by Banco Santander, S.A., Santander Consumer Finance, S.A., Santander Commercial Paper, S.A. (Sole-Shareholder Company), Abbey National North America LLC, Santander UK plc, Abbey National Treasury Services plc, Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, Santander Securities Services, S.A. and Fondo de Titulización de Activos Santander 2.

d) Guarantees

Set forth below is information on the liabilities secured by financial assets:

	Millions of euros		
	2014	2013	2012
Asset-backed securities	39,594	30,020	35,853
Of which, mortgage-backed securities	*18,059*	*22,843*	*29,938*
Other mortgage securities	60,569	59,984	67,214
Of which: mortgage-backed bonds	*29,227*	*32,717*	*38,500*
	100,163	**90,004**	**103,067**

The main characteristics of the assets securing the aforementioned financial liabilities are as follows:

1. Asset-backed securities:

   a. Mortgage-backed securities- these securities are secured by securitised mortgage assets (see Note 10.e) with average maturities of more than ten years that must: be a first mortgage for acquisition of principal or second residence, be current in payments, have a loan-to-value ratio below 80% and have a liability insurance policy in force covering at least the appraisal value. The value of the financial liabilities broken down in the foregoing table is lower than the balance of the assets securing them - securitised assets retained on the balance sheet - mainly because the Group repurchases a portion of the bonds issued, and in such cases they are not recognised on the liabilities side of the consolidated balance sheet.

   b. Other asset-backed securities- including asset-backed securities and notes issued by special-purpose vehicles secured mainly by mortgage loans that do not meet the foregoing requirements and other loans (mainly personal loans with average maturities of five years and loans to SMEs with average maturities of seven years).

2. Other mortgage securities include mainly: (i) mortgage-backed bonds with average maturities of more than ten years that are secured by a portfolio of mortgage loans and credits (included in secured loans - see Note 10.b) which must: not be classified as at procedural stage; have available appraisals performed by specialised entities; have a loan-to-value ratio below 80% in the case of home loans and below 60% for loans for other assets and have sufficient liability insurance, (ii) other debt securities issued as part of the Group's liquidity strategy in the UK, mainly covered bonds in the UK secured by mortgage loans and other assets.

The fair value of the guarantees received by the Group (financial and non-financial assets) which the Group is authorised to sell or pledge even if the owner of the guarantee has not defaulted is scantly material taking into account the Group's financial statements as a whole.

e) *Spanish mortgage-market issues*

The members of the board of directors hereby state that the Group entities operating in the Spanish mortgage-market issues area have established and implemented specific policies and procedures to cover all activities carried on and comply with 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 duly supported income.

The Group entities have specialised document comparison procedures and tools for verifying customer information and solvency (see Note 54).

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 specify, in detail, each of the internally approved companies, as well as 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 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.

Basically, the companies wishing to cooperate with the Group must have a significant level of activity in the mortgage market in the area in which they operate, they must 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 which appraisal company issues it, to check that the requirements, procedures and methods used to prepare it are formally adapted to the valued asset pursuant to current legislation and that the values reported are customary in the market.

The information required by Bank of Spain Circulars 7/2010 and 5/2011, by application of Royal Decree 716/2009, of 24 April, is as follows:

	Millions of euros
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)	68,306
Of which:	
Loans eligible to cover issues of mortgage-backed securities	*42,764*
Transfers of assets retained on balance sheet: mortgage-backed certificates and other securitised mortgage assets	*19,542*

Mortgage-backed bonds

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

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

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

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

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

The outstanding mortgage-backed bonds issued by the Group totalled EUR 29,227 million at 31 December 2014 (all of which were denominated in euros), of which EUR 28,092 million were issued by Banco Santander, S.A. and EUR 1,135 million were issued by Santander Consumer Finance, S.A. The issues outstanding at 31 December 2014 and 2013 are detailed in the separate financial statements of each of these companies.

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.

23. Subordinated liabilities

a) Breakdown

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

	Millions of euros			31 December 2014	
Currency of issue	2014	2013	2012	Outstanding issue amount in foreign currency (millions)	Annual interest rate (%)
Euro	5,901	4,600	5,214	5,901	3.80%
US dollar	5,525	4,413	3,932	6,708	5.35%
Pound sterling	1,776	2,750	3,292	1,383	8.10%
Brazilian real	2,267	2,734	4,409	7,302	11.07%
Other currencies	1,663	1,642	1,391		
Balance at end of year	**17,132**	**16,139**	**18,238**		
Of which, preference shares (acciones preferentes)	*739*	*401*	*421*		
Of which, preference shares (participaciones preferentes)	*6,239*	*3,652*	*4,319*		

Note 51 contains a detail of the residual maturity periods of subordinated liabilities at each year-end and of the related average interest rates in each year.

b) Changes

The changes in Subordinated liabilities in the last three years were as follows:

	Millions of euros		
	2014	2013	2012
Balance at beginning of year	16,139	18,238	22,992
Net inclusion of entities in the Group (Note 3)	-	237	(1)
Issues	4,351	1,027	2
Of which:			
Banco Santander, S.A.	*4,235*	-	-
Banco Santander (Brasil) S.A.	*115*	-	-
Santander UK plc	-	*599*	-
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	-	*235*	-
Banco Santander - Chile	-	*191*	-
Redemptions and repurchases	(3,743)	(1,915)	(4,080)
Of which:			
Santander Issuances, S.A., Sole-Shareholder Company	*(1,425)*	*(608)*	*(1,253)*
Santander Finance Preferred, S.A., Sole-Shareholder Company	*(1,678)*	*(7)*	*(99)*
Banco Santander (Brasil), S.A.	*(379)*	*(663)*	-
Banco Santander Chile	*(174)*	*(7)*	*(168)*
Banco Santander, S.A.	*(61)*	*(28)*	*(66)*
Santander Finance Capital, S.A., Sole-Shareholder Company	*(21)*	*(4)*	-
Santander Securities Services, S.A.	*(3)*	*(6)*	-
Abbey National Capital Trust I	-	*(278)*	*(203)*
Santander Holdings USA, Inc.	-	*(193)*	*(264)*
Santander PR Capital Trust I	-	*(91)*	-
Santander Perpetual, S.A., Sole-Shareholder Company	-	*(28)*	*(155)*
Santander UK plc	-	-	*(1,166)*
Banco Español de Crédito, S.A.	-	-	*(608)*
Exchange differences	737	(923)	(190)
Other changes	(352)	(525)	(485)
Balance at end of year	**17,132**	**16,139**	**18,238**

c) *Other disclosures*

This item includes the preference shares (participaciones preferentes) and other financial instruments issued by the consolidated companies which, although equity for legal purposes, do not meet the requirements for classification as equity (preference shares).

The preference shares do not carry any voting rights and are non-cumulative. They were subscribed to by non-Group third parties and, except for the shares of Santander UK plc referred to below, are redeemable at the discretion of the issuer, based on the terms and conditions of each issue.

At 31 December 2014, Santander UK plc had a GBP 200 million subordinated issue which is convertible, at Santander UK plc's option, into preference shares of Santander UK plc, at a price of GBP 1 per share.

For the purposes of payment priority, preference shares (participaciones preferentes) are junior to all general creditors and to subordinated deposits. The remuneration of these securities, which have no voting rights, is conditional upon the obtainment of sufficient distributable profit and upon the limits imposed by Spanish banking regulations on equity.

The other issues are subordinated and, therefore, for the purposes of payment priority, they are junior to all general creditors of the issuers. The issues launched by Santander Central Hispano Issuances Limited, Santander Issuances, S.A. (Sole-Shareholder Company), Santander Perpetual, S.A. (Sole-Shareholder Company), Santander Finance Capital, S.A. (Sole-Shareholder Company), Santander International Preferred, S.A. (Sole-Shareholder Company) and Santander Finance Preferred, S.A. (Sole-Shareholder Company) are guaranteed by the Bank or by restricted deposits arranged by the Bank for this purpose. At 31 December 2014, the balance of these issues amounted to EUR 5,081 million.

At 31 December 2014, the following issues were convertible into Bank shares:

On 5 March, 8 May and 2 September 2014, Banco Santander, S.A. announced that its executive committee had resolved to launch issues of preference shares contingently convertible into newly issued ordinary shares of the Bank ("CCPSs") for a nominal amount of EUR 1,500 million, USD 1,500 million and EUR 1,500 million. The interest, payment of which is subject to certain conditions and is discretionary, was set at 6.25% per annum for the first five years (to be repriced thereafter by applying a 541 basis-point spread to the 5-year Mid-Swap Rate) for the March issue, at 6.375% per annum for the first five years (to be repriced thereafter by applying a 478.8 basis-point spread to the 5-year Mid-Swap Rate) for the May issue and at 6.25% per annum for the first seven years (to be repriced every five years thereafter by applying a 564 basis-point spread to the 5-year Mid-Swap Rate) for the September issue.

On 25 March 2014, 28 May and 30 September, the Bank of Spain confirmed that the CCPSs were eligible as Additional Tier 1 capital under the new European capital requirements of Regulation (EU) No 575/2013. The CCPSs are perpetual, although they may be redeemed early in certain circumstances and would convert into newly issued ordinary shares of Banco Santander if the Common Equity Tier 1 ratio of the Bank or its consolidated group fell below 5.125%, calculated in accordance with Regulation (EU) No 575/2013. The CCPSs are traded on the Global Exchange Market of the Irish Stock Exchange.

Furthermore, on 29 January 2014, Banco Santander (Brasil), S.A. launched an issue of Tier 1 perpetual subordinated notes for a nominal amount of USD 1,248 million, of which the Group has acquired 89.6%. The notes are perpetual and would convert into ordinary shares of Banco Santander (Brasil), S.A. if the Common Equity Tier 1 ratio, calculated as established by the Central Bank of Brazil, were to fall below 5.125%.

The interest accrued on subordinated liabilities amounted to EUR 1,084 million in 2014 (2013: EUR 1,260 million; 2012: EUR 1,650 million) (see Note 39).

24. Other financial liabilities

The detail of Other financial liabilities in the consolidated balance sheets is as follows:

	Millions of euros		
	2014	2013	2012
Trade payables	1,276	1,031	1,255
Clearing houses	562	841	573
Tax collection accounts:			
Tax payables	2,304	2,197	2,021
Factoring accounts payable	193	194	201
Unsettled financial transactions	4,445	3,063	5,080
Other financial liabilities	10,688	9,084	10,115
	19,468	**16,410**	**19,245**

Note 51 contains a detail of the residual maturity periods of other financial liabilities at each year-end.

25. Provisions

a) Breakdown

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

	Millions of euros		
	2014	2013	2012
Provisions for pensions and similar obligations	9,412	9,126	10,353
Provisions for taxes and other legal contingencies	2,916	2,727	3,100
Provisions for contingent liabilities and commitments (Note 2):	654	693	617
Of which: due to country risk	*2*	*4*	*3*
Other provisions	2,394	2,043	1,932
Provisions	**15,376**	**14,589**	**16,002**

b) Changes

The changes in Provisions in the last three years were as follows:

	Millions of euros											
	2014				2013				2012			
	Pensions	Contingent liabilities and commitments	Other provisions	Total	Pensions	Contingent liabilities and commitments	Other provisions	Total	Pensions	Contingent liabilities and commitments	Other provisions	Total
Balances at beginning of year	9,126	693	4,770	14,589	10,353	617	5,032	16,002	10,782	659	5,731	17,172
Net inclusion of entities in the Group	11	3	74	88	(1)	15	-	14	(60)	(1)	(16)	(77)
Additions charged to income:												
Interest expense and similar charges (Note 39)	344	-	-	344	363	-	-	363	398	-	-	398
Staff costs (Note 47)	75	-	-	75	88	-	-	88	145	-	-	145
Period provisions	361	54	2,594	3,009	397	126	1,922	2,445	(184)	68	1,588	1,472
Other additions arising from insurance contracts linked to pensions	31	-	-	31	(27)	-	-	(27)	(161)	-	-	(161)
Changes in value recognised in equity	770	-	-	770	(90)	-	-	(90)	1,682	-	-	1,682
Payments to pensioners and pre-retirees with a charge to internal provisions	(1,038)	-	-	(1,038)	(1,086)	-	-	(1,086)	(980)	-	-	(980)
Benefits paid due to settlements	-	-	-	-	(2)	-	-	(2)	(1,006)	-	-	(1,006)
Insurance premiums paid	(11)	-	-	(11)	(6)	-	-	(6)	54	-	-	54
Payments to external funds	(607)	-	-	(607)	(217)	-	-	(217)	(268)	-	-	(268)
Amounts used	-	-	(2,293)	(2,293)	-	-	(1,661)	(1,661)	-	-	(2,161)	(2,161)
Transfers, exchange differences and other changes	350	(96)	165	419	(646)	(65)	(523)	(1,234)	(49)	(109)	(110)	(268)
Balances at end of year	**9,412**	**654**	**5,310**	**15,376**	**9,126**	**693**	**4,770**	**14,589**	**10,353**	**617**	**5,032**	**16,002**

c) *Provisions for pensions and similar obligations*

The detail of Provisions for pensions and similar obligations is as follows:

	Millions of euros		
	2014	2013	2012
Provisions for post-employment plans - Spanish entities	4,915	4,643	4,909
Of which: defined benefit	*4,910*	*4,633*	*4,900*
Provisions for other similar obligations - Spanish entities	2,237	2,161	2,404
Of which: pre-retirements	*2,220*	*2,149*	*2,389*
Provisions for post-employment plans - Santander UK plc	256	806	409
Provisions for post-employment plans and other similar obligations - Other foreign subsidiaries	2,004	1,516	2,631
Of which: defined benefit	*1,999*	*1,512*	*2,626*
Provisions for pensions and similar obligations	**9,412**	**9,126**	**10,353**

i. Spanish entities - Post-employment plans and other similar obligations

At 31 December 2014, 2013 and 2012, the Spanish entities had post-employment benefit obligations under defined contribution and defined benefit plans. In addition, in various years some of the consolidated entities offered certain of their employees the possibility of taking pre-retirement and, therefore, provisions are recognised each year for the obligations to employees taking pre-retirement -in terms of salaries and other employee benefit costs- from the date of their pre-retirement to the date of effective retirement. In 2014, 2011 employees accepted the pre-retirement and voluntary redundancy offers, and the provision recognised to cover these obligations totalled EUR 642 million (2013: EUR 334 million).

In 2012, the Bank and Banesto reached an agreement with the employees' representatives to alter the form of the defined-benefit obligations arising from the collective agreement into defined-contribution plans. In addition, the senior executives' contracts with defined-benefit pension obligations were amended to alter such obligations into a defined-contribution employee welfare system.

The amount of the obligations accrued with respect to all the current employees, both those subject to the collective agreement and executives, whose defined-benefit obligations were converted into defined-contribution plans, totalled EUR 1,389 million. The obligations thus altered were externalised through the execution of various insurance contracts with Spanish insurance companies. The effect of the settlement of such defined-benefit obligations is shown in the tables below.

The expenses incurred by the Group in respect of contributions to defined contribution plans amounted to EUR 105 million in 2014 (2013: EUR 108 million; 2012: EUR 54 million).

The amount of the defined benefit obligations was determined on the basis of the work performed 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:

	Post-employment plans			Other similar obligations		
	2014	2013	2012	2014	2013	2012
Annual discount rate	2.00%	3.00%	2.75% and 3% in the case of Banesto	2.00%	3.00%	2.75% and 3% in the case of Banesto
Mortality tables	PERM/F-2000	PERM/F-2000	GRM/F-95 (PERM/F-2000 in the case of Banesto)	PERM/F-2000	PERM/F-2000	GRM/F-95 (PERM/F-2000 in the case of Banesto)
Cumulative annual CPI growth	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Annual salary increase rate	2.50% (*)	2.50% (*)	2% (*)	n/a	n/a	n/a
Annual social security pension increase rate	1.5%	1.5%	1.5%	n/a	n/a	n/a
Annual benefit increase rate	n/a	n/a	n/a	0% to 1.5%	0% to 1.5%	0% to 1.5%

(*) Corresponds to the Group's defined-benefit obligations.

The discount rate used for the flows was determined by reference to high-quality corporate bonds (at least AA in euros) that coincide with the terms of the obligations. The portfolio of bonds taken into consideration excludes callable, puttable and sinkable bonds which could distort the indices.

Any changes in the main assumptions could affect the calculation of the obligations. At 31 December 2014, if the discount rate used had been decreased or increased by 50 basis points, there would have been an increase or decrease in the present value of the post-employment obligations of +/- 5.5% and an increase or decrease in the present value of the long-term obligations of +/- 1.15%. These changes would be offset in part by increases or decreases in the fair value of the assets and insurance contracts linked to pensions.

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 fair value of insurance contracts was determined as the present value of the related payment obligations, taking into account the following assumptions:

	Post-employment plans			Other similar obligations		
	2014	2013	2012	2014	2013	2012
Expected rate of return on plan assets	2.0%	3.0%	2.75% and 3% in the case of Banesto	n/a	n/a	n/a
Expected rate of return on reimbursement rights	2.0%	3.0%	2.75% and 3% in the case of Banesto	n/a	n/a	n/a

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

	Millions of euros									
	Post-employment plans					Other similar obligations				
	2014	2013	2012	2011	2010	2014	2013	2012	2011	2010
Present value of the obligations:										
To current employees	62	50	58	1,533	1,240	-	-	-	-	-
Vested obligations to retired employees	4,708	4,483	4,765	4,367	4,471	-	-	-	-	-
To pre-retirees	-	-	-	-	-	2,220	2,149	2,389	2,769	3,262
Long-service bonuses and other benefits	-	-	-	-	-	13	11	7	7	8
Other	307	257	221	185	181	4	1	8	5	3
	5,077	4,790	5,044	6,085	5,892	2,237	2,161	2,404	2,781	3,273
Less-										
Fair value of plan assets	167	157	144	177	183	-	-	-	-	-
Provisions - Provisions for pensions	**4,910**	**4,633**	**4,900**	**5,908**	**5,709**	**2,237**	**2,161**	**2,404**	**2,781**	**3,273**
Of which:										
Internal provisions for pensions	*4,565*	*4,293*	*4,495*	*3,762*	*3,490*	*2,237*	*2,161*	*2,404*	*2,781*	*3,272*
Insurance contracts linked to pensions (Note 14)	*345*	*342*	*405*	*2,146*	*2,219*	-	-	-	-	*1*
Unrecognised net assets for pensions	-	*(2)*	-	-	-	-	-	-	-	-

The amounts recognised in the consolidated income statements in relation to the aforementioned defined benefit obligations are as follows:

	Millions of euros					
	Post-employment plans			Other similar obligations		
	2014	2013	2012	2014	2013	2012
Current service cost	10	10	53	1	-	1
Interest cost (net)	139	139	204	59	61	101
Expected return on insurance contracts linked to pensions	(9)	(11)	(45)	-	-	-
Extraordinary charges (credits)-						
Actuarial (gains)/losses recognised in the year	-	-	-	48	3	66
Past service cost	-	30	22	-	34	21
Pre-retirement cost	12	8	-	630	326	55
Effect of curtailment/settlement	(14)	(6)	(401)	-	-	1
	138	**170**	**(167)**	**738**	**424**	**245**

In addition, in 2014 Valuation adjustments – Other valuation adjustments increased by EUR 427 million with respect to defined benefit obligations (2013: an increase of EUR 52 million; 2012: a decrease of EUR 533 million).

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

	Millions of euros					
	Post-employment plans			Other similar obligations		
	2014	2013	2012	2014	2013	2012
Present value of the obligations at beginning of year	4,790	5,044	6,085	2,161	2,404	2,781
Net inclusion of entities in the Group	-	(5)	-	-	-	-
Current service cost	10	10	53	1	-	1
Interest cost	144	145	211	59	61	101
Pre-retirement cost	12	8	-	630	326	55
Effect of curtailment/settlement	(14)	(6)	(401)	-	-	-
Benefits paid due to settlements	-	-	(1,006)	-	-	-
Other benefits paid	(355)	(394)	(317)	(665)	(661)	(624)
Past service cost	-	30	15	-	34	21
Actuarial (gains)/losses (*)	485	(79)	382	48	3	66
Exchange differences and other items	5	37	22	3	(6)	3
Present value of the obligations at end of year	**5,077**	**4,790**	**5,044**	**2,237**	**2,161**	**2,404**

(*) Including in 2014 demographic actuarial losses of EUR 8 million and financial actuarial losses of EUR 477 million in the post-employment plans, as well as demographic actuarial losses of EUR 1 million and financial actuarial losses of EUR 47 million in other similar obligations.

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

Plan assets

	Millions of euros		
	Post-employment plans		
	2014	2013	2012
Fair value of plan assets at beginning of year	157	144	177
Expected return on plan assets	5	6	7
Actuarial gains/(losses)	27	-	11
Contributions/(surrenders)	11	5	(42)
Benefits paid	(38)	(12)	(9)
Exchange differences and other items	5	14	-
Fair value of plan assets at end of year	**167**	**157**	**144**

Insurance contracts linked to pensions

	Millions of euros					
	Post-employment plans			Other similar obligations		
	2014	2013	2012	2014	2013	2012
Fair value of insurance contracts linked to pensions at beginning of year	342	405	2,146	-	-	-
Expected return on insurance contracts (Note 38)	9	11	45	-	-	-
Benefits paid	(37)	(47)	(59)	-	-	-
Premiums paid/(surrenders) (Note 14)	-	-	(1,565)	-	-	(1)
Actuarial gains/(losses)	31	(27)	(162)	-	-	1
Fair value of insurance contracts linked to pensions at end of year	**345**	**342**	**405**	-	-	-

In view of the conversion of the defined-benefit obligations to defined-contribution obligations, the Group will not make material current contributions in Spain in 2015 to fund its defined-benefit pension obligations.

The plan assets and the insurance contracts linked to pensions are instrumented mainly through insurance policies.

The following table shows the estimated benefits payable at 31 December 2014 for the next ten years:

	Millions of euros
2015	959
2016	838
2017	717
2018	612
2019	515
2020 to 2024	1,656

ii. United Kingdom

At the end of each of the last three years, the businesses in the United Kingdom had post-employment benefit obligations under defined contribution and defined benefit plans. The expenses incurred in respect of contributions to defined contribution plans amounted to EUR 84 million in 2014 (2013: EUR 62 million; 2012: EUR 53 million).

The amount of the defined benefit obligations was determined on the basis of the work performed 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	2012
Annual discount rate	3.65%	4.45%	4.50%
Mortality tables	116/98 S1 Light TMC	103 S1 Light TMC	103 S1 Light TMC
Cumulative annual CPI growth	3.05%	3.40%	2.85%
Annual salary increase rate	1.00%	3.40%	2.85%
Annual pension increase rate	2.85%	3.15%	2.75%

The discount rate used for the flows was determined by reference to high-quality corporate bonds (at least AA in pounds sterling) that coincide with the terms of the obligations. The portfolio of bonds taken into consideration excludes callable, puttable and sinkable bonds which could distort the indices.

Any changes in the main assumptions could affect the calculation of the obligations. At 31 December 2014, if the discount rate used had been decreased or increased by 50 basis points, there would have been an increase or decrease in the present value of the obligations of +/- 10.6%. If the inflation assumption had been increased or decreased by 50 basis points, there would have been an increase or decrease in the present value of the obligations of +/- 7.1%. These changes would be offset in part by increases or decreases in the fair value of the assets.

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

	Millions of euros				
	2014	2013	2012	2011	2010
Present value of the obligations:	11,959	10,120	9,260	8,467	7,824
Less- Fair value of plan assets	12,108	9,455	9,194	8,496	7,617
Provisions - Provisions for pensions	**(149)**	**665**	**66**	**(29)**	**207**
Of which:					
Internal provisions for pensions	*256*	*806*	*409*	*255*	*261*
Net assets for pensions	*(405)*	*(141)*	*(343)*	*(284)*	*(54)*

The amounts recognised in the consolidated income statements in relation to the aforementioned defined benefit obligations are as follows:

	Millions of euros		
	2014	2013	2012
Current service cost	29	32	49
Interest cost (net)	16	1	34
Past service cost	(286)	-	-
	(241)	**33**	**83**

In addition, in 2014 Valuation adjustments – Other valuation adjustments decreased by EUR 173 million with respect to defined benefit obligations (2013: a decrease of EUR 697 million; 2012: a decrease of EUR 182 million).

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

	Millions of euros		
	2014	2013	2012
Present value of the obligations at beginning of year	10,120	9,260	8,467
Current service cost	29	32	49
Interest cost	455	396	427
Benefits paid	(263)	(239)	(258)
Past service cost	(286)	-	-
Actuarial (gains)/losses (*)	1,174	852	367
Exchange differences and other items	444	(181)	208
Present value of the obligations at end of year	**11,959**	**10,120**	**9,260**

(*) Including in 2014 demographic actuarial losses of EUR 236 million and financial actuarial losses of EUR 938 million.

In 2014 Santander UK reached an agreement with the workers' representatives to convert a portion of the defined-benefit obligations into defined-contribution plans. The effect of the reduction of the aforementioned obligations is shown in the preceding table under Past service cost.

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

	Millions of euros		
	2014	2013	2012
Fair value of plan assets at beginning of year	9,455	9,194	8,496
Expected return on plan assets	439	395	393
Actuarial gains/(losses)	1,346	155	186
Contributions	450	133	180
Benefits paid	(263)	(239)	(258)
Exchange differences and other changes	681	(183)	197
Fair value of plan assets at end of year	**12,108**	**9,455**	**9,194**

The Group expects to make contributions of approximately EUR 50 million to fund these obligations in 2015.

The main categories of plan assets as a percentage of total plan assets are as follows:

	2014	2013	2012
Equity instruments	22%	24%	27%
Debt instruments	56%	59%	56%
Properties	12%	11%	3%
Other	10%	6%	14%

The following table shows the estimated benefits payable at 31 December 2014 for the next ten years:

	Millions of euros
2015	289
2016	308
2017	329
2018	351
2019	375
2020 to 2024	2,297

iii. Other foreign subsidiaries

Certain of the consolidated foreign entities have acquired commitments to their employees similar to post-employment benefits.

At 31 December 2014, 2013 and 2012, these entities had defined-contribution and defined-benefit post-employment benefit obligations. The expenses incurred in respect of contributions to defined contribution plans amounted to EUR 58 million in 2014 (2013: EUR 53 million; 2012: EUR 49 million).

The actuarial assumptions used by these entities (discount rates, mortality tables and cumulative annual CPI growth) are consistent with the economic and social conditions prevailing in the countries in which they are located.

Specifically, the discount rate used for the flows was determined by reference to high-quality corporate bonds, except in the case of Brazil where there is no extensive corporate bond market and, accordingly the discount rate was determined by reference to the series B bonds issued by the Brazilian National Treasury Secretariat for a term coinciding with that of the obligations.

Any changes in the main assumptions could affect the calculation of the obligations. At 31 December 2014, if the discount rate used had been decreased or increased by 50 basis points, there would have been an increase or decrease in the present value of the obligations of +/- 5%. These changes would be offset in part by increases or decreases in the fair value of the assets.

The funding status of the obligations similar to post-employment benefits and other long-term benefits in 2014 and the four preceding years is as follows:

	Millions of euros				
	2014	2013	2012	2011	2010
Present value of the obligations	10,324	9,289	12,814	11,245	11,062
Less-					
Of which: with a charge to the participants	*151*	*133*	*125*	-	-
Fair value of plan assets	8,458	7,938	10,410	9,745	10,176
Provisions - Provisions for pensions	**1,715**	**1,218**	**2,279**	**1,500**	**886**
Of which:					
Internal provisions for pensions	*1,999*	*1,512*	*2,626*	*1,827*	*1,340*
Net assets for pensions	*(8)*	*(8)*	*(5)*	*(15)*	*(8)*
Unrecognised net assets for pensions	*(276)*	*(286)*	*(342)*	*(312)*	*(446)*

In December 2011 the Portuguese financial institutions, including Banco Santander Totta, S.A., transferred in part their pension obligations to the social security authorities. As a result, Banco Santander Totta, S.A. transferred the related assets and liabilities and Provisions - Provision for pensions and similar obligations at 31 December 2011 included the present value of the obligations, net of the fair value of the related plan assets.

The amounts recognised in the consolidated income statements in relation to these obligations are as follows:

	Millions of euros		
	2014	2013	2012
Current service cost	35	46	42
Interest cost (net)	131	162	116
Extraordinary charges (credits):			
Actuarial (gains)/losses recognised in the year	4	(1)	7
Past service cost	1	7	2
Pre-retirement cost	-	-	(10)
Other	(34)	(2)	(4)
	137	**212**	**153**

In addition, in 2014 Valuation adjustments – Other valuation adjustments increased by EUR 515 million with respect to defined benefit obligations (2013: an increase of EUR 735 million; 2012: a decrease of EUR 968 million).

The changes in the present value of the accrued obligations were as follows:

	Millions of euros		
	2014	2013	2012
Present value of the obligations at beginning of year	9,289	12,814	11,245
Net inclusion of entities in the Group	25	4	(70)
Current service cost	35	46	42
Interest cost	865	951	1,010
Pre-retirement cost	20	-	13
Effect of curtailment/settlement	(6)	(1)	(16)
Benefits paid	(669)	(686)	(735)
Benefits paid due to settlements	(6)	(2)	(41)
Contributions made by employees	7	21	10
Past service cost	1	7	-
Actuarial (gains)/losses (*)	646	(2,039)	2,352
Exchange differences and other items	117	(1,826)	(996)
Present value of the obligations at end of year	**10,324**	**9,289**	**12,814**

(*) Including in 2014 demographic actuarial losses of EUR 242 million and financial actuarial losses of EUR 404 million.

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

	Millions of euros		
	2014	2013	2012
Fair value of plan assets at beginning of year	7,938	10,410	9,745
Net inclusion of entities in the Group	13	-	10
Expected return on plan assets	759	789	894
Actuarial gains/(losses)	124	(1,314)	1,259
Gains/(losses) due to settlements	(24)	-	-
Contributions	205	239	165
Benefits paid	(643)	(641)	(687)
Exchange differences and other items	86	(1,545)	(976)
Fair value of plan assets at end of year	**8,458**	**7,938**	**10,410**

In 2015 the Group expects to make contributions to fund these obligations for amounts similar to those made in 2014.

The main categories of plan assets as a percentage of total plan assets are as follows:

	2014	2013	2012
Equity instruments	8%	10%	6%
Debt instruments	83%	85%	86%
Properties	5%	2%	4%
Other	4%	3%	4%

The following table shows the estimated benefits payable at 31 December 2014 for the next ten years:

	Millions of euros
2015	704
2016	734
2017	761
2018	789
2019	822
2020 to 2024	4,582

d) Provisions for taxes and other legal contingencies and Other provisions

Provisions - Provisions for taxes and other legal contingencies and Provisions - Other provisions, which include, inter alia, provisions for restructuring costs and tax-related and non-tax-related proceedings, were estimated using prudent calculation procedures in keeping with the uncertainty inherent to the obligations covered. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation. In certain cases, these obligations have no fixed settlement period and, in other cases, depend on the legal proceedings in progress.

The detail, by geographical area, of Provisions for taxes and other legal contingencies and Other provisions is as follows:

	Millions of euros		
	2014	2013	2012
Recognised by Spanish companies	1,217	1,228	722
Recognised by other EU companies	1,206	1,027	1,337
Recognised by other companies	2,887	2,515	2,973
Of which:			
Brazil	*2,453*	*2,263*	*2,750*
	5,310	**4,770**	**5,032**

Set forth below is the detail, by type of provision, of the balance at 31 December 2014, 2013 and 2012 of Provisions for taxes and other legal contingencies and Other provisions. The types of provision were determined by grouping together items of a similar nature:

	Millions of euros		
	2014	2013	2012
Provisions for taxes	1,289	1,177	1,198
Provisions for employment-related proceedings (Brazil)	616	638	975
Provisions for other legal proceedings	1,011	912	927
Provision for customer remediation	632	465	803
Regulatory framework-related provisions	298	315	81
Provision for restructuring	273	378	120
Other	1,191	885	928
	5,310	**4,770**	**5,032**

Relevant information is set forth below in relation to each type of provision shown in the preceding table:

The provisions for taxes include provisions for tax-related proceedings.

The provisions for employment-related proceedings (Brazil) relate to claims filed by trade unions, associations, the prosecutor's office and ex-employees claiming employment rights to which, in their view, they are entitled, particularly the payment of overtime and other employment rights, including litigation concerning retirement benefits. The number and nature of these proceedings, which are common for banks in Brazil, justify the classification of these provisions in a separate category or as a separate type from the rest. The Group calculates the provisions associated with these claims in accordance with past experience of payments made in relation to claims for similar items. When claims do not fall within these categories, a case-by-case assessment is performed and the amount of the provision is calculated in accordance with the status of each proceeding and the risk assessment carried out by the legal advisers. The average duration of the employment-related proceedings is eight years.

The provisions for other legal proceedings include provisions for court, arbitration or administrative proceedings (other than those included in other categories or types of provisions disclosed separately) brought against Santander Group companies.

The provisions for customer remediation include the estimated cost of payments to remedy errors relating to the sale of certain products in the UK and Germany. To calculate the provision for customer remediation, the best estimate of the provision made by management is used, which is based on the estimated number of claims to be received and, of these, the number that will be accepted, as well as the estimated average payment per case.

The regulatory framework-related provisions include mainly the provisions relating to the following issues concerning Santander UK:

- The provision for payments to the Financial Services Compensation Scheme (FSCS): the FSCS is the compensation fund for customers of financial services entities in the UK and is responsible for paying compensation if an entity cannot pay for rights claimed from it. The FSCS is financed through levies applied to the industry (and recoveries and loans, where appropriate).

- The provision for the payment of the bank levy in the UK: the 2011 Finance Act introduced an annual bank levy in the UK which is collected using the quarterly system in force for corporation tax. This levy is based on the total liabilities presented in the balance sheet at year-end, although certain amounts are excluded. In 2014 a rate of 0.156% was applied, of 0.13% in 2013 and 0.088% in 2012.

The provisions for restructuring include only the direct costs arising from restructuring processes carried out by various Group companies.

Qualitative information on the main litigation is provided in Note 25.e to the consolidated financial statements.

Our general policy is to record provisions for tax and legal proceedings in which we assess the chances of loss to be probable and we do not record provisions when the chances of loss are possible or remote. We determine the amounts to be provided for as our best estimate of the expenditure required to settle the corresponding claim based, among other factors, on a case-by-case analysis of the facts and the legal opinion of internal and external counsel or by considering the historical average amount of the loss incurred in claims of the same nature. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation. In certain cases, the obligations do not have a fixed settlement term and, in others, they depend on legal proceedings in progress.

The changes in Provisions for taxes and other legal contingencies and Other provisions are set forth in Note 25.b. With respect to Brazil, the main charges to the consolidated income statement in 2014 related to EUR 316 million due to civil contingencies (2013: EUR 247 million) and EUR 358 million due to employment-related claims (2013: EUR 336 million; 2012: EUR 573 million); in addition, EUR 346 million were charged to the restructuring provision in 2013. This increase is offset in part by the use of the available provisions, of which EUR 343 million relate to employment-related payments (2013: EUR 500 million; 2012: EUR 730 million), EUR 278 million to civil payments (2013: EUR 215 million) and EUR 234 million to the use of the restructuring provision (2013: 62 million). In the UK, provisions of EUR 174 million were recognised in connection with customer remediation (2012: EUR 264 million), of EUR 205 million in connection with the regulatory framework (the bank levy and the Financial Services Compensation Scheme (FSCS)) (2013: provision of EUR 347 million; 2012: release of EUR 6 million), and of EUR 108 million for restructuring. These increases were offset by the use of EUR 321 million of provisions for customer remediation (2013: 319 million; 2012: EUR 392 million), EUR 197 million in payments relating to the bank levy and the FSCS (2013: EUR 317 million) and EUR 54 million for restructuring. In Spain provisions of EUR 152 million were recognised for restructuring in 2014, of which EUR 58 million were used; furthermore, EUR 32 million were paid in relation to the extraordinary contribution to the Deposit Guarantee Fund, recognised in 2013, amounting to EUR 228 million. In Germany provisions of EUR 455 million were recognised for customer remediation, of which EUR 197 million were used.

e) *Litigation and other matters*

i. Tax-related litigation

At 31 December 2014, the main tax-related proceedings concerning the Group were as follows:

- Legal actions filed by Banco Santander (Brasil) S.A. and certain Group companies in Brazil challenging the increase in the rate of Brazilian social contribution tax on net income from 9% to 15% stipulated by Interim Measure 413/2008, ratified by Law 11,727/2008, a provision having been recognised for the amount of the estimated loss.
- Legal actions filed by certain Group companies in Brazil claiming their right to pay the Brazilian social contribution tax on net income at a rate of 8% and 10% from 1994 to 1998. No provision was recognised in connection with the amount considered to be a contingent liability.
- Legal actions filed by Banco Santander Brasil, S.A. (currently Banco Santander (Brasil), S.A.) and other Group entities claiming their right to pay the Brazilian PIS and COFINS social contributions only on the income from the provision of services. In the case of Banco Santander Brasil, S.A., the legal action was declared unwarranted and an appeal was filed at the Federal Regional Court. In September 2007 the Federal Regional Court found in favour of Banco Santander Brasil, S.A., but the Brazilian authorities appealed against the judgment at the Federal Supreme Court. In the case of Banco ABN AMRO Real S.A. (currently Banco Santander (Brasil), S.A.), in March 2007 the court found in its favour, but the Brazilian authorities appealed against the judgment at the Federal Regional Court, which handed down a decision partly upholding the appeal in September 2009. Banco Santander (Brasil), S.A. filed an appeal at the Federal Supreme Court. Law 12,865/2013 established a programme of payments or deferrals of certain tax and social security debts, under which any entities that availed themselves of the programme and withdrew the legal actions brought by them were exempted from paying late-payment interest. In November 2013 Banco Santander (Brasil) S.A. partially availed itself of this programme but only with respect to the legal actions brought by the former Banco ABN AMRO Real S.A. in relation to the period from September 2006 to April 2009, and with respect to other minor actions brought by other entities in its Group. However, the legal actions brought by Banco Santander (Brasil), S.A. and those of Banco ABN AMRO Real S.A. relating to the periods prior to September 2006, for which the estimated loss was provided for, still subsist.

- Banco Santander (Brasil), S.A. and other Group companies in Brazil have appealed against the assessments issued by the Brazilian tax authorities questioning the deduction of loan losses in their income tax returns (IRPJ and CSLL) on the ground that the relevant requirements under the applicable legislation were not met. No provision was recognised in connection with the amount considered to be a contingent liability.

- Banco Santander (Brasil), S.A. and other Group companies in Brazil are involved in several administrative and legal proceedings against various municipalities that demand payment of the Service Tax on certain items of income from transactions not classified as provisions of services. No provision was recognised in connection with the amount considered to be a contingent liability.

- In addition, Banco Santander (Brasil), S.A. and other Group companies in Brazil are involved in several administrative and legal proceedings against the tax authorities in connection with the taxation for social security purposes of certain items which are not considered to be employee remuneration. No provision was recognised in connection with the amount considered to be a contingent liability.

- In December 2008 the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil), S.A. in relation to income tax (IRPJ and CSLL) for 2002 to 2004. The tax authorities took the view that Banco Santander (Brasil), S.A. did not meet the necessary legal requirements to be able to deduct the goodwill arising on the acquisition of Banespa (currently Banco Santander (Brasil), S.A.). Banco Santander (Brasil) S.A. filed an appeal against the infringement notice at Conselho Administrativo de Recursos Fiscais (CARF), which on 21 October 2011 unanimously decided to render the infringement notice null and void. The tax authorities have appealed against this decision at a higher administrative level (Tax Appeal High Chamber). In June 2010 the Brazilian tax authorities issued infringement notices in relation to this same matter for 2005 to 2007. Banco Santander (Brasil), S.A. filed an appeal against these procedures at CARF, which was partially upheld on 8 October 2013. This decision has been appealed at the higher instance of CARF. In December 2013 the Brazilian tax authorities issued the infringement notice relating to 2008, the last year for amortisation of the goodwill. This infringement notice will be appealed by Banco Santander (Brasil), S.A. Based on the advice of its external legal counsel and in view of the first decision by CARF, the Group considers that the stance taken by the Brazilian tax authorities is incorrect, that there are sound defence arguments to appeal against the infringement notices and that, accordingly, the risk of incurring a loss is remote. Consequently, no provisions have been recognised in connection with these proceedings because this matter should not affect the consolidated financial statements.

- In May 2003 the Brazilian tax authorities issued separate infringement notices against Santander Distribuidora de Títulos e Valores Mobiliarios Ltda. (DTVM) and Banco Santander Brasil, S.A. (currently Banco Santander (Brasil), S.A.) in relation to the Provisional Tax on Financial Movements (CPMF) with respect to certain transactions carried out by DTVM in the management of its customers' funds and for the clearing services provided by Banco Santander Brasil, S.A. to DTVM in 2000, 2001 and the first two months of 2002. Both entities appealed against the infringement notices at CARF, with DTVM obtaining a favourable decision and Banco Santander (Brasil) S.A. an unfavourable decision. Both decisions were appealed by the losing parties at the Higher Chamber of CARF, and the appeal relating to Banco Santander (Brasil) S.A. is pending a decision. With respect to DTVM, on 24 August 2012, it was notified of a decision overturning the previous favourable judgment and lodged an appeal at the Higher Chamber of CARF on 29 August 2012. In the opinion of its legal advisors, the Group considers that the tax treatment applied in these transactions was correct. No provision was recognised in the consolidated financial statements in relation to this litigation as it was considered a contingent liability.

- In December 2010 the Brazilian tax authorities issued an infringement notice against Santander Seguros, S.A. (currently Zurich Santander Brasil Seguros e Previdencia S.A.), as the successor by merger to ABN AMRO Brazil Dois Participacoes, S.A., in relation to income tax (IRPJ and CSL) for 2005. The tax authorities questioned the tax treatment applied to a sale of shares of Real Seguros, S.A. made in that year. The bank lodged an appeal against this infringement notice which was upheld in part by CARF, the Federal Union having filed a special appeal. As the former parent of Santander Seguros, S.A. (Brasil), Banco Santander (Brasil) S.A. is liable in the event of any adverse outcome of this proceeding. No provision was recognised in connection with this proceeding as it was considered to be a contingent liability.

- Also, in December 2010, the Brazilian tax authorities issued infringement notices against Banco Santander (Brasil), S.A. in connection with income tax (IRPJ and CSLL), questioning the tax treatment applied to the economic compensation received under the contractual guarantees provided by the sellers of the former Banco Meridional. The bank filed an appeal for reconsideration against this infringement notice. On 23 November 2011, CARF unanimously decided to render null and void an infringement notice relating to 2002 with regard to the same matter, and the decision was declared final in February 2012. The proceedings relating to the 2003 to 2006 fiscal years are still in progress although, based on the advice of its external legal counsel, the Group considers that the risk of incurring a loss is remote.

- In June 2013, the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil), S.A. as the party liable for tax on the capital gain allegedly obtained in Brazil by the entity not resident in Brazil, Sterrebeeck B.V., as a result of the "incorporação de ações" (merger of shares) transaction carried out in August 2008. As a result of the aforementioned transaction, Banco Santander (Brasil), S.A. acquired all of the shares of Banco ABN AMRO Real, S.A. and ABN AMRO Brasil Dois Participações, S.A. through the delivery to these entities' shareholders of newly issued shares of Banco Santander (Brasil), S.A., issued in a capital increase carried out for that purpose. The Brazilian tax authorities take the view that in the aforementioned transaction Sterrebeeck B.V. obtained income subject to tax in Brazil consisting of the difference between the issue value of the shares of Banco Santander (Brasil), S.A. that were received and the acquisition cost of the shares delivered in the exchange. In December 2014 the Group appealed against the infringement notice at CARF after the appeal for reconsideration lodged at the Federal Tax Office was dismissed. Based on the advice of its external legal counsel, the Group considers that the stance taken by the Brazilian tax authorities is incorrect and that there are sound defence arguments to appeal against the infringement notice. Accordingly, the risk of incurring a loss is remote. Consequently, the Group has not recognised any provisions in connection with these proceedings because this matter should not affect the consolidated financial statements.

- In November 2014 the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil), S.A. in relation to income tax (IRPJ and CSLL) for 2009 questioning the tax-deductibility of the amortisation of the goodwill of Banco ABN AMRO Real S.A., performed prior to the absorption of this bank by Banco Santander (Brasil), S.A., but accepting the amortisation performed prior to the merger. On the advice of its external legal counsel, Banco Santander (Brasil), S.A. has lodged an appeal against this decision at the Federal Tax Office. No provision was recognised in connection with this proceeding as it was considered to be a contingent liability. Banco Santander (Brasil), S.A. has also appealed against infringement notices issued by the tax authorities questioning the tax deductibility of the amortisation of the goodwill arising on the acquisition of Banco Sudameris. No provision has been recognised in this connection as it is considered to be a contingent liability.

- Legal action brought by Sovereign Bancorp, Inc. (currently Santander Holdings USA, Inc.) claiming its right to take a foreign tax credit in connection with taxes paid outside the United States in fiscal years 2003 to 2005 in relation to financing transactions carried out with an international bank. Santander Holdings USA Inc. considers that, in accordance with applicable tax legislation, it is entitled to recognise the aforementioned tax credits as well as the related issuance and financing costs. In addition, if the outcome of this legal action is favourable to the interests of Santander Holdings USA, Inc., the amounts paid over by the entity in relation to this matter with respect to 2006 and 2007 would have to be refunded. In 2013 the US courts found against two taxpayers in cases with a similar structure. In the case of Santander Holdings USA, Inc. the proceeding was scheduled for 7 October 2013, although it was adjourned indefinitely when the judge found in favour of Santander Holdings USA, Inc. with respect to one of the main grounds of the case. Santander Holdings USA, Inc. is expecting the judge to rule on whether his previous decision will result in the proceedings being stayed in the case or whether other matters need to be analysed before a final decision may be handed down. If the decision is favourable to Santander Holdings USA, Inc.'s interests, the US government has stated its intention to appeal against it. The estimated loss relating to this proceeding was provided for.

- Before Santander UK, Plc. signed up to the UK Code of Practice on Taxation for Banks, the bank cooperated actively with the UK tax authorities (HM Revenue & Customs) to determine the tax treatment applicable to certain transactions, and appealed to the courts in relation to a small number of transactions for which a satisfactory solution could not be obtained and a provision had been recognised.

At the date of approval of these consolidated annual financial statements certain other less significant tax-related proceedings were also in progress.

ii. Other litigation

At 31 December 2014, the main non-tax-related proceedings concerning the Group were as follows:

- Customer remediation: claims associated with the sale by Santander UK of certain financial products (principally payment protection insurance or PPI) to its customers.

  Payment protection insurance is a UK insurance product offering payment protection on unsecured personal loans (and credit cards). The product was sold by all UK banks. The mis-selling issues are predominantly related to business written before 2009. The nature and profitability of the product has changed materially since 2008.

  On 1 July 2008, the UK Financial Ombudsman Service ('FOS') referred concerns regarding the handling of PPI complaints to the UK Financial Services Authority ('FSA'). On 29 September 2009 and 9 March 2010, the FSA issued consultation papers on PPI complaints handling as an issue of wider implication. The FSA published its Policy Statement on 10 August 2010, setting out the evidence and guidance on the fair assessment of a complaint and the calculation of redress, as well as a requirement for firms to reassess historically rejected complaints which had to be implemented by 1 December 2010.

  On 8 October 2010, the British Bankers' Association ('BBA'), the principal trade association for the UK banking and financial services sector, filed on behalf of certain financial institutions (which did not include Santander UK plc) an application for permission to seek judicial review against the FSA and the FOS. The BBA sought an order quashing the FSA Policy Statement and an order quashing the decision of the FOS to determine PPI sales in accordance with the guidance published on its website in November 2008. The judicial review was heard in the courts in January 2011 and on 20 April 2011 judgment was handed down by the High Court dismissing the proceeding brought by the BBA.

  Santander UK did not participate in the legal action undertaken by other UK banks and had been consistently making provisions and settling claims with regards to PPI complaints liabilities.

  The following table shows information on the total claims received up to 31 December 2014 and the resolution thereof:

(number of claims, in thousands)

	2014	2013	2012
Claims outstanding at the beginning of the period	14	31	1
Claims received (1)	246	363	437
Claims rejected as being invalid(2)	(194)	(298)	(258)
Resolved claims	(46)	(82)	(149)
Claims outstanding at the end of the period	**19**	**14**	**31**

(1) Includes rejected claims relating to customers that had never purchased payment protection insurance from Santander UK.

(2) Customers are entitled to appeal to the Financial Ombudsman Service (FOS) if their claims are rejected. The FOS may uphold or reject an appeal and if an appeal is upheld, Santander UK is required to compensate the customer. The table shows the result of appeals relating to paid or rejected claims.

At 31 December 2014, the provision recognised in this connection totalled GBP 129 million.

In 2014, there was a slowdown in the fall in the number of claims compared to previous years but it is expected that claims will be continued to be received for a longer period than initially envisaged and, accordingly the provisions have been increased by GBP 95 million. The monthly cost of compensation fell to GBP 11 million compared to a monthly average of GBP 18 million in 2013 and of GBP 26 million in 2012. The percentage of unjustified claims continues to be high.

The provision recognised at the end of 2014 represents the best estimate by Group management, taking into account the opinion of its advisers and of the costs to be incurred in relation to any compensation that may result from the redress measures associated with the sales of payment protection insurance (PPI) in the UK. The provision was calculated on the basis of the following key assumptions resulting from judgments made by management:

- Volume of claims- estimated number of claims;

- Percentage of claims lost- estimated percentage of claims that are or will be in the customers' favour; and

- Average cost - estimated payment to be made to customers, including compensation for direct loss plus interest.

These assumptions were based on the following information:

- A complete analysis of the causes of the claim, the probability of success, as well as the possibility that this probability could change in the future;

- Activity recorded with respect to the number of claims received;

- Level of compensation paid to customers, together with a projection of the probability that this level could change in the future;

- Impact on the level of claims in the event of proactive initiatives carried out by the Group through direct contact with customers; and

- Impact of the media coverage.

These assumptions are reviewed, updated and validated on a regular basis using the latest available information, such as, the number of claims received, the percentage of claims lost, the potential impact of any change in that percentage, etc. and any new evaluation of the estimated population.

The most relevant factor for calculating the balance of the provision is the number of claims received as well as the expected level of future claims. The percentage of claims lost is calculated on the basis of the analysis of the sale process. The average cost of compensation is calculated in a reasonable manner as the Group manages a high volume of claims and the related population is homogenous. Group management reviews the provision required at each relevant date, taking into account the latest available information on the aforementioned assumptions as well as past experience.

- After the Madrid Provincial Appellate Court had rendered null and void the award handed down in the previous arbitration proceeding, on 8 September 2011, Banco Santander, S.A. filed a new request for arbitration with the Spanish Arbitration Court against Delforca 2008, Sociedad de Valores, S.A. (formerly Gaesco Bolsa Sociedad de Valores, S.A.), claiming EUR 66 million that the latter owes it as a result of the declaration on 4 January 2008 of the early termination by the Bank of all the financial transactions agreed upon between the parties.

  On 3 August 2012, Delforca 2008, S.A. was declared to be in a position of voluntary insolvency by Barcelona Commercial Court no. 10, which had agreed as part of the insolvency proceeding to stay the arbitration proceeding and the effects of the arbitration agreement entered into by Banco Santander, S.A. and Delforca 2008, S.A. The Bank filed an appeal against this decision, which was dismissed and it then proceeded to prepare a challenge with a view to filing a future appeal. The Arbitration Court, in compliance with the decision of the Commercial Court, agreed on 20 January 2013 to stay the arbitration proceedings at the stage reached at that date until a decision could be issued in this respect in the insolvency proceeding.

  In addition, as part of the insolvency proceeding of Delforca 2008, S.A., Banco Santander, S.A. notified its claim against the insolvent party with a view to having the claim recognised as a contingent ordinary claim without specified amount. However, the insolvency manager opted to exclude Banco Santander, S.A.'s claim from the provisional list of creditors and, accordingly, Banco Santander, S.A. filed an ancillary claim, which was dismissed by a Court decision on 17 February 2015. Banco Santander, S.A. has duly contested the decision with a view to lodging a future appeal.

  As part of the same insolvency proceeding, Delforca 2008, S.A. has filed another ancillary claim requesting the termination of the arbitration agreement included in the framework financial transactions agreement entered into by that party and Banco Santander, S.A. in 1998, as well as the termination of the obligation that allegedly binds the insolvent party to the High Council of Chambers of Commerce (Spanish Arbitration Court). This claim has been upheld in full by the Court. Banco Santander, S.A. has contested the judgment with a view to lodging a future appeal.

  On 30 December 2013, Banco Santander filed a complaint requesting the termination of the insolvency proceeding of Delforca 2008, S.A. due to supervening disappearance of the alleged insolvency of the company. The complaint was dismissed by the decision of 30 June 2014 against which the Bank proceeded to prepare a challenge with a view to filing a future appeal.

  In addition, in April 2009 Mobilaria Monesa, S.A. (parent of Delforca 2008, S.A.) filed a claim against Banco Santander, S.A. at Santander Court of First Instance no. 5, claiming damages which it says it incurred as a result of the (in its opinion) unwarranted claim filed by the Bank against its subsidiary, reproducing the same objections as Delforca 2008, S.A. This proceeding has currently been stayed on preliminary civil ruling grounds, against which Mobilaria Monesa, S.A. filed an appeal which was dismissed by the Cantabria Provincial Appellate Court in a judgment dated 16 January 2014.

Lastly, on 11 April 2012, Banco Santander, S.A. was notified of the claim filed by Delforca 2008, S.A., heard by Madrid Court of First Instance no. 21, in which it sought indemnification for the damage and losses it alleges it incurred due to the (in its opinion) unwarranted claim by the Bank. Delforca 2008, S.A. made the request in a counterclaim filed in the arbitration proceeding that concluded with the annulled award, putting the figure at up to EUR 218 million. The aforementioned Court has dismissed the motion for declinatory exception proposed by Banco Santander, S.A. as the matter has been referred for arbitration. This decision was confirmed in an appeal at the Madrid Provincial Appellate Court in a judgment dated 27 May 2014. The Group considers that the risk of loss arising as a result of these matters is remote and, accordingly, it has not recognised any provisions in connection with these proceedings.

- Former employees of Banco do Estado de São Paulo S.A., Santander Banespa, Cía. de Arrendamiento Mercantil: a claim was filed in 1998 by the association of retired Banespa employees (AFABESP) on behalf of its members, requesting the payment of a half-yearly bonus initially envisaged in the entity's Bylaws in the event that the entity obtained a profit and that the distribution of this profit were approved by the board of directors. The bonus was not paid in 1994 and 1995 since the bank did not make a profit and partial payments were made from 1996 to 2000, as agreed by the board of directors, and the relevant clause was eliminated in 2001. The Regional Employment Court ordered the bank to pay this half-yearly bonus in September 2005 and the bank filed an appeal against the decision at the High Employment Court ("TST") and, subsequently, at the Federal Supreme Court ("STF"). The TST confirmed the judgment against the bank, whereas the STF rejected the extraordinary appeal filed by the bank in a decision adopted by only one of the Court members, thereby also upholding the order issued to the bank. This decision was appealed by the bank and the association. Only the appeal lodged by the bank has been given leave to proceed and will be decided upon by the STF in plenary session.

- "Planos económicos": Like the rest of the banking system, Santander Brazil has been the subject of claims from customers, mostly depositors, and of class actions brought for a common reason, arising from a series of legislative changes relating to the calculation of inflation ("planos económicos"). The claimants considered that their vested rights had been impaired due to the immediate application of these adjustments. In April 2010, the High Court of Justice ("STJ") set the limitation period for these class actions at five years, as claimed by the banks, rather than 20 years, as sought by the claimants, which will probably significantly reduce the number of actions brought and the amounts claimed in this connection. As regards the substance of the matter, the decisions issued to date have been adverse for the banks, although two proceedings have been brought at the STJ and the Supreme Federal Court ("STF") with which the matter is expected to be definitively settled. In August 2010, the STJ handed down a decision finding for the plaintiffs in terms of substance, but excluding one of the "planos" from the claim, thereby reducing the amount thereof, and once again confirming the five-year statute-of-limitations period. Shortly thereafter, the STF issued an injunctive relief order whereby the proceedings in progress were stayed until this court issues a final decision on the matter.

- Proceeding under Criminal Procedure Law (case no. 1043/2009) conducted at Madrid Court of First Instance no. 26, following a claim brought by Banco Occidental de Descuento, Banco Universal, C.A. against the Bank for USD 150 million in principal plus USD 4.7 million in interest, upon alleged termination of an escrow contract.

  The court upheld the claim but did not make a specific pronouncement on costs. A judgment handed down by the Madrid Provincial Appellate Court on 9 October 2012 upheld the appeal lodged by the Bank and dismissed the appeal lodged by Banco Occidental de Descuento, Banco Universal, C.A., dismissing the claim. The dismissal of the claim was confirmed in an ancillary order to the judgment dated 28

December 2012. An appeal was filed at the Supreme Court by Banco Occidental de Descuento against the Madrid Provincial Appellate Court decision. The appeal was dismissed in a Supreme Court judgment dated 24 October 2014. Banco Occidental de Descuento has filed a motion for annulment against the aforementioned judgment which has not yet been granted leave to proceed. The Bank has challenged the appeal. The Bank has not recognised any provisions in this connection.

- On 26 January 2011, notice was served on the Bank of an ancillary insolvency claim to annul acts detrimental to the assets available to creditors as part of the voluntary insolvency proceedings of Mediterráneo Hispa Group, S.A. at Murcia Commercial Court no. 2. The aim of the principal action is to request annulment of the application of the proceeds obtained by the company undergoing insolvency from an asset sale and purchase transaction involving EUR 32 million in principal and EUR 2.7 million in interest. On 24 November 2011, the hearing was held with the examination of the proposed evidence. Upon completion of the hearing, it was resolved to conduct a final proceeding. The Court dismissed the claim in full in a judgment dated 13 November 2013. The judgment was confirmed at appeal by the Murcia Provincial Appellate Court in a judgment dated 10 July 2014. The insolvency managers have filed a cassation and extraordinary appeal against procedural infringements against the aforementioned judgment.

- The bankruptcy of various Lehman Group companies was made public on 15 September 2008. Various customers of Santander Group were affected by this situation since they had invested in securities issued by Lehman or in other products which had such assets as their underlying.

  At the date of these consolidated financial statements, certain claims had been filed in relation to this matter. The Bank's directors and its legal advisers consider that the various Lehman products were sold in accordance with the applicable legal regulations in force at the time of each sale or subscription and that the fact that the Group acted as intermediary would not give rise to any liability for it in relation to the insolvency of Lehman. Accordingly, the risk of loss is considered to be remote and, as a result, no provisions needed to be recognised in this connection.

- The intervention, on the grounds of alleged fraud, of Bernard L. Madoff Investment Securities LLC ("Madoff Securities") by the US Securities and Exchange Commission ("SEC") took place in December 2008. The exposure of customers of the Group through the Optimal Strategic US Equity ("Optimal Strategic") subfund was EUR 2,330 million, of which EUR 2,010 million related to institutional investors and international private banking customers, and the remaining EUR 320 million made up the investment portfolios of the Group's private banking customers in Spain, who were qualifying investors.

  At the date of these consolidated financial statements, certain claims had been filed against Group companies in relation to this matter. The Group considers that it has at all times exercised due diligence and that these products have always been sold in a transparent way pursuant to applicable legislation and established procedures. The risk of loss is therefore considered to be remote or immaterial.

- At the end of the first quarter of 2013, news stories were published stating that the public sector was debating the validity of the interest rate swaps arranged between various financial institutions and public sector companies in Portugal, particularly in the public transport industry.

  The swaps under debate included swaps arranged by Banco Santander Totta, S.A. with the public companies Metropolitano de Lisboa, E.P.E. (MdL), Metro de Porto, S.A. (MdP), Sociedade de Transportes Colectivos do Porto, S.A. (STCP) and Companhia Carris de Ferro de Lisboa, S.A. (Carris). These swaps were arranged prior to 2008, i.e. before the start of the financial crisis, and had been executed without incident.

In view of this situation Banco Santander Totta, S.A. took the initiative to request a court judgment on the validity of the swaps in the jurisdiction of the United Kingdom to which the swaps are subject. The corresponding claims were filed in May 2013.

After the Bank had filed the claims, the four companies (MdL, MdP, STCP and Carris) notified Banco Santander Totta, S.A. that they were suspending payment of the amounts owed under the swaps until a final decision had been handed down in the UK jurisdiction in the proceedings. MdL, MdP and Carris suspended payment in September 2013 and STCP did the same in December 2013.

Consequently, Banco Santander Totta, S.A. extended each of the claims to include the unpaid amounts.

On 29 November 2013, the companies presented their defence in which they claimed that the swaps were null and void under Portuguese law and, accordingly, that they should be refunded the amounts paid.

On 14 February 2014, Banco Santander Totta, S.A. answered the counterclaim, maintaining its arguments and rejecting the opposing arguments in its documents dated 29 November 2013.

On 4 April 2014, the companies issued their replies to the Bank's documents. The preliminary hearing took place on 16 May 2014. The documentation analysis stage has been in progress since December 2014. These proceedings are still in progress.

Banco Santander Totta, S.A. and its legal advisers consider that the entity acted at all times in accordance with applicable legislation and under the terms of the swaps, and take the view that the UK courts will confirm the full validity and effectiveness of the swaps. As a result, the Group has not recognised any provisions in this connection.

- 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 Bank and the other Group companies are subject to claims and, therefore, are party to certain legal proceedings incidental to the normal course of their business (including those in connection with lending activities, relationships with employees and other commercial or tax matters).

In this context, it must be considered that the outcome of court proceedings is uncertain, particularly in the case of claims for indeterminate amounts, those based on legal issues for which there are no precedents, those that affect a large number of parties or those at a very preliminary stage.

With the information available to it, the Group considers that at 31 December 2014, 2013 and 2012, it had reliably estimated the obligations associated with each proceeding and had recognised, where necessary, sufficient provisions to cover reasonably any liabilities that may arise as a result of these tax and legal situations. It also believes that any liability arising from such claims and proceedings will not have, overall, a material adverse effect on the Group's business, financial position or results of operations.

26. Other liabilities

The detail of Other liabilities in the consolidated balance sheets is as follows:

	Millions of euros		
	2014	2013	2012
Transactions in transit	621	505	784
Accrued expenses and deferred income	6,415	5,275	5,378
Other	3,610	2,774	2,054
	10,646	**8,554**	**8,216**

27. Tax matters

a) *Consolidated Tax Group*

Pursuant to current legislation, the Consolidated Tax Group includes Banco Santander, S.A. (as the Parent) and the Spanish subsidiaries that meet the requirements provided for in Spanish legislation regulating the taxation of the consolidated profits of corporate groups (as the controlled entities).

The other Group companies file income tax returns in accordance with the tax regulations applicable to them.

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

In 2014 the assessments arising from the outcome of the tax audit of the Consolidated Tax Group of the years 2005 to 2007 were signed partly on an uncontested basis and partly on a contested basis. Notification was received at the beginning of February 2015 of the final agreed payments arising from these assessments. Based on the advice of its external legal counsel, Banco Santander, S.A., as the Parent of the consolidated tax group, considers that there are sound defence arguments to appeal against the assessments and that there should be no impact on the consolidated financial statements. Accordingly, no provision has been recognised in this connection.

Also, in 2014 a review by the tax authorities was initiated at the Consolidated Tax Group in relation to 2009, 2010 and 2011, and the Consolidated Tax Group had the years to 2014 open for review in relation to the main taxes applicable to it.

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 years reviewed and 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.

c) *Reconciliation*

The reconciliation of the income tax expense calculated at the tax rate applicable in Spain (30%) to the income tax expense recognised and the detail of the effective tax rate are as follows:

	Millions of euros		
	2014	2013	2012
Consolidated profit (loss) before tax:			
From continuing operations	10,679	7,378	3,565
From discontinued operations	(26)	(18)	99
	10,653	7,360	3,664
Income tax at tax rate applicable in Spain (30%)	3,196	2,208	1,099
Effect of application of the various tax rates applicable in each country (*)	187	100	170
Of which:			
Brazil	*185*	*304*	*318*
United Kingdom	*(138)*	*(87)*	*(97)*
United States	*302*	*37*	*43*
Chile	*(79)*	*(105)*	*(108)*
Effect of profit or loss of associates and jointly controlled entities	(73)	(153)	(128)
Effect of gains not subject to taxation (1)	-	(61)	(186)
Effect of deduction of goodwill in Brazil	(304)	(274)	(414)
Effect of reassessment of deferred taxes	279	(21)	(50)
Tax effect on local books of transactions eliminated on consolidation	(20)	(42)	(86)
Permanent differences	453	274	208
Current income tax	**3,718**	**2,031**	**613**
Effective tax rate	*34.90%*	*27.60%*	*16.73%*
Of which:			
Continuing operations	*3,718*	*2,034*	*584*
Discontinued operations (Note 37)	-	*(3)*	*29*
Of which:			
Current tax	*2,464*	*3,511*	*3,066*
Deferred taxes	*1,254*	*(1,480)*	*(2,453)*
Taxes paid in the year	*1,352*	*3,577*	*3,162*

(*) Calculated by applying the difference between the tax rate applicable in Spain and the tax rate applicable in each jurisdiction to the profit or loss contributed to the Group by the entities which operate in each jurisdiction.

(1) Tax effect of the sale of Banco Santander Colombia, S.A. in 2012.

d) *Tax recognised in equity*

In addition to the income tax recognised in the consolidated income statement, the Group recognised the following amounts in consolidated equity in 2014, 2013 and 2012:

	Millions of euros		
	2014	2013	2012
Net tax credited (charged) to equity:			
Measurement of available-for-sale fixed-income securities	(633)	162	(283)
Measurement of available-for-sale equity securities	(50)	(51)	(64)
Measurement of cash flow hedges	(150)	(38)	23
Actuarial (gains) losses	319	(331)	538
Measurement of entities accounted for using the equity method	(33)	39	(15)
	(547)	**(219)**	**199**

e) Deferred taxes

Tax assets in the consolidated balance sheets includes debit balances with the Spanish Public Treasury relating to deferred tax assets. Tax liabilities includes the liability for the Group's various deferred tax liabilities.

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 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 Brazil, by means of Provisional Measure no. 608, of 28 February 2013 and, in Spain, through Royal Decree-Law 14/2013, of 29 November, confirmed by Law 27/2014, of 27 November, tax regimes were established whereby certain deferred tax assets (arising from credit loss provisions in Brazil and credit loss provisions, provisions for foreclosed assets and pension and pre-retirement obligations in Spain), may be converted into tax receivables in specific circumstances. As a result, their use does not rely on the entities obtaining future profits and, accordingly, they are exempt from deduction from regulatory capital.

The detail of deferred tax assets, by classification as monetisable or non-monetisable assets, and of deferred tax liabilities at 31 December 2014 is as follows:

	Millions of euros				
	2014		2013		2012
	Monetisable (*)	Other	Monetisable (*)	Other	
Tax assets:	**8,444**	**13,720**	**7,902**	**13,291**	**20,987**
Tax losses and tax credits	-	5,650	-	5,671	7,719
Temporary differences	8,444	8,070	7,902	7,620	13,268
Of which:					
Non-deductible provisions	-	*2,709*	-	*2,365*	*2,353*
Valuation of financial instruments	-	*775*	-	*1,213*	*1,700*
Credit losses	*4,429*	*1,013*	*3,989*	*920*	*3,341*
Pensions	*3,408*	*759*	*3,286*	*553*	*2,897*
Valuation of tangible and intangible assets	*607*	*474*	*627*	*522*	*731*
Tax liabilities:	**-**	**4,527**	**-**	**1,825**	**2,603**
Temporary differences	-	4,527	-	1,825	2,603
Of which:					
Valuation of financial instruments	-	*1,093*	-	*729*	*1,314*
Valuation of tangible and intangible assets	-	*1,323*	-	*461*	*760*
Investments in Group companies (Note 3)	-	*1,096*	-	-	-

(*) Not deducted from regulatory capital.

The Group only recognises deferred tax assets for temporary differences or tax loss and tax credit carryforwards where it is considered probable that the consolidated entities that generated them will have sufficient future taxable profits against which they can be utilised.

The deferred tax assets and liabilities are reassessed at the reporting date in order to ascertain whether any adjustments need to be made on the basis of the findings of the analyses performed.

These analyses take into account, inter alia: (i) the results generated by the various entities in prior years, (ii) each entity or tax group's projected earnings, (iii) the estimated reversal of the various temporary differences, based on their nature, and (iv) the period and limits established by the legislation of each country for the recovery of the various deferred tax assets, thereby concluding on each entity or tax group's ability to recover its recognised deferred tax assets.

The projected earnings used in these analyses are based on the financial budgets approved by the Group's directors for the various entities, which generally cover a period of three years (see further details in Note 17), applying constant growth rates not exceeding the average long-term growth rate for the market in which the consolidated entities operate, in order to estimate the earnings for subsequent years considered in the analyses.

Relevant information is set forth below for the main countries which have recognised deferred tax assets:

Spain

The deferred tax assets recognised in Spain total EUR 11,638 million, of which EUR 5,734 million were for monetisable temporary differences, EUR 2,029 million for other temporary differences and EUR 3,875 million for tax losses and credits.

The Group estimates that the recognised deferred tax assets for temporary differences will be recovered in 15 years. This period would also apply to the recovery of the recognised tax loss and tax credit carryforwards.

Brazil

The deferred tax assets recognised in Brazil total EUR 5,886 million, of which EUR 2,509 million were for monetisable temporary differences, EUR 2,865 million for other temporary differences and EUR 512 million for tax losses and credits.

The Group estimates that the recognised deferred tax assets for temporary differences will be recovered within five years. The recognised tax loss and tax credit carryforwards will be recovered within ten years.

United States

The deferred tax assets recognised in the United States total EUR 1,525 million, of which EUR 620 million were for temporary differences and EUR 905 million for tax losses and credits.

The Group estimates that the recognised deferred tax assets for temporary differences will be recovered by 2024. The recognised tax loss and tax credit carryforwards will be recovered by 2028.

Mexico

The deferred tax assets recognised in Mexico total EUR 836 million, of which EUR 828 million were for temporary differences and EUR 8 million for tax losses and credits.

The Group estimates that substantially all the recognised deferred tax assets for temporary differences will be recovered in three years. It is estimated that the recognised tax loss and tax credit carryforwards will be recovered in full within five years.

The changes in Tax assets - Deferred and Tax liabilities - Deferred in the last three years were as follows:

	Millions of euros					
	Balances at 31 December 2013	(Charge)/Credit to income	Foreign currency balance translation differences and other items	(Charge)/Credit to asset and liability valuation adjustments	Acquisitions for the year (net)	Balances as at 31 December 2014
Deferred tax assets	21,193	36	194	21	720	22,164
Deferred tax liabilities	(1,825)	(1,290)	(328)	(527)	(557)	(4,527)
	19,368	**(1,254)**	**(134)**	**(506)**	**163**	**17,637**

	Millions of euros					
	Balances at 31 December 2012	(Charge)/Credit to income	Foreign currency balance translation differences and other items	(Charge)/Credit to asset and liability valuation adjustments	Acquisitions for the year (net)	Balances at 31 December 2013
Deferred tax assets	20,987	1,315	(493)	(616)	-	21,193
Deferred tax liabilities	(2,603)	165	259	361	(7)	(1,825)
	18,384	**1,480**	**(234)**	**(255)**	**(7)**	**19,368**

	Millions of euros					
	Balances as at 31 December 2011	(Charge)/Credit to income	Foreign currency balance translation differences and other items	(Charge)/Credit to asset and liability valuation adjustments	Acquisitions for the year (net)	Balances at 31 December 2012
Deferred tax assets	18,494	2,217	(28)	326	(22)	20,987
Deferred tax liabilities	(2,865)	236	197	(201)	30	(2,603)
	15,629	**2,453**	**169**	**125**	**8**	**18,384**

f) Tax reforms

In 2014 two significant income tax reforms were approved in Spain and Chile.

In Spain the most important change for the Group was the elimination of the time limit for the offset of tax losses against profits of subsequent years and of double taxation tax credit carryforwards.

Of particular note in relation to the tax reform in Chile is the increase in the "first category" tax rate from 20% in 2013 to 21% in 2014, 22.5% in 2015, 24% in 2016, 25.5% in 2017 and 27% from 2018.

The impact of these two reforms on the Group's consolidated financial statements was not material.

g) Other information

In compliance with the disclosure requirement established in the Listing Rules Instrument 2005 published by the UK Financial Conduct Authority, it is hereby stated that shareholders of the Bank resident in the United Kingdom will be entitled to a tax credit in respect of the withholdings the Bank is required to make from the dividends to be paid to them. The shareholders of the Bank resident in the United Kingdom who hold their ownership interest in the Bank through Santander Nominee Service will be informed directly of the amount thus withheld and of any other data they may require to complete their tax returns in the United Kingdom. The other shareholders of the Bank resident in the United Kingdom should contact their bank or securities broker.

28. Non-controlling interests

Non-controlling interests include the net amount of the equity of subsidiaries attributable to equity instruments that do not belong, directly or indirectly, to the Bank, including the portion attributed to them of profit for the year.

a) Breakdown

The detail, by Group company, of Equity - Non-controlling interests is as follows:

	Millions of euros		
	2014	2013	2012
Banco Santander (Brasil), S.A.	1,662	4,292	4,920
Bank Zachodni WBK, S.A.	1,545	1,372	168
Grupo Financiero Santander México, S.A.B. de C.V.	1,192	978	1,296
Banco Santander - Chile	1,049	950	1,027
Santander Consumer USA Holdings Inc.	1,013	-	-
Metrovacesa, S.A.	598	-	-
Banesto	-	-	627
Other companies	731	568	609
	7,790	8,160	8,647
Profit/(Loss) for the year attributable to non-controlling interests	1,119	1,154	768
Of which:			
Banco Santander (Brasil), S.A.	*315*	*494*	*585*
Santander Consumer USA Holdings Inc.	*219*	-	-
Banco Santander - Chile	*210*	*221*	*208*
Grupo Financiero Santander México, S.A.B. de C.V.	*193*	*251*	*59*
Bank Zachodni WBK, S.A.	*121*	*123*	*13*
Banesto	-	-	*(138)*
Other companies	*61*	*65*	*41*
	8,909	**9,314**	**9,415**

b) Changes

The changes in Non-controlling interests are summarised as follows:

	Millions of euros		
	2014	2013	2012
Balance at beginning of year	9,314	9,415	6,354
Banesto Group merger (Note 3)	-	(455)	-
Changes in the scope of consolidation (Note 3)	1,465	199	27
Change in proportion of ownership interest	(2,971)	925	3,337
Dividends paid to non-controlling interests	(380)	(747)	(409)
Changes in capital and other items	(524)	57	(10)
Profit for the year attributable to non-controlling interests	1,119	1,154	768
Valuation adjustments (including exchange differences)	886	(1,234)	(652)
Balance at end of year	**8,909**	**9,314**	**9,415**

As indicated in Note 3, in 2012 the Group sold 24.9% of its ownership interest in Grupo Financiero Santander México, S.A.B. de C.V., thus giving rise to an increase of EUR 1,092 million in Reserves, EUR 1,493 million in Non-controlling interests and EUR 263 million in Valuation adjustments - Exchange differences.

In January and March 2012 the Group transferred shares accounting for 4.41% and 0.77% of Banco Santander (Brasil), S.A. to two leading international financial institutions, generating an increase in the balance of Non-controlling interests of EUR 1,532 million (see Note 34).

Lastly, in 2013 the Group reduced its ownership interest in Bank Zachodni WBK, S.A. to 70%, thereby generating an increase in the balance of Non-controlling interests of EUR 1,329 million (see Note 3).

Lastly, in 2014 the Group increased its ownership interest in Banco Santander (Brasil), S.A., thereby generating a decrease in the balance of Non-controlling interests of EUR 2,572 million (see Note 3).

The foregoing changes are shown in the consolidated statement of changes in total equity.

c) Other information

The financial information on the subsidiaries with significant non-controlling interests at 31 December 2014 is summarised below:

	Millions of euros (*)				
	Banco Santander (Brazil)	Banco Santander - Chile	Grupo Financiero Santander (Mexico)	Bank Zachodni WBK	Santander Consumer USA Holdings Inc.
Total assets	156,287	42,763	53,726	27,794	27,357
Total liabilities	143,320	40,300	50,137	25,925	25,814
Net assets	**12,967**	**2,463**	**3,589**	**1,869**	**1,543**
Total gross income	12,008	2,197	3,072	1,376	3,568
Total profit	**1,926**	**739**	**851**	**485**	**582**

(*) Information prepared in accordance with the segment reporting criteria described in Note 52 and, therefore, it does not coincide with the information published separately by each entity.

29. Valuation adjustments

The balances of Valuation adjustments include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognised temporarily in equity through the consolidated statement of recognised income and expense. The amounts arising from subsidiaries are presented, on a line by line basis, in the appropriate items according to their nature.

It should be noted that the consolidated statement of recognised income and expense presents items separately according to their nature, grouping together those which, pursuant to the applicable accounting standards, will not be subsequently reclassified to profit or loss when the requirements established by the related accounting standards are met. Also, with respect to items that may be reclassified to profit or loss, the consolidated statement of recognised income and expense includes changes in Valuation adjustments as follows:

- Revaluation gains (losses): includes the amount of the income, net of the expenses incurred in the year, recognised directly in equity. The amounts recognised in equity in the year remain under this item, even if in the same year they are transferred to the income statement or to the initial carrying amount of the assets or liabilities or are reclassified to another line item.

- Amounts transferred to income statement: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the income statement.

- Amounts transferred to initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the initial carrying amount of assets or liabilities as a result of cash flow hedges.

- Other reclassifications: includes the amount of the transfers made in the year between the various valuation adjustment items.

The amounts of these items are recognised gross, including the amount of the valuation adjustments relating to non-controlling interests, and the corresponding tax effect is presented under a separate item, except in the case of entities accounted for using the equity method, the amounts for which are presented net of the tax effect.

a) Available-for-sale financial assets

Valuation adjustments - Available-for-sale financial assets includes the net amount of unrealised changes in the fair value of assets classified as available-for-sale financial assets (see Notes 7 and 8).

The breakdown, by type of instrument and geographical origin of the issuer, of Valuation adjustments - Available-for-sale financial assets at 31 December 2014, 2013 and 2012 is as follows:

	Millions of euros											
	31 December 2014				31 December 2013				31 December 2012			
	Revaluation gains	Revaluation losses	Net revaluation gains/(losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/(losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/(losses)	Fair value
Debt instruments												
Government debt securities and debt instruments issued by central banks												
Spain	*835*	*(176)*	*659*	*31,190*	*356*	*(496)*	*(140)*	*25,664*	*68*	*(1,286)*	*(1,218)*	*29,288*
Rest of Europe	*325*	*(56)*	*269*	*20,597*	*28*	*(143)*	*(115)*	*12,080*	*112*	*(178)*	*(66)*	*10,891*
Latin America and rest of the world	*89*	*(97)*	*(8)*	*30,230*	*38*	*(217)*	*(179)*	*17,134*	*627*	*(38)*	*589*	*23,759*
Private-sector debt securities	243	(193)	50	28,232	258	(280)	(22)	24,966	215	(184)	31	23,786
	1,492	**(522)**	**970**	**110,249**	**680**	**(1,136)**	**(456)**	**79,844**	**1,022**	**(1,686)**	**(664)**	**87,724**
Equity instruments												
Domestic												
Spain	*35*	*(8)*	*27*	*1,447*	*132*	*(10)*	*122*	*1,432*	*201*	*(34)*	*167*	*1,233*
International												
Rest of Europe	*282*	*(23)*	*259*	*1,245*	*158*	*(25)*	*133*	*974*	*75*	*(46)*	*29*	*1,135*
United States	*25*	-	*25*	*762*	*20*	*(1)*	*19*	*661*	*15*	*(5)*	*10*	*1,022*
Latin America and rest of the world	*298*	*(19)*	*279*	*1,547*	*235*	*(18)*	*217*	*888*	*265*	*(56)*	*209*	*1,152*
	640	**(50)**	**590**	**5,001**	**545**	**(54)**	**491**	**3,955**	**556**	**(141)**	**415**	**4,542**
Of which:												
Listed	*311*	*(26)*	*285*	*1,787*	*313*	*(26)*	*287*	*1,330*	*311*	*(68)*	*243*	*1,849*
Unlisted	*329*	*(24)*	*305*	*3,214*	*232*	*(28)*	*204*	*2,625*	*245*	*(73)*	*172*	*2,693*
	2,132	**(572)**	**1,560**	**115,250**	**1,225**	**(1,190)**	**35**	**83,799**	**1,578**	**(1,827)**	**(249)**	**92,266**

At each reporting date the Group assesses whether there is any objective evidence that the instruments classified as available-for-sale (debt securities and equity instruments) are impaired.

This assessment includes but is not limited to an analysis of the following information: i) the issuer's economic and financial position, the existence of default or late payment, analysis of the issuer's solvency, the evolution of its business, short-term projections, trends observed with respect to its earnings and, if applicable, its dividend distribution policy; ii) market-related information such as changes in the general economic situation, changes in the issuer's sector which might affect its ability to pay; iii) changes in the fair value of the security analysed, analysis of the origins of such changes - whether they are intrinsic or the result of the general uncertainty concerning the economy or the country - and iv) independent analysts' reports and forecasts and other independent market information.

In the case of quoted equity instruments, when the changes in the fair value of the instrument under analysis are assessed, the duration and significance of the fall in its market price below cost for the Group is taken into account. As a general rule, for these purposes the Group considers a significant fall to be a 40% drop in the value of the asset or a continued fall over a period of 18 months. Nevertheless, it should be noted that the Group assesses, on a case-by-case basis each of the securities that have suffered losses, and monitors the performance of their prices, recognising an impairment loss as soon as it is considered that the recoverable amount could be affected, even though the price may not have fallen by the percentage or for the duration mentioned above.

If, after the above assessment has been carried out, the Group considers that the presence of one or more of these factors could affect recovery of the cost of the asset, an impairment loss is recognised in the income statement for the amount of the loss in equity under Valuation adjustments. Also, where the Group does not intend and/or is not able to hold the investment for a sufficient amount of time to recover the cost, the instrument is written down to its fair value.

At the end of 2014 the Group performed the assessment described above and recognised in the consolidated income statement impairment losses of EUR 42 million in respect of debt instruments (2013: EUR 89 million; 2012: EUR 18 million) and of EUR 147 million in respect of equity instruments which had suffered a significant and prolonged fall in price at 31 December 2014 (2013: EUR 169 million; 2012: EUR 344 million).

At the end of 2014, 45.62% of the losses recognised under Valuation adjustments - Available-for-sale financial assets arising from debt securities had been incurred in more than twelve months. Most of the losses on government debt securities recognised in the Group's equity (approximately 53.63% of the total) related to the decline in value of Spanish and Portuguese government debt securities. This decline in value was not prompted by interest rate changes but rather by an increase, which occurred after the instruments were acquired, in the credit risk spreads (credit spreads that improved in 2014); there had not been any default on payments of interest nor was there any evidence that the issuers would fail to continue to meet their payment obligations in the future, with respect both to principal and interest, and thus prevent recovery of the carrying amount of such securities.

At the end of 2014, 49.72% of the losses recognised under Valuation adjustments - Available-for-sale financial assets arising from equity instruments had been incurred in more than twelve months. After carrying out the aforementioned assessment, the Group concluded that, given its ability and intention to hold the securities in the long term, it did not expect the factors giving rise to the decline in value described above to have an impact on future cash flows and, therefore, no impairment loss was required to be recognised at year-end.

b) Cash flow hedges

Valuation adjustments - Cash flow hedges includes the gains or losses attributable to hedging instruments that qualify as effective hedges. These amounts will remain under this heading until they are recognised in the consolidated income statement in the periods in which the hedged items affect it (see Note 11).

Accordingly, amounts representing valuation losses will be offset in the future by gains generated by the hedged instruments.

c) Hedges of net investments in foreign operations and Exchange differences

Valuation adjustments - Hedges of net investments in foreign operations includes the net amount of changes in the value of hedging instruments in hedges of net investments in foreign operations, for the portion of these changes considered as effective hedges (see Note 11).

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).

The changes in 2014 reflect the positive effect of the appreciation of the US dollar and of the pound sterling, whereas the changes in 2013 reflected the depreciation of the Brazilian real.

Of the change in the balance in these years, a gain of EUR 1,093 million in 2014, and a loss of EUR 1,665 million in 2013 and EUR 388 million in 2012 related to the measurement of goodwill.

The detail, by country, of Valuation adjustments - Hedges of net investments in foreign operations and Valuation adjustments - Exchange differences is as follows:

	Millions of euros		
	2014	2013	2012
Net balance at end of year	(8,955)	(10,642)	(5,968)
Of which:			
Brazil Group	*(5,936)*	*(5,480)*	*(2,627)*
Mexico Group	*(1,243)*	*(1,171)*	*(900)*
Santander UK Group	*(1,042)*	*(2,364)*	*(2,094)*
Argentina Group	*(729)*	*(618)*	*(287)*
Chile Group	*(528)*	*(453)*	*(80)*
SHUSA Group	*535*	*(352)*	*(50)*
Other	*(12)*	*(204)*	*70*

d) Entities accounted for using the equity method

Valuation adjustments - Entities accounted for using the equity method includes the amounts of valuation adjustments recognised in equity arising from associates and jointly controlled entities.

The changes in Valuation adjustments - Entities accounted for using the equity method were as follows:

	Millions of euros		
	2014	2013	2012
Balance at beginning of year	(446)	(152)	(95)
Revaluation gains/(losses)	266	(283)	(61)
Net amounts transferred to profit or loss	95	23	21
Transfers	-	(34)	(17)
Balance at end of year	**(85)**	**(446)**	**(152)**
Of which:			
Metrovacesa, S.A.	-	*(63)*	*(55)*
Zurich Santander Insurance América, S.L.	*(37)*	*(135)*	*39*
Santander Consumer USA Inc.	-	*(145)*	*(92)*

e) Other valuation adjustments

Valuation adjustments - Other valuation adjustments include the actuarial gains and losses and the return on plan assets, less the administrative expenses and taxes inherent to the plan, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

The changes in this balance are shown in the consolidated statement of recognised income and expense, and the most significant changes in 2014 related to:

- Increase of EUR 479 million in the cumulative actuarial losses relating to the Group's entities in Spain, due basically to the change in the main actuarial assumptions – a decrease in the discount rate from 3% to 2%.

- Increase of EUR 246 million in the cumulative actuarial losses relating to the Group's businesses in Brazil, due basically to the change in the main actuarial assumptions – a decrease in the discount rate from 11.24% to 10.94%.

- Decrease of EUR 204 million in the cumulative actuarial losses relating to the Group's businesses in the UK, due basically to the change in the main actuarial assumptions – a decrease in the CPI from 3.40% to 3.05% and a higher than expected return on plan assets.

- Also, changes arose as a result of fluctuations in exchange rates, mainly in the UK.

30. Shareholders' equity

Shareholders' equity includes the amounts of equity contributions from shareholders, accumulated profit or loss recognised through the consolidated income statement, and components of compound financial instruments having the substance of permanent equity. Amounts arising from subsidiaries are presented in the appropriate items based on their nature.

The changes in Shareholders' equity are presented in the consolidated statement of changes in total equity. Significant information on certain items of Shareholders' equity and the changes therein in 2014 is set forth below.

31. Issued capital

a) Changes

At 31 December 2011, the Bank's share capital consisted of 8,909,043,203 shares with a total par value of EUR 4,454.5 million.

On 31 January 2012 and 02 May 2012, the bonus issues through which the Santander Dividendo Elección programme is instrumented took place, whereby 167,810,197 and 284,326,000 shares (1.85% and 3.04% of the share capital, respectively) were issued, giving rise to bonus issues of EUR 83.9 million and EUR 142.2 million, respectively.

The shareholders at the annual general meeting on 30 March 2012 resolved to grant holders of “Valores Santander” the option to request the voluntary conversion of their shares on four occasions prior to 4 October 2012, the date of their mandatory conversion. As a result of the exercise of this option and of the mandatory conversion, 73,927,779 shares were issued on 7 June, 193,095,393 on 5 July, 37,833,193 on 7 August, 14,333,873 on 6 September and 200,311,513 on 9 October 2012, relating to capital increases of EUR 37 million, EUR 97 million, EUR 19 million, EUR 7 million and EUR 100 million, respectively.

Also, on 31 July 2012 and 2 November 2012, the bonus issues through which the Santander Dividendo Elección programme is instrumented took place, whereby 218,391,102 and 222,107,497 shares (2.22% and 2.15% of the share capital, respectively) were issued, giving rise to bonus issues of EUR 109.2 and EUR 111.1 million, respectively.

At 31 December 2012, the Bank's share capital consisted of 10,321,179,750 shares with a total par value of EUR 5,161 million.

On 30 January 2013, 30 April 2013, 31 July 2013 and 31 October 2013, the bonus issues through which the Santander Dividendo Elección programme is instrumented took place, whereby 217,503,395, 270,917,436, 282,509,392 and 241,310,515 shares (2.06%, 2.51%, 2.55% and 2.13% of the share capital, respectively) were issued, giving rise to bonus issues of EUR 108.8 million, EUR 135.5 million, EUR 141.3 million and EUR 120.7 million, respectively.

At 31 December 2013, the Bank's share capital consisted of 11,333,420,488 shares with a total par value of EUR 5,667 million.

On 30 January 2014, 29 April 2014, 30 July 2014 and 5 November 2014, the bonus issues through which the Santander Dividendo Elección scrip dividend scheme is instrumented took place, whereby 227,646,659, 217,013,477, 210,010,506 and 225,386,463 shares (2.01%, 1.88%, 1.78% and 1.82% of the share capital, respectively) were issued, giving rise to bonus issues of EUR 113.8 million, EUR 108.5 million, EUR 105 million and EUR 112.7 million, respectively.

Also, on 4 November 2014, a capital increase was carried out to cater for the exchange of Banco Santander (Brasil) S.A. shares (see Note 3), whereby 370,937,066 shares (3.09% of the share capital) were issued, corresponding to a capital increase of EUR 185.5 million (see Note 3).

At 31 December 2014, the Bank's share capital consisted of 12,584,414,659 shares with a total par value of EUR 6,292 million.

The Bank's shares are listed on the Spanish Stock Market Interconnection System and on the New York, London, Milan, Lisbon, Buenos Aires, Mexico, São Paulo and Warsaw Stock Exchanges, and all of them have the same features and rights. At 31 December 2014, the only shareholders listed in the Bank's shareholders register with ownership interests of more than 3% were State Street Bank & Trust (with an 11.43% holding), Chase Nominees Limited (with a 5.78% holding), The Bank of New York Mellon (with a 4.80% holding), EC Nominees Ltd. (with a 4.35% holding), Guaranty Nominees (with a 4.21% holding) and Clearstream Banking (with a 3.47% holding).

However, the Bank understands that these ownership interests are held in custody on behalf of third parties and that none of the above, as far as the Bank is aware, has an ownership interest of more than 3% of the Bank's share capital or voting power.

b) Other considerations

The shareholders at the annual general meeting held on 28 March 2014 authorised additional share capital of EUR 2,890 million. The Bank's directors have until 28 March 2017 to carry out capital increases up to this limit. The resolution empowers the board to fully or partially disapply the pre-emption right in accordance with the terms of Article 506 of the Spanish Limited Liability Companies Law, although this power is limited to EUR 1,156 million. This power was partially exercised in the capital increase carried out on 8 January 2015 (see Note 1.g).

The shareholders at the annual general meeting of 28 March 2014 resolved to increase the Bank's capital by a par value of EUR 500 million and granted the board the broadest powers to set the date and establish the terms and conditions of this capital increase within one year from the date of the aforementioned annual general meeting. If the board does not exercise the powers delegated to it within the period established by the annual general meeting, these powers will be rendered null and void.

In addition, the aforementioned annual general meeting authorised the board to issue fixed-income securities, convertible into or exchangeable for shares of the Bank, for up to a total of EUR 10,000 million or the equivalent amount in another currency. The Bank's directors have until 28 March 2019 to execute this resolution.

At 31 December 2014, the shares of the following companies were listed on official stock markets: Banco Santander Río, S.A.; Grupo Financiero Santander México, S.A.B. de C.V.; Banco Santander - Chile; Cartera Mobiliaria, S.A., SICAV; Santander Chile Holding S.A.; Banco Santander (Brasil) S.A., Bank Zachodni WBK S.A. and Santander Consumer USA Holdings Inc.

At 31 December 2014, the number of Bank shares owned by third parties and managed by Group management companies (mainly portfolio, collective investment undertaking and pension fund managers) and managed jointly was 56 million, which represented 0.44% of the Bank's share capital. In addition, the number of Bank shares owned by third parties and received as security was 211 million (equal to 1.68% of the Bank's share capital).

At 31 December 2014, the capital increases in progress at Group companies and the additional capital authorised by their shareholders at the respective general meetings were not material at Group level (see Appendix V).

32. Share premium

Share premium includes the amount paid up by the Bank's shareholders in capital issues in excess of the par value.

The 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.

The increase in the balance of Share premium in 2013 and 2012 relates to the capital increases detailed in Note 31.a. The increase in 2014 is the result of the capital increase of EUR 2,372 million carried out to cater for the exchange of Banco Santander (Brasil) S.A. shares (see Note 3) and the reduction of EUR 440 million to cater for the capital increases arising from the Santander Dividendo Elección scrip dividend scheme.

Also, in 2014 an amount of EUR 125 million was transferred from the Share premium account to the Legal reserve (2013: EUR 102 million; 2012: EUR 141 million) (see Note 33.b.i).

33. Reserves

a) Definitions

Shareholders' equity - Reserves - Accumulated reserves (losses) includes the net amount of the accumulated profit or loss recognised in previous years through the consolidated income statement that, in the distribution of profit, was appropriated to equity, and the own equity instrument issuance expenses and the differences between the selling price of treasury shares and the cost of acquisition thereof.

Shareholders' equity - Reserves - Reserves (losses) of entities accounted for using the equity method includes the net amount of the accumulated profit or loss generated in previous years by entities accounted for using the equity method, recognised through the consolidated income statement.

b) Breakdown

The detail of Accumulated reserves and Reserves of entities accounted for using the equity method is as follows:

	Millions of euros		
	2014	2013	2012
Accumulated reserves:			
Restricted reserves-			
Legal reserve	1,259	1,134	1,032
Reserve for treasury shares	1,487	1,509	1,549
Revaluation reserve Royal Decree-Law 7/1996	43	43	43
Reserve for retired capital	11	11	11
Voluntary reserves	2,997	3,048	18
Consolidation reserves attributable to the Bank	7,908	7,968	8,551
Reserves at subsidiaries	27,268	24,080	25,641
	40,973	37,793	36,845
Reserves of entities accounted for using the equity method:			
Associates	187	263	255
	41,160	**38,056**	**37,100**

i. 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.

In 2014 and 2013 the Bank transferred EUR 125 million and EUR 102 million, respectively, from the Share premium account to the Legal reserve. In 2012 the Bank transferred EUR 141 million from the Share premium account and EUR 34 million of 2011 profit to the Legal reserve.

Consequently, once again, after the capital increases described in Note 31 had been carried out, the balance of the Legal reserve reached 20% of the share capital, and at 31 December 2014 the Legal reserve was at the stipulated level.

ii. Reserve for treasury shares

Pursuant to the Consolidated Spanish Limited Liability Companies Law, a restricted reserve has been recognised for an amount equal to the carrying amount of the Bank shares owned by subsidiaries. The balance of this reserve will become unrestricted when the circumstances that made it necessary to record it cease to exist. Additionally, this reserve covers the outstanding balance of loans granted by the Group secured by Bank shares and the amount equivalent to loans granted by Group companies to third parties for the acquisition of treasury shares.

iii. Revaluation reserve Royal Decree Law 7/1996, of 7 June

The balance of Revaluation reserve Royal Decree-Law 7/1996 can be used, free of tax, to increase share capital. From 1 January 2007, the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realised. The surplus will be deemed to have been realised in respect of the portion on which depreciation has been taken for accounting purposes or when the revalued assets have been transferred or derecognised.

If the balance of this reserve were used in a manner other than that provided for in Royal Decree-Law 7/1996, of 7 June, it would be subject to taxation.

iv. Reserves of subsidiaries and jointly controlled entities

The detail, by company, of Reserves of subsidiaries and jointly controlled entities, based on the companies' contribution to the Group (considering the effect of consolidation adjustments) is as follows:

	Millions of euros		
	2014	2013	2012
Banco Santander (Brasil), S.A. (Consolidated Group)	7,361	6,478	5,237
Santander UK Group	5,842	5,540	4,871
Banesto (*)	-	-	4,284
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	2,566	2,573	2,104
Banco Santander - Chile	2,446	2,736	3,072
Banco Santander Totta, S.A. (Consolidated Group)	2,021	1,890	1,860
Santander Consumer Finance Group	1,815	1,189	1,351
Santander Holdings USA, Inc.	1,712	1,084	624
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	725	515	387
Banco Banif, S.A. Unipersonal (*)	-	-	347
Banco Santander Río, S.A.	703	395	61
Banco Santander International	408	348	288
Cartera Mobiliaria, S.A., SICAV	370	339	329
Bank Zachodni WBK, S.A.	315	175	62
Banco Santander (Suisse) SA	282	242	333
Santander Investment, S.A.	282	222	218
Exchange differences, consolidation adjustments and other companies (**)	420	354	213
	27,268	**24,080**	**25,641**
Of which: restricted	*2,233*	*2,062*	*2,241*

(*) The reserves of these entities are recognised at 31 December 2014 and 31 December 2013 under Voluntary reserves and Consolidation reserves attributable to the Bank as a result of the merger by absorption of the two entities into the Bank (see Note 3).

(**) Includes the charge relating to cumulative exchange differences in the transition to International Financial Reporting Standards.

34. Other equity instruments and Treasury shares

a) *Other equity instruments*

“Other equity instruments” includes the equity component of compound financial instruments, the increase in equity due to personnel remuneration, and other items not recognised in other “Shareholders' equity” items.

b) *Treasury shares*

Shareholders' equity - Treasury shares includes the amount of own equity instruments held by all the Group entities.

Transactions involving own equity instruments, including their issuance and cancellation, are recognised directly in equity, and no profit or loss may be recognised on these transactions. The costs of any transaction involving own equity instruments are deducted directly from equity, net of any related tax effect.

On 21 October 2013 and 23 October 2014, the Bank's board of directors amended the regulation of its treasury share policy in order to take into account the criteria recommended by the CNMV, establishing limits on average daily purchase trading and time limits. Also, a maximum price per share was set for purchase orders and a minimum price per share for sale orders.

The Bank's shares owned by the consolidated companies accounted for 0.012% of issued share capital at 31 December 2014 (31 December 2013: 0.013%; 31 December 2012: 0.474%).

The average purchase price of the Bank's shares in 2014 was EUR 7.06 per share and the average selling price was EUR 7.18 per share.

The effect on equity, net of tax, arising from the purchase and sale of Bank shares was a EUR 40 million increase in 2014 (2013: EUR 28 million reduction; 2012: EUR 85 million increase).

35. Memorandum items

Memorandum items relates to balances representing rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions performed by the consolidated entities although they may not impinge on their net assets.

a) Contingent liabilities

Contingent liabilities includes all transactions under which an entity guarantees the obligations of a third party and which result from financial guarantees granted by the entity or from other types of contract. The detail is as follows:

	Millions of euros		
	2014	2013	2012
Financial guarantees	**13,383**	**13,479**	**14,437**
Financial bank guarantees	*12,121*	*12,186*	*13,706*
Doubtful guarantees	*1,262*	*1,293*	*731*
Irrevocable documentary credits	**2,381**	**2,430**	**2,866**
Other bank guarantees and indemnities provided	**28,006**	**24,690**	**27,285**
Other guarantees	*27,630*	*24,496*	*27,089*
Undertakings to provide bank guarantees	*376*	*194*	*196*
Other contingent liabilities	**308**	**450**	**445**
Assets earmarked for third-party obligations	*25*	*128*	*108*
Other contingent liabilities	*283*	*322*	*337*
	44,078	**41,049**	**45,033**

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 consolidated income statements and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee.

At 31 December 2014, the Group had recognised provisions of EUR 654 million to cover contingent liabilities (31 December 2013: EUR 693 million; 31 December 2012: EUR 617 million) (see Note 25).

i. Financial guarantees

Financial guarantees includes, inter alia, financial guarantee contracts such as financial bank guarantees, credit derivatives sold, and risks arising from derivatives arranged for the account of third parties.

ii. Other bank guarantees and indemnities provided

This item includes guarantees other than those classified as financial, such as technical guarantees, guarantees covering the import and export of goods and services, irrevocable formal undertakings to provide bank guarantees, legally enforceable letters of guarantee and other guarantees of any kind.

iii. Other contingent liabilities

Other contingent liabilities includes the amount of any contingent liability not included in other items.

b) Contingent commitments

Contingent commitments includes those irrevocable commitments that could give rise to the recognition of financial assets.

The detail is as follows:

	Millions of euros		
	2014	2013	2012
Drawable by third parties	182,955	154,314	187,664
Financial asset forward purchase commitments	530	82	891
Regular way financial asset purchase contracts	11,725	8,222	15,040
Documents delivered to clearing houses	12,444	9,901	12,132
Other contingent commitments	386	278	315
	208,040	**172,797**	**216,042**

c) Off-balance-sheet funds under management

The detail of off-balance-sheet funds managed by the Group and by jointly controlled companies is as follows:

	Millions of euros		
	2014	2013	2012
Investment funds	109,519	93,304	89,176
Pension funds	11,481	10,879	10,076
Assets under management	20,369	20,987	18,889
	141,369	**125,170**	**118,141**

d) Third-party securities held in custody

At 31 December 2014, the Group held in custody debt securities and equity instruments totalling EUR 1,023,819 million (31 December 2013: EUR 853,509 million; 31 December 2012: EUR 725,609 million) entrusted to it by third parties.

36. Derivatives - Notional amounts and market values of trading and hedging derivatives

The detail of the notional and/or contractual amounts and the market values of the trading and hedging derivatives held by the Group is as follows:

	Millions of euros					
	2014		2013		2012	
	Notional amount	Market value	Notional amount	Market value	Notional amount	Market value
Trading derivatives:						
Interest rate risk-						
Forward rate agreements	192,659	(50)	120,773	(2)	324,031	(7)
Interest rate swaps	2,738,960	1,253	2,454,752	1,190	2,114,198	2,942
Options, futures and other derivatives	665,658	(1,035)	605,532	(1,157)	655,091	(487)
Credit risk-						
Credit default swaps	66,596	81	79,822	49	90,119	18
Foreign currency risk-						
Foreign currency purchases and sales	230,961	515	186,207	1,935	187,976	278
Foreign currency options	46,311	(38)	45,196	200	49,442	(18)
Currency swaps	278,380	(1,694)	255,731	(1,001)	277,392	(436)
Securities and commodities derivatives and other	105,901	(1,222)	95,634	(1,202)	149,737	(1,714)
	4,325,426	**(2,190)**	**3,843,647**	**12**	**3,847,986**	**576**
Hedging derivatives:						
Interest rate risk-						
Interest rate swaps	190,872	(185)	219,103	1,456	195,416	2,154
Options, futures and other derivatives	9,569	13	2,144	12	8,006	19
Credit risk-						
Credit default swaps	607	(9)	760	(14)	833	(7)
Foreign currency risk-						
Foreign currency purchases and sales	25,530	86	24,161	630	24,758	(278)
Foreign currency options	621	39	3,883	409	24,740	(34)
Currency swaps	46,727	147	38,760	525	38,895	(399)
Securities and commodities derivatives and other	168	-	258	-	278	37
	274,094	**91**	**289,069**	**3,018**	**292,926**	**1,492**

The notional and/or contractual amounts of the contracts entered into 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 (see Note 11).

Additionally, in order to interpret correctly the results on the Securities and commodities derivatives shown in the foregoing table, it should be considered that these items relate mostly to securities options for which a premium has been received which offsets their negative market value. Also, this market value is offset by positive market values generated by symmetrical positions in the Group's held-for-trading portfolio.

The Group manages the credit risk exposure of these contracts through netting arrangements with its main counterparties and by receiving assets as collateral for its risk positions (see Note 2.f).

The notional amounts and fair values of the hedging derivatives, by type of hedge, is as follows:

	Millions of euros					
	2014		2013		2012	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
Fair value hedges	234,939	(249)	229,439	1,257	195,486	1,975
Cash flow hedges	22,388	444	55,417	743	56,311	(209)
Hedges of net investments in foreign operations	16,767	(104)	4,213	1,018	41,129	(274)
	274,094	**91**	**289,069**	**3,018**	**292,926**	**1,492**

Following is a description of the main hedges (including the results of the hedging instrument and the hedged item attributable to the hedged risk):

Hedge accounting

The Group, as part of its financial risk management strategy and for the purpose of reducing mismatches in the accounting treatment of its transactions, enters into interest rate, foreign currency or equity hedging derivatives, depending on the nature of the hedged risk.

In line with its objective, the Group classifies its hedges into the following categories:

- Cash flow hedges: hedge the exposure to variability in cash flows associated with an asset, liability or highly probable forecast transaction. Thus, floating rate issues in foreign currencies, fixed rate issues in non-local currency, floating rate interbank financing and floating rate assets (bonds, commercial credit, mortgages, etc.) are hedged.

- Fair value hedges: hedge the exposure to changes in the fair value of assets or liabilities attributable to an identified, hedged risk. Thus, the interest rate risk of assets and liabilities (bonds, loans, bills, issues, deposits, etc.) with coupons or fixed interest rates, investments in entities, issues in foreign currencies and deposits and other fixed rate liabilities are hedged.

- Hedges of net investments in foreign operations: hedge the foreign currency risk of investments in subsidiaries domiciled in countries outside the euro zone.

i. Cash flow hedges

The fair value of the cash flow hedges, net of the related tax effect, is recognised under Valuation adjustments - Cash flow hedges in the Group's equity. The detail of the terms, from 31 December 2014, within which the amounts recognised under Valuation adjustments - Cash flow hedges in equity will be recognised in the consolidated income statements in the coming years is as follows:

2014	Millions of euros			
	Within 1 year	1 to 5 years	More than 5 years	Total
Debit balances (losses)	46	140	40	226

The net amount recognised as an equity valuation adjustment in 2014, as a result of the cash flow hedges, was an increase of EUR 459 million.

The net amount transferred from equity to 2014 profit was EUR 345 million, relating to the accrual to the net interest margin of the cash flow hedges.

The impact on 2014 profit and loss of the ineffectiveness of the Group's cash flow hedges was a net loss of EUR 159 million (see Note 44).

ii. Fair value hedges

In 2014 a net gain of EUR 90 million was recognised (gains of EUR 817 million on hedged items and losses of EUR 727 million on hedging derivatives) on fair value hedging transactions (see Note 44). In this connection, at 31 December the Bank accounted for most of the Group’s fair value hedges.

Hence, the financial management area of the Bank, as Parent of the Group, uses derivatives to hedge the interest rate risk and foreign currency risk of the issues of instrumental companies of the Group guaranteed by the Bank. Following are details of the main hedges taken out by the Bank which remained outstanding at the Group at 31 December 2014.

At 31 December 2014, the Group held hedging derivatives for a notional amount equivalent to EUR 30,191 million, the market value of which represented a gain of EUR 1,448 million which is offset in profit and loss on measurement of the hedged issues. The net result of this hedge is a net loss of EUR 53 million.

The main currencies of these fair value hedges are: the euro, with a notional amount of EUR 27,611 million and gains on derivatives of EUR 1,426 million, the US dollar, with a notional amount of EUR 1,790 million and gains on derivatives of EUR 35 million, and the pound sterling, with a notional amount of EUR 207 million and a gain on derivatives of EUR 0.2 million.

Also, the Bank uses derivatives to hedge the interest rate risk of government and corporate bonds recognised as available-for-sale assets for accounting purposes. At 31 December 2014, the notional amount of these derivatives was EUR 9,072 million and their market value gave rise to a loss of EUR 772 million, which was offset by the result of measuring the bonds at their hedged risk, giving rise to a net overall loss of EUR 1.7 million.

Lastly, the Bank has two fair value macro-hedges from its merger with Banesto. At year-end, the notional amount of the related derivatives was EUR 3,905 million and their market value gave rise to a loss of EUR 96 million. Including the measurement of the hedged items, the net result of the macro-hedges was a gain of EUR 11.3 million.

iii. *Foreign currency hedges (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 total notional amount of the hedges of these investments was the equivalent of EUR 15,714 million, of which EUR 10,173 million related to foreign currency swaps and forwards, EUR 310 million to foreign currency options and EUR 5,231 million to spot foreign currency sales.

By currency,

- Hedges of the Brazilian real included hedging foreign currency options and forwards amounting to EUR 4,859 million. The amount hedged with foreign currency forwards totals EUR 4,549 million, with a loss of EUR 417 million; the amount hedged with foreign currency options totals EUR 310 million, which gave rise to a loss of EUR 359 million in 2014. At 31 December 2014, the market value of outstanding options represented a net gain of EUR 40 million. In 2014 options taken to hedge the Brazilian real were settled with an effect on valuation adjustments amounting to EUR 124 million.

- The position in Mexican pesos is hedged through foreign currency swaps and forwards with a notional amount of EUR 2,728 million and a loss of EUR 123 million.

- The Polish zloty is hedged through foreign currency swaps and forwards with a notional amount of EUR 1,376 million and a gain of EUR 5 million.

- The hedging of the Chilean peso includes outstanding non-deliverable foreign currency forwards amounting to EUR 1,194 million, with a loss of EUR 44 million.

- Norwegian kroner are hedged through foreign currency forwards amounting to EUR 326 million, with a gain of EUR 36 million.

In addition to these hedges with derivatives, spot foreign currency sales were made to offset the structural foreign currency risk: spot sales were made of US dollars against euros, which amounted to EUR 1,593 million and gave rise to a loss of EUR 233 million, of pounds sterling against euros, which totalled EUR 3,523 million and gave rise to a loss of EUR 264 million and, lastly, of Swiss francs against euros, with a notional amount of EUR 115 million, which gave rise to a loss of EUR 2 million.

At 2013 year-end, the Bank held foreign currency options in this connection with an equivalent euro notional amount of EUR 8,846 million, which were denominated in Brazilian reals. In 2013 losses amounting to EUR 214 million, which arose from the settlement of options that were exercised, were taken to equity. At 2013 year-end, the market value of the options not yet exercised represented a net gain of EUR 399 million. In addition to foreign currency options, the Group had also arranged other hedging derivatives to round off its hedging of the structural foreign currency risk of its foreign currency investments: Chilean pesos for a notional amount of EUR 1,187 million, which gave rise to a gain of EUR 139 million; Brazilian reals for a notional amount of EUR 6,905 million, with a gain of EUR 720 million; Mexican pesos for a total notional amount of EUR 3,185 million, with a loss of EUR 2 million; and Polish zloty for a notional amount of EUR 1,651 million, with a loss of EUR 40 million, as well as a gain of EUR 6 million on options that had already expired.

Lastly, in addition to these hedges involving derivatives, foreign currency spot sales were made to offset structural foreign currency risk. By currency, spot sales were made of US dollars against euros, which amounted to EUR 1,293 million and gave rise to a gain of EUR 68 million, and of pounds sterling against euros, which totalled EUR 3,345 million and gave rise to a gain of EUR 214 million.

At 2012 year-end, the Bank held foreign currency options in this connection with an equivalent euro notional amount of EUR 12,370 million, of which EUR 10,468 million were denominated in Brazilian reals and EUR 1,902 million in Polish zloty. In 2012 losses amounting to EUR 571 million, which arose from the settlement of options that were exercised, were taken to equity. At 2012 year-end, the market value of the options not yet exercised represented an unrealised net loss of EUR 33 million. In addition to foreign currency options, the Group had also arranged other hedging derivatives to round off its hedging of the structural foreign currency risk of its foreign currency investments: Chilean pesos for a notional amount of EUR 2,327 million, which gave rise to a loss of EUR 360 million; Brazilian reals for a notional amount of EUR 2,722 million, with a loss of EUR 377 million; and Mexican pesos for a total notional amount of EUR 4,172 million, with a loss of EUR 266 million.

Lastly, in addition to these hedges involving derivatives, foreign currency spot sales were made to offset structural foreign currency risk. By currency, spot sales were made of US dollars against euros, which amounted to EUR 1,805 million and gave rise to a gain of EUR 38 million, and of pounds sterling against euros, which totalled EUR 6,377 million and gave rise to a loss of EUR 170 million.

In line with the purpose of hedging the underlying carrying amount of net assets in foreign currencies, the overall valuation adjustments (gains/losses) obtained from the aforementioned hedges offset from an equity position the exchange differences arising from the conversion to euros of the Group's investments in its investees' net assets.

For their part, the hedges of net investments in foreign operations did not generate gains or losses for ineffectiveness in 2014.

37. Discontinued operations

No significant operations were discontinued in 2014, 2013 or 2012.

a) *Profit or loss and net cash flows from discontinued operations*

The detail of the profit or loss from discontinued operations is set forth below.

The balance sheets and income statements for 2012 were restated in 2013 in order to present Santander UK's cards business that was acquired from GE (General Electric) in prior years as a discontinued operation:

	Millions of euros		
	2014	2013	2012
Net interest income	**4**	**84**	**232**
Net fee and commission income	-	22	48
Gains/losses on financial assets and liabilities	-	-	-
Other operating income/(expenses)	-	-	(2)
Gross income	**4**	**106**	**278**
Staff costs	(1)	(7)	(19)
Other general administrative expenses	(3)	(23)	(114)
Depreciation and amortisation charge	-	(2)	(6)
Provisions (net)	(22)	(6)	(6)
Impairment losses on financial assets	(4)	(6)	(36)
Profit (loss) from operations	**(26)**	**62**	**97**
Gains (losses) on disposal of assets not classified as non-current assets held for sale	-	(80)	2
Profit (loss) before tax	**(26)**	**(18)**	**99**
Income tax (Note 27)	-	3	(29)
Profit (loss) from discontinued operations	**(26)**	**(15)**	**70**

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

	Millions of euros		
	2014	2013	2012
Cash and cash equivalents as at beginning of year	-	-	-
Cash flows from operating activities	(10)	2	(3)
Cash flows from investing activities	10	(2)	3
Cash flows from financing activities	-	-	-
Cash and cash equivalents as at end of year	-	-	-

b) Earnings per share relating to discontinued operations

The earnings per share relating to discontinued operations were as follows:

	2014	2013	2012
Basic earnings per share (euros)	(0.00)	(0.00)	0.01
Diluted earnings per share (euros)	(0.00)	(0.00)	0.01

38. Interest and similar income

Interest and similar income in the consolidated income statement comprises the interest accruing in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value; and the rectifications of income as a result of hedge accounting. Interest is recognised gross, without deducting any tax withheld at source.

The detail of the main interest and similar income items earned in 2014, 2013 and 2012 is as follows:

	Millions of euros		
	2014	2013	2012
Balances with the Bank of Spain and other central banks	2,038	2,701	2,693
Loans and advances to credit institutions	1,782	766	1,034
Debt instruments	7,247	6,435	7,093
Loans and advances to customers	42,175	40,206	46,127
Insurance contracts linked to pensions (Note 25)	9	11	45
Other interest	1,405	1,328	1,799
	54,656	**51,447**	**58,791**

Most of the interest and similar income was generated by the Group's financial assets that are measured either at amortised cost or at fair value through equity.

39. Interest expense and similar charges

Interest expense and similar charges in the consolidated income statement includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest method, irrespective of measurement at fair value; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to provisions recorded for pensions.

The detail of the main items of interest expense and similar charges accrued in 2014, 2013 and 2012 is as follows:

	Millions of euros		
	2014	2013	2012
Balances with the Bank of Spain and other central banks	55	118	522
Deposits from credit institutions	2,144	1,852	1,959
Customer deposits	13,415	14,805	16,403
Marketable debt securities	6,844	6,880	7,277
Subordinated liabilities (Note 23)	1,084	1,260	1,650
Provisions for pensions (Note 25)	344	363	398
Other interest	1,223	234	659
	25,109	**25,512**	**28,868**

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

40. Income from equity instruments

Income from equity instruments includes the dividends and payments on equity instruments out of profits generated by investees after the acquisition of the equity interest.

The detail of Income from equity instruments is as follows:

	Millions of euros		
	2014	2013	2012
Equity instruments classified as:			
Financial assets held for trading	287	264	290
Available-for-sale financial assets	148	114	133
	435	**378**	**423**

41. Share of results of entities accounted for using the equity method

Share of results of entities accounted for using the equity method comprises the amount of profit or loss attributable to the Group generated during the year by associates and jointly controlled entities.

The detail of Share of results of entities accounted for using the equity method is as follows:

	Millions of euros		
	2014	2013	2012
Santander Consumer USA Inc.	-	322	349
Zurich Santander Insurance América, S.L.	167	138	134
Metrovacesa, S.A.	(68)	(40)	(100)
SAM Investment Holdings Limited	51	-	-
Allfunds Bank, S.A.	23	17	11
Companhia de Crédito, Financiamento e Investimento RCI Brasil	20	21	16
Other companies	50	42	17
	243	**500**	**427**

42. Fee and commission income

Fee and commission income comprises the amount of all fees and commissions accruing in favour of the Group in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of Fee and commission income is as follows:

	Millions of euros		
	2014	2013	2012
Collection and payment services:			
Bills	284	333	336
Demand accounts	1,006	1,163	1,209
Cards	2,769	2,890	2,746
Orders	422	347	347
Cheques and other	144	165	226
	4,625	4,898	4,864
Marketing of non-banking financial products:			
Investment funds	831	1,040	1,074
Pension funds	111	163	143
Insurance	2,304	2,399	2,451
	3,246	3,602	3,668
Securities services:			
Securities underwriting and placement	306	208	204
Securities trading	303	316	323
Administration and custody	248	212	214
Asset management	78	107	103
	935	843	844
Other:			
Foreign exchange	264	243	229
Financial guarantees	498	476	484
Commitment fees	343	329	282
Other fees and commissions	2,604	2,082	2,361
	3,709	3,130	3,356
	12,515	**12,473**	**12,732**

43. Fee and commission expense

Fee and commission expense shows the amount of all fees and commissions paid or payable by the Group in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of Fee and commission expense is as follows:

	Millions of euros		
	2014	2013	2012
Fees and commissions assigned to third parties	1,618	1,718	1,616
Of which: Cards	*1,149*	*1,279*	*1,203*
Brokerage fees on lending and deposit transactions	42	37	36
Other fees and commissions	1,159	957	819
	2,819	**2,712**	**2,471**

44. Gains/losses on financial assets and liabilities

Gains/losses on financial assets and liabilities includes the amount of the valuation adjustments of financial instruments, except those attributable to interest accrued as a result of application of the effective interest method and to allowances, and the gains or losses obtained from the sale and purchase thereof.

a) Breakdown

The detail, by origin, of Gains/losses on financial assets and liabilities is as follows:

	Millions of euros		
	2014	2013	2012
Financial assets and liabilities held for trading (*)	2,377	1,733	1,460
Other financial instruments at fair value through profit or loss (*)	239	(6)	159
Financial instruments not measured at fair value through profit or loss	1,427	1,622	1,789
Of which: Available-for-sale financial assets	*1,416*	*1,490*	*915*
Of which:			
Debt instruments	*1,173*	*1,345*	*576*
Equity instruments	*243*	*145*	*339*
Of which: Other	*11*	*132*	*874*
Of which:			
Due to exchange and repurchase of securities	-	-	*870*
Hedging derivatives (Note 36)	(69)	(115)	(79)
	3,974	**3,234**	**3,329**

(*) Includes the net gain or loss arising from transactions involving debt securities, equity instruments and derivatives included in this portfolio, since the Group manages its risk in these instruments on a global basis.

Due to exchange and repurchase of securities

In 2012 the Group performed several securities exchange and repurchase transactions for which EUR 870 million were credited to income in that year. In July the Group offered the holders of certain securities issued by Santander UK plc the possibility of exchanging these securities for newly-issued Santander UK plc securities; in August Banco Santander, S.A. and Santander Financial Exchanges Limited invited the holders of securities of various issues of Santander Finance Preferred, S.A. (Sole-Shareholder Company), Santander Perpetual, S.A. (Sole-Shareholder Company) and Santander Issuances, S.A. (Sole-Shareholder Company) to submit offers for the sale of their securities, to be purchased in cash; in February Banco Español de Crédito, S.A. offered the holders of preference shares of various issues the possibility of exchanging these securities for securities of a new non-convertible bond issue and in September it offered the holders of securities of various issues to submit an offer for the sale of their securities, to be purchased in cash.

b) Financial assets and liabilities at fair value through profit or loss

The detail of the amount of the asset balances is as follows:

	Millions of euros		
	2014	2013	2012
Loans and advances to credit institutions	30,407	18,947	20,115
Loans and advances to customers	11,892	18,275	23,098
Debt instruments	58,605	44,716	46,561
Equity instruments	13,799	5,833	6,180
Derivatives	76,858	58,899	110,319
	191,561	**146,670**	**206,273**

The Group mitigates and reduces this exposure as follows:

- With respect to derivatives, the Group has entered into framework agreements with a large number of credit institutions and customers for the netting-off of asset positions and the provision of collateral for non-payment.

  At 31 December 2014, the actual credit risk exposure of the derivatives was EUR 42,761 million.

- Loans and advances to credit institutions and Loans and advances to customers included reverse repos amounting to EUR 32,935 million at 31 December 2014.

  Also, mortgage-backed assets totalled EUR 2,659 million.

- Debt instruments include EUR 48,263 million of Spanish and foreign government securities.

At 31 December 2014, the amount of the change in the year in the fair value of financial assets at fair value through profit or loss attributable to variations in their credit risk (spread) was not material.

The detail of the amount of the liability balances is as follows:

	Millions of euros		
	2014	2013	2012
Deposits from central banks	(8,362)	(5,963)	(2,142)
Deposits from credit institutions	(24,570)	(17,112)	(19,154)
Customer deposits	(38,671)	(34,984)	(37,535)
Marketable debt securities	(3,830)	(4,087)	(4,905)
Short positions	(17,628)	(15,951)	(15,181)
Derivatives	(79,048)	(58,887)	(109,743)
	(172,109)	**(136,984)**	**(188,660)**

45. Exchange differences

Exchange differences shows basically the gains or losses on currency dealings, the differences that arise on translations of 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.

46. Other operating income and Other operating expenses

Other operating income and Other operating expenses in the consolidated income statements include:

	Millions of euros		
	2014	2013	2012
Insurance activity	**137**	**117**	**593**
Income from insurance and reinsurance contracts issued	3,532	4,724	5,541
Of which:			
Insurance and reinsurance premium income	*3,284*	*4,513*	*4,667*
Reinsurance income (Note 15)	*248*	*211*	*874*
Expenses of insurance and reinsurance contracts	(3,395)	(4,607)	(4,948)
Of which:			
Claims paid and other insurance-related expenses	*(3,800)*	*(4,497)*	*(4,440)*
Net provisions for insurance contract liabilities	*910*	*382*	*(323)*
Reinsurance premiums paid	*(505)*	*(492)*	*(185)*
Non-financial services	**88**	**93**	**137**
Sales and income from the provision of non-financial services	343	322	369
Cost of sales	(255)	(229)	(232)
Other operating income and expenses	**(384)**	**(512)**	**(644)**
Other operating income	1,339	857	783
Of which, fees and commissions offsetting direct costs	*106*	*115*	*130*
Other operating expenses	(1,723)	(1,369)	(1,427)
Of which, Deposit Guarantee Fund	*(577)*	*(570)*	*(554)*
	(159)	**(302)**	**86**

Most of the Bank's insurance activity is carried on in life insurance.

47. Staff costs

a) Breakdown

The detail of Staff costs is as follows:

	Millions of euros		
	2014	2013	2012
Wages and salaries	7,412	7,215	7,343
Social security costs	1,293	1,296	1,353
Additions to provisions for defined benefit pension plans (Note 25)	75	88	145
Contributions to defined contribution pension funds (Note 25)	247	223	155
Share-based remuneration costs	66	103	133
Of which, Bank directors (*)	-	*1*	*4*
Other staff costs	1,149	1,144	1,177
	10,242	**10,069**	**10,306**

(*) Relating to amounts associated with the performance share plans

b) *Headcount*

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

	Average number of employees (**)		
	2014	2013	2012
The Bank (**):			
Senior management (**)	101	133	96
Other line personnel	21,376	23,403	16,545
Clerical staff	2,563	3,421	2,845
General services personnel	25	28	29
	24,065	26,985	19,515
Banesto (**)	-	-	8,762
Rest of Spain	6,781	6,931	6,708
Santander UK plc	19,866	19,773	20,355
Banco Santander (Brasil) S.A.	47,296	51,462	53,543
Other companies (***)	85,930	81,222	79,752
	183,938	**186,373**	**188,635**

(*) Categories of deputy assistant executive vice president and above, including senior management.

(**) Banesto employees have been included under Banco Santander, S.A. since the merger in 2013 (see Note 3.b.vi).

(***)Excluding personnel assigned to discontinued operations.

The functional breakdown, by gender, at 31 December 2014 is as follows:

	Functional breakdown by gender					
	Senior executives		Other executives		Other personnel	
	Men	Women	Men	Women	Men	Women
Continental Europe	995	217	5,844	2,841	21,470	28,599
United Kingdom	170	39	1,166	508	9,315	13,511
Latin America	675	129	5,834	3,496	37,794	52,802
	1,840	**385**	**12,844**	**6,845**	**68,579**	**94,912**

The same information, expressed in percentage terms at 31 December 2014, is as follows:

	Functional breakdown by gender					
	Senior executives		Other executives		Other personnel	
	Men	Women	Men	Women	Men	Women
Continental Europe	82%	18%	67%	33%	43%	57%
United Kingdom	81%	19%	70%	30%	41%	59%
Latin America	84%	16%	63%	37%	42%	58%
	83%	**17%**	**65%**	**35%**	**42%**	**58%**

The labour relations between employees and the various Group companies are governed by the related collective agreements or similar regulations.

c) Share-based payments

The main share-based payments granted by the Group in force at 31 December 2014, 2013 and 2012 are described below.

i. Bank

The variable remuneration policy for the Bank's executive directors and certain executive personnel of the Bank and of other Group companies includes Bank share-based payments, the implementation of which requires, in conformity with the law and the Bank's Bylaws, specific resolutions to be adopted by the general meeting.

Were it necessary or advisable for legal, regulatory or other similar reasons, the delivery mechanisms described below may be adapted in specific cases without altering the maximum number of shares linked to the plan or the essential conditions to which the delivery thereof is subject. These adaptations may involve replacing the delivery of shares with the delivery of cash amounts of an equal value.

The plans that include share-based payments are 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 the Bank. The beneficiaries of the plan were the executive directors and other members of senior management, together with any other Group executives determined by the board of directors 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 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.

Following is a summary of the changes in the cycles of this plan in the period from 2012 to 2014:

	Number of shares (thousands)	Year granted	Employee group	Number of persons	Date of commencement of exercise period	Date of expiry of exercise period
Plans outstanding at 01/01/12	**54,766**					
Shares delivered (Plan I12)	(5,056)	2009	Executives	(5,749)	19/06/09	31/07/12
Options cancelled, net (Plan I12)	(13,811)	2009	Executives	(761)	19/06/09	31/07/12
Options cancelled, net (Plan I14)	(1,810)	2011	Executives	(199)	17/06/11	31/07/14
Plans outstanding at 31/12/12	**34,089**					
Options cancelled, net (Plan I13)	(19,613)	2010	Executives	(6,782)	11/06/10	31/07/13
Plans outstanding at 31/12/13	**14,476**					
Options cancelled, net (Plan I14)	(14,476)	2011	Executives	(6,699)	17/06/11	31/07/14
Plans outstanding at 31/12/14	-					

(ii) Obligatory investment share plan

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

(iii) Deferred conditional delivery share plan

In 2012 and 2013 the Bank's board of directors, 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 Santander shares. Since these cycles entailed the delivery of Bank shares, the shareholders at the annual general meetings 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 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 Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group’s economic capital or risk profile.

(iv) Deferred conditional variable remuneration plan

In 2012, 2013 and 2014 the Bank’s board of directors, 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).

Since the aforementioned cycles entail the delivery of Bank shares, the shareholders at the annual general meetings of 30 March 2012, 22 March 2013 and 28 March 2014 approved, respectively, the application of the second, third and fourth cycles of the deferred conditional variable remuneration plan.

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 Santander shares; the other portion of the variable remuneration is also to be paid in cash and 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 managers and other executives of the Group with a similar profile	50%	50%
Other executives subject to supervision	60%	40%

(*) Generally applicable percentages. In some countries 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 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 existing -in the opinion of the board of directors 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 Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the 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 the Bank 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 executive directors for 2012, 2013 and 2014 for the second, third and fourth cycle, respectively.

(v) Performance share plan

In 2014 the Bank's board of directors 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 the Bank's performance over a multiannual period.

Since the aforementioned cycle entails the delivery of Bank shares, the annual general meeting 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, 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 the Bank'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 the Bank’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 payment date, the board of directors, 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.

The shares to be delivered on each ILP payment date, based on based on compliance with the related multiannual TSR target will be conditional, in addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations, upon none of the following circumstances existing -in the opinion of the board of directors following a proposal of the remuneration committee-, during the period prior to each of the deliveries, as a consequence of actions performed in 2014: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or risk profile.

ii. Santander UK plc

The long-term incentive plans on shares of the Bank granted by management of Santander UK plc to its employees are as follows:

	Number of shares (in thousands)	Exercise price in pounds sterling (*)	Year granted	Employee group	Number of persons	Date of commencement of exercise period	Date of expiry of exercise period
Plans outstanding at 01/01/12	**11,273**						
Options granted (Sharesave)	10,012	3.66	2012	Employees	7,089 (**)	01/11/12 01/11/12	01/11/15 01/11/17
Options exercised	(3)	4.56					
Options cancelled (net) or not exercised	(6,468)	5.34					
Plans outstanding at 31/12/12	**14,814**						
Options granted (Sharesave)	4,340	3.69	2013	Employees	13,110 (**)	01/11/13 01/11/13	01/11/16 01/11/18
Options exercised	(78)	4.02					
Options cancelled (net) or not exercised	(3,169)	4.72					
Plans outstanding at 31/12/13	**15,907**						
Options granted (Sharesave)	6,745	4.91	2014	Employees	6,639 (**)	01/11/14 01/11/14	01/11/17 01/11/19
Options exercised	(1,375)	4.36					
Options cancelled (net) or not exercised	(2,155)	4.85					
Plans outstanding at 31/12/14	**19,122**						

(*) At 31 December 2014, 2013 and 2012, the euro/pound sterling exchange rate was EUR 1.28386/GBP 1; EUR 1.19947/GBP 1 and EUR 1.22534/GBP 1, respectively.

(**) Number of accounts/contracts. A single employee may have more than one account/contract.

In 2008 the Group launched a voluntary savings scheme for Santander UK employees (Sharesave Scheme) whereby employees who join the scheme will have between GBP 5 and GBP 250 (between GBP 5 and GBP 500 in 2014) deducted from their net monthly pay over a period of three or five years. When this period has ended, the employees may use the amount saved to exercise options on shares of the Bank at an exercise price calculated by reducing by up to 20% the average purchase and sale prices of the Bank shares in the three trading sessions prior to the approval of the scheme by the UK tax authorities (HMRC). This approval must be received within 21 to 41 days following the publication of the Group's results for the first half of the year. This scheme was approved by the board of directors, at the proposal of the appointments and remuneration committee, and, since it involved the delivery of Bank shares, its application was authorised by the annual general meeting held on 21 June 2008. Also, the scheme was authorised by the UK tax authorities (HMRC) and commenced in September 2008. In the subsequent years, at the annual general meetings held on 19 June 2009, 11 June 2010, 17 June 2011, 30 March 2012, 22 March 2013 and 28 March 2014, respectively, the shareholders approved the application of schemes previously approved by the board and with similar features to the scheme approved in 2008.

iii. Fair value

The fair value of the performance share plans was calculated as follows:

- It was assumed that the beneficiaries will not leave the Group's employ during the term of each plan.

- The fair value of the Bank's relative TSR position was calculated, on the grant date, on the basis of the report of an independent expert whose assessment was carried out using a Monte Carlo valuation model to perform 10,000 simulations to determine the TSR of each of the companies in the benchmark group, taking into account the variables set forth below. The results (each of which represents the delivery of a number of shares) are classified in decreasing order by calculating the weighted average and discounting the amount at the risk-free interest rate.

	PI12	PI13	PI14
Expected volatility (*)	42.36%	49.65%	51.35%
Annual dividend yield based on last few years	4.88%	6.34%	6.06%
Risk-free interest rate (Treasury Bond yield (zero coupon) over the period of the plan)	2.04%	3.33%	4.073%

(*) Calculated on the basis of historical volatility over the corresponding period (three years).

The application of the simulation model results in a percentage value of 55.42% for Plan I-12, 62.62% for Plan I13 and 55.39% for Plan I14. Since this valuation refers to a market condition, it cannot be adjusted after the grant date.

The fair value of each option granted by Santander UK was estimated at the grant date using a European/American Partial Differential Equation model with the following assumptions:

	2014	2013	2012
Risk-free interest rate	1.56%-1.97%	1.2%-1.7%	0.73%-1.04%
Dividend increase	10.16%-10.82%	16%-19%	16%-17%
Volatility of underlying shares based on historical volatility over five years	24.16%-24.51%	32.15%-32.32%	38.62%-39.41%
Expected life of options granted	3 and 5 years	3 and 5 years	3 and 5 years

48. Other general administrative expenses

a) Breakdown

The detail of Other general administrative expenses is as follows:

	Millions of euros		
	2014	2013	2012
Property, fixtures and supplies	1,930	1,980	1,916
Technology and systems	979	992	889
Advertising	655	630	662
Technical reports	606	493	491
Communications	489	519	638
Taxes other than income tax	462	445	415
Surveillance and cash courier services	397	425	432
Per diems and travel expenses	287	284	297
Insurance premiums	64	59	61
Other administrative expenses	1,788	1,556	1,694
	7,657	**7,383**	**7,495**

b) Technical reports and other

Technical reports includes the fees paid by the various Group companies (detailed in the accompanying Appendices) for the services provided by their respective auditors, the detail being as follows:

	Millions of euros		
	2014	2013	2012
Audit fees	44.2	35.9	38.1
Audit-related fees	31.1	20.8	20.6
Tax fees	6.6	4.6	4.3
All other fees	8.0	6.5	8.1
Total	**89.9**	**67.8**	**71.1**

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

	Millions of euros		
	2014	2013	2012
Audit of the financial statements of the companies audited by Deloitte	28.3	21.7	21.0
Of which:			
Santander UK plc	*5.8*	*5.0*	*4.4*
Santander Holdings USA, Inc./Santander Consumer USA Holdings Inc.	*5.7*	*2.4*	*2.2*
Banco Santander (Brasil) S.A.	*1.8*	*1.7*	*1.8*
Audit of the Bank's separate and consolidated financial statements	*2.1*	*2.1*	*2.0*
Other audit engagements	15.9	14.2	17.1
Of which:			
Internal control audit (SOX) and capital audit (Basel)	*6.9*	*5.9*	*5.8*
Audit of the Group's half-yearly financial statements	*6.0*	*6.0*	*5.8*
Issue of comfort letters	*3.0*	*2.3*	*2.5*
Audit fees	**44.2**	**35.9**	**38.1**

The detail of the main items included in Audit-related fees is as follows:

	Millions of euros		
	2014	2013	2012
Other recurring engagements and reports required by the various national supervisory bodies of the countries in which the Group operates	8.8	7.6	6.7
Limited reviews and other reports required by the Group due to its listing in Brazil	5.3	-	-
Non-recurring reviews required by regulators	0.6	1.1	2.1
Due diligence audits and other reviews	1.7	3.1	1.8
Issuance of other attest reports	4.0	3.7	2.8
Reviews of procedures, data and controls and other checks	10.7	5.3	7.2
Total audit-related fees	**31.1**	**20.8**	**20.6**

Other information

The services commissioned from the Group's auditors meet the independence requirements stipulated by the Consolidated Audit Law (Legislative Royal Decree 1/2011, of 31 July) and by the Sarbanes-Oxley Act of 2002, and they did not involve the performance of any work that is incompatible with the audit function.

Lastly, the Group commissioned services from audit firms other than Deloitte amounting to EUR 97.3 million in 2014 (2013: EUR 48.6 million; 2012: EUR 38.7 million).

49. 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 is as follows:

	Millions of euros		
	2014	2013	2012
Gains:			
On disposal of tangible assets (*)	216	74	219
On disposal of investments	3,026	2,167	775
Of which:			
Santander Consumer USA (Note 3)	*1,739*	-	-
Altamira Asset Management (Note 3)	*550*	-	-
Insurance companies in Ireland (Note 3)	*413*	-	-
Management companies (Note 3)	-	*1,372*	-
Insurance companies in Spain (Note 3)	-	*385*	-
Payment services company (Note 3)	-	*122*	-
Banco Santander Colombia (Note 3)	-	-	*619*
	3,242	2,241	994
Losses:			
On disposal of tangible assets	(103)	(78)	(87)
On disposal of investments	(3)	(11)	(1)
	(106)	(89)	(88)
	3,136	**2,152**	**906**

(*) Includes in 2014 mainly the gains recognised on the sale of corporate buildings in Mexico and Argentina (EUR 85 million) and the gains arising from the sales of branches (EUR 76 million) in various countries in which the Group operates. Includes in 2012 the gains recognised on the sale of the Canalejas complex (Spain) (EUR 87 million), of certain branches and offices in Mexico (EUR 80 million) and of a property in New York (EUR 47 million).

50. 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 is as follows:

Net balance	Millions of euros 2014	2013	2012
Non-current assets held for sale	(291)	(422)	(757)
Impairment (Note 12)	*(339)*	*(335)*	*(449)*
Gain (loss) on sale (Note 12)	*48*	*(87)*	*(308)*
Other gains and other losses	48	-	-
	(243)	**(422)**	**(757)**

51. Other disclosures

a) Residual maturity periods and average interest rates

The detail, by maturity, of the balances of certain items in the consolidated balance sheet is as follows:

	31 December 2014 Millions of euros								
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total	Average interest rate
Assets:									
Cash and balances with central banks	46,521	17,667	4,060	518	-	645	17	69,428	3.21%
Available-for-sale financial assets- Debt instruments	154	3,878	1,098	4,528	19,811	24,363	56,417	110,249	4.62%
Loans and receivables-									
Loans and advances to credit institutions	18,270	16,481	3,285	4,951	3,738	317	4,264	51,306	2.11%
Loans and advances to customers	17,095	41,520	31,093	67,627	97,744	80,123	387,617	722,819	5.45%
Debt instruments	14	1,422	1,180	947	858	554	2,535	7,510	3.66%
	82,054	**80,968**	**40,716**	**78,571**	**122,151**	**106,002**	**450,850**	**961,312**	**5.00%**
Liabilities:									
Financial liabilities at amortised cost:									
Deposits from central banks	4,614	2,703	1,179	500	-	8,294	-	17,290	0.24%
Deposits from credit institutions	7,390	24,596	23,238	19,154	18,546	5,995	6,228	105,147	3.16%
Customer deposits	347,108	79,128	28,570	66,632	56,359	8,629	22,530	608,956	2.50%
Marketable debt securities (*)	54	10,802	22,847	35,913	49,978	22,457	51,008	193,059	3.50%
Subordinated liabilities	114	24	15	109	3,699	5,458	7,713	17,132	6.46%
Other financial liabilities	4,131	4,145	8,265	942	465	447	1,073	19,468	n/a
	363,411	**121,398**	**84,114**	**123,250**	**129,047**	**51,280**	**88,552**	**961,052**	**2.81%**
Difference (assets less liabilities)	**(281,357)**	**(40,430)**	**(43,398)**	**(44,679)**	**(6,896)**	**54,722**	**362,298**	**260**	

(*) Includes promissory notes, certificates of deposit and other short-term debt issues.

The Group's net borrowing position with the ECB was EUR 12 thousand million at 31 December 2014, mainly because in 2014 the Group borrowed funds under the ECB's targeted longer-term refinancing operations (TLTRO) programme.

	31 December 2013								
	Millions of euros								
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total	Average interest rate
Assets:									
Cash and balances with central banks	70,303	4,565	1,410	706	-	-	119	77,103	2.53%
Available-for-sale financial assets- Debt instruments	200	3,034	2,194	5,100	13,243	16,965	39,108	79,844	4.60%
Loans and receivables-									
Loans and advances to credit institutions	13,794	25,619	3,710	2,120	3,360	2,415	4,999	56,017	2.36%
Loans and advances to customers	13,475	45,117	28,939	70,130	88,822	67,727	336,371	650,581	5.69%
Debt instruments	3	1,024	646	1,470	1,042	283	3,418	7,886	3.01%
	97,775	**79,359**	**36,899**	**79,526**	**106,467**	**87,390**	**384,015**	**871,431**	**5.07%**
Liabilities:									
Financial liabilities at amortised cost:									
Deposits from central banks	485	3,207	156	312	5,628	-	-	9,788	0.27%
Deposits from credit institutions	2,756	27,665	5,578	14,436	13,106	7,837	5,156	76,534	2.18%
Customer deposits	328,508	53,108	26,039	80,639	63,278	9,576	11,705	572,853	2.55%
Marketable debt securities (*)	146	8,551	17,198	27,092	53,966	20,667	43,770	171,390	3.72%
Subordinated liabilities	24	159	2	821	2,468	2,723	9,942	16,139	6.02%
Other financial liabilities	5,524	7,476	1,613	312	486	115	884	16,410	n/a
	337,443	**100,166**	**50,586**	**123,612**	**138,932**	**40,918**	**71,457**	**863,114**	**2.80%**
Difference (assets less liabilities)	**(239,668)**	**(20,807)**	**(13,687)**	**(44,086)**	**(32,465)**	**46,472**	**312,558**	**8,317**	

(*) Includes promissory notes, certificates of deposit and other short-term debt issues.

The Group continued to attend these auctions and deposit at the ECB most of the funds captured, which significantly increased the liquidity buffer and improved its structure by replacing short-term maturities with longer term funding. The Group repaid most of these amounts to the ECB in the first quarter of 2013.

	31 December 2012								
	Millions of euros								
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total	Average interest rate
Assets:									
Cash and balances with central banks	68,501	45,030	2,061	2,699	-	-	197	118,488	1.74%
Available-for-sale financial assets- Debt instruments	55	2,050	2,786	7,935	14,656	13,141	47,101	87,724	4.56%
Loans and receivables-									
Loans and advances to credit institutions	11,120	26,482	3,406	3,987	1,507	753	6,530	53,785	2.37%
Loans and advances to customers	16,560	38,953	29,528	74,048	103,089	70,857	362,979	696,014	5.29%
Debt instruments	3	945	277	527	1,541	421	3,345	7,059	2.90%
	96,239	**113,460**	**38,058**	**89,196**	**120,793**	**85,172**	**420,152**	**963,070**	**4.61%**
Liabilities:									
Financial liabilities at amortised cost:									
Deposits from central banks	948	4,678	1,173	1	44,138	-	-	50,938	0.77%
Deposits from credit institutions	4,611	25,839	7,863	15,958	11,845	11,076	3,540	80,732	2.81%
Customer deposits	306,051	79,513	34,738	88,012	60,827	13,992	5,971	589,104	1.90%
Marketable debt securities (*)	707	13,616	13,924	44,466	54,158	27,291	46,902	201,064	3.76%
Subordinated liabilities	203	230	280	1,226	1,377	5,169	9,753	18,238	5.45%
Other financial liabilities	4,101	3,309	7,403	211	517	339	3,365	19,245	n/a
	316,621	**127,185**	**65,381**	**149,874**	**172,862**	**57,867**	**69,531**	**959,321**	**2.38%**
Difference (assets less liabilities)	**(220,382)**	**(13,725)**	**(27,323)**	**(60,678)**	**(52,069)**	**27,305**	**350,621**	**3,749**	

(*) Includes promissory notes, certificates of deposit and other short-term debt issues.

The detail of the undiscounted contractual maturities of the existing financial liabilities at amortised cost at 31 December 2014 is as follows:

	31 December 2014							
	Millions of euros							
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
Financial liabilities at amortised cost (*):								
Deposits from central banks	4,608	2,699	1,177	499	-	8,283	-	**17,267**
Deposits from credit institutions	7,366	24,517	23,164	19,093	18,487	5,976	6,208	**104,811**
Customer deposits	345,290	78,714	28,421	66,283	56,063	8,584	22,412	**605,766**
Marketable debt securities	52	10,481	22,167	34,845	48,491	21,789	49,491	**187,315**
Subordinated liabilities	105	22	14	100	3,406	5,025	7,101	**15,774**
Other financial liabilities	4,131	4,145	8,265	942	465	447	1,073	**19,468**
	361,552	**120,578**	**83,208**	**121,762**	**126,912**	**50,104**	**86,285**	**950,401**

(*) The analysis of the expiry dates of the derivatives is not broken down because this is not essential to the comprehension of the cash flow schedule, since substantially all of them are subject to netting arrangements with other derivatives held with the same counterparty.

In the Group's experience, no outflows of cash or other financial assets take place prior to the contractual maturity date that might affect the information broken down above.

b) Equivalent euro value of assets and liabilities

The detail of the main foreign currency balances in the consolidated balance sheet, based on the nature of the related items, is as follows:

	Equivalent value in millions of euros					
	2014		2013		2012	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Cash and balances with central banks	64,839	-	71,328	-	70,756	-
Financial assets/liabilities held for trading	94,375	66,011	72,888	61,473	106,813	80,893
Other financial assets at fair value through profit or loss	7,107	15,494	9,177	9,953	10,448	10,480
Available-for-sale financial assets	65,031	-	43,558	-	50,144	-
Loans and receivables	521,497	-	454,791	-	466,933	-
Investments	1,231	-	3,941	-	3,336	-
Tangible assets	12,479	-	5,611	-	5,667	-
Intangible assets	26,710	-	22,422	-	24,269	-
Financial liabilities at amortised cost	-	618,936	-	526,588	-	560,483
Other	23,915	23,997	20,700	23,817	22,360	50,971
	817,184	**724,438**	**704,416**	**621,831**	**760,726**	**702,827**

c) *Fair value of financial assets and liabilities not measured at fair value*

The financial assets owned by the Group are measured at fair value in the accompanying consolidated balance sheet, except for cash and balances with central banks, loans and receivables, equity instruments whose market value cannot be estimated reliably and derivatives that have these instruments as their underlyings and are settled by delivery thereof.

Similarly, the Group's financial liabilities -except for financial liabilities held for trading, those measured at fair value and derivatives other than those having as their underlying equity instruments whose market value cannot be estimated reliably- are measured at amortised cost in the accompanying consolidated balance sheet.

Following is a comparison of the carrying amounts of the Group's financial instruments measured at other than fair value and their respective fair values at year-end:

i) Financial assets measured at other than fair value

Assets	Millions of euros								
	2014					2013		2012	
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables:									
Loans and advances to credit institutions	51,306	51,202	-	25,660	25,542	56,017	56,213	53,785	54,397
Loans and advances to customers	722,819	727,383	-	197,187	530,196	650,581	651,338	696,014	702,685
Debt instruments	7,510	7,441	-	6,065	1,376	7,886	7,858	7,059	7,241
	781,635	**786,026**	**-**	**228,912**	**557,114**	**714,484**	**715,409**	**756,858**	**764,323**

ii) Financial liabilities measured at other than fair value

Liabilities	Millions of euros								
	2014					2013		2012	
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities at amortised cost:									
Deposits from central banks	17,290	17,290	-	-	17,290	9,788	9,788	50,938	50,938
Deposits from credit institutions	105,147	105,557	-	105,557	-	76,534	76,636	80,732	81,819
Customer deposits	608,956	608,339	-	-	608,339	572,853	570,312	589,104	590,278
Marketable debt securities	193,059	197,093	53,925	143,168	-	171,390	170,787	201,064	204,014
Subordinated liabilities	17,132	17,428	7,971	9,457	-	16,139	16,342	18,238	18,356
Other financial liabilities	19,468	19,428	-	-	19,428	16,410	16,407	19,245	19,246
	961,052	**965,135**	**61,896**	**258,182**	**645,057**	**863,114**	**860,272**	**959,321**	**964,651**

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 table were as follows:

- Loans and receivables: the fair value was estimated using the present value method. The estimates were made considering factors such as the expected maturity of the portfolio, market interest rates and spreads on newly approved transactions (or market spreads where these were not available).

- Financial liabilities at amortised cost:

    i) The fair value of Deposits from central banks was taken to be their carrying amount since they are mainly short-term balances.

    ii) Deposits from credit institutions: the fair value was obtained by the present value method using market interest rates and spreads.

    iii) Customer deposits: the fair value was estimated using the present value method. The estimates were made considering factors such as the expected maturity of the transactions and the Group's current cost of funding in similar transactions.

    iv) Marketable debt securities and Subordinated liabilities: the fair value was calculated based on market prices for these instruments -when available- or by the present value method using market interest rates and spreads.

In addition, the fair value of Cash and balances with central banks was taken to be their carrying amount since they are mainly short-term balances.

Lastly, at 31 December 2014, 2013 and 2012, equity instruments amounting to EUR 1,646 million, EUR 1,041 million and EUR 1,290 million, respectively, and recognised as available-for-sale financial assets were measured at cost in the consolidated balance sheet because it was not possible to estimate their fair value reliably, since they related to investments in entities not listed on organised markets and, consequently, the non-observable inputs were significant.

d) Exposure of the Group to Europe's peripheral countries

The detail at 31 December 2014, 2013 and 2012, by type of financial instrument, of the Group's sovereign risk exposure to Europe's peripheral countries and of the short positions held with them, taking into consideration the criteria established by the European Banking Authority (EBA) –explained in Note 54– is as follows:

Sovereign risk by country of issuer/borrower at 31 December 2014 (*)								
	Millions of euros							
	Debt instruments						Derivatives (***)	
	Financial assets held for trading and Other financial assets at fair value through profit or loss	Short positions	Available-for-sale financial assets	Loans and receivables	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	4,374	(2,558)	23,893	1,595	17,465	44,769	(60)	-
Portugal	163	(60)	7,811	-	590	8,504	-	-
Italy	3,448	(1,723)	-	-	-	1,725	-	-
Greece	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	61	-

(*) Information prepared under EBA standards. Also, there are government debt securities on insurance companies' balance sheets amounting to EUR 8,420 million (of which EUR 7,414 million, EUR 691 million and EUR 315 million relate to Spain, Portugal and Italy, respectively) and off-balance-sheet exposure other than derivatives –contingent liabilities and commitments– amounting to EUR 3,081 million (EUR 2,929 million, EUR 97 million and EUR 55 million to Spain, Portugal and Italy, respectively).

(**) Presented without taking into account the valuation adjustments recognised (EUR 45 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. “CDSs” refers to the exposure to CDSs based on the location of the underlying.

Sovereign risk by country of issuer/borrower at 31 December 2013 (*)								
	Millions of euros							
	Debt instruments						Derivatives (***)	
	Financial assets held for trading and Other financial assets at fair value through profit or loss	Short positions	Available-for-sale financial assets	Loans and receivables	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	4,783	(2,079)	21,144	1,145	13,374	38,367	(153)	-
Portugal	148	-	2,076	-	583	2,807	-	-
Italy	2,571	(1,262)	77	-	-	1,386	-	2
Greece	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	199	-

(*) Information prepared under EBA standards. Also, there are government debt securities on insurance companies' balance sheets amounting to EUR 5,645 million (of which EUR 4,783 million, EUR 654 million and EUR 208 million relate to Spain, Portugal and Italy, respectively) and off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 1,884 million (EUR 1,627 million, EUR 118 million, EUR 137 million and EUR 2 million to Spain, Portugal, Italy and Ireland, respectively).

(**) Presented without taking into account the valuation adjustments recognised (EUR 20 million).

(***) “Other than CDSs” refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. “CDSs” refers to the exposure to CDSs based on the location of the underlying.

Sovereign risk by country of issuer/borrower at 31 December 2012 (*)								
	Millions of euros							
	Debt instruments						Derivatives (***)	
	Financial assets held for trading and Other financial assets at fair value through profit or loss	Short positions	Available-for-sale financial assets	Loans and receivables	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	6,473	(2,070)	24,654	1,173	15,356	45,586	(234)	-
Portugal	-	-	1,684	-	616	2,300	-	1
Italy	353	(425)	76	-	-	4	-	-
Greece	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	284	-

(*) Information prepared under EBA standards. Also, there are government debt securities on insurance companies' balance sheets amounting to EUR 4,276 million (of which EUR 3,935 million, EUR 156 million and EUR 185 million relate to Spain, Portugal and Italy, respectively) and off-balance-sheet exposure other than derivatives –contingent liabilities and commitments– amounting to EUR 2,578 million (EUR 2,341 million, EUR 33 million and EUR 204 million to Spain, Portugal and Italy, respectively).

(**) Presented without taking into account the valuation adjustments recognised (EUR 20 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

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, 2013 and 2012 is as follows:

Exposure to other counterparties by country of issuer/borrower at 31 December 2014 (*)									
	Millions of euros								
			Debt instruments					Derivatives (***)	
	Balances with central banks	Reverse repurchase agreements	Financial assets held for trading and Other financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	1,513	17,701	3,467	5,803	1,176	154,906	184,587	3,521	(15)
Portugal	675	-	229	1,126	2,221	24,258	28,509	1,889	-
Italy	5	-	1,037	1,040	-	6,342	8,424	20	6
Greece	-	-	-	-	-	50	50	37	-
Ireland	-	-	161	133	111	538	943	299	-

(*) Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 60,318 million, EUR 6,051 million, EUR 3,049 million, EUR 17 million and EUR 237 million to counterparties in Spain, Portugal, Italy, Greece and Ireland, respectively.

(**) Presented excluding valuation adjustments and impairment losses recognised (EUR 12,238 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Exposure to other counterparties by country of issuer/borrower at 31 December 2013 (*)									
	Millions of euros								
			Debt instruments					Derivatives (***)	
	Balances with central banks	Reverse repurchase agreements	Financial assets held for trading and Other financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	816	7,451	3,148	7,826	1,804	160,478	181,523	1,981	(44)
Portugal	1,716	-	209	1,168	1,845	25,578	30,516	1,454	(1)
Italy	11	-	368	273	93	6,490	7,235	(115)	(2)
Greece	-	-	-	-	-	80	80	-	-
Ireland	-	-	229	360	259	507	1,355	1,031	-

(*) Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 48,659 million, EUR 5,982 million, EUR 2,717 million, EUR 4 million and EUR 93 million to counterparties in Spain, Portugal, Italy, Greece and Ireland, respectively.

(**) Presented excluding valuation adjustments and impairment losses recognised (EUR 13,209 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Exposure to other counterparties by country of issuer/borrower at 31 December 2012 (*)									
	Millions of euros								
			Debt instruments					Derivatives (***)	
	Balances with central banks	Reverse repurchase agreements	Financial assets held for trading and Other financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	1,218	11,471	2,598	7,225	1,130	184,658	208,300	7,180	(40)
Portugal	1,156	-	997	676	1,547	25,243	29,619	1,809	(4)
Italy	3	-	176	122	83	7,513	7,897	(2)	8
Greece	-	-	-	-	-	96	96	-	-
Ireland	-	-	146	414	179	481	1,220	344	-

(*) Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 63,101 million, EUR 7,397 million, EUR 3,234 million, EUR 135 million and EUR 224 million to counterparties in Spain, Portugal, Italy, Greece and Ireland, respectively.

(**) Presented excluding valuation adjustments and impairment losses recognised (EUR 12,671 million).

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Following is certain information on the notional amount of the CDSs at 31 December 2014, 2013 and 2012 detailed in the foregoing tables:

31/12/14							
Millions of euros							
		Notional amount			Fair value		
		Bought	Sold	Net	Bought	Sold	Net
Spain	Sovereign	-	-	-	-	-	-
	Other	1,260	1,576	(316)	(11)	(4)	(15)
Portugal	Sovereign	210	239	(29)	1	(1)	-
	Other	149	162	(13)	-	-	-
Italy	Sovereign	401	318	83	(1)	1	-
	Other	668	735	(67)	2	4	6
Greece	Sovereign	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Ireland	Sovereign	4	4	-	-	-	-
	Other	-	-	-	-	-	-

31/12/13							
Millions of euros							
		Notional amount			Fair value		
		Bought	Sold	Net	Bought	Sold	Net
Spain	Sovereign	-	-	-	-	-	-
	Other	1,735	2,277	(542)	(18)	(26)	(44)
Portugal	Sovereign	192	174	18	5	(5)	-
	Other	223	278	(55)	1	(2)	(1)
Italy	Sovereign	603	570	33	(1)	3	2
	Other	834	913	(79)	(2)	-	(2)
Greece	Sovereign	-	-	-	-	-	-
	Other	5	5	-	-	-	-
Ireland	Sovereign	4	4	-	-	-	-
	Other	6	6	-	-	-	-

31/12/12							
Millions of euros							
		Notional amount			Fair value		
		Bought	Sold	Net	Bought	Sold	Net
Spain	Sovereign	-	-	-	-	-	-
	Other	2,202	2,952	(750)	3	(43)	(40)
Portugal	Sovereign	225	207	18	14	(13)	1
	Other	398	418	(20)	7	(11)	(4)
Italy	Sovereign	518	608	(90)	12	(12)	-
	Other	1,077	1,025	52	40	(32)	8
Greece	Sovereign	-	-	-	-	-	-
	Other	20	20	-	1	(1)	-
Ireland	Sovereign	9	9	-	-	-	-
	Other	16	16	-	-	-	-

52. Geographical and business segment reporting

a) Geographical segments

Business segment reporting is a basic tool used for monitoring and managing the Group's various activities.

In 2014 the Group made the following changes to its criteria for the management and presentation of its financial information by segment:

- Geographical areas: The United States geographical area now includes Puerto Rico.

- Business: the name of the Asset management and insurance segment was changed to Private banking, asset management and insurance.

Consequently, the segment information for 2013 and 2012 shown below has been recalculated using these criteria in order to make it comparable.

This primary level of segmentation, which is based on the Group's management structure, comprises five segments: four operating areas plus the Corporate Activities Unit. The operating areas, which include all the business activities carried on therein by the Group, are Continental Europe, the United Kingdom, Latin America and the United States, based on the location of the Group's assets.

The Continental Europe area encompasses all the commercial banking, wholesale and private banking, asset management and insurance business activities carried on in Europe excluding the United Kingdom, and the segment relating to real estate operations discontinued in Spain. The United Kingdom area includes the commercial banking, wholesale banking, asset management and insurance business activities carried on by the various units and branches with a presence in the UK. Latin America includes all the financial activities carried on by the Group through its banks and subsidiaries in the region, as well as the specialised units of Santander Private Banking, which is treated as a globally managed independent unit, and the New York business. The United States area includes the businesses of Santander Bank, Santander Consumer USA Inc. and Puerto Rico.

The Corporate Activities segment includes the centralised management business relating to financial and industrial investments, the financial management of the Parent's structural currency position and its structural interest rate risk position and the management of liquidity and equity through issues and securitisations.

The financial information of each operating segment is 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 in 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 various segment income statements is equal to those in the consolidated income statement. 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.

There are no customers located in areas other than those in which the Group's assets are located that generate income exceeding 10% of gross income.

The condensed balance sheets and income statements of the various geographical segments are as follows:

(Condensed) balance sheet	Millions of euros						
	2014						
	Continental Europe	United Kingdom	Latin America	United States	Corporate activities	Intra-Group eliminations	Total
Total assets	**479,659**	**354,235**	**282,187**	**96,982**	**208,837**	**(155,604)**	**1,266,296**
Loans and advances to customers	266,827	251,191	144,714	67,176	4,803	-	734,711
Financial assets held for trading (excluding loans and advances)	65,859	39,360	35,886	926	2,121	-	144,152
Available-for-sale financial assets	52,858	11,196	31,216	12,695	7,285	-	115,250
Loans and advances to credit institutions	65,754	14,093	23,899	2,463	19,800	(44,296)	81,713
Non-current assets (*)	5,838	2,700	3,967	6,857	6,747	-	26,109
Other asset accounts	22,523	35,695	42,505	6,865	168,081	(111,308)	164,361
Total liabilities and equity	**479,659**	**354,235**	**282,187**	**96,982**	**208,837**	**(155,604)**	**1,266,296**
Customer deposits	255,719	202,328	137,726	46,575	5,279	-	647,627
Marketable debt securities	19,435	69,581	31,920	15,999	59,954	-	196,889
Subordinated liabilities	410	5,376	6,467	772	4,107	-	17,132
Liabilities under insurance contracts	713	-	-	-	-	-	713
Deposits from central banks and credit institutions	76,889	26,700	35,263	17,254	43,559	(44,296)	155,369
Other accounts (**)	101,950	35,834	48,053	5,910	9,620	(39,119)	162,248
Share capital and reserves	24,543	14,416	22,758	10,472	86,318	(72,189)	86,318
Other customer funds under management	**59,942**	**9,667**	**70,176**	**1,584**	-	-	**141,369**
Investment funds	41,594	9,524	57,539	862	-	-	109,519
Pension funds	11,481	-	-	-	-	-	11,481
Assets under management	6,867	143	12,637	722	-	-	20,369
Customer funds under management (***)	**335,506**	**286,952**	**246,289**	**64,930**	**69,340**	-	**1,003,017**

(*) Including Tangible assets and Other intangible assets.

(**) Including, in addition to liability items not broken down, the balances of Valuation adjustments, Non-controlling interests and Profit for the year attributable to the Parent.

(***) Including Customer deposits, Marketable debt securities, Subordinated liabilities and Other customer funds under management.

The Corporate Activities segment acts as the Group’s holding company. Therefore, it manages all equity (share capital and reserves of all the units) and determines the allocation thereof to each unit. The Group's share capital and reserves (EUR 86,318 million) are initially assigned to this segment, and is then allocated in accordance with corporate policies to the business units (EUR 72,189 million). This allocation is shown as an asset of the Corporate Activities segment (included in Other asset accounts) and as a liability of each business unit (included in Share capital and reserves). Therefore, the allocation is reflected in the balance sheet net of adjustments for intra-Group eliminations in order not to duplicate the balances and obtain the total consolidated balance sheet for the Group.

(Condensed) balance sheet	Millions of euros						
	2013						
	Continental Europe	United Kingdom	Latin America	United States	Corporate Activities	Intra-Group eliminations	Total
Total assets	**436,641**	**323,743**	**244,927**	**59,383**	**181,847**	**(130,778)**	**1,115,763**
Loans and advances to customers	266,355	231,046	128,684	41,540	1,231	-	668,856
Financial assets held for trading (excluding loans and advances)	50,318	28,831	23,098	127	2,333	-	104,707
Available-for-sale financial assets	37,319	6,003	20,823	8,978	10,676	-	83,799
Loans and advances to credit institutions	38,506	17,136	28,073	488	28,774	(38,013)	74,964
Non-current assets (*)	6,298	2,498	3,895	620	3,303	-	16,614
Other asset accounts	37,845	38,229	40,354	7,630	135,530	(92,765)	166,823
Total liabilities and equity	**436,641**	**323,743**	**244,927**	**59,383**	**181,847**	**(130,778)**	**1,115,763**
Customer deposits	256,138	187,467	122,175	39,206	2,851	-	607,837
Marketable debt securities	16,782	64,092	28,987	1,146	64,470	-	175,477
Subordinated liabilities	406	5,805	4,832	1,225	3,871	-	16,139
Liabilities under insurance contracts	1,430	-	-	-	-	-	1,430
Deposits from central banks and credit institutions	59,040	26,882	24,490	8,436	28,562	(38,013)	109,397
Other accounts (**)	77,194	26,855	45,001	2,902	1,382	(28,562)	124,772
Share capital and reserves	25,651	12,642	19,442	6,468	80,711	(64,203)	80,711
Other customer funds under management	**50,962**	**9,645**	**59,188**	**5,375**	**-**	**-**	**125,170**
Investment funds	33,445	9,645	49,424	790	-	-	93,304
Pension funds	10,879	-	-	-	-	-	10,879
Assets under management	6,638	-	9,764	4,585	-	-	20,987
Customer funds under management (***)	**324,288**	**267,009**	**215,182**	**46,952**	**71,192**	**-**	**924,623**

(*) Including Tangible assets and Other intangible assets.

(**) Including, in addition to liability items not broken down, the balances of Valuation adjustments, Non-controlling interests and Profit for the year attributable to the Parent.

(***) Including Customer deposits, Marketable debt securities, Subordinated liabilities and Other customer funds under management.

(Condensed) balance sheet	Millions of euros						
	2012						
	Continental Europe	United Kingdom	Latin America	United States	Corporate Activities	Intra-Group eliminations	Total
Total assets	**495,272**	**359,058**	**263,939**	**68,637**	**243,497**	**(160,758)**	**1,269,645**
Loans and advances to customers	283,426	249,157	135,748	45,673	5,108	-	719,112
Financial assets held for trading (excluding loans and advances)	87,992	38,177	28,272	406	4,065	-	158,912
Available-for-sale financial assets	38,309	6,718	23,180	15,110	8,949	-	92,266
Loans and advances to credit institutions	49,020	18,124	25,662	851	50,422	(70,179)	73,900
Non-current assets (*)	5,698	2,561	4,453	597	3,987	-	17,296
Other asset accounts	30,827	44,321	46,624	6,000	170,966	(90,579)	208,159
Total liabilities and equity	**495,272**	**359,058**	**263,939**	**68,637**	**243,497**	**(160,758)**	**1,269,645**
Customer deposits	256,154	194,452	130,856	42,026	3,151	-	626,639
Marketable debt securities	21,119	73,919	28,107	819	82,005	-	205,969
Subordinated liabilities	118	5,534	5,578	2,142	4,866	-	18,238
Liabilities under insurance contracts	1,425	-	-	-	-	-	1,425
Deposits from central banks and credit institutions	78,177	29,313	31,600	14,753	69,304	(70,181)	152,966
Other accounts (**)	107,245	42,688	48,182	2,926	4,535	(20,804)	184,772
Share capital and reserves	31,034	13,152	19,616	5,971	79,636	(69,773)	79,636
Other customer funds under management	**43,391**	**13,919**	**54,716**	**6,115**	-	-	**118,141**
Investment funds	27,079	13,919	46,843	1,335	-	-	89,176
Pension funds	10,076	-	-	-	-	-	10,076
Assets under management	6,236	-	7,873	4,780	-	-	18,889
Customer funds under management (***)	**320,782**	**287,824**	**219,257**	**51,102**	**90,022**	-	**968,987**

(*) Including Tangible assets and Other intangible assets.

(**) Including, in addition to liability items not broken down, the balances of Valuation adjustments, Non-controlling interests and Profit for the year attributable to the Parent.

(***) Including Customer deposits, Marketable debt securities, Subordinated liabilities and Other customer funds under management.

(Condensed) income statement	Millions of euros 2014 Continental Europe	United Kingdom	Latin America	United States	Corporate Activities	Total
NET INTEREST INCOME	**8,728**	**4,234**	**13,879**	**4,643**	**(1,937)**	**29,547**
Dividends	287	1	88	29	30	435
Share of results of entities accounted for using the equity method	(25)	9	283	4	(28)	243
Net fee and commission income (expense)	3,457	1,028	4,565	683	(37)	9,696
Gains/losses on financial assets and liabilities (net) and exchange differences (net)	453	241	538	162	1,456	2,850
Other operating income (expenses)	(78)	28	(288)	121	58	(159)
GROSS INCOME	**12,822**	**5,541**	**19,065**	**5,642**	**(458)**	**42,612**
General administrative expenses	(5,632)	(2,565)	(7,226)	(1,813)	(663)	(17,899)
Staff costs	*(3,316)*	*(1,642)*	*(4,012)*	*(1,029)*	*(243)*	*(10,242)*
Other general administrative expenses	*(2,316)*	*(923)*	*(3,214)*	*(784)*	*(420)*	*(7,657)*
Depreciation and amortisation charge	(706)	(461)	(790)	(219)	(111)	(2,287)
Provisions (net)	(530)	(184)	(942)	(24)	(1,328)	(3,009)
Impairment losses	(2,960)	(333)	(5,143)	(2,230)	(44)	(10,710)
PROFIT (LOSS) FROM OPERATIONS	**2,994**	**1,998**	**4,964**	**1,355**	**(2,604)**	**8,707**
Impairment losses on non-financial assets	(74)	-	14	(13)	(865)	(938)
Other income and charges	109	3	113	46	2,638	2,910
PROFIT (LOSS) BEFORE TAX	**3,029**	**2,001**	**5,091**	**1,388**	**(830)**	**10,679**
Income tax	(756)	(425)	(1,151)	(369)	(1,017)	(3,718)
PROFIT (LOSS) FROM CONTINUING OPERATIONS	**2,273**	**1,576**	**3,940**	**1,019**	**(1,847)**	**6,961**
Profit (Loss) from discontinued operations	(26)	-	-	-	-	(26)
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**2,247**	**1,576**	**3,940**	**1,019**	**(1,847)**	**6,935**
Attributable to non-controlling interests	168	-	790	219	(58)	1,119
PROFIT (LOSS) ATTRIBUTABLE TO THE PARENT	**2,079**	**1,576**	**3,150**	**800**	**(1,789)**	**5,816**

(Condensed) income statement	Millions of euros											
	2013						2012					
	Continental Europe	United Kingdom	Latin America	United States	Corporate Activities	Total	Continental Europe	United Kingdom	Latin America	United States	Corporate Activities	Total
NET INTEREST INCOME	**8,123**	**3,451**	**14,920**	**1,675**	**(2,234)**	**25,935**	**8,854**	**3,336**	**17,596**	**1,980**	**(1,843)**	**29,923**
Dividends	265	1	54	23	35	378	289	1	59	21	53	423
Share of results of entities accounted for using the equity method	(19)	4	202	321	(8)	500	(88)	(5)	183	341	(4)	427
Net fee and commission income (expense)	3,552	991	4,808	460	(50)	9,761	3,625	1,190	5,020	455	(29)	10,261
Gains/losses on financial assets and liabilities (net) and exchange differences (net)	775	403	1,041	66	1,109	3,394	306	1,231	1,068	247	288	3,140
Other operating income (expenses)	(111)	30	(268)	(60)	107	(302)	(19)	24	(360)	(71)	512	86
GROSS INCOME (LOSS)	**12,585**	**4,880**	**20,757**	**2,485**	**(1,041)**	**39,666**	**12,967**	**5,777**	**23,566**	**2,973**	**(1,023)**	**44,260**
General administrative expenses	(5,807)	(2,181)	(7,624)	(1,274)	(566)	(17,452)	(5,790)	(2,311)	(8,069)	(1,221)	(410)	(17,801)
Staff costs	*(3,527)*	*(1,401)*	*(4,235)*	*(690)*	*(216)*	*(10,069)*	*(3,498)*	*(1,492)*	*(4,551)*	*(663)*	*(102)*	*(10,306)*
Other general administrative expenses	*(2,280)*	*(780)*	*(3,389)*	*(584)*	*(350)*	*(7,383)*	*(2,292)*	*(819)*	*(3,518)*	*(558)*	*(308)*	*(7,495)*
Depreciation and amortisation charge	(769)	(424)	(897)	(169)	(132)	(2,391)	(667)	(379)	(863)	(154)	(120)	(2,183)
Provisions (net)	(158)	(232)	(782)	(51)	(1,222)	(2,445)	(130)	(522)	(1,017)	(180)	377	(1,472)
Impairment losses	(3,766)	(580)	(6,485)	(44)	(352)	(11,227)	(9,903)	(1,220)	(7,300)	(345)	(112)	(18,880)
PROFIT (LOSS) FROM OPERATIONS	**2,085**	**1,463**	**4,969**	**947**	**(3,313)**	**6,151**	**(3,523)**	**1,345**	**6,317**	**1,073**	**(1,288)**	**3,924**
Impairment losses on non-financial assets	(65)	(4)	(24)	(17)	(393)	(503)	(27)	-	(17)	(24)	(440)	(508)
Other income and charges	(374)	-	311	(2)	1,795	1,730	(757)	5	228	5	668	149
PROFIT (LOSS) BEFORE TAX	**1,646**	**1,459**	**5,256**	**928**	**(1,911)**	**7,378**	**(4,307)**	**1,350**	**6,528**	**1,054**	**(1,060)**	**3,565**
Income tax	(376)	(301)	(1,197)	(125)	(35)	(2,034)	1,490	(312)	(1,457)	(192)	(113)	(584)
PROFIT (LOSS) FROM CONTINUING OPERATIONS	**1,270**	**1,158**	**4,059**	**803**	**(1,946)**	**5,344**	**(2,817)**	**1,038**	**5,071**	**862**	**(1,173)**	**2,981**
Profit (Loss) from discontinued operations	(6)	(9)	-	-	-	(15)	(7)	77	-	-	-	70
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**1,264**	**1,149**	**4,059**	**803**	**(1,946)**	**5,329**	**(2,824)**	**1,115**	**5,071**	**862**	**(1,173)**	**3,051**
Attributable to non-controlling interests	137	-	879	-	137	1,154	(79)	-	866	-	(19)	768
PROFIT (LOSS) ATTRIBUTABLE TO THE PARENT	**1,127**	**1,149**	**3,180**	**803**	**(2,082)**	**4,175**	**(2,745)**	**1,115**	**4,205**	**862**	**(1,154)**	**2,283**

Following is the detail 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 accompanying consolidated income statements for 2014, 2013 and 2012.

	Revenue (millions of euros)								
	Revenue from external customers			Inter-segment revenue			Total revenue		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Continental Europe	21,421	24,369	27,139	20	1,141	248	21,441	25,510	27,387
United Kingdom	9,091	9,612	11,019	1,204	1,180	1,294	10,295	10,792	12,313
Latin America	35,680	32,641	36,617	(393)	394	233	35,287	33,035	36,850
United States	7,339	2,799	3,474	(13)	113	(33)	7,326	2,912	3,441
Corporate Activities	3,263	4,015	3,718	7,323	6,862	9,056	10,586	10,877	12,774
Inter-segment revenue adjustments and eliminations	-	-	-	(8,141)	(9,690)	(10,798)	(8,141)	(9,690)	(10,798)
	76,794	**73,436**	**81,967**	**-**	**-**	**-**	**76,794**	**73,436**	**81,967**

b) Business segments

At this secondary level of segment reporting, the Group is structured into commercial banking, global wholesale banking, private banking, asset management and insurance, and the segment relating to real estate operations discontinued in Spain; the sum of these segments is equal to that of the primary geographical operating segments. Total figures for the Group are obtained by adding to the business segments the data for the corporate activities segment.

The commercial banking segment encompasses the entire commercial banking business (except for the corporate banking business managed globally using the global relationship model). The global wholesale banking segment reflects the returns on the global corporate banking business, those on investment banking and markets worldwide, including all the globally managed treasury departments and the equities business. The private banking, asset management and insurance segment includes the contribution to the Group arising from the design and management of the investment fund, pension and insurance businesses, which are performed in certain cases through various units wholly owned by the Group and in other cases through units in which the Group holds an ownership interest through joint ventures with specialists. The real estate operations discontinued in Spain include loans to customers engaging mainly in property development, for which a specialised management model is in place, the Group's ownership interest in SAREB and foreclosed assets.

The condensed income statements and other significant data are as follows:

(Condensed) income statement	Millions of euros 2014 Commercial banking	Global wholesale banking	Private banking, asset management and insurance	Real estate operations discontinued in Spain	Corporate Activities	Total
NET INTEREST INCOME	**28,493**	**2,533**	**462**	**(4)**	**(1,937)**	**29,547**
Income from equity instruments	132	273	-	-	30	435
Share of results of entities accounted for using the equity method	47	(2)	294	(68)	(28)	243
Net fee and commission income (expense)	7,700	1,414	610	9	(37)	9,696
Gains/losses on financial assets and liabilities (net) and exchange differences (net)	615	747	32	-	1,456	2,850
Other operating income (expenses)	(356)	32	108	(1)	58	(159)
GROSS INCOME	**36,631**	**4,997**	**1,506**	**(64)**	**(458)**	**42,612**
General administrative expenses	(14,893)	(1,615)	(523)	(205)	(663)	(17,899)
Staff costs	*(8,608)*	*(1,015)*	*(338)*	*(38)*	*(243)*	*(10,242)*
Other general administrative expenses	*(6,285)*	*(600)*	*(185)*	*(167)*	*(420)*	*(7,657)*
Depreciation and amortisation charge	(1,903)	(205)	(57)	(11)	(111)	(2,287)
Provisions (net)	(1,628)	(43)	(10)	-	(1,328)	(3,009)
Impairment losses	(9,763)	(556)	-	(347)	(44)	(10,710)
PROFIT (LOSS) FROM OPERATIONS	**8,444**	**2,578**	**916**	**(627)**	**(2,604)**	**8,707**
Net impairment losses on non-financial assets	(30)	(43)	-	-	(865)	(938)
Other non-financial gains/(losses)	487	(12)	2	(206)	2,639	2,910
PROFIT (LOSS) BEFORE TAX	**8,901**	**2,523**	**918**	**(833)**	**(830)**	**10,679**
Income tax	(2,070)	(689)	(192)	250	(1,017)	(3,718)
PROFIT (LOSS) FROM CONTINUING OPERATIONS	**6,831**	**1,834**	**726**	**(583)**	**(1,847)**	**6,961**
Profit (Loss) from discontinued operations	(26)	-	-	-	-	(26)
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**6,805**	**1,834**	**726**	**(583)**	**(1,847)**	**6,935**
Attributable to non-controlling interests	934	220	23	-	(58)	1,119
PROFIT (LOSS) ATTRIBUTABLE TO THE PARENT	**5,871**	**1,614**	**703**	**(583)**	**(1,789)**	**5,816**

(Condensed) income statement	2013 Commercial banking	2013 Global wholesale banking	2013 Private banking, asset manageme nt and insurance	2013 Real estate operations discontinue d in Spain	2013 Corporate Activities	2013 Total	2012 Commercial banking	2012 Global wholesale banking	2012 Private, banking, asset manageme nt and insurance	2012 Real estate operations discontinued in Spain	2012 Corporate Activities	2012 Total
	Millions of euros											
NET INTEREST INCOME	**25,552**	**2,464**	**115**	**38**	**(2,234)**	**25,935**	**28,865**	**2,708**	**119**	**74**	**(1,843)**	**29,923**
Income from equity instruments	78	265	-	-	35	378	86	284	-	-	53	423
Share of results of entities accounted for using the equity method	401	(1)	148	(40)	(8)	500	400	-	131	(100)	(4)	427
Net fee and commission income (expense)	8,193	1,254	349	15	(50)	9,761	8,471	1,360	418	41	(29)	10,261
Gains/losses on financial assets and liabilities (net) and exchange differences (net)	1,119	1,159	6	1	1,109	3,394	2,004	840	3	5	288	3,140
Other operating income (expenses)	(553)	7	145	(8)	107	(302)	(630)	(16)	223	(3)	512	86
GROSS INCOME	**34,790**	**5,148**	**763**	**6**	**(1,041)**	**39,666**	**39,196**	**5,176**	**894**	**17**	**(1,023)**	**44,260**
General administrative expenses	(14,890)	(1,549)	(285)	(162)	(566)	(17,452)	(15,343)	(1,592)	(272)	(184)	(410)	(17,801)
Staff costs	*(8,669)*	*(988)*	*(149)*	*(47)*	*(216)*	*(10,069)*	*(8,986)*	*(1,013)*	*(160)*	*(45)*	*(102)*	*(10,306)*
Other general administrative expenses	*(6,221)*	*(561)*	*(136)*	*(115)*	*(350)*	*(7,383)*	*(6,357)*	*(579)*	*(112)*	*(139)*	*(308)*	*(7,495)*
Depreciation and amortisation charge	(2,027)	(186)	(33)	(13)	(132)	(2,391)	(1,848)	(171)	(35)	(9)	(120)	(2,183)
Provisions (net)	(1,173)	(47)	(3)	-	(1,222)	(2,445)	(1,815)	(17)	(17)	-	377	(1,472)
Impairment losses	(9,506)	(952)	(7)	(410)	(352)	(11,227)	(12,182)	(420)	(2)	(6,164)	(112)	(18,880)
PROFIT (LOSS) FROM OPERATIONS	**7,194**	**2,414**	**435**	**(579)**	**(3,313)**	**6,151**	**8,008**	**2,976**	**568**	**(6,340)**	**(1,288)**	**3,924**
Net impairment losses on non-financial assets	(73)	(37)	-	-	(393)	(503)	(44)	(24)	-	-	(440)	(508)
Other non-financial gains/(losses)	249	12	2	(328)	1,795	1,730	219	(5)	8	(741)	668	149
PROFIT (LOSS) BEFORE TAX	**7,370**	**2,389**	**437**	**(907)**	**(1,911)**	**7,378**	**8,183**	**2,947**	**576**	**(7,081)**	**(1,060)**	**3,565**
Income tax	(1,509)	(661)	(101)	272	(35)	(2,034)	(1,675)	(827)	(154)	2,185	(113)	(584)
PROFIT (LOSS) FROM CONTINUING OPERATIONS	**5,861**	**1,728**	**336**	**(635)**	**(1,946)**	**5,344**	**6,508**	**2,120**	**422**	**(4,896)**	**(1,173)**	**2,981**
Profit (Loss) from discontinued operations	(15)	-	-	-	-	(15)	70	-	-	-	-	70
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**5,846**	**1,728**	**336**	**(635)**	**(1,946)**	**5,329**	**6,578**	**2,120**	**422**	**(4,896)**	**(1,173)**	**3,051**
Attributable to non-controlling interests	769	224	24	-	137	1,154	686	209	20	(128)	(19)	768
PROFIT (LOSS) ATTRIBUTABLE TO THE PARENT	**5,077**	**1,504**	**312**	**(635)**	**(2,083)**	**4,175**	**5,892**	**1,911**	**402**	**(4,768)**	**(1,154)**	**2,283**

53. Related parties

The parties related to the Group are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, the Bank's key management personnel (the members of its board of directors and the executive vice presidents, together with their close family members) and the entities over which the key management personnel may exercise significant influence or control.

Following is a detail of the ordinary business transactions performed by the Group with its related parties, distinguishing between associates and jointly controlled entities, members of the Bank's board of directors, the Bank's executive vice presidents, and other related parties. Related-party transactions were made on terms equivalent to those that prevail in arm's-length transactions or, when this was not the case, the related compensation in kind was recognised.

	Millions of euros											
	2014				2013				2012			
	Associates and jointly controlled entities	Members of the board of directors	Executive vice presidents	Other related parties	Associates and jointly controlled entities	Members of the board of directors	Executive vice presidents	Other related parties	Associates and jointly controlled entities	Members of the board of directors	Executive vice presidents	Other related parties
Assets:	**6,885**	**5**	**25**	**1,276**	**9,425**	**6**	**36**	**1,599**	**6,626**	**7**	**33**	**1,417**
Loans and advances to credit institutions	5	-	-	-	7,392	-	-	-	5,635	-	-	-
Loans and advances to customers	6,202	5	25	284	1,331	6	36	424	544	7	33	1,233
Debt instruments	678	-	-	992	702	-	-	1,175	447	-	-	184
Liabilities:	**(1,034)**	**(9)**	**(20)**	**(315)**	**(946)**	**(9)**	**(10)**	**(197)**	**(544)**	**(14)**	**(15)**	**(529)**
Deposits from credit institutions	(337)	-	-	-	(440)	-	-	-	(422)	-	-	-
Customer deposits	(696)	(9)	(20)	(315)	(498)	(9)	(10)	(197)	(122)	(14)	(15)	(529)
Marketable debt securities	(1)	-	-	-	(8)	-	-	-	-	-	-	-
Income statement:	**656**	**-**	**-**	**11**	**143**	**-**	**-**	**29**	**161**	**-**	**(1)**	**69**
Interest and similar income	89	-	-	6	109	-	-	6	94	-	-	36
Interest expense and similar charges	(18)	-	-	(2)	(12)	-	-	(7)	(4)		(1)	(5)
Gains/losses on financial assets and liabilities	35	-	-	2	12	-	-	25	59	-	-	24
Fee and commission income	572			5	56	-	-	5	43	-	-	14
Fee and commission expense	(22)	-	-	-	(22)	-	-	-	(31)	-	-	-
Other:	**4,270**	**2**	**3**	**3,720**	**14,029**	**-**	**4**	**4,137**	**12,573**	**1**	**7**	**2,958**
Contingent liabilities	43	-	-	265	74	-	-	145	-	-	-	303
Contingent commitments	59	2	3	77	1,063	-	4	95	3,431	1	7	3
Derivative financial instruments	4,168	-	-	3,378	12,892	-	-	3,897	9,142	-	-	2,652

In addition to the detail provided above, there were insurance contracts linked to pensions amounting to EUR 345 million at 31 December 2014 (31 December 2013: EUR 342 million; 31 December 2012: EUR 405 million).

54. Risk management

1. CORPORATE RISK MANAGEMENT AND CONTROL PRINCIPLES

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 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.

- 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 units from those responsible for risk control 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 indirectly (e.g. by suppliers).
- An organisational and governance model that assigns management and control officers to all risks, while maintaining the principle of independence, and which has clear, coherent reporting mechanisms both at each Group subsidiary and from these to the Corporation.
- Decision-making is instrumented through powers and responsibilities attributed 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 Group encourages the use of common management instruments among countries, 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.

2. CORPORATE GOVERNANCE OF THE RISK FUNCTION

2.1. Corporate risk governance structure

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

In addition to the executive committee, which pays particular attention to risk, the board has a risk, regulation and compliance oversight committee.

2.1.1. The risk, regulation and compliance oversight committee

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

By resolution of the 2014 annual general meeting[5] and at the proposal of the board, this committee was created in line with the European CRD IV Directive and best market practices. It comprises external or non-executive directors, with a majority of independent directors, and is chaired by an independent director.

The functions of the risk, regulation and compliance oversight committee are as follows:

- To support and advise the board on defining and assessing risk policies affecting the Group and establishing the risk propensity and risk strategy.
- To provide the board with assistance in the oversight of the application of the risk strategy.
- To conduct systematic reviews of the Group's exposure to its main customers, economic activity sectors, geographical areas and types of risk.
- To be acquainted with and measure 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 support and advise the board in its relationships with supervisors and regulators in the various countries in which the Group has a presence.
- To supervise compliance with the general code of conduct, with the anti-money laundering and financing of terrorism manuals and procedures and, in general, with the Bank's rules of governance and compliance programme, and to make the required proposals for improvement.
- To supervise the Group's governance and compliance policies and rules and, in particular, the adoption of the steps and measures arising from the reports or inspections conducted by the administrative supervision and control authorities.
- To monitor and assess legislative proposals and regulatory developments that may be applicable and the possible consequences for the Group.

2.1.2. The executive risk committee (CDR)

The executive risk committee is a body with risk-management powers delegated by the board and it takes decisions within the scope of those powers to ensure that the Group's risk profile derived from its business strategy is in line with the risk appetite limits and global policies approved by the board.

The CDR is chaired by an executive deputy chairman of the board, and comprises another four of the Bank's directors.

The committee's main responsibilities are as follows:

- To decide upon transactions outside the powers delegated to lower-ranking bodies and 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.

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

- 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.

2.1.3. Basic risk management committees

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.

2.2. Risk function responsibility model

2.2.1. Lines of defence

The Group follows a risk management and control model based on three lines of defence.

- The first line of defence comprises the business units and support areas (including those specialising in risk) that originate the Bank's risk exposure as part of their activity. These units are responsible for appropriately managing, monitoring and reporting the risk generated, which must be kept at a level consistent with the risk appetite and the authorised risk limits.
- The second line of defence comprises risk control and oversight teams, including the compliance function. This second line seeks to ensure effective control of risks and guarantees that risks are managed in accordance with the defined risk appetite level.
- Internal audit, as the third line of defence and in its role as the last control layer, performs regular assessments to ensure that the policies, methods and procedures are appropriate and checks their effective implementation.

The three lines of defence have sufficient levels of separation and independence for the effectiveness of the general framework not to be compromised and they act in a coordinated way in order to maximise their efficiency and boost their effectiveness.

Over and above these lines of defence, the board committees and the executive risk committees, both at corporate and unit level, are entrusted with the proper management and control of risk from the highest echelon of the organisation.

2.2.2. Organisational risk function structure

The chief risk officer (CRO) is the head of the risk function and reports to an executive deputy chairman of the Bank who is a member of the board of directors and chairman of the executive risk committee.

The CRO, whose duties include advising and challenging the executive line, reports separately to the risk, regulation and compliance oversight committee and to the board.

The risk management and control model has the following key features:

- Specialist risk management, enabling the units to manage the risk they generate in accordance with the established policies and limits.
- Control of financial, non-financial and transversal risks, checking, for each type of risk, that management and exposure are in keeping with the guidelines established by senior management.
- Group-wide risk management, which involves taking a comprehensive aggregate view of risk, assessing the Group's global risk profile and checking that it is consistent with the risk appetite and limit structure established by the board; and ensuring that the risk management and control systems are adequate and in line with the most demanding criteria and best practices observed in the industry and/or required by the regulators.
- Development, in the sphere of risk, of reporting regulations, methodologies and infrastructure.
- Planning and internal governance.
- Internal validation of risk models in order to assess their suitability for management and regulatory purposes. The validation exercise consists of the review of the theoretical fundamentals of the model, the quality of the data used to build and calibrate the model, and its use and the associated governance process.
- Control and coordination of regulatory projects to supervise the design and implementation of the best regulatory risk management standards at the Group and compliance with regulatory requirements in all countries in a consistent and efficient manner.

2.3. The Group's relationship with subsidiaries regarding risk management

2.3.1. Alignment of units with the Corporation

The risk management and control model, at all Group units, has a common set of basic principles, achieved by means of corporate frameworks.

Beyond these principles and fundamentals, each unit adapts its risk management to its local reality, within the framework of corporate policies and structures, which makes it possible to identify a risk management model at the Group.

One of the strengths of this model is the adoption of the best practices developed in each of the units and markets in which the Group is present. The corporate risk divisions pool and transfer these practices.

2.3.2. Committee structure

The Group units' governing bodies are structured taking into account local regulatory and legal requirements and each unit's size and complexity and are consistent with those of the Parent, as established in the internal governance framework, thus facilitating communication, reporting and effective control.

The subsidiaries' managing bodies, in accordance with the internal governance framework in place at the Group, have their own model of (quantitative and qualitative) risk management powers and must adhere to the principles of conduct contained in the benchmark models and frameworks developed at corporate level.

Given its ability to take an aggregate, comprehensive view of all risks, the Parent bank reserves for itself the powers to validate and question the operations and management policies at the various units, to the extent that they affect the Group's risk profile.

3. RISK MANAGEMENT AND CONTROL MODEL

The risk management and control model ensures that the risk profile remains within the levels set for the risk appetite and other limits. Similarly, it includes the adoption of the corrective and mitigating measures required to keep risk levels in line with the defined objectives.

The instruments that help ensure that all the risks arising from the Group's business activity are properly managed and controlled are described below.

3.1. Risk map

The risk map covers the main risk categories in which the Group has its most significant current and/or potential exposures, thus facilitating the identification thereof. The risk map includes the following:

- Financial risks:
    - Credit risk: risk that might arise from the failure to meet agreed-upon contractual obligations in financial transactions.
    - Trading market risk: risk which is incurred as a result of the possibility of changes in market factors affecting the value of positions in the trading portfolios.
    - Liquidity risk: risk of non-compliance with payment obligations on time or of complying with them at an excessive cost.
    - Structural market risk: risk caused by the management of the various balance sheet items, including those relating to the adequacy of capital and those arising from the insurance and pensions businesses.

- Non-financial risks:
    - Operational risk: the risk of incurring losses due to the inadequacy or failure of processes, staff and internal systems or due to external events.
    - Conduct risk: the risk caused by inappropriate practices in the Bank's dealings with its customers, and the treatment and products offered to each particular customer and the adequacy thereof.
    - Compliance and legal risk: risk arising from non-compliance with the legal framework, internal rules or the requirements of regulators and supervisors.
- Transversal risks:
    - Model risk: risk that includes losses arising from decisions based mainly on the results of models, due to errors in the design, application or use of the aforementioned models.
    - Reputational risk: risk of damage in the perception of the Bank by public opinion, its customers, investors or any other interested party.

- Strategic risk: the risk that results diverge significantly from the Group's strategy or business plan due to changes in general business conditions and risks associated with strategic decisions. This includes the risk of poor implementation of decisions or lack of capacity to respond to changes in the business environment.
- Capital risk: risk that the capital of the Group or any of its entities is not sufficient in terms of quantity and/or quality to meet the regulatory minimum capital requirements set to operate as a bank; respond to market expectations regarding its creditworthiness and support business growth and strategic possibilities that might arise.

3.2. Group-wide risk management (GWRM)

GWRM involves the identification, valuation, appropriate management and control of all risks, using a comprehensive perspective integrated in all levels of the organisation. The implementation and coordinated management of all the components of GWRM make it possible to evaluate the Group’s risk profile and its global management on an ongoing basis, thus enhancing risk management capabilities at all levels of the organisation.

The Group has launched the Santander Advanced Management programme to expedite implementation of its strategic projects for improved risk management and control capacity, with a view to positioning the Group as the entity having the best market practice in the current financial scenario.

The programme aims to achieve excellence in risk management, at both corporate and local level, whilst at all times maintaining a focus on doing “more and better” business.

The scope of application of the programme encompasses all Group units and guarantees the use of a set of uniform management principles in the various regulatory and competitive environments.

3.3. Risk assessment

As part of its routine management, the Group identifies and assesses the financial and non-financial risks inherent to its business activity to which it is exposed in the various geographical areas in which it operates.

3.4. Risk appetite and limits structure

Risk appetite is defined at the Group as the amount and type of risk that it considers reasonable to assume in implementing its business strategy, in order to ensure that it can continue to operate normally if unexpected events occur. To this end, severe scenarios are taken into account, which might have an adverse impact on its levels of capital or liquidity, its profits and/or its share price.

The board of directors is the body responsible for establishing and annually updating the Group's risk appetite, for monitoring its actual risk profile and for ensuring consistency between the two. The risk appetite is determined both for the Group as a whole and for each of the main business units using a corporate methodology adapted to the circumstances of each unit/market. At local level, the boards of directors of the related subsidiaries are responsible for approving the respective risk appetite proposals once they have been validated by the Group.

3.4.1. Banking business model and fundamentals of the risk appetite

The definition and establishment of the Group's risk appetite is consistent with its risk culture and its banking business model from the risk perspective. The main features defining the business model, which form the basis of the risk appetite at the Group, are as follows:

- A predictable general medium-low risk profile based on a diversified business model focusing on retail banking with a diversified international presence and significant market shares, and a wholesale banking model which prioritises the relationship with the customer base in the Group's principal markets.
- A stable, recurring earnings generation and shareholder remuneration policy based on a strong capital and liquidity base and a strategy to effectively diversify sources and maturities.
- A corporate structure based on autonomous subsidiaries that are self-sufficient in capital and liquidity terms, minimising the use of non-operating or purely instrumental companies, and ensuring that no subsidiary has a risk profile that might jeopardise the Group's solvency.
- An independent risk function with highly active involvement of senior management to guarantee a strong risk culture focused on protecting and ensuring an adequate return on capital.
- Maintaining a management model that ensures that all risks are viewed in a global interrelated way through a robust corporate risk control and monitoring environment with global responsibilities: all risks, all businesses, and all geographical areas.
- A business model that focuses on the products with respect to which the Group considers that it has sufficient knowledge and management capacity (systems, processes and resources).
- The conduct of the Group’s business activity on the basis of a behaviour model that safeguards the interests of its customers and shareholders.
- The availability of sufficient and adequate human resources, systems and tools in order to enable the Group to maintain a risk profile compatible with the established risk appetite, at both global and local level.
- The application of a remuneration policy containing the incentives required to ensure that the individual interests of employees and executives are in line with the corporate risk appetite framework and that the incentives are consistent with the Group's long-term earnings performance.

3.4.2. Corporate risk appetite principles

The Group's risk appetite is governed by the following principles at all the entities:

- Responsibility of the board and of senior executives. The board of directors of the Bank is the body ultimately responsible for establishing the risk appetite and its supporting regulations, as well as for overseeing compliance therewith.
- Integral view of risk, involving the checking and questioning of the risk profile. The risk appetite should take into consideration all the significant risks to which the Group may be exposed, providing an aggregate view of the Group's risk profile through the use of quantitative metrics and qualitative indicators.
- Future risk estimate. The risk appetite should take into consideration the desirable risk profile at the present time and in the medium term considering both the most likely circumstances and stress scenarios.
- Links with strategic and business plans and integration in management. The risk appetite is a benchmark in strategic and business planning.
- Risk appetites that are consistent across the various units and risk language that is common to the entire organisation.
- Periodic review, ongoing checking and adaptation to best practices and regulatory requirements.

3.4.3. Limits, monitoring and control structure

The risk appetite exercise is performed annually and includes a series of metrics and limits on the aforementioned metrics that express in quantitative and qualitative terms the maximum risk exposure that each

Group entity and the Group as a whole are willing to assume. Compliance with risk appetite limits is subject to ongoing monitoring.

3.4.4. Pillars of the risk appetite

The risk appetite is expressed through limits on quantitative metrics and qualitative indicators that measure the Group's exposure or risk profile by type of risk, portfolio, segment and business line, in both current and stressed conditions. The aforementioned risk appetite metrics and limits are structured around five main pillars that define the position that the Group's senior management wishes to adopt or maintain in developing its business model.

- The volatility in the income statement that the Group is willing to assume.
- The solvency position the Group wishes to maintain.
- The minimum liquidity position the Group wishes to have.
- The maximum concentration levels that the Group considers it reasonable to assume.
- Qualitative aspects and complementary metrics.

3.5. Scenario analysis

The Group conducts advanced risk management through the analysis of the impact that various scenarios in the environment in which the Bank operates might cause. These scenarios are expressed in terms of both macroeconomic variables and other variables that affect management.

Scenario analysis is a very useful tool for senior management since it allows them to test the Bank's resistance to stressed environments or scenarios and to implement packages of measures to reduce the Bank's risk profile vis-à-vis such scenarios.

The main uses of scenario analysis are described below:

- Regulatory uses: in which stress tests of scenarios are performed under guidelines set by the regulator. This group of uses includes, for example, the stress tests (comprehensive assessment and stress tests) requested in 2014 by the European Central Bank using the methodology set by the European Banking Authority (EBA).
- Internal capital (ICAAP) or liquidity adequacy assessment processes in which, although the regulator can impose certain requirements, the Bank develops its own methodology to assess its capital and liquidity levels vis-à-vis various stress scenarios. These tools enable capital and liquidity management to be planned.
- Risk appetite. This contains stressed metrics on which maximum loss levels (or minimum liquidity levels) are established that the Bank does not wish to exceed.
- Daily risk management. Scenario analysis is used in budgetary processes for provisions and other balance-sheet aggregates by type of risk, in the generation of commercial risk approval policies, in senior management's overall analysis of risk or in specific analyses of the profiles of activities or portfolios.

Corporate scenario analysis project

In response to increasing regulatory pressure and the need for advanced risk management, in 2014 a project was launched to develop a robust scenario analysis structure at corporate level; it is expected that the project will be extended to include the Group's main units in 2015. This project consists of three main pillars:

- Scenario analysis tool: implementation of an advanced loss-estimation tool with more robust, automated data handling and a multi-user operating environment.
- Governance: review of the governance framework for scenario analysis exercises in order to adapt to the increasing importance of these analyses, the heightened regulatory pressure and best market practices.
- Stress methodologies: preparation of plans to develop advanced mathematical stress models to improve risk predictability, taking into account the organisation's calculation capabilities.

3.6. Living wills (recovery and resolution plans)

The Group was the first international financial institution considered to be globally systemic by the Financial Stability Board to present (in 2010) its living will (the most important portion of which envisages the measures that the entity would have available to exit a highly severe crisis situation by itself) to its consolidated supervisor (at that time the Bank of Spain).

In 2014 the fifth version of the corporate living will was prepared. The living will comprises the corporate living will (corresponding to Banco Santander, S.A.) and the individual living wills for the most important local units (the UK, Brazil, Mexico, the US, Germany, Argentina, Chile, Poland and Portugal), thus complying with the commitment made by the Bank to the competent authorities in 2010.

The Group's senior management keeps itself fully involved in the preparation and periodic monitoring of the content of the living wills by holding specific committee meetings of a technical nature, as well as for monitoring at institutional level, and this ensures that the content and structure of documents are adapted to local and international crisis management legislation, which has been in continuous development in recent years.

The corporate living will is approved by the board of directors or by the executive committee and the executive risk committee, exercising the functions delegated to them. In turn, the individual living wills are approved by local bodies, always in coordination with the Group since they must form part of the corporate living will.

3.7. Independent reporting

One of the key features of the management model is the risk reporting framework, which sets standards that ensure a consolidated view of all risks and facilitate decision-making by the board of directors and senior management.

Accordingly, in 2014 the Group launched a project to ensure that risk reporting to senior management includes the basic principles defined in Risk Data Aggregation, which are summarised in terms of the following cornerstones:

- Governance: a governance system and taxonomy are established for the data and reporting life cycles.
- Database architecture: this guarantees the Bank's ability to aggregate all the risk data in a reliable manner, thereby ensuring that they are accurate, comprehensive, complete, traceable, updated in a timely fashion, adaptable to requirements and flexible.
- Preparation of risk reports for senior management.

3.8. Internal risk control framework

The risk management model has an internal control environment that ensures appropriate control of all risks and provides an integrated view thereof. This control is performed at all the Group's units and for each type of risk in order to ensure that the Group's exposures and overall risk profile are within the framework of the mandates established by both the board of directors and the regulators.

The main functions ensuring effective risk control are:

- the supervision and aggregate consolidation of all risks. The risk unit, both at corporate level and at each unit, performs the function of supervising all risks with the aim of questioning or independently challenging risk management and risk control mechanisms, providing value judgements and elements to support decision-making by senior management.
- the assessment of internal control mechanisms. This consists of a periodic systematic review of all the necessary control processes and procedures in order to guarantee that they are effective and in force.
- integrated risk control and internal risk validation. The main activities performed by the integrated risk control function include:
    - Verifying that the management and control systems for the various risks inherent in Santander Group's activities comply with the most stringent criteria and the best practices observed in the industry and/or required by regulators.
    - Overseeing the 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 supervisors to which the Group is subject.

  This function is characterised by having global and corporate scope, encompassing all risks, all businesses and all geographical areas. Performance of this function is based on an internally-developed methodology and a set of tools that support the function, in order to systematise its operation and tailor it to the Group's specific requirements. As a result, it is possible to formalise application of this methodology and to render it traceable and targetable.

  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 the Group, internal validation covers all models used in the risk function, i.e. credit, market, structural and operational risk models and economic and regulatory capital models. The scope of the validation includes not only the more theoretical or methodological aspects, but also the technology systems and the data quality that 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.

- Control by the compliance function that the risks assumed are compliant with the legal framework, internal regulations and regulatory and supervisory requirements.

- Assessment by internal audit, as the third line of defence, provides an independent review of the first two lines of defence, thus ensuring that the policies, methods and procedures are appropriate and are integrated in management.

  Internal audit is a permanent corporate function that is independent of any other Group function or unit, and its mission is to provide security on such matters to the board of directors and senior management, thus contributing to the protection of the organisation and its reputation.

4. CREDIT RISK

4.1 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.

In credit risk management terms, segmentation is based on the distinction between three types of customers:

- The individuals segment includes all individuals, except for those engaging in a business activity. This segment is in turn divided into various sub-segments based on income levels, which makes it possible to tailor risk management to each type of customer.
- The SMEs, companies and institutions segment includes legal entities and individuals engaging in a business activity. It also includes public-sector entities in general and not-for-profit private-sector entities.
- The global wholesale banking -BMG- segment comprises corporate customers, financial institutions and sovereigns, which make up a closed list of entities that is reviewed on an annual basis. Inclusion of an entity on this list is determined on the basis of a comprehensive analysis of the enterprise (business, countries in which it operates, types of products used, level of income it represents for the Bank, length of relationship with the customer, etc.).

The Group has a mainly retail profile, with 85% of its total risk exposure being generated by its commercial banking business.

4.2 Main aggregates and variations

Following are the main aggregates relating to credit risk arising on customer business:

MAIN AGGREGATES – RISK MANAGEMENT*

	Credit risk exposure to customers (1) (millions of euros)		Non-performing loans ratio (%)		Coverage ratio (%)	
	2014	2013	2014	2013	2014	2013
Continental Europe	308,205	312,167	8.93	9.13	57.2	57.3
Spain	182,974	189,783	7.38	7.49	45.5	44.0
Santander Consumer Finance (1)	63,654	58,628	4.82	4.01	100.1	105.3
Portugal	25,588	26,810	8.89	8.12	51.8	50.0
Poland	18,920	18,101	7.42	7.84	60.3	61.8
UK	256,337	235,627	1.79	1.98	41.9	41.6
Latin America	167,065	146,392	4.65	5.00	84.7	85.4
Brazil	90,572	79,216	5.05	5.64	95.4	95.1
Mexico	27,893	24,024	3.84	3.66	86.1	97.5
Chile	33,514	31,645	5.97	5.91	52.4	51.1
Argentina	5,703	5,283	1.61	1.42	143.3	140.4
US	72,477	44,372	2.54	2.60	192.8	86.6
Puerto Rico	3,871	4,023	7.45	6.29	55.6	61.6
Sovereign	45,825	40,349	1.41	2.23	109.4	93.6
SC USA	22,782	-	3.97	-	296.2	-
Total Group	804,084	738,558	5.19	5.64	67.2	61.7

(1) Including gross loans and advances to customers, guarantees and documentary credits.

In 2014 credit risk exposure to customers increased by 9%. This growth was experienced across-the-board, with the exception of Spain, Portugal and Puerto Rico. The Group's non-performing loans ratio fell to 5.19%. Its coverage ratio stood at 67%. It is important to take into account that this ratio is reduced by the relatively high proportion of mortgage portfolios (especially in the UK and Spain), which require lower provisions since they are secured by collateral.

4.3. Detail of the main geographical areas

Following is a description of the portfolios in the geographical areas where the Group's risk concentration is highest.

4.3.1. United Kingdom

Credit risk exposure to UK customers amounted to EUR 256,337 million at the end of December 2014, and represented 32% of the Group total.

Due to its importance, not only to Santander UK, but also to the Group's lending activity as a whole, the mortgage loan portfolio (which totalled EUR 193,048 million at the end of December 2014) must be highlighted.

This portfolio is composed of first-mortgage home purchase or refurbishment loans to new and existing customers, since transactions involving second or successive liens on mortgaged properties are no longer originated.

The property on which the mortgage guarantee is constituted must always be located in the UK, irrespective of where the funding is to be employed, except for certain one-off transactions. Loans may be granted for the purchase of residences abroad, but the mortgage guarantee must in all cases be constituted on a property located in the UK.

Geographically speaking, the credit risk exposure is concentrated mainly in the South East of the country, particularly in the metropolitan area of London, where house price indices display a more stable behaviour, even in times of economic slowdown.

All properties are appraised independently prior to the approval of each new transaction, in accordance with the Group's risk management principles.

For mortgage loans that have already been granted, the appraised value of the mortgaged property is updated quarterly by an independent agency using an automatic appraisal system in accordance with standard procedure in the market and in compliance with current legislation.

The non-performing loans ratio of the mortgage segment fell from 1.88% in 2013 to 1.64% at 2014 year-end. This decrease in the non-performing loans ratio was based on the behaviour of non-performing loans, which improved significantly as a result of the more favourable macroeconomic environment and the increase in re-performing loans due to the improved efficiency of the recovery teams.

The credit policies limit the maximum loan-to-value ratio to 90% for loans on which principal and interest are repaid and to 50% for loans on which interest is paid periodically and the principal is repaid on maturity.

Current credit risk policies expressly prohibit loans considered to be high risk (subprime mortgages), and establish demanding requirements regarding the credit quality of both loans and customers. For example, the granting of mortgage loans with LTVs exceeding 100% has been forbidden since 2009.

Another indicator of the sound performance of the portfolio is the small volume of foreclosed properties, which amounted to EUR 75 million at December 2014. The efficient management of foreclosures, coupled with the existence of a dynamic market for foreclosed homes, makes it possible to sell these properties in a short space of time (on average approximately 18 weeks).

4.3.2. Spain

Portfolio overview

Total credit risk exposure in Spain (including guarantees and documentary credits but excluding the discontinued real estate operations unit - discussed below) amounted to EUR 182,974 million (23% of the Group total), with an adequate degree of diversification in terms of both products and customer segments.

2014 marked a turning point in the downward trend in total credit risk exposure. Although in year-on-year terms lending was still down by 4%, the second half of the year already witnessed moderate growth figures, mirroring the improved economic situation and the various strategies implemented. The non-performing loans ratio for the total portfolio stood at 7.38% and the coverage ratio rose to 45%.

Portfolio of home purchase loans to families

Home purchase loans granted to families in Spain stood at EUR 52,942 million at 2014 year-end. Of this amount, 99% was secured by mortgages.

In millions of euros	31-12-14	
	Gross amount	*Of which: Doubtful*
Home purchase loans to families	52,942	*3,059*
Without mortgage guarantee	*493*	*61*
With mortgage guarantee	*52,449*	*2,998*

The risk profile of the home purchase mortgage loan portfolio in Spain remained at a medium-low level, with limited prospects of additional impairment:

- All mortgage transactions include principal repayments from the very first day.
- Early repayment is common practice and, accordingly, the average life of the transactions is far shorter than their contractual term.
- Debtors provide all their assets as security, not just the home.
- High quality of collateral, since the portfolio consists almost exclusively of principal-residence loans.
- Stable average debt-to-income ratio at around 29%.
- 73% of the portfolio has an LTV of less than 80%. In 2014 a re-appraisal encompassing substantially all the mortgage portfolio was conducted, in keeping with supervisory requirements.

In millions of euros	31-12-14					
	Loan to value ratio					
	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 or equal to 100%	More than 100%	Total
Initial gross amount	5,113	10,071	22,855	11,155	3,255	52,449
Of which: Doubtful	*90*	*228*	*685*	*694*	*1,301*	*2,998*

For internal management purposes, the Group updates the LTV ratios at least once a year, taking into consideration published house price indices. Also, if a debtor becomes doubtful the Group updates the appraisals undertaken by valuers, which are taken into account in the estimate of impairment losses.

Companies portfolio

The EUR 96,884 million of direct credit risk exposure to SMEs and companies constitute the most important lending segment in Spain, representing 53% of the total.

94% of the portfolio relates to customers to which an analyst has been assigned who monitors the customer on an ongoing basis in all the phases of the risk cycle.

The non-performing loans ratio of this portfolio stood at 8.91% in 2014, impacted mainly by the fall in lending.

Real estate business

The Group manages, as a separate unit, its real estate business, which includes loans to customers engaging mainly in property development, for which a specialised management model is in place, the investment in SAREB and foreclosed assets.

In recent years the Group's strategy has been geared towards reducing these assets. The changes in gross property development loans to customers were as follows:

	Millions of euros		
	31-12-14	31-12-13	31-12-12
Balance as at beginning of year (net)	12,105	15,867	23,442
Foreclosed assets	(357)	(848)	(930)
Reductions [(1)]	(2,015)	(2,114)	(5,670)
Written-off assets	(384)	(800)	(975)
Balance as at end of year (net)	9,349	12,105	15,867

(1) Includes sales of portfolios, cash recoveries and third-party subrogations

The NPL ratio of this portfolio ended the year at 67.3% (compared with 61.7% at December 2013) due to the increase in the proportion of doubtful assets in the problem loan portfolio and, in particular, to the sharp reduction in lending in this segment. The table below shows the distribution of the portfolio. The coverage ratio of the real estate exposure in Spain stands at 42.5%.

	31-12-14		
Millions of euros	Gross amount	Excess over collateral value	Specific allowance
Financing for construction and property development recognised by the Group's credit institutions (business in Spain)	9,349	4,218	3,974
Of which: Doubtful	*6,292*	*3,175*	*3,400*
Of which: Substandard	*1,529*	*623*	*574*
Memorandum item: Written-off assets	1,888		

Memorandum item: Data from the public consolidated balance sheet	31-12-14
Millions of euros	Carrying amount
Total loans and advances to customers excluding the public sector (business in Spain)	154,906
Total consolidated assets	1,266,296
Impairment losses and credit risk allowances. Collective coverage (business in Spain)	253

At year-end, the concentration of this portfolio was as follows:

	Loans: Gross amount
	31-12-14
1. Without mortgage guarantee	1,011
2. With mortgage guarantee	8,338
2.1 Completed buildings	4,440
2.1.1 Residential	2,096
2.1.2 Other	2,344
2.2 Buildings under construction	546
2.2.1 Residential	457
2.2.2 Other	89
2.3 Land	3,352
2.3.1 Developed land	2,882
2.3.2 Other land	470
Total	9,349

Policies and strategies in place for the management of these risks

The policies in force for the management of this portfolio, which are reviewed and approved on a regular basis by the Group's senior management, are currently geared towards reducing and securing the outstanding exposure, albeit without neglecting any viable new business that may be identified.

In order to manage this credit exposure, the Group has specialised teams that not only form part of the risk areas but also supplement the management of this exposure and cover the entire life cycle of these transactions: commercial management, legal procedures and potential recovery management.

As has already been discussed in this section, the Group's anticipatory management of these risks enabled it to significantly reduce its exposure, and it has a granular, geographically diversified portfolio in which the financing of second residences accounts for a very small proportion of the total.

Mortgage lending on non-urban land represents a low percentage of mortgage exposure to land, while the remainder relates to land already classified as urban or approved for development.

The significant reduction of exposure in the case of residential financing projects in which the construction work has already been completed was based on various actions. As well as the specialised marketing channels already in existence, campaigns were carried out with the support of specific teams of managers for this function who, in the case of the Santander Network, were directly supervised by the recoveries business area. These campaigns, which involved the direct management of the projects with property developers and purchasers, reducing sale prices and adapting the lending conditions to the buyers' needs, enabled loans already in force to be subrogated. These subrogations enable the Group to diversify its risk in a business segment that displays a clearly lower non-performing loans ratio.

The loan approval processes are managed by specialist teams which, working in direct coordination with the sales teams, have a set of clearly defined policies and criteria:

- Property developers with a robust solvency profile and a proven track record in the market.
- Strict criteria regarding the specific parameters of the transactions: exclusive financing for the construction cost, high percentages of accredited sales, principal residence financing, etc.
- Support of financing of government-subsidised housing, with accredited sales percentages.

- Restricted financing of land purchases, subject to the restoration of a sufficient level of coverage in existing financing arrangements or to the obtainment of increased collateral.

In addition to the permanent control performed by its risk monitoring teams, the Group has a specialist technical unit that monitors and controls this portfolio with regard to the stage of completion of construction work, planning compliance and sales control, and validates and controls progress billing payments. The Group has created a set of specific tools for this function. All mortgage distributions, amounts drawn down of any kind, changes made to the grace periods, etc. are authorised on a centralised basis.

In the case of construction-phase projects that are experiencing difficulties of any kind, the policy adopted is to ensure completion of the construction work so as to obtain completed buildings that can be sold in the market. To achieve this aim, the projects are analysed on a case-by-case basis in order to adopt the most effective series of measures for each case (structured payments to suppliers to ensure completion of the work, specific schedules for drawing down amounts, etc.).

The management of on-balance-sheet property assets is performed by companies that specialise in the sale of property, which is supplemented by the commercial network structure. The sale prices are reduced in line with market conditions.

Foreclosed properties

As a last resort, the acquisition and foreclosure of property assets is one of the mechanisms adopted in Spain in order to manage the portfolio efficiently. At 31 December 2014, the net balance of these assets amounted to EUR 4,597 million (gross amount: EUR 9,760 million; recognised allowance: EUR 5,163 million).

The following table shows the detail of the assets foreclosed by the businesses in Spain at the end of 2014:

	31-12-14	
Millions of euros	Carrying amount	Of which: Allowance
Property assets from financing provided to construction and property development companies	3,648	4,443
Of which:		
Completed buildings	*1,182*	*930*
Residential	*514*	*415*
Other	*668*	*515*
Buildings under construction	*465*	*449*
Residential	*465*	*449*
Other	-	-
Land	*2,001*	*3,064*
Developed land	*723*	*1,065*
Other land	*1,278*	*1,999*
Property assets from home purchase mortgage loans to households	949	720
Other foreclosed property assets	-	-
Total property assets	**4,597**	**5,163**
Equity instruments, ownership interests and financing provided to non-consolidated companies holding these assets	473	924
Total	**5,070**	**6,087**

In recent years, the Group has considered foreclosure to be a more efficient method for resolving cases of default than legal proceedings. The Group initially recognises foreclosed assets at the lower of the carrying amount of the debt (net of provisions) and the fair value of the foreclosed asset (less estimated costs to sell). If fair value (less costs to sell) is lower than the net value of the debt, the difference is recognised under Impairment losses on financial assets (net) - Loans and receivables in the consolidated income statement for the year. Subsequent to initial recognition, the assets are measured at the lower of fair value (less costs to sell) and the amount initially recognised. The fair value of this type of assets is determined by the Group's directors based on evidence obtained from qualified valuers or evidence of recent transactions.

The changes in foreclosed properties were as follows:

	Thousands of millions of euros	
	2014	2013
Gross additions	1.8	1.9
Disposals	(0.9)	(0.9)
Difference	0.9	1.0

4.3.3. Brazil

Credit risk exposure in Brazil amounts to EUR 90,572 million (11.2% of the Group total), is adequately diversified and has a predominantly retail profile, with 51% of lending granted to individual, consumer finance and SME customers.

In 2014 the exposure grew by 5.13% (excluding changes in exchange rates) as compared with 7.1% in 2013. This growth is in line with the average performance of private banks in Brazil. The non-performing loans ratio ended the year at 5.05%, down from 5.64% at 2013 year-end, and the NPL coverage ratio stood at 95% at December 2014.

4.4. Credit risk from other standpoints

4.4.1. Credit risk from financial market operations

This concept includes the credit risk arising in treasury operations with customers, mainly credit institutions. These operations are performed using both money market financing products arranged with various financial institutions and products with counterparty risk intended to provide service to the Group's customers.

As defined in Chapter 6 of the CRR (Regulation (EU) No 575/2013), counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. It includes the following types of transaction: derivative instruments, repurchase agreements, securities or commodities lending transactions, deferred settlement transactions and guarantee financing transactions.

The Group uses two methods to measure its exposure to this risk: a mark-to-market method (replacement cost for derivatives or amount drawn down for committed facilities) including an add-on for potential future exposure; and another method, introduced in mid-2014 for certain regions and products, which calculates exposure using Monte Carlo simulations. Calculations are also performed of capital at risk or unexpected loss (i.e. the loss which, once the expected loss is subtracted, constitutes the economic capital, net of guarantees and recoveries).

When the markets close, the exposures are recalculated by adjusting all the transactions to their new time horizon, the potential future exposure is adjusted and mitigation measures are applied (netting arrangements, collateral arrangements, etc.) so that the exposures can be controlled daily against the limits approved by senior management. Risk control is performed using an integrated, real-time system that enables the Group to know at any time the unused exposure limit with respect to any counterparty, for any product and maturity and at any Group unit.

4.4.2. Concentration risk

Concentration risk control is key to the risk management process. The Group continuously monitors the degree of credit risk concentration, by country, sector and customer group.

The board of directors, by reference to the risk appetite, determines the maximum levels of concentration over risk appetite and limit structure. In keeping with the risk appetite, the executive risk committee establishes the risk policies and reviews the appropriate exposure limits to ensure the adequate management of credit risk concentration.

The Group is subject to the regulation of "large exposures" contained in Part Four of CRR (Regulation (EU) No 575/2013), according to which an institution's exposure to a customer or group of connected customers is considered a "large exposure" where its value is equal to or exceeds 10% of its eligible capital. Additionally, in order to limit large exposures, an institution may not incur an exposure to a customer or group of connected customers the value of which exceeds 25% of its eligible capital, after taking into account the effect of the credit risk mitigation contained in the Regulation.

At the end of December 2014, after applying risk mitigation techniques and the regulations applicable to large exposures, the exposure to each of the reported groups was below 4.7% of eligible capital, with the exception of one central counterparty in the EU, the exposure to which stood at 7.3%.

For its part, the Group's regulatory credit exposure to the 20 largest groups classified as large exposures accounted for 5.5% of the credit risk exposure to customers (lending plus off-balance-sheet exposures). The regulatory credit exposure to the top 10 international financial institutions (IFIs) amounted to EUR 18,378 million.

The 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 is as follows:

Millions of euros	31/12/14				
	Total	Spain	Other EU Countries	Americas	Rest of the world
Credit institutions	167,414	28,770	85,429	45,949	7,266
Public sector	159,589	58,794	33,398	61,874	5,523
Of which:					
Central government	*130,594*	*38,214*	*32,620*	*54,318*	*5,442*
Other	*28,995*	*20,580*	*778*	*7,556*	*81*
Other financial institutions	55,115	13,501	15,976	23,535	2,103
Non-financial companies and individual traders	319,661	89,824	89,349	127,000	13,488
Of which:					
Construction and property development	*25,880*	*7,123*	*7,028*	*10,844*	*885*
Civil engineering construction	*5,916*	*2,937*	*2,402*	*517*	*60*
Large companies	*175,865*	*42,190*	*45,392*	*78,127*	*10,156*
SMEs and individual traders	*112,000*	*37,574*	*34,527*	*37,512*	*2,387*
Other households and non-profit institutions serving households	447,545	66,539	272,767	104,032	4,207
Of which:					
Residential	*305,546*	*51,579*	*220,072*	*33,523*	*372*
Consumer loans	*121,458*	*9,412*	*50,389*	*58,168*	*3,489*
Other purposes	*20,541*	*5,548*	*2,306*	*12,341*	*346*
Subtotal	1,149,324	257,428	496,919	362,390	32,587
Less: collectively assessed impairment losses	5,983				
Total (*)	**1,143,341**				

(*) For the purposes of this table, the definition of risk includes the following items in the public balance sheet: Loans and advances to credit institutions, Loans and advances to customers, Debt instruments, Equity instruments, Trading derivatives, Hedging derivatives, Investments and Contingent liabilities.

4.4.3. Country risk

Country risk is a credit risk component inherent in all cross-border credit transactions due to circumstances other than ordinary commercial risk. Its main elements are sovereign risk, transfer risk and other risks that can affect international financial operations (war, natural disasters, balance of payments crises, etc.).

At 31 December 2014, the provisionable country risk exposure amounted to EUR 176 million (2013: EUR 382 million). The allowance recognised in this connection at 2014 year-end amounted to EUR 22 million, as compared with EUR 47 million at 2013 year-end. It should be noted that in 2014 Colombia was considered to be a country belonging to Group 2 instead of Group 3 per the Bank of Spain country risk classification.

The exposure is moderate and has continued the downward trend witnessed in recent years, the decrease in 2014 being more pronounced as a result of transactions that matured in the year. Total country risk exposure, irrespective of whether or not it is provisionable, is also moderate. Except for the Group 1 countries (considered by the Bank of Spain to have the lowest level of risk [6]), exposure to an individual country in no case exceeds 1% of the Group's total assets.

The Group's country risk management policies continued to adhere to a principle of maximum prudence, and country risk is assumed, applying highly selective criteria, in transactions that are clearly profitable for the Group and bolster its global relationship with its customers.

6 This group includes transactions with ultimate obligors resident in European Union countries, Norway, Switzerland, Iceland, the US, Canada, Japan, Australia and New Zealand.

4.4.4. Sovereign risk and exposure to other public sector entities

As a general rule, the Group considers sovereign risk to be the risk assumed in transactions with the central bank (including the regulatory cash reserve requirement), the issuer risk of the Treasury or similar body (government debt securities) and the risk arising from transactions with public entities that have the following features: their funds are obtained only from fiscal income; they are legally recognised as entities directly included in the central government public sector; and their activities are of a non-commercial nature.

This criterion, which has been employed historically by the Group, differs in certain respects from that requested by the European Banking Authority (EBA) for its periodic stress tests. The most significant differences are that the EBA's criteria do not include risk exposure to central banks, exposure to insurance companies or indirect exposure by means of guarantees or other instruments. However, they do include exposure to public sector entities (including regional and local entities) in general, not only the central government public sector.

Sovereign risk exposure (per the criteria applied at the Group) arises mainly from the subsidiary banks' obligations to make certain deposits at the corresponding central banks, from the arrangement of deposits using liquidity surpluses, and from the fixed-income portfolios held as part of the on-balance-sheet structural interest rate risk management strategy and in the trading books of the treasury departments. The vast majority of these exposures are taken in local currency and are financed out of local customer deposits, also denominated in local currency.

The detail at 31 December 2014, 2013 and 2012, based on the Group's management of each portfolio, of the Group's sovereign risk exposure, net of the short positions held with the respective countries, taking into consideration the aforementioned criterion established by the European Banking Authority (EBA), is as follows:

	31-12-14			
	Millions of euros			
	Portfolio			
Country	Financial assets held for trading and Other financial assets at fair value through profit or loss (*)	Available-for-sale financial assets	Loans and receivables	Total net direct exposure
Spain	5,778	23,893	15,098	44,769
Portugal	104	7,811	589	8,504
Italy	1,725	-	-	1,725
Greece	-	-	-	-
Ireland	-	-	-	-
Rest of eurozone	(1,070)	3	1	(1,066)
UK	(613)	6,669	144	6,200
Poland	5	5,831	30	5,866
Rest of Europe	1,165	444	46	1,655
US	88	2,897	664	3,649
Brazil	11,144	17,685	783	29,612
Mexico	2,344	2,467	3,464	8,275
Chile	593	1,340	248	2,181
Rest of Americas	181	1,248	520	1,949
Rest of the world	4,840	906	618	6,364
Total	**26,284**	**71,194**	**22,205**	**119,683**

(*) Net of short positions amounting to EUR 3,187 million.

In addition, at 31 December 2014, the Group had net direct derivative exposures the fair value of which amounted to EUR 1,028 million and net indirect derivative exposures the fair value of which amounted to EUR 5 million. Also, the Group did not have any exposure to held-to-maturity investments.

Country	31-12-13			
	Millions of euros			
	Portfolio			
	Financial assets held for trading and other financial assets at fair value through profit or loss (*)	Available-for-sale financial assets	Loans and receivables	Total net direct exposure
Spain	4,359	21,144	12,864	38,367
Portugal	148	2,076	583	2,807
Italy	1,309	77	-	1,386
Greece	-	-	-	-
Ireland	-	-	-	-
Rest of eurozone	(1,229)	67	-	(1,161)
UK	(1,375)	3,777	-	2,402
Poland	216	4,770	43	5,030
Rest of Europe	5	117	-	122
US	519	2,089	63	2,671
Brazil	8,618	8,901	223	17,743
Mexico	3,188	2,362	2,145	7,695
Chile	(485)	1,037	534	1,086
Rest of Americas	268	619	663	1,550
Rest of the world	5,219	596	146	5,964
Total	**20,762**	**47,632**	**17,268**	**85,661**

(*) Net of short positions amounting to EUR 17,658 million.

In addition, at 31 December 2013, the Group had net direct derivative exposures the fair value of which amounted to EUR (206) million and net indirect derivative exposures the fair value of which amounted to EUR 6 million. Also, the Group did not have any exposure to held-to-maturity investments.

Country	31-12-12			
	Millions of euros			
	Portfolio			Total net direct exposure
	Financial assets held for trading and other financial assets at fair value through profit or loss (*)	Available-for-sale financial assets	Loans and receivables	
Spain	4,403	24,654	16,528	45,586
Portugal	-	1,684	616	2,300
Italy	(71)	76	-	4
Greece	-	-	-	-
Ireland	-	-	-	-
Rest of eurozone	943	789	-	1,731
UK	(2,628)	4,419	-	1,792
Poland	669	2,898	26	3,592
Rest of Europe	10	-	-	10
US	(101)	1,783	30	1,712
Brazil	14,067	11,745	351	26,163
Mexico	4,510	2,444	2,381	9,335
Chile	(293)	1,667	521	1,895
Rest of Americas	214	916	771	1,900
Rest of the world	1,757	645	234	2,636
Total	**23,480**	**53,718**	**21,457**	**98,655**

(*) Net of short positions amounting to EUR 15,282 million.

In addition, at 31 December 2012, the Group had net direct derivative exposures the fair value of which amounted to EUR (330) million and net indirect derivative exposures the fair value of which amounted to EUR (33) million. Also, the Group did not have any exposure to held-to-maturity investments.

4.4.5. Environmental risk

In line with the Group's commitment to sustainability, the environmental risk analysis of credit transactions is one of the main features of the strategic corporate social responsibility plan. The analysis is founded on two major cornerstones:

- The Equator Principles: an initiative of the International Finance Corporation of the World Bank. These principles constitute an international standard for the analysis of the social and environmental implications of project finance transactions and corporate loans for known purposes. The assumption of these principles involves a commitment to assess and take into consideration social and environmental risk and, accordingly, to grant loans only to those projects that can evidence that their social and environmental impacts are properly managed.
- The VIDA tool: implemented since 2004, the main aim of this tool is to assess the environmental risk of both current and potential individualised companies in commercial banking (Spain), using a system that classifies each of the companies into one of seven categories, depending on the degree of environmental risk incurred.

4.5. Credit risk cycle

The credit risk management process consists of identifying, analysing, controlling and deciding on, as appropriate, the risks incurred in the Group’s operations. The parties involved in this process are the business areas, senior management and the risk units.

The process involves the board of directors, the executive committee 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. The process is being permanently updated, with the findings and conclusions of the post-sale phase being fed back into the risk analysis and planning of the pre-sale phase.

4.5.1. Risk analysis and credit rating process

In general, the risk analysis consists of examining the customer's ability to meet its contractual obligations to the Bank. 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.

Since 1993 the Group has used rating models for this purpose. These mechanisms are used in both the wholesale segment (sovereigns, financial institutions and corporate banking) and the other companies and institutions segment.

The rating is obtained from a quantitative module based on balance sheet ratios or macroeconomic variables and supplemented by the analyst’s expert judgement.

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.

In contrast to the use of ratings in the wholesale and other companies and institutions segments, in the individuals segment scoring techniques predominate; in general, these tools automatically assign a score to proposed transactions.

4.5.2. Risk limit planning and setting

The purpose of this phase is to efficiently and comprehensively limit the risk levels the Group assumes.

The credit risk planning process is used to establish the budgets and limits at portfolio or customer level depending on the segment in question.

Thus, the risk limits are planned and set using documents agreed upon by the business areas and risk units and approved by the executive risk committee or its delegated committees, which contain the expected results of transactions in terms of risk and return, as well as the limits applicable to the activity and the related risk management.

Risk limit planning is instrumented through the Commercial Strategic Plan (PEC), thus ensuring the coordination of the business plan, the risk-appetite-based lending policy and the resources required to implement it. This Plan serves as a reference for all the commercial banking businesses, and the highest-ranking executive risk committee of each entity is responsible for the approval and monitoring of the commercial strategic plans.

Also, an analysis is conducted at customer level in the wholesale and other companies and institutions segments. When certain features concur, an individual limit is established for the customer (pre-classification).

Thus, for large corporate groups a pre-classification model based on an economic capital measurement and monitoring system is used. The result of the pre-classification is the maximum level of risk that can be assumed vis-à-vis a customer or group in terms of amount or maturity. In the companies segment, a simplified pre-classification model is applied for customers meeting certain requirements (thorough knowledge, rating, etc.).

Scenario analysis

Credit risk 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 adequacy of the provisions recognised and the capital held to cater for stress scenarios.

These analyses, which are performed for all the Group's significant portfolios, comprise the following milestones:

- Definition of benchmark scenarios (at global level and for each of the Group units).
- Determination of the value of the risk metrics and parameters (probability of default, loss given default, non-performing loans ratio, etc.) in various scenarios
- Estimation of the expected loss associated with each of the scenarios considered and comparison of that loss against the level of provisions.
- Analysis of the changes in the credit risk profile at portfolio, segment, unit and Group level in various scenarios and in comparison with previous years.

The simulation models used by the Group rely on data from a complete economic cycle to calibrate the behaviour of the credit risk parameters in response to changes in the macroeconomic variables. These models undergo regular backtesting and recalibration processes in order to ensure that they provide a correct reflection of the relationship between the macroeconomic variables and the risk parameters.

The risk and loss parameters are projected, usually with a three-year time horizon, using various economic scenarios that include the main macroeconomic variables (GDP, unemployment rate, housing prices, inflation, etc.).

The economic scenarios defined are based on different stress levels, ranging from the base or most probable scenario to more stressed economic scenarios which, although less probable, could possibly arise.

These scenarios are generally defined by the Group's economic research service, in coordination with each unit, using as a reference the data published by the main international organisations.

A global stress scenario is defined that describes a situation of worldwide crisis and the manner in which it affects each of the main geographical regions in which the Group is present. In addition, a local stress scenario is defined which, affecting certain of the Group's main units in an isolated fashion, includes a higher level of stress than the global stress scenario.

At the meetings of the executive risk committee, senior management of the Group is apprised of the definitive set of scenarios to be used in conducting the Group's stress test, proposes any changes it deems appropriate and gives its formal approval.

4.5.3. 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. 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.

As stated above, the preliminary limit-setting stage can follow two different paths, giving rise to different types of decisions in the companies sphere:

- Automatic decisions, consisting of verification by the business that the proposed transaction (in terms of amount, product, maturity and other conditions) falls within the limits authorised pursuant to the aforementioned pre-classification. This process is generally applied to corporate pre-classifications.
- Decisions always requiring the analyst's authorisation, even if the transaction meets the amount, maturity and other conditions established in the pre-classified limit. This process applies to pre-classifications of retail banking companies.

Credit risk mitigation techniques

The Group applies various methods of reducing credit risk, depending, inter alia, on the type of customer and product. As we shall see, some of these methods are specific to a particular type of transaction (e.g. real estate guarantees) while others apply to groups of transactions (e.g. netting and collateral arrangements).

The various mitigation techniques can be grouped into the following categories:

Netting by counterparty

Netting refers to the possibility of determining a net balance of transactions of the same type, under the umbrella of a master agreement such as an ISDA or similar agreement.

It consists of aggregating the positive and negative market values of the derivatives transactions entered into by the Group with a particular counterparty, so that, in the event of default, the counterparty owes the Group (or the Group owes the counterparty, if the net figure is negative) a single net figure and not a series of positive or negative amounts relating to each of the transactions entered into with the counterparty.

An important aspect of master agreements is that they represent a single legal obligation encompassing all the transactions they cover. This is the key to being able to set off the risks of all the transactions covered by the contract with the same counterparty (see Note 2.f).

Collateral

Collateral refers to the assets pledged by the customer or a third party to secure the performance of an obligation. Collateral may be:

- Financial: cash, security deposits, gold, etc.
- Non-financial: property (both residential and commercial), other movable property, etc.

From the risk acceptance standpoint, collateral of the highest possible quality is required. For regulatory capital calculation purposes, only collateral that meets the minimum quality requirements described in the Basel capital accords can be taken into consideration.

One very important example of financial collateral is the collateral agreement. Collateral agreements comprise a set of highly liquid instruments with a certain economic value that are deposited or transferred by a counterparty in favour of another party in order to guarantee or reduce any counterparty credit risk that might arise from the portfolios of derivative transactions between the parties in which there is exposure to risk.

Collateral agreements vary in nature but, whichever the specific form of collateralisation may be, the ultimate aim, as with the netting technique, is to reduce counterparty risk.

Transactions subject to a collateral agreement are assessed periodically (normally on a daily basis). The agreed-upon parameters defined in the agreement are applied to the net balance arising from these assessments, from which the collateral amount (normally cash or securities) payable to or receivable from the counterparty is obtained.

With regard to real estate collateral, periodic re-appraisal processes are in place, based on the actual market values for the different types of real estate, which meet all the requirements established by the regulator.

When mitigation techniques are used, the minimum requirements established in the credit risk management policy manual are adhered to. In short, these consist of monitoring the following:

- Legal certainty. Collateral and guarantees must be examined to ensure that at all times it is possible to legally enforce the settlement thereof.
- A substantial positive correlation must not exist between the counterparty and the value of the collateral.
- Collateral and guarantees must be correctly documented.
- The availability of documentation of the methodologies used for each mitigation technique.
- The appropriate periodic monitoring and control of the methodologies.

Personal guarantees and credit derivatives

Personal guarantees are guarantees provided by a third party liable for another party’s obligations to the Group. They include, for example, security deposits, suretyships and standby letters of credit. Only guarantees provided by third parties that meet the minimum requirements established by the supervisor can be recognised for capital calculation purposes.

Credit derivatives are financial instruments whose main purpose is to hedge credit risk by buying protection from a third party, whereby the Bank transfers the risk of the issuer of the underlying instrument. Credit derivatives are OTC instruments, i.e. they are not traded in organised markets. Credit derivative hedges, mainly credit default swaps, are entered into with leading financial institutions.

4.5.4. 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.

4.5.5. Measurement and control

In addition to monitoring customers' credit quality, the Group 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:

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, using the Spanish acronym): VMG measures the change in non-performing loans during a period, discounting 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.

  It is obtained as the result of the ending balance less the beginning balance of non-performing loans for the period in question, plus the loans written off in the period, less any previously written-off loans recovered in that same period.

  VMG and its component parts play a decisive role as monitoring variables.

- EL (expected loss) and capital: EL 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. It is calculated using three basic parameters:

  - EAD (exposure at default): the maximum amount that could be lost as a result of a default.
  - PD (probability of default): is the probability that a customer will default in the next twelve months.
  - LGD (loss given default): represents the percentage of exposure that will not be recovered in the event of default. To calculate the LGD, the amounts recovered throughout the recovery process are discounted to the time of default, and this figure is compared, on a percentage basis, with the amount owed by the customer at that date.

Thus, other relevant factors regarding the risk exposure of transactions are taken into account, such as the quantification of off-balance-sheet exposures or the expected percentage of recoveries, in relation to the guarantees associated with the transaction and other characteristics of the transaction: type of product, term, etc.

The risk parameters are also used in the calculation of both economic and regulatory capital. The inclusion of capital metrics in management is fundamental to the rationalisation of the use of capital.

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 internal risk validation function, 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.

4.5.6. Recovery management

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 area (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.

The Group has in place a corporate management model that defines the general recovery action guidelines. These guidelines are applied in the various countries, always taking into account the local peculiarities required for the recovery activity, due either to the local economic environment, to the business model or to a combination of both. The recovery units are business areas involving direct customer management and, accordingly, this corporate model has a business approach that creates value sustainably over time on the basis of effective and efficient collection management, achieved through either the return of unpaid balances to performing status or the full recovery thereof.

The recovery management model requires the proper coordination of all management areas (recovery business, commercial, technology and operations, human resources and risk) and the management processes and methodology supporting it are reviewed and enhanced on an ongoing basis, through the application of the best practices developed in the various countries.

In order to manage recovery properly, action is taken in four main phases: early arrears management, recovery of non-performing loans, recovery of written-off loans and management of foreclosed assets. In fact, the actions taken by the recovery function commence even before the first missed payment, i.e. when there are signs of a deterioration of the customer’s ability to pay, and they end when the customer’s debt has been paid or has returned to performing status. The recovery function aims to anticipate default events and focuses on preventive management.

The macroeconomic environment has a direct effect on the customer default rate. Therefore, the quality of the portfolios is fundamental to the development and growth of our businesses in the various countries, and particular attention is paid, on a permanent basis, to the debt collection and recovery functions in order to guarantee that this quality remains at the expected levels at all times.

The differing characteristics of customers make segmentation necessary in order to ensure proper recovery management. The mass management of large groups of customers with similar profiles and products is performed using highly technological processes, while personalised management is reserved for customers who, due to their profile, require the assignment of a specific manager and a more tailored analysis.

The recovery activity has been aligned with the social and economic reality of the different countries, and various management mechanisms have been used, all involving appropriate prudential criteria, based on the age, collateral and conditions of the transaction, while always ensuring that, at least, the required ratings and provisions are maintained.

Within the recovery function particular emphasis has been placed on using the mechanisms referred to above for early arrears management, in accordance with corporate policies, considering the various local realities and closely monitoring the production, inventory and performance of those local areas. The aforementioned policies are reviewed and adapted periodically in order to reflect both best management practices and any applicable regulatory amendments.

In addition to the measures aimed at adapting transactions to the customer's ability to pay, special mention should be made of recovery management, in which alternative solutions to legal action are sought to ensure the early collection of debts.

One of the channels for the recovery of debts of customers whose ability to pay has deteriorated severely is foreclosure (either court-ordered or through dation in payment) of the property assets securing the transactions. In geographical regions that are highly exposed to real estate risk, such as Spain, the Group has very efficient instruments in place to manage the sale of such assets, making it possible to maximise recovery and reduce the on-balance-sheet stock of property assets at a much faster pace than at other financial institutions.

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 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 general 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 criteria for the assessment of these exposures:

- 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.

As regards the strategies to be applied, corporate policy requires the customer's ability and willingness to pay to be analysed and a distinction to be drawn between the severity and the estimated duration of the impairment. The results of this analysis will be used as a basis for deciding whether the debt should be forborne and the most appropriate way of doing so for each case:

- When borrowers display a severe but transitory deterioration in their ability to pay (which is expected to be recovered in a short space of time), short-term adjustment strategies are applied, such as a payment moratorium on the principal or the reduction of instalments for a short, limited period until the ability to pay is recovered.
- When borrowers display a slight deterioration in their ability to pay (an early recovery of which is not expected), more long-term strategies are applied, such as reducing instalments by deferring either the maturity date or a portion of the principal, which would be paid at the same time as the last instalment, at all times securing its payment through the provision of effective guarantees.

In any case, through a case-by-case analysis, priority is given to modifications for customers displaying a slight but prolonged deterioration, since those experiencing severe but transitory deterioration carry a higher risk, as they depend on the accuracy of the estimated time of their future recovery. Cases of severe deterioration deemed to be prolonged over time are not considered for forbearance.

Corporate policy also establishes mechanisms for the management and control of forborne transactions, allowing them to be treated in a different way from other transactions, with particular attention being paid to the processes of:

- Planning and budgeting, including preparing the pertinent business plans, projections and limits for the most relevant aggregates.
- Monitoring the performance of the portfolio and assessing the degree of achievement of the projections prepared in the planning phase.

Once forbearance measures have been adopted, transactions that have to remain classified as doubtful because at the date of forbearance they do not meet the requirements to be classified in a different category[7] must comply with a prudential payment schedule in order to assure reasonable certainty as to the recovery of the customer's ability to pay.

If there is any (non-technical) 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.

By contrast, if following arrangement of forbearance there is no improvement in the customer's payment performance, the possibility of extending new forbearance measures will be considered, with the application of more stringent classification/return-to-performing criteria. In this regard, the Group's policy establishes a longer period (between 6 and 36 months) of uninterrupted payments before the transaction can return to performing status (between 3 and 12 months in the case of first forbearances). The duration of this period is determined by any collateral provided and the residual maturity of the loan. The Group’s policy permits a maximum of one modification per year and three modifications every five years.

The internal models used by the Group for provisioning purposes include forborne transactions as follows:

- Customers not subject to individual monitoring: the internal models consider forborne transactions as a distinct segment with its own probability of default calculated on the basis of past experience, considering, among other factors, the performance of the successive forbearance measures.
- Customers subject to individual monitoring: the internal rating is an essential input in determining the probability of default and it takes into consideration the existence of successive forbearance measures. This rating must be updated at least once every six months for customers with forborne transactions.

At 31 December 2014, EUR 18,849 million of the Group’s forborne loan portfolio (33% of the total forborne portfolio) had undergone several modifications.

7 Bank of Spain Circular 6/2012: the refinancing or restructuring of transactions that are not current in their payments does not interrupt their arrears, nor does it give rise to their reclassification to one of the previous categories, unless there is reasonable certainty that the customer will be able to meet its payment obligations within the established time frame or new effective collateral is provided, and, in both cases, at least the ordinary outstanding interest is received, without taking into account late-payment interest.

Quantitative information required by Bank of Spain Circular 6/2012

Set forth below is the quantitative information required by Bank of Spain Circular 6/2012 on the restructured/refinanced transactions in force at 31 December 2014. The following terms are used in Bank of Spain Circular 6/2012 with the meanings specified:

- Refinancing transaction: transaction granted or used for reasons relating to -current or foreseeable- financial difficulties the borrower may have in repaying one or more of the transactions granted to it, or through which the payments on such transactions are brought fully or partially up to date, in order to enable the borrowers of cancelled or refinanced transactions to repay the debt (principal and interest) because the borrower is unable, or might foreseeably become unable, to comply with the conditions thereof in due time and form.
- Restructured transaction: transaction with respect to which, for economic or legal reasons relating to current or foreseeable financial difficulties of the borrower, the financial terms and conditions are modified in order to facilitate the payment of the debt (principal and interest) because the borrower is unable, or might foreseeably become unable, to comply with the aforementioned terms and conditions in due time and form, even if such modification is envisaged in the agreement.

CURRENT REFINANCING AND RESTRUCTURING BALANCES (a)

	Millions 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		Allowance	Full property mortgage guarantee		Other collateral (c)		Without collateral		Allowance			
	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		Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount		Number of transactions	Gross amount	Allowance
Public sector	6	18	12	294	89	562	6	14	-	-	3	4	4	2	3	-	-	22	43	11	**140**	**938**	**15**
Other legal entities and individual traders	6,019	2,644	14,907	1,249	57,125	2,968	5,526	1,978	6,200	1,466	38,674	1,427	910	10,608	5,651	8,704	6,321	69,546	4,522	8,003	**217,309**	**28,226**	**8,913**
Of which: Financing for construction and property development	*355*	*471*	*44*	*39*	*119*	*3*	*819*	*579*	*149*	*475*	*354*	*61*	*406*	*2,685*	*2,83*	*1,394*	*2,857*	*375*	*591*	*3,297*	***6,294***	***7,906***	***3,703***
Other individuals	66,147	5,099	543,763	7,090	853,873	1,587	37,154	3,642	17,096	2,142	344,797	951	556	32,889	2,189	81,953	2,912	862,280	1,927	2,585	**2,839,952**	**27,539**	**3,141**
Total	**72,172**	**7,761**	**558,682**	**8,633**	**911,087**	**5,117**	**42,686**	**5,634**	**23,296**	**3,608**	**383,474**	**2,382**	**1,470**	**43,499**	**7,843**	**90,657**	**9,233**	**931,848**	**6,492**	**10,599**	**3,057,401**	**56,703**	**12,069**

(a) Including all 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 property mortgage, irrespective of their loan-to-value ratio

The transactions presented in the foregoing tables 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 forborne loan portfolio:

Millions of euros	2014
Beginning balance	**53,602**
Of which: Other than doubtful	*29,961*
Doubtful assets	*23.641*
Additions	15,391
Inclusions in the scope of consolidation	6,330
Reductions (*)	(18,620)
Balance at end of year	**56,703**
Of which: Other than doubtful	*33,135*
Doubtful assets	*23,568*

(*) 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.

On a like-for-like basis with respect to the 2013 scope of consolidation, the level of forborne transactions at the Group fell by 6% (EUR 3,229 million), thus continuing the downward trend of the previous year.

58% of the forborne loan transactions are classified as other than doubtful. Particularly noteworthy are the level of existing guarantees (75% of transactions are secured by collateral) and the coverage provided by specific allowances (representing 21% of the total forborne loan portfolio and 45% of the doubtful portfolio).

5. TRADING MARKET AND STRUCTURAL RISK

5.1 Activities subject to market risk and types of market risk

The scope of activities subject to market risk encompasses all operations exposed to net worth risk as a result of changes in market factors. It includes both risks arising from trading activities and the structural risks that are also affected by market fluctuations:

This risk arises from changes in the risk factors -interest rates, inflation rates, exchange rates, equity prices, credit spreads, commodity prices and the volatility thereof- and from the liquidity risk of the various products and markets in which the Group operates.

- Interest rate risk is the possibility that fluctuations in interest rates might have an adverse effect on the value of a financial instrument, on a portfolio or on the Group as a whole. Interest rate risk affects, inter alia, loans, deposits, debt securities, most financial assets and liabilities held for trading and derivatives.

- Inflation rate risk is the possibility that fluctuations in inflation rates might have an adverse effect on the value of a financial instrument, on a portfolio or on the Group as a whole. Inflation rate risk affects, inter alia, loans, debt securities and derivatives, the returns on which are linked to inflation or to an actual variation rate.

- Foreign currency risk is defined as the sensitivity of the value of a position in a currency other than the base currency to a potential change in exchange rates. Accordingly, a long position in a foreign currency will generate a loss if this currency depreciates against the base currency. The positions affected by this risk include investments in subsidiaries in currencies other than the euro, and loans, securities and derivatives denominated in foreign currencies.

- Equity risk is the sensitivity of the value of the open positions in equity securities to adverse changes in the market prices of those equity securities or in future dividend expectations. Equity risk affects, among other instruments, positions in shares, equity indices, convertible bonds and equity derivatives (puts, calls, equity swaps, etc.).

- Credit spread risk is the sensitivity of the value of open positions in fixed-income securities or in credit derivatives to fluctuations in the credit spread curves or in the recovery rates (RR) of specific issuers and types of debt. The spread is the differential between the quoted price of certain financial instruments over other benchmark instruments, mainly the IRR of government bonds and interbank interest rates.

- Commodity price risk is the risk arising from the effect of potential changes in commodity prices. The Group's exposure to commodity price risk is not material and it is concentrated in commodity derivatives with customers.

- Volatility risk is the sensitivity of the value of the portfolio to changes in the volatility of risk factors: interest rates, exchange rates, share prices, credit spreads and commodities. Volatility risk arises on financial instruments whose measurement model includes volatility as a variable, most notably financial option portfolios.

All these market risks can be mitigated in part or in full through the use of derivatives such as options, futures, forwards and swaps.

In addition, there are other market risks, which are more difficult to hedge, the detail being as follows:

- Correlation risk. Correlation risk is defined as the sensitivity of the value of the portfolio to changes in the relationship between risk factors (correlation), whether they are the same type (e.g. between two exchange rates) or different (e.g. between an interest rate and a commodity price).

- Market liquidity risk. The risk that a Group entity or the Group as a whole may not able to unwind or close a position on time without affecting the market price or the cost of the transaction. Market liquidity risk may be caused by the reduction in the number of market makers or institutional investors, the execution of large volumes of transactions and market instability, and it increases as a result of the current concentration in certain products and currencies.

- Prepayment or termination risk. When the contractual relationship in certain transactions explicitly or implicitly permits early repayment before maturity without negotiation, there is a risk that the cash flows might have to be reinvested at a potentially lower interest rate. It mainly affects mortgage loans or securities.

- Underwriting risk. Underwriting risk arises as a result of an entity's involvement in the underwriting of a placement of securities or other type of debt, thus assuming the risk of owning part of the issue or the loan if the entire issue is not placed among the potential buyers.

Pension risk, actuarial risk and fiduciary risk are also affected by changes in market factors. The activities are segmented by risk type as follows:

- Trading: financial services for customers, trading operations and positions taken mainly in fixed-income, equity and foreign currency products. This activity is managed mainly by the global wholesale banking (BMG) division.

- Structural risks: a distinction is made between on-balance-sheet risks and pensions and actuarial risks:

    - Structural balance sheet risks: market risks inherent to the balance sheet, excluding financial assets and liabilities held for trading. Decisions affecting the management of these risks are taken through the ALCO committees in the respective countries in coordination with the Group's ALCO committee and are implemented by the financial management division. The aim pursued 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 structural balance sheet risks are as follows:

        - Structural interest rate risk: arises as a result of the maturity and repricing gaps of all the assets and liabilities on the balance sheet.

        - Structural foreign currency risk/hedges of results: foreign currency risk resulting from the fact that investments in consolidable and non-consolidable companies are made in currencies other than the euro (structural exchange rate). In addition, this item includes the positions to hedge the foreign currency risk on future results generated in currencies other than the euro (hedges of results).

        - Structural equity risk: this item includes equity investments in non-consolidated financial and non-financial companies and available-for-sale portfolios comprising equity positions.

    - Pensions and actuarial risks:

        - Pensions risk: the risk assumed by the entity in relation to pension obligations to its employees. This relates to the possibility that the fund may not cover these obligations in the accrual period of the benefits and the return obtained by the portfolio may not be sufficient and might oblige the Group to increase the level of contributions.

- Actuarial risk: unexpected losses arising as a result of an increase in the obligations to policyholders, and losses arising from an unexpected increase in expenses.

5.2. Trading market risks

The Group's trading risk profile remained low in 2014, in line with previous years, since the purpose of most of the activity is the provision of a service to customers and diversification by geographical area and risk factor.

The Group continued to have very limited exposure to complex structured instruments or vehicles, as a reflection of its culture of management in which prudence in risk management constitutes one of its principal symbols of identity. Specifically, at 2014 year-end, the Group had:

- CDOs and CLOs: the Group's position continued to be scantly material, at EUR 99 million.

- Hedge funds: the total exposure was not material (EUR 192 million at 31 December 2014) and consisted largely of the financing provided to these funds (EUR 20 million), the remainder being direct equity interests held in hedge funds or counterparty risk arising on derivatives granted to hedge funds. This exposure featured low loan-to-value ratios, at around 31% (collateral of EUR 620 million at the end of December). The risk exposure to this type of counterparty is analysed on a case-by-case basis, and the percentages of collateral are established according to the features and assets of each fund.

- Conduits: there was no exposure.

- Monolines: the Group's exposure to monoline insurers amounted to EUR 137 million in December 2014[8], and related mainly to an indirect exposure of EUR 136 million, by virtue of the guarantee provided by entities of this kind for various traditional financing or securitisation transactions. The exposure was to double-default risk in this case. The primary underlyings had high credit ratings. The small remainder was direct exposure (e.g. through the purchase of a credit default swap to protect it against the risk of default of these insurance companies). Exposure decreased by 2% with respect to 2013.

In short, it can be affirmed that, in general, the exposure to instruments of this kind in the ordinary course of the Group's business continued to decrease in 2014. It is due mainly to the integration of exposures at entities acquired by the Group, such as Sovereign in 2009. All these exposures were known at the time of the purchase and adequate provisions were recognised. Since their integration in the Group these exposures have been reduced notably, the final objective being their derecognition.

The Group's policy with respect to the approval of new transactions involving these products continues to be very prudent and conservative and is subject to strict supervision by the Group's senior management. Before authorising a new transaction, product or underlying, the risk division checks:

- Whether there is an adequate valuation model (mark-to-market, mark-to-model or mark-to-liquidity) to monitor the value of each exposure.

- Whether the inputs enabling application of this valuation model are observable in the market.

8 The guarantees provided by monoline insurers in US Municipal Bonds are not treated as exposure. These bonds amounted to EUR 744 million at December 2014.

Provided the two aforementioned conditions are met, the risk division ascertains:

- The availability of adequate systems duly adapted for the daily calculation and monitoring of the results, positions and risks of the new transactions envisaged.
- The degree of liquidity of the product or underlying, with a view to arranging the related hedge on a timely basis.

Calibration and test measures

Actual losses may differ from those projected by the value-at-risk (VaR) model for different reasons relating to the limitations of this metric. Therefore, the Group performs regular analyses and tests to check the accuracy of the VaR calculation model in order to verify its reliability.

The most important tests are the backtesting exercises, which are analysed at both local and global level, following the same methodology in all cases. The backtesting exercise consists of comparing the projected VaR measurements, for a given confidence level and time horizon, with the actual losses obtained in the same time horizon. This facilitates the detection of any anomalies in the VaR model of the portfolio in question (e.g. deficiencies in the parameterisation of the valuation models of certain instruments, scantly adequate proxies, etc.).

Three types of backtesting are calculated and assessed at the Group:

- Clean backtesting: the daily VaR is compared with the results obtained without taking into account the intra-day results or the changes in the portfolio's positions. This model serves to check the accuracy of the individual models used to assess and measure the risks of the various positions.
- Backtesting on complete results: daily VaR is compared with the day's net results, including the results of intra-day operations and those generated by fees and commissions.
- Backtesting on complete results without mark-ups or fees and commissions: daily VaR is compared with the day's net results, including the results of intra-day operations but excluding those generated by mark-ups and fees and commissions. This method is intended to obtain an idea of the intra-day risk assumed by the Group's treasury areas.

In the first case, for the entire portfolio, in 2014 there was one violation at 99%, on 6 June, mainly explained by Mexico, due to the fall in the sovereign and swap curves (in nominal and Mexican investment unit (UDI) inflation linked terms), following the 50 basis point reduction in the official rate (to 3%) by the Bank of Mexico, which had not been discounted by the market.

There was another violation at 99% (i.e. days when the daily loss was higher than VaR), on 16 October, mainly explained by Spain, due to the rise in credit spreads in Europe and the fall in equity indices.

The number of violations is in line with the expected performance of the VaR calculation model, given that a confidence level of 99% and a time horizon of one year are used (with a longer time horizon one could expect an average of two or three violations a year).

5.3. Structural balance sheet risks[9]

5.3.1. Main aggregates and variations

The market risk profile inherent to the Group's balance sheet, in relation to the volume of assets and capital, and the projected net interest margin, remained at low levels in 2014, in line with previous years.

Structural interest rate risk

Europe and the United States

The main balance sheets in Europe, i.e. those of the Parent and the UK, reported positive sensitivities of the market value of equity to interest rate rises, given the expectations for long-term rates based on the economic performance indicators, whereas in the short term the net interest margin exposure was kept at very low levels. The US balance sheet has a positive sensitivity to interest rate rises at both short and long term.

In any case, the level of exposure in all countries is moderate in relation to the annual budget and the amount of capital.

At the end of December 2014, the exposure relating to the net interest margin at one year, measured as the sensitivity thereof to parallel shifts of ± 100 basis points, was concentrated on the US dollar yield curve, with EUR 67 million of exposure to falls in interest rates (a most unlikely scenario in the present circumstances). It must also be stated that the exposure to falls in interest rates on the Polish zloty yield curve was EUR 21 million.

At the end of December 2014, the most significant exposure relating to the market value of equity, measured as the sensitivity thereof to parallel shifts of ± 100 basis points, was that of the euro yield curve, with EUR 2,149 million of exposure to falls in interest rates. The exposure to falls in interest rates on the pound sterling and the US dollar yield curve was EUR 865 million and EUR 343 million, respectively. As noted above, these scenarios are very unlikely at present.

Latin America

The balance sheets are positioned in the long term for falls in interest rates due to the slowdown in economic growth. The situation in the short term is very similar, except in the case of Mexico, since the country's excess liquidity is invested in local currency in the short term.

In 2014 the level of exposure in all countries continued to be moderate in relation to the annual budget and the amount of capital.

At year-end, the exposure relating to the net interest margin at one year, measured as the sensitivity thereof to parallel shifts of ± 100 basis points, was concentrated on three countries: Brazil (EUR 152 million), Mexico (EUR 55 million) and Chile (EUR 33 million).

VaR of on-balance-sheet structural interest rate risk

In addition to sensitivities to interest rate fluctuations (shifts not only of +/- 100 basis points but also of +/- 25, +/- 50 and +/- 75 basis points are assessed, in order to better characterise risk in countries with very low rate levels),

9 Includes the total balance sheet, except for financial assets and liabilities held for trading.

Santander uses other methods to monitor on-balance-sheet structural interest rate risk including, inter alia, scenario analysis and VaR calculations, using a methodology similar to that used for the trading book.

Structural interest rate risk, measured in terms of one-day VaR at 99%, averaged EUR 539 million in 2014. The contribution to structural interest rate risk by the balance sheets in Europe and the US is considerably higher than the balance sheets in Latin America. Mention must be made of the high level of diversification between these two areas and the fall in the VaR in Europe and the United States, due to a narrowing of sovereign debt spreads, especially those of Spain and Portugal.

Structural foreign currency risk/hedges of results

Structural foreign currency risk arises from the Group's operations in foreign currencies, and relates mainly to long-term investments, the results thereof and the hedges for both.

Foreign currency risk is managed dynamically, in order to limit the impact on the core capital ratio of exchange rate fluctuations.

At 2014 year-end, the largest long-term exposures (with their potential impact on equity) corresponded, in descending order, to the Brazilian real, the pound sterling, the US dollar, the Mexican peso, the Chilean peso and the Polish zloty. The Group hedges a portion of these long-term exposures through foreign exchange derivatives.

Additionally, the financial management division at consolidated level is responsible for managing the foreign currency risk inherent in the expected results and dividends of the Group at the units whose base currency is not the euro.

Structural equity risk

The Group has equity positions in its balance sheet (banking book) in addition to the trading positions. These positions are classified as available-for-sale financial assets (equity instruments) or as investments, depending on the length of time they are expected to remain in the portfolio.

At the end of December 2014, the equity positions (banking book) were diversified across various geographical areas, the main ones being Spain, Brazil, the US, the Netherlands and China. As regards industries, the equity positions are mainly invested in financial services and insurance; other industries represented to a lesser extent are professional, scientific and technical activities, the public sector (the holding in SAREB), energy supply and hospitality.

The structural equity positions are exposed to market risk. VaR is calculated for these positions using series of market prices for listed shares and proxies for unlisted securities. At 31 December 2014, one-day VaR at 99% was EUR 209 million (31 December 2013: EUR 235 million; 31 December 2012: EUR 281 million).

Structural VaR

In short, a homogeneous metric such as VaR can be used to monitor the total on-balance-sheet market risk (excluding the wholesale banking trading activity), distinguishing between fixed-income (considering both interest rates and credit spreads for ALCO portfolios), exchange rate and equities.

In general, it can be said that structural VaR is not high in terms of the Group's volume of assets or capital.

5.3.2. Methodologies

Structural 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.

Taking into consideration the balance-sheet interest rate position and the market situation and outlook, the necessary financial measures are adopted to align this position with that desired by the Group. These measures can range from the taking of positions on markets to the definition of the interest rate features of commercial products.

The metrics used by the Group to control interest rate risk in these activities are the interest rate gap, the sensitivity of net interest margin and market value of equity to changes in interest rates, the duration of capital and value at risk (VaR) for economic capital calculation purposes.

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 maturities to be detected. Additionally, it is a useful tool for estimating the possible impact of potential changes in interest rates on the Group'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 an 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.

The sensitivity of the net interest margin is calculated by simulating the margin both for a scenario of changes in the yield curve and for the current scenario, the sensitivity being the difference between the two margins so calculated.

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.

Treatment of liabilities with no defined maturity

In the corporate model, the total volume of the balances of accounts with no defined maturity is divided into stable balances and unstable balances. This disaggregation is obtained using a model based on the relationship between the balances and their own moving averages.

This simplified model is used to obtain the monthly cash flows that are used to calculate the NIM and MVE sensitivities.

The model requires a series of inputs, which are as follows:

- Parameters specific to the product.
- Customer behaviour parameters (in this case historical data analysis is combined with expert judgement of the business).
- Market data.
- Historical data of the portfolio.

Treatment of the prepayment of certain assets

Currently, the prepayment issue at the Group affects mainly the fixed-rate mortgages at units at which the relevant yield curves for these portfolios are at low levels. At these units, prepayment risk is modelled and this can be applied, with some changes, to assets with no defined maturity (credit card and similar businesses).

The usual option pricing techniques cannot be applied directly, due to the complexity of the factors that determine prepayment by obligors. Consequently, option pricing models must be combined with empirical statistical models designed to capture prepayment behaviour. Some of the factors that influence prepayment behaviour are as follows:

- Interest rates: the spread between the fixed rate of the mortgage and the market rate at which it could be refinanced, net of repayment and arrangement costs.
- Seasoning: prepayment tends to be low at the start of the instrument's life cycle (signing of the contract), and then increases and stabilises as time passes.
- Seasonality: prepayments usually take place on specific dates.
- Burnout: the tendency of the speed of prepayment to decrease as the instrument's maturity date draws closer, which includes:
    - Age: indicates lower prepayment rates.
    - Cash pooling: defines loans that have already survived various waves of interest rate falls as being more stable. In other words, when a portfolio of loans has already been through one or more cycles of downward rates and, therefore, of high prepayment levels, the "surviving" loans have a significantly lower prepayment probability.
    - Other: geographical mobility, demographic and social factors, disposable income, etc.

The set of econometric relationships intended to capture the effect of all these factors is the probability of prepayment of a loan or pool of loans and is known as the prepayment model.

Value at Risk (VaR)

The VaR for balance sheet activity and investment portfolios is calculated using the same standard as for trading portfolios: historical simulation with a confidence level of 99% and a one-day horizon. A time window of two years, or 520 daily readings, backwards in time from the VaR calculation reference date, is used.

Structural foreign currency risk/hedges of results

These activities are monitored by measuring positions, VaR and results on a daily basis.

Structural equity risk

These activities are monitored by measuring positions, VaR and results on a monthly basis.

5.3.3. Limit control system

As has been stated above for trading market risk, structural balance sheet risk limits are established, within the framework of the annual limit plan, in response to the level of the Group's risk appetite.

The main limits are:

- On-balance-sheet structural interest rate risk:
    - Limit on net interest margin sensitivity at one year.
    - Limit on the sensitivity of the market value of equity.
- Structural foreign currency risk: net position in each currency (for positions hedging results).

If any of these limits or sublimits are breached, risk management officers must explain the reasons why and provide an action plan for remedying the situation.

5.4. Pension, actuarial and fiduciary risks

5.4.1 Pension risk

In managing the risk associated with the defined-benefit employee pension funds, the Group assumes the financial, market, credit and liquidity risks incurred in connection with the fund's assets and investments and the actuarial risks arising from the fund's liabilities, i.e. the pension obligations to its employees.

The aim pursued by the Group in pension risk control and management is primarily to identify, measure/assess, follow up and monitor, control, mitigate and report this risk. The Group’s priority, therefore, is to identify and eliminate all clusters of pension risk, irrespective of whether losses have been incurred.

Therefore, in the methodology used by Santander Group, the total losses on assets and liabilities in a stress scenario defined by changes in interest rates, discount rates, inflation, stock markets and property indices, as well as credit and operational risk, are estimated every year.

5.4.2 Actuarial risk

Actuarial risk arises from biometric changes in the life expectancy of insureds (life insurance), unexpected increases in projected indemnity payments in non-life insurance and, in any event, unexpected changes in the behaviour of insurance policyholders in exercising the options envisaged in the contracts.

A distinction is made between the following actuarial risks:

- Life liability risk: risk of loss in the value of life insurance liabilities caused by fluctuations in the risk factors affecting such liabilities:

  - Mortality/longevity risk: risk of loss due to changes in the value of liabilities as a result of changes in the estimate of the probability of death/survival of insureds.
  - Morbidity risk: risk of loss due to changes in the value of liabilities as a result of changes in the estimate of the probability of disability/incapacity of insureds
  - Surrender/lapse risk: risk of loss due to changes in the value of liabilities as a result of the early termination of the contract or changes in the policyholders' exercise of rights with regard to surrender, extraordinary contributions and/or paid up options.
  - Expense risk: risk of loss due to changes in the value of liabilities arising from adverse variances in expected expenses.
  - Catastrophe risk: losses caused by the occurrence of catastrophic events that increase the entity's life liabilities.

- Non-life liability risk: risk of loss due to changes in the value of non-life insurance liabilities caused by fluctuations in the risk factors affecting such liabilities:

  - Premium risk: loss arising from the lack of sufficient premiums to cater for claims that might be made in the future.
  - Reserve risk: loss arising from the lack of sufficient reserves for claims incurred but not settled, including the expenses arising from the management of such claims.
  - Catastrophe risk: losses caused by the occurrence of catastrophic events that increase the entity's non-life liabilities.

5.4.3 Fiduciary risk

Fiduciary risk arises from management and/or administration of products and assets for the client's account, and also from trustee services provided for a third party. Fiduciary risk is primarily associated with investment and protection product activities linked to asset management and insurance activities.

It is the risk that is incurred as a result of services provided as trustee for a third party or as administrator of assets for the benefit of a third party, where improper management or administration of assets could result in losses for the client and the trustee could be liable for such losses, with the ensuing economic and/or reputational impact.

Fiduciary risk could also be defined as the potential loss which might arise from significant changes in the value of the portfolios managed by the trustee for third parties (settlors/beneficiaries) and the image and reputation of the trust.

In this regard, there is a relationship between fiduciary risks and conduct risk, which is the risk caused by inappropriate practices in the Bank's dealings with its customers, the service and products offered to the customer and the suitability thereof for each customer in particular, as well as compliance and reputational risks.

The principle governing all the activities and/or businesses involving fiduciary risk is the duty to serve the client's best interests: “Look after the clients' money as if it were your own”. This principle makes it imperative to always act in the client's best interest, in accordance with the client's mandate, instructions or orders.

This principle rests on some basic pillars for managing fiduciary risk and the defence of clients' interests:

- Client knowledge: Risk management must be based on an appropriate knowledge, within the organisation, of the needs and circumstances of the clients it serves. Knowing the client involves tailoring the product offered to clients in the asset management and insurance activities, while ensuring that it is in line with the marketing policy based on the clients' profile.
- Mandate compliance: The risk management process requires an analysis and control of mandates through regular mandate compliance assessments. The exposure associated with clients' positions must be overseen under the same general principles as those used in the analysis and control of the Group's own exposures.
- Transparency: Clients must be provided, in an accurate and understandable fashion, with all the relevant information relating to the management of their positions, the exposures arising therefrom and the performance and returns generated by such positions.
- Managing conflicts of interest: The interrelation between the management activity and that of other Group business units or divisions may give rise to potential or actual conflicts of interest. To avoid those situations, the Group's standards must be adhered to at all times, always safeguarding the interests of the clients, participants, investors and/or insureds.
- Monitoring and adapting to the regulations: for both the products and the management companies, to ensure that top-quality services are always provided and prevent regulatory risk.

Hence, the main component of fiduciary risk is associated with asset management for the account of third parties: discretionary management of investment vehicles and portfolios performed by the management and insurance companies in which the Group has an ownership interest and/or with which it has entered into retail agreements, and also with the activity performed by the Group's private banking units, which perform discretionary portfolio management and advisory duties for clients.

The regulations require both the management companies and the companies providing investment services for third parties to always act and in all cases safeguard the clients' interests.

This requirement is set out in the management agreement or fiduciary mandate, which stipulates the trustee's terms of service and its relationship with clients. In order to ensure compliance with the mandate awarded by clients, risk is managed from the various vectors which may affect the portfolios and which are described below.

In order for the trustee to provide such services, at local level it must possess a legal structure subject to the requirements of its local supervisor. The trustee must also have the appropriate technical and human resources, and control and monitor risks in a risk and compliance unit that is independent from the business.

The three main vectors in fiduciary risk control are:

- Financial, market, credit and liquidity risks incurred in connection with the investment of clients' assets in financial products and instruments,
- The regulatory risk relating to compliance with regulatory limits and the fiduciary risk itself, relating to compliance with the investment mandates and to the security of the investment process.
- Importance of monitoring the end result of the investments with regard to both the fiduciary relationship with the client, who expects the best results, and competitors. Always with the aim of providing a service of the highest quality possible, without losing sight of the Group's principles governing risk.

6. LIQUIDITY AND FUNDING RISK

6.1. Introduction to the treatment of liquidity and funding risk

Liquidity and funding management has always been a basic element of the Group's business strategy and a fundamental cornerstone, together with capital, on which the strength of its balance sheet rests.

Liquidity became highly significant for bank management in recent years due to the stresses that arose in the financial markets in the context of a global economic crisis. This scenario emphasised the importance of banks having appropriate funding structures and strategies to ensure the continuity of their intermediation activity.

During that period of stress, the Group enjoyed an adequate liquidity position, surpassing that of its peers, which represented a competitive advantage in terms of carrying on and expanding its activity in a demanding environment.

Currently, in a more favourable scenario for liquidity, the Group continues to benefit from its proven robustness as it meets the new challenge of cost optimisation amid the demanding liquidity standards required by regulations, and as it drives growth in geographical areas previously undergoing deleveraging.
This improved position achieved by the Group as a whole is based on a decentralised funding model composed of subsidiaries that are autonomous and self-sufficient in terms of liquidity. Each subsidiary is responsible for covering the liquidity needs arising from its current and future activity, either by taking deposits from its customers in its area of influence, or by resorting to the wholesale markets where it operates, subject to management and supervision procedures coordinated at Group level.

This is a funding structure that has proven to be most effective in situations of high market stress as it prevents difficulties in one area from affecting funding capacity in other areas and, therefore, the Group as a whole, which could occur if a centralised funding model were used.

In addition, at the Group this funding structure also benefits from the advantages of having a commercial banking model with a significant presence in ten markets with great potential, with the focus on retail customers and a high level of efficiency. As a result, the subsidiaries have a considerable capacity to attract stable deposits, as well as a significant issue capacity in the wholesale markets of those countries, generally in local currencies, bolstered by the strength of their franchise and their membership of a leading group.

6.2. Liquidity management framework - Monitoring and control of liquidity risk

Structural liquidity management seeks to finance the Group's recurring business with optimal maturity and cost conditions, avoiding the need to assume undesired liquidity risks.

Liquidity management at the Group is based on the following principles:

- Decentralised liquidity model.
- Medium- and long-term liquidity needs arising from the business must be funded using medium- and long-term instruments.
- High proportion of customer deposits, as a result of a commercial balance sheet.

- Diversification of wholesale funding sources by: instrument/investor; market/currency; and maturity.
- Restrictions on recourse to short-term wholesale financing.
- Availability of a sufficient liquidity reserve, including a capacity for discounting at central banks, to be drawn upon in adverse situations.
- Compliance with the regulatory liquidity requirements at Group and subsidiary level, as a new conditioning factor in management.

In order to ensure the effective application of these principles by all the Group entities, it was necessary to develop a single management framework resting on the following three cornerstones:

- A sound organisational and governance model to ensure that senior management of the subsidiaries is involved in the decision-making process and is included in the Group's global strategy.
- An in-depth balance-sheet analysis and liquidity risk measurement to support the decision-making process and the control thereof.
- A management approach adapted in practice to the liquidity needs of each business.

6.2.1. Organisational and governance model

Decisions relating to all structural risks, including liquidity risk, are made though local asset-liability committees (ALCOs) in coordination with the Global ALCO.

The Global ALCO is the body empowered by the Bank's board of directors to coordinate the asset and liability management (ALM) function throughout the Group, including the management of liquidity and funding, which is carried out by the local ALCOs in accordance with the corporate ALM framework.

It is presided over by the Bank's chair and its members are an executive deputy chairman (who, in turn, is the chairman of the executive risk committee), the CEO, the finance and risk executive vice presidents, and other executive vice presidents and heads of certain business and analysis units who perform advisory functions.

In line with governance best practice, the Group has traditionally maintained a clear division between the implementation of the financial management strategy (for which the financial management area is responsible) and its monitoring and control (which is the responsibility of the market risk area).

In recent years, this governance model has been reinforced by being integrated into a more global vision of the Group's risks, namely the Group risk appetite framework. This framework responds to the demands from market regulators and participants, as a result of the financial crisis, for banks to strengthen their risk management and control systems.

As regards liquidity risk profile and appetite, the framework aims to reflect the Group's business strategy in structuring the balance sheet to make it as resilient as possible to potential liquidity stress scenarios. Appetite metrics have therefore been structured to reflect the application, on an individual basis, of the principles of the Group's management model, with specific levels for the structural funding ratio and minimum liquidity horizons under various stress scenarios.

6.2.2. Balance sheet analysis and liquidity risk measurement

Funding and liquidity decision-making is based on a thorough understanding of the Group's current situation (environment, strategy, balance sheet and liquidity position), of the future liquidity needs of the various units and businesses (liquidity projection) and of the accessibility and situation of the funding sources in wholesale markets.

Its aim is to ensure that the Group maintains adequate liquidity levels to cover its short- and long-term requirements with stable funding sources, optimising the impact of funding costs on the income statement.

This requires the monitoring of the balance sheet structure, the preparation of short- and medium-term liquidity projections and the establishment of basic metrics.

Simultaneously, various scenario analyses are conducted considering the additional liquidity needs that could arise if certain very severe but highly unlikely events occur. These events might have a varying effect on the various balance sheet items and/or funding sources (extent of roll-over of wholesale financing, level of run-off of deposits, impairment of liquid assets, etc.), due either to the global market conditions or to the Group's specific situation.

The results of these balance-sheet, projection and scenario analyses provide the inputs required to prepare the Group's various contingency plans, which, if necessary, would enable it to anticipate a broad spectrum of potential adverse situations.

All these measures are in line with the practices being promoted to strengthen the liquidity of financial institutions by the Basel Committee and the various regulators (in the European Union, the European Banking Authority). The objective is to define a framework of principles and metrics that are, in some cases, nearing implementation and, in others, at earlier stages of development.

Methodology for liquidity risk monitoring and control

The liquidity risk metrics adopted by the Group pursue the following goals:

- To attain the highest degree of effectiveness in liquidity risk measurement and control.
- To provide support for financial management, to which end the metrics are adapted to the manner in which the Group's liquidity is managed.
- To be aligned with the regulatory requirements arising from the transposition of Basel III in the European Union, in order to avoid any conflicts between limits and to facilitate management.
- To act as an early warning system that anticipates potential risk situations by monitoring certain indicators.

- To achieve involvement at country level. Although the metrics are developed on the basis of common, uniform concepts affecting liquidity, these have to be analysed and adapted by each unit.

Two kinds of basic metrics are used to control liquidity risk: short term and structural. Short-term metrics include basically the liquidity gap, while structural metrics feature the net structural balance-sheet position.

Liquidity gap

The liquidity gap provides information on potential cash inflows and outflows -both contractual and those estimated using assumptions- for a given period. Liquidity gap analyses are prepared for each of the main entities and for each of the currencies in which the Group operates.

The gap supplies data on the projected sources and applications of funds of all on- and off-balance sheet items in specific time periods. This analysis tool is obtained by considering the net result of the maturity and cash flow structure for each of the time buckets established. The tool is constructed by including the available liquidity and contrasting it with the liquidity requirements resulting from maturities.

In practice, since the same item will behave differently at the various Group subsidiaries, a set of common standards and methodologies are in place to make it possible to construct the liquidity risk profiles of each unit in a uniform manner and to submit these profiles in a comparable form to the Bank's senior management.

Consequently, as this analysis has to be performed on an individual basis for each subsidiary, for the purpose of their autonomous management, a consolidated view of the Group's liquidity gaps is of very limited use for the management and understanding of liquidity risk.

Net structural position

The purpose of this metric is to determine the reasonableness of the balance-sheet funding structure. The Group's aim is to ensure that its structural needs (lending, non-current assets, etc.) are satisfied by means of an appropriate combination of wholesale funding sources and a stable retail customer base, as well as capital and other non-current liabilities.

Each unit prepares its liquidity balance sheet based on the nature of its business and compares its liquidity needs with the various funding sources available to it. The essential factors taken into account in determining this metric are the degree of recurrence of the business to be financed, the stability of the funding sources and the readiness with which assets can be converted into cash.

In practice, each subsidiary prepares its own liquidity balance sheet (different from the balance sheet for accounting purposes) by classifying the various asset, liability and off-balance-sheet items on the basis of their nature in terms of liquidity. Thus, the funding structure of each subsidiary is determined, which must at all times conform to a fundamental premise: namely that the core businesses must be financed with stable funds and medium- and long-term financing. The combination of these measures guarantees the robustness of the Group's financial structure and the sustainability of its business plans.

At the end of 2014, the Group had a structural liquidity surplus of EUR 153,000 million, comprising debt securities (EUR 151,000 million), equity instruments (EUR 14,000 million) and net loans and advances to credit institutions and central banks (EUR 9,000 million), offset by short-term wholesale funding (EUR 21,000 million).

Accordingly, the average structural liquidity surplus amounted to EUR 158,000 million.

Scenario analysis

The Group supplements the aforementioned metrics by developing a series of stress scenarios.

Its main objective is to identify the critical factors in potential crises and, at the same time, to define the most appropriate management measures to address each of the situations assessed.

In their liquidity analyses the units generally consider three different scenarios: idiosyncratic, local systemic and global systemic. These scenarios constitute the minimum standard analysis established for all Group units to be reported to senior management. Also, each unit develops ad-hoc scenarios which replicate major historical crises or the liquidity risks specific to its particular environment.

The definition of scenarios and calculation of metrics under each scenario is directly related to the definition and execution of the liquidity contingency plan, which is the responsibility of financial management.

At the end of 2014, in the event of a potential systemic crisis the Group would have an adequate liquidity position.

6.2.3. Management tailored to business needs

The Group performs its liquidity management at subsidiary and/or business unit level in order to finance its recurring activities with the appropriate terms and prices.

In practice, the liquidity management at these units consists of:

- Preparation of a liquidity plan each year on the basis of the funding needs arising from the budgets of each business and the methodology described above. Based on these liquidity requirements and taking into account certain prudential limits on the raising of funds in the short-term markets, the financial management area establishes an issue and securitisation plan for the year at subsidiary/global business level.

- Year-round monitoring of the actual changes in the balance sheet and in the funding requirements of the subsidiaries/businesses, which results in the relevant updates of the plan.

- Monitoring and management of the units' compliance with the regulatory ratios, and oversight of the level of committed assets in each unit's funding, from a structural standpoint and with regard to the component with the shortest term.

- Continuous active presence in a wide range of wholesale funding markets, enabling the Group to maintain an adequate issue structure that is diversified in terms of product type and has a conservative average maturity.

The effectiveness of this management effort at Group level is based on the fact that it is implemented at all subsidiaries. Specifically, each subsidiary budgets the liquidity requirements resulting from its intermediation activity and assesses its own ability to raise funds in the wholesale markets so that, in ongoing coordination with the Group, it can establish an issue and securitisation plan.

Traditionally, the Group's main subsidiaries have been self-sufficient in terms of their structural funding. The exception is Santander Consumer Finance (SCF) which, because it specialises in consumer financing mainly through dealer/retailer recommendations, requires the financial support of other Group units, especially the Parent.

6.3. Funding strategy and evolution of liquidity in 2014

6.3.1. Funding strategy

In the last few years the Group's funding activity has achieved its goal of obtaining sufficient funds for the Group's recurring business in a more demanding environment. At its peak, during the global economic and financial crisis, the Group had to manage sharp increases in risk. As a result, liquidity levels were very low over certain terms and the related costs were very high. Following the interventions by the central banks of the major economies, these market conditions eased significantly throughout 2013 and even more so in 2014.

This sound performance by the Group was underpinned by the extension of the management model to all Group subsidiaries, including recent acquisitions, and, above all, by the adaptation of the subsidiaries' strategies to the growing demands of both markets and regulators. These demands were not uniform across the markets and reached far higher levels of difficulty and pressure in certain areas, such as the peripheral regions of Europe.

In any case, it is possible to identify a series of general trends in the policies implemented by Group's subsidiaries in their funding and liquidity management strategies since the beginning of the crisis, namely:

- Strong generation of liquidity from the commercial business due to the lower growth of credit and greater emphasis on attracting customer funds.

- Maintenance of adequate, stable medium- and long-term wholesale funding levels at Group level. At 2014 year-end, this funding represented 21% of the liquidity balance sheet, a similar level to that of recent years but well below that of 2008 year-end when wholesale funding, which was more abundant and less expensive, had not yet suffered the pressures of the crisis. Following the tightening of conditions on the wholesale markets, the Group's decentralised subsidiaries model, with proprietary issue and rating programmes, contributed to maintaining the Group's high-level participation in the developed wholesale markets, even in the most demanding periods, such as the two-year period encompassing 2011 and 2012.

- Holding a sufficient volume of assets eligible for discount at central banks as part of the liquidity reserve to cater for episodes of stress on wholesale markets. In particular, in recent years the Group has significantly raised its total discount capacity, which currently stands at around EUR 170,000 million.

Thanks to all these market and business developments, based on a sound liquidity management model, the Group currently enjoys a very robust funding structure, the main features of which are as follows:

- High proportion of customer deposits in a predominantly commercial balance sheet. Customer deposits are the Group's major source of funding. These deposits represent around two thirds of the Group's net liabilities (i.e. of the liquidity balance sheet) and at the end of 2014 they accounted for 88% of net loans.

- Diversified wholesale funding, primarily at medium and long term, with a very small proportion maturing in the short term. Medium- and long-term wholesale funding represents 21% of the Group's net liabilities and enables it to comfortably cater for the net loans not financed with customer deposits (commercial gap). This funding is well-balanced by instrument (approximately 1/3 senior debt, 1/3 securitisations and secured, structured loans, 1/4 cédula-type covered bonds, with the remainder consisting of preference shares and subordinated debt) and by market: the markets with a greater proportion of issues are the ones where investment activity is higher.

6.3.2. Evolution of liquidity in 2014

At the end of 2014, in comparison with 2013, the Group reported:

- A stable ratio of loans to net assets (total assets less trading derivatives and interbank balances) at 74% due to the improvement in lending following the end of deleveraging in mature markets.

- A slight increase in the loan-to-deposit (LTD) ratio, to 113% (112% in 2013), within very comfortable levels (lower than 120%). The trend in this ratio reflects the recovery of credit in mature markets, both organic and inorganic, and the increased focus on optimising the cost of retail deposits in countries with low interest rates.

- A slight decline in the ratio of customer deposits plus medium- and long-term funding to loans, for similar reasons to the trend in the LTD ratio, since the increase in the wholesale funds raised at the Group is also lower than that of loans. This ratio stood at 116%.

- There was a continuing limited recourse to short-term wholesale funds at the Group. The ratio of this funding, at around 2%, was in line with previous years.

  Lastly, the Group's structural surplus (i.e. the excess of structural funding resources -deposits, medium- and long-term funding, and capital- over structural liquidity requirements -non-current assets and loans-) continued to rise in 2014. At 31 December 2014, the structural surplus stood at EUR 153,000 million on a consolidated basis.

Asset encumbrance

It is important to note the Group's moderate use of assets as security for structural balance-sheet funding sources. Following the guidelines laid down by the European Banking Authority (EBA) in 2014, the concept of asset encumbrance includes both on-balance-sheet assets provided as security in transactions to obtain liquidity and off-balance-sheet assets that have been received and re-used for the same purpose, as well as other assets associated with liabilities for reasons other than funding.

The reporting of the Group information at 2014 year-end required by the EBA is as follows:

On-balance-sheet encumbered assets

Thousands of millions of euros	Carrying amount of encumbered assets	Carrying amount of non-encumbered assets
Assets	**296.0**	**970.3**
Credits and loans	186.3	692.1
Equity instruments	7.4	11.4
Debt securities	84.2	92.2
Other assets	18.1	174.6

Encumbrance of collateral received

Thousands of millions of euros	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received	**57.5**	**37.4**
Credits and loans	1.6	0.3
Equity instruments	1.8	0.6
Debt securities	54.2	31.4
Other collateral received	-	5.3
Own debt securities issued other than own covered bonds or ABSs	-	-

Encumbered assets and collateral received and matching liabilities

Thousands of millions of euros	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Total sources of encumbrance (carrying amount)	**291.7**	**353.5**

On-balance-sheet encumbered assets amounted to EUR 296 thousand million, almost two-thirds of which are loans (mortgage loans, corporate loans, etc.). For their part, off-balance-sheet encumbered assets amounted to EUR 57.5 thousand million, relating mostly to debt securities received as security in asset purchase transactions and re-used. Taken together, these two categories represent a total of EUR 353.5 thousand million of encumbered assets, which give rise to EUR 291.7 thousand million of associated liabilities.

At 2014 year-end, total assets encumbered in funding transactions represented 26% of the Group's expanded balance sheet under EBA standards (total assets plus collateral received: EUR 1,361 thousand million at December 2014).

Within these encumbered assets, a distinction should be made between the different sources of encumbrance and the role they play in the Group's funding:

- 50% of total encumbered assets relate to security provided in medium- and long-term financing transactions (with average maturity of more than two years) to fund the commercial balance-sheet activity. This places the level of "structural" asset encumbrance at 13% of the expanded balance sheet under EBA standards.
- The other 50% relate to transactions in the short-term market (with average maturity of less than three months) or to security provided in derivative transactions whose purpose is not to fund the ordinary business activity but rather to ensure efficient short-term liquidity management.

7. OPERATIONAL RISK

7.1. Definition and objectives

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

The Group'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 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.

7.2. Operational risk management and control model

7.2.1. Operational risk management cycle

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

- Identification of the operational risk inherent in all the Group'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 the Group'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 the Group 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 the Group 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.

7.2.2. Risk identification, measurement and assessment model

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.

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 control environment in place.

7.3. Mitigation measures

The Group has an inventory of mitigation measures established in response to the main sources of risk. They were identified through the analysis of the tools applied for managing operational risk, and from the organisational and development model, as well as from the preventive implementation of operational and technology risk management and control policies and procedures.

The most significant mitigation measures centre on improving security for customers in their ordinary transactions, and continuous improvement of processes, technology and management to ensure that products are sold and services are provided appropriately.

In addition, with regard to measures relating to customer-, product- and business-related practices, the Group establishes corporate policies for marketing products and services.

Anti-cyber-risk measures

2014 provided confirmation of the upward trend in the number and impact of incidents relating to cybersecurity, which affect all types of companies and institutions, including those in the financial sector. This situation, which is generating concern among entities and regulators, is encouraging the adoption of preventive measures in order to be prepared for attacks of this nature. The implementation of the cybersecurity strategy at the various Group entities gave rise to various initiatives and lines of action, such as:

- Assessment of each entity's situation with respect to the internal reference model in order to identify possibilities for improvement and to prioritise points of action with regard to cyber risks.

- Strengthening of the technological solutions and services aimed at detecting and preventing cyber attacks and information leaks, and the recording, correlation and management of security events.

- Improvement of the security monitoring services and extension of their scope.

- Participation in the cyber exercises promoted by the Spanish Cybersecurity Institute (INCIBE) aimed at evaluating the response by companies to this type of incident.

- Cooperation with international forums with the objective of identifying best practices and sharing information about threats.

7.4. Business continuity plan

The Group 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 the Group, 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, the Group.

- Meeting the Group's obligations to its employees, customers, shareholders and other third-party stakeholders.

In 2014 the Group continued to make progress in the implementation and continuous improvement of its business continuity management system. It placed particular emphasis on tightening controls for monitoring the continuity plans of the suppliers that provide services deemed essential for the Bank.

7.5. Other matters relating to operational risk control and monitoring

Analysis and monitoring of controls in market operations

In view of the specific features and complexity of financial markets, the Group continually improves the operational control procedures in order to remain in line with new regulations and best market practices. Therefore, in 2014, the control model for this business continued to be improved, with particular emphasis on the following points:

- Analysis of the individual operations of each treasury operator to detect any possible anomalous conduct.

- Implementation of a new tool enabling compliance with the new requirements regarding transaction recording and eavesdropping control.

- Tightening of controls on cancellations of amendments to transactions.
- Reinforcement of controls on contributions of prices to market indices.
- Development of additional controls for operational detection and prevention.
- Development of additional controls of accesses to front-office record keeping systems.

The business is also undergoing a global transformation, combined with the modernisation of the technology platforms and operating processes involving a robust control model that enables the operational risk associated with this activity to be reduced.

Corporate information

The operational risk function 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 the 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 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 executive 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

The Group considers insurance as 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.

8. COMPLIANCE, CONDUCT AND REPUTATIONAL RISK

8.1. Definitions and objective

Compliance risk is the risk of receiving penalties, even of a financial nature, or of being subject to other types of disciplinary measures by the supervisors as a result of failing to comply with laws, regulations, standards, the organisation's self-regulatory standards or codes of conduct applicable to the activity carried on.

Conduct risk is the risk caused by inappropriate practices in the Bank's dealings with its customers, the treatment and products offered to them and the adequacy thereof for each particular customer.

Reputational risk is defined as the risk of damage to the perception of the Bank held by public opinion, the Bank's customers, investors or any other interested party.

The Group's objective regarding compliance and conduct risk is: (i) to minimise the probability of irregularities arising; and (ii) to identify, report and swiftly resolve any irregularities that might possibly arise. As for reputational risk, bearing in mind the diversity of sources from which it can arise, management efforts are aimed at identifying and controlling this risk so that the probability of its occurring is reduced and its possible impact is mitigated.

8.2. Corporate governance and organisational model

It is the responsibility of the Bank's board of directors, as part of its supervisory function, to approve the Group's general risk policy. In the corporate compliance, conduct and reputational risk area, the board is in charge of the Group's general code of conduct, the governance frameworks on the prevention of money laundering and terrorist financing, and the marketing of products and services.

The compliance function reports to the board of directors: (i) on an ongoing basis, directly through an executive deputy chairman of the board who supervises the Group’s compliance function; and (ii) through the monthly report submitted to the risk, regulation and compliance oversight committee. This committee supports and advises the board in the Group’s relationship with the supervisors and regulators of the various countries in which it is present, as well as in the supervision of internal codes and regulations.

At its meeting on 16 January 2015, the board of directors resolved to appoint an executive deputy chairman of the board, to whom the compliance function will report, in accordance with regulatory recommendations on corporate governance.

In addition, in order to bolster the importance of the compliance function, at its meeting on 2 February 2015 the executive committee resolved to appoint an executive vice president as chief compliance officer.

The corporate committees for regulatory compliance, analysis and resolution and marketing (the last two specialise in their respective subjects: the prevention of money laundering and the marketing of products and services) are collective bodies with basic competencies in this matter which have a global scope (all geographical areas, all businesses) and are replicated at local level.

The risk unit monitors the compliance risk control framework both from the integrated risk control and internal risk validation area (CIVIR), in the exercise of its functions to support the executive risk committee, and from the non-financial risk control area created in 2013.

The organisational model revolves around the corporate compliance and reputational risk area, which is entrusted with managing the Group’s compliance, conduct and reputational risks. Within this area are the corporate regulatory compliance risk management office, the corporate conduct risk management office and the corporate financial intelligence unit (UCIF), which is responsible for the prevention of money laundering and terrorist financing. This structure is replicated at local level and also in the global businesses, and the appropriate functional reporting channels to the corporate area have been established.

8.3. Risk appetite model and regulatory risk assessment exercise

The Group's risk appetite model applicable to compliance and conduct risk is characterised by the following three elements:

- It is based on an express declaration of zero appetite for compliance and conduct risk.
- The objective of the management performed by the Group is to minimise the incidence of compliance and conduct risk. Accordingly, systematic monitoring is performed using the compliance and conduct risk indicator resulting from the assessment matrices prepared for each country.
- Quarterly monitoring of the level of risk is performed on a country-by-country basis.

Data of the communications received from the various supervisors each month is fed into the assessment matrix. Each of these communications is allocated a score depending on the risk they represent in terms of: (i) costs due to fines; (ii) process reorganisation costs; and (iii) the impact on the brand and reputational risk. These assessments complement the ratings assigned by internal audit with respect to compliance. Each local unit is allocated a weighting based on its attributable profit and volume of assets, which can be used to obtain an overall score for the Group.

The corporate compliance area carried out a regulatory risk assessment exercise in 2014 focusing on the Group's main countries. This exercise, which centred on the identification of the regulatory obligations affecting the Group's units, was based on a risk assessment of each obligation, which is conducted in two stages: the first, in relation to "inherent risk", which stems from the activity relating to the business, and the second, in relation to residual risk, after taking the effect of the controls into consideration.

This regulatory risk assessment exercise is expected to complement the risk appetite model by contributing new metrics to it.

8.4. Risk management model

The main responsibility for compliance, conduct and reputational risk management is shared by the compliance and reputational risk function and the various business and support units that conduct the activities giving rise to risk. The responsibility for fostering the development of standard policies across the entire Group, for establishing controls and monitoring and checking that they are applied, and for reporting incidents lies with the compliance and reputational risk function, which is also responsible for advising senior management on these matters and for fostering a culture of compliance, all as part of an annual programme whose effectiveness is periodically evaluated.

The compliance function directly manages the basic components of these risks (money laundering, codes of conduct, product marketing, etc.) and ensures that the other components are duly addressed by the corresponding Group unit (responsible financing, data protection, customer claims, etc.), for which purpose it has established the appropriate control and verification systems.

The integrated risk control and internal risk validation area (CIVIR) ensures that the risk management model is properly executed. Also, as part of its functions, internal audit performs the tests and reviews required to check that the standards and procedures established at the Group are being complied with.

The central plank of the Group's compliance programme is the general code of conduct. This code contains the ethical principles and standards of conduct that must guide the actions of all the Group employees and is complemented in certain matters by the standards contained in the industry-specific codes and manuals[10].

Also, the code establishes: i) the functions and responsibilities regarding compliance by the Group's relevant governing bodies and divisions; ii) the standards regulating the consequences of the failure to comply; and iii) a channel for reporting and processing notifications of allegedly irregular actions.

It is the role of the corporate compliance office, under the supervision of the risk, regulation and compliance oversight committee and the regulatory compliance committee, to ensure the effective implementation and monitoring of the general code of conduct.

The regulatory compliance committee has authority on all matters relating to the compliance function, without prejudice to the matters assigned to the two specialist bodies in this area (the corporate marketing committee with regard to the marketing of products and services, and the analysis and resolution committee with regard to the prevention of money laundering and terrorist financing). The regulatory compliance committee is composed of representatives from the general secretary's division, risk, human resources, organisation and costs, technology and operations, internal audit, financial management and public policy.

The Group's compliance department has been entrusted with the following compliance, conduct and reputational risk management functions:

- Implementing the Group's general code of conduct and other industry-specific codes and manuals.
- Supervising the training activities on the compliance programme conducted by the human resources area.
- Directing any investigations into possible breaches, with help from internal audit, and proposing the appropriate penalties to the related committee.
- Cooperating with internal audit in the periodic reviews that it carries out on compliance with the general code of conduct and with the industry-specific codes and manuals, without prejudice to the periodic reviews of matters of regulatory compliance which are conducted by the compliance department directly.
- Receiving and handling the complaints made by employees through the whistleblowing facility.
- Advising on the resolution of doubts arising from the application of the codes and manuals.
- Preparing an annual report on the application of the compliance programme for submission to the risk, regulation and compliance oversight committee.
- Regularly reporting to the risk, regulation and compliance oversight committee and the board of directors on the implementation of the compliance policy and the compliance programme.

10 The industry-specific codes and manuals include the prevention of money laundering and terrorist financing manual, the code of conduct in securities markets, the procedures manual for the sale of financial products, the analysis code of conduct, the research policy manual, the use of information and communications technology conduct manual, the property management conduct manual, the purchasing management conduct manual, etc., in addition to the notes and circulars implementing specific points of these codes and manuals, including, in particular, the corporate circular on the corporate programme for the prevention of corruption.

- Assessing, every year, the changes that it might be appropriate to make to the compliance programme, particularly in the event of detecting unregulated risk areas and improvable procedures, and proposing such changes to the risk, regulation and compliance oversight committee.

As regards the industry-specific codes and manuals, the focus of the compliance programme is on the following operational spheres, inter alia:

Prevention of money laundering and terrorist financing

Policies

As a socially responsible organisation, it is a strategic objective for the Group to have an advanced effective system for the prevention of money laundering and the financing of terrorism that is constantly adapted to the latest international regulations and has the capacity to respond to the appearance of new techniques employed by criminal organisations.

The prevention of money laundering and terrorist financing function is articulated in certain policies that establish minimum standards that the Group's units must observe, and which are prepared in conformity with the principles contained in the 40 recommendations of the Financial Action Task Force (FATF) and the obligations and stipulations of Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

The corporate policy and the standards implementing it must obligatorily be complied with at all Group units worldwide. In this regard, units should be taken to be all the banks, subsidiaries, departments or branches of the Bank, both in Spain and abroad, which, in accordance with their legal status, must be subject to the regulations on the prevention of money laundering and terrorist financing.

Governance and organisation

The organisation of the prevention of money laundering and terrorist financing function at Santander Group lies with the following bodies: (i) the board of directors, (ii) the Group's analysis and resolution committee (CAR), (iii) the corporate financial intelligence unit (UCIF), (iv) local CARs, (v) local prevention of money laundering and terrorist financing (PML/TF) units and (vi) heads of prevention at various levels.

The board of directors approves the internal governance framework for the prevention of money laundering and terrorist financing.

The Group's CAR is a collective body with a corporate scope. It is composed of representatives of the following divisions: risk, internal audit, commercial banking, global wholesale banking, human resources, organisation and costs, technology and operations, the controller's unit and management control, consumer finance and the general secretary's division. It defines the general policies and objectives, and formulates the policy rules for the Group's various bodies and entities with regard to prevention and the related coordination.

As a result of the separation of the local area in Spain from the corporate area, a local CAR was created for Spain in 2014. Previously part of the corporate CAR, it is now distinct from it and assumes the functions of an internal PML/TF control body with a local remit.

The corporate financial intelligence unit (UCIF) directs, supervises and coordinates the systems for the prevention of money laundering and terrorist financing of the Group's subsidiaries, branches and business areas. This requires the adoption of programmes, measures and improvements where necessary.

The local CARs are the internal control bodies designated for the prevention of money laundering and terrorist financing with a local remit. They are composed of representatives of the departments most directly involved in these matters.

The local prevention of money laundering units (UPBCs) are the technical units responsible for directing and coordinating the systems and procedures for the prevention of money laundering and terrorist financing in the countries where the Group has a presence, for investigating and reporting suspect transactions and for fulfilling the reporting requirements to the related authorities.

Also, there are persons responsible for the prevention of money laundering and terrorist financing at four different levels: area, unit, branch and account. Their mission in each case is to support the UCIF and the local UPBCs from a position of proximity to customers and operations.

At consolidated level, a total of 885 professionals perform the prevention of money laundering and terrorist financing function at the Group (85% on a full-time basis) at 149 units established in 35 countries.

The Group has established corporate systems at all its units and business areas based on decentralised computer software which makes it possible to present directly to the account branches or the relationship managers the transactions and customers which need to be analysed because of their risk. These tools are supplemented by others that are used centrally by the teams of analysts in the prevention units and, based on certain risk profiles and changes in certain customer operational behaviour patterns, they enable transactions that might be linked to money laundering or terrorist financing to be analysed, identified on a preventative basis and monitored.

The Bank is a founder member, along with ten other large international banks, of the Wolfsberg Group. The Wolfsberg Group’s objective is to establish international standards to increase the effectiveness of programmes to combat money laundering and terrorist financing in the financial community. Various initiatives have been developed which have addressed, inter alia, issues such as the prevention of money laundering in private banking and correspondent banking, and the financing of terrorism. The regulatory authorities and experts in this area consider that the Wolfsberg Group and the principles and guidelines set by it represent an important step in the fight against money laundering, corruption, terrorism and other serious crimes.

Marketing of products and services

Policies

The Group manages the risk that may arise from an inadequate sale of products or an improper provision of services by the Group in accordance with the corporate framework for the marketing of products and services.

The purpose of this corporate framework is to establish a standard system for the marketing of products and services at the Group, in order to minimise the Group's exposure to risks in all the phases of marketing (approval, pre-sale, sale and follow-up).

In order to adapt the framework to the Bank and to the Group's subsidiaries, it is adopted by the respective boards of directors, and made binding and adapted where necessary to ensure compliance with the applicable local regulatory requirements.

Governance and organisation

The organisational structure for managing the risk that might arise from the incorrect selling of products or services is based, at both corporate and local level, on the marketing committees, the monitoring committees and at the conduct risk management offices.

The corporate marketing committee (CCC) is the Group's highest decision-making body regarding the approval of products and services. It is composed of representatives of the following divisions: risk, financial management, technology and operations, the general secretary's division, the controller's unit and management control, internal audit, commercial banking and global wholesale banking.

The CCC assesses the suitability of the product or service for the environment in which it is to be marketed, placing particular emphasis on ensuring that:

- Each product or service is sold by competent sales personnel.
- Customers are furnished with the required appropriate information.
- The product or service fits the customer's risk profile.
- Each product or service is assigned to the appropriate market, not only from a legal or tax standpoint, but also with regard to the financial culture of that market.
- The product or service meets the requirements of the corporate marketing policies and, in general, the applicable internal or external regulations.

Also, the local marketing committees (CLCs) approve new products and channel the related validation proposals to the CCC.

In their respective approval processes the marketing committees' actions are guided by a risk-based approach, from the view point of both the Bank and the customer.

The corporate monitoring committee (CCS) is the Group's decision-making body regarding the monitoring of products and services. It is composed of representatives from the following divisions: internal audit, the general secretary's division, risk, and the business areas concerned (with the ongoing representation of commercial banking). It meets weekly, and considers and resolves specific issues relating to the selling of products and services at all the Group's units.

The purpose of the corporate conduct risk management office (OCGRC) is to provide the relevant governing bodies with the information required to enable them: (i) to conduct an appropriate analysis of risk in the validation phase, with a twofold focus: impact on the Bank and impact on the customer; and (ii) to monitor products over their life cycle.

At local level conduct risk management offices have been established, which are responsible, inter alia, for promoting a corporate culture of correct marketing practices and ensuring that products are approved and monitored in the respective local spheres in keeping with the corporate framework.

Conduct in securities markets

Policy

This is set by the code of conduct in the securities markets (CCMV), complemented, inter alia, by the code of conduct for analysis activities, the research policy manual and the procedure for detecting, analysing and communicating transactions suspected of market abuse.

Governance and organisation

The organisation is centred on the corporate compliance office and local and subsidiaries' compliance divisions.

The Group's compliance department performs the following main functions in relation to the rules of conduct in securities markets:

- Registering and controlling sensitive information that is known by and/or generated at the Group.
- Keeping lists of the securities affected and the initiated persons, and monitoring transactions with these securities.
- Monitoring transactions with restricted securities depending on the type of activity, portfolios or groups to which the restriction applies.
- Receiving and attending to notifications of, and requests for, authorisation of transactions for own account.
- Controlling transactions for own account of the persons subject to compliance with the code of conduct.
- Managing breaches of the CCMV.
- Resolving any issues raised concerning the CCMV.
- Recording and resolving conflicts of interest and the situations that might give rise to them.
- Assessing and managing any conflicts that might arise in the analysis activity.
- Maintaining the files required to control compliance with the obligations established in the CCMV.
- Developing ordinary contact with the regulators.
- Organising training and, in general, performing the actions required to apply the CCMV.
- Analysing actions that might be suspected of constituting market abuse and, where appropriate, reporting them to the supervisors.

Criminal risk prevention

The Group's compliance department has also been entrusted with the management of the criminal risk prevention model, which resulted from the entry into force of Organic Law 5/2010, which made legal entities criminally responsible for crimes committed on their account or for their benefit by directors or representatives or employees as a result of a lack of control.

In 2014 the Group obtained AENOR certification for the risk management system for crime prevention, of which the whistleblowing channel is a key component.

There are 26 whistleblowing channels in place at the Group. In 2014 complaints were made through six of them, in Germany, Brazil, the US, the UK, Poland and Spain.

In 2014, the total number of complaints received through all channels was over 400. They were processed in accordance with the Group's internal procedures. The most common grounds for the complaints were employees' failure to comply with the internal regulations, through either inappropriate behaviour or non-observance of the Group's policies or procedures.

Relationships with supervisors and dissemination of information to the markets

The compliance department is responsible for responding to the information requirements of the regulatory and supervisory bodies, both in Spain and in other countries where the Group operates, monitoring implementation of the measures arising from the reports or inspections conducted by these bodies and supervising the way in which the Group disseminates institutional information in the markets, transparently and in accordance with the regulators' requirements. The risk, regulation and compliance oversight committee (prior to its creation in June 2014: the audit committee) is informed of the main issues at each of its meetings.

In 2014 the Bank published 90 significant events, which may be consulted on the Group's website and on that of the CNMV.

9. MODEL RISK

The use of models in risk management gives rise to model risk, i.e. the risk of losses arising from decisions based mainly on the results of models, due to errors in the definition, application or use of such models.

This risk occurs both in operational risk (the risk associated with errors in the data, construction, implementation and use of the model) and implicitly in the risk associated with the activity that it supports (in credit, market or other risk, due to the inadequate data, construction or use of the model).

As a result of the extension of the use of models to a wide range of activities, it is necessary to establish a series of actions and controls over the life cycle of these models in order to identify and minimise the associated risks.

Model risk can be mitigated through an appropriate control and management environment, i.e. through a series of controls over the life cycle of the model. The cycle encompasses all stages of the model, from the definition of the standards to be used in its development to the periodic monitoring of the model and its expiry.

The planning stage is particularly significant since this is when the development and management priorities are defined. When plans are prepared, the needs to be covered are identified and the materiality of the risk involved is assessed.

The extraction and validation of the information, and the development of the model are two other fundamental stages. In the case of development, control points must be established in order to check, inter alia, that the data used are suitable, that the objectives match the requested results, that the model was constructed in accordance with the set guidelines, or that the implementation is viable prior to formal roll-out of the model, which will occur after it has been formally approved.

There must be a validation process in place that is carried out by a function that is independent from that of the model developer, in order to control the risk associated with the development of models. The scope of the validation will depend on the type of model, the materiality and the type of development involved.

Lastly, all developments, whether a new model, a modification of an existing one or a new use for a model already being used, must be reviewed and approved based on its materiality by the relevant governing body. This process represents the recognition by the intervening parties that they are familiar with, and aware of, all the risks associated with the use of the model, of the various assumptions used in its construction, and of the existing limitations in its various intended uses.

Once implemented, the models will be supervised regularly to check that they are being used for the purpose for which they were approved and that they continue to work as expected.

10. CAPITAL MANAGEMENT AND CONTROL OF CAPITAL RISK

Capital management at the Group, which is carried out on an integrated basis in order to ensure the Group's capital adequacy, meet regulatory requirements and maximise return on capital, is determined by the strategic objectives and the risk appetite set by the board of directors. With this objective in mind, a series of policies have been defined that shape the Group's capital management approach:

- To establish adequate capital planning to enable the Group to cater for current requirements and to provide the capital required to cover the needs of the business plans, regulatory requirements, and the associated short- and medium-term risks, while maintaining the risk profile approved by the board.

- To ensure that, in stress scenarios, the Group and its companies maintain sufficient capital to cover their needs arising from the increase in risks caused by the deterioration in macroeconomic conditions.

- To optimise the use of capital through an appropriate allocation of capital among the businesses based on the relative return on regulatory and economic capital, taking into consideration the risk appetite, their growth and the strategic objectives.

The Group defines capital risk as the risk that the Group or one of its companies may have an insufficient amount and/or quality of capital to meet its stakeholders' expectations and its strategic planning guidelines. The objectives in this connection include most notably:

- To meet the internal capital and capital adequacy targets

- To meet the regulatory requirements

- To align the Bank's strategic plan with the capital expectations of external agents (rating agencies, shareholders and investors, customers, supervisors, etc.).

- Support the growth of the businesses and any strategic opportunities that may arise.

Capital adequacy position

The Group has a sound capital adequacy position that 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.

On 9 January 2015, the Bank completed a capital increase of EUR 7,500 million. With this increase, the Bank has met its main objective of being able to sustain the organic growth of the business, by increasing credit and the market share in the main markets in which the Group operates.

Leverage ratio requirements

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).

10.1. New regulatory framework

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.

The Group shares the ultimate objective pursued by the regulator with this new framework, namely to endow the international financial system with greater stability and resilience. In this regard, for many years the Group has collaborated on the impact studies for calibrating the new standards conducted by the Basel Committee and the European Banking Authority (EBA) and coordinated at local level by the Bank of Spain.

In Europe, the new standards 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. The Group will continue to support the regulators by offering its opinions and participating in impact studies.

10.2. 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 Group's case, 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 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 Group's case, owing to the multinational, multibusiness nature of its operations, is of key importance in determining its overall risk and solvency profile.

Economic capital is a fundamental tool for the internal management and implementation of the Group's strategy, from the viewpoint of both the assessment of capital adequacy and the management of portfolio and business risk.

With regard to capital adequacy, in the context of Pillar II of the Basel Capital Accord, the Group conducts the internal capital adequacy assessment process using its economic capital model. To this end, the Group plans the 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.

Since it is a uniform risk measure, economic capital makes it possible to explain the distribution of risk across the Group, placing different activities and types of risk in a comparable metric.

RORAC and value creation

The Group has used RORAC methodology in its risk management since 1993, with the following objectives:

- Calculation of economic capital requirements and of the return thereon for the Group's business units, segments, portfolios and customers, in order to facilitate an optimal allocation of capital.

- Budgeting of capital requirements and RORACs of the Group's business units.

- Analysis and setting of prices in the decision-making process for transactions (loan approval) and customers (monitoring).

The RORAC methodology facilitates the comparison, on a like-for-like basis, of the performance of transactions, customers, portfolios and businesses, and identifies those which achieve a risk-adjusted return higher than the Group's cost of capital, thus aligning risk management and business management with the aim of maximising value creation, which is the ultimate objective of Group senior management.

The Group periodically assesses the level of and the changes in the value creation (VC) and return on risk-adjusted capital (RORAC) of the Group and of its main business units. The VC is the profit generated over and above the cost of the economic capital (EC) used, and is calculated using the following formula:

VC = Profit - (average EC x cost of capital)

The profit used is obtained by making the required adjustments to accounting profit in order to reflect only the recurring profit obtained by each unit from its business activity.

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.

2014 witnessed an uneven performance of the business units in terms of value creation. 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.

10.3 Capital planning and stress tests

Capital stress tests have gained particular significance as a tool for the dynamic evaluation of banks' risk exposure and capital adequacy. A new forward-looking assessment model has become a key component of capital adequacy analysis.

This forward-looking assessment is based on both macroeconomic and idiosyncratic scenarios that are highly improbable but nevertheless plausible. To conduct the assessment, it is necessary to have robust planning models capable of transferring the effects defined in the projected scenarios to the various elements that have a bearing on capital adequacy.

The ultimate goal of capital stress tests is to perform a complete evaluation of banks' risk exposure and capital adequacy in order to determine any possible capital requirements that would arise if banks failed to meet the regulatory or internal capital targets set.

Internally, the Group has defined a capital planning and stress process, to serve not only as a response to the various regulatory exercises, but also as a key tool integrated in the Group's management and strategy.

The aim of the internal capital planning and stress process is to guarantee current and future capital adequacy, even in adverse yet plausible economic scenarios. To this end, starting with the Group's initial situation, the expected outcomes for the Group are estimated for various business environments and the Group's capital ratios are obtained, normally projected over a three-year period.

The process implemented provides a comprehensive view of the Group's capital for the time horizon analysed and in each of the scenarios defined.

European Central Bank comprehensive assessment exercise

The European Central Bank comprehensive assessment exercise began in October 2013, with a view to launching the Single Supervisory Mechanism on 4 November 2014. Banks participating in this exercise were subjected to a risk assessment, an asset quality review and a stress test. Its objective was to increase transparency, control and credibility, in order for the results to bolster the private sector's trust in the capital adequacy of European banks and the quality of their balance sheets.

The most significant banks in the EU took part, i.e. all banks meeting at least one of the following criteria: (1) assets exceeding EUR 30,000 million, (2) assets exceeding 20% of the country's GDP, (3) the bank is one of the three largest credit institutions in a Member State.

The comprehensive assessment was based on three pillars:

- Risk assessment: prior evaluation of the business model and the most significant risks, including those relating to liquidity, leverage and funding. Each entity's risk profile was taken into account, together with its relationship with other entities and its vulnerability to exogenous factors.

- Asset quality review (AQR): a qualitative and quantitative analysis of the credit and market exposures at December 2013 (including off-balance-sheet exposures, doubtful loans, refinancing transactions and sovereign risk). Its specific objective was to assess whether the provisions and the valuation of the collateral for the credit exposure were adequate, and to assess the valuation of complex instruments and high risk assets. It was structured in three phases:

    - Portfolio selection: at the proposal of the national competent authorities, the portfolios to be included in the analysis were selected, in accordance with the coverage criteria established at entity level.

    - Execution: data integrity validation, collateral valuation and recalculation of provisions and risk-weighted assets.

- o Verification: analysis of consistency to ensure the comparability of the results of all the portfolios and of all the banks across the European Union. This included an analysis of the quality control, guidelines and definitions.

- Stress test: an analysis of the banks' ability to withstand an adverse situation. This was carried out in cooperation with the EBA (European Banking Authority). The exercise established a baseline scenario and an adverse scenario affecting a bank's performance, including its risks (credit, market, sovereign, securitisation and cost of funding), with a three-year time horizon (2014-2016), using AQR-adjusted 2013 year-end data as the starting point.

  The adverse macroeconomic scenario took into consideration certain systemic risks for the banking sector such as an increase in bond yields at global level, particularly those relating to emerging economies, or a higher deterioration of asset quality in economies with weaker fundamentals and vulnerable financial sectors.

  Minimum capital (CET1) was set at 8% in the baseline scenario and at 5.5% in the adverse scenario, in accordance with the Basel III definition (CRD IV/CRR) and its progressive introduction (phase-in) timetable.

  The stress test results were based on the scenarios defined in the methodology and are not forecasts of financial performance or of capital ratios. The stress test was based on the common methodology designed by the EBA, which included key assumptions to simplify the exercise (for example, a static balance sheet, a dividend payout similar to the average for the last three years and valuation adjustments on public debt).

Result of the assessment for the Group

With regard to the AQR exercise, i.e. the review of the quality of the portfolios, an analysis was conducted of 16 major credit portfolios from seven countries and various segments (residential, SMEs and corporates) representing more than 50% of the credit risk exposure at 31 December 2013. In addition, a review was made of procedures and policies, taking samples of files and reviewing them, of appraisals of properties and collateral and of the valuation models for the trading book. The impact of the analysis on CET1 was not material (-4 basis points).

With respect to the stress test, the Group passed the proposed scenarios comfortably, particularly the adverse scenario which is very unlikely to occur.

55. 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 of Banco Santander, S.A. (1)

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
2 & 3 Triton Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	PROPERTY	37	6	13
A & L CF (Guernsey) Limited (n)	Guernsey	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
A & L CF (Jersey) Limited (n)	Jersey	0.00%	100.00%	100.00%	100.00%	LEASING	99	0	92
A & L CF December (1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	15	0	0
A & L CF December (10) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	41	0	37
A & L CF December (11) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	14	0	12
A & L CF June (2) Limited (e)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	3	0	0
A & L CF June (3) Limited (e)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	8	0	0
A & L CF June (8) Limited (e) (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
A & L CF March (1) Limited (d) (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
A & L CF March (5) Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	2	0	0
A & L CF March (6) Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
A & L CF September (3) Limited (f)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	3	0	0
A & L CF September (4) Limited (f)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
A & L CF September (5) Limited (f) (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
A N (123) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	7	0	8
A N Loans Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
A&L Services Limited	Isle of Man	0.00%	100.00%	100.00%	100.00%	SERVICES	5	0	7
Abbey Business Services (India) Private Limited (d)	India	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	(1)	0	0
Abbey Covered Bonds (Holdings) Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Abbey Covered Bonds (LM) Limited	United Kingdom	0.00%	100.00%	100.00%	-	SECURITISATION	0	0	0
Abbey Covered Bonds LLP	United Kingdom	-	(b)	-	-	SECURITISATION	(400)	(429)	0
Abbey National (America) Holdings Inc.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	37	0	37
Abbey National (America) Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	37	0	30
Abbey National (Holdings) Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Abbey National Beta Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Business Office Equipment Leasing Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	2	0	0
Abbey National International Limited	Jersey	0.00%	100.00%	100.00%	100.00%	BANKING	284	14	275
Abbey National Investments (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Investments Holdings Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Abbey National Nominees Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	0	0	0
Abbey National North America Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
Abbey National North America LLC	United States	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Pension (Escrow Services) Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	PENSION FUND MANAGEMENT COMPANY	0	0	0
Abbey National PLP (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Property Investments	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	509	39	178
Abbey National Securities Inc.	United States	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	47	1	37
Abbey National September Leasing (3) Limited (f) (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
Abbey National Treasury Investments	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	4	0	0
Abbey National Treasury Services Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Treasury Services Overseas Holdings	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,400	11	1,315
Abbey National Treasury Services plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	BANKING	4,173	146	3,658
Abbey National UK Investments	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey Stockbrokers (Nominees) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	0	0	0
Abbey Stockbrokers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	4	(2)	4
Ablasa Participaciones, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	10	0	6
Acoghe, S.L.	Spain	0.00%	55.89%	100.00%	-	HOTEL OPERATIONS	0	0	0
Administración de Bancos Latinoamericanos Santander, S.L.	Spain	24.11%	75.89%	100.00%	100.00%	HOLDING COMPANY	1,475	15	1,840
Aevis Europa, S.L.	Spain	68.80%	0.00%	68.80%	68.80%	CARDS	1	0	0
AFB SAM Holdings, S.L.	Spain	1.00%	49.50%	100.00%	-	HOLDING COMPANY	215	0	110
Afisa S.A.	Chile	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	8	1	3
Aguas de Iria, S.L.	Spain	0.00%	100.00%	100.00%	-	WATER SUPPLY	0	0	0
AKB Marketing Services Sp. Z.o.o.	Poland	0.00%	81.65%	100.00%	100.00%	MARKETING	7	0	0
AL (ROUTH) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Alcaidesa Golf, S.L.	Spain	0.00%	50.00%	100.00%	100.00%	SPORTS OPERATIONS	13	(2)	6
Alcaidesa Holding, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	PROPERTY	90	0	45
Alcaidesa Inmobiliaria, S.A.	Spain	0.00%	50.00%	100.00%	100.00%	PROPERTY	48	(1)	24
Alcaidesa Servicios, S.A.	Spain	0.00%	50.00%	100.00%	100.00%	SERVICES	23	(5)	14
ALIL Services Limited	Isle of Man	0.00%	100.00%	100.00%	100.00%	SERVICES	7	0	0
Aljarafe Golf, S.A.	Spain	0.00%	89.41%	89.41%	89.41%	PROPERTY	10	(9)	1
Aljardi SGPS, Lda.	Portugal	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,183	32	1,148
Alliance & Leicester (Jersey) Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Alliance & Leicester Cash Solutions Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Alliance & Leicester Commercial Bank plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	28	0	28
Alliance & Leicester Commercial Finance (Holdings) plc (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	23	0	23
Alliance & Leicester Equity Investments (Guarantee) Limited (j)	United Kingdom	-	(b)	-	-	FINANCE	0	0	0
Alliance & Leicester Financing plc (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	8	0	8

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
Alliance & Leicester Investments (Derivatives No.3) Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Alliance & Leicester Investments (Derivatives) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Alliance & Leicester Investments (No.2) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	3	0	1
Alliance & Leicester Investments (No.3) LLP (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Alliance & Leicester Investments (No.4) Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Alliance & Leicester Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	7	0	1
Alliance & Leicester Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	BANKING	4	0	0
Alliance & Leicester Personal Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	(261)	1	0
Alliance & Leicester Print Services Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Alliance Bank Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	3
Alliance Corporate Services Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Altamira Santander Real Estate, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	807	(119)	696
Amazonia Trade Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Andaluza de Inversiones, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	51	2	27
ANITCO Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Aquanima Brasil Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	E-COMMERCE	2	2	0
Aquanima Chile S.A.	Chile	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Aquanima México S. de R.L. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	E-COMMERCE	1	1	2
Aquanima S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Argenline, S.A. (p)	Uruguay	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Asesoría Estratega, S.C.	Mexico	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Atlantys Espacios Comerciales, S.L.	Spain	0.00%	55.89%	100.00%	-	PROPERTY	25	0	24
Atual Companhia Securitizadora de Créditos Financeiros	Brazil	0.00%	89.02%	100.00%	100.00%	FINANCIAL SERVICES	0	0	0
Aurum Inversiones Limitada	Chile	50.00%	50.00%	100.00%	100.00%	HOLDING COMPANY	1,655	96	1,736
Auttar HUT Processamento de Dados Ltda.	Brazil	0.00%	78.78%	100.00%	-	TECHNOLOGY SERVICES	2	0	2
Aviación Antares, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	30	6	28
Aviación Británica, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	7	1	6
Aviación Centaurus, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	32	4	25
Aviación Intercontinental, A.I.E.	Spain	65.00%	0.00%	65.00%	65.00%	FULL-SERVICE LEASING	70	5	35
Aviación RC II, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	24	2	23
Aviación Real, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	5	0	10
Aviación Regional Cántabra, A.I.E.	Spain	73.58%	0.00%	73.58%	73.58%	FULL-SERVICE LEASING	34	3	22
Aviación Scorpius, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	32	3	26
Aviación Tritón, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	21	2	19
Aymoré Crédito, Financiamento e Investimento S.A.	Brazil	0.00%	89.02%	100.00%	100.00%	FINANCE	327	83	209
Banbou S.A.R.L.	France	0.00%	90.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Banco Bandepe S.A.	Brazil	0.00%	89.02%	100.00%	100.00%	BANKING	915	4	764
Banco de Albacete, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	BANKING	12	0	9

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
Banco de Asunción, S.A. in voluntary liquidation (j)	Paraguay	0.00%	99.33%	99.33%	99.33%	BANKING	1	0	0
Banco Madesant - Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	BANKING	1,052	43	1,096
Banco Santander - Chile	Chile	0.00%	67.01%	67.18%	67.18%	BANKING	3,017	746	940
Banco Santander (Brasil) S.A.	Brazil	13.65%	75.37%	89.66%	76.19%	BANKING	17,345	668	10,029
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	Mexico	0.00%	75.05%	99.99%	99.99%	BANKING	5,008	786	1,811
Banco Santander (Panamá), S.A.	Panama	0.00%	100.00%	100.00%	100.00%	BANKING	83	0	83
Banco Santander (Suisse) SA	Switzerland	0.00%	100.00%	100.00%	100.00%	BANKING	455	33	325
Banco Santander Bahamas International Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	BANKING	849	9	725
Banco Santander Consumer Portugal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	BANKING	120	4	128
Banco Santander de Negocios Colombia S.A.	Colombia	0.00%	99.99%	99.99%	99.99%	FINANCE	68	(4)	83
Banco Santander International	United States	100.00%	0.00%	100.00%	100.00%	BANKING	642	63	431
Banco Santander Perú S.A.	Peru	99.00%	1.00%	100.00%	100.00%	BANKING	89	12	75
Banco Santander Puerto Rico	Puerto Rico	0.00%	100.00%	100.00%	100.00%	BANKING	630	45	460
Banco Santander Río S.A.	Argentina	8.23%	91.07%	98.44%	98.45%	BANKING	849	315	220
Banco Santander Totta, S.A.	Portugal	0.00%	99.80%	99.91%	99.91%	BANKING	1,788	135	2,815
Banco Santander, S.A.	Uruguay	97.75%	2.25%	100.00%	100.00%	BANKING	314	12	182
Banco Santander, S.A., Fideicomiso 100740	Mexico	0.00%	75.05%	100.00%	100.00%	FINANCE	64	11	20
Bank Zachodni WBK S.A.	Poland	69.41%	0.00%	69.41%	70.00%	BANKING	3,538	467	4,171
Bansa Santander S.A.	Chile	0.00%	100.00%	100.00%	100.00%	PROPERTY	5	3	8
Bansalud, S.L.	Spain	72.34%	12.00%	84.34%	65.00%	TECHNOLOGY SERVICES	1	(3)	3
Bansamex, S.A.	Spain	50.00%	0.00%	50.00%	50.00%	CARDS	9	0	1
Bayones ECA Limited	Ireland	-	(b)	-	-	FINANCE	0	0	0
BCLF 2013-1 B.V.	The Netherlands	-	(b)	-	-	SECURITISATION	0	0	0
Bel Canto SICAV	Luxembourg	100.00%	0.00%	100.00%	100.00%	OPEN-END INVESTMENT COMPANY	1	0	2
Besaya ECA Limited	Ireland	-	(b)	-	-	FINANCE	0	0	0
Bilkreditt 1 Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 2 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 3 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 4 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 5 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 6 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Blue Energy Ridgewind Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	3	1	3
Blue Energy Ridgewind Operations Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	(1)	(3)	0
Brazil Foreign Diversified Payment Rights Finance Company (j)	Cayman Islands	-	(b)	-	-	SECURITISATION	0	0	0
Broxted Solar Co Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	2	0	2
BRS Investments S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	FINANCE	34	7	35
BST International Bank, Inc.	Puerto Rico	0.00%	99.80%	100.00%	100.00%	BANKING	7	23	4
BZ WBK Asset Management S.A.	Poland	50.00%	34.71%	100.00%	100.00%	FUND MANAGEMENT COMPANY	1	12	38

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
BZ WBK Faktor Sp. z o.o.	Poland	0.00%	69.41%	100.00%	100.00%	FINANCIAL SERVICES	11	3	1
BZ WBK Finanse Sp. z o.o.	Poland	0.00%	69.41%	100.00%	100.00%	FINANCIAL SERVICES	40	1	21
BZ WBK Inwestycje Sp. z o.o.	Poland	0.00%	69.41%	100.00%	100.00%	SECURITIES COMPANY	14	2	8
BZ WBK Lease S.A.	Poland	0.00%	69.41%	100.00%	100.00%	LEASING	2	4	2
BZ WBK Leasing S.A.	Poland	0.00%	69.41%	100.00%	100.00%	LEASING	101	8	24
BZ WBK Nieruchomości S.A.	Poland	0.00%	69.40%	99.99%	99.99%	SERVICES	0	0	0
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	0.00%	84.71%	100.00%	100.00%	FUND MANAGEMENT COMPANY	8	10	3
BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poland	0.00%	45.81%	66.00%	66.00%	INSURANCE	10	4	3
BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Poland	0.00%	45.81%	66.00%	66.00%	INSURANCE	14	9	3
C.S.N.S.P. 451, S.A. (c)	Portugal	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	0	0	0
Caja de Emisiones con Garantía de Anualidades Debidas por el Estado, S.A.	Spain	62.87%	0.00%	62.87%	62.87%	FINANCE	0	0	0
Cántabra de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	(57)	1	0
Cántabro Catalana de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	184	(8)	250
CAPB Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	BANKING	0	0	0
Capital Riesgo Global, SCR de Régimen Simplificado, S.A.	Spain	95.46%	4.54%	100.00%	100.00%	VENTURE CAPITAL COMPANY	792	53	734
Capital Street Delaware, LP	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Capital Street Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	12	0	12
Capital Street REIT Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,044	9	1,010
Capital Street S.A.	Luxembourg	0.00%	100.00%	100.00%	100.00%	FINANCE	3	0	0
Carfax (Guernsey) Limited (n)	Guernsey	0.00%	100.00%	100.00%	100.00%	INSURANCE BROKER	26	0	26
Carpe Diem Salud, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	SECURITIES INVESTMENT	8	(3)	6
Cartera Mobiliaria, S.A., SICAV	Spain	0.00%	82.18%	93.43%	93.24%	SECURITIES INVESTMENT	685	28	234
Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México	Mexico	0.00%	75.03%	99.97%	99.97%	SECURITIES COMPANY	56	1	26
Cater Allen Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Cater Allen International Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	0	0	0
Cater Allen Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	BANKING	209	88	286
Cater Allen Lloyd's Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	(12)	0	0
Cater Allen Pensions Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	PENSION FUND MANAGEMENT COMPANY	0	0	0
Cater Allen Syndicate Management Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	2	0	0
Cavalsa Gestión, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SECURITIES INVESTMENT	250	49	250
CCAP Auto Lease Ltd.	United States	0.00%	60.46%	100.00%	-	LEASING	19	18	0
Central Eólica Santo Antonio De Padua S.A.	Brazil	0.00%	89.02%	100.00%	100.00%	ELECTRICITY PRODUCTION	8	0	7
Central Eólica Sao Cristovao S.A.	Brazil	0.00%	89.02%	100.00%	100.00%	ELECTRICITY PRODUCTION	13	1	12
Central Eólica Sao Jorge S.A.	Brazil	0.00%	89.02%	100.00%	100.00%	ELECTRICITY PRODUCTION	13	1	12
Centros Comerciales Metropolitanos, S.A.	Spain	0.00%	55.89%	100.00%	-	SHOPPING CENTRE	1	0	0

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Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
Certidesa, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	LEASE OF AIRCRAFT	(49)	3	3
Chiplow Wind Farm Limited	United Kingdom	0.00%	100.00%	100.00%	-	ELECTRICITY PRODUCTION	4	0	4
Chrysler Capital Auto Receivables LLC (consolidated)	United States	0.00%	60.46%	100.00%	-	FINANCE	0	0	0
Chrysler Capital Auto Receivables Trust 2013-A	United States	-	(b)	-	-	SECURITISATION	0	0	0
Chrysler Capital Auto Receivables Trust 2013-B	United States	-	(b)	-	-	SECURITISATION	0	0	0
Chrysler Capital Auto Receivables Trust 2014-A	United States	-	(b)	-	-	SECURITISATION	0	0	0
Chrysler Capital Auto Receivables Trust 2014-B	United States	-	(b)	-	-	SECURITISATION	0	0	0
Chrysler Capital Master Auto Receivables Funding LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	(4)	12	0
Clínica Sear, S.A.	Spain	50.58%	0.00%	50.58%	50.58%	HEALTHCARE	(1)	(3)	0
Club Zaudin Golf, S.A.	Spain	0.00%	85.04%	95.11%	95.11%	SERVICES	10	(10)	1
Conaraz Inversiones, SICAV, S.A.	Spain	76.24%	4.54%	81.86%	80.78%	OPEN-END INVESTMENT COMPANY	3	0	2
Crawfall S.A. (g)	Uruguay	100.00%	0.00%	100.00%	100.00%	SERVICES	1	0	1
Credisol, S.A. (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	7
Dansk Auto Finansiering 1 Ltd	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Darep Limited	Ireland	100.00%	0.00%	100.00%	100.00%	REINSURANCE	7	1	4
Desarrollo de Infraestructuras de Castilla, S.A.	Spain	0.00%	55.89%	100.00%	-	WATER SUPPLY	0	0	0
Desarrollos Estructurales Vaines, S.L.	Spain	0.00%	55.89%	100.00%	-	PROPERTY	(55)	(5)	0
Digital Procurement Holdings N.V.	The Netherlands	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	4	0	1
Diners Club Spain, S.A.	Spain	75.00%	0.00%	75.00%	75.00%	CARDS	10	2	9
Dirección Estratega, S.C.	Mexico	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Dirgenfin, S.L.	Spain	0.00%	100.00%	100.00%	50.00%	REAL ESTATE DEVELOPMENT	(4)	(1)	0
Drive Auto Receivables Trust 2014-A	United States	-	(b)	-	-	INACTIVE	0	0	0
Drive Residual Holdings GP LLC	United States	0.00%	60.46%	100.00%	-	HOLDING COMPANY	0	0	0
Drive Residual Holdings LP	United States	0.00%	60.46%	100.00%	-	FINANCE	(19)	0	0
Electrolyser, S.A. de C.V.	Mexico	0.00%	74.78%	100.00%	-	SERVICES	0	0	0
Empresas Banesto 5, Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Empresas Banesto 6, Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Energy Efficient Global UK Project Limited	United Kingdom	0.00%	100.00%	100.00%	-	SECURITISATION	1	0	1
EOL Brisa Energias Renováveis S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	1	0	1
EOL Vento Energias Renováveis S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	1	0	1
EOL Wind Energias Renováveis S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	1	0	1
Eolsiponto S.r.l.	Italy	0.00%	92.00%	92.00%	92.00%	ELECTRICITY PRODUCTION	0	(1)	3
Erestone S.A.S.	France	0.00%	90.00%	90.00%	90.00%	PROPERTY	28	(1)	25
Evidence Previdência S.A.	Brazil	0.00%	89.02%	100.00%	100.00%	HOLDING COMPANY	58	1	51
Explotaciones Urbanas Españolas, S.A.	Spain	0.00%	55.89%	100.00%	-	HOTEL OPERATIONS	1	0	1
FFB - Participações e Serviços, Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	3,769	6	1,020
Fideicomiso 2002114	Mexico	0.00%	75.01%	100.00%	100.00%	HOLDING COMPANY	14	0	10

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Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
Fideicomiso Financiero Super Letras Hipotecarias - clase I	Argentina	0.00%	99.30%	100.00%	100.00%	TRUST SERVICES	0	0	0
Fideicomiso Financiero Super Letras Hipotecarias - clase II	Argentina	0.00%	99.30%	100.00%	100.00%	TRUST SERVICES	1	0	0
Fideicomiso GFSSLPT Banco Santander, S.A.	Mexico	0.00%	75.05%	100.00%	100.00%	FINANCE	27	1	2
Financiera El Corte Inglés, E.F.C., S.A.	Spain	0.00%	51.00%	51.00%	-	FINANCE	212	51	140
First National Motor Business Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Motor Contracts Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	(1)	0	0
First National Motor Facilities Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Motor Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	0	0	0
First National Motor Leasing Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Motor plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Tricity Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	3	0	4
Fomento e Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	12	11	34
Fondo de Titulización de Activos PYMES Banesto 3	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 10	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 3	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 4	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 5	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 6	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 7	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 8	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 9	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos RMBS Santander 1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos RMBS Santander 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos RMBS Santander 3	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Consumer Spain 09-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
Fondo de Titulización de Activos Santander Consumer Spain Auto 2010-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Consumer Spain Auto 2011-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Consumer Spain Auto 2012-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Consumer Spain Auto 2013-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Empresas 1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Empresas 10	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Empresas 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Empresas 3	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Financiación 5	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 7	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 8	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 9	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Público 1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización Santander Financiación 1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondos Santander, S.A. Administradora de Fondos de Inversión (in liquidation) (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	0	0	0
Formación Integral, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	TRAINING	1	0	0
Fortensky Trading, Ltd.	Ireland	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Fosse (Master Issuer) Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Fosse Funding (No.1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	34	(95)	0
Fosse Master Issuer PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	30	1	0
Fosse PECOH Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Fosse Trustee (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	-	SECURITISATION	0	0	0
Fosse Trustee Limited	Jersey	-	(b)	-	-	SECURITISATION	0	0	0
Franklin Acquisition Funding LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	14	4	0
FTPYME Banesto 2, Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
FTPYME Santander 2 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fuencarral Agrupanorte, S.L.	Spain	0.00%	55.89%	100.00%	-	PROPERTY	(9)	(28)	0
Garilar, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	INTERNET	0	(1)	0
Geoban UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SERVICES	0	3	0
Geoban, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SERVICES	13	4	24
Gesban México Servicios Administrativos Globales, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Gesban Santander Servicios Profesionales Contables Limitada	Chile	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Gesban Servicios Administrativos Globales, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	SERVICES	1	0	1
Gesban UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	COLLECTION AND PAYMENT SERVICES	1	0	0
Gestamp Eólica Lagoa Nova S.A.	Brazil	0.00%	62.32%	70.00%	-	ELECTRICITY PRODUCTION	7	(1)	7
Gestamp Eólica Lanchinha S.A.	Brazil	0.00%	80.12%	90.00%	-	ELECTRICITY PRODUCTION	6	(1)	6
Gestamp Eólica Paraíso S.A.	Brazil	0.00%	80.12%	90.00%	-	ELECTRICITY PRODUCTION	6	(1)	6
Gestamp Eólica Seridó S.A.	Brazil	0.00%	80.12%	90.00%	-	ELECTRICITY PRODUCTION	13	(1)	13
Gestamp Eólica Serra de Santana S.A.	Brazil	0.00%	62.32%	70.00%	-	ELECTRICITY PRODUCTION	5	(1)	5
Gestión de Instalaciones Fotovoltaicas, S.L. Sole-Shareholder Company	Spain	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	0	0	0
Gestora de Procesos S.A. in liquidation (j)	Peru	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Gestora Patrimonial Calle Francisco Sancha 12, S.L.	Spain	68.80%	0.00%	68.80%	68.80%	SECURITIES AND PROPERTY MANAGEMENT	18	2	8
Getnet Adquirência e Serviços para Meios de Pagamento S.A.	Brazil	0.00%	78.78%	88.50%	50.00%	PAYMENT SERVICES	369	50	296
Gieldokracja Spólka z o.o.	Poland	0.00%	69.41%	100.00%	-	SERVICES	0	0	0
Girobank Carlton Investments Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	1	0	1
Girobank Investments Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	1	0	0
Global Carihuela, S.A.	Spain	0.00%	55.89%	100.00%	-	PROPERTY	7	(3)	13
Global Murex Iberia, S.L.	Spain	0.00%	55.89%	100.00%	-	PROPERTY	(16)	0	0
Go Pay Comércio e Serviços de Tecnologia da Informação Ltda.	Brazil	0.00%	78.78%	100.00%	-	TECHNOLOGY SERVICES	0	0	0
Golden Bar (Securitisation) S.r.l.	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Securitization Programme IV 2009-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2011-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2011-2	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2012-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2012-2	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2013-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2013-2	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2014-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Green Energy Holding Company, S.L.	Spain	0.00%	100.00%	100.00%	-	HOLDING COMPANY	1	0	1

Company	Location	% of ownership held by the Bank		% of voting power (k)		Line of business	Millions of euros (a)		
		Direct	Indirect	2014	2013		Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
Grupo Alcanza, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	1	0	0
Grupo Empresarial Santander, S.L.	Spain	99.11%	0.89%	100.00%	100.00%	HOLDING COMPANY	3,824	355	3,769
Grupo Financiero Santander México, S.A.B. de C.V.	Mexico	51.05%	24.01%	75.09%	75.13%	HOLDING COMPANY	5,114	784	3,228
Grupo Konecta Centros Especiales de Empleo, S.L.	Spain	0.00%	51.86%	100.00%	100.00%	TELEMARKETING	0	0	0
Grupo Konecta Maroc S.A.R.L. à associé unique	Morocco	0.00%	51.86%	100.00%	100.00%	TELEMARKETING	0	0	0
Grupo Konecta UK Limited	United Kingdom	0.00%	51.86%	100.00%	100.00%	FINANCE	1	1	0
Grupo Konectanet México, S.A. de C.V.	Mexico	0.00%	51.86%	100.00%	100.00%	TELEMARKETING	0	(1)	1
Grupo Konectanet, S.L.	Spain	7.08%	44.77%	51.86%	51.86%	HOLDING COMPANY	13	3	15
GTS El Centro Equity Holdings, LLC	United States	0.00%	81.94%	81.94%	74.20%	HOLDING COMPANY	34	(1)	17
GTS El Centro Project Holdings, LLC (q)	United States	0.00%	81.94%	100.00%	-	HOLDING COMPANY	-	-	-
Guaranty Car, S.A. Sole-Shareholder Company	Spain	0.00%	100.00%	100.00%	100.00%	AUTOMOTIVE	1	0	2
Habitatrix, S.L.	Spain	0.00%	55.89%	100.00%	-	PROPERTY	0	0	0
Hall Farm Wind Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	3	0	0
Hipototta No. 1 FTC	Portugal	-	(b)	-	-	SECURITISATION	5	0	0
Hipototta No. 1 plc	Ireland	-	(b)	-	-	SECURITISATION	(2)	1	0
Hipototta No. 4 FTC	Portugal	-	(b)	-	-	SECURITISATION	31	(1)	0
Hipototta No. 4 plc	Ireland	-	(b)	-	-	SECURITISATION	(12)	3	0
Hipototta No. 5 FTC	Portugal	-	(b)	-	-	SECURITISATION	24	0	0
Hipototta No. 5 plc	Ireland	-	(b)	-	-	SECURITISATION	(7)	3	0
Hipototta No. 7 FTC (j)	Portugal	-	(b)	-	-	SECURITISATION	32	0	0
Hipototta No. 7 Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Hipototta No. 8 FTC (j)	Portugal	-	(b)	-	-	SECURITISATION	15	0	0
Hipototta No. 8 Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	4	0
Hispamer Renting, S.A. Sole-Shareholder Company	Spain	0.00%	100.00%	100.00%	100.00%	FULL-SERVICE LEASING	12	0	1
Holbah II Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,014	16	1,534
Holbah Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	44	73	0
Holding Jaureguizahar 2002, S.A.	Spain	0.00%	55.89%	100.00%	-	SECURITIES INVESTMENT	14	(19)	0
Holmes Funding Limited	United Kingdom	0.00%	100.00%	100.00%	-	SECURITISATION	87	(116)	0
Holmes Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Holmes Master Issuer plc	United Kingdom	0.00%	100.00%	100.00%	-	SECURITISATION	(23)	18	0
Holmes Trustees Limited	United Kingdom	0.00%	100.00%	100.00%	-	SECURITISATION	0	0	0
Holneth B.V.	The Netherlands	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	139	146	8
Ibérica de Compras Corporativas, S.L.	Spain	97.17%	2.82%	100.00%	100.00%	E-COMMERCE	11	1	5
Independence Community Bank Corp.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	3,440	69	3,509
Independence Community Commercial Reinvestment Corp.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	121	1	114
Indias Capital Holdings Limited	United Kingdom	100.00%	0.00%	100.00%	-	ELECTRICITY PRODUCTION	0	0	0
Indias Capital Limited	United Kingdom	0.00%	100.00%	100.00%	-	ELECTRICITY PRODUCTION	0	0	0
ING Hipotecaria S.A. de C.V. SOFOM ENR (Fideicomiso Bursa)	Mexico	-	(b)	-	-	SECURITISATION	7	0	0

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Ingeniería de Software Bancario, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	IT SERVICES	179	34	144
Inmo Francia 2, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	57	0	57
Inmobiliária Das Avenidas Novas, S.A.	Portugal	0.00%	55.89%	100.00%	-	PROPERTY	3	0	3
Inmobiliaria Metrogolf, S.A.	Portugal	0.00%	55.89%	100.00%	-	SHOPPING CENTRE	4	0	1
Instituto Santander Serfin, A.C.	Mexico	0.00%	75.05%	100.00%	100.00%	NOT-FOR-PROFIT INSTITUTE	1	0	0
Insurance Funding Solutions Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	(4)	0	0
Integry Tecnologia e Serviços A H U Ltda.	Brazil	0.00%	78.78%	100.00%	-	TECHNOLOGY SERVICES	0	0	0
Interfinance Holanda B.V.	The Netherlands	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Inversiones Marítimas del Mediterráneo, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	INACTIVE	3	(8)	3
Isban Argentina S.A.	Argentina	87.42%	12.58%	100.00%	100.00%	FINANCIAL SERVICES	3	1	2
Isban Brasil S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	SERVICES	17	1	22
Isban Chile S.A.	Chile	0.00%	100.00%	100.00%	100.00%	IT SERVICES	16	2	22
Isban DE GmbH	Germany	0.00%	100.00%	100.00%	100.00%	IT SERVICES	4	1	0
Isban México, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	IT SERVICES	60	3	34
Isban U.K., Ltd.	United Kingdom	0.00%	100.00%	100.00%	100.00%	IT SERVICES	16	5	0
Kassadesign 2005, S.L.	Spain	0.00%	100.00%	100.00%	50.00%	PROPERTY	2	0	1
Kelmarsh Wind Farm Limited	United Kingdom	0.00%	100.00%	100.00%	-	ELECTRICITY PRODUCTION	6	0	6
Konecta Activos Inmobiliarios, S.L.	Spain	0.00%	49.34%	52.80%	52.80%	PROPERTY	5	0	1
Konecta Brazil Outsourcing, Ltda.	Brazil	0.00%	51.85%	99.99%	99.99%	SERVICES	0	0	1
Konecta Broker, S.L.	Spain	0.00%	51.86%	100.00%	100.00%	SERVICES	0	0	0
Konecta Bto, S.L.	Spain	0.00%	51.86%	100.00%	100.00%	TELECOMMUNICATIONS	49	8	8
Konecta Chile Limitada	Chile	0.00%	51.86%	100.00%	100.00%	SERVICES	1	0	0
Konecta Colombia Grupo Konecta Colombia Ltda	Colombia	0.00%	51.86%	100.00%	100.00%	TELEMARKETING	0	0	0
Konecta Field Marketing, S.A.	Spain	0.00%	51.86%	100.00%	100.00%	MARKETING	0	1	0
Konecta Gestión Integral de Procesos, S.L.	Spain	0.00%	51.86%	100.00%	100.00%	SERVICES	0	0	0
Konecta Portugal, Lda.	Portugal	0.00%	51.86%	100.00%	100.00%	MARKETING	0	0	0
Konecta Servicios Administrativos y Tecnológicos, S.L.	Spain	0.00%	51.86%	100.00%	100.00%	SERVICES	0	1	0
Konecta Servicios de BPO, S.L.	Spain	0.00%	51.86%	100.00%	100.00%	SERVICES	1	0	0
Konecta Soluciones Globales, S.L.	Spain	0.00%	51.86%	100.00%	100.00%	SERVICES	0	0	0
Konectanet Andalucía, S.L.	Spain	0.00%	51.86%	100.00%	100.00%	SERVICES	0	0	0
Konectanet Comercialización, S.L.	Spain	0.00%	51.86%	100.00%	100.00%	MARKETING	0	1	0
Kontacta Comunicaciones, S.A.	Spain	0.00%	51.86%	100.00%	99.27%	SERVICES	5	0	2
La Unión Resinera Española, S.A.	Spain	76.79%	19.55%	96.35%	96.35%	CHEMICALS	4	1	5
La Vital Centro Comercial y de Ocio, S.L.	Spain	0.00%	55.89%	100.00%	-	SHOPPING CENTRE	18	2	19
Langton Funding (No.1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Mortgages Trustee (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	-	SECURITISATION	0	0	0
Langton Mortgages Trustee Limited	Jersey	-	(b)	-	-	SECURITISATION	0	0	0
Langton PECOH Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Langton Securities (2008-1) plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Securities (2010-1) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0

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Langton Securities (2010-2) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Securities (2012-1) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Securities Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Laparanza, S.A.	Spain	61.59%	0.00%	61.59%	61.59%	AGRICULTURE AND LIVESTOCK	29	0	16
Larix Chile Inversiones Limitada	Chile	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Lease Totta No. 1 FTC	Portugal	-	(b)	-	-	SECURITISATION	28	4	0
Leasetotta No. 1 Limited	Ireland	-	(b)	-	-	SECURITISATION	(11)	11	0
Liquidity Import Finance Limited (f) (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FACTORING	0	0	0
Liquidity Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FACTORING	1	0	1
Lizar Sp. z o.o.	Poland	0.00%	69.41%	100.00%	100.00%	LEASING	0	0	0
Luri 1, S.A. (m)	Spain	5.80%	0.00%	100.00%	100.00%	PROPERTY	48	8	3
Luri 2, S.A. (m)	Spain	10.00%	0.00%	100.00%	100.00%	PROPERTY	22	6	2
Luri 4, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	15	(2)	23
Luri 6, S.A., S.I.I.	Spain	100.00%	0.00%	100.00%	99.65%	REAL ESTATE INVESTMENT	1,548	(38)	1,510
Luri Land, S.A. (m)	Belgium	0.00%	8.11%	100.00%	100.00%	PROPERTY	5	0	0
MAC No. 1 Limited (i)	United Kingdom	-	(b)	-	-	MORTGAGE LOAN COMPANY	0	0	0
Mantiq Investimentos Ltda.	Brazil	0.00%	89.02%	100.00%	100.00%	SECURITIES COMPANY	2	2	1
Master Red Europa, S.L.	Spain	68.80%	0.00%	68.80%	68.80%	CARDS	1	0	0
Mata Alta, S.L.	Spain	0.00%	61.59%	100.00%	100.00%	PROPERTY	0	0	0
Med 2001 Inversiones, SICAV, S.A.	Spain	39.99%	60.01%	100.00%	99.99%	OPEN-END INVESTMENT COMPANY	3	0	7
Merciver, S.L.	Spain	99.90%	0.10%	100.00%	100.00%	FINANCIAL ADVISORY	0	0	0
Merlion Aviation One Limited	Ireland	-	(b)	-	-	FULL-SERVICE LEASING	0	1	0
Metroparque, S.A.	Spain	0.00%	55.89%	100.00%	-	SHOPPING CENTRE	77	(4)	52
Metropolitana Castellana, S.L.	Spain	0.00%	55.89%	100.00%	-	PROPERTY MANAGEMENT	22	(1)	41
Metrovacesa Access Tower GmbH	Germany	0.00%	55.89%	100.00%	-	PROPERTY MANAGEMENT	0	1	1
Metrovacesa Alquileres Urbanos, S.L. Sole-Shareholder Company	Spain	0.00%	55.89%	100.00%	-	PROPERTY	60	1	35
Metrovacesa France, S.A.S.	France	0.00%	55.89%	100.00%	-	PROPERTY	(14)	17	3
Metrovacesa Inmuebles y Promociones, S.L.	Spain	0.00%	55.89%	100.00%	-	PROPERTY	37	0	37
Metrovacesa Mediterranée, S.A.S.	France	0.00%	55.89%	100.00%	-	PROPERTY	28	(4)	24
Metrovacesa, S.A.	Spain	55.89%	0.00%	55.89%	36.82%	PROPERTY	383	(22)	756
Middlewick Wind Farm Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	3	(1)	8
Middlewick Wind Farm Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	(1)	(1)	15
Motor 2011 Holdings Limited (j)	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2011 PLC (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Motor 2012 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2012 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	5	(4)	0
Motor 2013-1 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2013-1 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	(16)	16	0
Motor 2014-1 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2014-1 PLC	United Kingdom	0.00%	100.00%	100.00%	-	SECURITISATION	(1)	3	0

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Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
Multinegocios S.A.	Chile	0.00%	99.54%	100.00%	100.00%	ADVISORY SERVICES	1	0	0
Multiservicios de Negocios Limitada	Chile	0.00%	100.00%	100.00%	100.00%	FINANCIAL SERVICES	2	0	0
Natixis Corporate Financement – Compartment Hexagone	France	100.00%	0.00%	100.00%	100.00%	INVESTMENT FUND	0	0	0
Naviera Mirambel, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Naviera Trans Gas, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	(18)	(1)	43
Naviera Trans Iron, S.L.	Spain	100.00%	0.00%	100.00%	-	LEASING	0	0	0
Naviera Trans Ore, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	17	1	17
Naviera Trans Wind, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	45	2	43
Nebraska Wind I LLC	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	4	0	6
Norbest AS	Norway	7.94%	92.06%	100.00%	100.00%	SECURITIES INVESTMENT	53	44	1,343
Novimovest – Fundo de Investimento Imobiliário	Portugal	0.00%	77.11%	77.26%	71.60%	INVESTMENT FUND	348	(17)	254
NW Services CO.	United States	0.00%	100.00%	100.00%	100.00%	E-COMMERCE	3	0	2
Oildor, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	165	0	122
Open Bank, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	BANKING	152	4	63
Optimal Alternative Investments, S.G.I.I.C., S.A.	Spain	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	2	0	1
Optimal Investment Services SA	Switzerland	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	29	(2)	5
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland Euro Fund (c)	Ireland	0.00%	54.18%	51.25%	51.25%	FUND MANAGEMENT COMPANY	4	(1)	0
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland US Dollar Fund (c)	Ireland	0.00%	44.14%	51.62%	51.26%	FUND MANAGEMENT COMPANY	5	(1)	0
Optimal Multiadvisors Ltd / Optimal Strategic US Equity Series (consolidated) (c)	Bahamas	0.00%	54.35%	54.89%	54.10%	FUND MANAGEMENT COMPANY	47	(5)	0
Parasant SA	Switzerland	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	1,618	(2)	1,498
Parque Eólico el Mezquite, S.A.P.I. de C.V.	Mexico	0.00%	82.15%	82.15%	41.07%	ELECTRICITY PRODUCTION	0	0	4
Parque Eólico la Carabina I, S.A.P.I. de C.V.	Mexico	0.00%	82.15%	82.15%	41.07%	ELECTRICITY PRODUCTION	0	0	4
Parque Eólico la Carabina II, S.A.P.I. de C.V.	Mexico	0.00%	82.15%	82.15%	41.07%	ELECTRICITY PRODUCTION	0	0	4
Paseo Comercial Carlos III, S.A.	Spain	0.00%	27.94%	50.00%	-	SHOPPING CENTRE	20	0	23
PBE Companies, LLC	United States	0.00%	100.00%	100.00%	100.00%	PROPERTY	82	16	92
PECOH Limited	United Kingdom	0.00%	100.00%	100.00%	-	SECURITISATION	0	0	0
Penmanshiel Energy Limited	United Kingdom	0.00%	100.00%	100.00%	-	ELECTRICITY PRODUCTION	10	0	17
Pentapolitano, S.A.	Spain	0.00%	55.89%	100.00%	-	PROPERTY	76	0	76
Pereda Gestión, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	HOLDING COMPANY	(2)	22	4
Phoenix C1 Aviation Limited	Ireland	-	(b)	-	-	FULL-SERVICE LEASING	0	0	0
Pingham International, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Portada S.A. in liquidation (j)	Chile	0.00%	96.17%	96.17%	96.17%	FINANCE	0	0	0
Portal Universia Argentina S.A.	Argentina	0.00%	75.75%	75.75%	75.75%	INTERNET	0	0	0
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	INTERNET	0	(1)	0
Portal Universia, S.A.	Spain	0.00%	88.07%	88.07%	56.56%	INTERNET	1	(1)	0
Produban Servicios Informáticos Generales, S.L.	Spain	99.96%	0.04%	100.00%	100.00%	SERVICES	205	6	201
Produban Serviços de Informática S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	IT SERVICES	10	1	5

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
Programa Multi Sponsor PMS, S.A.	Spain	50.00%	50.00%	100.00%	100.00%	ADVERTISING	2	0	1
Project Maple I B.V.	The Netherlands	0.00%	55.89%	100.00%	-	SECURITIES INVESTMENT	0	0	0
Promociones Vallebramen, S.L.	Spain	0.00%	55.89%	100.00%	-	PROPERTY	(29)	0	0
Promociones y Servicios Monterrey, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	PROPERTY	12	(4)	8
Promociones y Servicios Santiago, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	PROPERTY	67	27	65
Promodomus Desarrollo de Activos, S.L.	Spain	0.00%	100.00%	100.00%	51.00%	PROPERTY	(59)	(1)	0
Proyecto Huajache SpA	Chile	0.00%	80.00%	80.00%	-	ELECTRICITY PRODUCTION	3	0	3
Proyecto Raki SpA	Chile	0.00%	80.00%	80.00%	-	ELECTRICITY PRODUCTION	5	0	4
PSA Italia S.p.A.	Italy	0.00%	50.00%	50.00%	-	SECURITISATION	10	0	5
Punta Lima, LLC	United States	0.00%	100.00%	100.00%	100.00%	LEASING	28	(2)	31
Puntoform, S.L.	Spain	0.00%	51.86%	100.00%	100.00%	TRAINING	0	0	0
REB Empreendimentos e Administradora de Bens S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	27	0	43
Reintegra, S.A.	Spain	55.00%	45.00%	100.00%	100.00%	SERVICES	8	1	8
Reliz Sp. z o.o. w upadłości likwidacyjnej (j) (l)	Poland	0.00%	69.41%	100.00%	100.00%	FULL-SERVICE LEASING	(5)	(1)	0
Retail Financial Services Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Riobank International (Uruguay) SAIFE (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	BANKING	0	0	0
Rosenlease, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	FULL-SERVICE LEASING	0	0	0
Rosteral, SICAV, S.A.	Spain	99.85%	0.13%	99.98%	99.98%	OPEN-END INVESTMENT COMPANY	3	0	2
Ruevilliot 26, S.L.	Spain	70.00%	0.00%	70.00%	70.00%	PROPERTY	6	(3)	2
Sadorma 2003, S.L.	Spain	0.00%	55.89%	100.00%	-	HOTEL OPERATIONS	(5)	1	0
Saja Eca Limited	Ireland	-	(b)	-	-	FINANCE	0	0	0
SAM UK Investment Holdings Limited	United Kingdom	77.67%	22.33%	100.00%	100.00%	HOLDING COMPANY	574	20	574
Sancap Investimentos e Participações S.A.	Brazil	0.00%	89.02%	100.00%	100.00%	HOLDING COMPANY	87	30	20
Saninv - Gestão e Investimentos, Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Sansol S.r.l.	Italy	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1	(5)	0
Santander (CF Trustee Property Nominee) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Santander (CF Trustee) Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	ASSET MANAGEMENT COMPANY	0	0	0
Santander (UK) Group Pension Schemes Trustees Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	ASSET MANAGEMENT COMPANY	0	0	0
Santander Agente de Valores Limitada	Chile	0.00%	67.33%	100.00%	100.00%	SECURITIES COMPANY	66	12	17
Santander Ahorro Inmobiliario 2 S.I.I., S.A.	Spain	85.50%	0.01%	85.51%	85.51%	REAL ESTATE INVESTMENT	32	(3)	25
Santander AM Holding, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	381	0	29
Santander Asset Finance (December) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	40	6	0
Santander Asset Finance plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	73	77	167
Santander Asset Management - Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	25	1	32
Santander Asset Management Chile S.A.	Chile	0.01%	99.83%	100.00%	100.00%	SECURITIES INVESTMENT	1	3	4
Santander Back-Offices Globales Especializados, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	SERVICES	0	1	0
Santander Back-Offices Globales Mayoristas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SERVICES	4	1	1

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Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
Santander Banca de Inversión Colombia, S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	FINANCIAL SERVICES	0	0	1
Santander BanCorp	Puerto Rico	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	801	47	143
Santander Bank & Trust Ltd.	Bahamas	0.00%	100.00%	100.00%	100.00%	BANKING	784	3	403
Santander Bank, National Association	United States	0.00%	100.00%	100.00%	100.00%	BANKING	10,557	309	10,866
Santander Benelux, S.A./N.V.	Belgium	100.00%	0.00%	100.00%	100.00%	BANKING	1,159	47	1,125
Santander Brasil Administradora de Consórcio Ltda.	Brazil	0.00%	89.02%	100.00%	100.00%	SERVICES	39	6	7
Santander Brasil Advisory Services S.A.	Brazil	0.00%	85.93%	96.52%	96.52%	CONSULTANCY SERVICES	4	0	3
Santander Brasil, EFC, S.A.	Spain	0.00%	89.02%	100.00%	100.00%	FINANCE	753	11	666
Santander Capital Desarrollo, SGECR, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	VENTURE CAPITAL COMPANY	1	0	0
Santander Capital Structuring, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	COMMERCE	6	2	0
Santander Capitalização S.A.	Brazil	0.00%	89.02%	100.00%	100.00%	INSURANCE	31	27	20
Santander Carbón Finance, S.A.	Spain	99.98%	0.02%	100.00%	100.00%	SECURITIES INVESTMENT	(30)	(1)	0
Santander Cards Ireland Limited	Ireland	0.00%	100.00%	100.00%	100.00%	CARDS	(10)	(1)	0
Santander Cards Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	CARDS	94	24	157
Santander Cards UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	161	16	75
Santander Carteras, S.G.C., S.A.	Spain	100.00%	0.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	26	3	8
Santander Central Hispano Financial Services Limited (j)	Cayman Islands	100.00%	0.00%	100.00%	100.00%	FINANCE	0	0	0
Santander Central Hispano Issuances Limited	Cayman Islands	100.00%	0.00%	100.00%	100.00%	FINANCE	0	0	0
Santander Chile Holding S.A.	Chile	22.11%	77.43%	99.54%	99.54%	HOLDING COMPANY	1,126	270	187
Santander Commercial Paper, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	2	1	0
Santander Consulting (Beijing) Co., Ltd.	China	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	5	1	4
Santander Consumer (UK) plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	503	95	205
Santander Consumer ABS Funding 1 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	(3)	(3)	0
Santander Consumer ABS Funding 2 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	(4)	(4)	0
Santander Consumer Auto Receivables Funding 2011-A LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	162	17	0
Santander Consumer Auto Receivables Funding 2013-B1 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	128	28	0
Santander Consumer Auto Receivables Funding 2013-B2 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	6	47	0
Santander Consumer Auto Receivables Funding 2013-B3 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	6	47	0
Santander Consumer Auto Receivables Funding 2013-L1 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	77	63	0
Santander Consumer Auto Receivables Funding 2014-B1 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	(10)	(10)	0
Santander Consumer Auto Receivables Funding 2014-B2 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	(10)	(10)	0

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Santander Consumer Auto Receivables Funding 2014-B3 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	(15)	(15)	0
Santander Consumer Auto Receivables Funding 2014-B4 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	(32)	(32)	0
Santander Consumer Auto Receivables Funding 2014-B5 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	(37)	(37)	0
Santander Consumer Auto Receivables Funding 2014-B6 LLC	United States	0.00%	60.46%	100.00%	-	INACTIVE	0	0	0
Santander Consumer Auto Receivables Funding 2014-L1 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	22	22	0
Santander Consumer Bank AB	Sweden	0.00%	100.00%	100.00%	-	BANKING	266	90	693
Santander Consumer Bank AG	Germany	0.00%	100.00%	100.00%	100.00%	BANKING	3,063	110	3,147
Santander Consumer Bank AS	Norway	0.00%	100.00%	100.00%	100.00%	FINANCE	841	114	969
Santander Consumer Bank GmbH	Austria	0.00%	100.00%	100.00%	100.00%	BANKING	326	26	356
Santander Consumer Bank S.A.	Poland	0.00%	81.65%	100.00%	100.00%	BANKING	416	111	518
Santander Consumer Bank S.p.A.	Italy	0.00%	100.00%	100.00%	100.00%	BANKING	528	8	405
Santander Consumer Beteiligungsverwaltungsgesellschaft mbH	Germany	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1	26	1
Santander Consumer Captive Auto Funding 5 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	(3)	(2)	0
Santander Consumer Captive Auto Funding LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	(14)	(9)	0
Santander Consumer Chile S.A.	Chile	51.00%	0.00%	51.00%	51.00%	FINANCE	43	8	13
Santander Consumer Credit Funding 2 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	3	3	0
Santander Consumer Credit Funding I LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	(2)	2	0
Santander Consumer Credit Services Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	(39)	0	0
Santander Consumer Finance Benelux B.V.	The Netherlands	0.00%	100.00%	100.00%	100.00%	FINANCE	107	22	93
Santander Consumer Finance Media S.r.l. - in liquidazione (j)	Italy	0.00%	65.00%	65.00%	65.00%	FINANCE	8	0	5
Santander Consumer Finance Oy	Finland	0.00%	100.00%	100.00%	100.00%	FINANCE	128	32	130
Santander Consumer Finance Zrt.	Hungary	0.00%	100.00%	100.00%	100.00%	FINANCE	25	(25)	0
Santander Consumer Finance, S.A.	Spain	63.19%	36.81%	100.00%	100.00%	BANKING	8,841	378	6,680
Santander Consumer Finanse S.A.	Poland	0.00%	81.65%	100.00%	100.00%	SERVICES	26	4	50
Santander Consumer France S.A.S.	France	0.00%	100.00%	100.00%	-	HOLDING COMPANY	0	0	1
Santander Consumer Funding 3 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	182	(15)	0
Santander Consumer Funding 5 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	17	14	0
Santander Consumer Holding Austria GmbH	Austria	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	363	26	363
Santander Consumer Holding GmbH	Germany	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	4,451	16	5,711
Santander Consumer Leasing GmbH	Germany	0.00%	100.00%	100.00%	100.00%	LEASING	20	37	20
Santander Consumer Multirent Sp. z o.o.	Poland	0.00%	81.65%	100.00%	100.00%	LEASING	9	2	5
Santander Consumer Receivables 10 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	256	102	0
Santander Consumer Receivables 11 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	34	56	0
Santander Consumer Receivables 3 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	105	69	0
Santander Consumer Receivables 4 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	86	53	0

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		Direct	Indirect	2014	2013		Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
Santander Consumer Receivables 7 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	58	50	0
Santander Consumer Receivables 9 LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	137	28	0
Santander Consumer Receivables Funding LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	0	0	0
Santander Consumer Renting, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	FULL-SERVICE LEASING	57	4	39
Santander Consumer Services GmbH	Austria	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Santander Consumer Unifin S.p.A.	Italy	0.00%	100.00%	100.00%	100.00%	FINANCE	66	(1)	62
Santander Consumer USA Holdings Inc.	United States	0.00%	60.46%	60.46%	64.97%	HOLDING COMPANY	2,928	664	904
Santander Consumer USA Inc.	United States	0.00%	60.46%	100.00%	-	FINANCE	2,953	631	0
Santander Consumer, EFC, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	FINANCE	333	21	505
Santander Consumo Perú S.A.	Peru	55.00%	0.00%	55.00%	55.00%	FINANCE	16	(1)	2
Santander Consumo, S.A. de C.V., SOFOM, E.R.	Mexico	0.00%	75.05%	100.00%	100.00%	CARDS	522	178	468
Santander Corredora de Seguros Limitada	Chile	0.00%	67.10%	100.00%	100.00%	INSURANCE BROKER	86	(2)	42
Santander Corretora de Câmbio e Valores Mobiliários S.A.	Brazil	0.00%	89.02%	100.00%	100.00%	SECURITIES COMPANY	112	13	63
Santander de Titulización S.G.F.T., S.A.	Spain	81.00%	19.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	1	1	1
Santander Drive Auto Receivables LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	1	0	0
Santander Drive Auto Receivables Trust 2010-3	United States	-	(b)	-	-	SECURITISATION	107	13	0
Santander Drive Auto Receivables Trust 2010-B	United States	-	(b)	-	-	SECURITISATION	111	14	0
Santander Drive Auto Receivables Trust 2011-1	United States	-	(b)	-	-	SECURITISATION	101	17	0
Santander Drive Auto Receivables Trust 2011-2	United States	-	(b)	-	-	SECURITISATION	70	12	0
Santander Drive Auto Receivables Trust 2011-3	United States	-	(b)	-	-	SECURITISATION	93	16	0
Santander Drive Auto Receivables Trust 2011-4	United States	-	(b)	-	-	SECURITISATION	57	13	0
Santander Drive Auto Receivables Trust 2012-1	United States	-	(b)	-	-	SECURITISATION	97	23	0
Santander Drive Auto Receivables Trust 2012-2	United States	-	(b)	-	-	SECURITISATION	132	37	0
Santander Drive Auto Receivables Trust 2012-3	United States	-	(b)	-	-	SECURITISATION	150	44	0
Santander Drive Auto Receivables Trust 2012-4	United States	-	(b)	-	-	SECURITISATION	136	46	0
Santander Drive Auto Receivables Trust 2012-5	United States	-	(b)	-	-	SECURITISATION	102	38	0
Santander Drive Auto Receivables Trust 2012-6	United States	-	(b)	-	-	SECURITISATION	170	57	0
Santander Drive Auto Receivables Trust 2012-A	United States	-	(b)	-	-	SECURITISATION	84	33	0
Santander Drive Auto Receivables Trust 2013-1	United States	-	(b)	-	-	SECURITISATION	152	63	0
Santander Drive Auto Receivables Trust 2013-2	United States	-	(b)	-	-	SECURITISATION	147	67	0
Santander Drive Auto Receivables Trust 2013-3	United States	-	(b)	-	-	SECURITISATION	137	71	0
Santander Drive Auto Receivables Trust 2013-4	United States	-	(b)	-	-	SECURITISATION	13	51	0
Santander Drive Auto Receivables Trust 2013-5	United States	-	(b)	-	-	SECURITISATION	5	110	0
Santander Drive Auto Receivables Trust 2013-A	United States	-	(b)	-	-	SECURITISATION	6	42	0
Santander Drive Auto Receivables Trust 2014-1	United States	-	(b)	-	-	SECURITISATION	(3)	(3)	0
Santander Drive Auto Receivables Trust 2014-2	United States	-	(b)	-	-	SECURITISATION	(27)	(27)	0
Santander Drive Auto Receivables Trust 2014-3	United States	-	(b)	-	-	SECURITISATION	(49)	(49)	0
Santander Drive Auto Receivables Trust 2014-4	United States	-	(b)	-	-	SECURITISATION	(90)	(90)	0
Santander Drive Auto Receivables Trust 2014-5	United States	-	(b)	-	-	SECURITISATION	(88)	(88)	0
Santander Drive Auto Receivables Trust 2014-S1	United States	-	(b)	-	-	SECURITISATION	0	0	0

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Santander Drive Auto Receivables Trust 2014-S2	United States	-	(b)	-	-	SECURITISATION	0	0	0
Santander Drive Auto Receivables Trust 2014-S3	United States	-	(b)	-	-	SECURITISATION	0	0	0
Santander Drive Auto Receivables Trust 2014-S4	United States	-	(b)	-	-	SECURITISATION	(1)	(1)	0
Santander Drive Auto Receivables Trust 2014-S5	United States	-	(b)	-	-	SECURITISATION	(1)	(1)	0
Santander Drive Auto Receivables Trust 2014-S6	United States	-	(b)	-	-	SECURITISATION	(1)	(1)	0
Santander Energías Renovables I, SCR de Régimen Simplificado, S.A.	Spain	56.76%	0.00%	56.76%	56.76%	VENTURE CAPITAL COMPANY	20	(1)	11
Santander Envíos, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	TRANSFER OF FUNDS FOR IMMIGRANTS	2	0	1
Santander Equity Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	43	0	42
Santander Estates Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	PROPERTY	6	0	0
Santander Factoring S.A.	Chile	0.00%	99.54%	100.00%	100.00%	FACTORING	41	3	6
Santander Factoring y Confirming, S.A., E.F.C.	Spain	100.00%	0.00%	100.00%	100.00%	FACTORING	257	122	126
Santander Finance 2012-1 LLC	United States	0.00%	100.00%	100.00%	100.00%	FINANCIAL SERVICES	1	0	1
Santander Financial Exchanges Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	FINANCE	486	365	342
Santander Financial Products plc	Ireland	0.00%	100.00%	100.00%	100.00%	FINANCE	199	0	162
Santander Financial Services, Inc.	Puerto Rico	100.00%	0.00%	100.00%	100.00%	FINANCE	340	15	336
Santander Fintech Limited	United Kingdom	0.00%	100.00%	100.00%	-	SECURITISATION	32	0	32
Santander Fund Administration, S.A.	Spain	0.00%	100.00%	100.00%	-	FUND MANAGEMENT COMPANY	2	0	2
Santander Fundo de Investimento Amazonas Multimercado Crédito Privado Investimento no Exterior (o)	Brazil	0.00%	89.02%	100.00%	100.00%	INVESTMENT FUND	80	8	99
Santander Fundo de Investimento Diamantina Multimercado Crédito Privado Investimento no Exterior (g)	Brazil	0.00%	89.02%	100.00%	100.00%	INVESTMENT FUND	205	24	165
Santander Fundo de Investimento em Cotas de Fundos de Investimento Contract i Referenciado DI (f)	Brazil	0.00%	93.34%	100.00%	100.00%	INVESTMENT FUND	86	8	81
Santander Fundo de Investimento Financial Curto Prazo (e)	Brazil	0.00%	89.01%	100.00%	100.00%	INVESTMENT FUND	2,044	199	1,622
Santander Fundo de Investimento Guarujá Multimercado Crédito Privado Investimento no Exterior	Brazil	0.00%	89.02%	100.00%	100.00%	INVESTMENT FUND	73	1	62
Santander Fundo de Investimento Renda Fixa Capitalization (e)	Brazil	0.00%	89.02%	100.00%	100.00%	INVESTMENT FUND	317	19	135
Santander Fundo de Investimento SBAC Referenciado di Crédito Privado (h)	Brazil	0.00%	89.02%	100.00%	100.00%	INVESTMENT FUND	17	4	12
Santander Fundo de Investimento Unix Multimercado Crédito Privado (o)	Brazil	0.00%	89.02%	100.00%	100.00%	INVESTMENT FUND	53	15	46
Santander GBM Secured Financing Limited	Ireland	-	(b)	-	-	SECURITISATION	3	5	0
Santander Gestão de Activos, SGPS, S.A.	Portugal	0.00%	99.80%	100.00%	100.00%	HOLDING COMPANY	16	0	7

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
Santander Gestión de Recaudación y Cobranzas Ltda.	Chile	0.00%	99.54%	100.00%	100.00%	FINANCIAL SERVICES	1	1	2
Santander Gestión Inmobiliaria, S.A.	Spain	0.01%	99.99%	100.00%	100.00%	PROPERTY	1	0	0
Santander Global Consumer Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	4	3	5
Santander Global Facilities, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	PROPERTY MANAGEMENT	115	1	124
Santander Global Facilities, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	687	10	591
Santander Global Property México, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	PROPERTY	0	0	0
Santander Global Property U.S.A., Inc.	United States	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Santander Global Property, S.L.	Spain	97.34%	2.66%	100.00%	100.00%	SECURITIES INVESTMENT	241	16	237
Santander Global Services, S.A. (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Santander Global Sport, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SPORTS OPERATIONS	32	(1)	30
Santander Guarantee Company	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	5	0	4
Santander Hipotecario 1 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Santander Hipotecario 2 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Santander Hipotecario 3 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Santander Hipotecario, S.A. de C.V., SOFOM, E.R.	Mexico	0.00%	75.05%	100.00%	100.00%	FINANCE	212	65	90
Santander Holanda B.V.	The Netherlands	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	12	0	0
Santander Holding Canada Inc.	Canada	100.00%	0.00%	100.00%	-	HOLDING COMPANY	0	0	0
Santander Holding Internacional, S.A.	Spain	99.95%	0.05%	100.00%	100.00%	HOLDING COMPANY	5,541	266	3,650
Santander Holding Vivienda, S.A. de C.V.	Mexico	0.00%	75.05%	100.00%	100.00%	SERVICES	26	8	13
Santander Holdings USA, Inc.	United States	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	16,575	1,959	8,813
Santander Insurance Agency, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	INSURANCE BROKER	8	3	4
Santander Insurance Agency, U.S., LLC	United States	0.00%	100.00%	100.00%	100.00%	INSURANCE	1	0	0
Santander Insurance Holding, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	HOLDING COMPANY	454	120	357
Santander Insurance Services UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ASSET MANAGEMENT COMPANY	42	1	35
Santander Intermediación Correduría de Seguros, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	INSURANCE BROKER	15	1	9
Santander International Debt, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	6	1	0
Santander International Products, Plc.	Ireland	99.99%	0.01%	100.00%	100.00%	FINANCE	0	0	0
Santander Inversiones S.A.	Chile	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,031	219	1,032
Santander Investment Bank Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	BANKING	1,017	(41)	902
Santander Investment Bolsa, S.V., S.A.	Spain	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	171	47	140
Santander Investment Chile Limitada	Chile	0.00%	100.00%	100.00%	100.00%	FINANCE	495	19	321
Santander Investment I, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	(73)	68	0
Santander Investment Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	INACTIVE	4	(4)	0
Santander Investment Securities Inc.	United States	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	132	5	134
Santander Investment, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	BANKING	298	106	14
Santander ISA Managers Limited	United Kingdom	0.00%	100.00%	100.00%	50.00%	FUND AND PORTFOLIO MANAGER	6	3	7

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
Santander Issuances, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	2	0	0
Santander Lease, S.A., E.F.C.	Spain	70.00%	30.00%	100.00%	100.00%	LEASING	68	(2)	35
Santander Leasing S.A. Arrendamento Mercantil	Brazil	0.00%	89.01%	99.99%	99.99%	LEASING	1,566	68	1,375
Santander Leasing, LLC	United States	0.00%	100.00%	100.00%	100.00%	LEASING	11	2	0
Santander Lending Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	MORTGAGE LOAN COMPANY	206	16	193
Santander Mediación Operador de Banca-Seguros Vinculado, S.A.	Spain	34.00%	65.50%	100.00%	100.00%	INSURANCE BROKERAGE	3	0	1
Santander Merchant S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	FINANCE	1	0	2
Santander Microcrédito Assessoria Financeira S.A.	Brazil	0.00%	89.02%	100.00%	100.00%	FINANCIAL SERVICES	7	0	1
Santander Multiobrigações - Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa variável	Portugal	0.00%	91.77%	91.94%	91.20%	INVESTMENT FUND	369	3	339
Santander Operaciones Retail, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	SERVICES	10	1	10
Santander Overseas Bank, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	BANKING	353	6	200
Santander Paraty Qif PLC	Ireland	0.00%	89.02%	100.00%	100.00%	INVESTMENT COMPANY	29	(8)	19
Santander Participações S.A.	Brazil	0.00%	89.02%	100.00%	100.00%	HOLDING COMPANY	519	26	429
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	PENSION FUND MANAGEMENT COMPANY	3	1	4
Santander Perpetual, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	1	0	0
Santander Private Banking Gestión, S.A., S.G.I.I.C.	Spain	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	27	2	15
Santander Private Banking S.p.A.	Italy	100.00%	0.00%	100.00%	100.00%	BANKING	53	(2)	24
Santander Private Banking UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	PROPERTY	334	(1)	384
Santander Private Equity, S.A., S.G.E.C.R.	Spain	90.00%	9.98%	100.00%	100.00%	VENTURE CAPITAL MANAGEMENT COMPANY	8	1	4
Santander Private Real Estate Advisory & Management, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	PROPERTY	5	(1)	6
Santander Private Real Estate Advisory, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	14	0	0
Santander Public Sector SCF, S.A.	France	94.00%	6.00%	100.00%	100.00%	FINANCE	0	0	0
Santander Real Estate, S.G.I.I.C., S.A.	Spain	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	117	0	0
Santander Revolving Asset Funding 1 LLC	United States	0.00%	60.46%	100.00%	-	INACTIVE	0	0	0
Santander Río Servicios S.A.	Argentina	0.00%	99.97%	100.00%	100.00%	ADVISORY SERVICES	0	1	0
Santander Río Trust S.A.	Argentina	0.00%	99.97%	100.00%	100.00%	SERVICES	0	0	0
Santander Río Valores S.A.	Argentina	0.00%	99.34%	100.00%	100.00%	SECURITIES COMPANY	3	2	1
Santander RSPE 1 LLC	United States	0.00%	60.46%	100.00%	-	INACTIVE	0	0	0
Santander RSPE 5 LLC	United States	0.00%	60.46%	100.00%	-	INACTIVE	0	0	0
Santander RSPE 6 LLC	United States	0.00%	60.46%	100.00%	-	INACTIVE	0	0	0
Santander S.A. - Serviços Técnicos, Administrativos e de Corretagem de Seguros	Brazil	0.00%	93.34%	100.00%	100.00%	INSURANCE BROKER	145	32	241
Santander S.A. Corredores de Bolsa	Chile	0.00%	83.18%	100.00%	100.00%	SECURITIES COMPANY	54	3	26
Santander S.A. Sociedad Securitizadora	Chile	0.00%	67.13%	100.00%	100.00%	FUND MANAGEMENT COMPANY	1	0	0

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Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
Santander Secretariat Services Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Santander Securities LLC	Puerto Rico	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	44	(15)	0
Santander Securities Services Brasil Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	89.02%	100.00%	100.00%	MANAGEMENT COMPANY	264	6	228
Santander Securities Services Brasil Participações S.A.	Brazil	0.00%	100.00%	100.00%	-	HOLDING COMPANY	267	1	272
Santander Securities Services, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	BANKING	69	10	97
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	INSURANCE	843	78	239
Santander Service GmbH	Germany	0.00%	100.00%	100.00%	100.00%	SERVICES	1	0	1
Santander Servicios Corporativos, S.A. de C.V.	Mexico	0.00%	75.05%	100.00%	100.00%	SERVICES	2	1	0
Santander Servicios Especializados, S.A. de C.V.	Mexico	0.00%	75.05%	100.00%	100.00%	FINANCIAL SERVICES	2	0	0
Santander Tecnología y Operaciones A.E.I.E.	Spain	-	(b)	-	-	SERVICES	0	0	0
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal	0.00%	99.89%	100.00%	100.00%	INSURANCE	165	11	64
Santander Totta, SGPS, S.A.	Portugal	0.00%	99.89%	99.89%	99.88%	HOLDING COMPANY	3,033	2	3,323
Santander Trade Services Limited	Hong Kong	0.00%	100.00%	100.00%	100.00%	SERVICES	16	0	16
Santander UK Foundation Limited	United Kingdom	-	(b)	-	-	CHARITY	0	0	0
Santander UK Group Holdings Limited	United Kingdom	77.67%	22.33%	100.00%	0.00%	FINANCE	14,466	625	20,777
Santander UK Investments	United Kingdom	100.00%	0.00%	100.00%	100.00%	FINANCE	56	0	51
Santander UK plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	BANKING	15,535	1,726	14,466
Santander US Debt, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	0	0	0
Santander Vivienda, S.A. de C.V. SOFOM E.R. Grupo Financiero Santander México	Mexico	0.00%	75.05%	100.00%	100.00%	FINANCE	96	17	70
Santos Energia Participações S.A.	Brazil	0.00%	89.02%	100.00%	100.00%	HOLDING COMPANY	33	0	2
Santotta-Internacional, SGPS, Sociedade Unipessoal, Lda.	Portugal	0.00%	99.80%	100.00%	100.00%	HOLDING COMPANY	72	5	14
Santusa Holding, S.L.	Spain	69.76%	30.24%	100.00%	100.00%	HOLDING COMPANY	9,822	274	9,259
SC Austria Finance 2013-1 S.A.	Luxembourg	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 08-2 Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2009-1 Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2010-1 UG (haftungsbeschränkt) (j)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2011-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2011-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2013-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2013-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2014-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2014-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 10-1 Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2013-1 UG	Germany	-	(b)	-	-	SECURITISATION	0	0	0

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
(haftungsbeschränkt)									
SC Germany Consumer 2014-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Vehicles 2013-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Poland Auto 2014-1 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Ajoneuvohallinta Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Ajoneuvohallinto Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Rahoituspalvelut 2013 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Rahoituspalvelut Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCFI Ajoneuvohallinto Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCFI Rahoituspalvelut Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCI BANBY PRO	France	0.00%	90.00%	100.00%	100.00%	PROPERTY	22	7	25
Scottish Mutual Pensions Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	INSURANCE	0	0	1
Secucor Finance 2013-1 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Serfin International Bank and Trust, Limited	Cayman Islands	0.00%	99.80%	100.00%	100.00%	BANKING	37	0	27
Services and Promotions Delaware Corp.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	62	0	61
Services and Promotions Miami LLC	United States	0.00%	100.00%	100.00%	100.00%	PROPERTY	55	(1)	62
Servicio de Alarmas Controladas por Ordenador, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	SECURITY	2	0	1
Servicios Administrativos y Financieros Ltda.	Chile	0.00%	100.00%	100.00%	100.00%	SERVICES	2	0	0
Servicios Corporativos Seguros Serfin, S.A. de C.V. (j)	Mexico	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Servicios de Cobranza, Recuperación y Seguimiento, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	FINANCE	11	5	1
Sheppards Moneybrokers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	20	0	19
Shiloh III Wind Project, LLC	United States	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	246	10	231
SIAF LLC	United States	0.00%	60.46%	100.00%	-	FINANCE	(97)	(97)	0
Silk Finance No. 3 Limited	Ireland	-	(b)	-	-	SECURITISATION	(19)	6	0
Sinvest Inversiones y Asesorías Limitada	Chile	0.00%	100.00%	100.00%	100.00%	FINANCE	1,362	86	1,506
Sistema 4B, S.L. (consolidated)	Spain	68.80%	0.00%	68.80%	68.80%	CARDS	1	0	0
Sociedad Integral de Valoraciones Automatizadas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	APPRAISALS	1	1	1
Società Energetica Vibonese Due S.r.l.	Italy	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	0	0	1
Socur, S.A. (f)	Uruguay	100.00%	0.00%	100.00%	100.00%	FINANCE	17	17	59
Sol Orchard Imperial 1 LLC (q)	United States	0.00%	81.94%	100.00%	-	ELECTRICITY PRODUCTION	-	-	-
Solar Red, SGPS, S.A. (c)	Portugal	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	5	0
Solarlaser Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	PROPERTY	0	0	0
SOV APEX LLC	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	32,901	292	26,463
Sovereign Capital Trust IX	United States	0.00%	100.00%	100.00%	100.00%	INACTIVE	4	0	4
Sovereign Capital Trust VI	United States	0.00%	100.00%	100.00%	100.00%	FINANCE	8	0	8
Sovereign Community Development Company	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	34	0	37

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
Sovereign Delaware Investment Corporation	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	115	1	61
Sovereign Lease Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	FINANCIAL SERVICES	109	4	110
Sovereign Precious Metals, LLC	United States	0.00%	100.00%	100.00%	100.00%	PURCHASE AND SALE OF PRECIOUS METALS	125	0	12
Sovereign REIT Holdings, Inc.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	6,304	106	4,352
Sovereign Securities Corporation, LLC	United States	0.00%	100.00%	100.00%	100.00%	INACTIVE	47	0	44
Sovereign Spirit Limited (n)	Bermuda	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
Sterrebeeck B.V.	The Netherlands	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	5,500	214	11,110
Suleyado 2003, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	SECURITIES INVESTMENT	8	(3)	8
Super Pagamentos e Administração de Meios Eletrônicos S.A.	Brazil	0.00%	44.51%	50.00%	-	PAYMENT SERVICES	1	2	9
Suzuki Servicios Financieros, S.L.	Spain	0.00%	51.00%	51.00%	51.00%	INTERMEDIATION	3	1	0
Svensk Autofinans 1 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Svensk Autofinans WH 1 Ltd	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Swesant SA	Switzerland	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	101	(3)	0
Synergy Abstract, LP	United States	0.00%	70.00%	70.00%	70.00%	INSURANCE	0	0	0
Taxagest Sociedade Gestora de Participações Sociais, S.A.	Portugal	0.00%	99.80%	100.00%	100.00%	HOLDING COMPANY	56	0	0
Teatinos Siglo XXI Inversiones S.A.	Chile	50.00%	50.00%	100.00%	100.00%	HOLDING COMPANY	602	195	665
Texas Wind I LLC	United States	0.00%	100.00%	100.00%	-	ELECTRICITY PRODUCTION	0	0	0
Texas Wind II LLC	United States	0.00%	100.00%	100.00%	-	ELECTRICITY PRODUCTION	0	0	0
The Alliance & Leicester Corporation Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	PROPERTY	15	0	15
The National & Provincial Building Society Pension Fund Trustees Limited (d)	United Kingdom	-	(b)	-	-	ASSET MANAGEMENT COMPANY	0	0	0
Time Finance Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Time Retail Finance Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Títulos de Renta Fija, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SECURITIES INVESTMENT	8	(4)	3
Tonopah Solar I, LLC	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	61	0	60
Toque Fale Serviços de Telemarketing Ltda.	Brazil	0.00%	78.78%	100.00%	-	TELEMARKETING	1	(1)	0
Tornquist Asesores de Seguros S.A. (j)	Argentina	0.00%	99.99%	99.99%	99.99%	ADVISORY SERVICES	0	0	0
Totta & Açores Inc. Newark	United States	0.00%	99.80%	100.00%	100.00%	BANKING	1	0	1
Totta (Ireland), PLC (h)	Ireland	0.00%	99.80%	100.00%	100.00%	FINANCE	255	26	450
Totta Urbe - Empresa de Administração e Construções, S.A.	Portugal	0.00%	99.80%	100.00%	100.00%	PROPERTY	124	2	148
Trade Maps 3 Hong Kong Limited	Hong Kong	-	(b)	-	-	SECURITISATION	0	0	0
Trade Maps 3 Ireland Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Trans Rotor Limited	United Kingdom	100.00%	0.00%	100.00%	-	FULL-SERVICE LEASING	11	0	11
Transacciones Electrónicas Pos Móvil S.A.	Chile	0.00%	78.78%	100.00%	-	E-COMMERCE	1	0	0
Tuttle & Son Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	COLLECTION AND PAYMENT SERVICES	2	0	2
Universal Support, S.A.	Spain	0.00%	51.86%	100.00%	100.00%	TELEMARKETING	2	0	1
Universia Brasil S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	INTERNET	1	0	0

		% of ownership held by the Bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Capital and reserves	Net profit (loss) for the year	Amount of ownership interest
Universia Chile S.A.	Chile	0.00%	85.85%	85.85%	85.11%	INTERNET	0	0	0
Universia Colombia S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Universia Holding, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	15	(9)	6
Universia México, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Universia Perú, S.A.	Peru	0.00%	79.93%	79.93%	76.66%	INTERNET	0	(1)	0
Universia Puerto Rico, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Vailen Management, S.L.	Spain	0.00%	55.89%	100.00%	-	PROPERTY	0	0	0
Varitelia Distribuciones, S.L.	Spain	0.00%	55.89%	100.00%	-	PROPERTY	(139)	(5)	0
Vertiarama, S.L.	Spain	0.00%	55.89%	100.00%	-	SECURITIES INVESTMENT	(86)	0	0
Viking Collection Services Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Vista Capital de Expansión, S.A. SGECR	Spain	0.00%	50.00%	50.00%	50.00%	VENTURE CAPITAL MANAGEMENT COMPANY	3	0	0
Vista Desarrollo, S.A. SCR de Régimen Simplificado	Spain	100.00%	0.00%	100.00%	100.00%	VENTURE CAPITAL COMPANY	255	37	166
W.N.P.H. Gestão e Investimentos Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	PORTFOLIO MANAGEMENT	0	0	0
Wallcesa, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SECURITIES INVESTMENT	(792)	50	0
Wandylaw Holdings Ltd	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	20
Wandylaw Wind Farm Ltd	United Kingdom	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	2	0	0
Waypoint Capital Trust I	United States	0.00%	100.00%	100.00%	-	INACTIVE	0	0	0
Waypoint Capital Trust II	United States	0.00%	100.00%	100.00%	-	INACTIVE	0	0	0
Waypoint Insurance Group, Inc.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	8	0	8
Webcasas, S.A.	Brazil	0.00%	93.34%	100.00%	100.00%	INTERNET	7	(1)	7
Whitewick Limited	Jersey	0.00%	100.00%	100.00%	100.00%	INACTIVE	0	0	0
WIM Servicios Corporativos, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	0	0	0
Winwick Wind Farm Limited	United Kingdom	0.00%	100.00%	100.00%	-	ELECTRICITY PRODUCTION	6	0	6
WTW Shipping Limited	Ireland	100.00%	0.00%	100.00%	-	LEASING	7	0	7

(a) Amount per books of each company as at 31 December 2014, disregarding any interim dividends paid in the year. The amount of the ownership interest (cost, net of allowances) is the figure of each holding company multiplied by the Group's percentage of ownership, disregarding impairment of goodwill arising on consolidation. The data on foreign companies were translated to euros at the year-end exchange rates.

(b) Companies over which effective control is exercised.

(c) Data from the latest approved financial statements as at 31 December 2013.

(d) Data from the latest approved financial statements as at 31 March 2014.

(e) Data from the latest approved financial statements as at 30 June 2014.

(f) Data from the latest approved financial statements as at 30 September 2014.

(g) Data from the latest approved financial statements as at 31 July 2014.

(h) Data from the latest approved financial statements as at 30 November 2014.

(i) Data from the latest approved financial statements as at 31 August 2014.

(j) Company in liquidation as at 31 December 2014.

(k) 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 persons acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. For these purposes, the number of votes corresponding to the Parent in relation to companies over which it exercises indirect control is the number corresponding to each subsidiary holding a direct ownership interest in such companies.

(l) Data from the latest available approved financial statements as at 31 December 2011.

(m) See Note 2.b.v.

(n) Company resident in the UK for tax purposes.

(o) Data from the latest approved financial statements as at 28 February 2014.

(p) Data from the latest approved financial statements as at 31 May 2014.

(q) Recently created company with no available approved financial statements.

(1) The preference share issuer companies are detailed in Appendix III, together with other relevant information.

Appendix II

Companies in which Santander Group has ownership interests of more than 5% (g), associates of Santander Group and jointly controlled entities

		% of ownership held by the Bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
3E1 Sp. z o.o.	Poland	0.00%	12.26%	21.60%	21.60%	ELECTRICITY PRODUCTION	-	11	1	0
AAC Spanish BOF 2005 B.V.	The Netherlands	0.00%	45.22%	45.22%	-	HOLDING COMPANY	-	1	4	(3)
Administrador Financiero de Transantiago S.A.	Chile	0.00%	13.40%	20.00%	20.00%	COLLECTION AND PAYMENT SERVICES	Associate	95	13	2
Aegon Santander Generales Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	INSURANCE	Jointly controlled entity	308	129	13
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal	0.00%	48.95%	49.00%	-	INSURANCE	Jointly controlled entity	13	12	0
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal	0.00%	48.95%	49.00%	-	INSURANCE	Jointly controlled entity	65	17	0
Aegon Santander Vida Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	INSURANCE	Jointly controlled entity	237	164	8
Affirmative Insurance Holdings Inc. (consolidated) (b)	United States	0.00%	5.03%	0.00%	0.00%	INSURANCE	-	319	(110)	25
Affirmative Investment LLC (n)	United States	0.00%	5.03%	4.99%	4.99%	HOLDING COMPANY	-	4	17	(14)
Agres, Agrupación Restauradores, S.L.	Spain	0.00%	43.00%	43.00%	43.00%	RESTAURANTS	Associate	3	2	0
Aguas de Fuensanta, S.A.	Spain	36.78%	0.00%	36.78%	36.78%	FOOD	Associate	16	(9)	(16)
Allfunds Bank International S.A.	Luxembourg	0.00%	25.25%	50.00%	50.00%	BANKING	Jointly controlled entity	68	15	4
Allfunds Bank, S.A.	Spain	0.00%	25.25%	50.00%	50.00%	BANKING	Jointly controlled entity	581	95	46
Allfunds International Schweiz AG	Switzerland	0.00%	25.25%	50.00%	50.00%	SERVICES	Jointly controlled entity	3	2	1
Allfunds Nominee Limited	United Kingdom	0.00%	25.25%	50.00%	50.00%	HOLDING COMPANY	Jointly controlled entity	0	0	0
Anekis, S.A.	Spain	24.75%	24.75%	49.50%	49.50%	ADVERTISING	Associate	5	5	0
Aquajerez, S.L.	Spain	0.00%	49.00%	49.00%	49.00%	WATER SUPPLY	Associate	110	0	1
Arena Communications Network, S.L.	Spain	20.00%	0.00%	20.00%	20.00%	ADVERTISING	Associate	11	6	0
Ascan Water Services, S.L.	Spain	0.00%	60.00%	60.00%	-	WATER SUPPLY	Jointly controlled entity	32	11	0
Asturcontinental de Edificaciones, S.L. (consolidated)	Spain	0.00%	25.15%	45.00%	-	PROPERTY	-	3	3	(3)
Attijari Factoring Maroc, S.A. (b)	Morocco	0.00%	28.95%	28.95%	28.95%	FACTORING	Associate	269	11	3

		% of ownership held by the Bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
Attijariwafa Bank Société Anonyme (consolidated) (b)	Morocco	0.00%	5.26%	5.26%	5.26%	BANKING	-	35,125	2,994	462
Autopistas del Sol S.A. (b)	Argentina	0.00%	7.14%	7.14%	7.14%	MOTORWAY CONCESSIONS	-	118	10	(2)
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A. (b)	Poland	0.00%	6.94%	10.00%	10.00%	PENSION FUND MANAGEMENT COMPANY	-	152	141	42
Aviva Towarzystwo Ubezpieczeń na Życie S.A. (b)	Poland	0.00%	6.94%	10.00%	10.00%	INSURANCE	-	3,491	369	130
Banco Caixa Geral Totta de Angola, S.A.	Angola	0.00%	24.94%	24.99%	24.99%	BANKING	Associate	1,784	240	73
Banco Internacional da Guiné-Bissau, S.A. (d) (e)	Guinea-Bissau	0.00%	48.90%	49.00%	49.00%	BANKING	-	12	(30)	(1)
Bank of Beijing Consumer Finance Company	China	0.00%	20.00%	20.00%	20.00%	FINANCE	Associate	1,503	194	42
Bank of Shanghai Co., Ltd. (consolidated) (b)	China	7.20%	0.00%	7.20%	-	BANKING	-	129,744	6,185	1,240
Benim - Sociedade Imobiliária, S.A. (consolidated) (b)	Portugal	0.00%	25.76%	25.81%	25.81%	PROPERTY	Associate	11	8	0
BW Guirapá I S.A.	Brazil	0.00%	58.93%	66.19%	40.57%	HOLDING COMPANY	Jointly controlled entity	60	65	(5)
Cantabria Capital, SGECR, S.A.	Spain	50.00%	0.00%	50.00%	50.00%	VENTURE CAPITAL MANAGEMENT COMPANY	Associate	0	0	0
Carnes Estellés, S.A. (e)	Spain	21.41%	0.00%	21.41%	21.41%	FOOD	Associate	0	0	0
Cartera del Norte, S.L.	Spain	36.10%	0.00%	36.10%	36.10%	FINANCE	Associate	0	0	0
CCPT - ComprarCasa, Rede Serviços Imobiliários, S.A.	Portugal	0.00%	47.56%	47.56%	47.56%	PROPERTY SERVICES	Jointly controlled entity	1	1	0
Central Eólica Angical S.A.	Brazil	0.00%	58.93%	66.19%	40.57%	ELECTRICITY PRODUCTION	Jointly controlled entity	17	5	0
Central Eólica Caititu S.A.	Brazil	0.00%	58.93%	66.19%	40.57%	ELECTRICITY PRODUCTION	Jointly controlled entity	25	4	0
Central Eólica Coqueirinho S.A.	Brazil	0.00%	58.93%	66.19%	40.57%	ELECTRICITY PRODUCTION	Jointly controlled entity	31	7	(1)
Central Eólica Corrupião S.A.	Brazil	0.00%	58.93%	66.19%	40.57%	ELECTRICITY PRODUCTION	Jointly controlled entity	33	9	0
Central Eólica Inhambu S.A.	Brazil	0.00%	58.93%	66.19%	40.57%	ELECTRICITY PRODUCTION	Jointly controlled entity	40	10	0
Central Eólica Tamanduá Mirim S.A.	Brazil	0.00%	58.93%	66.19%	40.57%	ELECTRICITY PRODUCTION	Jointly controlled entity	33	6	(1)
Central Eólica Teiu S.A.	Brazil	0.00%	58.93%	66.19%	40.57%	ELECTRICITY PRODUCTION	Jointly controlled entity	20	5	0
Centro de Compensación Automatizado S.A.	Chile	0.00%	22.34%	33.33%	33.33%	COLLECTION AND PAYMENT SERVICES	Associate	5	3	1
Centro para el Desarrollo, Investigación y Aplicación de Nuevas Tecnologías, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	TECHNOLOGY	Associate	3	2	0

		% of ownership held by the Bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
Comder Contraparte Central S.A.	Chile	0.00%	7.43%	11.09%	11.09%	FINANCIAL SERVICES	Associate	14	14	(2)
Companhia de Arrendamento Mercantil RCI Brasil	Brazil	0.00%	35.51%	39.89%	39.89%	LEASING	Jointly controlled entity	456	212	22
Companhia de Crédito, Financiamento e Investimento RCI Brasil	Brazil	0.00%	35.51%	39.90%	39.90%	FINANCE	Jointly controlled entity	2,933	347	46
Companhia Promotora UCI	Brazil	0.00%	25.00%	25.00%	25.00%	FINANCIAL SERVICES	Jointly controlled entity	0	1	(1)
Compañía Española de Seguros de Crédito a la Exportación, S.A., Compañía de Seguros y Reaseguros (consolidated) (b)	Spain	20.53%	0.55%	21.08%	21.08%	CREDIT INSURANCE	-	863	278	28
Comprarcasa Servicios Inmobiliarios, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	PROPERTY SERVICES	Jointly controlled entity	2	1	0
Desarrollo Urbano de Patraix, S.A.	Spain	0.00%	25.24%	45.16%	-	PROPERTY	-	31	24	0
Eko Energy Sp. z o.o.	Poland	0.00%	12.49%	22.00%	22.00%	ELECTRICITY PRODUCTION	-	65	5	1
Elincasiol, S.L. (consolidated)	Spain	0.00%	46.19%	46.19%	46.19%	ELECTRICITY PRODUCTION	Jointly controlled entity	819	288	(4)
Energía Eólica de México, S.A. de C.V. (consolidated)	Mexico	0.00%	50.00%	50.00%	50.00%	HOLDING COMPANY	Jointly controlled entity	0	0	0
Energía Renovable del Istmo, S.A. de C.V.	Mexico	0.00%	50.00%	50.00%	50.00%	ELECTRICITY PRODUCTION	Jointly controlled entity	14	0	0
Enerstar Villena, S.A.	Spain	0.00%	42.20%	42.20%	42.20%	ELECTRICITY PRODUCTION	Jointly controlled entity	297	1	(7)
Farma Wiatrowa Jablowo Sp. z o.o.	Poland	0.00%	12.26%	21.60%	21.60%	ELECTRICITY PRODUCTION	-	0	0	0
FC2Egestión, S.L.	Spain	0.00%	50.00%	50.00%	50.00%	ENVIRONMENTAL MANAGEMENT	Jointly controlled entity	0	0	0
Federal Home Loan Bank of Pittsburgh (b)	United States	0.00%	14.00%	14.00%	15.23%	BANKING	-	58,208	3,041	122
Federal Reserve Bank of Boston (b)	United States	0.00%	30.81%	30.81%	28.38%	BANKING	-	92,869	2,061	(13)
Fondo de Titulización de Activos UCI 11	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	243	0	0
Fondo de Titulización de Activos UCI 14	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	636	0	0
Fondo de Titulización de Activos UCI 15	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	742	0	0
Fondo de Titulización de Activos UCI 16	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	1,055	0	0
Fondo de Titulización de Activos UCI 17	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	904	0	0
Fondo de Titulización de Activos UCI 18	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	982	0	0

		% of ownership held by the Bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
Fondo de Titulización Hipotecaria UCI 10	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	157	0	0
Fondo de Titulización Hipotecaria UCI 12	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled entity	338	0	0
Fortune Auto Finance Co., Ltd	China	0.00%	50.00%	50.00%	50.00%	FINANCE	Jointly controlled entity	503	128	1
Friedrichstrasse, S.L.	Spain	35.00%	0.00%	35.00%	35.00%	PROPERTY	Associate	42	42	0
Generación Andina S.A.C.	Peru	0.00%	49.78%	49.78%	-	ELECTRICITY PRODUCTION	-	39	10	2
Gestión Santander, S.A. de C.V., Sociedad Operadora de Sociedades de Inversión	Mexico	0.00%	50.00%	50.00%	50.00%	FUND MANAGEMENT COMPANY	Jointly controlled entity	47	11	15
Gire S.A.	Argentina	0.00%	57.92%	58.33%	58.33%	COLLECTION AND PAYMENT SERVICES	Associate	128	11	12
Grupo Alimentario de Exclusivas, S.A. (e)	Spain	40.46%	0.00%	40.46%	40.46%	FOOD	Associate	4	(3)	(3)
HCUK Auto Funding Ltd	United Kingdom	-	(h)	-	-	SECURITISATION	Jointly controlled entity	550	0	0
Helican Desarrollo Eólico, S.L.	Spain	0.00%	46.00%	46.00%	46.00%	ELECTRICITY PRODUCTION	Jointly controlled entity	2	0	0
Hidroatlixco, S.A.P.I. de C.V.	Mexico	0.00%	50.76%	50.76%	50.76%	ELECTRICITY PRODUCTION	Jointly controlled entity	5	0	0
HSH Delaware L.P. (l)	United States	0.00%	69.19%	0.00%	0.00%	HOLDING COMPANY	-	30	10	(3)
Hyundai Capital Germany GmbH	Germany	0.00%	49.99%	49.99%	49.99%	SERVICES	Jointly controlled entity	5	3	2
Hyundai Capital UK Limited	United Kingdom	0.00%	50.01%	50.01%	50.01%	FINANCE	Jointly controlled entity	1,592	69	18
Ideia Produções e Design Ltda - ME	Brazil	0.00%	65.34%	70.00%	70.00%	SERVICES	Jointly controlled entity	1	0	0
Imperial Holding S.C.A. (i)	Luxembourg	0.00%	36.36%	36.36%	36.36%	SECURITIES INVESTMENT	-	0	(113)	0
Indice Iberoamericano de Investigación y Conocimiento, A.I.E.	Spain	0.00%	51.00%	51.00%	51.00%	INFORMATION SYSTEM	Jointly controlled entity	5	0	(1)
Inmo Alemania Gestión de Activos Inmobiliarios, S.A.	Spain	0.00%	20.00%	20.00%	20.00%	HOLDING COMPANY	-	57	57	0
Inversiones ZS América Dos Ltda	Chile	0.00%	49.00%	49.00%	49.00%	SECURITIES AND REAL ESTATE INVESTMENT	Associate	420	367	53
Inversiones ZS América SpA	Chile	0.00%	49.00%	49.00%	49.00%	SECURITIES AND REAL ESTATE INVESTMENT	Associate	411	185	34
Invico S.A. (b)	Poland	0.00%	14.64%	21.09%	21.09%	COMMERCE	-	12	5	0
Izettle do Brasil Meios de Pagamento S.A.	Brazil	0.00%	39.39%	50.00%	-	CARDS	Jointly controlled entity	3	3	(4)
J.C. Flowers I L.P. (b)	United States	0.00%	10.60%	4.99%	4.99%	HOLDING COMPANY	-	79	41	38
J.C. Flowers II-A L.P. (b)	Canada	0.00%	69.50%	4.43%	4.43%	HOLDING COMPANY	-	53	46	7

		% of ownership held by the Bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
Jacinta Solar Farm S.R.L.	Uruguay	0.00%	49.00%	49.00%	-	ELECTRICITY PRODUCTION	Jointly controlled entity	22	4	0
JCF AIV P L.P. (b)	Canada	0.00%	7.67%	4.99%	4.99%	HOLDING COMPANY	-	144	123	19
JCF BIN II-A (k)	Mauritania	0.00%	69.52%	4.43%	4.43%	HOLDING COMPANY	-	4	4	0
JCF II-A AIV K L.P. (b)	Canada	0.00%	69.52%	0.00%	0.00%	HOLDING COMPANY	-	5	4	1
JCF II-A Special AIV K L.P. (b)	Canada	0.00%	72.29%	4.99%	4.99%	HOLDING COMPANY	-	5	4	0
Jupiter III C.V. (b)	The Netherlands	0.00%	72.75%	4.99%	4.99%	HOLDING COMPANY	-	196	131	65
Jupiter JCF AIV II-A C.V. (b)	The Netherlands	0.00%	69.41%	4.99%	4.99%	HOLDING COMPANY	-	48	39	9
KM Locanet Ltda - ME	Brazil	0.00%	65.34%	70.00%	-	ADVERTISING	Jointly controlled entity	1	0	0
Konesticial, S.L.	Spain	0.00%	50.00%	50.00%	50.00%	HOLDING COMPANY	Jointly controlled entity	0	0	0
L'Esplai Valencia, S.L.	Spain	0.00%	20.68%	37.00%	-	PROPERTY	-	1	1	0
Luri 3, S.A.	Spain	10.00%	0.00%	10.00%	10.00%	PROPERTY	Jointly controlled entity	17	17	0
Massachusetts Business Development Corp. (consolidated) (b)	United States	0.00%	21.60%	21.60%	-	FINANCE	-	39	7	0
Metrohouse Franchise S.A. (c)	Poland	0.00%	15.08%	21.73%	-	PROPERTY	Associate	-	-	-
Metrohouse S.A. (b)	Poland	0.00%	15.08%	21.73%	21.23%	PROPERTY	Associate	1	0	0
Monitise PLC (consolidated) (j)	United Kingdom	5.08%	0.00%	5.08%	-	PAYMENT SERVICES	-	619	586	(94)
Nevis Power Limited	United Kingdom	0.00%	50.00%	50.00%	50.00%	ELECTRICITY PRODUCTION	Jointly controlled entity	5	5	0
New PEL S.a.r.l. (b)	Luxembourg	0.00%	7.67%	0.00%	0.00%	HOLDING COMPANY	-	62	61	0
NH Hoteles, S.A. (consolidated) (b)	Spain	8.56%	0.00%	8.56%	-	HOTEL OPERATIONS	-	2,687	1,196	(38)
NIB Special Investors IV-A LP (b)	Canada	0.00%	99.70%	4.99%	4.99%	HOLDING COMPANY	-	42	38	3
NIB Special Investors IV-B LP (b)	Canada	0.00%	95.80%	4.99%	4.99%	HOLDING COMPANY	-	13	12	1
Norchem Holdings e Negócios S.A.	Brazil	0.00%	19.36%	29.00%	29.00%	HOLDING COMPANY	Associate	49	35	4
Norchem Participações e Consultoria S.A.	Brazil	0.00%	44.51%	50.00%	50.00%	SECURITIES COMPANY	Jointly controlled entity	25	15	3
Nowotna Farma Wiatrowa Sp. z o.o.	Poland	0.00%	12.26%	21.60%	21.60%	ELECTRICITY PRODUCTION	-	24	2	(3)
NPG Wealth Management S.àr.l (consolidated) (b)	Luxembourg	0.00%	7.63%	0.00%	0.00%	HOLDING COMPANY	-	5,073	41	2
Odc Ambievo Tecnologia e Inovacao Ambiental, Industria e Comercio de Insumos Naturais Ltda.	Brazil	0.00%	20.55%	23.08%	-	TECHNOLOGY	-	1	3	1
Olivant Investments Switzerland S.A. (m)	Luxembourg	0.00%	35.18%	35.18%	35.18%	HOLDING COMPANY	Associate	512	(1,525)	376
Olivant Limited (consolidated) (b)	Guernsey	0.00%	10.39%	10.39%	10.39%	HOLDING COMPANY	-	91	99	(8)
Omega Financial Services GmbH	Germany	0.00%	50.00%	50.00%	50.00%	SERVICES	Jointly controlled entity	1	0	1
Operadora de Activos Alfa, S.A. de C.V.	Mexico	0.00%	49.98%	49.98%	49.98%	FINANCE	Associate	1	1	0

		% of ownership held by the Bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
Operadora de Activos Beta, S.A. de C.V.	Mexico	0.00%	49.99%	49.99%	49.99%	FINANCE	Associate	1	1	0
Operadora de Tarjetas de Crédito Nexus S.A.	Chile	0.00%	8.65%	12.90%	12.90%	CARDS	Associate	23	10	2
Parque Eólico Reynosa I, S.A. de C.V.	Mexico	0.00%	80.00%	80.00%	-	ELECTRICITY PRODUCTION	Jointly controlled entity	6	2	0
Parque Solar Afortunado, S.L.	Spain	98.00%	0.00%	25.00%	25.00%	ELECTRICITY PRODUCTION	Jointly controlled entity	39	6	(1)
Parque Solar la Robla, S.L.	Spain	95.00%	0.00%	25.00%	25.00%	ELECTRICITY PRODUCTION	-	77	4	6
Parque Solar Páramo, S.L.	Spain	92.00%	0.00%	25.00%	25.00%	ELECTRICITY PRODUCTION	Jointly controlled entity	36	3	(1)
Parque Solar Saelices, S.L.	Spain	95.00%	0.00%	25.00%	25.00%	ELECTRICITY PRODUCTION	-	42	1	(6)
Parques Empresariales Gran Europa, S.A. (consolidated)	Spain	0.00%	27.94%	50.00%	-	LAND MANAGEMENT	-	91	43	3
Partang, SGPS, S.A.	Portugal	0.00%	48.90%	49.00%	49.00%	HOLDING COMPANY	Associate	179	125	36
Polesine, S.A.	Uruguay	0.00%	40.00%	40.00%	-	ELECTRICITY PRODUCTION	Jointly controlled entity	113	0	0
POLFUND - Fundusz Poręczeń Kredytowych S.A.	Poland	0.00%	34.71%	50.00%	50.00%	MANAGEMENT COMPANY	Associate	22	20	0
Ponte Albanito S.r.l.	Italy	0.00%	30.00%	30.00%	30.00%	ELECTRICITY PRODUCTION	Jointly controlled entity	43	2	(2)
Prodesur Mediterráneo, S.L.	Spain	0.00%	50.23%	50.23%	50.23%	PROPERTY	Jointly controlled entity	4	(2)	(1)
Proinsur Mediterráneo, S.L.	Spain	0.00%	50.00%	50.00%	50.00%	PROPERTY	Jointly controlled entity	18	(12)	(4)
Promotora de Informaciones, S.A. (b)	Spain	4.56%	5.30%	9.86%	-	COMMUNICATIONS	-	4,934	806	(597)
PSA Finance PLC	United Kingdom	0.00%	50.00%	50.00%	50.00%	LEASING	Associate	5	5	0
Q 205 Real Estate GmbH (b)	Germany	0.00%	17.50%	17.50%	17.50%	PROPERTY	-	252	78	(3)
Queenford, S.L.	Spain	0.00%	49.00%	49.00%	49.00%	PROPERTY	Associate	113	(22)	(3)
Redbanc S.A.	Chile	0.00%	22.40%	33.43%	33.43%	SERVICES	Associate	25	6	1
Redsys Servicios de Procesamiento, S.L.U. (b)	Spain	16.97%	0.00%	16.97%	16.97%	CARDS	Associate	101	13	4
Retama Real Estate, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	SERVICES	Jointly controlled entity	86	(8)	(15)
Rías Redbanc, S.A.	Uruguay	0.00%	20.00%	20.00%	20.00%	SERVICES	-	3	1	0
Rio Alto Gestão de Créditos e Participações, S.A.	Brazil	0.00%	44.51%	50.00%	50.00%	COLLECTION AND PAYMENT SERVICES	-	171	135	19
S Portfolio M UK Limited (j)	United Kingdom	0.00%	50.00%	50.00%	50.00%	FINANCE	Jointly controlled entity	0	0	0
SAM Brasil Participações Ltda.	Brazil	1.00%	49.50%	50.50%	50.00%	HOLDING COMPANY	Jointly controlled entity	39	32	7

		% of ownership held by the Bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
SAM Finance Lux S.à.r.l.	Luxembourg	0.00%	50.00%	50.00%	50.00%	MANAGEMENT COMPANY	Jointly controlled entity	1,016	2	0
SAM Investment Holdings Limited	Jersey	0.00%	50.00%	50.00%	50.00%	HOLDING COMPANY	Jointly controlled entity	2,155	1,061	63
Santander Ahorro Inmobiliario 1, S.I.I., S.A.	Spain	30.94%	0.01%	30.95%	30.95%	REAL ESTATE INVESTMENT	Associate	72	30	(2)
Santander Asset Management Luxembourg, S.A.	Luxembourg	0.00%	50.00%	50.00%	50.00%	FUND MANAGEMENT COMPANY	Jointly controlled entity	10	6	3
Santander Asset Management S.A. Administradora General de Fondos	Chile	0.00%	49.99%	49.99%	49.99%	FUND MANAGEMENT COMPANY	Jointly controlled entity	43	17	8
Santander Asset Management UK Holdings Limited	United Kingdom	0.00%	50.00%	50.00%	50.00%	HOLDING COMPANY	Jointly controlled entity	417	402	14
Santander Asset Management UK Limited	United Kingdom	0.00%	50.00%	50.00%	50.00%	FUND AND PORTFOLIO MANAGER	Jointly controlled entity	71	24	4
Santander Asset Management USA, LLC	United States	0.00%	50.00%	50.00%	50.00%	FUND AND ASSET MANAGEMENT COMPANY	Jointly controlled entity	2	3	(3)
Santander Asset Management, LLC	Puerto Rico	0.00%	50.00%	50.00%	50.00%	MANAGEMENT COMPANY	Jointly controlled entity	16	6	9
Santander Asset Management, S.A., S.G.I.I.C.	Spain	0.00%	50.00%	50.00%	50.00%	FUND MANAGEMENT COMPANY	Jointly controlled entity	152	33	46
Santander Brasil Asset Management Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	50.50%	50.50%	50.00%	MANAGEMENT COMPANY	Jointly controlled entity	72	36	7
Santander Brasil Gestão de Recursos Ltda.	Brazil	0.00%	50.00%	50.00%	50.00%	REAL ESTATE INVESTMENT	Jointly controlled entity	671	592	69
Santander Elavon Merchant Services Entidad de Pago, S.L.	Spain	49.00%	0.00%	49.00%	49.00%	PAYMENT SERVICES	Jointly controlled entity	193	175	(6)
Santander Insurance Europe Limited	Ireland	0.00%	49.00%	49.00%	100.00%	INSURANCE BROKER	Associate	371	53	2
Santander Insurance Life Limited	Ireland	0.00%	49.00%	49.00%	100.00%	INSURANCE BROKER	Associate	808	99	11
Santander Insurance Services Ireland Limited	Ireland	0.00%	49.00%	49.00%	100.00%	SERVICES	Associate	3	0	0
Santander Pensiones, S.A., E.G.F.P.	Spain	0.00%	50.00%	50.00%	50.00%	PENSION FUND MANAGEMENT COMPANY	Jointly controlled entity	71	25	23
Santander Río Asset Management Gerente de Fondos Comunes de Inversión S.A.	Argentina	0.00%	50.00%	50.00%	50.00%	FUND MANAGEMENT COMPANY	Jointly controlled entity	6	2	1
Saturn Japan II Sub C.V. (m)	The Netherlands	0.00%	69.30%	0.00%	0.00%	HOLDING COMPANY	-	39	20	19
Saturn Japan III Sub C.V. (m)	The Netherlands	0.00%	72.71%	0.00%	0.00%	HOLDING COMPANY	-	130	60	70
Saudi Hollandi Bank (consolidated) (b)	Saudi Arabia	0.00%	11.16%	11.16%	11.16%	BANKING	-	18,044	1,771	337
Servicios de Infraestructura de Mercado OTC S.A.	Chile	0.00%	7.45%	11.11%	11.11%	SERVICES	Associate	15	17	(2)

		% of ownership held by the Bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2014	2013	Line of business	Type of company	Assets	Capital and reserves	Net profit (loss) for the year
Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (b)	Spain	17.28%	0.00%	17.28%	17.28%	FINANCIAL SERVICES	-	54,250	929	(261)
Sociedad Interbancaria de Depósitos de Valores S.A.	Chile	0.00%	19.63%	29.29%	29.29%	SECURITIES DEPOSITORY SERVICES	Associate	3	3	1
Sociedad Promotora Bilbao Plaza Financiera, S.A. (b)	Spain	19.04%	14.86%	33.90%	33.90%	ADVISORY SERVICES	-	2	1	0
Solar Energy Capital Europe S.à.r.l. (consolidated)	Luxembourg	0.00%	33.33%	33.33%	33.33%	HOLDING COMPANY	Jointly controlled entity	9	1	0
Stephens Ranch Wind Energy Holdco LLC (c)	United States	0.00%	44.00%	44.00%	-	ELECTRICITY PRODUCTION	-	-	-	-
SUTM Limited (j)	United Kingdom	0.00%	50.00%	50.00%	50.00%	FUND AND PORTFOLIO MANAGER	Jointly controlled entity	1	0	0
Tbforte Segurança e Transporte de Valores Ltda.	Brazil	0.00%	18.49%	19.81%	-	SECURITY	Associate	5	2	(1)
Tbnet Comércio, Locação e Administração Ltda.	Brazil	0.00%	18.49%	19.81%	-	TELECOMMUNICATIONS	Associate	4	3	(2)
Tecnologia Bancária S.A.	Brazil	0.00%	18.49%	19.81%	20.82%	ATMs	Associate	290	83	25
Tecnologia e Sistemas Avançados S.A.	Brazil	0.00%	22.10%	24.83%	-	TECHNOLOGY	-	331	15	4
Teka Industrial, S.A. (consolidated) (b)	Spain	0.00%	9.42%	9.42%	9.42%	DOMESTIC APPLIANCES	-	594	214	(44)
The HSH AIV 4 Trust (b)	United States	0.00%	69.19%	4.99%	4.99%	HOLDING COMPANY	-	0	1	(1)
Tonopah Solar Energy Holdings I, LLC (consolidated) (b)	United States	0.00%	26.80%	26.80%	26.80%	HOLDING COMPANY	Associate	647	140	0
TOPSAM, S.A de C.V.	Mexico	0.00%	50.00%	50.00%	-	FUND MANAGEMENT COMPANY	Jointly controlled entity	1	1	0
Trabajando.com Chile S.A.	Chile	0.00%	33.33%	33.33%	33.33%	SERVICES	Associate	1	1	0
Transbank S.A.	Chile	0.00%	16.75%	25.00%	25.00%	CARDS	Associate	609	41	6
Transolver Finance EFC, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	LEASING	Jointly controlled entity	261	22	3
U.C.I., S.A.	Spain	50.00%	0.00%	50.00%	50.00%	HOLDING COMPANY	Jointly controlled entity	280	77	(17)
UCI Holding Brasil Ltda	Brazil	0.00%	50.00%	50.00%	50.00%	HOLDING COMPANY	Jointly controlled entity	2	1	0
UCI Mediação de Seguros Unipessoal, Lda.	Portugal	0.00%	50.00%	50.00%	50.00%	INSURANCE BROKER	Jointly controlled entity	0	0	0
Unicre-Instituição Financeira de Crédito, S.A.	Portugal	0.00%	21.46%	21.50%	21.50%	FINANCE	Associate	339	88	10
Unión de Créditos Inmobiliarios, S.A., EFC	Spain	0.00%	50.00%	50.00%	50.00%	MORTGAGE LOAN COMPANY	Jointly controlled entity	12,910	379	(3)
Urbanizadora Valdepolo I, S.A.	Spain	0.00%	27.94%	50.00%	-	PROPERTY	-	24	(1)	0
Urbanizadora Valdepolo II, S.A.	Spain	0.00%	27.94%	50.00%	-	PROPERTY	-	24	(1)	0
Urbanizadora Valdepolo III, S.A.	Spain	0.00%	27.94%	50.00%	-	PROPERTY	-	24	(1)	0
Urbanizadora Valdepolo IV, S.A.	Spain	0.00%	27.94%	50.00%	-	PROPERTY	-	24	(1)	0

Company	Location	% of ownership held by the Bank: Direct	% of ownership held by the Bank: Indirect	% of voting power (f): 2014	% of voting power (f): 2013	Line of business	Type of company	Millions of euros (a): Assets	Millions of euros (a): Capital and reserves	Millions of euros (a): Net profit (loss) for the year
Valdicsa, S.A.	Spain	0.00%	18.44%	33.00%	-	PROPERTY	-	12	1	0
Vector Software Factory, S.L. (consolidated)	Spain	0.00%	45.00%	45.00%	45.00%	IT	Associate	44	9	2
Viking Consortium Holdings Limited (consolidated) (b)	United Kingdom	0.00%	24.99%	24.99%	24.99%	HOLDING COMPANY	-	1,085	(12)	(29)
Virtual Motors Páginas Eletrônicas Ltda	Brazil	0.00%	65.34%	70.00%	-	INTERNET	Jointly controlled entity	0	0	0
Webmotors S.A.	Brazil	0.00%	65.34%	70.00%	70.00%	SERVICES	Jointly controlled entity	81	65	10
Yaap Digital Services, S.L.	Spain	33.33%	0.00%	33.33%	33.33%	SERVICES	Associate	13	18	(8)
Zakłady Przemysłu Jedwabniczego DOLWIS S.A. w upadłości likwidacyjnej (m) (e)	Poland	0.00%	30.54%	44.00%	44.00%	TEXTILE PRODUCTION	-	2	(3)	0
Zurich Santander Brasil Seguros e Previdência S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	INSURANCE	Associate	10,081	568	166
Zurich Santander Brasil Seguros S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	INSURANCE	Associate	205	30	27
Zurich Santander Holding (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	HOLDING COMPANY	Associate	1,050	936	114
Zurich Santander Holding Dos (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	HOLDING COMPANY	Associate	429	384	45
Zurich Santander Insurance América, S.L.	Spain	49.00%	0.00%	49.00%	49.00%	HOLDING COMPANY	Associate	1,638	1,481	154
Zurich Santander Seguros Argentina S.A. (j)	Argentina	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associate	46	3	15
Zurich Santander Seguros de Vida Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associate	315	49	54
Zurich Santander Seguros Generales Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associate	207	35	7
Zurich Santander Seguros México, S.A.	Mexico	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associate	969	80	93
Zurich Santander Seguros Uruguay, S.A.	Uruguay	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associate	25	7	1

(a) Amounts per the books of each company generally as at 31 December 2014, unless otherwise stated, because the financial statements have not yet been authorised for issue. The data on foreign companies were translated to euros at the year-end exchange rates.

(b) Data from the latest approved financial statements as at 31 December 2013.

(c) Recently created company with no available approved financial statements.

(d) Data from the latest approved financial statements as at 30 April 2002.

(e) Company in liquidation as at 31 December 2014.

(f) 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 persons acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. For these purposes, the number of votes corresponding to the Parent in relation to companies over which it exercises indirect control is the number corresponding to each subsidiary holding a direct ownership interest in such companies.

(g) Excluding the Group companies listed in Appendix I and those of negligible interest with respect to the fair presentation that the consolidated financial statements must express (pursuant to Article 48 of the Spanish Commercial Code and Article 260 of the Spanish Limited Liability Companies Law).

(h) Companies over which the non-subsidiary investee of the Group exercises effective control.

(i) Data from the latest approved financial statements as at 31 October 2013.

(j) Data as at 30 June 2014, this entity's year-end.

(k) Data from the latest available approved financial statements as at 30 September 2012.

(l) Data from the latest available approved financial statements as at 31 December 2010.

(m) Data from the latest available approved financial statements as at 31 December 2012.

(n) Data from the latest available approved financial statements as at 31 December 2011.

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Appendix III

Preference share issuer subsidiaries

		% of ownership held by the Bank			Millions of euros (a)			
Company	Location	Direct	Indirect	Line of business	Share capital	Reserves	Preference share cost	Net profit (loss) for the year
Banesto Holdings, Ltd. (b)	Guernsey	99.99%	0.00%	INACTIVE	0	1	0	0
Emisora Santander España, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	FINANCE	0	0	3	0
Santander Emisora 150, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	FINANCE	0	1	0	0
Santander Finance Capital, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	FINANCE	0	1	10	0
Santander Finance Preferred, S.A. Sole-Shareholder Company	Spain	100.00%	0.00%	FINANCE	0	3	120	1
Santander International Preferred, S.A. Sole-Shareholder	Spain	100.00%	0.00%	FINANCE	0	0	14	0
Sovereign Real Estate Investment Trust	United States	0.00%	100.00%	FINANCE	4,263	(2,811)	0	34
Totta & Açores Financing, Limited	Cayman Islands	0.00%	99.80%	FINANCE	0	(1)	12	12

(a) Amounts per the books of each company as at 31 December 2014, translated to euros (in the case of foreign companies) at the year-end exchange rates.

(b) Company in liquidation as at 31 December 2014.

Appendix IV

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).

On 3 January 2014, the CNMV registered a notification from Banco Santander which disclosed that Santander Group's ownership interest in BOLSAS Y MERCADOS ESPAÑOLES, SOCIEDAD HOLDING DE MERCADOS Y SISTEMAS FINANCIEROS, S.A. had exceeded 3% on 23 December 2013.

On 8 January 2014, the CNMV registered a notification from Banco Santander which disclosed that Santander Group's ownership interest in BOLSAS Y MERCADOS ESPAÑOLES, SOCIEDAD HOLDING DE MERCADOS Y SISTEMAS FINANCIEROS, S.A. had fallen below 3% on 3 January 2014.

On 3 April 2014, the CNMV registered a notification from Banco Santander which disclosed that Santander Group's ownership interest in BOLSAS Y MERCADOS ESPAÑOLES, SOCIEDAD HOLDING DE MERCADOS Y SISTEMAS FINANCIEROS, S.A. had fallen below 1% on 31 March 2014.

On 14 May 2014, the CNMV registered a notification from Banco Santander which disclosed that Santander Group's ownership interest in OBRASCON HUARTE LAIN, S.A. had exceeded 3% on 6 May 2014.

On 14 May 2014, the CNMV registered a notification from Banco Santander which disclosed that Santander Group's ownership interest in OBRASCON HUARTE LAIN, S.A. had fallen below 3% on 8 May 2014.

On 25 July 2014, the CNMV registered a notification from Banco Santander which disclosed that Santander Group's ownership interest in PROMOTORA DE INFORMACIONES, S.A. had exceeded 5% on 17 July 2014.

On 18 September 2014, the CNMV registered a notification from Banco Santander which disclosed that Santander Group's ownership interest in PROMOTORA DE INFORMACIONES, S.A. had fallen below 5% on 11 September 2014.

Appendix V

Other information on the Group's banks

A) Following is certain information on the share capital of the Group's main banks based on their total assets.

1. Santander UK plc

a) Number of financial equity instruments held by the Group

Santander UK plc has issued 31,051,768,866 ordinary shares with a par value of GBP 0.10 each, amounting to GBP 3,105,176,886.6. On 10 January 2014, Cántabro Catalana de Inversiones, S.A. transferred one ordinary share with a par value of GBP 0.10 to Banco Santander, S.A. for GBP 1. Subsequently, on 1 April 2014, Banco Santander, S.A. transferred 24,117,268,866.6 ordinary shares with a par value of GBP 0.10 each to Santander UK Group Holdings Limited for GBP 2,411,726,886.6. Also, on 1 April 2014, Santusa Holding, S.L. transferred 6,934,500,000 shares with a par value of GBP 0.10 each to Santander UK Group Holdings Limited for GBP 693,450,000. As at 31 December 2014, the Group holds all the ordinary share capital (31,051,768,866 ordinary shares with a par value of GBP 0.10 each, amounting to GBP 3,105,176,886.6) through Santander UK Group Holdings Limited.

On 23 October 1995, Santander UK plc issued 10.0625% exchangeable capital securities amounting to GBP 200,000,000, exchangeable into 200,000,000 10.375% non-cumulative sterling preference shares with a par value of GBP 1 each. At 31 December 2014, the Group held all the 10.0625% exchangeable capital securities (amounting to GBP 200,000,000) through Banco Santander, S.A.

Also, on 23 October 1995, Santander UK plc issued 10.375% non-cumulative sterling preference shares amounting to GBP 100,000,000 with a par value of GBP 1 each, and on 9 February 1996 Santander UK plc issued additional 10.375% non-cumulative sterling preference shares amounting to GBP 100,000,000 with a par value of GBP 1 each. At 31 December 2014, the Group held all the 10.375% non-cumulative sterling preference shares (amounting to GBP 200,000,000) through Banco Santander, S.A.

On 6 June 1997, Santander UK plc issued 8.625% non-cumulative sterling preference shares amounting to GBP 125,000,000 with a par value of GBP 1 each. At 31 December 2014, the Group held all the 8.625% non-cumulative sterling preference shares (amounting to GBP 125,000,000) through Banco Santander, S.A.

On 28 April 2010, pursuant to current legislation, preference shares of Alliance & Leicester Limited (formerly Alliance & Leicester plc) were exchanged for 300,002 redeemable fixed/floating rate series A non-cumulative preference shares of Santander UK plc amounting to GBP 300,002,000, with a par value of GBP 1 each and a liquidation preference of GBP 1,000. On 16 December 2014, Santander UK plc repurchased 265,069 redeemable fixed/floating rate series A non-cumulative preference shares for GBP 265,069,000. At 31 December 2014, 34,933 redeemable fixed/floating rate series A non-cumulative preference shares, amounting to GBP 34,933,000, were still outstanding.

b) Capital increases in progress

No approved capital increases are in progress.

c) Repurchases of share capital authorised by the shareholders at the general meeting

The shareholders at the annual general meeting held on 17 April 2014 resolved to unconditionally authorise the company to carry out the following repurchases of share capital.

1. **The repurchase of its own 8.625% non-cumulative sterling preference shares subject to the following conditions:**

   (a) The company may repurchase up to 125,000,000 of the 8.625% non-cumulative sterling preference shares.

   (b) The lowest price that the company may pay for the 8.625% non-cumulative sterling preference shares will be 75% of the average market price of the preference shares for the five days prior to the purchase; and

   (c) The highest price (excluding costs) that the company may pay for each 8.625% non-cumulative preference sterling share will be 125% of the average market price of the preference shares for the five days prior to the purchase.

It is hereby stated that this authorisation will expire at the date of the company's next annual general meeting unless it is renewed, amended or revoked by the company. However, prior to such expiry, the company may enter into an agreement on the repurchase of its 8.625% preference shares even if the purchase is finalised after this authorisation expires.

2. **The repurchase of its own 10.375% non-cumulative sterling preference shares subject to the following conditions:**

   (a) The company may repurchase up to 200,000,000 of the 10.375% preference shares;

   (b) The lowest price that the company may pay for the 10.375% non-cumulative sterling preference shares will be 75% of the average market price of the preference shares for the five days prior to the purchase; and

   (c) The highest price (excluding costs) that the company may pay for each 10.375% non-cumulative preference sterling share will be 125% of the average market price of the preference shares for the five days prior to the purchase.

It is hereby stated that this authorisation will expire at the date of the company's next annual general meeting unless it is renewed, amended or revoked by the company. However, prior to such expiry, the company may enter into an agreement on the repurchase of its 10.375% preference shares even if the purchase is finalised after this authorisation expires.

3. **The repurchase of its own redeemable fixed/floating rate series A non-cumulative preference shares subject to the following conditions:**

   (a) The company may repurchase up to 300,002 redeemable fixed/floating rate series A non-cumulative preference shares;

   (b) The lowest price that the company may pay for the redeemable fixed/floating rate series A non-cumulative preference shares will be 75% of the average market price of the preference shares for the five days prior to the purchase; and

(c) The highest price (excluding costs) that the company may pay for each of the redeemable fixed/floating rate series A non-cumulative preference shares will be 125% of the average market price of the preference shares for the five days prior to the purchase.

It is hereby stated that this authorisation will expire at the date of the company's next annual general meeting unless it is renewed, amended or revoked by the company. However, prior to such expiry, the company may enter into an agreement on the repurchase of its redeemable fixed/floating rate series A non-cumulative preference shares even if the purchase is finalised after this authorisation expires.

However, prior to such expiry, the company may submit bids or adopt resolutions that could require the allocation of shares and the directors may allocate shares in accordance with any bid or resolution, considering the expiry of the authorisation granted in this resolution.

In accordance with this resolution, any previous authorisations granted to the directors and not exercised for the allocation of shares are hereby revoked and substituted, notwithstanding any allocation of shares or grant of rights already completed, offered or agreed.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

Not applicable.

2. Abbey National Treasury Services plc

a) Number of financial equity instruments held by the Group

The Group holds ordinary shares amounting to GBP 2,549,000,000 through Santander UK plc (2,548,999,999 ordinary shares with a par value of GBP 1 each) and Abbey National Nominees Limited (1 ordinary share with a par value of GBP 1).

The Group also holds 1,000 tracker shares (shares without voting rights but with preferential dividend rights) amounting to GBP 1,000 and 1,000 B tracker shares amounting to GBP 1,000 through Santander UK plc, both with a par value of GBP 1 each.

b) **Capital increases in progress**

No approved capital increases are in progress.

c) **Capital authorised by the shareholders at the general meeting**

Not applicable.

d) Rights on founder's shares, “rights” bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) **Quoted equity instruments**

Not applicable.

3. Banco Santander (Brasil) S.A.

a) Number of equity instruments held by the Group

The Group holds 3,440,170,512 ordinary shares and 3,273,507,089 preference shares through Banco Santander, S.A. and its subsidiaries Sterrebeeck B.V., Grupo Empresarial Santander, S.L., Santander Insurance Holding, S.L. and Banco Madesant - Sociedade Unipessoal, S.A.

The shares composing the share capital of Banco Santander (Brasil), S.A. have no par value and there are no capital payments payable. At 2014 year-end the bank’s treasury shares consisted of 29,611,742 ordinary shares and 29,611,742 preference shares, with a total of 59,223,484 shares.

In accordance with current Bylaws (Article 5.7) the preference shares do not confer voting rights on their holders, except under the following circumstances:

a) In the event of the transformation, merger, consolidation or spin-off of the company.

b) In the event of approval of agreements between the company and the shareholders, either directly, through third parties or other companies in which the shareholders hold a stake, provided that, due to legal or bylaw provisions, they are submitted to a general meeting.

c) In the event of an assessment of the assets used to increase the company's share capital.

d) In the event of the selection of a specialised entity or company to determine the economic value of the company.

e) In the event of a public offering due to a change in control of the company, the holders of preference shares are guaranteed the right to sell the shares at the same price paid for the block of shares that changed hands as part of the change of control, i.e. they are treated the same as shareholders with voting rights.

The General Assembly may, at any moment, decide to convert the preference shares into ordinary shares, establishing a reason for the conversion.

However, the preference shares do have the following advantages (Article 5.6):

a) Their dividends are 10% higher than those on ordinary shares.

b) Priority in the distribution of dividends.

c) Participation, on the same terms as ordinary shares, in capital increases resulting from the capitalisation of reserves and profits and in the distribution of bonus shares arising from the capitalisation of retained earnings, reserves or any other funds.

d) Priority in the reimbursement of capital in the event of the dissolution of the company.

e) In the event of a public offering due to a change in control of the company, the holders of preference shares are guaranteed the right to sell the shares at the same price paid for the block of shares that changed hands as part of the change of control, i.e. they are treated the same as shareholders with voting rights.

b) Capital increases in progress

No approved capital increases are in progress.

c) Capital authorised by the shareholders at the general meeting

The company is authorised to increase share capital, subject to approval by the board of directors, up to a limit of 9,090,909,090 ordinary shares or preference shares, and without the need to maintain any ratio between any of the different classes of shares, provided they remain within the limits of the maximum number of preference shares established by Law.

At present the share capital consists of 7,600,840,325 shares (3,869,849,668 ordinary shares and 3,730,990,657 preference shares).

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

The only restriction on the availability of Banco Santander (Brasil), S.A.'s reserves relates to the legal reserve (restricted reserves), which can only be used to offset losses or to increase capital.

The legal reserve is provided for in Article 196 of the Spanish Public Limited Liability Companies Law, which establishes that before being allocated to any other purpose, 5% of profits must be transferred to the legal reserve, which must not exceed 20% of share capital.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

All the shares are listed on the Brazilian Securities, Commodities and Futures Exchange (BM&FBOVESPA) and the share deposit certificates (units) are listed on the New York Stock Exchange (NYSE).

4. Santander Bank, National Association

a) Number of financial equity instruments held by the Group

At 31 December 2014, the Group held 530,391,043 ordinary shares that carry the same voting and dividend acquisition rights over Santander Holdings USA, Inc. (SHUSA). This holding company and Independence Community Bank Corp. (ICBC) hold 1,237 ordinary shares with a par value of USD 1 each, which carry the same voting rights. These shares constitute all the share capital of Santander Bank, National Association (SBNA).

b) Capital increases in progress

At 31 December 2014 there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting

SHUSA holds an 80.84% ownership interest in SBNA, and the remaining 19.16% belongs to ICBC. ICBC is wholly owned by SHUSA. There is no shareholders' meeting for the ordinary shares of SBNA.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

Class C preference shares are listed on the New York Stock Exchange (NYSE).

5. Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México

a) Number of equity instruments held by the Group

The Group holds a 75% ownership interest in the subsidiary in Mexico through the holding company Grupo Financiero Santander México, S.A.B. de C.V. At 31 December 2014, this holding company and Santander Global Facilities, S.A. de C.V. (Mexico) held 80,848,278,413 ordinary shares that constitute 99.99% of the share capital of Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México.

b) Capital increases in progress

At 31 December 2014 there were no approved capital increases in progress.

c) Capital authorised by the shareholders at the general meeting

The shareholders at the general meeting held on 22 February 2012 resolved to increase the authorised share capital of Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander to MXN 8,085,540,380.30, represented by a total of 80,855,403,803 fully subscribed and paid shares of MXN 0.10 par value each.

d) Rights on founder's shares, bonds or debt issues, convertible debentures and similar securities or rights

(i) At the board of directors meeting held on 22 July 2014 the directors ratified the limits approved at the board meeting held on 17 October 2013 for the issue of debt up to USD 6,500 million in local or international markets. They stipulated that the debt should be senior or subordinated for a maximum term of 15 years and that debt instruments that qualify as capital under current legislation should be included, and resolved that such issue may be instrumented individually or through various issue programmes.

At present, the detail of Banco Santander's debt issue is as follows:

Instrument	Type	Amount	Undrawn balance
Stock-market certificate programme	Revolving	MXN 55 thousand million	MXN 49.2 thousand million
Private structured bank bond certificate	Non-revolving (*)	MXN 20 thousand million	MXN 20 thousand million
Equity instruments (Tier 2 capital)	Non-revolving	USD 1 thousand million	- - -

(*) The issue of private structured bank bonds is non-revolving. Once the amount established in the related certificate is placed, a new certificate is issued for the authorised amount.

The issue of structured bank bonds with subsequent placements was approved for up to MXN 10 thousand million, the equivalent amount in US dollars or in any other currency, for a term of 1 day to 15 years, with the understanding that the bonds may not be redeemed after the term of the related certificate of issue. They may be issued with or without loss of capital, with a public offering and with registration in the Mexican National Securities Register. This issue had not yet been launched at the reporting date.

(ii) At the board of directors meeting held on 17 October 2013 the directors ratified the limits approved at the board meeting held on 26 October 2011 relating to the issue of senior or subordinated debt for a maximum term of 15 years. They also approved including debt instruments that qualify as capital under current legislation and resolved that such issue may be instrumented individually or through various issue programmes. On 13 December 2013, the shareholders at the general meeting approved issue by the bank, pursuant to such limits, of capitalisation instruments qualifying as Tier 2 capital amounting to approximately USD 1,000,000 million.

On 19 December 2013, Banco Santander (Mexico) issued a total of USD 1,300,000,000 in subordinated notes that meet the capital requirements established by Basel III for Tier 2 capital at a rate of 6.125% and maturing in 2023. The Parent of Santander México, Banco Santander, S.A. Spain, resolved to purchase USD 975,000,000, i.e. 75% of the total amount of the notes.

These notes were offered through a private placement to qualified institutional buyers only in accordance with Rule 144A under the US Securities Act of 1933 and subsequent amendments thereto. Outside the US, they were offered in accordance with Regulation S of the Securities Act.

The issue was approved with a view to increasing the efficiency of the bank's capital structure, adapting the bank's profile with regard to capitalisation to that of its competitors and obtaining greater returns on capital with the same strength of capital and capacity for growth of risk-weighted assets.

(iii) The shareholders at the general meeting held on 14 May 2012 ratified the resolution adopted by the shareholders at the extraordinary general meeting held on 17 March 2009, which approved the arrangement of a collective loan from the shareholders for USD 1,000,000,000 through the placement of unsecured subordinated non-preference debentures not convertible into shares. This issue had not yet been launched at the reporting date.

(iv) At the board of directors meeting held on 27 January 2011 the directors approved the general terms and conditions for the issue of senior debt in international markets. This issue of USD 500 million and USD 1,000 million at a five to ten year term was authorised on 18 October 2012. The issue was approved in order to obtain resources to finance the increase of business assets and the management of the Bank's liquidity. As a result of these resolutions adopted by the board of directors, on 9 November 2012, debt amounting to USD 1,000 million was issued.

e) Specific circumstances that restrict the availability of reserves

Pursuant to the Mexican Credit Institutions Law and the general provisions applicable to credit institutions, the Mexican Companies Law and the institutions' own Bylaws, universal banking institutions are required to constitute or increase capital reserves for the purposes of ensuring solvency and protecting payment systems and savers.

The bank increases its legal reserve annually directly from the profit obtained in the year.

The bank must recognise the various reserves as stipulated in the legal provisions applicable to credit institutions. Credit loss reserves are calculated on the basis of the credit rating assigned to each loan and are released when the rating of the related loan improves or when the loan is settled.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

The company does not have any equity instruments quoted on a stock exchange.

6. Banco Santander Totta, S.A.

a) Number of equity instruments held by the Group

The Group holds 656,134,179 ordinary shares through its subsidiaries: Santander Totta, SGPS, S.A. with 641,269,620 shares, Taxagest Sociedade Gestora de Participações Socíais, S.A. with 14,593,315 shares, and Banco Santander Totta, S.A. with 271,244 treasury shares, all of which have a par value of EUR 1 each and identical voting and dividend rights and are subscribed and paid in full.

b) Capital increases in progress

No approved capital increases are in progress.

c) Capital authorised by the shareholders at the general meeting

Not applicable.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

At 31 December 2014, no securities with these characteristics had been issued.

e) Specific circumstances that restrict the availability of reserves

Under Article 296 of the Portuguese Companies' Code, the legal and merger reserves can only be used to offset losses or to increase capital.

Non-current asset revaluation reserves are regulated by Decree-Law 31/98, under which losses can be offset or capital increased by the amounts for which the underlying asset is depreciated, amortised or sold.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

The shares of Banco Santander Totta, S.A. are not listed.

7. Santander Consumer Bank AG

a) Number of financial equity instruments held by the Group

At 31 December 2014, through Santander Consumer Holding GmbH, the Group held 30,002 ordinary shares with a par value of EUR 1,000 each, all of which carry the same voting rights.

***b)* Capital increases in progress**

Not applicable.

***c)* Capital authorised by the shareholders at the general meeting**

Not applicable.

d) Rights on founder's shares, “rights” bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Entities which hold, directly or through subsidiaries, 10% or more of equity

Banco Santander, S.A., Madrid, Spain.
Santander Consumer Finance, S.A., Madrid, Spain.
Santander Consumer Holding GmbH, Mönchengladbach, Germany.

***g)* Quoted equity instruments**

Not applicable.

8. Banco Santander - Chile

a) Number of equity instruments held by the Group

The Group holds a 67% ownership interest in its subsidiary in Chile corresponding to 126,593,017,845 ordinary shares of Banco Santander - Chile through its subsidiaries: Santander Chile Holding S.A. with 66,822,519,695 ordinary shares, Teatinos Siglo XXI Inversiones S.A., with 59,770,481,573 ordinary shares and Santander Inversiones S.A. with 16,577 fully subscribed and paid ordinary shares that carry the same voting and dividend rights.

b) Capital increases in progress

No approved capital increases are in progress.

c) Capital authorised by the shareholders at the general meeting

Share capital at 31 December 2014 amounted to CLP 891,302,881,691.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

At 31 December 2014, no securities with these characteristics had been issued.

e) Specific circumstances that restrict the availability of reserves

Remittances to foreign investors in relation to investments made under the Statute of Foreign Investment (Decree-Law 600/1974) and the amendments thereto require the prior authorisation of the foreign investment committee.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

All the shares are listed on the Chilean stock exchanges and, through American Depositary Receipts (ADRs), on the New York Stock Exchange (NYSE).

9. Bank Zachodni WBK S.A.

a) Number of financial equity instruments held by the Group

At 31 December 2014, Banco Santander, S.A. held 68,880,774 ordinary shares with a par value of PLN 10 each, all of which carry the same voting rights.

b) Capital increases in progress

There were no capital increases in progress at the end of 2014.

c) Capital authorised by the shareholders at the general meeting

The shareholders at the general meeting held on 16 April 2014 approved the capital increase amounting to PLN 3,055,430 through the issue of 305,543 series K bearer ordinary shares with a par value of PLN 10 each.

The shareholders at the general meeting held on 30 June 2014 approved the capital increase amounting to PLN 53,839,020 through the issue of 5,383,902 series L bearer ordinary shares with a par value of PLN 10 each.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

At the general meeting held on 30 June 2014, the shareholders resolved to approve the "Incentive Scheme V" as an initiative to attract, motivate and retain the bank's employees. Delivery of the shares is tied to the achievement of certain targets in the years from 2014 to 2016. The bank considers that the exercise of these rights might give rise to the issuance of more than 250,000 shares.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

All the shares of Bank Zachodni WBK S.A. are listed on the Warsaw stock exchange.

B) The restrictions on the ability to access or use the assets and also to settle the Group's liabilities, as required under paragraph 13 of IFRS 12, are described below.

In certain jurisdictions, restrictions have been established on the distribution of dividends on the basis of the new, much more stringent capital adequacy regulations. However, there is currently no evidence of any practical or legal impediment to the transfer of funds by Group subsidiaries to the Parent in the form of dividends, loans, advances, repatriation of capital or any other means.

Appendix VI

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.

Transitional Provision Two of this law established the obligation for credit institutions to publish, on 1 July 2014, the information relating to a), b) and c) above (an obligation which Banco Santander, S.A. met by publishing the information on its corporate website) and, for systemically important institutions worldwide, the obligation to submit in confidence to the European Commission the information relating to d), e) and f). Banco Santander, S.A. includes in this annual banking report the information submitted in confidence to the European Commission.

Following is a detail of the criteria used to prepare the annual banking report for 2014 and 2013:

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

The aforementioned information is available in Appendices I and III 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 number of Group offices totals 12,951 (the largest commercial network of any international bank) and these offices provide our customers with all their basic financial needs.

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, inter alia, expense deduction, exemptions, relief or deferrals of certain income, 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 and 2013 is as follows:

	2014				2013 (*)	
Jurisdiction	Turnover (millions of euros)	Number of employees	Gross profit or loss before tax (millions of euros)	Tax on profit or loss (millions of euros)	Gross profit or loss before tax (millions of euros)	Tax on profit or loss (millions of euros)
Germany	1,861	4,586	207	102	730	123
Argentina	1,282	6,983	503	153	407	199
Australia	3	5	1	-	1	-
Austria	159	391	53	-	533	-
Bahamas	201	41	60	-	68	-
Belgium	96	125	68	10	117	4
Brazil (1)	11,829	44,325	1,604	410	932	1,033
Chile	3,339	11,907	1,737	279	1,548	193
China	93	151	44	5	11	3
Colombia	21	49	(3)	-	(6)	-
Spain	12,723	30,537	2,926	(315)	2,298	695
United States	6,590	13,830	3,727	(61)	1,084	17
Denmark	119	110	52	8	26	3
Finland	75	132	40	3	38	-
France	62	47	43	10	27	11
Hungary	4	33	(25)	-	(3)	-
Ireland	43	36	38	5	37	7
Isle of Man	14	27	4	-	1	1
Cayman Islands	(1)	-	(1)	-	-	-
Italy	351	731	37	27	(40)	40
Jersey	35	105	16	2	21	2
Morocco	1	-	-	-	-	-
Mexico (2)	4,396	15,542	2,076	243	2,650	666
Norway	384	362	178	21	98	33
The Netherlands	427	203	379	21	304	10
Panama	2	5	-	-	-	-
Peru	56	128	16	6	11	3
Poland	1,707	15,186	791	165	681	129
Portugal (3)	1,071	5,922	293	(38)	151	174
Puerto Rico	467	1,409	142	16	94	37
United Kingdom	9,152	24,394	3,204	248	2,895	154
Singapore	7	9	4	-	(1)	-
Sweden	173	129	81	3	16	4
Switzerland	82	148	35	10	48	19
Uruguay	245	1,184	46	19	62	17
Total	**57,069**	**178,772**	**18,376**	**1,352**	**14,839**	**3,577**
Consolidation adjustments	(14,457)		(7,697)		(7,461)	
Consolidated Group total	**42,612**		**10,679**		**7,378**	

(*) Data submitted in confidence on 1 July 2014 to the European Commission in compliance with Transitional Provision Twelve (transitional arrangements for the annual banking report) of Law 10/2014, of 26 June, on the Regulation, Supervision and Capital Adequacy of Credit Institutions.

(1) Including the information relating to a branch in the Cayman Islands the profits of which are taxed in full in Brazil. The contribution of this branch to profit before tax for 2014 is EUR 306 million (2013: EUR 137 million).

(2) Including the information on a branch in the Bahamas the profits of which are taxed in full in Mexico. In 2014 the contribution of this branch to profit before tax was EUR 10 million (2013: EUR 54 million).

(3) Including the information relating to the branch in the UK, which is taxed both in the UK and in Portugal. In 2014 the contribution of this branch to profit before tax was EUR 165 million (2013: EUR 110 million).

At 31 December 2014, the Group's return on assets (ROA) was estimated at 0.6% (2013: 0.4%).

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Banco Santander, S.A. and Companies composing Santander Group

Consolidated Directors' Report for 2014

This report has been prepared following the recommendations given in the guide for the preparation of management reports of listed companies published by the Spanish Securities Market Commission (CNMV) in September 2013, and is arranged in the nine sections suggested in the guide.

1. SITUATION OF THE ENTITY

1.1 Description

At the end of 2014, the Group was the largest bank in the euro area and the 11th in the world in terms of market capitalisation: EUR 88,041 million.

Its corporate purpose is to engage in all kinds of activities, operations and services that are typical of the banking business in general. Its business model focuses on commercial banking products and services with the objective of meeting the needs of its customers - private individuals, SMEs and businesses, and it serves over 100 million customers in a global network of 12,951 branch offices, which is the biggest in international banking. It has EUR 1,266,000 million in assets and manages funds of EUR 1,428,000 million for all the customer segments. It has 3.2 million shareholders and more than 185,000 employees. Commercial banking accounts for 89% of its income.

The Group is highly diversified and operates in 10 main markets where it has a significant market share. The business is well balanced between developed and emerging markets.

Within the Group organisation, the senior decision-making body is the board of the directors, which has the broadest powers to administer the Bank except with respect to matters for which the general meeting of shareholders has sole responsibility. The board's operating procedures and actions are regulated under the Bank's internal regulations, which are governed by the principles of transparency, efficiency and defence of shareholder interests. The board also monitors compliance with international best practices in corporate governance, and engages fully in the Group's risk taking. In particular, at the proposal of the senior management, it is responsible for establishing and monitoring the Group's risk appetite.

The board has 15 members: five executive directors and ten external directors. Of the latter, nine are independent and 1 is a proprietary director.

The board has set up, as decision-making committees, an executive committee, to which general decision-making powers have been delegated, and an executive risk committee, to which specific risk-related powers have been delegated.

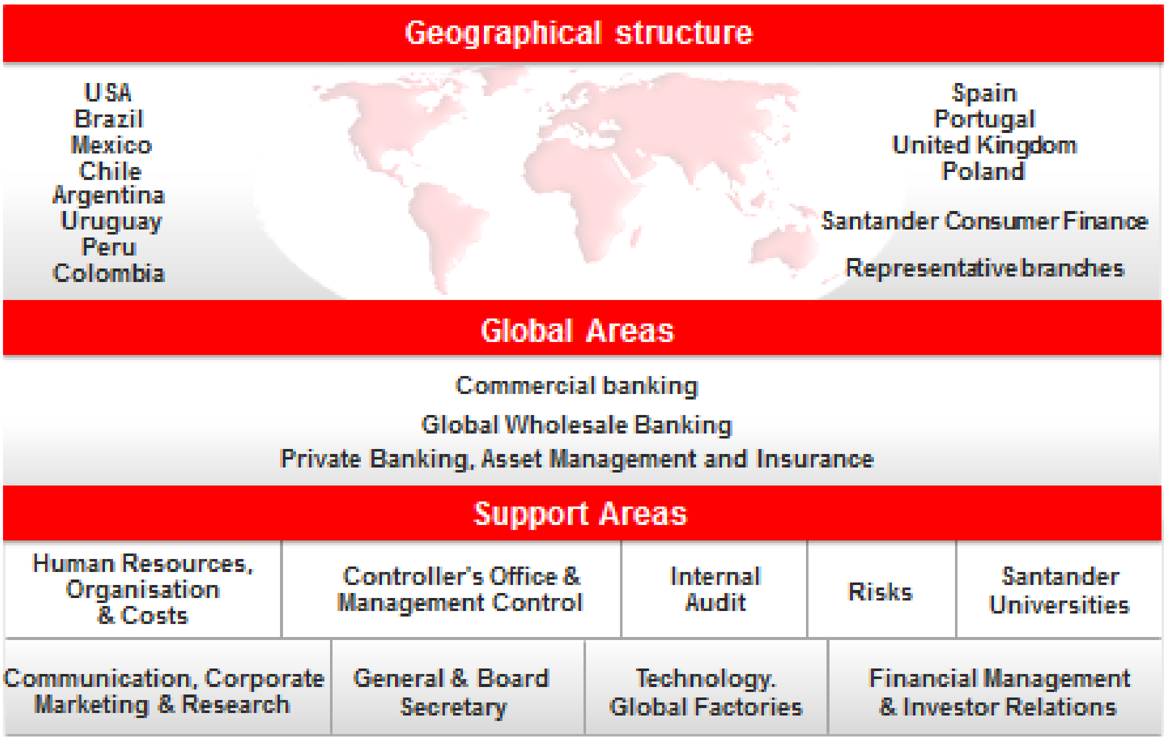
The board also has other committees with supervisory, reporting, advisory and proposal powers (the audit; risk supervision, regulation and compliance; appointments; remuneration; technology; productivity and quality; and international committees).

The model of corporate governance follows a set of principles designed to safeguard the equal rights of shareholders. These include the principle of one share, one vote, one dividend. The Bylaws do not contain any protective measures, and steps are taken to encourage informed participation at shareholders' meetings.

A policy of maximum transparency is also applied, particularly as regards remuneration.

This model of corporate governance is recognised by socially responsible investment indices. The Group has been included in the FTSE4Good and DJSI indices since 2003 and 2000, respectively. Further information on the Bank's administrative structure is provided in Section C of the Annual Corporate Governance Report.

Periodically (usually weekly), meetings are held, which are chaired by the CEO and attended by the second deputy chairman, the executive vice presidents of each division and the country heads, to monitor the various businesses and other important matters concerning the day-to-day running of the Group.



The structure of the operating business areas is presented on two levels:

a) Primary (geographical) level.

This segments the activities of the operating units by geographical region, a view that coincides with the first level of Group management and reflects the positioning of the Group in the three areas of monetary influence in the world (euro, pound sterling and dollar). The segments reported on are:

- Continental Europe, which comprises all the commercial banking, wholesale banking and private banking, asset management and insurance businesses in the region, as well as the real estate operations discontinued business unit in Spain. Detailed financial information is given for Spain, Portugal, Poland and Santander Consumer Finance (which covers all the business in the region, including that of Spain, Portugal and Poland).

- United Kingdom, which includes the commercial banking, wholesale banking and private banking, asset management and insurance business done by the Group's units and branches operating there.

- Latin America. This includes all of the financial business activities that the Group engages in through its banks and subsidiaries in Latin America, as well as the specialised units of Santander Private Banking, which is treated as a globally managed independent unit, and the New York business. Details are provided of the accounts for Brazil, Mexico and Chile.

- This segment includes the businesses of Santander Bank, Santander Consumer USA and Puerto Rico.

There are no customers located in areas other than those in which the Group’s assets are located that generate income exceeding 10% of gross income.

b) Secondary (business) level.

The activities of the operating units are divided by type of business into the following segments: commercial banking, wholesale banking, private banking, asset management and insurance and the real estate operations discontinued in Spain business unit.

- Commercial banking. This contains all of the customer banking businesses, except private banking and corporate banking, which are managed through the Global Relationship Model. Because of their relative importance, details are provided for the main geographical areas (Continental Europe, United Kingdom, Latin America and United States). Also included in this business area are the results of the hedging positions taken in each country within the scope of the relevant ALCO committee.

- Global Wholesale Banking. This segment reflects the income from the global corporate banking, investment banking and markets businesses worldwide, including all the globally managed treasury departments, from both *trading* and distribution to customers (after passing the appropriate share to commercial banking customers), and the equities business.

- Private Banking, asset management and insurance. This includes the contribution to the Group arising from the design and management of the investment funds, pensions and insurance businesses which is made in some cases via wholly-owned separate units, and in others by units in which the Group participates through *joint ventures* with specialists. In all cases these units remunerate the distribution networks they use to market these products (usually, but not exclusively, the Group's) through profit-sharing arrangements. This means that the segment's earnings from this business, for each of the units included (in accordance with the investment in them and the method of consolidation), is the gross income net of the cost of distribution arising out of the profit-sharing arrangements. Also included is the private banking business, comprising the domestic private banking units in Spain, Portugal, Italy, Brazil, Mexico and Chile, where the management is shared with the local banks. It also includes Santander Private Banking in Latin America.

In addition to the operating businesses described above by region and business, the Group also maintains the corporate activities area. This segment includes the centralised management businesses relating to financial investments, the financial management of the Parent’s structural currency position and its structural interest rate risk position and the management of liquidity and equity through issues and securitisations.

As the Group’s *holding* unit, this segment handles the total capital and reserves, capital allocations and liquidity with the other businesses. It also incorporates amortisation of goodwill but not the costs related to the Group's central services, which are charged to the areas, with the exception of corporate and institutional expenses related to the Group's functioning.

Lastly, the Group has a number of support units, such as human resources, organisation and costs, controller's office and management control, internal audit, risks, communication, marketing and research, general and board secretary, technology, and financial management and investor relations.

The function of them all is to ensure that the Group is a cohesive, efficient and productive group, and they are responsible for implementing the Group's corporate policies.

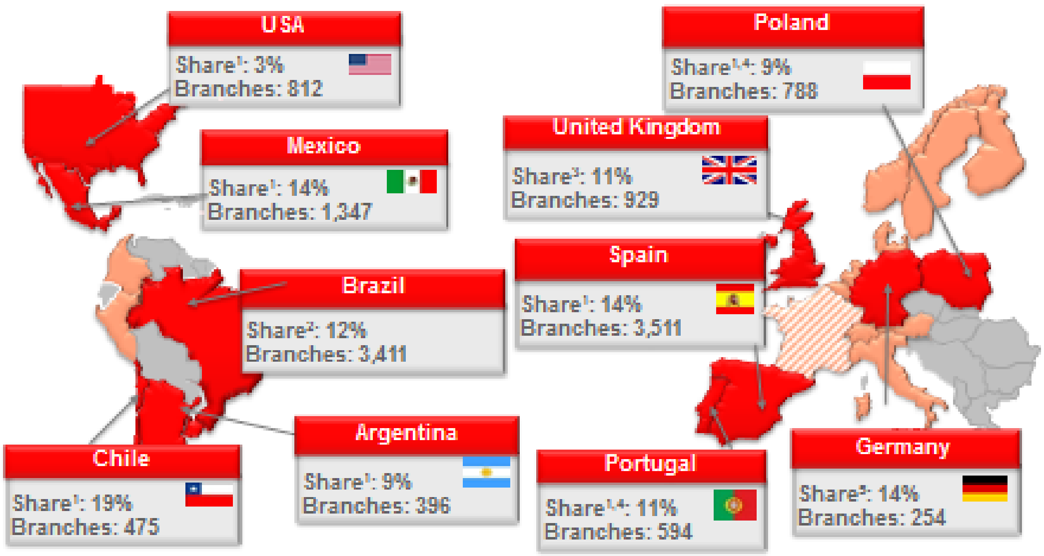
1.2 Mission and business model

The Group's mission is to help people and businesses to progress. To fulfil this mission the Group has a customer-focused business model that is unique among the big international banks.

Diversification, focused on Europe and America

The Group's geographical diversification is balanced among its ten main markets, where its market shares are high: Spain, Germany, Poland, Portugal, the United Kingdom, Brazil, Mexico, Chile, Argentina and the United States. It also has a significant market share in Uruguay and Puerto Rico, consumer finance businesses in other European countries, and operations in China through the wholesale banking and consumer finance business.

The Group also has global business areas which develop products that are distributed in the Group's commercial networks and serve global customers.



Note: Branches do not include consumer business

(1) Lending (2) "Free" lending (3) Including total mortgage loans, UPLs & SMEs
(4) Includes SCF businesses (5) Consumer loans

Focus on commercial banking and customer loyalty

The Group's commercial model focuses on meeting the needs of all types of customers: individuals with different levels of income, businesses of any size in different sectors of activity, private corporations and public institutions. Developing lasting and sustainable relations with them is the Bank's principal objective.

Model of subsidiaries

The Group is structured using a model of subsidiaries that are autonomous in terms of capital and liquidity, which are managed according to local criteria and by local teams with a high level of expertise in their markets. The Group has frameworks for action and corporate policies, shared customer care models, and global control systems. This enables the Group to obtain better results and add more value than would be achieved by the sum of each of the local banks.

Balance sheet strength and prudence in risks

The Group has sound capital that is appropriate for its business model, balance sheet structure, risk profile and regulatory requirements, as confirmed by the results of the ECB's stress test and *asset quality review*. After the capital increase of EUR 7,500 million in January 2015, the Group's capital ratios were on a par with the best international standards.

The Group funds most of its lending with customer deposits, it maintains ample access to wholesale funding, and has available a wide range of instruments and markets for obtaining liquidity.

The Group has a medium-low risk profile and high quality assets.

Innovation

Innovation has been one of the Group's distinguishing features since incorporation. The Group is conducting an intense digital adaptation process in order to anticipate customers' new needs. The improvement in *on-line* banking, mobile banking, the *mobile wallet* and a new strategy for digital payments are examples of this.

The Group's size allows it to identify and quickly and efficiently transfer best practices between the various markets in which it is present, and to adapt them to local peculiarities. Also, in recent years, global value proposals have been launched for high-income customers (Santander Select), for SMEs (Santander Advance) and for companies (Santander Passport).

The Santander team, culture and brand

The Group has more than 180,000 professionals at customers' service. The Group's employees share a culture focused on compliance with its mission.

The Santander brand centralises the Group's identity and expresses a corporate culture and a unique international positioning that is consistent and congruent with a simple, personal and fair way of doing banking worldwide.

The Group's vision

Building on the strengths provided by its business model, the Group's vision is to become the best commercial bank by winning the trust of its employees, customers, shareholders and society in general.

1.3 Economic, regulatory and competitive context

In 2014 the world economy recorded growth of around 3.3%, a rate similar to that achieved the previous year. This similarity conceals two big 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.

With regard to the financial markets, in general financial conditions improved substantially. 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 indices, risk premiums on both government and private debt securities fell considerably, access to capital markets became more fluid and the conditions on 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 fall in commodity prices (especially sharp in the case of oil).

As regards the banking sector environment, the most significant highlight for the banking systems in which the Bank operates was the advance 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.

Before embarking on this task an exhaustive assessment of the banks' assets and liabilities was performed, which signified a turning point in the evolution of European banking and led to increased confidence in the European financial system in the course of the year.

The regulatory agenda was once again intense in 2014. Progress continues to be made in responding to the weaknesses identified in the recent financial crisis.

The regulators worked on the design and implementation of effective crisis management frameworks to enable any institution to be resolved at no cost to taxpayers and without causing systemic risk. At an international level, the Financial Stability Board made progress with the crisis management framework to be applied at global systemically important banks (G-SIBs). The newest element of these frameworks is the requirement for banks to have a minimum loss-absorbing capacity (TLAC) in the event of resolution. A consultation paper was presented in November, and an impact and market assessment study will be undertaken in 2015 in order to finalise the definition and calibration of the requirement by the end of the year.

Another area where there continue to be intensive regulatory activities is the review of the capital consumption frameworks for credit risk, market risk and operational risk, for both the standard and advanced models, being undertaken by the Basel Committee. This work is expected to be completed in 2015 and on its 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.

A summary of the macroeconomic performance and the financial systems of the main countries in which the Group operates is given in the comments made in this report on the geographical units with which it operates.

2. BUSINESS PERFORMANCE AND RESULTS

	2014	2013
BALANCE SHEET (millions of euros)		
Total assets	1,266,296	1,134,128
Loans and advances to customers (net)	734,711	684,690
Customer deposits	647,628	607,836
Customer funds under management & marketed	1,023,437	946,210
Shareholders' equity	80,806	70,327
Total funds managed & marketed	1,428,083	1,270,042
INCOME STATEMENT (millions of euros)		
Net interest income	29,548	28,419
Gross income	42,612	41,920
Pre-provision profit (net operating income)	22,574	21,762
Profit before tax	9,720	7,362
Profit attributable to the Group	5,816	4,175
EPS, NET RETURN AND EFFICIENCY (%)		
Attributable profit per share (euro)	0.479	0.385
RoE (1)	7.0	5.8
RoTE (1)	11.0	9.6
RoA	0.6	0.4
RoRWA	1.3	
Efficiency (incl. depreciation and amortisation)	47.0	48.1
SOLVENCY AND NON-PERFORMING LOANS (%)		
CET1 fully-loaded (2)	9.7	
CET1 phase-in (2)	12.2	
Non-performing loans ratio	5.2	5.6
Non-performing loans coverage ratio	67.2	64.9
SHARES AND CAPITALISATION		
Number of shares (millions)	12,584	11,333
Market price (euro)	6.996	6.506
Market capitalisation (millions of euros)	88,041	73,735
Shareholders' equity per share (euro)	6.42	6.21
Price / Shareholders' equity per share (times)	1.09	1.05
PER (price / earnings per share) (times)	14.59	16.89
OTHER DATA		
Number of shareholders	3,240,395	3,299,026
Number of employees	185,405	186,540
Number of branches	12,951	13,781

(*) Figures adjusted for the backdated application of IFRIC Interpretation 21 – Levies; the taking of control of Santander Consumer USA in early 2014; and the loss of control of the management companies at the end of 2013.

(1).- RoE: Profit attributable to the Group/ (Average capital figure + reserves + retained earnings + valuation adjustments). In 2014, pro forma figure including January 2015 capital increase

(1).- RoTE: Profit attributable to the Group/ (Average capital figure + reserves + retained earnings + valuation adjustments - goodwill - intangible assets). In 2014, pro forma figure including January 2015 capital increase

(2).- In 2014, pro forma figure including January 2015 capital increase

2.1 Review of the year

In 2014 the world economy grew more than 3%, reflecting a revitalisation of the advanced economies, mainly the United Kingdom and the United States, and a moderation of the growth of the emerging countries.

This environment of growth was not without episodes of uncertainty and volatility in the markets. In addition, the banking business was once again affected by interest rates that remain at all-time lows in many economies. Together with this, the new regulatory requirements are also affecting the income and costs of the financial system.

Against this background, Santander Group is focusing its management on taking measures that will make it possible to increase profit and profitability, while maintaining a sound, liquid and low-risk balance sheet.

The highlights of the Group management in 2014 were:

- Strong earnings. In recent years, despite the difficult climate, Santander Group has demonstrated its ability to generate recurring earnings, based on geographical diversification and management approaches adapted to each market. This has made it possible to obtain profits throughout all the years of crisis, and to be well-placed to take advantage of an economic cycle of greater growth.

  Santander Group obtained attributable profit of EUR 5,816 million in 2014, which was 39.3% more than in 2013. This growth was the result of the sound performance of the three main lines of the income statement:

  - Income was up in contrast to the decrease of the previous year, due to the trend of growth of the net interest income and fees and commissions.

  - Costs rose below the Group's average inflation, assisted by the integration processes completed in Spain and Poland, and by the three-year efficiency and productivity plan launched at the end of 2013.

  - Credit loss provisions continued with their process of normalisation and improvement of the cost of credit.

  This growth was also across-the-board geographically, with all of the units increasing their profit before tax in their operating currency.

- Upturn in activity. The performance of volumes reflects the strategy followed by the Group in segments, products and countries.

  The year brought a change in trend in lending which, after falling for two years, rose in 2014, with increases in loans to both individuals and businesses. This growth occurred at nine of the Group's ten big units.

  In customer funds the year also ended with higher growth than in 2013. As with lending, this growth was across-the-board by country, and was combined with a financial cost reduction policy, especially in those countries where interest rates are lowest.

- Advances in the commercial transformation programme, the main planks of which are greater knowledge of the Bank's customers, specialised management in each segment, development of a multichannel distribution model and the ongoing enhancement of customers' experience with the Bank.

  The actions taken include a new commercial *front*, the expansion of the Select model for high-income customers and the launch of the *Advance* programme for SMEs.

- Sound funding and liquidity structure.

  An improved liquidity position has been a priority for the Group's strategy in recent years and it has been achieved thanks to the capacity of the Bank's extensive branch network to raise funds in the retail market, and its broad and diversified access to the wholesale markets through the subsidiaries model.

  In 2014, the ratio of net loans to deposits and that of deposits plus medium- and long-term funding to loans remained within the comfort zones of both the Group and the main units.

  The Group took advantage of the better market climate with lower interest rates to launch longer-term issues, and increased the liquidity reserve to nearly EUR 230,000 million.

  This has enabled it to achieve early compliance with the regulatory ratios at both the Group and main units.

- Improved Group credit quality. The principal risk indicators performed well in the year.

  Most noteworthy was the decrease in net additions to delinquent balances which, disregarding the impact of changes in exchange rates and the scope of consolidation, were down by 51% in the year.

  The non-performing loans ratio improved in all quarters of the year from 5.61% at the end of 2013 to 5.19% at the end of 2014. Spain, Brazil, the United Kingdom and the United States achieved the best performance. The coverage ratio rose by two percentage points to 67%.

- Stronger solvency. The Group ended the year with high levels of capital, that were strengthened by the capital increase of EUR 7,500 million carried out in January 2015.

  After this capital increase, the Group had a CET1 phase-in capital ratio of 12.2% and a fully loaded capital ratio of 9.7%.

  These levels place the Group among the banking groups with the greatest capital strength at international level, taking into account the Bank's business model, geographical diversification, and resilience to adverse stress scenarios.

- Increased profitability. The performance of the income statement and balance sheet resulted in an improvement of the financial management and profitability ratios.

  Specifically, there was a 1.1 percentage-point improvement in the efficiency ratio in the year, taking it to 47% and setting the Bank apart from its competitors. The earnings per share were up by 24%, and the return on tangible equity (RoTE) improved by 1.4 percentage points to 11.0%, including the capital increase.

- In addition, with the objective of achieving a better competitive positioning, the Group undertook a series of initiatives that should be reflected in better future earnings:

  1. The acquisition in Spain by Santander Consumer Finance, S.A. of 51% of Financiera El Corte Inglés, E.F.C, S.A.

  2. The acquisition by Santander Consumer Finance, S.A. of the GE Capital business in Sweden, Denmark and Norway, comprising mainly direct credit and cards.

  3. Master agreement between Santander Consumer Finance and Banque PSA Finance, the vehicle finance unit of the PSA Peugeot Citröen Group, for partnership in different European countries. In January 2015 the relevant regulatory authorisations were obtained for the commencement of activities in France and the United Kingdom.

4. The launch of an offer to acquire non-controlling interests at Banco Santander (Brasil) S.A., accepted by shares representing 13.65% of the share capital, with the result that Santander Group's stake increased to 88.30% of the capital.

5. The acquisition by Banco Santander Brasil of the GetNet company to strengthen the merchant acquiring business.

6. The setting up by Banco Santander Brasil of a *joint-venture* with Banco Bonsucesso to promote payroll business activities, which is expected to be up and running in the first quarter of 2015.

7. An agreement for the acquisition of the listed Canadian company Carfinco, specialising in vehicle finance.

2.2 Earnings

The 2014 earnings performance as compared with 2013 is shown below.

The Group applied IFRIC Interpretation 21 -Levies, which addresses the recognition of obligations to pay levies within the scope of IAS 37. Adoption of the interpretation involved amending the recognition of the contributions made by Santander UK to the *Financial Services Compensation Scheme*, and of the contributions made by the Group's Spanish banks to the Deposit Guarantee Fund. Under the applicable regulations, this change was applied retrospectively by amending the balances for 2013 (impact of EUR -195 million on attributable profit).

Condensed consolidated statements of income

Millions of euros

	2014	2013
Interest and similar income	54,656	51,447
Interest expense and similar charges	(25,109)	(25,512)
NET INTEREST INCOME	**29,547**	**25,935**
Income from equity instruments	435	378
Share of results of entities accounted for using the equity method	243	500
Fee and commission income	12,515	12,473
Fee and commission expense	(2,819)	(2,712)
Gains/(losses) on financial assets & liabilities, net	3,974	3,234
Exchange differences, net	(1,124)	160
Other operating income	5,214	5,903
Other operating expenses	(5,373)	(6,205)
GROSS INCOME	**42,612**	**39,666**
Administrative expenses	(17,899)	(17,452)
Staff costs	(10,242)	(10,069)
Other general administrative expenses	(7,657)	(7,383)
Depreciation & amortisation charge	(2,287)	(2,391)
Provisions, net	(3,009)	(2,445)
Impairment losses on financial assets, net	(10,710)	(11,227)
PROFIT FROM OPERATIONS	**8,707**	**6,151**
Impairment losses on non-financial assets, net	(938)	(503)
Gains/(losses) on disposal of assets not classified as non-current assets held for sale	3,136	2,152
Negative difference on business combinations	17	—
Gains/(Losses) on disposal of non-current assets held for sale not classified as discontinued operations	(243)	(422)
PROFIT BEFORE TAX	**10,679**	**7,378**
Income tax	(3,718)	(2,034)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**6,961**	**5,344**
Profit/(loss) from discontinued operations, net	(26)	(15)
CONSOLIDATED PROFIT FOR THE YEAR	**6,935**	**5,329**
Profit attributable to the parent	5,816	4,175
Profit attributable to non-controlling interests	1,119	1,154

In the statement presented above, the capital gains and write-downs that are considered non-recurring are included in each of the income statement line items where they were recognised due to their nature.

To facilitate understanding of the changes between the two years, below is a condensed income statement that presents these non-recurring capital gains and write-downs for the net amount on a separate line just before the profit attributable to the Group (Extraordinary capital gains and write-downs, net). The capital gains relate to those arising from: the sale of Altamira Asset Management (EUR 385 million, net), the flotation of Santander Consumer USA (EUR 730 million, net), the changes to pension commitments in the United Kingdom (EUR 224 million, net) and the insurance transaction with CNP (EUR 250 million, net). The write-downs relate to restructuring costs, impairment of intangible assets and other write-downs for an aggregate amount, net of taxes, of EUR 1,589 million. The net impact of these amounts on the profit was therefore nil.

Also, in this income statement the financial information for 2013 has been restated to be able to offer a better comparison of the lines, as though the taking of control of Santander Consumer USA in 2014, and the loss of control of the management companies at the end of 2013, had been effective at 1 January 2013. Lastly, this income statement presents certain margins other than those presented in the previous statement, such as the net operating income.

Condensed income statement - Directors' report

Millions of euros

	2014	2013
Net interest income	**29,548**	**28,419**
Net fees and commissions	9,696	9,622
Gains (losses) on financial assets & liabilities	2,850	3,496
Other income	519	383
Gross income	**42,612**	**41,920**
Operating expenses	(20,038)	(20,158)
General administrative expenses	(17,781)	(17,758)
Staff costs	*(10,213)*	*(10,276)*
Other general administrative expenses	*(7,568)*	*(7,482)*
Depreciation and amortisation charge	(2,257)	(2,400)
Net operating income	**22,574**	**21,762**
Credit loss provisions	(10,562)	(12,340)
Impairment losses on other assets	(375)	(524)
Other income and provisions	(1,917)	(1,535)
Ordinary profit before tax	**9,720**	**7,362**
Income Tax	(2,696)	(1,995)
Ordinary profit from continuing operations	**7,024**	**5,367**
Profit/(loss) from discontinued operations, net	(26)	(15)
Ordinary consolidated profit for the year	**6,998**	**5,352**
Profit attributable to non-controlling interests	1,182	1,177
Ordinary profit attributable to the Group	**5,816**	**4,175**
Extraordinary capital gains and write-downs, net	—	—
Profit attributable to the Group	**5,816**	**4,175**

The Group's process of increasing earnings and normalising profitability continued, with attributable profit of EUR 5,816 million obtained in 2014, which represents an increase of 39% on the profit for 2013, already adjusted to the backdated entry into force of IFRIC Interpretation 21 that required early accounting recognition of the contributions made to the deposit guarantee fund, which resulted in a reduction of the 2013 profit by EUR 195 million.

This strong growth is due to the good performance of the main lines of the income statement and to the improvement in earnings of all the business units. Noteworthy is the performance of commercial income, which returned to growth after the fall in 2013, and the trend in reducing credit loss provisions, where there is still scope for further reductions. In addition, costs are contained by the efficiency and productivity plan announced.

Before analysing the performance of the income statement lines, the details of some of the aspects that have affected the year-on-year comparison are as follows:

- A more favourable global macroeconomic climate of recovery, despite the signs of weakness that appeared in some European economies as well as in the emerging economies during the second half of 2014.
- Markets where financial conditions improved, but interest rates remained generally low.
- A more demanding regulatory environment, with impacts in income limitation and increased costs.
- A positive effect on the scope of consolidation of two percentage points arising out of the additions of the El Corte Ingles finance arm, GetNet and the GE Capital consumer finance business in the Nordic countries, as well as the acquisition of non-controlling interests in Brazil in September 2014.
- The impact of the exchange rates of the various currencies against the euro was 4/5 negative percentage points for the Group as a whole in the comparison of income and costs year on year. By major geographical area, the impact was negative in Brazil (-8/-9 percentage points), Mexico (-4 percentage points) and Chile (-14/-15 percentage points), and positive in the United Kingdom (+6 percentage points). In the United States the impact was virtually zero (+0.1 percentage points).

Exchange rates: Parity 1 euro=currency

	Average exchange rate (income statement)	
	2014	2013
US dollar	1.326	1.327
Pound sterling	0.806	0.849
Brazilian real	3.118	2.852
Mexican peso	17.647	16.931
Chilean peso	756.718	656.524
Argentine peso	10.747	7.220
Polish zloty	4.185	4.196

Breakdown of the main lines of the income statement

The most noteworthy aspects of the performance of the income statement year on year were as follows.

Aggregate income totalled EUR 42,612 million, an increase of 1.7% on 2013. Disregarding the exchange rate impact, income rose by 6.2%. This was better quality growth based on increases in the most commercial levers of the income line (net interest income and fees and commissions), together with a fall in the gains on financial assets and liabilities, which accounted for only 7% of the Group's income.

The increase in income was due mainly to the net interest income, which at EUR 29,548 million accounted for 69% of the income, and was up by 4.0% year-on-year.

The table below shows the average balance sheet balances for each year, obtained as the average of the months in the period, which does not differ significantly from obtaining the average of the daily balances. The distinction between domestic and international is based on the domicile of the customer.

Average balance sheet - assets and interest income

ASSETS	2014			2013		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	(in millions of euros, except percentages)					
Cash and balances with central banks						
Domestic	1,737	13	0.75%	6,590	54	0.83%
International	75,567	2,025	2.68%	77,467	2,647	3.42%
	77,304	**2,038**	**2.64%**	**84,057**	**2,701**	**3.21%**
Loans and advances to credit institutions						
Domestic	22,614	98	0.43%	28,206	152	0.54%
International	59,180	1,684	2.85%	58,180	615	1.06%
	81,794	**1,782**	**2.18%**	**86,386**	**767**	**0.89%**
Loans & advances to customers						
Domestic	164,517	5,125	3.12%	178,227	5,755	3.23%
International	542,853	37,050	6.83%	533,458	37,250	6.98%
	707,370	**42,175**	**5.96%**	**711,685**	**43,005**	**6.04%**
Debt securities						
Domestic	44,797	1,582	3.53%	55,497	2,113	3.81%
International	110,741	5,665	5.12%	94,179	4,318	4.58%
	155,538	**7,247**	**4.66%**	**149,676**	**6,431**	**4.30%**
Income from hedging transactions						
Domestic		95			84	
International		198			125	
		293			**209**	
Other interest-earning assets						
Domestic	41,774	689	1.65%	60,757	677	1.11%
International	33,829	432	1.28%	41,299	453	1.10%
	75,603	**1,121**	**1.48%**	**102,056**	**1,130**	**1.11%**
Total interest-earning assets						
Domestic	275,439	7,602	2.76%	329,277	8,836	2.68%
International	822,170	47,054	5.72%	804,583	45,407	5.64%
	1,097,609	**54,656**	**4.98%**	**1,133,860**	**54,243**	**4.78%**
Investments in Group companies						
Domestic	1,630	-	0.00%	1,223	-	0.00%
International	1,969	-	0.00%	1,521	-	0.00%
	3,599	**-**	**0.00%**	**2,744**	**-**	**0.00%**
Total earning assets						
Domestic	277,069	7,602	2.74%	330,500	8,836	2.67%
International	824,139	47,054	5.71%	806,104	45,407	5.63%
	1,101,208	**54,656**	**4.96%**	**1,136,604**	**54,243**	**4.77%**
Other assets	**102,052**			**93,562**		
Assets from discontinued operations	**-**			**-**		
Average total assets	**1,203,260**	**54,656**		**1,230,166**	**54,243**	

The average balance of earning assets in 2014 was EUR 1,101,000 million, which was 3% less than in 2013.

This decrease occurred in the domestic component, within which the biggest drops were in Other interest-earning assets and Loans and advances to customers; the latter, due both to the reduction that occurred in 2013 which lowers the starting point for 2014, and the balances of the real estate operations discontinued in Spain business unit, which continued to fall over the past year.

Conversely, the balances of the international component were generally up.

The average return on total earning assets rose by 19 basis points to 4.96%.

Average balance sheet - liabilities and interest expense

LIABILITIES & SHAREHOLDERS' EQUITY	2014			2013		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	(in millions of euros, except percentages)					
Deposits from credit institutions						
Domestic	16,211	225	1.39%	23,617	381	1.61%
International	116,761	1,980	1.70%	110,411	1,687	1.53%
	132,972	**2,205**	**1.66%**	**134,028**	**2,068**	**1.54%**
Customer deposits						
Domestic	170,327	1,629	0.96%	173,833	3,053	1.76%
International	459,133	11,787	2.57%	458,506	11,752	2.56%
	629,460	**13,416**	**2.13%**	**632,339**	**14,805**	**2.34%**
Marketable debt securities						
Domestic	68,571	2,242	3.27%	83,445	2,993	3.59%
International	122,029	4,602	3.77%	115,878	4,058	3.50%
	190,600	**6,844**	**3.59%**	**199,323**	**7,051**	**3.54%**
Subordinated liabilities						
Domestic	9,540	407	4.27%	8,547	496	5.80%
International	7,762	677	8.72%	8,098	764	9.43%
	17,302	**1,084**	**6.27%**	**16,645**	**1,260**	**7.57%**
Other interest-bearing liabilities						
Domestic	57,956	917	1.58%	75,458	962	1.27%
International	55,522	1,189	2.14%	57,827	1,068	1.85%
	113,478	**2,106**	**1.86%**	**133,285**	**2,030**	**1.52%**
Expenses from hedging transactions						
Domestic		-388			-1,138	
International		-158			-253	
		-546			**-1,391**	
Total interest-bearing liabilities						
Domestic	322,605	5,032	1.56%	364,900	6,748	1.85%
International	761,207	20,077	2.64%	750,720	19,076	2.54%
	1,083,812	**25,109**	**2.32%**	**1,115,620**	**25,824**	**2.31%**
Other liabilities	**34,593**			**32,358**		
Non-controlling interests	**9,808**			**10,679**		
Shareholders' equity	**75,047**			**71,509**		
Liabilities from discontinued operations	**-**			**-**		
Total average liabilities and shareholders' equity	**1,203,260**	**25,109**		**1,230,166**	**25,824**	

The average balance of interest-bearing liabilities in 2014 was EUR 1,084,000 million, which was 3% less than in 2013, with practically no change in their average cost (2.32%), since the sharp fall in the cost of domestic deposits (-80 basis points) was offset by the lower results of the hedging transactions.

The main reason for the drop in balances, as in the case of assets, was the domestic component, as a result of the decrease in marketable securities and other interest-bearing liabilities due to the fall in the outstanding average balances of wholesale funds, after the parent entity raised an amount that was lower than the maturities and amortisations booked in the year. In the international component, balances were up.

The changes in income and expense shown in the table below are calculated and attributed mainly to:

- The change in volume, which is obtained by applying the previous period's interest rate to the difference between the average balances of the present and previous periods.

- The change in interest rate, which is obtained by applying to the average balance for the previous year the difference between the rates of the present and previous periods.

Distinguishing between interest income and interest expense reveals that:

- Interest income rose by EUR 413 million, with a greater impact from the variation in volume (up by EUR 270 million) than in interest rates (up by EUR 143 million), both due to the international segment.

- Interest expense was down by EUR 714 million due to the interest rate effect (EUR -956 million), mostly as a result of the lower cost of customer deposits, which amply offset the higher cost by volume (EUR +242 million).

The net result is an increase of EUR 1,127 million, most of which (EUR 1,099 million) was due to the interest rate effect, as a result of the fall in the cost of deposits.

Interest income	2014/2013 Increase (decrease) due to changes in:		
	Volume	Type	Net variation
	(in millions of euros)		
Cash and balances with central banks			
Domestic	(37)	(5)	(42)
International	(63)	(558)	(621)
	(100)	**(563)**	**(663)**
Loans and advances to credit institutions			
Domestic	(27)	(27)	(54)
International	11	1,058	1,069
	(16)	**1,031**	**1,015**
Loans & advances to customers			
Domestic	(432)	(198)	(630)
International	650	(850)	(200)
	218	**(1,048)**	**(830)**
Debt securities			
Domestic	(385)	(145)	(530)
International	811	536	1,347
	426	**391**	**817**
Other interest-earning assets			
Domestic	(252)	264	12
International	(89)	68	(21)
	(341)	**332**	**9**
Total interest-earning assets excl. hedging transactions			
Domestic	(1,133)	(111)	(1,244)
International	1,320	254	1,574
	187	**143**	**330**
Income from hedging transactions			
Domestic	10	0	10
International	73	0	73
	83	**0**	**83**
Total interest-earning assets			
Domestic	(1,123)	(111)	(1,243)
International	1,393	254	1,647
	270	**143**	**413**

Interest expense	2014/2013 Increase (decrease) due to changes in:		
	Volume	Type	Net variation
	(in millions of euros)		
Deposits from credit institutions			
Domestic	(108)	(48)	(156)
International	101	192	293
	(7)	**144**	**137**
Customer deposits			
Domestic	(60)	(1,364)	(1,424)
International	16	19	35
	(44)	**(1,345)**	**(1,389)**
Marketable debt securities			
Domestic	(502)	(249)	(751)
International	222	322	544
	(280)	**73**	**(207)**
Subordinated liabilities			
Domestic	53	(142)	(89)
International	(31)	(56)	(87)
	22	**(198)**	**(176)**
Other interest-bearing liabilities			
Domestic	(250)	205	(45)
International	(44)	165	121
	(294)	**370**	**76**
Total interest-bearing liabilities excl. hedging transactions			
Domestic	(867)	(1,598)	(2,465)
International	264	642	906
	(603)	**(956)**	**(1,559)**
Expenses from hedging transactions			
Domestic	750	0	750
International	95	0	95
	845	**0**	**845**
Total interest-bearing liabilities			
Domestic	(117)	(1,598)	(1,715)
International	359	642	1,001
	242	**(956)**	**(714)**

Excluding the impact of exchange rates, the net interest income was up by 8.8% year on year because of the across-the-board improvement in all of the countries except Brazil, which was affected by a change in mix towards products that carry less risk but also are less profitable. Elsewhere, the biggest growth was recorded in Spain, United Kingdom, United States and Chile.

Continuing with the performance of earnings, fees and commissions amounted to EUR 9,696 million, an increase of 0.8% in euros, and of 5.4% disregarding the effects of changes in exchange rates. This line was affected by the fall in activity in some markets both as a result of the economic climate and because of regulatory impacts in some countries on the fees and commissions from insurance and cards, due to the restrictions on interchange fees. Broken down, the best performance was that of fees and commissions from investment funds, securities and custody services, advisory services and the direction of transactions, and currency exchange.

The aggregate net interest income and income from fees and commissions was up by 7.9%, disregarding the exchange rate effect, and accounted for 92% of the Group's total income (91% in 2013).

Gains on financial assets and liabilities were down by 18.5%, due to the lower net gains obtained in the wholesale banking business and in the management of the ALCO portfolio.

Other operating income and expenses totalled EUR 519 million, an increase of EUR 136 million (35.5%). This growth is the net amount of the following variations: an increase of EUR 57 million in the returns on equity instruments; an increase of EUR 119 million in Other operating income and expenses, mainly as a result of the increased generation of leasing transactions in the United States; and a fall of EUR 39 million in the share of results of entities accounted for using the equity method as a result of the decrease in the scope of consolidation in the asset management business.

Operating costs were down by 0.6% year-on-year. Excluding the effects of changes in exchange rates, they were up by 3.0%, and by 2.2% excluding the effect of changes in the scope of consolidation, an increase that was more than one percentage point below the increase in the average rate of inflation in the jurisdictions in which the Group operates (3.6%). This is the result of the three-year efficiency and productivity plan announced at the end of 2013, which has made it possible to save over EUR 1,100 million in its first year. Some of these savings will be spent on investing to increase the productivity of the business.

By units, the performance in costs differed in the year:

- There was a first bloc of units engaged in integration processes (Spain and Poland) or structural adjustments (Portugal), where there were nominal decreases. Brazil also performed excellently, illustrating the effort that is being made in efficiency enhancement plans, which was reflected in a nominal increase of 1.0% (-0.6% excluding the effect of changes in the scope of consolidation) as compared with an inflation rate of over 6%.

- In a second bloc, the United Kingdom is reconciling investments in its commercial digital transformation plan and its branches with efficiency enhancements, as is Chile.

- Lastly, there were bigger increases in Mexico and Argentina because of their plans for expansion or improved commercial capacity, and in the United States, which is engaged in a process of enhancing the Santander Bank franchise and adapting to the regulatory requirements, costs rose by 7.6%.

The evolution of income and expenses is reflected in a one percentage point improvement in the efficiency ratio year on year to 47%, a ratio that compares very favourably with the Bank's principal European and US competitors.

As a result, the net operating income (pre-provision profit) obtained was EUR 22,574 million, an increase of 3.7% year on year (an increase of 9.1% excluding the exchange rate impact).

Credit loss provisions stood at EUR 10,562 million, which was 14.4% less than a year ago. Excluding the exchange rate impact, provisions were down by 10.5%. By unit, the main reductions were in the United Kingdom (-45.7%), Spain (-27.6%), Brazil (-17.7%) and Portugal (-35.7%) due to the improved macroeconomic situation and the management of the balance sheet. Of the remaining large units, the only significant increase was in the United States as a result of the higher provisions booked by Santander Consumer USA Holdings, Inc, partly because of the increased volume of business after the agreement with Chrysler.

Impairment losses on other assets and Other income were negative by an amount of EUR 2,292 million (EUR 2,059 million in 2013).

Accordingly, the profit before tax was EUR 9,720 million, 32.0% more than in 2013.

After taking into account taxes, discontinued operations and non-controlling interests, the attributable profit was up by 39.3% to EUR 5,816 million (up by 49.3% excluding the exchange rate effect).

The earnings per share in 2014 were EUR 0.48 (24.4% more than in 2013). This performance was affected by the increase in the number of shares made to meet the payment of the dividend-equivalent amounts for shareholders who chose the option of receiving Santander shares.

The RoE (the profit attributed to the Group as a percentage of equity plus valuation adjustments) was 7.0%, the RoTE was 11.0%, in both cases considering the capital increase of EUR 7,500 million in January 2015 to be effective as though it had been in place throughout the year. The RoRWA was 1.3%. All of these figures are improvements on those obtained in 2013.

2.3 Balance sheet

Below is the condensed balance sheet as at 31 December 2014, compared with that as at 31 December 2013.

With the application of IFRIC Interpretation 21 as mentioned earlier, in addition to the impact on the income statement there was an impact on the Group's reserves of EUR -65 million in 2013.

Consolidated condensed balance sheet

Millions of euros

	31.12.14	31.12.13
Assets		
Cash and balances with central banks	69,428	77,103
Financial assets held for trading	148,888	115,289
Other financial assets at fair value through profit or loss	42,673	31,381
Available-for-sale financial assets	115,250	83,799
Loans and receivables	781,635	714,484
Held-to-maturity investments	—	—
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	1,782	1,627
Hedging derivatives	7,346	8,301
Non-current assets held for sale	5,376	4,892
Investments	3,471	5,536
Associates	1,775	1,829
Jointly-controlled companies	1,696	3,707
Insurance contracts linked to pensions	345	342
Reinsurance assets	340	356
Tangible assets	23,256	13,654
Property, plant and equipment	16,889	9,974
Investment property	6,367	3,680
Intangible assets	30,401	26,241
Goodwill	27,548	23,281
Other intangible assets	2,853	2,960
Tax assets	27,956	26,944
Current	5,792	5,751
Deferred	22,164	21,193
Other assets	8,149	5,811
TOTAL ASSETS	**1,266,296**	**1,115,763**
Liabilities and equity		
Financial liabilities held for trading	109,792	94,673
Other financial liabilities at fair value through profit or loss	62,317	42,311
Financial liabilities at amortised cost	961,052	863,114
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	31	87
Hedging derivatives	7,255	5,283
Liabilities associated with non-current assets held for sale	21	1
Liabilities under insurance contracts	713	1,430
Provisions	15,376	14,589
Tax liabilities	9,379	6,079
Current	4,852	4,254
Deferred	4,527	1,825
Other liabilities	10,646	8,554
TOTAL LIABILITIES	**1,176,582**	**1,036,121**
Shareholders' equity	91,663	84,480
Share capital	6,292	5,667
Share premium	38,611	36,804
Reserves	41,160	38,056
Other equity instruments	265	193
Less: Treasury shares	(10)	(9)
Profit for the year attributable to the Parent	5,816	4,175
Less: Dividends & remuneration	(471)	(406)
Valuation adjustments	(10,858)	(14,152)
Available-for-sale financial assets	1,560	35
Cash flow hedges	204	(233)
Hedges of net investments in foreign operations	(3,570)	(1,874)
Exchange differences	(5,385)	(8,768)
Non-current assets held for sale	—	—
Entities accounted for using the equity method	(85)	(446)
Other valuation adjustments	(3,582)	(2,866)
Non-controlling interests	8,909	9,314
Valuation adjustments	(655)	(1,541)
Other	9,564	10,855
TOTAL EQUITY	**89,714**	**79,642**
TOTAL LIABILITIES AND EQUITY	**1,266,296**	**1,115,763**
Memorandum items		
Contingent liabilities	44,078	41,049
Contingent commitments	208,040	172,797

As with the income statement, the balance sheet is presented below restated for the prior periods in order to facilitate better comparison of the management actions taken. The restatement is the result of assuming that the taking of control of Santander Consumer USA in 2014, and the loss of control of the management companies at the end of 2013 were both effective as at 31 December 2013.

Condensed balance sheet - Directors' report

Millions of euros

	31.12.14	31.12.13
Assets		
Cash and balances with central banks	69,428	77,103
Financial assets held for trading	148,888	115,309
Debt instruments	54,374	40,841
Loans and advances to customers	2,921	5,079
Equity instruments	12,920	4,967
Trading derivatives	76,858	58,920
Loans and advances to credit institutions	1,815	5,503
Other financial assets at fair value	42,673	31,441
Loans and advances to customers	8,971	13,255
Other (loans and advances to credit institutions, debt instruments and other equity instruments)	33,702	18,185
Available-for-sale financial assets	115,251	83,799
Debt instruments	110,249	79,844
Equity instruments	5,001	3,955
Loans and receivables	781,635	731,420
Loans and advances to credit institutions	51,306	57,178
Loans and advances to customers	722,819	666,356
Debt instruments	7,510	7,886
Investments	3,471	3,377
Tangible and intangible assets	26,109	18,137
Goodwill	27,548	24,263
Other assets	51,293	49,279
Total assets	**1,266,296**	**1,134,128**
Liabilities and equity		
Financial liabilities held for trading	109,792	94,695
Customer deposits	5,544	8,500
Marketable debt securities	—	1
Trading derivatives	79,048	58,910
Other	25,200	27,285
Other financial liabilities at fair value	62,318	42,311
Customer deposits	33,127	26,484
Marketable debt securities	3,830	4,086
Deposits from central banks and credit institutions	25,360	11,741
Financial liabilities at amortised cost	961,053	880,115
Deposits from central banks and credit institutions	122,437	92,390
Customer deposits	608,956	572,853
Marketable debt securities	193,059	182,234
Subordinated liabilities	17,132	16,139
Other financial liabilities	19,468	16,499
Liabilities under insurance contracts	713	1,430
Provisions	15,376	14,599
Other liabilities	27,331	20,680
Total liabilities	**1,176,581**	**1,053,830**
Shareholders' equity	91,664	84,479
Share capital	6,292	5,667
Reserves	80,026	75,044
Profit attributable to the Group	5,816	4,175
Less: Dividends & remuneration	*(471)*	*(406)*
Valuation adjustments	(10,858)	(14,153)
Non-controlling interests	8,909	9,972
Total equity	**89,714**	**80,298**
Total liabilities and equity	**1,266,296**	**1,134,128**

On the Group balance sheet as at 31 December 2014, the total business managed and marketed by the Group was EUR 1,428,083 million. Of this amount, EUR 1,266,296 million (89%) related to on-balance-sheet assets and the remainder to investment funds, pension funds and assets under management.

The performance of balances in the year was significantly impacted by the fluctuations in the exchange rates of the currencies in which the Group operates. Thus, taking into account year-end exchange rates, the US dollar rose by 14%, sterling by 7% and the Brazilian real and Mexican peso by around 1% each. The Chilean and Argentine pesos and the Polish zloty fell by 2%, 13% and 3%, respectively. Overall, this led to a positive impact of 3-4 percentage points on the year-on-year variations in lending to customers and customer funds.

Exchange rates: Parity 1 euro=currency

	Final exchange rate (balance sheet)	
	31.12.14	31.12.13
US dollar	1.214	1.379
Pound sterling	0.779	0.834
Brazilian real	3.221	3.258
Mexican peso	17.868	18.073
Chilean peso	737.323	724.579
Argentine peso	10.277	8.990
Polish zloty	4.273	4.154

The change in the scope of consolidation had a positive effect on lending of less than one percentage point due to the addition to the Group of the El Corte Inglés finance arm and the GE business in the Nordic countries, both of them in the Santander Consumer Finance unit.

The Group's gross lending to customers amounted to EUR 761,928 million as at 31 December 2014, an increase of 7% year on year. Disregarding the effect of exchange rate variations and excluding reverse repos, the balances were up by 5%, with steady improvement in all four quarters of the year.

Loans and advances to customers

Millions of euros

	31.12.14	31.12.13
Loans to the Spanish public sector	17,465	13,374
Loans to other residents	154,905	160,478
Commercial credit	7,293	7,301
Secured loans	96,426	96,420
Other loans	51,187	56,757
Loans to the non-resident sector	589,557	537,587
Secured loans	369,266	320,629
Other loans	220,291	216,958
Loans and advances to customers (gross)	**761,928**	**711,439**
Credit loss allowance	27,217	26,749
Loans and advances to customers (net)	**734,711**	**684,690**
Memorandum items: Doubtful assets	40,424	41,088
Public sector	167	99
Other resident sectors	19,951	21,763
Non-residents	20,306	19,226

Loans maturing in over 1 year at 31 December 2014

	Domestic		International		TOTAL	
	Amount (millions of euros)	% of total	Amount (millions of euros)	% of total	Amount (millions of euros)	% of total
Fixed rate	23,107	18%	242,153	54%	265,260	46%
Floating rate	103,009	82%	207,454	46%	310,463	54%
TOTAL	**126,116**	**100%**	**449,607**	**100%**	**575,723**	**100%**

At 2014 year end, of the total gross lending to customers maturing in over 1 year, 54% was linked to floating interest rates and the remaining 46% was linked to fixed rates. The geographical breakdown of these loans reveals that:

- In Spain, 82% of the loans were floating rate and 18% were fixed rate.
- 46% of loans granted outside Spain were floating rate and 54% were fixed rate.

The breakdown by activity of loans and advances to customers can be found in Note 10.b of the notes to the accompanying consolidated financial statements.

The breakdown by geographical region of the variations in gross lending to customers, excluding reverse repos, in 2014 was as follows.

In Continental Europe, performance varied depending on the unit. There were decreases in Portugal (-5%), still affected by the low demand for credit, and in the real estate operations discontinued in Spain (-34%), where the strategy continued to be that of reducing this type of risk. In contrast, there were increases at Santander Consumer Finance (+9%), somewhat favoured by the increase in the scope of consolidation, in Poland (+7%), with good performance by both product and segment, and in Spain (+2%), where the trend of recent years was reversed due to the growth in businesses and public authorities.

The United Kingdom was up by 3% in sterling in the year, and Latin America overall was up by 12% year on year in constant currency, with significant advances in all of the countries: Brazil (+10%), Mexico (+18%), Chile (+8%), Argentina (+23%), Uruguay (+17%), and Peru (+28%).

Lastly, the United States was up by 4% in dollars, impacted by the securitisations and sales of assets in the second half of the year.

As a result, at year end Continental Europe accounted for 37% of the Group's net lending to customers (Spain: 22%). The United Kingdom accounted for 34%, Latin America for 20% (Brazil: 10%) and the United States accounted for the remaining 9%.

As for the liability side of the balance sheet, the customer funds under management, including investment funds, pension funds and assets managed, totalled EUR 1,023,437 million, an increase on December 2013 of 8%. Disregarding the impact of exchange rates, the increase was 5%.

The general strategy followed was to grow demand accounts, reduce costly liabilities and market investment funds. The result was a 9% increase in demand accounts (with growth at all ten main units), a 5% decrease in time deposits and growth of 18% in investment funds.

Considering all these items, i.e. customer deposits excluding repos and investment funds, the increase was 9% (+6% excluding the impact of exchange rates).

Customer funds under management & marketed
Millions of euros

	31.12.14	31.12.13
Resident public sector	9,349	7,745
Other resident sectors	163,340	161,649
Demand deposits	88,312	74,969
Time deposits	67,495	80,146
Other deposits	7,532	6,535
Non-resident sector	474,939	438,442
Demand deposits	273,889	230,715
Time deposits	151,113	161,300
Other deposits	49,937	46,427
Customer deposits	**647,628**	**607,836**
Marketable debt securities	196,890	186,321
Subordinated liabilities	17,132	16,139
On-balance sheet customer funds	**861,649**	**810,296**
Investment funds	124,708	103,967
Pension funds	11,481	10,879
Assets under management	25,599	21,068
Other customer funds under management & marketed	**161,788**	**135,914**
Customer funds under management & marketed	**1,023,437**	**946,210**

Broken down by geographical region, in Continental Europe performance at the main units was as follows. Spain is a clear example of the strategy followed by the Group in the year: total funds increased by 5% year on year, with an advance of 25% in demand accounts and 28% in investment funds; time deposits were down by 22%.

In Portugal total customer funds grew by 5% (+4% rise in customer deposits excluding repos, due to demand accounts, and 21% increase in investment funds). In Poland, in local currency, deposits were up by 12%, while there was no change in investment funds, taking total growth to 10%. Lastly, at Santander Consumer Finance there was a 2% fall in deposits due to the policy of reducing the more costly deposits in Germany, which accounted for 81% of the deposits of the region.

In the United Kingdom customer deposits excluding repos (in pounds sterling) were up by 3% due to the strategy of replacing more costly and volatile deposits with others with greater potential for customer loyalty. Accordingly, demand deposits grew by 24% year on year due to the increase in demand accounts as a result of the marketing of products in the 1|2|3 range, which compensated for the reduction in time deposits. Investment funds fell by 8%.

In Latin America there was a 14% increase in constant currency in total deposits excluding repos and including investment funds. Broken down: Brazil was up 12%; Mexico, 13%; Chile, 17%; Argentina, 37%; Uruguay, 18%, and Peru, 32%.

Lastly, in the United States total customer deposits excluding repos and investment funds were up by 6%. Broken down, deposits rose by 5% with a trend of improvement in both composition and cost similar to that shown by other units (demand: +7%; time: -10%). Investment funds were up by 79% on a small base.

In addition to the foregoing advances, pension funds were up by 5% in Spain and 7% in Portugal, the only countries where this product is marketed.

By major segments, Continental Europe accounted for 36% of customer funds under management (Spain: 25%), the United Kingdom for 30%, Latin America for 27% (Brazil: 15%) and United States the remaining 7%.

This performance of loans and deposits meant that at year end the loan-to-deposit ratio was 113%, within the Group's comfort zone (of around 120% or less).

In addition to attracting customer deposits, the Group considers it to be of strategic value to maintain a selective policy of issuance on the international bond markets, and endeavours to adapt the frequency and volume of market operations to both the structural liquidity requirements of each unit and the receptivity of each market.

In 2014, there were medium- and long-term issues of senior debt amounting to EUR 26,423 million and covered mortgage bonds amounting to EUR 7,711 million. As regards securitisation activities, in 2014 the Group's subsidiaries placed several issues on the market for a total amount of EUR 13,391 million, mainly through the consumer finance units. In turn, in the Group as a whole there were medium- and long-term debt maturities and repayments in 2014 totalling EUR 33,765 million that were broken down as follows: senior debt amounting to EUR 20,111 million; covered bonds amounting to EUR 10,175 million, subordinated debt amounting to EUR 1,731 million and preferred debt amounting to EUR 1,749 million.

As for finance from central banks, in 2014 the Group took part in the two targeted longer term refinancing operations (TLTRO) dependent on the volume and performance of non-mortgage loans that were conducted by the European Central Bank. The aggregate take-up of liquidity at both auctions, through the banks in Spain, Portugal and SCF, was EUR 8,200 million.

Regarding other balance sheet items, goodwill totalled EUR 27,548 million, which was EUR 3,284 million more than in 2013, due to Santander Consumer USA Holdings Inc, the additions of Getnet and the GE business in the Nordic countries, and the variations in exchange rates, particularly those of the dollar and sterling.

The financial assets available for sale totalled EUR 115,251 million, which was EUR 31,452 million (38%) more than at the end of 2013, due to the increase in bond positions in Spain, Portugal, the United Kingdom, Brazil and the United States.

Available-for-sale financial assets

Millions of euros

	31.12.14	31.12.13
Debt instruments	110,249	79,844
Equity instruments	5,001	3,955
Total	**115,251**	**83,799**

Information about the valuation adjustments generated by the available-for-sale financial assets can be found in Note 29.a as of the notes to the accompanying consolidated financial statements.

2.4 Business Areas

Continental Europe

Continental Europe includes all the commercial banking, global wholesale banking, private banking and asset management and insurance business activities carried on in this geographical area, as well as the real estate operations discontinued in Spain business unit.

Environment and strategy

In 2014 the Continental Europe units operated in an environment of moderate growth, with significant differences by country, and low interest rates. The system's high liquidity facilitated corporate issues and made it easier for businesses and households to access bank credit. However this did not prevent a further decline in lending in the euro area (-1.5% year on year as at October), reflecting the deleveraging of some economies and the disintermediation. Deposits of businesses and households grew by around 3%.

The integrations of the commercial networks in Spain and the banks in Poland were completed against this backdrop. In addition, the general strategic lines of recent years remained the same: to protect the spreads of both loans and deposits, reduce the cost of deposits at all the units in the region, control costs, harness synergies and actively manage risks.

Impetus was also given to actions directed at boosting lending in segments considered strategic, particularly those of SMEs and businesses.

Business activities and earnings

Lending excluding reverse repos was up by 2% in 2014 due to the performance in Spain, Poland and Santander Consumer. Conversely, there was a fall in Portugal and, particularly, at the real estate operations discontinued in Spain business unit.

Deposits excluding repos were up by 2% year on year, reflecting the cost reduction policy and the increased marketing of investment funds, which were up by 24%. In addition, pension funds grew by 6%.

In earnings, there was a 2.9% increase in income, supported by the net interest income (+7.7%), which was impacted favourably by the across-the-board reduction in the cost of deposits posted at all the units. Fees and commissions were up by 1.1%, despite still reflecting the effect of customers from Banesto joining the *Queremos ser tu Banco* programme in Spain, and regulatory impacts in Spain, Portugal and Poland.

Costs were down 2.4%, due to decreases in Spain (-6.7%), Poland (-2.2%) and Portugal (-0.9%).

The evolution of income and costs led to an 8.6% increase in net operating income and an improvement of 2.7 percentage points in the efficiency ratio taking it below 50%.

Credit loss provisions were down by 20.1% year on year, with decreases at all the commercial units except Poland.

Accordingly, the net operating income after provisions was EUR 3,605 million, an increase of 52.4%, with an 86.4% increase in attributable profit, due to the lesser impact of other write-downs and results.

Spain

Environment and strategy

In 2014 Spain showed sound recovery of growth which, combined with the improvement in financial conditions (10 year risk premium of 107 basis points at year end), boosted retail banking flows of credit to both households and SMEs. However, the balance of lending to businesses and households fell once again, due to the deleveraging in some sectors and the increasing number of issues by large companies. Deposits were down slightly in response to the decrease in term in an environment of low interest rates that benefited investment funds.

The integration of the Santander, Banesto and Banif networks was completed in the year and the exercise of specialising the network in Spain continued, with the migration of customers as part of the process of concentration.

With regard to the business, noteworthy was the strong impetus given to the *Santander Advance* strategy, with which the Bank is seeking to become the benchmark institution in growth of SMEs through financial support and a comprehensive commitment to their development. Under this initiative, there were increases in both new credit arranged and new customers attracted.

As for customer funds, the Bank continued with its strategy for optimising the cost of deposits initiated in mid-2013, having achieved high levels of balance sheet liquidity. The loan-to-deposit ratio stood at 88%.

Business activities and earnings

The lending activity continued on its path of recovery with greater generation of new loans for both private individuals and businesses. The balance of gross lending to customers excluding reverse repos increased by EUR 3,800 million in the year.

On the liability side, total deposits excluding repos and investment funds were up by 5% year on year. Broken down, demand deposits were up by 25% and time deposits were down by 22%. This decrease in time deposits was accompanied by continued growth of 28% in the investment funds managed and marketed by the Group. The greater demand for these products and the improved performance of the markets, with the accompanying appreciation in share prices, are what lay behind this development.

The net interest income for the year was EUR 4,768 million, signifying an increase of 9.4% year on year. This increase is a reflection of the good performance of the cost of deposits and the beginnings of the recovery of lending activity.

Other income, which includes fees and commissions, gains on financial assets and liabilities and other operating income, was down in the year: fees and commissions, affected by the Queremos ser tu Banco [We Want to be your Bank] strategy referred to above and regulatory changes; gains on financial assets and liabilities by the lower income from wholesale banking; and other operating income was down due to the reduction in the scope of consolidation because of the alliances in the fund management and insurance businesses.

There was a 6.7% reduction in costs in the year as a result of the synergies achieved in the merger process and the optimisation plans implemented.

Credit loss provisions, still on the path to normalisation, were the principal lever of the improvement in profit: they totalled EUR 1,745 million in 2014, which was 27.6% less than in 2013.

The result of all this was attributable profit of EUR 1,121 million as compared with EUR 466 million the previous year, signifying growth of 140.5%.

The non-performing loans ratio stood at 7.38%, a decrease year on year of 11 basis points. The coverage ratio in December was 45%, the same as in December 2013. Noteworthy was the decrease in the year in net additions to delinquent balances, which were 92% down on those recorded in 2013.

Portugal

Environment and strategy

In 2014 Portugal recovered positive rates of growth, completed the programme of economic and financial adjustment, and returned to the international capital markets taking advantage of the sharp drop in the risk premium. However, the total balance of lending continued to fall as a result of the deleveraging of the economy, particularly in businesses. Deposits remained stable throughout the year, contributing to an improved liquidity position in the sector.

In 2014 the strategy of the Group in Portugal remained closely focused on raising levels of profitability and market shares in the various segments. At the same time, management of the net interest income and control of non-performing loans continued to be critical targets for action.

On the liability side a cost reduction strategy was combined with a notable increase in balances, as a result of harnessing market opportunities and a certain *flight-to-quality* effect in order to grow. On the asset side, greater emphasis was placed on the business segment.

Business activities and earnings

In customer funds, deposits were up by 4% on December 2013 due to the strong growth in demand accounts (+17%). There was also a 21% advance in investment funds. The fall in lending continued (-5% in 2014) in an environment of deleveraging, although performance in the business segment was better than the market average.

With this performance in the business aggregates the net loan-to-deposit ratio was 97% at year end, an improvement on the figure of 101% in December 2013.

In 2014 the Group returned to the path of profit growth, after the good performance of the main lines of the income statement, with noteworthy growth in income in a still weak business environment.

Total income was up by 4.3%, due to the positive variation in net interest income (+6.3% as a result of the lower funding costs) and the net gains on financial assets and liabilities (bigger gains in portfolio management), which offset the drop in net fees and commissions (affected by both the lower business volume and regulatory changes).

Operating costs remained under tight control (-0.9% compared with 2013) as a result of the ongoing policy of optimisation of the commercial network adapted to the business environment. This was the fifth year running in which they fell. The evolution of income and costs led to a 2.7 percentage-point improvement in the efficiency ratio taking it to 51.4%.

Credit loss provisions were down by 35.7% year on year, benefiting from the decrease in additions to non-performing loans over the past 12 months.

Accordingly, the attributable profit for 2014 was EUR 189 million, which was 65.1% higher than in 2013.

The year ended with a non-performing loans ratio of 8.89%, as compared with 8.12% at the end of 2013. The coverage ratio stood at 52% (50% in December 2013).

Poland (changes in local currency)

Environment and strategy

In 2014 the Polish economy recorded growth exceeding 3%, assisted to some extent by lower interest rates and a zloty that was fairly stable against the euro. As a result the balance of loans picked up in the course of the year (+7% year on year at year end), with greater focus on business loans than on consumer loans. Deposits (up by 8%) accompanied this performance in an interest rate environment that made investment funds more attractive.

The merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A. was completed in the second half of the year.

The Group's business model in Poland is still commercial banking, complemented with a noteworthy presence in asset management, securities intermediation and factoring and leasing businesses.

During the year the global banking and markets (GBM) area, in which operations were still small, was developed by offering banking services to the big clients of BZ WBK and the global clients of Banco Santander. In cards, mobile and online banking, Santander remained in the lead and continued marketing different products and initiatives.

The Bank also continued with its *Next Generation Bank* programme for developing the Bank at all levels. This programme involves the board of directors and all the businesses and product segments. The programme focuses heavily on customers and their satisfaction, and its main objective is for Santander to be the *bank of first choice*.

Business activities and earnings

At the end of 2014, the Bank had a sound funding structure, as illustrated by the net loan-to-deposit ratio of 84% (88% in December 2013). Year on year, gross lending rose by 7% and customer funds by 10%.

In the *retail* banking area, 2014 was a good year in terms of both growth of volumes and performance. There was strong growth in deposits thanks to the success of the campaigns conducted in the second half of the year. In lending, 2014 was a record year for sales of both mortgage and consumer loans.

In the business banking area, a number of different campaigns were launched targeting this segment to facilitate access to credit and to alternative options for funding business development.

In income, the net interest income rose by 6.7% thanks to the management of spreads in an environment of falling interest rates. Net fees and commissions were up by 8.3%, with noteworthy performance of fees and commissions on trade loans and insurance. Lastly, net gains on financial assets and liabilities fell by 33.3% (EUR -40 million) due to the high gains obtained in 2013, in an environment of sharply falling interest rates.

Costs decreased by 2.2% in the year, reflecting the synergies of the integration. The evolution of income and costs led to a 2.7 percentage-point improvement in the efficiency ratio, taking it to 42.2%.

Credit loss provisions were up by 10.5%, while credit quality improved in the year. The non-performing loans ratio was 7.42% at year-end as compared with 7.84% at the end of 2013.

Lastly, the attributable profit was impacted by an increase in tax (+25.9%) and non-controlling interests (+13.9%). The profit before tax was EUR 620 million, an increase of 12.0% on 2013.

Santander Consumer Finance

Environment and strategy

In 2014 the Santander Consumer Finance (SCF) units in Continental Europe operated in an environment of moderate recovery in consumer spending (+1.1% year on year in the third quarter in the euro area) and private vehicle registrations (+5% year on year in the footprint), as well as of greater competition.

In this environment SCF continued to win market share, supported by a business model that has been strengthened in recent years. It is founded on a high level of geographical diversification with critical mass in key products, efficiency that is above that of its peers, and a shared risk control and recoveries system that makes it possible to maintain a high level of credit quality.

In 2014 the management focuses were: the promotion of new lending and cross selling tailored to the situation in each market supported by brand agreements and penetration in used cars; and harnessing the Bank's competitive advantages in the European market of consumer finance.

Business activities and earnings

Gross lending at the end of 2014 amounted to EUR 63,509 million, after a year-on-year increase of 9%. By geographical region, growth was significant in the Nordic countries and in Spain, assisted by the new additions, and in Poland. There was barely any change in Germany, and in Portugal and Italy gross lending was down.

In 2014, new lending totalled EUR 25,073 million, an increase of 14% on 2013. By product, this increase rested heavily on direct credit and cards (up by 37% overall) and on new vehicles, with growth of 8%, a higher rate than that of vehicle registrations. By unit, all of them recorded growth in local currency. Noteworthy was Poland (+21%), the peripheral countries (with double-digit growth), the Nordic countries (+12%) and Germany (+3%).

Noteworthy on the liability side was the stability of customer deposits (around EUR 30,800 million), which set the Bank apart from its competitors.

The attributable profit in 2014 was EUR 891 million, with growth of 12.3% year on year. A contributing factor to this increase, to a slight extent, were the new additions.

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 5.4% increase in the net interest income. Fees and commissions were up by 6.2% As a result, the total income obtained was up by 6.4% year on year.

Costs rose by 4.4%, almost wholly due to the addition of new units in Spain and the Nordic countries (with no changes in the scope of consolidation costs were down 0.5%).

Credit loss provisions were down by 3.7%, taking the cost of lending to all-time lows of under 1%, and reflecting a high credit quality for the business standards.

As a result, the underlying profit (net operating income after credit loss provisions) was up by 13.7% in the year, with across-the-board increases at all the big units.

Noteworthy were the growth in Poland (+11.7% due to higher income and lower operating costs), the Nordic countries (+24.1% due to the sharp increase in income assisted by the change in the scope of consolidation), and the recovery of the peripheral economies (with good performance in both income and costs and provisions). Germany grew by 8.9%, with good performance in income particularly from fees and commissions, and lower costs and provisions.

Real estate operations discontinued in Spain

In addition to the above business units, there is a separate unit covering discontinued real estate operations in Spain, which includes the loans of customers whose main activity is property development that have a specialised management model, the investments related to the property sector (in 2014 only SAREB) and the foreclosed assets.

The Group's strategy in recent years has been directed at reducing these assets, which at year end totalled EUR 8,114 million net and were down by EUR 2,667 million (25%) year on year. The breakdown of their performance is as follows:

- The net loans totalled EUR 3,787 million, a drop of EUR 1,948 million (34%) year on year. The total credit coverage, including the outstanding balance, was 54%.

- The net foreclosed assets ended 2014 at EUR 3,533 million, after decreasing EUR 67 million (2%) in twelve months. These assets have a coverage allowance of EUR 4,371 million, equivalent to 55% of the gross assets.

- Lastly, the value of the investments relating to SAREB was EUR 794 million at the end of 2014. In 2013 the balance of investments was EUR 1,446 million, because it also included the investment in Metrovacesa S.A., which is now fully consolidated after the increase in the Group's stake in the company.

As for earnings, the unit posted a loss of EUR 583 million, compared with a loss of EUR 635 million in 2013, due to the lower write-downs booked in 2014.

United Kingdom (changes in local currency)

Environment and strategy

There was a strong upturn in activity in the United Kingdom in 2014, which strengthened its currency against the euro in an environment of low rates and high quantitative easing. In this environment, lending to the private sector showed limited growth (up 2%), with an increase in households. A contributing factor was the recovery of the mortgage business, which benefited from the rise in house prices. However, there was a continuing decrease in businesses. Lastly, deposits grew by almost 5%.

The strategy at Santander UK continued to be centred on three priorities: increasing customer loyalty and satisfaction; being the "*bank of choice*" for UK businesses, and maintaining balance sheet profitability and strength.

Santander UK continued to support its customers at a time of economic recovery in all the regions. In retail banking this process is led by the 1|2|3 World range that is designed to deepen the relationship with customers and increase their transactional loyalty. Also, impetus continued to be given to the Select proposal for high income customers with the aim of offering a greater range of differentiated products and services to the different segments.

Investment is also being made in redesigning branch offices and in digital technology. A series of enhancements were introduced during the year to all the digital platforms including online and mobile telephone banking services, and there was the launch of increased digital technology at branches.

The diversification of the business at Santander UK continues to increase thanks to the growth of its capabilities in the business segment, enabling it to expand its presence in this market by extending its range of products and services.

Business activities and earnings

Around 79% of the loans consisted of high quality residential mortgages with no exposure to self-certified or subprime mortgages; buy-to-let loans accounted for approximately 2% of the total. The net loan-to-deposit ratio was 124%, one percentage point more than in 2013.

Lending excluding reverse repos was up by 3%, mainly due to the slight increase in mortgages and the 8% increase in loans to businesses. Customer funds were up by 2% year on year due to the ongoing strategy of reducing more costly short-term deposits and replacing them with others with greater potential for customer loyalty and products with a lower cost.

As for earnings, the profit attributable to the Group amounted to GBP 1,270 million, an increase of 30.2% on 2013.

This growth was supported by the net interest income which was up by 16.5% thanks to the efforts made to reduce the cost of retail deposits by following the strategy described above. Total income increased by 7.7%, absorbing the lower fees and commissions and gains on financial assets and liabilities.

Costs rose by 5.3% in the year with the continuation of investments in the retail banking and business segments, which were partially offset by the efficiency plans being implemented. These investment programmes continued to support the transformation of the business, while establishing the basis for improved efficiency in the future. The efficiency ratio at the end of 2014 was 52.2% (1.2 percentage points up on 2013).

Credit loss provisions were down by 45.7%, mainly due to the improved balance sheet quality throughout the range of products and the better economic environment. The non-performing loans ratio stood at 1.79% in December 2014 down from 1.98% at the end of 2013.

Latin America (changes in constant currency)

Environment and strategy

In 2014 the region registered a slowdown in activity heavily influenced by the international context. With varying intensity by country, the authorities changed the interest rates: in some cases they lowered them to support growth (Mexico and Chile), and in others they raised them to contain inflation (Brazil).

This slowdown was also reflected in the financial systems where the Group operates, slowing the pace of the banking business as a whole. However, total lending achieved year-on-year growth of 11%, with greater impetus in businesses and mortgages than in consumer loans, and deposits were up by 8%, heavily founded on demand accounts.

The strategy in 2014 was focused on the expansion, consolidation and enhancement of the business of the commercial franchise in the region. The specialised offering of products and services is being strengthened in line with customer requirements. Meanwhile the constant vigilance of risk quality continues and measures are being implemented to improve efficiency.

Business activities and earnings

Lending excluding reverse repos increased by 12% year on year. Deposits excluding repos were up by 11%. Broken down, there was an across-the-board increase by country in both demand deposits (15% increase in the total for the region), and time deposits, which were up by 8%. Investment funds rose by 18%.

Income was up 2.3% year on year, including a 2.9% rise in net interest income mainly affected by the change in mix to products with a lower credit cost but also with lower margins. This was combined with the pressure on spreads, particularly in Brazil and Mexico. These impacts were offset by the increase in volumes and the reduction in the cost of lending. Fees and commissions were up by 9.1% and gains on financial assets and liabilities were down by 41.3% from 2013, when income was obtained from portfolio sales, principally in Brazil.

Costs increased by 5.0% due to the investment in networks and commercial projects and the inflationary pressures on pay agreements and hired services.

Credit loss provisions were down by 12.7%, mainly due to Brazil. There was also a slight decrease in Mexico, and Chile remained flat.

The improvement in the cost of lending reflects the fall in non-performing loans in the year. The non-performing loans ratio ended the year at 4.65%, 35 basis points lower than at the end of 2013, assisted by the favourable impact of Brazil. The coverage ratio remained stable in the year at 85%.

After including provisions and other write-downs, the pre-tax profit was up by 9.4% at EUR 5,091 million. The higher effective tax rate, principally in Mexico, and the lower non-controlling interests in Brazil took the attributable profit in 2014 to EUR 3,150 million, an increase of 10.8%.

Brazil (changes in local currency local)

Environment and strategy

In 2014 the banking business in Brazil was carried on in an environment of near on zero growth and higher interest rates to contain inflation, leading to the depreciation of the real against the dollar (slight appreciation against the euro). The economic slowdown was reflected in the lower growth of lending (up 11% to December), which continued to be driven by regulated loans (up 20%), and the public banks, which more than doubled the growth of the private banks (+16% as opposed to +6%, respectively). Total customer funds increased by 10% year on year, with an increasing proportion of investment funds and other methods of attracting funds (debentures and financial bills), which were up by 26%.

In this environment, Santander Brasil, as a universal bank with the focus on commercial banking, adopted the following guidelines: to increase customer preference and loyalty, to increase the recurring and sustainable nature of transactions, to increase productivity by means of an intensive agenda of productive transformation, to strengthen the business lines with lower than the natural share, and to maintain capital and liquidity discipline with the objective of preserving the strength of the balance sheet, to manage regulatory changes and to harness opportunities for growth.

Progress was made with these strategic guidelines throughout 2014, with initiatives that included the redesign of the channels and the launch of the new commercial model with more efficient and agile management. In the private individuals and SME segments the Bank launched products and reached new agreements, expanded the *Select* branches (85 in 2014), and strengthened the merchant acquiring business.

Business activities and earnings

Lending to customers was up by 10% year on year, supported by mortgages and the large companies segment. There were also big increases in the balances of segments with lower risk / spreads such as agribusiness and BNDES (National Bank of Economic and Social Development) where the Group wishes to increase its presence.

Deposits excluding repos were up by 8% year on year, with good performance of demand deposits (up by 10%). Investment funds were up by 16%.

As for earnings, income was down 2.9% year on year, mainly because of the decrease in net gains on financial assets and liabilities as a result of the lower gains in activities with the market in 2014. The net interest income was also lower because of the change of portfolio mix towards products / segments with less risk and the compression of credit spreads.

Conversely, income from fees and commissions rose by 8.0%, supported by cards and transactional banking. Some of this growth was due to the acquisition of GetNet.

Costs were up by 1.0% (down by 0.6% disregarding the change in the scope of consolidation), compared with inflation rates of over 6%, illustrating the effort that has been made to control costs in recent years.

Credit loss provisions performed well and were 17.7% lower than in the previous year. This took the cost of lending to 4.9%, below the 6.3% at which it ended 2013. There was a 0.6 percentage-point improvement in the non-performing loans ratio, taking it to 5.05%.

After tax and non-controlling interests, the attributable profit stood at EUR 1,558 million, up by 8.0% year on year.

Mexico (all changes in local currency)

Environment and strategy

In 2014 the Mexican economy, still a long way below its potential, showed a quarterly profile of improvement that is expected to continue, supported by the strength of the USA and the structural reforms under way. The reduction in interest rates also made a contribution, while the peso fell against the dollar (slight appreciation against the euro). In this environment, system lending slowed slightly (+9% year on year) due to consumer credit, since lending to businesses (+9%) and mortgage loans (+9%) increased speed. Deposits were up by 9% driven by demand deposits.

Against this background, Santander Mexico continued to strengthen its franchise through the plan of branch and ATM expansion and the priority focus on improving service quality, innovating and establishing closer relationships with customers. The increased installed capacity was accompanied by an improvement in the multichannel selling platforms and the extension of the catalogue of products.

The Group's commercial strategy focused particularly on developing the segments for businesses, where a highlight was the launch of the *Santander SMEs* programme (as part of the Group's global *Santander Advance* programme) and private individuals, with special emphasis on the mortgage segment and on consolidating the *Select* model of customer service through specialised branches, a contact centre and exclusive products and services.

Business activities and earnings

In the business activities, lending was up by 18% in the year, mainly in loans to SMEs and mortgages. Deposits grew by 14%, while at the same time improving their structure, as a result of putting greater focus on demand accounts, which were up by 14%. Investment funds were up by 10%.

As for earnings, income was up by 6.0% in the year, with good performance of the net interest income (+7.3%) and fees and commissions (+2.6%). They were impacted by lower economic growth than initially forecast, as well as by the fall in reference interest rates and the reduction in spreads as a result of the strategy of changing the mix to products with less risk. This was offset by the sharp expansion in volumes.

Costs were up by 7.2% year on year as a reflection of the new commercial ventures and the greater installed capacity. This led to growth in the net operating income of 5.2%.

Credit loss provisions decreased by 1.6% year on year, well below the natural growth that would accompany the 18% increase in loans, combined with the specific charges booked in 2013, mainly for housing developers.

The non-performing loans ratio remained virtually the same at 3.8% (3.7% in December 2013). The coverage ratio was 86%.

The profit before tax was EUR 1,057 million, an increase of 8.9%. After deducting taxes (at a rate that rose to 20% from 8% in 2013) and non-controlling interests, the attributable profit stood at EUR 660 million.

Chile (all changes in local currency local)

Environment and strategy

In 2014 Chile experienced a bigger than expected slowdown in the economy, despite the interest rate reduction and the big depreciation of the peso against the dollar and, to a lesser extent, the euro. However, system lending (excluding the Corpbanca investment in Colombia) grew by 11% year on year, supported by private individuals, since there was a slowdown in businesses in line with the slowdown in investment. Deposits were up by 10.1% in response to the lower rates and the greater appeal of money market funds. The growth of deposits plus investment funds was 14%.

Against this background, the Group is maintaining its objective of increasing long-term profitability in a climate of smaller margins and greater regulation. To do this, the strategic plan recognises the importance of placing the customer at the heart of the strategy and seeks to consolidate the franchise in the positions of leadership that it has traditionally held. The strategy is based on four main pillars: improving the quality of customer service and customer experience; focusing on commercial banking, particularly retail customers (medium- and high-income private individuals and SMEs) and medium-size companies; conservative management of risks and ongoing review of processes to increase operating efficiency.

These management actions are already being reflected in the business. In service quality, the net satisfaction of customers improved in all the networks and channels. The *Select* model was consolidated, and the progress of NEO CRM (*Client Relationship Management*) continued by business segment. In business banking the Bank continued to enhance the model of specialised customer service implemented in 2013.

Business activities and earnings

The strategy followed resulted in an 8% increase in loans, year on year, with advances in the target segments of high-income individuals and businesses. Deposits were up by 13% in the year, with a 16% increase in demand deposits.

As for earnings, income was up by 12.6% year on year. Net interest income rose by 17.8% (driven by the growth of volumes in the target segments, the better mix of deposits and the increase in income from the inflation-indexed Chilean Unit of Account (UF) portfolio; the income from fees and commissions rose by 2.2% (still impacted by the regulatory effects on insurance fees and commissions); and net gains on financial assets and liabilities fell by 19.9% (mainly as a result of lower gains on the ALCO portfolio).

Index-linked costs increased by 6.3%, slightly above inflation, due both to employment contracts, rents, and wages and salaries, and to the impact that the devaluation of the exchange rate had on contracts for technology services indexed to the dollar and the euro.

Credit loss provisions remained practically flat (+0.5%), which signifies an improvement in terms of the cost of lending. The non-performing loans ratio was 5.97% and the coverage ratio was 52%.

The profit before taxes was up by 26.0% year on year. After deducting tax, at a rate that fell in 2014 to 7% due to the adjustment of deferred taxes under the tax reform, and non-controlling interests, the attributable profit increased by 34.8% in the year to EUR 509 million.

Other countries (changes in local currency)

In Argentina, the commercial strategy remained focused on increasing penetration and loyalty in the segments of high-income private individuals and SMEs, by developing new functionalities of key products and taking actions to improve service quality.

In business activities, lending was up by 23% year on year, with growth most notably in SMEs and businesses. There was a 31% increase in deposits, with growth in both time deposits (+40%) and demand deposits (+26%).

The attributable profit obtained in 2014 was EUR 298 million, an increase of 33.3% in local currency. Total income grew by 34.3%, and there was a 41.8% increase in costs, after the enlargement and transformation of the branch network. The net operating income was up by 27.8%, and provisions were 52.3% higher on a small base.

In Uruguay, there was a year-on-year increase in lending of 17%, with particular growth in individual customers and SMEs, and deposits rose by 18%. The attributable profit was EUR 54 million, an increase of 16.2% on 2013, heavily supported by the expansion of the net interest income and the income from fees and commissions.

In Peru, lending increased 28% in the year, while deposits rose 32%, supplemented by growth in medium-term stable funding. The attributable profit in 2014 was EUR 24 million, an increase of 31.1% year on year.

Lastly, in Colombia the Group's new subsidiary Banco Santander de Negocios Colombia S.A. began operating in January 2014. The bank is targeted at the corporate and business market, with a special focus on global customers, the Group's *International Desk* scheme customers, and local customers in the process of internationalisation.

United States (changes in local currency)

The scope of consolidation of Santander US includes the commercial banking activity through Santander Bank and Banco Santander Puerto Rico, and the consumer finance business through Santander Consumer USA (SCUSA).

Environment and strategy

The banking sector did business in an accelerating economic environment in 2014. This made it possible, with interest rates at record lows, to reduce quantitative stimulus measures and appreciate the dollar against the euro. Reflecting this, data to September showed total lending to businesses and households increasing by 5%, heavily underpinned by businesses (commercial and industrial), cards, and private vehicles, the latter with increased sales and financing of both new and used vehicles. Deposits were up by 5%, with preference for demand over time deposits due to the interest rate environment.

The commercial banking strategy is implemented through Santander Bank and Banco Santander Puerto Rico. In 2014, Santander Bank focused its commercial strategy on the growth of loans to businesses and the consolidation of the auto finance business on the asset side, and on growing and increasing the quality of deposits on the liability side. Balance sheet optimisation measures were also implemented (by selling USD 700 million of unproductive assets and securitising USD 2,100 million in mortgages). The net gains obtained as a result were used to reposition the balance sheet in terms of profitability, by cancelling the historic long-term debt with higher than market costs. In Puerto Rico, the strategy followed was one of deleveraging.

In consumer finance, Santander Consumer USA completed its public share offering and listing on the New York Stock Exchange in the first quarter of 2014. During the year it continued to implement its vehicle finance plan under the agreement with Chrysler, and took actions and reached agreements that enabled it to continue growing in unsecured consumer loans. It also continued to seek opportunities for expansion in portfolio collection management operations for third parties.

In addition to the commercial activity, efforts continued to strengthen the governance and control structures via additional investments in technology, risks and regulatory compliance.

Business activities and earnings

At Santander Bank, there was a 1% increase in lending, which would have been 6% without the balance sheet actions referred to above, and a 7% increase in deposits (+11% in core demand deposits).

As for earnings, the attributable profit of Santander Bank in 2014 was USD 490 million, which was 10.6% less than in 2013.

Income was down by 5.2%, affected by the reduction in the investment portfolio which impacted the net interest income, as well as the reduction in fees and commissions due mainly to the new regulations on overdrafts.

Costs rose by 9.7% year on year, due to the need to adapt to the regulatory requirements, and as a reflection of the effort in technology investment.

Credit quality continued to perform well, with a non-performing loans ratio of 1.41% (82 basis points lower than in 2013) and a coverage ratio of 109%, reflecting the improved composition of the portfolio and strict risk management. This made it possible to keep provisions very low.

At Santander Puerto Rico, the attributable profit was USD 90 million, which was 12.1% lower year on year due to the recognition of deferred tax assets in 2013. Without this effect, the profit before tax was up by 5.2%.

Lastly, at Santander Consumer USA, there was a 25% increase in new lending year on year, largely due to the agreement reached with Chrysler in 2013 and to the on-balance-sheet balances, which were up by 13%.

This performance was reflected in the growth of income (up by 32.3% year on year) which has not yet been passed on fully to the profit because of the higher requirement for provisions (+45.6%), linked to some extent to the increase in new lending and the unsecured consumer loan portfolio. At the level of attributable profit, there was growth in the year of 16.5%, taking it to USD 481 million.

Corporate Activities

Corporate activities posted a loss in 2014 of EUR 1,789 million, which was a 13.6% improvement on the loss of EUR 2,071 million in 2013.

This improvement was due to the increase in the net interest income of EUR 286 million, as a result of the lower financial cost due to the decrease in outstanding average balances of wholesale funds, and a bigger contribution of EUR 270 million in gains on ALCO transactions.

Conversely, there was a negative impact from higher costs, mainly the expenses related to corporate transactions prior to their implementation.

Breakdown by global businesses

The secondary or business segment reporting distinguishes between commercial banking, global wholesale banking, asset management and insurance, and the discontinued operations unit in Spain, the sum of which is equal to that of the four main geographical areas.

The commercial banking area accounted for 85% of the income and 72% of the attributable profit obtained by the Group's operating areas in 2014.

The attributable profit was EUR 5,870 million, which was 21.8% more than in 2013. Excluding the exchange rate impact, there was growth of 26.4%.

This was the result of the good performance of the main lines of the income statement. There was a 5.2% increase in income, driven by the net interest income (+7.0%); control of costs, which were down in real terms by -1.4%; and a 5.9% decrease in credit loss provisions.

Global wholesale banking, a segment managed by Santander Global Banking & Markets (SGB&M), generated 12% of income and 20% of the attributable profit of the Group operating areas in 2014.

The attributable profit in 2014 was EUR 1,614 million, an increase of 10.0% year on year, which rises to 16.3% excluding the impact of exchange rates. This performance was due to the strength of income, which was up by 2.5% despite the smaller contribution from net gains on financial assets and liabilities, and the decrease in provisions (-41.4%), which absorbed the higher costs incurred on the investment in franchises under development.

Lastly, private banking, asset management and insurance accounted for 3% of the total income and 8% of the attributable profit obtained by the operating areas in 2014.

The attributable profit obtained by private banking, asset management and insurance in 2014 was EUR 703 million, an increase of 18.4% on 2013. Disregarding the effect of the changes in the scope of consolidation (the sale of 50% of the management companies in 2013), and excluding the impact of exchange rates, the increase would be 31.3%

2.5 Issues relating to the environment

The Group conducts its business conserving the environment by promoting actions and projects focused on protecting the environment and mitigating environmental impact. Environmental management is one of the lines of action of the Bank's sustainability plan.

The Group has in place a social and environmental policy that sets out the general principles guiding the Bank's sustainability actions, and the necessary mechanisms for analysing social and environmental risks in decisions on project finance transactions.

In addition, the Bank has developed sectorial policies which establish the criteria to which the financial activities connected with the defence, energy, water and forestry sectors must adhere. Also, in 2014 the Group drew up a specific policy on climate change that reflects its commitments and actions in this area.

The Group has signed up to a number of international commitments including some related to the environment, including most notably: UNEP FI, Equator Principles, *Carbon Disclosure Project, Banking Environment Initiative*, *Round Table on Responsible Soy*.

Climate change office and committee

In addition to the sustainability committee, chaired by the chief executive officer, which has the function of proposing the strategy and general and sectorial policies on sustainability, Santander has multidisciplinary committees at corporate and local level that assist in integrating the social and environmental aspects of the Bank's business activities.

The most noteworthy of these are the climate change office and committee, set up in 2012 with the main objective of identifying the risks and business opportunities presented by climate change and promoting and publicising the Bank's environmental actions.

Participating in this committee are the group's areas of wholesale banking, commercial banking, insurance, risks, buildings, organisation, universities, *public policy* and sustainability.

In May 2014 the second meeting of the climate change committee was held to analyse the progress made by the Bank in this field since the committee was set up, and to address new lines of work in the field of funding renewable energy projects, energy efficiency, the development and updating of internal policies, the analysis of social and environmental risk in the financial business activities, and the promotion of research on climate change.

Noteworthy is the adoption by the Bank of the *Soft Commodities* Compact promoted by the Ba*nking Environment Initiative* (BEI), of which Banco Santander was a founding member with other international banks in 2010.

The *Soft Commodities Compact* is a document drawn up in alliance with the Consumer Goods Forum (CGF, a prestigious global association that brings together major consumer goods manufacturers and *retailers*) concerning the contribution of banks to the CGF objective of achieving zero net deforestation by 2020.

The Bank's environmental actions focused on the following lines of work:

a) Reduction of energy consumption and emissions

Since 2009 the Group has measured, calculated and controlled its environmental footprint (the consumption and emissions of all Group installations). The environmental footprint includes information on the electricity, fuel, water and paper used, and the waste paper, packaging, glass, electrical and electronic equipment and toners generated, as well as a breakdown of the Bank's direct and indirect greenhouse gas emissions.

Of these environmental management indicators, the most important are those of:

- Electricity consumption: 1.3 thousand million kWh.

- Paper consumption: 29 thousand tonnes.

The Group is currently implementing an energy-saving project called the 20-20-15 plan, the main objectives of which are:

- To reduce electricity consumption: 20% less electricity consumption than in 2011 in the ten main countries by 2015.

- To reduce CO_2 emissions: 20% less emissions than in 2011 in the ten main countries by 2015.

The energy efficiency actions taken include: lighting (presence detectors and external perimeter regulation; more efficient lamps and lights, time switches); air conditioning (office automation, regulation of comfortable temperature band, replacement of appliances with more efficient systems); awareness raising; others (total switch-off of equipment, carbon offsetting, purchasing green power at corporate facilities in Spain and the United Kingdom).

The Group is also committed to maintaining the environmental certificates (ISO 14,001 or LEED) at corporate centres in Brazil, Chile, Spain, Mexico and the United Kingdom.

In addition, with the objective of raising the awareness of Bank employees about environmental protection and combating climate change, the Group has implemented a number of programmes, such as:

- Participation for the fifth time in the "Earth Hour", the global awareness-raising campaign organised by the World Wildlife Fund (WWF) to promote environmentally friendly conduct, in which the Group switched off the lights in 137 of its most representative buildings and offices in Brazil, Spain, United Kingdom, United States, Mexico, Chile, Germany, Poland, Argentina and Portugal.

- In the United Kingdom, the *Go Green* campaign keeps employees informed about good practices relating to energy use, waste and travel, through in-house *roadshows*, in which 446 staff members participated, and the Village Green intranet. In 2014, over 1,000 employees signed up to be Green *Champions* and *co-lead* the campaign. Also, in the *Kill-A-Watt Energy Saving* campaign 347 branches implemented energy efficiency actions that achieved savings of 275,913 kWh year on year, representing an average reduction of 15% per branch.

- In Brazil, the *Reduza e Compense* scheme aims to engage everyone in reducing their personal environmental impact by providing a tool with which to calculate emissions, find out how to reduce them and offset them. The Bank subsidised up to a tonne of carbon for each employee participating in the initiative.

- In Portugal the *Dê uma pausa ao planeta* campaign is also aimed at encouraging staff to apply good practices to reduce consumption at branches.

- In Chile, the *Recopila* campaign allows employees to deposit used batteries in containers for recycling.

- In Argentina and Mexico there were communication campaigns to raise staff awareness on a variety of matters, such as energy efficiency and the use of natural resources.

- In Poland under the *cell phone collection* initiative electronic waste was collected from the branches, and in Brazil and Chile used batteries are collected from the Bank's branch network. Both these initiatives involve customers as well as staff.

- There are also a number of environmental volunteering programmes, such as *Reforestamos México*, an initiative that has been aiding reforestation efforts in the country since 2009. Poland runs the *Green Volunteering* Scheme, which organises an in-house competition aimed at bringing together ideas on how to make environmental improvements.

b) Integrating social and environmental risks in credit extension

The Group considers social and environmental aspects to be a key part of the procedures for risk analysis and decision-making in its financing transactions subject to the Equator Principles. Procedures have been put in place to identify, analyse and assess the environmental and social risks associated with credit transactions that are subject to Group policies.

Noteworthy are the application throughout the Group of the Equator Principles and the social and environmental risk analysis carried out at Santander Brasil.

A review of the Equator Principles (EPIII) carried out in 2012 was completed in April 2013. This review included an extension of the scope of transactions subject to the Equator Principles. In 2014 the Bank adapted its internal procedures to comply with the new scope.

c) Development of financial solutions

The Group contributes to the global objective of combating climate change by providing financial solutions and taking the lead in matters relating to *project finance* for renewable energies and energy efficiency at an international level.

Noteworthy here are:

- The Group's participation in 2014 in the financing of projects for wind farms, thermal solar, hydroelectric and photovoltaic power plants in Brazil, Spain, the United States, Canada, Italy, Ireland, Mexico, Portugal, the United Kingdom and the Netherlands, with a total installed capacity of 5,197 MW. The Group also participated in the financing of projects for water treatment in Spain and Brazil and for waste treatment in Brazil.

- The arrangement of a new EUR 114 million credit line with the European Investment Bank (EIB) to finance projects undertaken by businesses that will have an impact on energy saving and efficiency.

- Carbon markets: The Fondo de Carbono para la Empresa Española [Carbon Fund for Spanish Companies] (FC2E) is sponsored by the Group and other public and private entities. Through its activities in this Fund, the Group helps to promote the transfer of technology from developed to emerging countries; the funding of renewable energies; and compliance with the reduction of emissions by European industries in accordance with the national allowance schemes of each country. The Fund buys carbon credits generated by renewable energy and energy efficiency projects in developing countries and makes them available to European companies to assist them in complying with their emission reduction obligations under the national allowance schemes.

Sustainability report and presence in sustainable indices

Information on the main steps taken in relation to the environment and the other sustainability actions performed by the Group is provided every year in the sustainability report. The report is checked by the Deloitte audit firm.

The Group is also included in the main stock market indices that analyse and assess the sustainability actions taken by businesses. The Bank has been included in one of the most important of them – the Dow Jones Sustainability Index – since 2000.

Its presence in this index was once again confirmed in 2014, when it obtained excellent scores in all three sections reviewed: economic, social and environmental, with a total score of 86 points, 2 more than in 2013, placing it among the 10 best banks in the world in this area, and making it the leading Spanish financial institution, according to the RobecoSAM rating agency.

The Group has also been a signatory since 2007 of the *Carbon Disclosure Project* (CDP), the international benchmark standard for business reporting on climate change, and since 2012 has been filing the CDP Water Disclosure.

Awards and distinctions

According to *The World's Greenest Banks* ranking that the Bloomberg Markets magazine has been compiling for the last four years, in 2014 Banco Santander was named for the third time the world's greenest bank in recognition of the Group's commitment to the environment, with particular reference to its activities in financing renewable energies and its initiatives to reduce its environmental footprint.

Santander Brasil was awarded the Ethical Corporation prize, in the category of Best Consumer Commitment Campaign, for its *Reduce and Offset CO2* scheme. Launched in 2013, this scheme enables anyone to use an online platform to calculate their greenhouse gas emissions and offset their impact on climate change by buying carbon credits.

2.6 Issues relating to human resources

The Group's aim is to be the best bank for its employees, customers, shareholders and for society in general. To achieve this aim, it must be supported by a new culture that will make Santander a simple, personal and fair bank.

The Bank's employees are the lever for making this challenge a reality. The Group has a team of 185,405 professionals, with an average length of service of 9.7 years and an average age of 37.7 years. 55% of the employees are women.

With this objective, in March 2014 the human resources area launched the Strategic Plan, which was drawn up based on an analysis of the environment in which the Group operates, internal and external surveys, and experience shared with the country human resources teams during the previous year.

The plan rests on collaboration and teamwork, takes into account diversity and active listening and shares the Group's best practices, which will enable the Bank to learn and move more quickly towards the objective of making Santander the best place to work.

There are six lines of action in people management underpinning the Strategic Plan: talent, commitment, appraisal, leadership, communication and the customer. In addition, as a result of the process of open listening with the Bank's professionals, another line has been added to the plan: flexibility.

The projects and the implementation of all the initiatives, which are to be completed in two years, are monitored through a corporate governance of committees that coordinates the implementation and monitoring of the plan. There is also a global monitoring system to check that the initiatives are producing an impact, and a communication plan to keep the professionals informed about them.

The first to be put in place was the *Santander Ideas* initiative launched in January as the Group's first internal social network that enables the professionals to share ideas, comment on them, and enrich them with their contributions. This channel encourages internal communication and promotes a work culture more geared towards innovation, collaboration and participation, taking better advantage of the Group's diversity and collective intelligence.

The three global challenges launched during 2014 – concerning customers, employees and branch offices – received 10,000 ideas. 213 have been selected and 50 have already been implemented. In the ideas relating to in-house issues, i.e. the professionals, the priority lines are: new ways of working that are more efficient, modern and productive (flexible working, collaborative working, etc.), a corporate framework with local deployment in volunteering or products and services for employees.

May saw the launch of the Somos Santander [We are Santander] initiative, symbolising the fact that everyone matters at Santander, because the talent and commitment of each individual is fundamental for achieving sustainable growth that will benefit all four of the Bank's target groups, namely: employees, customers, shareholders and society in general.

Shortly afterwards, there was the *Somos Santander* [We are Santander] Week, an event that is held in all the Group countries at the same time with the objective of fostering pride in working at an organisation like Santander. On this occasion, the event focused on telling people about the advantages of belonging to the Group: an environment in which there is space to grow, ideas are encouraged, where everyone matters and where together everyone makes it possible. Staff solidarity was also brought to the fore, with the collection in just one day of 59 tonnes of food that were delivered to a variety of NGOs around the world.

Also in May the first corporate commitment survey was conducted with the objective of ascertaining the level of commitment of the Bank's professionals and introducing plans that will make it possible to enhance the strengths and work on the areas for improvement identified through this means.

The participation rate was 78% and the results indicate that 70% of the professionals are committed and that there is a strong pride in belonging, although efforts must be made to improve certain aspects concerning flexibility, collaboration, recognition and style of management. The overall results were announced to the whole organisation through the corporate media.

In line with the objective of increasing the transparency of the Group's internal procedures, and also as part of this new strategy, the corporate Global Job Posting platform was launched in July to give the professionals the opportunity to find out about and apply for vacancies in other Group countries. In the first five months over 500 vacancies in different countries were listed, leading to 60 job offers.

An ongoing component of this framework for promoting staff mobility is the Mundo Santander [Santander World] scheme, which ran for the eleventh time in 2014, with 213 participants. This took the total number of participants through all the years the scheme has been running to 1,230. The scheme offers Group employees the opportunity to work abroad for tutored stays of three months within the same division. The objective is to develop the talent of committed young members of staff who have potential and an international profile. There are also other initiatives such as development programmes for Bank professionals with high potential such as the *Santander Training Executive Programme* (STEP) or the Programme for Future Executives (FUDIS) which include at least two postings abroad.

Similarly, the talent appraisal committees also began their work in 2014 to address another of the planks of the strategic plan: to ensure that the Group has the best talent and has succession plans in place. During the year there were 143 committee meetings and 61% of the corporate executives were reviewed. And the new corporate performance management model for this group, using a 180º *feedback* procedure, in which line managers and teams can assess their competences.

Knowledge without limits

Staff training is one of the areas to which the Group is committed in order to achieve this transformation and create a new Bank. The Group spent EUR 103 million in 2014 fostering employee knowledge, which translated into 97% of professionals trained and an annual average of 44.6 hours of training per employee.

In this line, work is being done on an initiative entitled *Knowledge without limits*. The objective is to make training more accessible for all of the Group's professionals and to encourage their self-development. To achieve this, a new Group portal has been launched, also named *Knowledge without limits*, to disseminate in an open and participatory manner the knowledge and best practices that exist within and outside the Group.

In the Group's training strategy, an important role in the transmission of Group knowledge and values is played by internal trainers, who taught over 35% of the training hours.

They are also fundamental for ensuring that internal knowledge arises, flows and is shared internally. The Group has a Corporate Risks and Audit School, and 2014 saw the launch of the *Santander Retail & Commercial Banking College*, focused on increasing the commercial orientation using models that will increase customer loyalty and at the same time encourage the development and knowledge of the Bank's professionals.

With the aim of disseminating both internal and external good customer practices, the Group launched a new series of *Santander Business Insights* lectures that are made available to all staff through a website that can be accessed via the corporate website and online.

Diversity

Within the framework of talent management and diversity, noteworthy was the launch in 2014 of the *Sumando Talento* [Adding Talent] scheme to develop female leadership, aimed at women in positions of senior or middle management. Twenty-six professionals from 11 Group divisions and factories participated in the first edition of the scheme.

In January Banco Santander signed a voluntary agreement with the Spanish Ministry of Health, Social Services and Equality to increase the presence of women in managerial and junior managerial posts over a period of four years. And it organised the third Santander Women and Business. Other Leadership Perspectives event to discuss and share good practices for managing diversity. The event was held on 27 November at the corporate headquarters, and was attended by nearly 1,000 people.

Compensation system

The principles guiding compensation at the Group are as follows:

- To be aligned with the Group's values, culture and strategy, and with those of the countries and businesses.
- To support the attraction, development and retention of talent.
- To guide and focus conduct that supports the strategy and culture, by recognising individual and team contributions, offering incentives and rewards for achieving business targets, ensuring rigorous management of risks and promoting the creation of long-term value.
- To comply with labour, tax and pay legislation and regulations, and any others, that are applicable in the regions where the Group operates.
- To establish appropriate standards of internal equality, ensuring that the pay of Group employees is consistent with the level of responsibility of the positions they hold.
- To ensure adequate positioning and external competitiveness, by offering pay packages that are competitive with those offered in comparable markets.
- To offer performance incentives, ensuring that levels of pay are graded and consistent with employee performance.
- Not to discriminate against Group professionals on the grounds of sex, age, race, religion, nationality, marital status, or sexual orientation.

On the basis of these principles, the Group promotes a total compensation system, consisting of a fixed amount of pay that recognises and remunerates the role and level of responsibility of the position held by the employee; and a variable amount of short- and long-term pay, which rewards performance based on the achievement of Group, team or individual objectives, ensuring rigorous management of risks and alignment with long-term objectives.

This total compensation system includes a number of benefits for the protection of employees and their families, in accordance with the regulations applicable in each country and the conditions of the individual labour markets. These benefits include advantages in banking products and services, life insurance and health insurance. In some regions, these benefits are offered on a flexible basis for employees to choose.

There are also pension schemes set up according to local retirement conditions and local market practices.

The Group has recognition programmes that contribute to increasing employee commitment and retention, and also boost motivation and enhance its image as an employer.

2014 saw the implementation throughout the Group of the regulations on remuneration laid down in the European Capital Requirements Directive IV which, among other new developments, includes a broader definition than in previous years of the members of staff identified and a specific limit on the amount of variable pay as a percentage of the total fixed components.

Health and the prevention of occupational hazards

Health and the prevention of occupational hazards are two essential levers in the wellbeing and satisfaction of the Group's employees, and they make a crucial contribution to the sustainability of the Bank's business model in the long term.

Investment in health training and culture, incorporating policies on models for healthy living based on the combination of diet and physical activity, have a positive impact on the health promotion of staff and reduce the rates of absence from work. This is reflected in a rate of absence from work of 3.7% (hours not worked due to occupational accidents, common illnesses and non-occupational accidents for every 100 hours worked).

The Group is included in the most important stock market indices that analyse and assess the corporate social responsibility actions of businesses, such as the Dow Jones Sustainability Index (DJSI), which comprises the top 20% of companies that are leaders in sustainability in three dimensions: economic, environmental and social. An important element of the latter is health and the prevention of occupational hazards, in which the Group obtains results that are well above the average for the financial sector and are becoming increasingly close to being top of the Index.

The Santander health model covers the following aspects:

- Within the chapter of health monitoring, standardised models of health care and checkups are applied in all the countries in which the Group operates, with a large number of staff undergoing checkups such as in Brazil, where there are more than 43,000 checkups each year, or Mexico with more than 13,500.

- In addition to specific health checks, in many countries there are preventative medicine protocols in a number of areas: cardiovascular, school for backs, physiotherapy and ophthalmology.

- Flu vaccination campaigns were carried out in all the countries with over 55,000 employees vaccinated in 2014, and there were blood donation campaigns in Spain and Argentina, in which over 500 employees took part.

- Nutritional policy and control at the Group's workplaces, involving suppliers in the protocols for nutritional management and control (ISO 9001:2008 Quality) with the creation of healthy corners with specific low-calorie and low-salt menus, as well as healthy suggestions, in both the catering and the vending-machine areas.

- Value-added health care services taking advantage of the existence of the Group's own health care centres in the most representative buildings, which facilitates access to the most frequently required specialities.

- Training in the prevention of occupational hazards and health culture, with initiatives such as the *Equilibrium* Portal in Mexico or the Total Wellbeing website, or the course in the prevention of occupational hazards in Spain and Portugal, as well as interesting talks and all the information posted on the different corporative intranets.

- Evaluation, monitoring and control of absence from work, in partnership with the mutual societies and the public health service.

- Control of the occupational hazards posed by job conditions, based on the assessment of spaces, lighting, electrical and fire risk, and ergonomic advice on the acquisition of furniture.

- The regulations in a large number of countries require companies to have emergency plans setting out the necessary measures to cope with an emergency at a workplace.

- There is an internal civil defence programme (PIPC) in Mexico to ensure compliance with the applicable regulations.

With regard to the Group's collaboration in international research studies, in Spain, within the framework of the agreement between Santander and the National Centre for Cardiovascular Research (CNIC) led by the prestigious cardiologist Valentín Fuster, 2014 saw the completion of the first phase of the Santander por tu corazón (2010-2019) cardiovascular disease screening programme of staff aged between 40-54 in which 4,184 staff are included, 37% of them women. In the course of the year, 1,552 candidates completed the second phase.

Recognition

Santander was chosen as one of the favourite places to work in Spain, in the banking category, by the participants in a survey conducted by the Randstad consulting firm among over 8,000 potential candidates aged 18-65, on the basis of the country's 165 biggest employers.

Also, the annual Ideal Employers survey conducted by the Swedish Universum consulting firm which collects the opinions of over 16,000 Spanish students concluded that Banco Santander is among the five favourite places to work for business administration and business school students, and is also the top financial institution.

Another distinction that the Group received in this period was the Top Employer of the year in the United Kingdom. The Top Employer certification is awarded to organisations that meet the highest standards of excellence in the conditions they offer their employees. Santander Consumer Bank Germany was also named as a Top Employer in 2014.

In addition, Santander is the best bank and the fourth best company to work for in Spain according to the MercoPersonas *ranking* for 2014.

In turn, Santander Río obtained first place in the *Great Place to Work* ranking.

	31.12.14	31.12.13
Workforce		
Number of employees*	185,405	186,540
Average age of workforce	37.7	37.6
Average length of service	9.7	10.0
Managers	11.82%	11.61%
Recruitment		
CVs received	660,120	893,652
New hires	22,379	18,133
Turnover		
Annual turnover	14.44%	14.15%
Managerial turnover	9.69%	9.23%
Training		
Employees trained	97.1%	98.4%
Training hours per employee	44.6	51.9
Total investment in training (thousands of euros)	103.2	110.9
% of e-learning training	32.18%	34.46%
% of hours with internal trainers	35.11%	30.70%
Management		
Employees promoted	10.49%	10.41%
Employees internationally mobile	1,103	1,153
Managers in country of origin**	87.97%	90.25%
Commitment		
Global commitment rate***	70%	-
Remuneration		
Employees with variable remuneration	100%	100%
Diversity and equality		
% women	55%	55%
Occupational health and safety		
Rate of absence from work	3.7%	3.7%

*2013 figure adjusted for the taking of control of Santander Consumer USA at the beginning of 2014, and the loss of control of the management companies at the end of 2013.

**Top Red and Dir Red managers.

***Does not apply to 2013.

3. LIQUIDITY AND CAPITAL

3.1 Liquidity

- The Group has developed a funding model based on independent subsidiaries that are responsible for meeting their own liquidity requirements.

- This structure enables the Group to take advantage of its commercial banking business model to maintain comfortable liquidity positions at Group level and at its main units, even in situations of market stress.

- In recent years, as a result of the economic and regulatory changes arising from the global financial and economic crisis, it has been necessary to adapt the funding strategies to the new trends in the commercial business, to market conditions and to the new regulatory requirements.

- In 2014, in a better market climate, the Group has continued to improve in certain aspects on a very comfortable liquidity position at Group and subsidiary level. As a result it is able to face 2015 from a good starting position, with no restrictions on growth.

Liquidity and funding management has always been a basic element of the Group's business strategy and a fundamental cornerstone, together with capital, on which the strength of its balance sheet rests.

Liquidity became highly significant for bank management in recent years due to the stresses that arose in the financial markets in the context of a global economic crisis. This scenario emphasised the importance of banks having appropriate funding structures and strategies to ensure the continuity of their intermediation activity.

During that period of stress, Santander enjoyed an adequate liquidity position, which represented a competitive advantage in terms of carrying on and expanding its activity in a demanding environment.

Currently, in a more favourable scenario for liquidity, the Group continues to benefit from its proven robustness as it meets the new challenge of cost optimisation amid the demanding liquidity standards required by regulations, and as it drives growth in geographical areas previously undergoing deleveraging.

This improved position attained by the Group as a whole is based on a decentralised funding model composed of subsidiaries that are autonomous and self-sufficient in terms of liquidity. Each subsidiary is responsible for covering the liquidity needs arising from its current and future activity, either by means of deposits taken from its customers in its area of influence, or through recourse to the wholesale markets where it operates, under management and supervision procedures coordinated at Group level.

This is a funding structure that has proved to be effective in situations of high market stress as it prevents difficulties in one area from affecting funding capacity in other areas and, therefore, in the Group as a whole, which could occur if a centralised funding model were used.

In addition, at the Group this funding structure benefits from the advantages of having a commercial banking model with a significant presence in ten markets with great potential, with the focus on retail customers and a high level of efficiency. As a result, the subsidiaries have a considerable capacity to attract stable deposits, as well as a significant issue capacity in the wholesale markets of those countries, generally in their own currencies, which is bolstered by the strength afforded by their franchise and membership of a leading group.

Both the theory and the practice of the Group's management of liquidity and funding risk are detailed below:

- Liquidity management framework - Monitoring and control of liquidity risk
- Funding strategy
- Liquidity performance in 2014
- Funding outlook for 2015

3.1.1. Liquidity management framework - Monitoring and control of liquidity risk

Structural liquidity management seeks to finance the Group's recurring business with optimal maturity and cost conditions, avoiding the need to assume undesired liquidity risks.

Liquidity management at Santander is based on the following principles:

- Decentralised liquidity model.
- Medium- and long-term liquidity needs arising from the business must be funded using medium- and long-term instruments.
- High proportion of customer deposits, as a result of a commercial balance sheet.
- Diversification of wholesale funding sources by: instruments/investors; markets/currencies; and maturity periods.
- Restrictions on recourse to short-term wholesale financing.
- Availability of a sufficient liquidity reserve, including a capacity for discounting at central banks, to be drawn upon in adverse situations.
- Compliance with the regulatory liquidity requirements at Group and subsidiary level, as a new conditioning factor in management.

In order to ensure the effective application of these principles by all the Group entities, it was necessary to develop a single management framework resting on the following three cornerstones:

1. A sound organisational and governance model to ensure that senior management of the subsidiaries is involved in the decision-making process and is included in the Group's global strategy.

    - Part of the Group's risk appetite framework, this model establishes individual management metrics with specific levels for the structural funding ratio and minimum liquidity horizons under different scenarios of stress.
    - Main units involved: global ALCO, local ALCO, financial management area (strategy and implementation), market risks area (monitoring and control).

2. An in-depth liquidity risk measurement and balance sheet analysis to support decision-making and control.

    - By means of: monitoring balance sheet structure; short-term and medium-term liquidity projections; establishing basic metrics; and analysis of scenarios (potential additional liquidity requirements in response to severe events).

- Three basic metrics: liquidity gap; net structural position; and analysis of stress scenarios (idiosyncratic crisis; local systemic crisis; global systemic crisis).

3. A management approach adapted in practice to the liquidity needs of each business.

   - By means of: drawing up a yearly liquidity plan; monitoring the actual balance sheet and adjusting requirements during the year; active, diversified presence in wholesale markets.

A more detailed description of the Group liquidity management framework, its monitoring and control, methodology, metrics and scenarios, among other instruments, can be found in Note 54 (Risk Management; Liquidity and funding risk) to the financial statements.

3.1.2. Funding strategy

In the last few years Santander's funding activity has achieved its goal of obtaining sufficient funds for the Group's recurring business in a more demanding environment. Its critical point, located during the global economic and financial crisis, demanded the management of sharp increases in risk which resulted in very scant liquidity levels at certain time horizons and at very high costs. Market conditions which, following the interventions by the central banks of the major economies, eased significantly throughout 2013 and, in particular, in 2014.

This sound performance by Santander was underpinned by the extension of the management model to all Group subsidiaries, including recent acquisitions, and, above all, by the adaptation of subsidiaries' strategies to the growing demands, firstly of the markets and then of the regulators. These demands were not uniform across the markets and reached far higher levels of difficulty and pressure in certain areas, such as the peripheral countries of Europe.

In any case, it is possible to identify a series of general trends in the policies implemented by Santander’s subsidiaries in their funding and liquidity management strategies since the beginning of the crisis, namely:

- **Strong generation of liquidity in the commercial business due to the lower growth of lending and greater emphasis on attracting customer funds.**

  Taken as a whole, since December 2008 the Group's net loans increased by EUR 108,000 million (17%). At the same time, the focus on liquidity during the crisis combined with the Group's capacity for attracting retail funds through the branch network led to an increase of EUR 227,000 million in customer deposits. This represents a 54% increase in the balance at December 2008 and more than double the increase in the balance of net loans in the same period.

  All the commercial units increased their deposits, both the units in economies involved in deleveraging and those in economies in growth areas where the performance of deposits matched that of loans. The generation of liquidity has been particularly intense in Spain; close to EUR 100,000 million since December 2008.

  In 2014 these loan and deposit trends were interrupted at Group level. The disparity between the balances of loans and deposits ceased to narrow and even widened moderately in the year due, on the one hand, to the lower deleveraging and the recovery of production in the economies most affected by the crisis, and on the other, to the focus on reducing the cost of deposits in mature countries with interest rates at record lows.

- **Maintenance of adequate, stable medium- and long-term wholesale funding levels at Group level.** At 2014 year-end, this funding represented 21% of the liquidity balance sheet, a similar level to that of recent years (21% on average in 2010-2013), but much lower than the 28% at 2008 year-end, when wholesale liquidity was more abundant and less costly but had not yet suffered the stresses of the crisis.

Following the tightening of conditions on the wholesale markets, the Group’s model of decentralised subsidiaries, each with their own issue programmes and ratings, contributed to maintaining Santander’s high-level participation in the developed wholesale markets, even in the most demanding periods, such as the two-year period encompassing 2011 and 2012.

- **Holding a sufficient volume of assets eligible for discount at central banks** as part of the liquidity reserve to cater for episodes of stress on wholesale markets.

  In particular, the Group has raised its total discount capacity significantly in recent years from levels of around EUR 85,000 million at 2008 year-end to around EUR 170,000 million now. At December 2014 this volume was almost double the commercial gap (i.e., the difference between net loans and deposits) following the decrease recorded therein due to the aforementioned business dynamics.

Thanks to all these market and business developments, based on a sound liquidity management model, Santander currently enjoys a very robust funding structure, the main features of which are as follows:

- A high proportion of customer deposits on a commercial balance sheet.

  Customer deposits are the Group's main source of funding. They represent around two thirds of the Group's net liabilities (i.e. of the liquidity balance sheet) and at the end of 2014 they accounted for 88% of net loans.

  These are also very stable funds because they mainly originate from the retail customer business (84% of the Group's deposits come from commercial and private banking; the remaining 16% come from large corporate and institutional clients).

- Diversified wholesale funding, primarily at medium and long term, with a very small proportion maturing in the short term.

  Medium- and long-term wholesale funding represents 21% of the Group's net liabilities and enables it to comfortably cater for the other net loans not financed with customer deposits (commercial gap).

  This funding is well-balanced by instrument (approximately 1/3 senior debt, 1/3 securitisations and secured, structured loans, 1/4 cedula-type covered bonds, with the remainder consisting of preference shares and subordinated debt) and by market: the markets with a greater proportion of issues are the ones where investment activity is higher.

  Within the medium- and long-term wholesale funding, the outstanding balance of issues on the market at 2014 year-end stood at a nominal amount of EUR 140,346 million and offered an appropriate profile of maturities with an average term of 3.5 years.

  Its recent performance reflects, on the one hand, the impact of the depreciation of the euro against the main currencies, and on the other, the greater recourse to the markets in 2014 with the attraction of funds exceeding the maturities and repayments in the year. The table below gives the breakdown by instrument in the last three years and the profile of contractual maturities.

MEDIUM- AND LONG-TERM DEBT ISSUES. SANTANDER GROUP

Million euros

	Evolution of outstanding balance in nominal value		
	December 2014	December 2013	December 2012
PREFERRED SHARES	7,340	4,376	4,765
SUBORDINATED DEBT	8,360	10,030	11,004
SENIOR DEBT	68,457	60,195	69,916
COVERED BONDS	56,189	58,188	67,468
TOTAL	140,346	132,789	153,152

	Distribution by contractual maturity. December 2014*								
	0-1 month	1-3 months	3-6 months	6-9 months	9-12 months	12-24 months	2-5 years	Over 5 years	Total
PREFERRED SHARES	0	0	0	0	0	0	0	7,340	7,340
SUBORDINATED DEBT	0	0	0	0	152	1,682	3,352	3,173	8,360
SENIOR DEBT	1,470	4,066	7,092	2,931	6,313	16,808	21,386	8,392	68,457
COVERED BONDS	2,842	5,549	2,250	894	2,389	9,303	15,478	17,484	56,189
TOTAL	4,312	9,615	9,342	3,825	8,854	27,793	40,216	36,388	140,346

* In the case of issues with put option in favour of the holder, the maturity of the put option will be considered instead of the contractual maturity.

Note: all of the senior debt issued by the Group's subsidiaries does not have additional guarantees.

In addition to the debt issues, the medium- and long-term wholesale funding is rounded out with the facilities of the Federal Home Loan Banks in the United States (approximately EUR 8,000 million) and with the funds obtained from securitisation activities. These include securitisation bonds placed on the market and collateralised and other special financing for an aggregate amount of EUR 55,000 million with an average maturity of more than two years.

The wholesale funding from the short-term issue programmes is a residual part of the Group's financial structure (it represents around 2% of net liabilities), which is connected with the cash activities and is more than covered by liquid financial assets.

At December 2014 the outstanding balance amounted to EUR 21,400 million and was raised mainly by the United Kingdom unit and the parent through the existing issue programmes: various certificate of deposit and commercial paper programmes in the United Kingdom, 49%; European commercial paper, US commercial paper and the parent's domestic programmes, 22%; other programmes of other units, 29%.

Information about the residual terms to maturity and average interest rates can be found in Note 51.a to the financial statements.

3.1.3. Evolution of liquidity in 2014

The key aspects of the performance of liquidity in the year were:

- *Comfortable liquidity ratios*, underpinned by a balanced commercial activity and greater attraction of medium- and long-term wholesale funding (up 44% on 2013) which absorb the growth in lending.

- *Early compliance with regulatory ratios*: at 2014 year-end, LCRs of over 100% at both Group and subsidiary level, compared with 60% that will be required from October 2015.

- *High liquidity reserve*, reinforced with respect to 2013 in terms of quantity (EUR 230,000 million) and quality (44% of the total are *high-quality liquid assets*).
- *Scant weighting of encumbered assets* in medium- and long-term wholesale financing transactions: around 13% of the Group's balance sheet as at 2014 year-end.

These aspects are discussed in greater detail below**:**

Basic liquidity ratios at comfortable levels

This table shows the performance in recent years of the basic metrics of liquidity monitoring at Group level:

MONITORING METRICS. SANTANDER GROUP

	2008	2012	2013	2013
Net loans/net assets*	79%	75%	74%	74%
Net loan-to-deposit ratio (LTD)	150%	115%	112%	113%
Customer deposits and medium- and long-term funding/net loans	104%	117%	118%	116%
Short-term wholesale funding/net liabilities*	7%	2%	2%	2%
Structural liquidity surplus (%/net liabilities*)	4%	16%	16%	15%

* Balance sheet for liquidity management purposes.

Note: in 2012, 2013 and 2014 customer deposits include retail commercial paper in Spain (excluding short-term wholesale funding).

The 2012 and 2013 ratios include SCUSA on a fully consolidated basis, as in2014.

At 2014 year-end Santander Group had a comfortable liquidity position as a result of the performance of the subsidiaries. Accordingly, only one unit, Santander Consumer Finance (SCF), significantly increased its net loan-to-deposit (LTD) ratio as compared to December 2013, due to the inclusion of businesses. However, the greater effort made by SCF in issues and securitisations enabled it to maintain a stable ratio of deposits and medium- and long-term funding to net loans.

The other units recorded stable or improved liquidity positions. The most improved units include most notably Portugal, which has taken advantage of the *flight to quality* and a deleveraging process in its final stages to attract retail deposits and access the markets before its rivals.

The following table shows the most frequently used liquidity ratios for Santander's main management units at December 2014:

LIQUIDITY RATIOS FOR THE MAIN UNITS

December 2014. Percentages

	Net loan-to-deposit ratio (LTD)	Deposits + medium- & long-term funding/net loans
Spain	88%	155%
Portugal	97%	115%
Santander Consumer Finance	196%	73%
Poland	84%	122%
UK	124%	107%
Brazil	109%	121%
Mexico	90%	117%
Chile	131%	99%
Argentina	81%	125%
US	144%	106%
TOTAL GROUP	**133%**	**116%**

Note: In Spain, including retail commercial paper IN deposits.

In general, there are two keys to the 2014 performance of both the Group and the subsidiaries' liquidity positions:

1. The widening of the commercial gap, following several years in which it narrowed, due to the lower deleveraging in mature and peripheral markets.

2. More intense issuing activity, especially by the European units, in view of a more favourable wholesale market situation.

With regard to the first of these keys, the Group increased the differential between net loans and deposits by EUR 13,500 million. Three large units basically explain the larger differential: United Kingdom, United States and SCF.

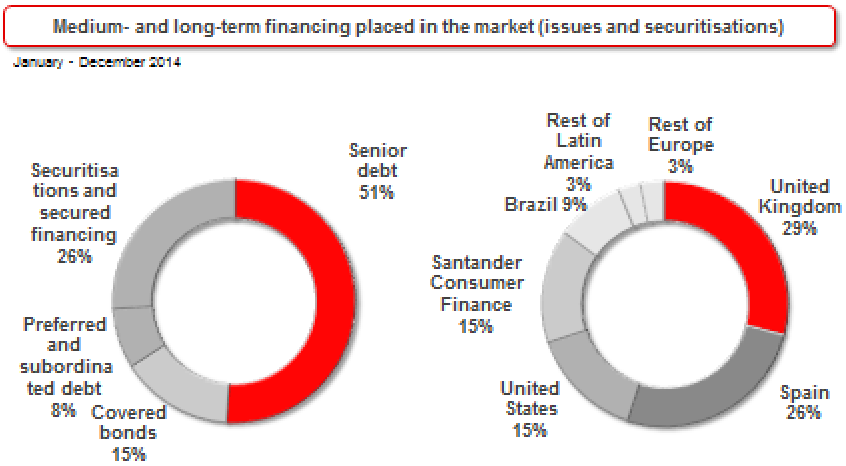
The first two units, which generated liquidity in previous years due to the deleveraging of their economies, presented growth in lending in 2014 in environments of strong recovery. SCF also reflects the recovery of consumption in Europe, albeit still somewhat weak, and above all, the inclusion in its scope of consolidation of businesses in Spain and in the Nordic countries.

The second key is the increased recourse to medium- and long-term wholesale funding. Following the decline in 2013 due to the excess liquidity generated by the commercial businesses, in 2014 the Group's subsidiaries, particularly the European ones, took advantage of the market relaxation and the liquidity injections of the central banks to increase this volume. In the Group as a whole, the total medium- and long-term funding raised amounted to EUR 52,000 million, 44% more than in 2013.

By instrument, medium- and long-term fixed-income issues (senior debt, covered bonds, subordinated debt and preferred shares) recorded the largest increases, up 70% to more than EUR 38,000 million, with a higher proportion of senior debt to covered bonds (the former represents two-thirds of the total). Spain was the biggest issuer followed by the United Kingdom and the Santander Consumer Finance units; together these three accounted for 79% of the issues.

The remaining EUR 13,400 million of medium- and long-term funding related to securitisation activities and secured funding, and they remained stable year-on-year. The units specialising in consumer finance in the US and Europe account for 90% of the total.

The following figure details the breakdown by instrument and geographical region:



In short, Santander Group maintains an ample capacity to access the various markets in which it operates, which was strengthened by the incorporation of new issuer units. In 2014 it launched issues and securitisations in 13 currencies, in which 18 significant issuers in 15 countries participated, with an average maturity of approximately 3.8 years, slightly more than in 2013.

Early compliance with regulatory ratios

As part of its liquidity management model, in recent years Santander Group has been managing the implementation, monitoring and early compliance with the new liquidity requirements set by international financial legislation.

Liquidity Coverage Ratio (LCR)

In 2014, following the approval in 2013 by the Basel Committee of the final definition of the short-term liquidity coverage ratio (LCR), the delegated act of the European Commission was adopted which, within the scope of the CRD IV, defines the criteria for calculating and implementing this metric in the European Union. A new development is that its implementation has been delayed until October 2015, although the level of initial compliance remains at 60%, which should gradually increase to 100% by 2018.

The good starting position in short-term liquidity, coupled with the autonomous management of the ratio in all major units, has enabled compliance levels exceeding 100% to be maintained throughout 2014, at both consolidated and individual level in all of these units.

Net Stable Funding Ratio (NSFR)

The final definition of the net stable funding ratio was approved by the Basel Committee in October 2014, and it has still to be transposed into local regulations. The ratio is currently in an observation period and, unless there are changes in its implementation in European legislation, it will enter into force on 1 January 2018.

In relation to this ratio, Santander benefits from a high weighting of customer deposits, which are more stable, from permanent liquidity needs arising from the commercial activity funded by medium- and long-term instruments, and from limited recourse to short term. All of this enables the Group to maintain a balanced liquidity structure, which is reflected in NSFR levels exceeding 100% at 2014 year-end, both at Group level and for most of the subsidiaries.

In short, the liquidity model and management enable Santander to bring forward compliance with both regulatory metrics by the Group and by its main subsidiaries, well ahead of the legal requirements.

High liquidity reserve

The liquidity reserve is the collection of highly liquid assets held by the Group and its subsidiaries to serve as a last resort in situations of maximum market stress, when it is not possible to obtain funding for adequate terms at adequate prices.

Consequently, this reserve includes the balances with central banks and cash, uncommitted government debt securities, the discounting capacity at central banks, as well as financeable assets and lines available at official bodies (e.g. the US Federal Home Loans Banks). This all strengthens the sound liquidity position that Santander's business model (diversification, focus on commercial banking, autonomous subsidiaries, etc.) affords the Group and its subsidiaries.

At 31 December 2014, Santander Group's liquidity reserve stood at EUR 229,957 million, i.e. 15% more than at December 2013 and 4% more than the average for 2014. This volume represents 26% of the Group's net external financing and over 100% of the total wholesale funding raised (including short-, medium- and long-term). The following table gives the breakdown of this volume by type of asset according to its effective value (net of haircuts):

LIQUIDITY RESERVE

Effective value (net of haircuts) in million euros

	31/12/2014	Avg. 2014	31/12/2013
Cash and balances with central banks	47,654	46,584	45,091
Available public debt	52,884	50,056	36,382
Discount available at central banks	115,105	111,215	107,520
Financeable assets and undrawn credit lines	14,314	13,060	10,757
Liquidity reserve	**229,957**	**220,915**	**199,750**

Note: the reserve excludes other assets of high liquidity such as listed fixed-income and listed equity portfolios.

This quantitative increase was accompanied by a qualitative increase in the Group’s liquidity reserve, resulting from the varying performance of its different assets. Accordingly, the first two categories (cash and balances with central banks + available public debt), the most liquid (or "high-quality liquid assets" in Basel terminology, as "first liquidity line"), posted above-average growth. In 2014 they rose by close to EUR 19,000 million, increasing their weighting to 44% of total reserves at year-end (as compared with 41% in 2013).

Also noteworthy is the increase in the available discount capacity with central banks in 2014, in line with the strategy implemented by the Group and the subsidiaries in recent years. After reaching its maximum levels in September, it declined in the last quarter due to the use of TLTROs by the units in the euro zone (parent, Portugal, SCF), a trend that will continue throughout 2015.

Asset encumbrance

Lastly, it is important to note the Group's moderate use of assets as security for structural balance-sheet funding sources.

Following the guidelines laid down by the European Banking Authority (EBA) in 2014, the concept of asset encumbrance includes both on-balance-sheet assets provided as security in transactions to obtain liquidity and off-balance-sheet assets that have been received and re-used for the same purpose, as well as other assets associated with liabilities for reasons other than funding.

The detail of these assets is included in Note 54 to the accompanying consolidated financial statements.

3.1.4. Funding outlook for 2015

The Group finishes 2014 with a comfortable liquidity situation in a more favourable market environment due to the expectations for recovery and stability, not without risks, and to the substantial liquidity injections initiated by the European Central Bank (ECB), via auction and public debt purchases, which will last until mid-2016.

With maturities that are assumable in the coming quarters, due to the reduced weighting of short-term and the crucial dynamism of medium- and long-term issues similar to the year-ago period, the Group will manage these needs in each geographical area together with the specific needs of each business, including the projected inclusion of new portfolios and businesses, especially consumer banking in Europe.

The forecast scenario of higher growth with low interest rates will generate liquidity needs at many units, in both mature and emerging economies, in some cases due to the recovery in lending and in other cases due to the returns on the liability positions.

To cover these greater commercial needs, in most cases the units will have the surplus positions they enjoyed at 2014 year-end. In addition there is substantial access to wholesale markets, which currently offer longer maturities and lower spreads than in previous years, especially in Europe thanks to the quantitative boosts of the European Central Bank. All of this will enable the Group's subsidiaries to maintain liquidity structures appropriate to their balance sheets.

Additionally, at Group level, Santander maintains its long-term plan to issue liabilities that are eligible for inclusion in capital. This plan commenced in 2014 with the aim of efficiently reinforcing regulatory ratios and of increasing its total loss absorption capacity, and it could give rise to fresh recourse to the market if the right conditions arise.

Within this general framework, various Group units have taken advantage of the good market conditions at the start of 2015 to launch issues and securitisations with very narrow spreads, raising over EUR 4,000 million in January. Added to that is the liquidity arising from the capital increase carried out by the Group in the same month, which brings the total liquidity raised in the market to over EUR 11,500 million.

3.2 Capital

Capital management at the Group seeks to ensure the capital adequacy of the entity and to maximise its profitability, guaranteeing compliance with internal capital targets and regulatory requirements. It is a fundamental strategic tool for decision-making at local level and at corporate level.

The Group's capital management is performed at two levels: regulatory and economic.

Regulatory capital management is based on the analysis of the capital base, of the capital adequacy ratios under the criteria of current legislation and of the scenarios used in capital planning. The objective is that the capital structure is as efficient as possible in terms of both cost and compliance with regulatory requirements. Active capital management includes securitisations, asset sales, issuance of equity instruments (preferred shares and subordinated debt) and equity hybrids.

The purpose of economic capital management is to optimise the creation of value for the Group and for the units comprising it. To this end, on a quarterly basis the figures relating to economic capital, RORAC and value creation for each business unit are generated, analysed and reported to the management committee. Also, in the framework of the internal capital adequacy assessment process, the Group uses an economic capital measurement model in order to ensure the sufficiency of available capital to bear all the risks of its business activity under different economic scenarios, and with the capital adequacy level decided by the Group.

Capital stress tests have gained particular significance as a tool for the dynamic evaluation of banks' risk exposure and capital adequacy. A new forward-looking assessment model is becoming a key component of capital adequacy analysis.

This forward-looking assessment is based on both macroeconomic and idiosyncratic scenarios that are highly improbable but nevertheless plausible. To conduct the assessment, it is necessary to have robust planning models capable of transferring the effects defined in the projected scenarios to the various elements that have a bearing on the adequacy of a bank's capital.

The ultimate goal of capital stress tests is to perform a complete evaluation of banks' risk exposure and capital adequacy in order to determine any possible capital requirements that would arise if banks failed to meet the regulatory or internal capital targets set.

In particular, the European Central Bank performed a comprehensive assessment in 2014 prior to the implementation of the Single Supervisory Mechanism, in which the most significant entities in the EU participated.

Banks participating in this exercise were subjected to a risk assessment, an asset quality review and a stress test. Its objective was to increase transparency, control and credibility, in order for the results to bolster the private sector's trust in the capital adequacy of European banks and the quality of their balance sheets.

The result of the ECB comprehensive assessment for Banco Santander highlighted the quality of its portfolios, the correct valuation of assets and the appropriate provisions, as well as the strength of its business model in view of adverse macroeconomic scenarios:

- Scantly material adjustment in CET1 (-4 basis points) arising from the AQR, which is a far cry from the system average (-40 basis points), which reflects the correct valuation and classification of the assets and the Group’s adequate provisioning policy.

- With respect to the stress test, Santander passed the proposed scenarios comfortably, particularly the adverse scenario which is very unlikely to occur:

  – In the baseline scenario, an increase of 161 basis points in the Group’s CET1 ratio to 12% in 2016, reflecting its capacity for generating capital.

  – In the adverse scenario, a fall of 143 basis points in the Group’s CET1 ratio to 9% in 2016 (with a buffer of EUR 19,546 million over the minimum capital requirement), reflecting the model's resistance to unfavourable environments.

In short, the scantly material adjustments of the AQR, the low impacts on the scenarios considered in the stress tests and capital buffers achieved confirm that Santander Group operates with adequate capital levels for its business model and its medium-low risk profile.

Santander Group has defined a capital planning and stress testing process not only to enable it to respond to the various regulatory exercises, but also to serve as a key tool forming an integral part of the Bank's management and strategy.

The purpose of the internal capital planning and stress testing process is to ensure the current and future sufficiency of the Group's capital, even in adverse but plausible economic scenarios. To this end, taking as a basis the Group's initial position (as defined by its financial statements, its capital base, its risk parameters and its regulatory ratios), estimates are made of the expected outcomes for the Group in various business environments (including severe recessions as well as “normal” macroeconomic scenarios), and the Group's capital adequacy ratios, projected generally over a three-year period, are obtained.

The process implemented provides a comprehensive view of the Group's capital for the time horizon analysed and in each of the scenarios defined. The analysis incorporates regulatory capital, economic capital and available capital metrics.

At 2014 year-end, total shareholders' equity, after retained earnings, amounted to EUR 91,664 million, up EUR 7,185 million and 9% year-on-year.

Valuation adjustments improved by EUR 3,295 million, with a notable impact from the positive effect that exchange rates had on the value of the ownership interests in foreign subsidiaries (partially hedged) and from the valuations of portfolios, primarily fixed-income.

As a result of all of the above, capital amounted to EUR 80,806 million at year-end, up EUR 10,479 million and 15% year-on-year. With the additional EUR 7,500 million from the capital increase carried out in January, capital rose to EUR 88,306 million.

The Group's eligible capital, updated to include the capital increase, stands at EUR 77,854 million.

Under the new European capital regulations, and aimed exclusively at qualified investors, in 2014 Banco Santander, S.A. launched three issues (two for EUR 1,500 million and the other for USD 1,500 million) of shares contingently convertible into ordinary shares of the Bank that are eligible as Additional Tier 1 capital (AT1), with which it reinforces its capital adequacy (Tier 1).

From a qualitative point of view, Santander Group has solid ratios that are in line with its business model, balance sheet structure and risk profile.

The Common Equity Tier 1 (CET1) ratio phase-in is 12.2%, the same as the Tier 1 Capital ratio, while the total ratio is 13.3%. In fully-loaded terms, the CET1 ratio is 9.7% and the total ratio is 11.8%. All of these ratios take into consideration the capital increase carried out in January 2015.

Further information on capital, capital requirements and capital adequacy ratios, as well as the Group's management policies and criteria, can be found in Notes 1.e and 54 to the consolidated financial statements and also in the disclosure of prudential information that is published annually.

4. RISKS

The Group's business is exposed to the same risks as those faced by other financial institutions; risks that could have a material adverse impact on it if they occur.

The Group's geographical diversification means that it is sensitive to the economic conditions in continental Europe, the United Kingdom, the United States, Brazil and other Latin American countries.

The Group's ordinary business is also subject to other factors, such as strong competition, market volatility, the cyclical nature of some businesses, market, liquidity and operational risk, losses due to litigation and regulatory and other proceedings, which may negatively affect the Group's earnings, its rating and/or funding costs, including risks not identified or envisaged in the Group's risk management methods, policies and procedures.

The quality of its risk management is one of the Group's distinguishing features and it is therefore a focal point of action.

The Group's risk policy is geared towards maintaining a predictable medium-low risk profile in all of its risks, and its risk management model is a key factor to achieving the Group's strategic objectives.

The Group's risk management and control systems are adapted to the risk appetite framework approved by its senior governing bodies and to the banking business model established.

The Group risk management model underlying the business model is based on the following principles: independence of the risk function with respect to the business; direct involvement of senior management in the decision-making process; decision-makings by consensus, in order to ensure that different opinions are taken into account and individual decision-making is avoided, and definition of powers. Risk is controlled and managed in an integrated fashion through a corporate structure with Group-wide responsibilities (all risk, all businesses, and all geographical areas).

The main risks that the Group faces and the policies and methodologies used to control, manage and mitigate them are described in the notes to the accompanying consolidated financial statements, mainly Note 54. The notes include information on credit risk, market risk, operational risk, country-risk, compliance and reputational risk, foreclosures, restructuring and refinancing transactions and risk concentration.

The Bank's senior management considers that within the intrinsic risks of the banking business, in recent years the emerging risks have been those related to the macroeconomic environment, regulatory change and reputational and conduct risk. The treatment and mitigating actions for these risks are also described in Note 54 to the accompanying consolidated financial statements.

5. EVENTS OCCURRING SUBSEQUENT TO YEAR-END

From 1 January 2015 to the date on which the consolidated financial statements were authorised for issue, the following significant events occurred:

- On 8 January 2015, the Group announced that its board of directors had resolved to increase capital through an accelerated bookbuilt offering with disapplication of pre-emption rights. The capital increase amounted to EUR 7,500 million, of which EUR 607 million related to the par value of the 1,213,592,234 new shares issued and EUR 6,893 million to the share premium.

- At its meeting of 12 January 2015, the Bank’s executive committee resolved to apply the Santander Dividendo Elección scrip dividend scheme on the dates on which the third interim dividend is traditionally paid, whereby the shareholders were offered the option of receiving an amount equivalent to said dividend, the gross amount of which was EUR 0.146 per share, in shares or cash.

6. INFORMATION ON THE OUTLOOK FOR THE ENTITY

The directors' report contains certain prospective information that reflects the plans, forecasts and estimates of the Bank's directors which are based on assumptions that they consider to be reasonable. However, users of this report should bear in mind that prospective information should not be viewed as a guarantee of the Bank's future performance, since these plans, forecasts and estimates are subject to numerous risks and uncertainties which mean that the future performance of the Bank need not necessarily match that initially anticipated. These risks and uncertainties are described in the directors' report, mainly but not exclusively in the section that discusses the main risks and uncertainties to which the Bank is exposed.

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 zone, 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 zone 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.

The emerging countries face a challenging 2015, especially the commodity exporters given the current trend in commodity prices. All of this, combined with the rebalancing of liquidity flows between geographical areas caused by forecasts of interest rate rises, may cause volatility and stress in the financial markets.

With regard to the main Latin American markets in which the Group operates, Brazil will continue immersed in economic reforms to strengthen its growth from the end of 2015 and achieve higher rates in 2016. Mexico will take advantage of the strength of the US and of the government’s infrastructure and energy plan to recover higher growth rates that forecasts put at above 3%. Chile, meanwhile, will be boosted by a still moderate recovery in domestic demand which will quicken as the year goes on.

This economic scenario will lead to a banking activity with different rhythms and characteristics depending on the geographical area and business. Forecasts point to:

- Initial recovery and stabilisation of credit in the euro zone, encouraged by low interest rates and the European Central Bank’s liquidity injections, with certain economies and sectors reflecting still needed deleveraging processes. Excess liquidity and low interest rates mean that the preference for off-balance-sheet funds will continue to the detriment of deposits.

- Faster growth in lending in the other mature markets, especially in the United States, as already shown by the 2014 year-end figures. Growth in deposits will be in line with or somewhat higher than that of loans.

- The Latin American economies will keep growth in lending close to or above double digits, underpinned by growing bankarisation and high levels of nominal GDP. Higher rates in Mexico and Chile favoured by very low interest rates, whereas Brazil has the highest interest rates of the last four years to control inflation.

In parallel, banking activity will continue to be shaped by a rapidly evolving regulatory environment both at international level and in each geographical area, in order to have stronger and more transparent banking systems. Growing demands on capital, liquidity, loss-absorbing potential, control and governance, inter alia, some of them enforceable from 2015 (for example, the short-term Liquidity Coverage Ratio (LCR)), will continue to increase the complexity of the banking business and to impact on its structural returns, in terms of both lower revenues and higher costs.

Also from the standpoint of relationships with customers, banks have to keep making progress in adapting to technological changes that transform the way of dealing with customers, with a greater emphasis on technology in the channels, and to handle growing competition from originally non-banking entities which are leaders in the digital economy.

In short, 2015 points to a scenario of increasing demand for banking management, especially in the case of a multinational group such as Santander with a presence in the three economic and financial environments described, classified as a Global Systemically Important Bank (G-SIB) by the regulators for the purposes of applying regulatory changes in the first instance, and which wishes to lead the digital revolution that will transform the way banking is done in the coming years.

Santander Group starts 2015 with good trends in results and volumes, with the ten core units increasing their pre-tax profit and nine of them posting growth in lending. Also, it has comfortable liquidity and capital positions, strengthened following the capital increase carried out in January 2015, which will facilitate growth in the environment of recovery described above.

The ultimate objective is to improve the return on capital employed. In order to achieve this the focus was placed on the following strategic priorities:

1. In relation to the businesses, the Group seeks to improve the commercial franchises and customer service. In particular, it is already undertaking the transformation of commercial banking, growing in SMEs and companies, in Select and private banking, and in consumer finance. In general, there is a great opportunity that must be seized: to gain business share in many of the markets in which the Group operates.

2. Continue to improve efficiency. With lower interest rates and slower growth, it is essential to do more at a lower cost in order to improve returns. Santander must continue with the three-year efficiency plan launched in 2014, which exceeded the savings targets in its first year and raised the target for the third year to EUR 2,000 million from the initial EUR 1,500 million.

3. The improvement in efficiency must go hand in hand with operational excellence which implies the digital transformation of the Bank: a simplification of internal processes that help the Group to be more efficient and to provide a better customer service.

4. The more efficient use of capital is a growing priority in the new environment. In view of the higher capital requirements for banking, it is essential to optimise its use. This requires the Group to leave non-strategic businesses to free up capital and invest it in areas or businesses with greater growth potential.

5. The reinforcement of risk management, a traditional priority in well-managed entities, has also become more important in the current environment. Santander launched significant measures on which work will continue, including most notably the creation of a new board committee responsible for assisting the board of directors in matters of risk policy and supervision and the local implementation of the risk appetite in the main units.

6. In order to implement all these strategies it is necessary to have employees who are qualified, motivated and aligned to the Bank's strategy. The improvement of human resources management is fundamental, and the Group is carrying this out through a new master plan to accompany and facilitate the transformation of the Bank in its objective of becoming an entity that is closer to its customers and a better place to work.

7. And finally, as a result of all these strategic actions, Santander expects to achieve higher returns for shareholders. As has already been announced to the market, the Group aims to position the return on tangible equity at levels of between 12% and 14% by 2017, improving the efficiency ratio and with a dividend distribution largely in cash and growing with the Group's profits.

Following is a brief description of the management priorities of the main units in 2015, starting with the main units operating in mature markets, followed by those operating in emerging markets:

Mature markets

United Kingdom. Starts 2015 with good business dynamics with individuals and companies resulting in growth in commercial income and profits. In an environment of economic growth, these dynamics and a strong balance sheet are the basis for developing its strategic business lines:

- Increase the number of customers with their main account at Santander, and grow in corporate and mortgage lending.
- Continue to invest in digital technology.
- Maintain good credit quality and continue to strengthen the balance sheet, in liquidity and capital.

Spain. In an economy recovering strongly, and after completing the integration of the networks, the objective is to continue to normalise profit, with a greater focus on the commercial business, service quality, customer loyalty and transaction/product counts. Priorities by business:

- Increase the share of assets, with more emphasis on SMEs within the Advance strategy.
- Strict cost management, compatible with digital enhancements.
- Continued improvement in the cost of credit.

Santander Consumer Finance. Underpinned by better business dynamics than those of its competitors in recent years, in 2015 the area faces the challenge of integrating units that improve its strategic position and future growth potential. Its priorities will be centred on:

- Accelerating the integration and start-up of new joint operations with Banque PSA, and the business acquired from GE Money in the Nordic countries in late 2014.
- In traditional units, boosting new production to margins that are appropriate at any given time in each market, taking advantage of brand agreements and of the penetration in the used car market.

United States. In 2015 work will continue to strengthen the Group’s position in this country. There are two main objectives: on the one hand, to continue improving the commercial franchise to be in a position to gain market share in a growing economy; on the other hand, to strengthen the governance and control structures through additional investments in technology, risk and regulatory compliance, which will enable Santander to comply as quickly as possible with the demands of the regulator. By type of unit, the commercial management priorities will be centred on:

- At the commercial units (Santander Bank and Puerto Rico), focus on capturing and boosting the loyalty of retail customers, and on consolidating Select for high income customers; at companies and wholesale banking units, focus on the Commercial & Industrial segment and on increasing transactional deposits.
- At the consumer finance unit (Santander Consumer USA): furthering the strategy of originating to sell in vehicles and leasing, maintaining a flat balance sheet; in parallel, increasing the third-party servicing business; and consolidating the business arising from the agreement with Chrysler.

Portugal. In 2015 the profit improvement process will continue. In an environment with competitors in a position of weakness, Santander has the opportunity to gain market share, growing in terms of customers and income, while continuing with improvements in costs and provisions. The management priorities will be centred on:

- Increasing customer loyalty, with greater focus on SMEs/companies with the objective of gaining market share.

- Continuing the normalisation of the cost of deposits and lending in an environment in recovery.
- Maintaining efficiency plans to reduce costs for the sixth consecutive year.

Emerging markets

Brazil. Given the environment of adjustments and low growth, Santander has a well-positioned franchise which is improving its business model through the increase in commercial activity, recurring income and lower risk. Looking forward to 2015 there are initiatives in place to:

- Increase the number of loyal customers with high-value products and improvements in satisfaction.
- Boost lending, with greater impetus on SMEs thanks to the launch of the Advance strategy.
- Improve commercial productivity, while furthering efficiency plans to bring the growth in costs below inflation.

Mexico. In an accelerating economy which has raised its growth potential after the reforms undertaken, the Group will seek to capitalise on the opportunities of a franchise that has been strengthened in recent years. Key management matters in 2015 will be:

- To grow faster than the market, focusing on high-income individuals (Select), SMEs (Advance) and companies.
- To increase transactional customer loyalty with investments in technological innovation and multi-channel banking, including new branch openings to complete the three-year plan.
- To participate actively in the financing of the infrastructure plan announced by the government, and in the projects related to reform of the energy sector.

Chile. Following the improvements achieved in commercial management and customer loyalty, in 2015 the unit faces an environment of increased economic activity supported by more expansive monetary and fiscal policies. In this scenario, the bank's strategy will be focused on:

- Perfecting the customer experience supported by a transformation of commercial banking.
- Greater focus on fostering the loyalty of high-income individuals via Select, and on the relationship model with companies, institutions and large corporations, where growth is expected to accelerate.

Poland. Commences 2015 from a good market position, following the success of the commercial campaigns that made it possible to increase lending and funds and following the completion of the integration of the two banks. In an economy with sound growth and interest rates at record lows, the management priorities of the Polish unit will be focused on:

- Becoming the leading bank for customers and employees, through an improvement in satisfaction and on the back of its leadership in cards, mobile and internet banking.
- Increasing market share in target segments.
- Improving efficiency, productivity and profitability, while maintaining a sound capital structure.

Argentina. Santander Río, the leading private bank in the country in terms of volumes, will rely on a very transactional business model and a solid balance sheet to manage an environment that remains complex. In 2015 the management priorities will be focused on improving the Group's commercial position to take advantage of Argentina's increased bankarisation. The major focus will be on high-income individuals, SMEs and transactional products.

Lastly, the global businesses will continue to generate income and profits for the Group, and at the same time they will implement strategies to make the commercial units more competitive with respect to their local competitors.

Santander Global Banking and Markets will continue to develop its capabilities to accompany the large multinational companies in the geographical areas in which Santander operates. Key priorities will be: to further the cooperation with the retail networks and to focus on transactionality; to boost the franchises in main countries with high potential, while expanding coverage in Asia and in the Andean region; to expand the offering of credit products to corporate customers and investors.

The other global businesses, private banking, asset management and insurance, will continue to build sustainable models on the back of an offering of higher value advisory services and products, that are more in line with the customers' needs, and easier to arrange (multichannel banking). All of this will make it possible to improve customer satisfaction and customer loyalty and consequently boost business. Also contributing decisively to this will be the strategic agreements with product specialists in several of the Group's main countries, both in asset management and in insurance, which are already offering very good results.

All these initiatives translate into a series of medium-term financial and non-financial targets at Group level related to key aspects of banking: growth, efficiency, risk management, solvency and profitability.

7. RESEARCH, DEVELOPMENT AND INNOVATION ACTIVITIES

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.

As a result of all of the foregoing, as in prior editions, the ranking prepared by the European Commission (The 2014 EU Industrial R&D Investment Scoreboard, with figures from 2013) recognises the entity's efforts in technology, making Santander Group the top Spanish company and the top bank worldwide by investment of own funds in R&D.

In 2014, technology investment in R&D+I totalled EUR 1,345 million, which represents 3% of gross income, in line with previous years.

New Technologies

2014 was marked by the actions of Santander Group to position itself in the technological revolution the Group is undergoing. The world is experiencing a technological paradigm shift, in which leveraging is necessary in order to continue contributing value to the customers and shareholders, while also maintaining the functioning and evolution of the technology assets that are already available.

In a constantly and rapidly evolving technological reality, it is essential to be apprised of, value and act on those facets that are likely to be successful, minimising the resources devoted to technologies and approaches with a potentially limited lifetime. From a technological standpoint, the financial services industry also faces the need to understand not only the new core technologies, but also how they are applied in other industries, in order to be able to offer customers the best possible experience.

Customer behaviour has changed radically. They seek the possibility of dealing with the entity in multiple ways, in a simple manner and with an optimal experience in each and every one of their interactions with the entity. Thus, a new fully customer-centric architecture which is supported by new customer interaction technologies and customer information management technologies becomes key to the Group.

Mobility is not new, it is a reality that has been with us for several years. The people banks deal with have mobile devices, which they use consciously or unconsciously; but what is more important is that people are mobile by nature and these days they have a computing capacity (mobile devices, computers, ATMs, etc.) at their disposal that enables them to access the bank's services from any place at any time.

The presence of the cloud has become familiar to the Group's customers. The first challenge for banks is to understand the different realities that are behind the cloud concept, since it is not the same to talk about infrastructure, platforms or software; thus it is necessary to define what the strategy should be, so that the advantages of cloud services can become compatible with the classic requirements for banking technology of security and soundness.

Big Data technologies appear to have reached an appropriate degree of maturity and they enable the banking system to rethink which data will be used in the future, from where they might be accessed and how this access might be articulated. These technologies allow access to new sources of information, but their great value is that of channelling a change in the way of exploiting the data and information that are already available.

This combination of mobility, cloud services and Big Data techniques, together with the use of social networks, which facilitate new ways of cooperating and can constitute new sources of information, is facilitating a so-called digital revolution in banking, which has two classic objectives (commercial effectiveness and process efficiency), and makes a new one possible (the entry into businesses other than banking).

In addition to positioning itself in the above-mentioned technologies, the Group maintains a constant focus on possible lines of technological evolution (Internet of Things, robotics, drones, virtual advisors, 3D printers, etc.), and on the developments within open source software communities.

The most notable lines of concrete progress were as follows:

- Improvement in the customer experience. The continuous and unstoppable increase in the interaction of the Group's customers through the various remote channels obliges us to improve the modus operandi, interface, integration and functionality of these channels, without disregarding the obligatory demand for service quality and transparency. The emergence of the solely digital customer forces us to rethink the way the Group operates. This is why the following initiatives were launched in this field:

  - In the new channels: the channel that will grow most in the coming years is mobile banking. One of the plans that the Group promoted is the development of applications specifically designed for this type of device (*MobileFirst*). The objective is for the Group's customers to have access to the services offered by the bank from wherever they are. Additionally, important agreements were established with mobile providers to promote the use of *smartphones and tablets* for both the Group's employees and its customers. The main projects include the following:

    - *Digital Advance* Manager at Santander Spain: a telephone, a tablet and an application so that managers of enterprises can perform their functions more easily and professionally.

        - Completeness of the mobile banking offering with the implementation of solutions in Brazil and Germany: finalising the implementation of mobile banking in the entire commercial network of the Group in ten geographical areas.

        - Improvement of the existing services and payments offering for mobile banking: e.g., the *New Openbank Mobile Bank* project, an app that will integrate three applications in one (with a new financial app, discounts and leisure module); Santander *Wallet*, a mobile app that will gradually offer its customers the possibility of making payments at retail businesses, withdrawing money from ATMs, making transfers between mobile numbers and enjoying the benefits of We want to be your bank (*Queremos ser tu banco*), among other functionalities.

        - *Yaap Shopping*, a virtual platform that brings together retail businesses and consumers to offer promotions and special offers via mobile.

        - *SMART* BANK for the mobile banking segment for young people: e.g. the Openbank app for students.

    - In the classic channels: the launch of Alhambra Device Handler as a new ATM solution has strategically positioned us in the technological evolution of one of the channels most widely used by the Group's customers. In 2014 its implementation in the US was consolidated and roll-out commenced in Spain and the UK.

    - 360 Degree Customer Vision: to have a competitive advantage over the competition, it is essential to have a complete vision of customers and to understand the company's relationship with each of them from a 360 degree angle. This knowledge must go beyond the mere transactions performed with the organisation. In order to gather all the information related to the customer, analyses were carried out both on Big Data storage systems and on results extraction and analysis systems that ensure that the organisation has the appropriate customer information at the right time.

- Support for the business expansion and restructuring strategy, providing solutions to the commercial dynamism of the Group and adapting to the strategy of focusing on the Bank's core businesses. For example:

    - New CRM solution at Santander USA. Increasing the functionality and enhancing the technological integration with *back-end* systems.

    - New companies portal for Santander Mexico, which enhances functionality and allows the integration of customers' cash systems.

- Increase in the ability to apply new technologies to generate value in customer-bank relations via the Centre for Open Middleware (COM). The COM is a shared technology centre set up jointly with the Polytechnic University of Madrid (UPM) where Group technical staff and UPM researchers work to harness new technologies to develop useful innovations for both customers and the business. This is an open initiative which other entities may join.

- Last, but not least, new technologies are basic elements for coping with the new requirements imposed by regulators that lead to greater legal security and greater transparency for customers and operators. A good example are the new Risk Data Aggregation (RDA) standards that require greater control and traceability of the information reported to competent bodies. For this purpose, the Group has already defined a new global architecture which is at the implementation stage.

- From the standpoint of improvements in processes and methodologies, 2014 saw the commencement of the transformation of the technology operating model to respond to the new digital ecosystem in which innovation, rapid response and continuous adaptation to the customer's needs are key to the development of solutions. In this connection, Santander launched initiatives such as:

- Definition of the new model based on *Lean* and *AGILE* principles well as its coexistence with the previous model.

- Pilot studies were conducted under the new model with satisfactory results with the aim of improving delivery times and customer satisfaction. Examples of these pilot studies are the Brain project at GBM or the *Einstein* project in the US.

- The completion of the new model and test of it at a leading bank in the Group are scheduled for 2015, with a view to extending its use from 2016 onwards.

Infrastructure

In 2009 Santander Group launched its Global IT (*Information Technologies*) Infrastructure Management Strategy to ensure compliance with regulatory requirements, minimise operational risk and provide the business and customer service with high standards of quality and efficiency. The strategy is underpinned by three key components: data processing centres, the communications network and the processing and storage systems.

In 2014 notable progress was made in the strategy of concentrating infrastructure in a small number of high standard, strategically located data processing centres (DPCs). These are five pairs of world class or tier IV DPCs (according to the standards of the *Uptime Institute*) which are close to the Group's biggest business volumes: Boadilla and Cantabria in Spain, Campinas in Brazil, Carlton Park in the United Kingdom, and Querétaro in Mexico.

As mentioned above, in 2014 technological trends have been consolidated that impact and will impact notably on the financial business and on the relationship between banks and their customers. Additionally, within the financial sector there are three key challenges that impact the development of the Group's technology strategy, namely the new regulatory requirements, cybersecurity and the need to achieve 24x7 availability in a fully connected world.

To address these challenges, the Group is developing an entire *digital enablement* strategy around these new technologies:

- Building a private *cloud* for the Group hosted at corporate data centres.
- Integrating the Group's infrastructure with public *clouds* of the main market providers, to facilitate a hybrid *cloud*.
- Developing IaaS, PaaS and SaaS *cloud* solutions, creating specific services to meet the needs of Big Data, *mobility* and *cybersecurity*.
- Developing a new *cloud* infrastructure management *framework* based on *opensource* solutions.

Applications and Systems

The Group's technology strategy continued to make progress in the field of applications and systems, covering the value chain of the Group's financial institutions in a comprehensive, evolutionary and novel manner. The pillars on which this strategy was based in 2014 can be summarised as follows:

- Increasing the robustness of business processes, facilitating automation and increasing efficiency, such as, for example, the credit card origination process in Mexico and the integrated collection and recovery solution at Santander Chile.

- Compliance with the various regulations, continuing with the implementation of solutions that ensure the highest market standards in this matter, including:

- o Implementation of the corporate solution for the prevention of money laundering in Mexico, Chile, Argentina and the United Kingdom.
- o Development of *risk data aggregation* software with a view to its roll-out in Brazil, the United Kingdom, the United States and Spain.

- Technology risk control, allowing Santander Group to continue to be one of the banks with the best rate of losses caused by this risk.
- Continuous innovation in technology, adapting systems to the new digital environment.

Spanning all these pillars, 2014 was characterised by a continuous search for efficiency in order to continue to be leaders in technological innovation at the lowest possible cost. This is why considerable resources were invested in the improvement of software development cycles by simplifying and automating certain processes such as tests. Also, the training of the Group's professionals has been improved to enable them to be more efficient and more competitive and to handle the advancing wave of technological transformation.

Santander Group has positioned itself as a benchmark among its competitors as a result of its foray into New Technologies and because of all these technological developments, in terms both of infrastructure and of applications and systems. Aware of the importance of this competitive edge, the Group has created the necessary systems to provide the best protection for each and every one of its new technology developments, through copyright and patents (where applicable).

In short, the Group is constantly striving to improve its technological and operating capability, without jeopardising efficiency or the control of risks and customer service quality levels. This entity invests in the development of products, services, processes and systems, always harnessing the benefits of cutting edge technologies.

8. ACQUISITION AND DISPOSAL OF TREASURY SHARES

The Bank amended its policy on treasury shares in a board resolution adopted on 23 October 2014, taking into account the criteria recommended by the CNMV. Transactions involving the purchase and sale of treasury stock by the Company or other companies controlled by it will conform to the provisions of current legislation and the relevant resolutions of the general meeting.

Treasury stock trading will be used to:

- Provide liquidity or a supply of securities, as appropriate, in markets where the Bank's shares are traded, giving depth to that market and minimising any potential temporary imbalances between supply and demand.
- Take advantage, to the benefit of shareholders as a whole, of situations of share price weakness in relation to medium-term performance.

Treasury stock trading will be undertaken by the department of investments and holdings, as a separate area isolated from the rest of the bank's activities and protected by the respective Chinese walls, to prevent any insider or material information being available to it. The head of the department will be responsible for treasury stock management.

Treasury stock trading will be subject to the following general rules:

- It will not be motivated by a proposal to intervene in the free formation of prices.

- It may not take place if the unit responsible for executing the trade is in possession of insider or material information.
- Where applicable, the execution will be permitted of share repurchase and acquisition programmes to cover Bank or Group obligations.

At 31 December 2014, the Group held 1,465,371 of its own shares, representing 0.012% of the share capital at year-end; at 31 December 2013 the figure was 1,425,239 shares, 0.013% of the Bank's share capital at that date.

The transactions with treasury shares performed in the Group's interest by the consolidated companies in 2014 involved the acquisition of 487,590,901 shares, at an average purchase price of EUR 7.06 per share, signifying an effective amount of EUR 3,442.0 million.

487,550,769 treasury shares were sold at an average sale price of EUR 7.18 per share, giving an effective amount of EUR 3,498.5 million.

The effect on equity, net of tax, of transactions performed in 2014 involving shares issued by the Bank, was a gain of EUR 40 million, which was recognised in the Group's equity under Shareholders' equity - Reserves. The effect on earnings per share was immaterial.

Note 34 to the accompanying consolidated financial statements and sections A.8 and A.9 of the corporate governance report provide further information about the policy on treasury stock and the acquisition and disposal of treasury shares.

9. OTHER SALIENT INFORMATION

9.1 Stock market information

Santander shares are listed on the electronic market of the Spanish stock exchanges, and on the stock exchanges of New York, London, Milan, Lisbon, Warsaw, Sao Paulo, Mexico and Buenos Aires. In 2014 they were listed in Sao Paulo (17 November) and Warsaw (3 December).

At 31 December 2014, the shares of the following Group subsidiaries were listed on official stock markets: Banco Santander Río S.A.; Grupo Financiero Santander México, S.A.B. de C.V.; Banco Santander-Chile; Santander Chile Holding S.A.; Banco Santander (Brasil) S.A.; Bank Zachodni WBK S.A.; and Santander Consumer USA Inc.

The total number of shareholders at 31 December 2014 was 3,240,395, of which 2,989,103 were European shareholders controlling 84.86% of the share capital, 234,516 were American shareholders with 14.60% of the share capital and 16,776 shareholders in the rest of the world with 0.54% of the share capital.

It should be noted that the Group is the most liquid entity in the EuroStoxx index, with 19,722 million shares traded in the year for an effective value of EUR 139,782 million, with a liquidity ratio of 166%. A daily average of 77.3 million shares were traded for an effective amount of EUR 548.2 million.

For the year as a whole the Santander share price appreciation was 7.5%. This performance is better than that of the Ibex-35 (+3.7%) and that of the main benchmark indices, the DJ Stoxx Banks (-2.8%) and the DJ Stoxx 50 (+2.9%). Considering both the rise in share price and the shareholder pay-out, the total return on shares in 2014 (with dividend reinvestment) was 17.1%.

This occurred in a market in which the measures introduced in June by the European Central Bank to boost the economy and avoid deflation had a positive impact, leading to a reduction in the debt premiums of the peripheral European countries. Moreover there were episodes that increased volatility in the second half of the year, such as the referendum in Scotland, the geopolitical tensions in Ukraine and the Middle East and the fall in oil prices. There was also a certain slowdown in the economic growth forecasts in some countries.

At 2014 year-end, Banco Santander occupied first place in the euro area and eleventh place in the world by market value, with a capitalisation of EUR 88,041 million. The shares' weighting was 2.7% in the DJ Stoxx 50 index and 9.0% in the DJ Stoxx Banks index. In Spain, the weighting in the Ibex-35 index at the end of the quarter was 18.4%.

The share

	31.12.14	31.12.13
Shareholders and shares		
Shareholders (number)	3,240,395	3,299,026
Number of shares (millions)	12,584.4	11,333.4
Share price (euros)		
Closing price	6.996	6.506
Variation in price	+7.5%	+6.7%
Period high	7.960	6.777
Date of period high	04-09-14	21-10-13
Period low	6.201	4.791
Date of period low	04-02-14	24-06-13
Period average	7.121	5.813
Market capitalisation at period end (millions of euros)	88,040.6	73,735.2
Trading		
Total volume of securities traded (millions)	19,722	21,869
Daily average volume of securities traded (millions)	77.3	85.8
Total cash amount traded (millions of euros)	139,782	126,600
Average daily cash amount traded (millions of euros)	548.2	496.5
Ratios		
PER (price / earnings per share) (times)	14.59	16.89
Price / Shareholders' equity per share (times)	1.09	1.05
Shareholders' equity per share (euro)	6.42	6.21
Dividend yield	8.46	10.40
ROE (attributable profit / average shareholders' equity)	7.05	5.84

In early 2015 the Santander share price was affected by the announcement of the Bank's EUR 7,500 million capital increase and by the market turmoil in view of the political situation in Greece, the oil price and the correction of monetary policy in the US.

9.2 Dividend policy

Under the Bylaws of the Bank, the policy on shareholder remuneration is submitted to the meeting for approval each year. According to this policy, the Bank habitually remunerates the shareholders on a quarterly basis.

In 2013 and 2014 the Bank paid its shareholders approximately EUR 0.60 per share through a remuneration scheme called Santander Dividendo Elección whereby shareholders may choose either to receive the dividend amount in cash or in Santander shares.

In 2014, the Santander Dividendo Elección scrip dividend scheme was applied on the dates when the first (July/August), second (October/November) and third (January/February) interim dividends are usually paid. With regard to the final dividend, to be paid in April/May, the board's intention is to once again apply the scheme, subject to approval at the general meeting. As a result, the amount paid out will also be EUR 0.60 per share. This amount represents a return on the average share price for the year of 8.46% (2013: 10.40%).

In 2013, 87.52% of the shareholders chose to receive the dividend payment in shares. In 2014, the percentage accepting payment in shares was 87.37% for the first dividend, 86.48% for the second dividend and 83.73% for the third dividend.

Together with the aforementioned capital increase carried out in early 2015, Banco Santander decided to reformulate its dividend policy. Thus, in view of the improvement in the economic growth scenario and the change in the tax legislation in Spain, which worsens the tax treatment of receiving the dividend in scrip form, the intention of the board of directors is for the remuneration out of the profit for 2015 to be EUR 0.20 per share, which would be paid, as always, in four payments, of which three will be received in cash and the other in shares or cash at the shareholder's discretion.

In the coming years, changes in the dividend will be commensurate with growth in earnings, with the objective of the cash pay-out representing between 30% and 40% of recurring profit, instead of 20% at present.

The system of shareholder remuneration is described in Note 4 to the accompanying consolidated financial statements.

9.3 Credit rating management

The Group's access to wholesale funding markets, as well as the cost of issues, depends in part on the ratings accorded by rating agencies.

Rating agencies regularly review the Group's ratings. The classification of debt depends on a series of internal factors (the Bank's solvency, business model, capacity to generate profits, etc.) and other external factors related to the general economic environment, the sector's situation and the sovereign risk of the countries where the Bank operates.

The sovereign rating and outlook of the Kingdom of Spain have improved in recent quarters. In 2014, Moody's improved its rating from Baa3 to Baa2 and its outlook from stable to positive in February, Fitch raised its rating from BBB to BBB+ in April and confirmed it in October, and S&P improved its rating from BBB- to BBB in May.

The agencies' methodology in some cases puts a ceiling on a bank's rating above the sovereign rating of its corporate domicile, which means that despite the Group's good fundamentals, Santander's rating might be limited by the Spanish sovereign rating.

At 2014 year-end, Banco Santander was the only bank in the world to have a rating that is higher than the sovereign rating of its corporate domicile with all four agencies, following the increases recorded in 2014 by Moody's from Baa2 to Baa1 with stable outlook, by Fitch from BBB+ to A- with stable outlook and by S&P from BBB to BBB+ also with stable outlook. The DBRS rating continued to be A. These ratings above the sovereign rating acknowledge Santander's financial strength and diversification.

In the first quarter of 2014, the Group obtained A+ and A ratings, respectively, from GBB Rating and Scope.

The agencies' positive assessment of the Group's credit profile is reflected in the Bank's individual fundamentals rating, which in the case of S&P is A-, a rating level that is equivalent to other competitor banks including those based in countries in a better macroeconomic situation.

	Long-term	Short-term
DBRS	A	R1 (low)
Fitch Ratings	A-	F2
GBB Rating	A+	
Moody's	Baa1	P-2
Standard & Poor's	BBB+	A-2
Scope	A	

9.4 Branch network

The Group has a network of 12,951 branch offices, making it the international bank with the largest commercial network. Most of these are non-specialised branches, although the Group also has branches that offer specialised service to certain customer segments.

These branches include the 800-plus branches dedicated to consumer credit, both those of Santander Consumer Finance in Europe and the specialised entities in Latin America. There are also branches for SMEs and businesses in different countries, which are being reinforced by the commencement of the roll-out in 2014 of the Advance programme for SMEs, and the Select high-income segment, which in 2014 had already been implemented in the Group's main geographical areas, in all of which it has own branches or specific spaces within the non-specialised branches. The Group also has specialised offices for private banking, or for particular sectors of the population, such as universities.

In 2014 the number of branches decreased by 830, which reflects the different strategy followed at the business units. Most of this reduction occurred in Spain as a result of the process of integrating the former networks of Santander, Banesto and Banif, and in Brazil, as part of the plan to boost productivity. In contrast, there was an increase of 89 branches in Mexico, as part of the three-year expansion plan that is currently under way. In the other units there were slight reductions arising from the efficiency improvement and digitalisation processes undertaken by the units. These changes are in line with the remodelling and specialisation of branches to provide a better customer service, as mentioned above.

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A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital.

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
05/11/2014	6,292,207,329.50	12,584,414,659	12,584,414,659

Indicate whether different types of shares exist with different associated rights:

Yes ☐ **No** ☒

At 31 December 2014, the Bank's share capital is represented by 12,584,414,659 shares of EUR 0.50 par value each.

All shares carry the same dividend and voting rights.

A.2 List the direct and indirect holders of significant ownership interests in your organisation at year-end, excluding directors[1]:

- Interests equal to or greater than 3%[2].

At 31 December 2014, the only shareholders with an interest greater than 3% appearing in the Bank's Shareholder Register were State Street Bank and Trust Company (with an 11.43% interest), Chase Nominees Limited (5.78%), The Bank of New York Mellon Corporation (4.80%), EC Nominees Limited (4.35%), Guaranty Nominees Limited (4.21%) and Clearstream Banking S.A. (3.47%)[3].

However, the Bank believes that such shares are held in custody on behalf of third parties, and, to the Bank's knowledge, none of the shareholders hold an interest of over 3% of the Bank's share capital or voting rights.

At 31 December 2014, no shareholders with an interest greater than 1% were resident in tax havens.

- Significant influence on the Bank.

1 The Bank's Bylaws provide for a single class of shares (ordinary), with identical voting rights. Each share grants the owner one voting right.

2 Threshold stipulated in Royal Decree 1362/2007, of 19 October, to define the concept of a significant ownership interest.

3 Despite the fact that it is listed in information available on Banco Santander in the CNMV website (www.cnmv.es), BlackRock, Inc. did not appear, at 31 December 2014, in the Bank's Shareholder Register with an interest greater than 3% of voting rights, as no notice has been received from the entity to this end.

At 31 December 2014, the Bank is not aware of the existence of any other shareholder who has a number of shares that allows it to appoint a director, pursuant to Article 243.1 of the Corporate Enterprises Act (Ley de Sociedades Anónimas). This is the standard used to determine if a shareholder has significant influence on the Bank.

Considering the number of board members at the end of 2014 (14), the percentage of share capital required to be entitled to appoint a director under the terms of the above-mentioned article would be 7.14%.

Accordingly, in the opinion of the Bank, there are no shareholders with significant shareholdings at 31 December 2014.

Indicate the most significant movements in the shareholder structure during the year:

In 2014, the Bank undertook five rights issues, on 30 January, 29 April, 30 July, 4 November and 5 November, issuing 227,646,659, 217,013,477, 210,010,506, 370,937,066 and 225,386,463 new shares, representing 2.009%, 1.915%, 1.853%, 3.273% and 1.989%, respectively, of the Company's share capital at year-end 2013. The first three and the final issues took place under the scrip dividend programme *(Santander Dividendo Elección)*. The fourth was the result of an offer to acquire shares of Banco Santander (Brasil) S.A. that were not held by the Santander Group. The foregoing has brought about a total increase in share capital of 11.038% on the amount at year-end 2013.

In 2015, the Bank carried out a new capital increase on 9 January, with the issue of 1,213,592,234 new shares of EUR 0.50 par value each, through cash contributions and with exclusion of the pre-emptive subscription right.

Lastly, on 29 January, a capital increase was carried out under the aforementioned scrip dividend programme (*Santander Dividendo Elección*), with issuance of 262,578,993 shares of EUR 0.50 of par value each, amounting to 1.903% of the share capital at that date.

Following this transaction, the share capital of the Bank is EUR 7,030,292,943, represented by 14,060,585,886 shares of EUR 0.50 par value each.

A.3 Complete the following tables on company directors holding voting rights through company shares:

Below is a breakdown of the interests of directors at 31 December 2014.

Name or corporate name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Name of direct holder(*)	Number of voting rights	
Ms. Ana Botín-Sanz de Sautuola y O'Shea	81,508	N/A	17,101,782	0.137%
Mr. Matías Rodríguez Inciarte	1,203,793	N/A	300,213	0.012%
Mr. Guillermo de la Dehesa Romero	136	N/A	-	0.000%
Ms. Sheila C. Bair	1	N/A	-	0.000%
Mr. Javier Botín-Sanz de Sautuola y O'Shea [1]	4,793,481	N/A	74,703,728	0.632%
Mr. Rodrigo Echenique Gordillo	658,758	N/A	13,292	0.005%
Ms. Esther Giménez-Salinas i Colomer	5,066	N/A	-	0.000%
Mr. Ángel Jado Becerro de Bengoa	2,043,478	N/A	5,046,736	0.056%
Mr. Juan Rodríguez Inciarte	1,590,616	N/A	-	0.013%
Ms. Isabel Tocino Biscarolasaga	148,512	N/A	-	0.001%
Mr. Juan Miguel Villar Mir	1,150	N/A	-	0.000%
Mr. Javier Marín Romano[2]	386,212	N/A	3,219	0.003%
Mr. Fernando de Asúa Álvarez[3]	91,475	N/A	71,664	0.001%
Mr. Abel Matutes Juan[4]	215,595	N/A	2,741,086	0.023%

Total voting rights held by the board of directors	0.747%

1. This table represents the direct and indirect ownership interests of Mr. Javier Botín-Sanz de Sautuola y O'Shea and Ms Ana Botín-Sanz de Sautuola y O'Shea, who are directors of the Bank despite that Javier Botín-Sanz de Sautuola y O'Shea represents on the board of directors the ownership interests of Ana Botín-Sanz de Sautuola y O'Shea.

2. Resigned as director on 12 January 2015. To cover this vacancy, at its meeting of 25 November 2014, the board of directors agreed to appoint Mr. José Antonio Álvarez Álvarez as director, with effect from 13 January 2015.
3. Resigned as directors on 12 February 2015.
4. Resigned as directors on 18 February 2015.

To cover these vacancies, and the vacancy caused by the death of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, the board of directors, at its meeting of 25 November 2014, agreed to appoint as directors Mr. Bruce Carnegie-Brow, Mr. Carlos Fernández González and Ms. Sol Daurella Comadrán.

(*) The Name of Direct Holder box under CNMV (Spanish Securities Markets Commission) Circular 5/2013, of 12 June, is not relevant, as at year-end 2014 there were no direct holders of shares with voting rights with a holding in excess of 3% of total voting rights, or in excess of 1% for residents of tax havens.

Complete the following tables on share options held by directors[4]:

Deferred and conditioned variable remuneration plan and *performance shares* plan.

The general shareholders' meetings of 17 June 2011, 30 March 2012, 22 March 2013 and 28 March 2014 approved the first four cycles of the deferred and conditional variable remuneration plan for executive directors at year-end 2014.

A brief description of the above plans is provided below. For further information, please see notes 5 e) and 47 c) to the Group's consolidated financial statements.

a) Deferred and conditional variable remuneration plan (bonus)

The shareholders approved the first cycle of the deferred and conditional variable remuneration plan at the general shareholders' meeting of 17 June 2011. The plan relates to performance-based or bonus pay for 2011 accrued by the executive directors and certain executives (including senior management) and employees who assume risk, exercise control functions or for whom total compensation is determined on the basis of the same criteria as that of the senior executives and employees who assume risks (all of whom are listed as *identified staff* in keeping with the *Guidelines on Remuneration Policies and Practices* approved by the *Committee of European Banking Supervisors* on 10 December 2010 and, from 2014, in accordance with Commission Delegated Regulation (EU) No 604/2014, of 4 March 2014, supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile).

The first four cycles of this plan defer part of the beneficiary's bonus over a period of three years, to be paid in cash or Santander shares depending on the case, whilst paying the other part of the beneficiary's bonus at the outset, likewise in cash or Santander shares. For more information, see note 5 to the Group's 2014 financial statements.

The tables below show the final number of Santander shares assigned to each executive director at 31 December 2014 under the first four cycles of this plan, distinguishing in each instance between those to be settled immediately and those whose delivery is deferred for three years:

2011 bonus receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms. Ana P. Botín-Sanz de Sautuola y O'Shea	94,002	141,002	235,004	0.002%
Mr. Matías Rodríguez Inciarte	125,756	188,634	314,390	0.002%
Mr. Juan Rodríguez Inciarte	73,380	110,070	183,450	0.001%
Estate of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	99,552	149,327	248,879	0.002%
Mr. Javier Marín Romano (**)	77,882	77,882	155,764	0.001%
Total	**470,572**	**666,915**	**1,137,487**	**0.009%**

(*) In three years: 2013, 2014 and 2015, subject to continued service, and subject to the exceptions set out in the plan's terms and conditions, and subject to compliance with the conditions set out for the first cycle. The 2013, 2014 and 2015 tranches were paid out on the expected dates.

(**) Resigned as director with effect from 12 January 2015.

4 The field for the Number of equivalent shares held set out in CNMV Circular 5/2013, of 12 June, does not apply to the Company, as the Directors had no options over the Bank's shares at year-end 2014.

2012 bonus receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms. Ana P. Botín-Sanz de Sautuola y O'Shea	69,916	104,874	174,790	0.001%
Mr. Matías Rodríguez Inciarte	83,059	124,589	207,648	0.002%
Mr. Juan Rodríguez Inciarte	48,466	72,699	121,165	0.001%
Estate of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	43,952	65,927	109,879	0.001%
Mr. Javier Marín Romano (**)	58,454	58,454	116,908	0.001%
Total	**303,847**	**426,543**	**730,390**	**0.006%**

(*) In three years: 2014, 2015 and 2016, subject to continued service, and subject to the exceptions set out in the plan's terms and conditions, and subject to compliance with the conditions set out for the second cycle. The 2014 and 2015 tranches were paid out on the expected date.
(**) Resigned as director with effect from 12 January 2015.

2013 bonus receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms. Ana P. Botín-Sanz de Sautuola y O'Shea	66,241	99,362	165,603	0.001%
Mr. Matías Rodríguez Inciarte	69,092	103,639	172,731	0.001%
Mr. Juan Rodríguez Inciarte	44,299	66,448	110,747	0.001%
Estate of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	42,287	63,431	105,718	0.001%
Mr. Javier Marín Romano (**)	74,850	112,275	187,125	0.001%
Total	**296,769**	**445,155**	**741,924**	**0.006%**

(*) In three years: 2015, 2016 and 2017, subject to continued service, and subject to the exceptions set out in the plan's terms and conditions, and subject to compliance with the conditions set out for the third cycle. The 2015 tranche was paid out on the expected date.
(**) Resigned as director with effect from 12 January 2015.

2014 bonus receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms. Ana P. Botín-Sanz de Sautuola y O'Shea	121,629	182,444	304,073	0.002%
Mr. Matías Rodríguez Inciarte	92,726	139,088	231,814	0.002%
Mr. Juan Rodríguez Inciarte	71,872	107,808	179,680	0.001%
Mr. Javier Marín Romano (**)	128,225	192,338	320,563	0.003%
Total	**414,452**	**621,678**	**1,036,130**	**0.008%**

(*) In three years: 2016, 2017 and 2018, subject to continued service, and subject to the exceptions set out in the plan's terms and conditions, and subject to compliance with the conditions set out for the fourth cycle.
(**) Resigned as director with effect from 12 January 2015.

Accrual of the deferred remuneration is conditional upon continued service of the beneficiary at the Santander Group and to the absence, in the judgement of the board of directors, at the proposal of the appointments committee, of any of the following circumstances in relation to the corresponding year during the year prior to each of the deliveries: (i) inadequate financial performance by the Group; (ii) non-compliance by the beneficiary with internal rules, particularly with regard to risk prevention; (iii) a material restatement of the Group's financial statements, except if such restatement is made pursuant to a change in accounting rules; or (iv) significant changes in the Group's capital or risk profile. The foregoing shall be pursuant to the rules and regulations of the relevant cycle of the plan.

The board of directors, at the proposal of the appointments and remuneration committee (presently, the remuneration committee), and as a function of the level of delivery of the above stipulations, shall determine the specific amount of deferred compensation to be paid in each instance.

If the above-listed requirements are met on each anniversary, the beneficiaries will be provided their cash and shares, in thirds, within the 30 days following the first, second and third anniversary.

On the occasion of each delivery of shares and cash the beneficiary will be paid a sum in cash equal to the dividends paid out for those shares and the interest accrued on the cash amount, in both instances from the start date until the date on which the shares and cash are paid in each case. In the case of the scrip dividend programme *(Santander Dividendo Elección)*, the price paid shall be that offered by the Bank for the bonus share rights corresponding to the shares in question.

The beneficiaries receiving shares may not sell them or hedge their value directly or indirectly for one year from when they are delivered. Nor may the beneficiaries hedge their shares, directly or indirectly, before they receive them.

b) Performance Shares Plan (LTI)

From 2014, the variable remuneration of the identified group includes a long-term incentive. The general shareholders' meeting of 28 March 2014 approved the first cycle of the Performance Shares Plan, which implements the variable remuneration of the identified group in the form of a long-term incentive to be received, as the case may be, entirely in shares and based on the Bank's performance over a multi-year period. This cycle of the Performance Shares Plan covers the years 2014, 2015, 2016 and 2017, as the period of reference to determine the achievement of the targets upon which the LTI is conditional, without prejudice to the deferral thereof upon the terms set forth below.

The board of directors, at the proposal of the remuneration committee, has set the maximum number of shares to which executive directors of the Bank may be entitled under the 2014 LTI in each of the indicated years, based on 15% of such beneficiaries' reference bonus as at the approval date of the first cycle of the plan. These amounts have been determined by applying a 100% ratio to the aforementioned 15% reference bonus, as the total shareholder return (TSR) of the Bank in 2014 was fourth in the reference group comprising 15 competing institutions.

2014 Performance Shares Plan	2016 maximum number	2017 maximum number	2018 maximum number	% of total voting rights (*)
Ms. Ana P. Botín-Sanz de Sautuola y O'Shea	20,798	20,798	20,799	0.000%
Mr. Matías Rodríguez Inciarte	25,218	25,218	25,219	0.001%
Mr. Juan Rodríguez Inciarte	17,782	17,782	17,782	0.000%
Mr. Javier Marín Romano (**)	21,823	21,823	21,824	0.001%
Total	**85,621**	**85,621**	**85,624**	**0.002%**

(*) Maximum percent of shares to which a beneficiary may be entitled in three years (2016, 2017 and 2018) of the Bank's share capital at 31 December 2014, subject to continued service, with the exceptions set out in the plan's terms and conditions, and to fulfilment of the indicated conditions for each annual amount of the first cycle of the Performance Shares Plan.

(**) Resigned as director with effect from 12 January 2015.

As shown in the table, the maximum number of shares for each director determined in this way is deferred by thirds over a period of three years and will be paid out, as the case may be, in June 2016, 2017 and 2018, pursuant to the Bank's TSR position within the aforementioned reference group. This position will determine the number of shares to which beneficiaries are entitled, as the case may be, in each of those years and up to the maximum specified above.

Delivery of shares due on each payment date is conditioned upon the continued service of the beneficiary in the Santander Group and on the absence, in the judgement of the board of directors, at the proposal of the remuneration committee, of any of the following circumstances during the period prior to each delivery due to actions carried out in 2014: (i) inadequate financial performance by the Group; (ii) non-compliance by the beneficiary with internal rules, particularly with regard to risk prevention; (iii) a material restatement of the Group's financial statements, when deemed necessary by the external auditors, except if such restatement is made pursuant to a change in accounting rules; or (iv) significant changes in the Group's capital or risk profile.

The board of directors, at the proposal of the remuneration committee, and depending on the degree of fulfilment of such conditions, will determine the specific number of shares to be delivered to the beneficiary out of the number due pursuant to the Bank's TSR position.

Upon delivery of shares under this cycle, a cash amount will be paid out to the beneficiary that is equal to the dividends paid out for the relevant shares from the date of establishment of the maximum number of shares to which executive directors may be entitled under the 2014 LTI until the payment date. In the case of the scrip dividend programme *(Santander Dividendo Elección)*, the price paid shall be that offered by the Bank for the bonus share rights corresponding to the shares in question.

The beneficiaries receiving Santander shares under the LTI may not sell them or hedge their value directly or indirectly for one year from when they are delivered. Nor may the beneficiaries hedge their shares, directly or indirectly, before they receive them.

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

Does not apply, as there are no owners of significant shareholdings, as indicated in section A.2 above.

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Does not apply, as there are no owners of significant shareholdings, as indicated in section A.2 above.

A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Corporate Enterprises Act ("LSC"). Provide a brief description and list the shareholders bound by the agreement, as applicable[5]:

Yes [X] No [ ]

In February 2006, two of the current directors, together with other shareholders of the Bank, entered into a shareholder agreement that was notified to the Bank and to the Spanish Securities Markets Commission ("CNMV"). The document witnessing the aforementioned agreement was filed at both the CNMV Registry and the Cantabria Mercantile Registry.

The agreement, which was signed by Emilio Botín-Sanz de Sautuola y García de los Ríos, Ana Patricia Botín-Sanz de Sautuola y O'Shea, Emilio Botín-Sanz de Sautuola y O'Shea, Francisco Javier Botín-Sanz de Sautuola y O'Shea, Simancas, S.A., Puente San Miguel, S.A. Puentepumar, S.L., Latimer Inversiones, S.L. and Cronje, S.L. Unipersonal, provides for the syndication of the Bank shares held by the signatories to the agreement or whose voting rights have been granted to them.

The aim of the syndication agreement through the restrictions established on the free transferability of the shares and the regulated exercise of the voting rights inherent thereto is to ensure, at all times, the concerted representation and actions of the syndicate members as shareholders of the Bank, for the purpose of developing a lasting, stable common policy and an effective, unitary presence and representation in the Bank's corporate bodies.

At any given time, the chair of the syndicate is the person then presiding over the Fundación Botín, currently Mr. Francisco Javier Botín-Sanz de Sautuola y O'Shea.

The members of the syndicate undertake to syndicate and pool the voting and other political rights attaching to the syndicated shares, so that these rights may be exercised, and, in general, the syndicate members may act towards the Bank, in a concerted manner, in accordance with the instructions and indications and with the voting criteria and orientation, necessarily unitary, issued by the syndicate. For this purpose, the representation of these shares is attributed to the chair of the syndicate as the common representative of its members.

Except for transactions carried out in favour of other members of the syndicate or in favour of the Fundación Botín, prior authorisation must be granted from the syndicate meeting, which may freely approve or refuse permission for the planned transfer.

Banco Santander informed the CNMV on 3 August and 19 November 2012, by means of the pertinent significant event filings, that it had been officially notified of amendments to this shareholder agreement in respect of the persons subscribing to it.

5 The significant events mentioned in this section are as follows: No. 64179, published on 16 February 2006; No. 171949, published on 3 August 2012; No. 177432, published on 19 November 2012; No. 194069, published on 17 October 2013, No. 211556, published on 3 October 2014 and No. 218140, published on 6 February 2015.

On 17 October 2013, the Bank filed a significant event with the CNMV updating the holders and distribution of the shares in the syndication to reflect the business reorganisation of one of the pact members.

Finally, Banco Santander filed a significant event with the CNMV on 3 October 2014 updating the holders and the distribution of the shares in the syndication, and changing the chair of the syndicate to Mr. Francisco Javier Botín-Sanz de Sautuola y O'Shea, present chair of the Fundación Botín, completing this information through a significant event filed on 6 February 2015.

At the date of execution of the agreement, the syndicate comprised a total of 44,396,513 shares of the Bank (0.353% of its share capital at year-end 2014). In addition, as established in clause one of the shareholders' agreement, the syndication extends, solely with respect to the exercise of the voting rights, to other Bank shares held either directly or indirectly by the signatories, or whose voting rights are assigned to them, in the future. Accordingly, at 31 December 2014, a further 35,100,696 shares (0.279% of share capital) were also included in the syndicate.

Details of the shares currently covered by the syndication are as follows:

Shares covered by the shareholder agreement

At the time of writing, the agreement encompassed a total of 73,732,624 Bank shares (0.5% of its share capital), broken down as follows:

Parties to the shareholder agreement	No. of shares syndicated	% of total share capital
Estate of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	552,426	0.004%
Ms. Ana Patricia Botín-Sanz de Sautuola O'Shea[1]	8,079,986	0.057%
Mr. Emilio Botín-Sanz de Sautuola O'Shea[2]	16,873,709	0.120%
Mr. Francisco Javier Botín-Sanz de Sautuola O'Shea [3]	16,288,313	0.116%
Ms. Paloma Botín-Sanz de Sautuola O'Shea [4]	7,835,293	0.056%
Ms. Carmen Botín-Sanz de Sautuola O'Shea	8,636,449	0.061%
PUENTEPUMAR, S.L.	-	-
LATIMER INVERSIONES, S.L. [5]	553,508	0.004%
CRONJE, S.L., Unipersonal	9,337,661	0.066%
NUEVA AZIL, S.L.	5,575,279	0.040%
Total	**73,732,624**	**0.524%**

1. 7,996,625 shares of Banco Santander S.A. held indirectly through Bafimar, S.L.
2. 7,800,332 shares of Banco Santander S.A. held indirectly through Puente San Miguel, S.L.U.
3. 4,652,747 shares of Banco Santander S.A. held indirectly through Inversiones Zulú, S.L. and 6,794,391 shares indirectly through Agropecuaria El Castaño, S.L.U.
4. 6,628,291 shares of Banco Santander S.A. held indirectly through Bright Sky 2012, S.L.
5. Bare ownership (ownership without usufruct) of 553,508 shares corresponds to Fundación Botín, but the voting rights are assigned to Latimer Inversiones, S.L. as their beneficial owner.

In all other respects, the agreement remains unchanged.

The aforementioned significant filings can be found on the Group's website (www.santander.com).

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

Yes [X] No [ ]

Described above.

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

Described above.

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 4 of the Securities Market Act (Ley del Mercado de Valores). If so, identify:

Yes [ ] **No** [X]

A.8 Complete the following tables on the company's treasury stock:

At year end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
316,871	1,148,500	0.012%

(*) Through:

Name or corporate name of the direct shareholder	Number of shares held directly
Pereda Gestión, S.A.	1,148,500

Give details of any significant changes during the year pursuant to Royal Decree 1362/2007:

Date of notification	Total number of direct shares acquired	Total number of indirect shares acquired	% of total share capital[6]
02/01/2014	82,092,268	31,443,109	1.000%
19/03/2014	101,574,532	14,594,978	1.005%
20/06/2014	101,275,894	17,077,669	1.003%
13/08/2014	89,359,346	34,269,831	1.029%
10/12/2014	91,861,804	34,704,917	1.000%

Pursuant to Article 40 of Royal Decree 1362/2007, the Spanish Securities Markets Commission (CNMV) is notified of the percentage of voting rights held by the Bank when acquisitions of treasury stock are made that exceed 1% of the Company's voting rights, individually or in a series of transactions since the last communication.

A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting to issue, buy back and/or transfer treasury stock.

Current agreements on possible issuance of new shares or bonds convertible into shares.

The ordinary general shareholders meeting of 2014 authorised the board (or, by delegation, the executive committee) to carry out capital increases with cash contributions, on one or more occasions, up to a total amount of EUR 2,890,266,786.50. The resolution includes the power to totally or partially exclude the preferential subscription right, although this power is limited to capital increases of up to EUR 1,156,106,714.50.

The board of directors decided, on 8 January 2015, to carry out a capital increase with exclusion of the preferential subscription right by virtue of the foregoing delegation. Following an accelerated book-building process among qualified investors, on 9 January 2015 the executive committee declared the capital increase to be closed for a total nominal amount of EUR 606,796,117, which represented 9.64% of the Bank's share capital at said date.

Following the increase, the unused amount of the above authorisation totalled EUR 1,996,946,432, with the power to exclude the preferential subscription right limited to capital increases of up to EUR 262,786,360.

The ordinary general meeting also approved other resolutions concerning the possible issue of new shares or of bonds convertible into shares, as follows:

6 Percentage calculated based on current share capital on the notification date.

1. Four capital increases charged to reserves, to be implemented by the board of directors (or, by delegation, the executive committee), up to a maximum amount of EUR 1,875 million, 1,950 million, 2,025 million, and 2,100 million, respectively. These increases implement the Santander Dividendo Elección programme, under which the Bank has offered shareholders the choice of receiving remuneration in either cash or in shares released on the dates in which quarterly dividends are normally paid.

As of 31 December 2014, the first three of the aforementioned capital increases had taken place, on 29 April, 30 July and 5 November 2014, with the issue of new ordinary shares with the nominal amount of EUR 108,506,738.50, 105,005,253 and 112,693,231.50, respectively, corresponding in total to 5.184% of the Bank's share capital at year-end 2014.

On 29 January 2015, the fourth capital increase was implemented, with the issue of 262,578,993 ordinary shares corresponding to 1.903% of the share capital at such date.

2. Delegation to the board of directors, of powers to issue, on one or more occasions and until 28 March 2019, bonds and other debt instruments convertible into and/or exchangeable for shares of the Bank, including warrants and other similar securities that might give rise to direct or indirect subscription or acquisition rights for the Bank's shares, whether newly issued or already in circulation, which can be settled through physical delivery or through differences, up to EUR 10,000 million (or its equivalent in another currency).

At the date of this document, pursuant to the delegation, two issues were carried out in May and September 2014 of preference shares convertible on a contingent basis for newly issued ordinary Bank shares, with exclusion of the preferential subscription right of its shareholders, for a nominal amount of USD 1,500 million (EUR 1,077,044,589.65 at the exchange rate of 1.3927 US dollars per euro) in the former, and for EUR 1,500 million in the latter. The resolutions for issuance of these contingent convertible shares include approval of the capital increases needed for conversion of the securities. Consequently, these issues used EUR 264,009,622 of the two authorised limits mentioned at the start of this section.

On 5 March 2014, pursuant to the delegation of the 2013 general shareholders' meeting of the Bank, which was subsequently deprived of effect by the delegation to issue bonds mentioned in the first paragraph of this section 2, an issue was undertaken of preference shares convertible on a contingent basis for ordinary newly issued Bank shares, with exclusion of the preferential subscription right of its shareholders, for a nominal amount of EUR 1,500 million.

3. Delegation, pursuant to article 297.1.a) of the Spanish Corporate Enterprises Act, of the broadest powers to the board of directors to set the date and establish all conditions not provided for by the general meeting for a capital increase of EUR 500 million within one year from the date of the meeting. In the event the board should fail to exercise the powers delegated to it by the shareholders for execution of this resolution within the specified period, said powers shall be rendered null and void.

The extraordinary general shareholders' meeting of 15 September 2014 resolved to approve six increases of the share capital by such amount as necessary in order to implement the acquisition of all securities representing the share capital of Banco Santander (Brasil) S.A. not held by Santander Group, with the offer of newly-issued shares of the Bank as consideration.

Holders of 13.65% of securities representing the share capital of Banco Santander (Brasil) S.A. accepted the offering. Only the first of the aforesaid six capital increases was implemented, as the percentage of acceptance fell short of the level that, pursuant to the terms of the offering, would have provided holders of securities representing the share capital of Banco Santander (Brasil) S.A. who had not accepted the offering the opportunity to request from the Bank acquisition of their securities within the three following months, with application of the same exchange ratio.

On 4 November, Banco Santander, S.A., pursuant to the aforesaid meeting resolution, issued 370,937,066 shares representing approximately 3.09% of the Bank's share capital at said date.

Treasury stock

The authorisation for the treasury stock transactions completed in 2014 was provided by resolution 5 adopted at the general shareholders' meeting held on 28 March 2014, which stipulates the following:

I) To deprive of effect, to the extent of the unused amount, the authorization granted by the shareholders acting at the ordinary General Shareholders' Meeting of 11 June 2010 for the derivative acquisition of shares of the Bank by the Bank and the subsidiaries comprising the Group.

II) To grant express authorization for the Bank and the subsidiaries comprising the Group to acquire shares representing the capital stock of the Bank for any valuable consideration permitted by law, within the limits of and subject to any legal requirements, up to a maximum limit – including the shares they already hold – of a number of shares equivalent to 10 percent of the capital stock existing at any given time, or to such greater percentage as may be established by law during the effectiveness of this authorisation, which shares shall be fully paid-in, at a minimum price per share equal to the par value and a maximum price of up to 3 percent over the last listing price for transactions in which the Bank does not act for its own account on the electronic market of the Spanish stock exchanges (including the market for block trades) prior to the acquisition in question. This authorisation can only be exercised within five years from the date on which the general shareholders' meeting is held. The authorisation includes the acquisition of shares, if any, that must be conveyed directly to the employees and directors of the Company, or that must be conveyed as a result of the exercise of the options they hold.

Treasury stock policy

At its meeting on 23 October 2014, the Bank's board of directors approved the modification of its current treasury stock policy to take into account recommendations made by the CNMV with regard to issuers of securities and financial intermediaries. The treasury stock policy, which is available on the website of the Bank, was defined as follows:

1. Transactions involving the purchase and sale of treasury stock by the company or other companies dominated by it will conform, in the first place, to the provisions established by current regulations and by the resolutions of the general shareholders' meeting in such respect.

2. Trading in treasury stock will seek to achieve the following, with observance of the indications herein, in accordance with the recommendations on discretionary trading of treasury stock published by the CNMV in July 2013:

a. Provide liquidity or a supply of securities, as appropriate, in the market where the Bank's shares are traded, giving depth to such market and minimising any potential temporary imbalances between supply and demand.

b. Take advantage, to the benefit of the Bank's shareholders as a whole, of situations of share price weakness in relation to medium-term performance prospects.

3. Treasury stock trading will be undertaken by the department of investments and holdings, as an isolated area separated from the Bank's other activities and protected by the respective Chinese walls, so as not to have any insider or material information at its disposal. The head of the treasury stock department will be responsible for managing the treasury stock portfolio, which will be notified to the CNMV.

In order to know the market situation of the Bank's shares, this department may collect data from the market members it considers appropriate, although ordinary trades in the continuous market should only be executed through one such member, reporting such to the CNMV.

No other Group unit will undertake treasury stock trading, the only exception being as set out in paragraph 10 below.

4. Treasury stock trading will be subject to the following general rules:

a. It will not be done for the purpose of intervening in the free formation of prices.

b. It may not take place if the unit responsible for executing the trade is in possession of insider or material information.

c. Where applicable, the execution of share repurchase and acquisition programmes will be permitted to cover Bank or Group obligations.

5. Orders to buy should be made at a price not higher than the greater of the following two:

- The price of the last trade carried out in the market by independent persons.

- The highest price contained in a buy order of the orders book.

Orders to sell should be made at a price not lower than the lesser of the following two:

- The price of the last trade carried out in the market by independent persons.

- The lowest price contained in a sell order of the orders book.

The buy and sell price should not generate any trend in the price of the stock.

6. As a general rule, treasury stock operations, including purchases and sales, will not exceed 15% of the daily average traded volume of the Bank's shares in the previous 30 sessions of the continuous market. This limit will be 25% when the treasury stock is to be used as consideration in the purchase of another company or in a swap as part of a merger transaction.

7. Treasury stock trading operations should adhere to the following time limits:

a. No buy or sell orders should be submitted during opening and closing auctions, except for exceptional and justified reasons, exercising due caution to avoid such orders having a decisive effect on the auction price. In such exceptional cases: (i) the accumulated volume of buy and sell orders submitted must not exceed 10% of the theoretical volume resulting from the auction at the time of submitting the orders; and (ii) no market or at best orders should be submitted, except in exceptional and justified circumstances.

b. No treasury stock transactions will be undertaken if the Bank has decided to delay the publication or release of significant information pursuant to article 82.4 of the Securities Market Act (Ley del Mercado de Valores), until such information is released. The compliance division will notify the department of investments and holdings should such a situation arise.

c. No orders will be submitted during auction periods prior to the raising of suspension of trading in the Bank's shares, should this occur, until trades in the share have taken place. Orders that have not been executed when such a suspension is declared must be withdrawn.

d. No treasury stock trading will take place during the 15 calendar days prior to publication of the Bank's financial information required under Royal Decree 1362/2007, of 19 October.

e. All trading operations involving treasury stock will be carried out during normal trading hours, except for exceptional operations in line with any of the cases envisaged for carrying out special operations.

8. In exceptional circumstances, such as, inter alia, significant alterations of volatility or of the levels of supply and demand of shares, or for a justified reason, the limit of the first paragraph in section 6 may be exceeded, or the rule in section 7.d above may not be applied. In such a case, the department of investments and holdings must notify the compliance division of this immediately.

9. The rules set out in the second paragraph of section 3 and sections 5, 6 and 7 will not apply to treasury stock trading in the market for block trades, unless it is demonstrated to the Bank that its counterparty is unwinding a previously established position through transactions in the orders market.

10. As envisaged in paragraph 3, Group units other than the department of investments and holdings may acquire treasury stock in the implementation of market risk hedging activity or when providing brokerage or hedging for customers. The rules contained in paragraphs 2, 4 (subparagraph c), 5, 6 and 7 above will not be applicable to such activities.

11. The executive committee will receive regular information on treasury stock activity.

For their part, directors verify in every meeting of the board of directors that the requirements have been fulfilled for the acquisition of treasury shares established in Article 146.3 of the Spanish Corporate Enterprises Act.

12. The head of compliance will report on a monthly basis to the risk supervision, regulation and compliance committee on all trading involving treasury stock in the month, and on the operation of the controls during the period.

A.10 Give details of any restriction on the transfer of securities or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market.

Yes [ ] **No** [X]

Description of restrictions
- Restrictions on the free transfer of shares There are no restrictions on the free transfer of securities other than the legal restrictions indicated in this section. Acquisition of significant ownership interests is regulated by articles 16 to 23 of Law 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions. European Union Regulation No 1024/2013 of the Council of 15 October 2013 confers specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, including the assessing of the acquisition and disposal of significant holdings in credit institutions, based on the assessment criteria set out in applicable EU law and, as applicable, on Spanish laws transposing such rules. Notwithstanding the foregoing, a shareholders' agreement notified to the Bank affecting the free transfer of certain shares is described in section A.6 of this report. ***- Restrictions on voting rights***

There are no legal or bylaw restrictions on the exercise of voting rights.

The first paragraph of Article 26.1 of the Bylaws states: "*The holders of any number of shares registered in their name in the respective book-entry registry five days prior to the date on which the general shareholders*' *meeting is to be held and who are current in the payment of pending subscriptions shall be entitled to attend general shareholders*' *meetings*."

The Bylaws of Banco Santander do not establish any restrictions on the maximum number of votes which a given shareholder or companies belonging to the same group may cast. General shareholders' meeting attendees are entitled to one vote for every share held, as stipulated in the first sentence of article 35.2 of the Bank's Bylaws: "*The attendees at the general shareholders*' *meeting shall have one vote for each share which they hold or represent*."

Therefore, there are no restrictions on the takeover of the company by means of share purchases on the market.

A.11 Indicate whether the general shareholders' meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

Yes [ ] **No [X]**

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

Not applicable.

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes [X] No [ ]

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

In 2014, shares of Banco Santander began to be traded in the Stock Exchanges of São Paulo and Warsaw, on 17 November and 3 December, respectively.

Banco Santander's shares trade on the continuous market of the Spanish Stock Exchanges and on the New York, London, Milan, Lisbon, Buenos Aires, Mexico, São Paulo and Warsaw Stock Exchanges. The shares traded on all of these exchanges carry identical rights and obligations.

Santander shares are traded on the London Stock Exchange through Crest Depositary Interests (CDIs), where each CDI represents one share of the Bank, and on the New York Stock Exchange through American Depositary Shares (ADSs), where each ADS represents one share of the Bank, and on the São Paulo Stock Exchange through Brazilian Depositary Receipts (BDRs), where each BDR represents one share.

B GENERAL SHAREHOLDERS' MEETINGS

B.1 Indicate the quorum required for constitution of the General Shareholders' Meeting established in the company's Bylaws. Describe how it differs from the system of minimum quorums established in the LSC (Ley de Sociedades Anónimas).

Yes ☐ No ☒

	Quorum % other than that established in Article 193 of the LSC for general cases	**Quorum % other than that established in Article 194 of the LSC for the special cases described in Article 194**
Quorum required for first call	---	---
Quorum required for second call	---	---

Description of differences
There are none

The quorum required to hold a valid general shareholders' meeting established in the Bylaws (Article 25) and in the Rules and Regulations for the general shareholders' meeting (Article 12) is as set down in the Spanish Corporate Enterprises Act.

Therefore, Articles 193, 194.1 and 194.2 of the Spanish Corporate Enterprises Act apply, the text of which is as follows:

"***Article 193. Quorum in joint stock companies.***

1. In joint stock companies, the general shareholders' meeting shall be deemed to reach a quorum in the first call when the shareholders present or represented own at least twenty-five per cent of the subscribed capital with voting rights. The by-laws may establish a higher quorum.

2. In the second call, a quorum shall be deemed to be reached regardless of the amount of share capital present or represented, unless the by-laws establish a quorum, which must be less than the quorum established or required by law for the first call.

Article 194. Stricter quorum requirements in special cases.

1. In joint stock companies, shareholders holding at least fifty per cent of the subscribed capital with voting rights must be present or represented in the first call for the general meeting or extraordinary general meeting to validly adopt decisions regarding: an increase or reduction of the company share capital or any other amendment to the by-laws; the issue of bonds or debentures; the cancellation or restriction of the pre-emptive rights to acquire new shares; the conversion, merger, spin-off or global assignment of assets and liabilities; and the transfer of the registered office abroad.

2. Twenty-five per cent of the share capital present or represented shall suffice in the second call.
***(…).*"**

It should also be borne in mind that sector regulations applicable to credit institutions complement some aspects of the Spanish Corporate Enterprises Act with regard to the quorum and majorities required (e.g. article 34 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, requires a two-thirds or three-quarters majority, depending on whether the quorum is higher than 50%, for the setting of ratios higher than 100% of the variable components of remuneration to fixed components).

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the LSC:

Yes ☐ **No** ☒

Describe how they differ from the rules established in the LSC.

	Qualified majority other than that established in article 201.2 of the LSC for general cases described in 194.1 of the LSC	**Other cases requiring a qualified majority**
% set by company for adopting corporate resolutions	-	-
Describe the differences		
There are none		

The rules governing the adoption of corporate resolutions by the shareholders at the annual general shareholders' meeting do not differ from the rules provided by the Spanish Corporate Enterprises Act, as set forth in Article 35 of the Bylaws and Article 23.1 of the Rules and Regulations for the general shareholders' meeting.

The coming into force of the aforementioned Act 31/2014 modified the regulation of majorities of article 201 of the Spanish Corporate Enterprises Act and established a regime of simple majority in cases other than those of article 194.1, eliminating the need for an absolute majority in such cases. Banco Santander will propose to the next general meeting an amendment of the aforementioned articles of the Bylaws and of the Rules and Regulations of the General Shareholders Meeting to adapt them to the new legal framework for majorities in force from 2015.

Therefore, Articles 159.1 and 201 of the Spanish Corporate Enterprises Act apply, the text of which is as follows:

Article 159. General shareholders' meeting.

"*1. The partners or shareholders, assembled in an annual general shareholders' meeting, shall adopt decisions on the matters whose competence is reserved to the general shareholders' meeting by majority vote as defined by law or in the by-laws.*

Article 201. Majorities[7].

"*1. In joint stock companies, corporate decisions shall be adopted by a majority of the votes of the shareholders present in person or by proxy. A decision shall have been adopted when it attains more votes in favour than against of the capital present in person or by proxy.*

2. Adoption of the decisions referred to in Article 194 shall require an absolute majority when at least fifty per cent of the capital present or represented. However, a two-thirds majority of the share capital present or represented at the meeting when, at second call, at least twenty-five but less than fifty per cent of the subscribed capital with voting rights is in attendance.

*3. The by-laws may call for larger majorities than specified in the preceding paragraphs.***"**

It should also be borne in mind that sector regulations applicable to credit entities complement some aspects of the Spanish Corporate Enterprises Act with regard to the quorum and majorities required, as indicated in section B.1 above.

B.3 Indicate the rules governing amendments to the company's Bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.

As required by article 286 of the Spanish Corporate Enterprises Act, in the event that the Bylaws are to be amended, the Bank's directors or, where appropriate, the shareholders tabling the resolution, must draft the complete text of the proposed amendment along with a written report justifying the proposed change, which must be provided to shareholders in conjunction with the call to the meeting at which the proposed amendment will be voted on.

Furthermore, pursuant to article 287 of the Spanish Corporate Enterprises Act, the call notice for the general shareholders' meeting must clearly set out the items to be amended, detailing the right of all shareholders to examine the full text of the proposed amendment and accompanying report at the company's registered offices, and to request and be sent these documents at no charge.

Article 25 of the Bylaws, which regulates the calling of general shareholders' meetings, stipulates that if the shareholders are called upon to deliberate on amendments to the Bylaws, including the increase and reduction of share capital, on the transformation, merger, split-off, the overall assignment of assets and liabilities, the relocation of the registered office abroad, on the issuance of debentures or on the exclusion or limitation of pre-emptive rights, the required quorum on first call shall be met by the attendance of shareholders representing at least fifty percent of the subscribed share capital with the right to vote. If a sufficient quorum is not available, the general meeting shall be held upon second call.

When shareholders representing less than fifty percent of the subscribed share capital with the right to vote are in attendance, the resolutions mentioned in the preceding paragraph may only be validly adopted with the favourable vote of two-thirds of the share capital present or represented at the meeting.

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7 Valid text until the coming into force of Act 31/2014:

"*1.In joint stock companies, corporate decisions shall be adopted by a majority of the votes of the shareholders present in person or by proxy.*

2. Adoption of the decisions referred to in Article 194 shall require a two-thirds majority of the share capital present or represented at the meeting when, at second call, at least twenty-five but less than fifty per cent of the subscribed capital with voting rights is in attendance.

3. The by-laws may call for larger majorities than specified in the preceding paragraphs."

However, when shareholders representing fifty percent or more of the subscribed share capital with the right to vote are in attendance, resolutions may be validly adopted by absolute majority, pursuant to article 201 of the Spanish Corporate Enterprises Act (in the text given by Act 31/2014).

Article 291 of the Spanish Corporate Enterprises Act establishes that any changes to the Bylaws involving new obligations for shareholders must receive the consent of those affected. Moreover, if the modification directly or indirectly affects a particular class of shares, or a part of one of these, it will be subject to the provisions of article 293 of the LSC.

Elsewhere, as required by article 10 of Royal Decree 84/2015, amendment of credit institutions' Bylaws requires authorisation from the Bank of Spain. However, the following amendments are exempt from this authorisation procedure (although they must nevertheless be communicated to the Bank of Spain): those intended to reflect a change in registered business office within Spain, a capital increase, the addition to the wording of the Bylaws of legal or regulatory requirements of an imperative or prohibitive nature or wording changes to comply with judicial or court rulings and any other amendments which the Bank of Spain has ruled exempt from authorisation on account of scant materiality in response to prior consultations submitted to it to this end.

B.4 Indicate the attendance figures for the General Shareholders' Meetings held during the year:

Extraordinary general shareholders' meeting of 15 September 2014

	Attendance data				
Date of general meeting	**% attending in person**	**% by proxy**	**% remote voting**		**Total**
			Electronic means	**Other(3)**	
15/09/2014	0.130% (1)	37.930% (2)	0.060%	14.061%	52.181%

(1) Of the percentage specified 0.130%, 0.001% corresponds to the capital represented by remote attendance via Internet.
(2) The percentage of capital represented by proxies granted via Internet was 0.297%.
(3) This percentage relates to postal voting.

General Shareholders' Meeting 28 March 2014:

	Attendance data				
Date of general meeting	**% attending in person**	**% by proxy**	**% remote voting**		**Total**
			Electronic means	**Other(3)**	
28/03/2014	0.274% (1)	42.708% (2)	0.061%	15.777%	58.820%

(1) Of the percentage specified 0.274%, 0.002% corresponds to the capital represented by remote attendance via Internet.
(2) The percentage of capital represented by proxies granted via Internet was 0.223%.
(3) This percentage relates to postal voting.

General Shareholders' Meeting 22 March 2013:

	Attendance data				
Date of general meeting	**% attending in person**	**% by proxy**	**% remote voting**		**Total**
			Electronic means	**Other(3)**	
22/03/2013	0.252% (1)	41.733% (2)	0.030%	13.853%	55.869%

(1) Of the percentage specified 0.252%, 0.005% corresponds to the capital represented by remote attendance via Internet.

(2) The percentage of capital represented by proxies granted via Internet was 0.106%.
(3) This percentage relates to postal voting.

B.5 Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the General Shareholders' Meetings:

Yes ☐ **No** ☒

Number of shares required to attend the general meeting	One share

The annual general shareholders' meeting held on 19 June 2004 approved an amendment to the Bylaws to allow shareholders with any number of shares to attend the general shareholders' meeting.

The first paragraph of Article 26.1 of the current Bylaws states the following:

"*The holders of any number of shares registered in their name in the respective book-entry registry five days prior to the date on which the general shareholders***'** *meeting is to be held and who are current in the payment of pending subscriptions shall be entitled to attend general shareholders***'** *meetings.***"**

B.6 Indicate whether decisions involving a fundamental corporate change ("subsidiarisation", acquisitions/disposals of key operating assets, operations that effectively entail the company's liquidation) must be submitted to the General Shareholders' Meeting for approval or ratification even when not expressly required under company law.

Yes ☒ No ☐

The basic rules and regulations of the Bank expressly accept the authority of the general shareholders' meeting to take decisions regarding certain operations of special relevance. Article 20.2 of the Bylaws and Article 2.2 of the Rules and Regulations for the General Shareholders' Meeting reserve the right to approve the subsidiarisation or contribution to subsidiaries of the operating assets of the Bank, thus turning the Bank into a mere holding company, to approve, if applicable, the acquisition or disposition of assets whenever, because of the quality and volume, they entail an actual change of the corporate purpose or, to agree operations whose effect would be tantamount to the liquidation of the Bank.

Article 20.2 of the Bylaws

"*The general shareholders*' *meeting has the power to decide on all matters assigned to it by the law or the Bylaws. Specifically and merely by way of example, it has the following powers:*

(…)

(xi) *To approve the subsidiarisation or contribution to subsidiaries of the operating assets of the Company, thus turning the Company into a mere holding company;*
(xii) *To approve, if applicable, the acquisition or disposition of assets whenever, because of the quality and volume thereof, they entail an actual change of the corporate purpose; and*
(xiii) *To approve transactions whose effect is tantamount to the liquidation of the Company.*"

Article 2.2 of the Rules and Regulations for the general shareholders' meeting

"*Pursuant to the provisions of the Bylaws, the shareholders at a general shareholders*' *meeting may adopt resolutions on any matter pertaining to the Company, with the following powers being specifically reserved to them:*

(…)
XIII. Resolutions on the contribution to dependent companies of the Company'*s operating assets, converting it into a pure holding company.*
XIV. Approval, if appropriate, of the acquisition or transfer of assets when, due to the quality or volume thereof, such acquisition or transfer entails an effective change in the corporate purpose.
XV. To approve transactions whose effect is tantamount to the liquidation of the Company."

It is further noted that, following the coming into force of Act 31/2014, of 3 December, amending the Spanish Corporate Enterprises Act to improve corporate governance (**"**Act 31/2014**"**), articles 160 and 511 bis of the Spanish Corporate Enterprises Act have added these powers to the listing of the powers of the general meeting in such decisions in terms that are substantially identical to those contained in the Bylaws and in the Rules and Regulations of the General Shareholders' Meeting of the Bank.

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.

The Group website (www.santander.com) has been publishing all the information required under current legislation (currently the Spanish Corporate Enterprises Act and Order ECC/461/2013, of 20 March) in the Investor Relations section accessible from the main menu since 2004.

The **"**Investor Relations**"** section can be accessed from the *link* on the home page.

Information on corporate governance and general shareholders' meetings can be found in the **"***Corporate governance***"** part of this section, with information on general meetings in the **"***General shareholders' meeting***"** section.

This information can also be accessed from the home page through the **"***Investor relations***"** section, from which the **"***Corporate governance***"** section is available.

This information is therefore available at both:

- Home / Shareholders / Corporate Governance / General Shareholders' Meeting.

- Home / Investor Relations / Corporate Governance / General Shareholders' Meeting.

The corporate website divides its content into specific sections for institutional investors and shareholders. The website is available in Spanish, English and Portuguese, and receives approximately 185,000 visits per week.

The following can be found on this website, among other items:

- The Bank's Bylaws
- The Rules and Regulations of the General Shareholders' Meeting
- The Rules and Regulations of the Board of Directors
- Professional biographies and other information on the directors
- The Annual Report
- The Annual Corporate Governance Report
- The Code of Conduct in Securities Markets
- The General Code of Conduct
- The Sustainability Report
- Board Committee reports

From the date of its publication, the call notice for the 2015 general shareholders' meeting will be available on the website. The meeting information provided will include the resolutions for ratification and the mechanisms for exercising the right to receive information, the right to grant proxies and the right to vote, including an explanation of how to use remote voting mechanisms, and the rules governing the online shareholders' forum which the Bank will set up within its corporate website.

C COMPANY MANAGEMENT STRUCTURE

C.1 Board of directors

C.1.1 List the maximum and minimum number of directors included in the Bylaws:

Maximum number of directors	22
Minimum number of directors	14

C.1.2 Complete the following table with board members' details:

Name or corporate name of director	Representative	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Ms. Ana Botín-Sanz de Sautuola y O'Shea	N/A	Chair	04.02.1989	28.03.2014	Vote in general shareholders' meeting
Mr. Matías Rodríguez Inciarte	N/A	Second vice chair	07.10.1988	30.03.2012	Vote in general shareholders' meeting
Mr. Guillermo de la Dehesa Romero	N/A	Third vice chair	24.06.2002	22.03.2013	Vote in general shareholders' meeting
Ms. Sheila C. Bair	N/A	Member	27.01.2014	28.03.2014	Vote in general shareholders' meeting
Mr. Javier Botín-Sanz de Sautuola y O'Shea	N/A	Member	25.07.2004	22.03.2013	Vote in general shareholders' meeting
Mr. Rodrigo Echenique Gordillo	N/A	Member	07.10.1988	28.03.2014	Vote in general shareholders' meeting
Ms. Esther Giménez-Salinas i Colomer	N/A	Member	30.03.2012	28.03.2014	Vote in general shareholders' meeting
Mr. Ángel Jado Becerro de Bengoa	N/A	Member	11.06.2010	22.03.2013	Vote in general shareholders' meeting
Mr. Juan Rodríguez Inciarte	N/A	Member	28.01.2008	30.03.2012	Vote in general shareholders' meeting
Ms. Isabel Tocino Biscarolasaga	N/A	Member	26.03.2007	22.03.2013	Vote in general shareholders' meeting
Mr. Juan Miguel Villar Mir	N/A	Member	07.05.2013	28.03.2014	Vote in general shareholders' meeting
Mr. Javier Marín Romano[1]	N/A	Chief executive officer	29.04.2013	28.03.2014	Vote in general shareholders' meeting
Mr. Fernando de Asúa Álvarez[2]	N/A	First vice chair	17/04/1999	22.03.2013	Vote in general shareholders' meeting
Mr. Abel Matutes Juan[3]	N/A	Member	24.06.2002	22.03.2013	Vote in general shareholders' meeting

Representative: N/A: Not applicable.

1. Resigned as director on 12 January 2015.

To cover this vacancy, at its meeting of 25 November 2014, the board of directors agreed to appoint Mr. José Antonio Álvarez Álvarez as director, with effect from 13 January 2015.

2. Resigned as director on 12 February 2015.

3. Resigned as director on 18 February 2015.

To cover these vacancies, and the vacancy caused by the death of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, the board of directors, at its meeting of 25 November 2014, agreed to appoint as directors Mr. Bruce Carnegie-Brow, Mr. Carlos Fernández González and Ms. Sol Daurella Comadrán.

Total number of directors	14[8]

The Bank considers the current size and composition of the board to be appropriate in light of the size, complexity and geographical diversity of the Group.

Lord Burns submitted his resignation as a director, with effect from 31 December 2013, at the meeting of the board of directors on 16 December 2013.

At its meeting of 27 January 2014, at the proposal of the appointments and remuneration committee (presently, the appointments committee) the board appointed by cooptation Ms. Sheila Bair as an independent director to cover the vacancy created by the resignation of Lord Burns. This appointment was ratified in the general shareholders' meeting of 28 March 2014.

At its meeting of 17 February 2014, the board, at the proposal of the appointments and remuneration committee (presently, the appointments committee) meeting on the same date, decided to propose to the general shareholders' meeting the ratification of the appointment of Mr. Javier Marín Romano, Ms. Sheila Bair and Mr. Juan Miguel Villar Mir, and the re-election of the first two, Mr. Marín as executive director and the other two as external independent directors. The board also proposed the re-election of Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea, Ms. Esther Giménez-Salinas i Colomer, Mr. Rodrigo Echenique Gordillo and Mr. Vittorio Corbo Lioi, the first as executive director, the second as an external independent director and the last two as non-proprietary and non-independent external directors.

These proposals were ratified by the general shareholders' meeting of 28 March 2014.

At the meeting of 24 July 2014, Mr. Vittorio Corbo Lioi informed the board of his voluntary resignation as a director, ceasing to a member of the board.

Following the death on 9 September of the previous Chair Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, at its meeting of 10 September 2014, the board of directors unanimously appointed Ms. Ana Botín-Sanz de Sautuola y O'Shea as the new chair, at the proposal of the appointments and remuneration committee (presently, the appointments committee), which met on the same day.

At its meeting of 25 November 2014, the board of directors appointed, at the proposal of the appointments committee, Mr. José Antonio Álvarez Álvarez as chief executive officer, replacing Mr. Javier Marín Romano.

At the same meeting, Mr. Fernando de Asúa Álvarez and Mr. Abel Matutes Juan resigned, in both cases subject to the pertinent regulatory authorisation of their replacements; the board appointed Mr. Bruce Carnegie-Brown, Mr. Carlos Fernández González and Ms. Sol Daurella Comadrán as independent directors to cover the above vacancies, and the vacancy created by the death of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos. Lastly, the board appointed Mr. Bruce Carnegie-Brown first vice-chair and lead independent director and Mr. Rodrigo Echenique Gordillo as fourth vice-chair.

[8] At the date of this report there are 15 directors.

The professional background of the new directors can be found on the Group's corporate website (www.santander.com).

Indicate any board members who left during the period:

Name or corporate name of director*	Status of the director at the time	Leaving date
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	Executive chair	09/09/2014
Mr. Vittorio Corbo Lioi	External director	24/07/2014
Lord Burns	External director	01/01/2014

*Mr. Javier Marín Romano resigned as director on 12 January 2015.

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Article 529.duodeceis of the Spanish Corporate Enterprises Act establishes that executive directors are those who perform management functions in the company or its group, irrespective of the legal relationship with the company or group. Nevertheless, directors that are senior executives or directors of companies in the group of the company parent shall be considered to be proprietary directors in the company (this does not apply to Banco Santander, as it has no controlling shareholder). Article 6.2.a) of the Rules and Regulations of the Board of Directors establishes that those who perform management functions within the Company or the Group shall be considered executive directors. For clarification purposes, the following directors shall be included in this category: the chair, the chief executive officer, and all other directors who perform management or decision-making duties in connection with any part of the business of the Company or the Group other than the duties of supervision and collective decision-making falling upon the directors, either through the delegation of powers, stable proxy-granting, or a contractual, employment or services relationship.

When a director performs management functions and, at the same time, is, or represents, a significant shareholder or one that is represented in the board of directors, he shall be considered as an executive director.

Therefore, the following are executive directors of the Bank at 31 December 2014:

Name or corporate name of director	Committee proposing appointment	Position held in the company
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Appointments and remuneration	Executive chair
Mr. Matías Rodríguez Inciarte	Appointments and remuneration	2nd vice chair and head of risk
Mr. Juan Rodríguez Inciarte	Appointments and remuneration	Executive vice president in charge of strategy
Mr. Javier Marín Romano	Appointments and remuneration	Chief executive officer

Total number of executive directors	4
% of the board	28.57%

Javier Marín Romano resigned on 12 January 2015, and was replaced by Mr. José Antonio Álvarez Álvarez as the new chief executive officer of the Institution.

At its meeting of 16 January 2015, the board of directors appointed Mr. Rodrigo Enchenique Gordillo, vice chair of the board, as executive director, with responsibility for compliance, pursuant to regulatory recommendations on corporate governance, and also undertaking any functions assigned by the chair of the Bank.

EXTERNAL PROPRIETARY DIRECTORS

Article 529.duodeceis of the Spanish Corporate Enterprises Act establishes that external proprietary directors are those holding a shareholding equal to or greater than that legally considered significant, or who have been appointed because they are shareholders, even if their shareholding is below this amount, and the representatives of such shareholders. Article 6.2.b) of the Rules and Regulations of the Board establishes that proprietary directors are external or non-executive directors who hold or represent shareholdings equal to or greater than the one legally considered as significant, or those who have been designated for their condition as shareholders despite their shareholdings not reaching the threshold to be considered significant, as well as those who represent any of such shareholders.

Since 2002, the criterion followed by the board and the appointments committee as a necessary but not sufficient condition for designation or consideration as an external proprietary director is the holding of at least 1% of the Bank's share capital. This threshold has been determined by the Bank availing of its powers of self-regulation and is lower than the level considered significant by law, although the Bank believes this percentage is large enough to consider that directors holding or representing an equal or larger stake may be classified as proprietary by the board.

The board of directors, taking into consideration the circumstances of each case, and the prior report from the appointments committee, considers the following director to be an external proprietary director:

Name or corporate name of director	Committee proposing appointment	Name or corporate name of significant shareholder represented or proposing appointment (1)
Mr. Javier Botín-Sanz de Sautuola y O'Shea	Appointments and remuneration2	Fundación Botín, Bafimar, S.L., Cronje, S.L., Puente de San Miguel, S.L.U., Inversiones Zulú, S.L., Latimer Inversiones, S.L., Nueva Azil, S.L., Agropecuaria El Castaño S.L.U., Bright Sky 2012, S.L., Ms. Ana Botín-Sanz de Sautuola y O'Shea, the estate of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, Mr. Emilio Botín-Sanz de Sautuola y O'Shea, Ms. Carmen Botín-Sanz de Sautuola y O'Shea, Ms. Paloma Botín-Sanz de Sautuola y O'Shea, Mr. Jorge Botín-Sanz de Sautuola Ríos, Mr. Francisco Javier Botín-Sanz de Sautuola Ríos, Ms. Marta Botín-Sanz de Sautuola Ríos and his own interest. The aforementioned shareholders held shares in the bank representing 1.275% of voting rights at year-end 2014.

Total number of proprietary directors	1
% of the board	7.14%

(1) Significant shareholder: As indicated in section A.2 above, there are no significant shareholders.
(2) Presently, appointments committee.

EXTERNAL INDEPENDENT DIRECTORS

The board of directors deems that all directors are independent directors, a classification that is based on the solvency, integrity and professionalism of each director and not on compliance with certain requirements.

Article 6.2.c) of the Rules and Regulations of the Board incorporates the definition of an independent director established in article 8 of the Order ECC/461/2013.

This definition substantially coincides with that set forth in article 529.k.4 of the Spanish Corporate Enterprises Act. The board is expected to amend its rules and regulations to reflect the changes brought about by this article.

Article 6.2.c) of the Rules and Regulations of the Board:

"*External or non-executive directors who have been appointed based on their personal or professional status and who perform duties not conditioned by relationships with the Company or with the significant shareholders or management thereof shall be considered independent directors.*

In no event may there be a classification as independent directors of those who:

i) Have been employees or executive directors of the Group's companies, except after the passage of three or five years, respectively, since the cessation of such relationship.

ii) Receive from the Company, or from another Group company, any amount or benefit for something other than director compensation, unless it is immaterial for the director.

For purposes of the provisions of this sub-section, neither dividends nor pension supplements that a director receives by reason of the director's prior professional or employment relationship shall be taken into account, provided that such supplements are unconditional and therefore, the Company paying them may not suspend, modify or revoke the accrual thereof without breaching its obligations.

iii) Are, or have been during the preceding three years, a partner of the external auditor or the party responsible for auditing the Company or any other Group company during such a period.

iv) Are executive directors or senior managers of another company in which an executive director or senior manager of the Company is an external director.

v) Maintain, or have maintained during the last year, a significant business relationship with the Company or with any Group company, whether in their own name or as a significant shareholder, director or senior manager of an entity that maintains or has maintained such relationship.

Business relationships shall be considered the relationships of a provider of goods or services, including financial services, and those of an advisor or consultant.

(vi) Are significant shareholders, executive directors or senior managers of an entity that receives, or has received during the preceding three years, donations from the Company or the Group.

Those who are merely members of the board of a foundation that receives donations shall not be considered included in this item.

(vii) Are spouses, persons connected by a similar relationship of affection, or relatives to the second degree of an executive director or senior manager of the Company.

viii) Have not been proposed, whether for appointment or for renewal, by the appointments and remuneration committee.

ix) Have been directors for a continued period that exceeds 12 years.

x) Are, as regards a significant shareholder or shareholder represented on the board, in one of the circumstances set forth in items (i), (v), (vi) or (vii) of this sub-section 2(c). In the event of a kinship relationship set forth in item (vii), the limitation shall apply not only with respect to the shareholder, but also with respect to the related proprietary directors thereof in the affiliated company."

Proprietary directors who lose this status as a result of the sale by the shareholder they represent of its shareholding can only be re-elected as independent directors if the shareholder they've represented until then has sold all its shares in the company.

A director who owns an equity interest in the Company may have the status of independent director, provided that he meets all the conditions set out in this paragraph 2 (c) and, in addition, its shareholding is not deemed significant."

Taking into consideration the circumstances of each case and the prior notification of the appointments committee, the board considers the following board members to be external independent directors at 31 December 2014:

Name or corporate name of director[9]	**Profile**[10 and 11]
Mr. Fernando de Asúa Álvarez[12]	Born in Madrid in 1932. Became a member of the board in 1999. Degree in Economics and Information Technology, post-graduate in *Business Administration* and Mathematics. Other relevant positions: formerly chairman of IBM Spain where he is currently honorary chairman. Non-executive director of Técnicas Reunidas, S.A.
Mr. Guillermo de la Dehesa Romero[13]	Born in Madrid in 1941. Became a member of the board in 2002. Government Commercial Expert and Economist and office manager at the Bank of Spain's (on sabbatical leave). Main activity: international adviser for Goldman Sachs International. Other relevant positions: former secretary of state for the Economy, general secretary of Commerce, chief executive officer of Banco Pastor, S.A. He is currently non-executive vice-chairman of Amadeus IT Holding, S.A., chairman of the Centre for Economic Policy Research (CEPR) of London, a member of the Group of Thirty in Washington, chairman of the board of IE Business School. He is also non-executive chairman of Aviva Grupo Corporativo, S.L. and Aviva Vida y Pensiones, S.A. de Seguros y Reaseguros.
Ms. Sheila C. Bair	Born in 1954 in Wichita, Kansas. Became a member of the board in 2014. Joint Degree from the University of Kansas School of Law and Bachelor of Arts from the University of Kansas. Main activity: Senior advisor and Chair of the Systemic Risk Council of The Pew Charitable Trust and columnist of the magazine Fortune. Other relevant positions: Chair of the Federal Deposit Insurance Corporation between 2006 and 2011, professor of Financial Regulatory Policy at the Isenberg School of Management at the University of Massachusetts-Amherst between 2002 and 2006 and Assistant Secretary of the US Department of Treasury between 2001 and 2002. She is also a non-executive director of Thomson Reuters Corporation and Host Hotels & Resorts, Inc. and a founding member of the board of The Volcker Alliance.

[9] All of the directors were proposed by the appointments and remuneration committee (presently, the appointments committee).

[10] Unless otherwise indicated, the main activity of the directors listed in this section is that carried out at the Bank.

[11] The professional profiles of the external independent directors Mr. Bruce Carnegie-Brow, Mr. Carlos Fernández González and Ms. Sol Daurella Comadrán, appointed by the board of directors at its meeting of 25 November 2014, can be consulted on the corporate website (www.santander.com) and in the Group's 2014 annual report.

[12] Fernando de Asúa Alvarez and Abel Matutes Juan resigned as directors on 12 February 2015 and 18 February 2015, respectively.

[13] Mr. Guillermo de la Dehesa Romero is expected to stand for re-election as a director at the 2015 general shareholders' meeting. If re-elected, he will be considered an external director, but not independent, having been a director for over 12 years.

Ms. Esther Giménez-Salinas i Colomer	Born in Barcelona in 1949. Became a member of the board in 2012. Doctor in Law. Main activity: Criminal Law Professor in ESADE-URL's Law Department. Other relevant positions: has served as rector at Ramon Llull University, member of the General Council of the Spanish Judiciary, member of the permanent committee of the Conference of Spanish University Rectors (CRUE) and managing director of the Centre of Legal Studies in the Law Department of the Catalan regional government.
Mr. Ángel Jado Becerro de Bengoa	Born in Santander in 1945. Became a member of the board in 2010. Graduate in Law from the University of Valladolid and Diploma in Company Administration from the University of Deusto. Other relevant positions: was director of Banco Banif, S.A. between 2001 and 2013. He currently holds a number of positions in real-estate investment companies.
Mr. Abel Matutes Juan[12]	Born in Ibiza in 1941. Became a member of the board in 2002. Degree in Law and Economics. Main activity: chairman of Grupo de Empresas Matutes. Other relevant positions: has been Minister of Foreign Affairs, and EU Commissioner, holding the positions of Credit and Investment, Financial Engineering and Policy for Small and Medium-Sized Companies (1989), North-South Relations, Mediterranean Policy and Relations with Latin America and Asia (1989), and Transport, Energy and Supply Agency for Euroatom (1993).
Ms. Isabel Tocino Biscarolasaga	Born in Santander in 1949. Became a member of the board in 2007. Doctor in Law. She has completed graduate studies in business administration at IESE and Harvard. Main activity: Professor at the Complutense University of Madrid. Other relevant positions: former Spanish Minister for the Environment, former chairwoman of the European Affairs commission and of the Foreign Affairs Committees of Spanish Congress and former chairwoman for Spain and Portugal and vice-chairwoman for Europe of Siebel Systems. At present, she is also an elected member of the Spanish State Council, a Member of the Royal Academy of Doctors and a non-executive director of ENCE Energía y Celulosa, S.A. and Enagás, S.A.
Mr. Juan Miguel Villar Mir	Born in Madrid in 1931. Became a member of the board in 2013. He is a civil engineer and a graduate in law and is qualified in industrial organisation. Main activity: chairman of Grupo OHL and of the Grupo Villar Mir, and represents these entities as vice-chairman in Abertis Infraestructuras, S.A. and in Inmobiliaria Colonial, S.A., respectively. Other relevant positions: was Minister of Finance and Vice-president of the government for Economic Affairs between 1975 and 1976. Was chairman of Electra de Viesgo, Altos Hornos de Vizcaya, Hidro Nitro Española, Empresa Nacional de Celulosa, Empresa Nacional Carbonífera del Sur, Cementos del Cinca y Cementos Portland Aragón and Puerto Sotogrande. Also a member of Spain's Royal Academy of Engineering.

Total number of Independent directors	8
% of the board	57.14%

List any independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

Mr. Juan Miguel Villar Mir is the chief executive of the company group headed by Grupo Villar Mir, S.A. (hereinafter, “Grupo Villar Mir”). Banco Santander and other Santander Group companies hold risk positions with Grupo Villar Mir companies via different instruments, such as syndicated loans, long-term bilateral loans, bilateral loans for the financing of working capital, leases or guarantee lines.

If applicable, include a statement from the board detailing the reasons why the said director may carry on their duties as an independent director.

In their assessment of the suitability of Mr. Villar Mir for the performance of the duties of independent director, the appointments and remuneration committee[14] first, and the board of directors subsequently, took into consideration the existence of the aforementioned financing provided by the Santander Group to Grupo Villar Mir and concluded that such financing did not constitute a significant business relationship (as defined in the current article 529.k of the Spanish Corporate Enterprises Act) for the purposes of classifying Mr. Villar Mir as independent, as no situation of financial dependence had been created in Grupo Villar Mir owing to the replaceability of such financing with other sources of bank or non-bank financing.

The board of directors has assessed the relationship of the other external independent directors to the Group and, at the proposal of the appointments committee, has concluded that there are no circumstances that would affect their independence.

<u>OTHER EXTERNAL DIRECTORS</u>

Name or corporate name of director	Committee notifying or proposing appointment
Mr. Rodrigo Echenique Gordillo	Appointments and remuneration (presently, the appointments committee)

Total number of other external directors	1
% of the board	7.14%

List the reasons why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

See below.

List any changes in the category of each director which have occurred during the year:

Following verification by the appointments and remuneration committee (presently, the appointments committee), at its meeting of 27 January 2014 the board of directors resolved that, following approval of his re-election as director at the general shareholders’ meeting of 28 March 2014, Rodrigo Echenique Gordillo would become an external but not proprietary or independent director, having been a director for over 12 years. At its meeting of 16 January 2015, the board of directors appointed Mr. Echenique Gordillo as an executive director of the Bank.

It is further stated that Mr. Guillermo de la Dehesa Romero, who is currently categorised as an independent external director, will retain such classification until the end of his term at the next general shareholders’ meeting of 2015. Mr. de la Dehesa Romero is expected to stand for re-election as a director at that ordinary general meeting. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years.

[14] Presently, appointments committee.

C.1.4 Complete the following table on the number of female directors over the past four years and their category:

	Number of female directors				% of total directors of each type			
	2014	2013	2012	2011	2014	2013	2012	2011
Executive	1	1	1	1	7.14%	6.25%	6.25%	5.26%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	3	2	2	1	21.43%	12.50%	12.50%	5.26%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	4 (*)	3	3	2	28.57%	18.75%	18.75%	10.53%

(*) At the date of this report there are currently 5, as a result of Ms. Sol Daurella Comadrán joining the board on 18 February 2015.

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of measures

Concerning gender diversity, both the appointments committee and the board of directors are aware of the importance of promoting equal opportunities for men and women and the benefits of appointing women with the necessary abilities, dedication and skills for the job to the board of directors.

Pursuant to article 31.3 of Act 10/2014, the appointments and remuneration committee (presently, the appointments committee) has set an objective of 25% representation of the less well-represented sex on the Bank's board of Directors.

A European Commission study with figures to March 2014 found that the average percentage of female directors in major listed European Companies in the 28 European Union countries was 17.8%, and 14.8% in Spain.

The current composition of the board (33.3% female directors) exceeds the objective set by the Bank and the aforementioned European average.

The percentage of women on board committees at year-end 2014 was as follows:

	No. of members	No. of female directors	% of female directors
Executive committee	7	2	29
Executive risk committee	5	1	20
Audit committee	3	0	-
Appointments committee	4	0	-
Remuneration committee	4	1	25
Risk, regulation and compliance committee	4	1	25
International committee	5	2	40
Innovation and technology (formerly technology, productivity and quality) committee	2	1	50

C.1.6 Explain the measures taken, if applicable, by the Nomination Committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile:

Explanation of measures
The appointments committee, in accordance with Article 17.4 a) of the Rules and Regulations of the Board, establishes and reviews the standards and internal procedures to be followed in order to determine the composition of the board and select those persons who are to be put forward as directors. The selection procedure for directors followed by Banco Santander does not contain any specific slant which would impede the inclusion of women on its board. At the date of this document, there are five women on the board of directors, including the chair, Ms. Ana Botín-Sanz de Sautuola y O'Shea, Ms. Sheila C. Blair, Ms. Sol Daurella Comadrán, Ms. Esther Giménez-Salinas and Ms. Isabel Tocino Biscarolasaga, the first as executive director and the other four as independent directors. For further information on the measures taken by the appointments committee in the selection of women as members of the board, see section C.1.5 of this report.

When, despite the measures taken, there are few or no female directors, explain the reasons:

Explanation of the reasons
This does not apply since there are several female directors sitting on the board of directors. Refer to sections C.1.5 and C.2.2 of this report for more information on the female presence on the board and its committees.

C.1.7 Explain how shareholders with significant holdings are represented on the board.

No shareholders hold significant holdings. Refer to section A.2.

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 5% of the share capital:

Name or corporate name of the shareholder	Reason
Mr. Javier Botín-Sanz de Sautuola y O'Shea	The criteria for appointing external proprietary directors representing shareholders who hold less than 5% of the capital are described in section C.1.3 and G.11.

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained.

Yes ☐ **No** ☒

This does not apply as there have been no formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors.

C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board his/her reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director:

Name of director	Reasons for resignation
Lord Burns	See below
Mr. Vittorio Corbo Lioi	See below
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	See below

At the meeting of the board of directors on 16 December 2013, Lord Burns submitted his resignation as a director, with effect from 31 December 2013.

At the meeting of 24 July 2014, Mr. Vittorio Corbo Lioi informed the board of his voluntary resignation as a director, ceasing to a member of the board.

Being present at the meetings and having explained the reasons for the resignation, which were personal, the objective that directors should give the reasons to allow the other directors to become aware of them is considered to have been fulfilled.

Following the death on 9 September of the previous Chair Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, at its meeting of 10 September 2014, the board of directors unanimously appointed Ms. Ana Botín-Sanz de Sautuola y O'Shea as the new chair, at the proposal of the appointments and remuneration committee (presently, the appointments committee), which met on the same day.

At its meeting of 25 November 2014, the board of directors appointed Mr. José Antonio Álvarez Álvarez as chief executive officer, replacing Mr. Javier Marín Romano.

As a result, Mr. Marín Romano stated at the meeting that he was resigning his post as a director with effect from his resignation as chief executive officer.

Mr. Fernando de Asúa Álvarez and Mr. Abel Matutes Juan being present at the meeting and giving the reasons for their resignations, which were personal, the objective that directors should give the reasons to allow the other directors to become aware of them is considered to have been fulfilled.

C.1.10 Indicate what powers, if any, have been delegated to the chief executive officer/s.

Name or corporate name of director	Brief description
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Executive chair
Mr. Javier Marín Romano[15]	Chief executive officer

The executive chair and the chief executive officer, without prejudice to the bylaws establishing the higher hierarchical status in the Bank of the former and the responsibility for the day-to-day

[15] Resigned on 12 January 2015, and was replaced by Mr. José Antonio Álvarez Álvarez as the new chief executive officer of the Institution.

management of the Bank's business areas of the latter, have been delegated the same powers. These are as follows:

All the powers of the board of directors, except for those not delegable by law and those listed below, classified as not delegable in the Rules and Regulations of the Board:

a) Approval of the general policies and strategies of the Bank, particularly:
(i) Strategic plans, management targets and annual budget;
(ii) Dividend and treasury stock policy;
(iii) General risk management policy;
(iv) Corporate governance policy;
(v) Corporate social responsibility policy.

b) Approval of the policies for the provision of information to and for communication with the shareholders, the markets and the public opinion. The board assumes the duty to provide the markets with prompt, accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related party transactions of particular importance and treasury stock.

c) Approval of the financial information that the Bank must make public on a periodic basis.

d) Approval of transactions entailing the acquisition and disposition of substantial assets of the Company and major corporate transactions, unless such approval must be given by the shareholders at a general shareholders' meeting, pursuant to the provisions of Article 20 of the Bylaws.

e) Approval, within the framework of the provisions of Article 58 of the Bylaws, of the remuneration to which each director is entitled.

f) Approval of the contracts governing the performance by directors of duties other than those of a mere director and the compensation to which they are entitled for the performance of additional duties, whether they are the duties of an executive director or otherwise, other than the duties of supervision and collective decision-making that they discharge in their capacity as mere members of the board.

g) The selection, appointment by cooption and continued evaluation of directors.

h) The selection, appointment and, where applicable, removal of the other members of senior management (senior executives and similar officers), as well as control of the management activity and continued evaluation of the same.

i) The definition of the basic conditions of senior management contracts, as well as approval of the remuneration of the latter and of those other officers who, although not part of senior management, receive significant compensation (especially variable remuneration) and whose activities may have a significant impact on the assumption of risk by the Group.

j) Authorisation for the creation or acquisition of holdings in special purpose entities or entities resident in countries or territories considered to be tax havens.

k) And all others specifically provided for in these rules and regulations.

The powers set forth in paragraphs (c), (d), (e), (f), (h), (i) and (j) may be exercised by the executive committee on an emergency basis, with a subsequent report thereof to the board at the first meeting thereafter held by it.

C.1.11 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:

At year-end 2014, the directors who are managers or directors of other Group companies are:

Name or corporate name of director	Corporate name of the group entity	Position
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Santander UK plc Santander UK Group Holdings Limited SAM Investment Holdings Limited Portal Universia, S.A. Universia Holding, S.L.	Director (*) Director (*) Director (*) Chair (*) Chair (*)
Mr Matías Rodríguez Inciarte	U.C.I., S.A. Financiera El Corte Inglés, E.F.C., S.A.	Chair (*) Director (*)
Mr Rodrigo Echenique Gordillo	Santander Investment, S.A. Allfunds Bank, S.A. Banco Santander International Universia Holding, S.L.	Director (*) Vice chairman (*) Director (*) Director (*)
Mr Ángel Jado Becerro de Bengoa	Cartera Mobiliaria, S.A., SICAV	Director (*)
Mr Juan Rodríguez Inciarte	Santander UK plc Santander Consumer Finance, S.A. Vista Capital de Expansión, S.A. SGECR SAM Investment Holdings Limited Santander UK Group Holdings Limited.	Director (*) Director (*) Director (*) Director (*) Director (*)
Mr Javier Marín Romano (**)	Allfunds Bank, S.A. Santander Investment, S.A. Santander Private Banking, s.p.a. SAM Investment Holdings Limited	Director (*) Vice chair (*) Chair (*) Director (*)

(*) Non executive.
(**) Resigned as director on 12 January 2015.

For the purpose of this table, the concept of Group under Article 4 of the Securities Market Act (Ley del Mercado de Valores) is used.

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company:

Details of the positions of the type indicated held by the Bank's directors at year-end 2014 are as follows.

Name or corporate name of director	Name of listed company	Position
Ms. Ana Botín-Sanz de Sautuola y O'Shea	The Coca – Cola Company	External director
Mr Matías Rodríguez Inciarte	Financiera Ponferrada, S.A., SICAV	External director
Mr Guillermo de la Dehesa Romero	Amadeus IT Holding, S.A.	External vice chairman
Mr Rodrigo Echenique Gordillo(**)	NH Hotels Group, S.A. Inditex, S.A.	Non-executive chairman External director
Ms. Isabel Tocino Biscarolasaga	ENCE Energía y Celulosa, S.A. Enagás, S.A.	External director External director
Mr Juan Miguel Villar Mir	Obrascón Huarte Laín, S.A. (OHL) Abertis Infraestructuras, S.A. Inmobiliaria Colonial, S.A.	Chairman (proprietary) Representative of OHL (proprietary vice chairman) Representative of Grupo Villar Mir (proprietary vice chairman)
Mr Fernando de Asúa Álvarez(**)	Técnicas Reunidas, S.A.	External vice chairman

* At 31 December 2014, Mr Rodrigo Echenique Gordillo was also non-executive chair of Vocento, S.A..
** He resigned as director on 12 February 2015.

For the purpose of this table, the concept of Group under Article 4 of the Securities Market Act (Ley del Mercado de Valores) is used.

C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit:

Yes [X] No [ ]

Explanation of rules
The maximum number of boards to which directors may belong, as stipulated in Article 30 of the Rules and Regulations of the Board, shall be governed by the provisions of article 26 of Law 10/2014, of 26 July, on the ordering, supervision and solvency of credit institutions. Directors of the Bank may not at the same time occupy more than: (a) one executive directorship plus two non-executive directorships or (b) four non-executive directorships. Positions held within a single group (including companies in which the Bank holds a significant stake) are calculated as a single position, whilst positions in not-for-profit-and charitable organisations are not taken into account for the purposes of applying this limit. The European Central Bank may authorise a director to occupy an additional non-executive position, if it considers that this will not interfere with the performance of their activities in the Bank.

C.1.14 Indicate the company's general policies and strategies that are reserved for approval by the board of directors in plenary session:

	Yes	No
Investment and financing policy	X	
Design of the structure of the corporate group	X	
Corporate governance policy	X	
Corporate social responsibility policy	X	
Strategic or business plans, management targets and annual budgets	X	
Remuneration and evaluation of senior officers	X	
Risk control and management, and the periodic monitoring of internal information and control systems	X	
Dividend policy, as well as the policies and limits applying to treasury stock	X	

Article 3.2 of the Rules and Regulations of the Board states:

"*Without prejudice to the foregoing, the policy adopted by the Board consists of delegating the day-to-day management of the Company to the executive bodies and the management team and focusing its activity on the general supervisory function, assuming and discharging per se, without the power of delegation, the responsibilities entailed in this function and, in particular, those set forth below:*

a) Approval of the general policies and strategies of the Bank, particularly:
i) Strategic plans, management goals and annual budget;
ii) Dividend and treasury stock policy;
iii) General risk management policy;
iv) Corporate governance policy;
v) Corporate social responsibility policy.

b) Approval of the policies for the provision of information to and for communication with the shareholders, the markets and the public opinion. The board assumes the duty to promptly provide the markets with accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related party transactions of particular importance and treasury stock.

c) Approval of the financial information that the Company must make public on a periodic basis.

d) Approval of transactions entailing the acquisition and disposition of substantial assets of the Company and major corporate transactions, unless such approval must be given by the shareholders at a general shareholders' meeting, pursuant to the provisions of Article 20 of the Bylaws.

e) Approval, within the framework of the provisions of Article 58 of the Bylaws, of the compensation to which each director is entitled.

f) Approval of the contracts governing the performance by directors of duties other than those of a mere director and the compensation to which they are entitled for the performance of additional duties, whether they are the duties of an executive director or otherwise, other than the duties of supervision and collective decision-making that they discharge in their capacity as mere members of the board.

(g) The selection, appointment by cooption and continued evaluation of directors.

(h) The selection, appointment, and where applicable, removal of the other members of senior management (senior executive vice presidents and similar officers), as well as the control of the management activity and continued evaluation of the same.

(i) The definition of the basic conditions of senior management contracts, as well as approval of the remuneration of the latter and of those other officers who, although not part of senior management, receive significant compensation (especially variable remuneration) and whose activities may have a significant impact on the assumption of risk by the Group.

(j) Authorisation for the creation or acquisition of holdings in special purpose entities or entities resident in countries or territories considered to be tax havens.

(k) And those specifically provided for in these Rules and Regulations.

The powers set forth in paragraphs (c), (d), (e), (f), (h), (i) and (j) may be exercised by the executive committee, whenever advisable for reasons of urgency, with a subsequent report thereof to the board at the first meeting thereafter held by it.**"**

C.1.15 List the total remuneration paid to the board of directors in the year:

Board remuneration (thousands of euros)	26,431*
Amount of total remuneration corresponding to accumulated pension rights (thousands of euros)	214,089**
Total board remuneration (thousands of euros)	240,520

* Includes EUR 295 thousand received by two directors in 2014 for membership of the board's of Group companies. See note 5 b) to the Group's 2014 financial statements. This does not include the amount agreed for executive directors under the 2014 Long-Term Incentive Plan, which is described in Note 5 of the Group's financial statements. This is because, pursuant to the instructions set out in CNMV Circular 4/2013, this amount under the Incentive Plan is not considered to have accrued yet, and it is therefore not appropriate to include it in either section D of the annual directors' remuneration report or in this section of this report, pursuant to CNMV Circular 5/2013.

** The Bank made pension contributions in favour of the directors amounting to Euros 4,984 thousand in 2014. The amount shown in the table does not correspond to these contributions, but, pursuant to the CNMV's instructions for completing this report, corresponds to the sum of accumulated pension rights for current directors (Euros 123,153 thousand, as shown in "Value of accumulated funds" ("2014" column) in section D.1.a) iii) of the annual remuneration report for the Bank's directors) and former members of the board (Euros 90,936 thousand) at year-end 2014. See note 5 to the Group's 2014 financial statement.

C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year:

The members of senior management at year-end 2014 were the following:

Position(s)	Name or corporate name
Internal Audit	Mr Juan Guitard Marín
Commercial Banking	Mr Francisco Javier San Félix García Mr Ángel Rivera Congosto
Global Wholesale Banking	Mr Jaques Ripoll**
Private Banking and Asset Management and Insurance	Mr Luis Moreno García
Brazil	Mr Jesús María Zabalza Lotina
Communications, Corporate Marketing and Studies	Mr Juan Manuel Cendoya Méndez de Vigo

Spain	Mr Enrique García Candelas
Consumer Finance	Ms. Magda Salarich Fernández de Valderrama
Financial Management and Investor Relations	Mr José García Cantera
Financial Accounting and Control	Mr José Francisco Doncel Razola
Chair's office	Mr Víctor Matarranz Sanz de Madrid
Human Resources, Organisation and Costs	Mr Jesús Cepeda Caro
Risk	Mr José María Nus Badía Mr Javier Maldonado Trinchant Mr José María Espí Martínez
Asset Recovery and Restructuring	Mr Remigio Iglesias Surribas
General Secretariat	Mr Ignacio Benjumea Cabeza de Vaca Mr César Ortega Gómez
Technology and Operations	Mr José María Fuster van Bendegem
Universities	Mr José Antonio Villasante Cerro
Other	Mr Juan Andrés Yanes Luciani

Total remuneration received by senior management (thousands of euros)	488,047[*** and ****]

*A total of 27 senior executives provided services in 2014.
**Except Mr Jaques Ripoll, whose appointment as managing director responsible for Global Wholesale Banking is effective from 1 January 2015.
***Excludes remuneration paid to executive directors in their capacity as board members and only includes remuneration of the 27 senior managers who provided such services in 2014. The amount shown is annual remuneration irrespective of the number of months of service on the general management team.
****Pursuant to the CNMV's instructions for completing this report, in addition to the total remuneration to senior management (EUR 78,528 thousand), this includes the accumulated pension rights of current and former senior executives, amounting to EUR 295,905 and EUR 113,614 thousand at year-end 2014, respectively, rather than the pension contributions made by the Bank in favour of its directors, which involved a net charge to results of Euros 20 million. This does not include the amount agreed for executive directors under the 2014 Long-Term Incentive Plan, for the reasons explained in section C.1.15.

At the date of this report, the Group has the following officers:

Business:
Germany (Mr Ulrich Leuschner), Argentina (Mr Enrique Cristofani), Asia (Mr Juan Rodríguez Inciarte), Brazil (Mr Jesús María Zabalza Lotina and Mr Sérgio Rial), Chile (Mr Claudio Melandri Hinojosa), USA (Mr Román Blanco Reinosa), Spain (Mr Enrique García Candelas and Mr Rami Aboukhair), Mexico (Mr Marcos Martínez Gavica), Poland (Mr Gerry Byrne and Mr Mateusz Morawiecki), Portugal (Mr Antonio Vieira Monteiro), UK (Mr. Nathan Bostock), Uruguay (Mr. Juan Carlos Chomali), Global Wholesale Banking (Mr. Jacques Ripoll) and Consumer Finance (Ms. Magda Salarich Fernández de Valderrama).

Business support divisions: Commercial Banking (Mr. Francisco Javier San Félix García).

Support and control functions: Internal Audit (Mr. Juan Guitard Marín), Chief Compliance Officer (Ms. Mónica López-Monís Gallego), Communications, Corporate Marketing and Studies (Mr. Juan Manuel Cendoya Méndez de Vigo), Corporate development (Mr. José Luis de Mora Gil-Gallardo), Financial Management (Mr. José García Cantera), Innovation (Mr. José María Fuster van Bendegem), Financial Accounting and Control (Mr. José Francisco Doncel Razola), Chair's Office and Strategy (Mr. Víctor Matarranz Sanz de Madrid), Human Resources, Organisation and Costs (Mr. Jesús Cepeda Caro), Risks, Chief Risk Officer (Mr. José María Nus Badia), General Secretariat (Mr. Ignacio Benjumea Cabeza de Vaca) and Technology and Operations (Mr. Andreu Plaza López) and Universities (Mr. José Antonio Villasante Cerro).

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:

As previously indicated (section A.2. of this report), the Bank does not know of any shareholder with a significant ownership interest.

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the board of directors with significant shareholders and/or their group companies:

Name or corporate name of the director	Name or corporate name of significant shareholder (*)	Relationship
Mr. Javier Botín-Sanz de Sautuola y O'Shea	Fundación 'Botín, Bafimar, S.L., Cronje, S.L., Puente de San Miguel, S.L.U., Inversiones Zulú, S.L., Latimer Inversiones, S.L., Nueva Azil, S.L., Agropecuaria El Castaño S.L.U., Bright Sky 2012, S.L., the estate of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms. Ana Botín-Sanz de Sautuola y O'Shea, Mr. Emilio Botín-Sanz de Sautuola y O'Shea, Ms. Carmen Botín-Sanz de Sautuola y O'Shea, Ms. Paloma Botín-Sanz de Sautuola y O'Shea, Mr. Jorge Botín-Sanz de Sautuola Ríos, Mr. Francisco Javier Botín-Sanz de Sautuola Ríos, Ms. Marta Botín-Sanz de Sautuola Ríos and his own interest.	Representation on the board of directors of the shareholdings of those persons detailed in the previous column.

(*) Significant shareholder: As indicated in section A.2 above, there are no significant shareholders.

C.1.18 Indicate whether any changes have been made to the board regulations during the year:

Yes [X] No [ ]

Description of amendments
Following approval by the board of directors at its meeting on 23 June and based on a favourable report from the audit committee of 28 May, a number of amendments to the Rules and Regulations of the Board of Directors were registered on 15 July with the Cantabria Mercantile Registry. The following is a summary of the main changes: ▪ Adaptation of the definitions of executive director, proprietary director and independent director to those laid down in Order ECC/461/2013 (which, following the coming into force of Act 31/2014, are contained in article 529.duodeceis of the Spanish Corporate Enterprises Act). ▪ Reform of regulation articles governing the positions of chair and vice-chair of the board and chief executive officer, and insertion of a new article that regulates the position of lead director to adapt their provisions to the bylaw amendments approved at the board meeting of 28 March and implement them as appropriate. ▪ Amendment of provisions that regulate board committees, with the creation, specifically, of a new risk supervision, regulation and compliance committee. ▪ Modification of the regime for board meetings, which may now be called by the lead director. ▪ Inclusion, pursuant to the Bylaws, of a limit on variable remuneration of executive directors in proportion to fixed remuneration. ▪ Deprivation of effect of the prior transitional provision and replacement with a new one regulating the provisional regime under which independent directors that have been in position for more than 12 years may be considered independent directors until the end of their term. On 23 September, amendments were registered with the Cantabria Mercantile Registry as approved by the board at its meeting of 14 September, with the agreement of the risk supervision, regulation and

compliance committee. These amendments aimed to adapt to prevailing legislation reference to the regime of limitations and incompatibilities applicable to directors of the Bank, which are currently regulated in article 26 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, which replaces Act 31/1968, of 27 July, on incompatibilities and limitations of the chairs, directors and senior executives of private banks.

C.1.19 Indicate the procedures for appointing, re-electing, evaluating and removing directors. List the competent bodies and the processes and criteria used for each procedure.

The most significant regulations governing the procedures, criteria and competent bodies for the selection, nomination, re-election and renewal of directors are contained in various provisions of the Spanish Corporate Enterprises Act (articles 211 to 215, 221 to 224, 243, 244, and 529.deceis and 529.duodeceis, the Regulations of the Mercantile Registry (143 to 147), the Bank's Bylaws (articles 20.2. (i), 41, 42, 55 and 56) and the Rules and Regulations of the Board (articles 6, 7, 17 and 21 to 25). All regulations applicable to credit institutions also apply, especially Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, and Royal Decree 84/2015, of 13 February.

Following is a description of the most relevant features of the framework resulting from the aforementioned provisions:

- Number of directors.

The Bylaws (Article 41.1) state that the maximum number of directors shall be 22 and the minimum shall be 14, with the specific number being determined by the annual general shareholders' meeting. At year-end 2014, the Bank's board of directors had 14 members. As a result of the appointments described in C.1.2 herein, the Board now has 15 members. The Bank considers this number suitable for ensuring proper representation and the effective operation of the board, thus fulfilling the provisions of the Rules and Regulations of the Board.

- Power to appoint directors.

Responsibility for the nomination and re-election of directors lies with the general shareholders' meeting. Nevertheless, in the event that directors vacate their office during the term for which they were appointed, the board of directors may provisionally designate another director until the shareholders, at the earliest subsequent general shareholders' meeting, either confirm or revoke this appointment.

- Appointment requisites and restrictions.

It is not necessary to be a shareholder in order to be appointed a director. The following persons may not hold directorships: minors who are not emancipated, legally disabled persons, persons considered incapacitated in accordance with the Bankruptcy Law during the period of incapacitation by firm ruling for crimes against liberty, property the social and economic order, collective security or the administration of justice, and crimes of deception, as well as those whose positions would entail a bar on holding the directorship. Other persons ineligible for directorships are government employees who discharge functions related to the companies' specific activities, judges or magistrates, or others affected by a legal incompatibility.

Directors must be persons of renowned commercial and professional integrity, competence and solvency, and must have the knowledge and experience needed to exercise these functions and be in a position to ensure the good governance of the entity.

In the selection of who should be appointed to the position of director, it will be expected that this person will be recognised for their business and professional honourability, competence and solvency and will have the knowledge experience and disposition to exercise good governance of the Bank; their professional contribution to the board as a whole will also be considered, giving particular importance to any holding they might have in the Bank's capital.

If a director is a body corporate, the natural person representative thereof is subject to compliance with the same requirements as established for natural person directors.

All persons designated as directors must formally agree to fulfil the obligations and duties of their position upon taking office.

- Proportional system.

Holders of shares representing an amount of share capital equal to or greater than that which results from dividing the total share capital by the number of board members, or who pool shares to achieve such a proportion, will carry entitlement to designate, on the legally-stipulated terms, a proportionate number of directors, disregarding fractions.

- Term of office.

The term of office of a director is three years, although directors can be re-elected. The directors who have been designated by interim appointment (co-option) to fill vacancies may be ratified in their position at the first general shareholders' meeting that is held following such designation, in which case they shall vacate office on the date on which their predecessor would have vacated office.

- Vacation of office or removal.

Directors shall cease to hold office when the term for which they were appointed elapses, unless they are re-elected, when the general shareholders' meeting so resolves, or when they resign or place their office at the disposal of the board.

Directors must place their office at the disposal of the board and tender the related notice of resignation if the board, after receiving the report of the appointments committee, should deem this appropriate, in those cases in which the directors might have an adverse effect on the functioning of the board or on the Bank's credibility and reputation and, in particular, (i) when they are subject to any incompatibility or prohibition provided for by law that would bar them from holding office, or (ii) or in the event of the emergence of any blemishes in terms of their honourability, knowledge or adequate experience or capacity to exercise good governance. Under (i) and (ii), temporary suspension of definitive removal may be decided by the European Central Bank in accordance with the procedure envisaged in Chapter V of Title II of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions and by virtue of the exclusive powers to ensure compliance with the rules and regulations of the European Union or of Spanish law, as the case may be, which require that credit institutions implement sound governance structures, including suitability requirements for the persons responsible for managing credit institutions.

Furthermore, the directors must, at their earliest convenience, notify the board of any circumstances that might jeopardise the Bank's credibility and reputation and, in particular, of any lawsuits in which they are involved as accused parties.

Lastly, the Rules and Regulations of the Board specifically provide that non-executive proprietary directors must tender their resignations when the shareholder they represent disposes of, or significantly reduces, its ownership interest.

- Procedure.

The proposals for appointment, re-election and ratification of directors that the board of directors submits for shareholder consideration at the annual general shareholders' meeting, as well as the decisions adopted by the board of directors regarding appointments by co-option shall be preceded by the corresponding proposal made by the appointments and remuneration committee.

Should the board disregard the proposal made by said committee, it shall substantiate such decision and record the reasons therefore in the minutes.

The Spanish Corporate Enterprises Act mandates that a director must abstain from participating in the deliberation and vote of resolutions or decision in which he or a related person has a direct or indirect conflict of interest. Notwithstanding the above, article 228 of the Spanish Corporate Enterprises Act excludes from this obligation to abstain resolutions or decisions that affect the director in his position as director, such as the appointment or revocation of positions in the governing body or others of a similar nature.

- Criteria applied by the board of directors and the appointments committee.

Considering the set of applicable regulations, the recommendations resulting from Spanish reports on corporate governance and the present situation of the Bank and its Group, the appointments and remuneration committee and the board of directors have been applying the following criteria to the processes for the appointment, confirmation and re-election of directors and to the preparation of proposals for that purpose:

a. First, attention is given to limitations resulting from legal prohibitions and incompatibilities, and from positive requirements (experience, solvency. etc.) applicable to bank directors in Spain.

b. Having complied with these restrictions, a balanced composition of the board of directors is sought. To this end:

(i) A broad majority of external or non-executive directors is sought, but leaving room for an adequate number of executive directors. At year-end 2014, 4 of the 14 directors were executive directors.

(ii) A significant participation of independent directors is sought among the external directors (at year-end 2014, 8 out of 10 external directors), but at the same time, a board of directors representing a significant percentage of the company's capital is sought (at 31 December 2014, the directors represented 0.747% of the Company's share capital, and one director is currently a proprietary director representing 1.275 % of the share capital, as explained in section C.1.3).

In all cases, and in accordance with the Bylaws (Article 42.1) and the Rules and Regulations of the Board (Article 6.1), the board of directors shall endeavour to ensure that the external or non-executive directors represent a wide majority over the executive directors and that the former include a reasonable number of independent directors, as is currently the case, where external independent directors represented 57% of the board at 31 December 2014.

(iii) In addition to the foregoing, special importance is given to the experience of directors in all aspects of their professional life, in both the public and private sectors, as well as their professional performance in the various geographical areas in which the Group operates.

c. Together with the above general criteria, an evaluation of the work and effective dedication of the director during the director's term in office is specifically taken into account in the re-election or confirmation thereof.

C.1.20 Indicate whether the board has evaluated its performance during the year:

Yes [X] No [ ]

Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of amendments
Self-assessment. The on-going self-assessment the board undertakes with the support of the company Spencer Stuart is based on a questionnaire and personal interviews with the directors. In accordance with the Rules and Regulations of the Board, this includes a specific section for the individual assessment of the chair, the chief executive and the other directors and, from 2014, an independent assessment based, inter alia, on benchmarking against other comparable international banks. Since the first self-assessment in 2005, the on-going self-assessment process has led to a number of significant changes to the internal organisation and procedures applicable to the board's activities and its composition, including: - An amendment to the Bylaws, approved by the general shareholders' meeting, to reduce the maximum size of the board from 30 to 22 directors. - A more detailed procedure for the succession of positions on the board, particularly the chair and chief executive. This has been included in the Rules and Regulations of the Board. - Holding of specific annual board meetings dedicated to Group strategy. - An on-going training programme for directors, which has been in place continuously since its proposal in the 2005 self-assessment process. The latest self-assessment focuses on the following areas: the organisation, functioning and content of the board and its committees; benchmarking against other international banks; open issues related to the future, such as strategy or internal and external factors that may affect the Group's performance; and other areas of interest. As in previous years, the directors have highlighted the following strengths of the Group's corporate governance: the dedication of board members and their involvement in control of all risks, not only credit risks; the banking knowledge and experience of the directors; the balance between executive and external directors, both on the board and in the committees, and the very good functioning of the board committees, particularly the executive committee. For the independent assessment, Spencer Stuart made a comparison with 23 top tier international financial institutions with respect to the composition and dedication of the board, remuneration and other aspects of corporate governance, with the Bank ranking very highly.

C.1.21 Indicate the cases in which directors must resign.

Without prejudice to the provisions of Royal Decree 84/2015 of 13 February on the honourability requirements for directors and the consequences of the loss of such honourability, the Bylaws (article 56.2) and the Rules and Regulations of the Board of Directors (article 23.2) establish that directors shall tender their resignation to the board of directors and formally resign from their position if the board, upon the prior report of the appointments committee, deems it appropriate, in those cases that might adversely affect the operation of the board or the credit and reputation of the Bank and, particularly, when they are prevented by any legal prohibition against or incompatibility with holding such office.

As such, the Rules and Regulations of the Board (Article 23.3) stipulate that proprietary directors must submit their resignations when the shareholder that they represent parts with its shareholdings or reduces them in a significant manner.

Article 56.2 of the Bylaws

"*The directors shall tender their resignation to the board of directors and formally resign from their position if the board, upon the prior report of the appointments and remuneration committee*[16]*, deems it appropriate, in those cases that might adversely affect the operation of the board or the credit and reputation of the Company and, particularly, when they are prevented by any legal prohibition against or incompatibility with holding such office.*"

Article 23.2 and 3 of the Rules and Regulations of the Board:

"*2. Directors must tender their resignation to the board of directors and formally resign from their position if the board of directors, following a report from the appointments and remuneration committee*[17]*, deems it fit, in those cases in which they may adversely affect the operation of the board or the credit or reputation of the Company and, in particular, when they are involved in any of the circumstances of incompatibility or prohibition provided by law.*"

3. In addition, proprietary directors must submit their resignations, in the corresponding numbers, when the shareholder that they represent parts with its shareholdings or reduces them in a significant manner."

C.1.22 Indicate whether the duties of chief executive officer fall upon the Chairman of the board of directors. If so, describe the measures taken to limit the risk of powers being concentrated in a single person:

Yes [X] No [ ]

Measures for reducing risk
The chair of the board of directors is the highest executive in the Bank (Articles 48.1 and 8.1 of the Bylaws and the Rules and Regulations of the Board, respectively) and has been delegated all powers delegable under the law, the Bylaws and the Rules and Regulations of the Board. Article 10.3 of the Rules and Regulations of the Board states that the chief executive officer is in charge of the daily management of the various business lines. There is clear separation of duties between the executive chair, the chief executive officer, the board of directors and its committees, and sufficient measures to ensure the Bank's corporate governance structure is duly balanced. These include: • The board and its committees exercise duties of supervision and control over the actions of the chair as well as the chief executive officer. • The vice chair coordinating the external directors is considered independent, and presides over the appointments and risk supervision, regulation and compliance committees. • The executive risk committee is chaired by an executive vice-chair of the board, who does not report to the chief executive officer. • The audit committee is chaired by a vice-chair who is an independent director. • The powers delegated to the chair and to the chief executive officer exclude those reserved exclusively to the board itself.

[16] Presently, appointments committee.
[17] Presently, appointments committee

Indicate, and, if necessary, explain whether rules have been established that enable any of the independent directors to convene board meetings or include new items on the agenda, to coordinate and voice the concerns of external directors and oversee the evaluation by the board of directors.

Yes [X] No [ ]

Explanation of rules
All the directors are empowered to call for a board meeting to be convened and the chairman is obliged to accept such a call if the request comes from at least three directors. Further, pursuant to article 246.2 of the Spanish Corporate Enterprises Act, directors accounting for at least one third of the board of directors may call for a meeting of the board of directors to be held in the city of the registered office and set forth the agenda in the call for such meeting if the chairman has failed to call for a meeting within one month without justified cause, following a request to do so. In such circumstance, the directors shall set forth the agenda in the call for the meeting, which must be held in the city of the registered office of the Bank. Any board member may request the inclusion of new items on the agenda to be submitted to the board by the chair, pursuant to Article 46.1 and 2 of the Bylaws and 19.2 and 3 of the Rules and Regulations of the Board. Further, the lead director is specially authorised to call for a meeting of the board of directors or to add new items to the agenda of a meeting that has already been called - article 49 bis 1. (i) of the Bylaws and 12 bis 1. (i) of the Rules and Regulations of the Board. **Article 46.1, 2 and 49 bis. 1. (i) of the Bylaws** **46.1** "*The board shall meet with the frequency required for the proper performance of its duties, and shall be called to meeting by the chairman. The chairman shall call board meetings on his own initiative or at the request of at least three directors.*" **46.2** "*The agenda shall be approved by the board at the meeting itself. Any board member may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board.*" **49 bis. 1. (i)** "*1. The board of directors shall appoint from among the independent directors a lead director, who shall be especially authorised to:* *i) request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board of directors that has already been called.* *(…)*" **Article 12 bis. 1. i), 17.3 and 17.4. i) 19.2, 19.3 and 19.7 of the Rules and Regulations of the Board** **12 bis. 1. (i)** "*1. The board of directors shall appoint from among the independent directors a lead director, who shall be especially authorised to:* *i) request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board of directors that has already been called.*

(…)"

19.2
"*The board shall approve the annual calendar for its meetings, which must be held with the frequency needed to effectively perform its duties, with a minimum of nine meetings. In addition, the board of directors will meet whenever the chairman so decides at his own initiative or at the request of at least three directors or at the request of the lead director.*

(…)"

19.3
"*The agenda shall be approved by the board at the meeting itself. Any member of the board may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board.*"

Further, the appointments committee, which must be presided over by an independent director (article 17.3 of the Rules and Regulations of the Board) is responsible for reporting on the process of assessment of the board and its committees and members (article 17.4). (a) and (i) of the Rules and Regulations of the Board), with a scope that includes the operation of the board and of the committees thereof, the quality of its work, and the individual performance of its members, including the chairman and the managing director or directors (article 19.7 of the Rules and Regulations of the Board). At present, the first vice chair is the chairman of the appointments committee.

17.3
"*The appointments and remuneration committee[18] must in all events be presided over by an independent director.*"

17.4. (a)
"*The appointments and remuneration committee[19] shall have the following duties in terms of appointments, and any other provided for in applicable law:*

(a) Propose and review the internal criteria and procedures to be followed in order to determine the composition of the board and select those persons who will be proposed to serve as directors, as well as for the continuous evaluation of directors, reporting on such continuous evaluation. In particular, the appointments and remuneration committee:

(i) Shall establish the knowledge and experience necessary for directors, likewise assessing the time and dedication required for appropriately carrying out the position.

(ii) Shall receive for taking into consideration, the proposals of potential candidates for the covering of vacancies that the directors, where applicable, may propose.

17.4. (i)
"*The appointments and remuneration committee[20] shall have the following duties in terms of appointments, and any other provided for in applicable law:*

(…)

i) Report on the process of evaluation of the board and of the members thereof."

19.7
"*The operation of the board and of the committees thereof, the quality of its work, and the individual performance of its members, including the chairman and the managing director or directors, shall be evaluated once a year.*"

[18] Currently, divided into two: an appointments committee and a remuneration committee.

[19] Presently, appointments committee.

[20] Presently, appointments committee.

C.1.23 Are qualified majorities, other than legal majorities, required for any type of decisions?

Yes ☐ **No ☒**

If applicable, describe the differences.

Not applicable

C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed Chairman.

Yes ☐ **No ☒**

C.1.25 Indicate whether the chairman has the casting vote:

Yes ☒ No ☐

Matters where the Chairman has the casting vote
According to Article 47.5 of the Bylaws and Article 20.6 of the Rules and Regulations of the Board, the chairman has the casting vote to settle tied votes.

Article 47.5 of the Bylaws:

"*Except in those cases in which a greater majority is specifically required pursuant to a provision of the law, the Bylaws or the Rules and Regulations of the Board, resolutions shall be adopted by an absolute majority of the directors present in person or by proxy. The chairman shall have a tie-breaking vote.*"

Article 20.6 of the Rules and Regulations of the Board:

"*Except in those cases in which a greater majority is specifically required under the provisions of law, the Bylaws or these Rules and Regulations, resolutions shall be adopted by an absolute majority of the directors present in person or by proxy. In the event of a tie, the chairman shall have the tie-breaking vote.***"**

C.1.26 Indicate whether the bylaws or the regulations of the board of directors set any age limit for directors.

Yes ☐ **No ☒**

Age limit for the Chair ☐

Age limit for the Chief Executive Officer ☐ Age limit for directors ☐

C.1.27 Indicate whether the Bylaws or the regulations of the board of directors set a limited term of office for independent directors.

Yes ☐ **No ☒**

Maximum number of years in office
-

Article 529.duodeceis of the Spanish Corporate Enterprises Act establishes that a director in post for over 12 years can no longer be considered independent.

The board of directors attaches great value to the experience of its directors, for which reason it does not deem it advisable to limit the terms of office of external independent directors other than by this legal requirement. This decision must be left in each case to the annual general shareholders**'** meeting.

At year-end 2014, the average length of service on the board of directors for external independent directors was 7.3 years.

Mr. Guillermo de la Dehesa Romero is expected to stand for re-election as director in the ordinary general shareholders' meeting of 2015. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years.

C.1.28 Indicate whether the Bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether only one director of the same category may be appointed as a proxy. If so, give brief details.

Article 47 sections 1 and 2 of the Bylaws states:

"*1. Meetings of the board shall be validly held when more than one-half of its members are present in person or by proxy.*

*2. When unable to attend in person, the directors may grant a proxy to another director, for each meeting and in writing, in order that the latter shall represent them at the meeting for all purposes.***"**

Furthermore, Article 20.1 and 2 of the Rules and Regulations of the Board states that:

"*1. Meetings of the board shall be validly held when more than one-half of its members are present in person or by proxy. The directors shall endeavour to ensure that absences are reduced to cases of absolute necessity.*

*2. When directors cannot attend personally, they may grant a proxy to any other director, for each meeting and in writing, in order that the latter shall represent them at the meeting for all purposes. A director may hold more than one proxy. The proxy shall be granted with instructions.***"**

Following the coming into force of Act 31/2014 on 24 December 2014, article 529.quater of the Spanish Corporate Enterprises Act establishes that non-executive directors may only delegate to another non-executive director. The board expects to submit to the ordinary general meeting of 2015 a bylaw amendment that expressly sets out this rule, which will also be incorporated in the Rules and Regulations of the Board of the Bank.

Article 16.7 of the Rules and Regulations of the Board establishes that members of the audit committee may grant a proxy to another member, but none of them may represent more than two members, in addition to himself.

Article 17 bis 6 of the Rules and Regulations of the Board establishes that members of the risk supervision, regulation and compliance committee may grant a proxy to another member of the same committee.

C.1.29 Indicate the number of board meetings held during the year. and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	16
Number of board meetings held without the Chairman's attendance	1*

*The absence of the chair occurred in the meeting of 11 November 2014, which was held solely to authorise for issue the condensed consolidated financial statements at 30 September 2014 of the Group. These were prepared specifically to comply with regulatory requirements in Brazil relating to the listing of shares of the parent Bank in the São Paulo Stock Exchange.

Indicate the number of meetings of the various board committees held during the year.

The meetings held during the year by the various committees of the board, including committees with and without delegated powers, are detailed below:

Number of meetings of the executive committee	65
Number of meetings of the delegated risks committee	96
Number of meetings of the audit committee	13
Number of meetings of the appointments committee[1]	17
Number of meetings of the remuneration committee[1]	16
Number of meetings of the risk supervision, regulation and compliance committee[2]	5
Number of meetings of the innovation and technology (formerly technology, productivity and quality) committee	2
Number of meetings of the international committee	-

[1]Pursuant to articles 54.1 of the Bylaws and 17.10 of the Rules and Regulations of the Board, the board of directors, at its meeting of 23 October 2014, unanimously resolved to separate in two the appointments and remuneration committee. Until such date, the committee had met 12 times. The appointments committee has undertaken the functions related to appointments set out in section 4 of the aforesaid article 17 of the Rules and Regulations of the Board, and the remuneration committee those contained in section 5 of the same article and, in both cases, any others assigned to them by applicable legislation. The number of meetings shown in the table above corresponds: in the case of the appointments committee, to the sum of meetings of the appointments and remuneration committee and the appointments committee; in the case of the remuneration committee, to the sum of meetings of the appointments and remuneration committee and the remuneration committee.
[2]Pursuant to articles 54 bis of the Bylaws and 17 bis of the Rules and Regulations of the Board, the risk supervision, regulation and compliance committee held its first meeting on 23 July 2014.

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.

Directors' attendance	9
% of attendances of the total votes cast during the year	90%

The percentage shown in the second box -90%- was calculated by dividing the number of attendances - including proxies with specific instructions- by the maximum possible number of attendances if every director had attended all board meetings.

		Committees								
		Decision-making							Informative	
Directors	Board	Executive	Risk	Audit	Appointments and remuneration[8]	Appointments[8]	Remuneration[8]	Risk supervision, regulation and compliance committee[8]	Innovation and technology committee	International
Average attendance:	89.9%	89.1%	83.3%	98.1%	100%	100%	93.8%	95.0%	100%	-
Individual attendance										
Ms. Ana Botín-Sanz de Sautuola y O'Shea[1]	15/16	50/65							2/2	-
Mr. Matías Rodríguez Inciarte	16/16	63/65	96/96							
Mr. Guillermo de la Dehesa Romero	16/16	62/65		13/13	12/12	5/5	4/4			-
Mr. Rodrigo Echenique Gordillo [2]	15/16	55/65	67/96	4/4				4/5		-
Ms. Sheila C. Bair	13/16							5/5		
Mr. Javier Botín-Sanz de Sautuola y O´Shea	12/16									
Ms. Esther Giménez-Salinas i Colomer	15/16				12/12	5/5	4/4			-
Mr. Ángel Jado Becerro de Bengoa	16/16							5/5		
Mr. Juan Rodríguez Inciarte	16/16		53/96							
Ms. Isabel Tocino Biscarolasaga	15/16	60/65	92/96		12/12		3/4			
Mr. Juan Miguel Villar Mir	10/16									
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos[3]	9/9	39/45							1/2	-
Mr. Javier Marín Romano[4]	15/16	56/65							2/2	-
Mr. Fernando de Asúa Álvarez[5]	15/16	61/65	92/96	13/13	12/12	5/5	4/4	5/5	2/2	
Mr. Vittorio Corbo Lioi[6]	6/8									
Mr. Abel Matutes Juan[7]	13/16			12/13		5/5				-

1. Appointed chair of the board of directors on 10 September 2014
2. Resigned as member of the audit committee on 23 April 2014.
3. Died on 9 September 2014.
4. Resigned as director on 12 January 2015.
5. Resigned as director on 12 February 2015.
6. Resigned as director on 24 July 2014.
7. Resigned as director on 18 February 2015.
8. Pursuant to articles 54.1 of the Bylaws and 17.10 of the Rules and Regulations of the Board, the board of directors, at its meeting of 23 October 2014, resolved to separate in two the appointments and remuneration committee. The appointments committee would undertake the functions relating to appointments set out in section 4 of the aforesaid article 17 of the Rules and Regulations of the Board, and the remuneration committee would undertake those set out in section 5 of the same article and, in both cases, any others assigned to them by the applicable legislation.
9. Regulated by articles 54 bis of the Bylaws and 17 bis of the Rules and Regulations of the Board, the risk supervision, regulation and compliance committee held its first meeting on 23 July 2014.

On average, each of the directors has dedicated approximately 88 hours to board meetings. In addition, those who are members of the executive committee have dedicated approximately 325 hours; members of the executive risk committee 288 hours; members of the audit committee approximately 65 hours; members of the risk supervision, regulation and compliance committee 25 hours; members of the appointments committee[21] 15 hours; members of the remuneration committee[21] 12 hours; and members of the innovation and technology (formerly technology, productivity and quality) committee 4 hours.
In accordance with the Rules and Regulations of the Board, any director may attend and participate but not vote at the meetings of any committees of the board of directors of which he or she is not a member, by invitation of the chairman of the board of directors and of the chairman of the respective committee, after having requested such attendance from the chair of the board. In addition, all members of the board who are not also members of the executive committee may attend the meetings of the latter at least twice a year, for which purpose they shall be called by the chair.

In 2014, there was regular attendance at executive committee meetings by directors who were not members thereof. During the year, 6 directors who were not members of the executive committee each attended an average of 15 of the committee's meetings.

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously.

Yes [X] No [ ]

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their authorisation for issue by the board:

Name	Position
Mr. José Francisco Doncel Razola	General auditor

C.1.32 Explain the mechanisms, if any, established by the board of directors to prevent the individual and consolidated financial statements it prepares from being laid before the general shareholders' meeting with a qualified audit report.

The mechanisms adopted for such purpose (contemplated in Article 62.3 of the Bylaws and Articles 16.1, 2, 3 and 4 b), c), d), e), f), g), h), i), j), k), and l) and 35.1 and 5 of the Rules and Regulations of the Board) can be summarised as follows:

- Strict processes for gathering the data necessary for the financial statements and for the preparation thereof by the services of the Bank and the Group, all in accordance with legal requirements and generally accepted accounting principles.

- Review by the audit committee of the financial statements prepared by the services of the Bank and of the Group. The audit and compliance committee is a body specialized in this area and comprises solely external directors. This committee serves as the normal channel of communication between the board and the external auditor.

[21] Pursuant to articles 54.1 of the Bylaws and 17.10 of the Rules and Regulations of the Board, the board of directors, at its meeting of 23 October 2014, unanimously resolved to separate in two the appointments and remuneration committee. Until such date, the committee had met 12 times, with an average dedication per director to preparing and attending meetings of approximately 36 hours. The appointments committee has undertaken the functions related to appointments set out in section 4 of the aforesaid article 17 of the Rules and Regulations of the Board, and the remuneration committee those contained in section 5 of the same article and, in both cases, any others assigned to them by applicable legislation.

In reference to the annual financial statements and management report for 2014, which will be submitted at the annual general meeting to be held on either 26 or 27 March 2015, on first or second call, respectively, the audit committee, at its meetings held on 19 and 23 February 2015, following its review, issued a favourable report on their content prior to their authorisation for issue by the board, which occurred –following certification by the general auditor of the Group– at the meeting held on 23 February 2015.

In meetings held on 23 April, 22 July and 20 October 2014 and on 14 January 2015, the audit committee reported favourably on the financial statements for the periods ended 31 March, 30 June, 30 September and 31 December 2014, respectively. These reports were issued prior to approval of the corresponding financial statements by the board and disclosure to the markets and regulators.

The financial statements for the Group expressly note that the audit committee has ensured that the 2014 financial information is prepared in accordance with the same principles and practices applied to the financial statements.

The audit committee has reported favourably on the condensed interim consolidated financial statements for the first half of 2014. These were prepared in accordance with prevailing international accounting principles and rules (specifically IAS 34 Interim Financial Reporting, as adopted by the European Union) and in accordance with Article 12 of Royal Decree 1362/2007.

- Regular meetings are held with the external auditor, both by the board of directors (twice in 2014) and by the audit committee. In 2014, the external auditor attended 11 of the 13 meetings held by the committee, providing sufficient time to unearth any possible discrepancies with respect to the accounting criteria employed.

- In the event of a discrepancy, when the board believes that its criteria should take precedence, it shall provide a public explanation of the content and scope of the discrepancy.

The relevant sections of the Rules and Regulations of the Board and Bylaws relating to these mechanisms are set forth below:

Article 62.3 of the Bylaws:

"*The board of directors shall use its best efforts to prepare the accounts such that there is no room for qualifications by the auditor. However, when the board believes that its opinion must prevail, it shall provide a public explanation, through the chairman of the audit committee, of the content and scope of the discrepancy, and shall also endeavour to ensure that the auditor likewise discloses its considerations in this regard.*"

Articles 16.1, 2, 3 and 4 b), c), d), e), f), g), h), i), j), k), and l) of the Rules and Regulations of the Board regarding the audit and compliance committee.

"*1.*"*The audit committee shall consist of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive, with independent directors having majority representation.*"
2. The members of the audit committee shall be appointed by the board of directors, taking into account their knowledge, aptitude and experience in the areas of accounting, auditing or risk management.

3. The audit committee must in all events be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management. The chairman of the audit committee shall be replaced every four years, and may be re-elected after the passage of one year from the end of his preceding term.

4. The audit committee shall have the following duties, and any other provided for in applicable law:
*(**…**)*

b) Propose the appointment of the external auditor, as well as the conditions under which such auditor will be hired, the scope of its professional duties and, if applicable, the revocation or non-renewal of its appointment. The committee shall favour the Group's auditor also assuming responsibility for auditing the companies making up the Group.

c) Review the accounts of the Company and the Group, monitor compliance with legal requirements and the proper application of generally accepted accounting principles and report on the proposals for alterations to the accounting principles and standards suggested by management.

d) Supervise the internal audit function, and particularly:

> *(i) Proposing the selection, appointment and withdrawal of the party responsible for internal audit;*
> *(ii) Reviewing the annual working plan for internal audit, for its subsequent review and approval by the board, and the annual activities report;*
> *(iii) Ensuring the independence and effectiveness of the internal audit function;*
> *(iv) Proposing the budget for this service;*
> *(v) Receiving periodic information regarding the activities thereof; and*
> *(vi) Verifying that senior management takes into account the conclusions and recommendations of its reports.*

e) Supervise the process for gathering financial information and for the internal control systems. In particular, the audit committee shall:

> *(i)Supervise the process of preparing and presenting the regulated financial information relating to the Company and the Group, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of group consolidation and the correct application of accounting standards; and*
> *(ii)Oversee the effectiveness of the internal control systems, so that the principal risks are duly identified, managed and disclosed.*
> *(iii)Discuss with the auditor any significant internal control system weaknesses detected in the course of the audit.*

f) Serve as a channel of communication between the board and the auditor, assess the results of each audit and the response of the management team to its recommendations, and act as a mediator in the event of disagreement between the board and the auditor regarding the principles and standards to be applied in the preparation of the financial statements. Specifically, it shall endeavour to ensure that the statements ultimately drawn up by the board are submitted to the shareholders at the general shareholders' meeting without any qualifications or reservations in the auditor's report.

g) Supervise the fulfilment of the audit contract, endeavouring to ensure that the opinion on the annual financial statements and the main contents of the auditor's report are set forth in a clear and accurate fashion.

h) Ensure the independence of the auditor, by taking notice of those circumstances or issues that might risk such independence and any others related to the development of the auditing procedure, as well as receive information and maintain such communication with the auditor as is provided for in legislation regarding the auditing of financial statements and in technical auditing regulations. And, specifically, verify the percentage represented by the fees paid for any and all reasons of the total income of the audit firm, and the length of service of the partner who leads the audit team in the provision of such services to the Company. The annual report shall set forth the fees paid to the audit firm, including information relating to fees paid for professional services other than audit work.

In any event, the audit committee should receive annually from the external auditor written confirmation of the latter's independence versus the Company or institutions directly or indirectly linked to the Company, as well as information on any type of additional services provided to such institutions by the aforementioned auditor or by persons or institutions related to the latter, as stipulated in External Auditing Act 19/1988, of 12th July[22].

Likewise, prior to the issuing of the external auditor's report, the committee shall issue annually a report expressing an opinion on the independence of the external auditor. In any event, such report should make a statement as to the providing of the additional services referred to in the preceding paragraph.

i) The committee shall ensure that the Company publicly communicates a change of auditor and accompanies such communication with a declaration regarding the possible existence of disagreements with the outgoing auditor and, if any, regarding the content thereof and, in the event of the resignation of the auditor, the committee shall examine the circumstances causing it.

j) Report to the board, in advance of the adoption by it of the corresponding decisions, regarding:

> *(i)The financial information that the Company must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices applicable to the annual financial statements.*
>
> *(ii)The creation or acquisition of equity interests in special purpose entities or entities domiciled in countries or territories that are considered to be tax havens.*

k) Know and, if applicable, respond to the initiatives, suggestions or complaints put forward or raised by the shareholders regarding the area of authority of this committee and which are submitted to it by the office of the general secretary of the Company. The committee shall also:

> *(i)Receive, deal with and keep a record of the claims received by the Bank on matters related to the process for gathering financial information, auditing and internal controls.*
>
> *(ii)Receive on a confidential and anonymous basis possible communications from Group employees who express their concern on possible questionable practices in the areas of accounting or auditing.*

l) Receive information from the person responsible for the Company's taxation matters on the tax policies applied, at least prior to the drawing-up of the annual accounts and the filing of the Corporate Tax return, and where relevant, on the tax consequences of transactions or matters submitted to the board of directors or the executive committee for approval, unless such bodies have been informed directly, in which case this will be reported to the committee at the first subsequent meeting held by it.

The audit committee shall transfer the information received to the board of directors.

Articles 35.1 and 5 of the Rules and Regulations of the Board on relations with the auditor.

"*1.All relations between the board of directors and the auditor shall be channelled through the audit committee.*

Notwithstanding the foregoing, the auditor shall attend the meetings of the board of directors twice a year in order to submit its report and permit all the directors to have access to as much information as

[22] Currently Legislative Royal Decree 1/2011, of 1 July, Spain's Consolidated Audit Act.

possible regarding the content and conclusions of the auditor's reports relating to the Company and the Group.

(…)

5. The board of directors shall use its best efforts to prepare the accounts such that there is no room for comments by the auditor. However, when the board believes that its opinion must prevail, it shall provide a public explanation, through the chairman of the audit committee, of the content and scope of the discrepancy, and shall also endeavour to ensure that the auditor likewise discloses its considerations in this regard."

No reservations or qualifications have been made to the individual financial statements of the Bank or to the consolidated financial statements of the Group over the last three fiscal years.

C.1.33 Is the secretary of the board also a director?

Yes ☐ No ☒

The person acting as the general secretary and the secretary of the board does not need to be a director.

C.1.34 Explain the procedures for appointing and removing the Secretary of the board, indicating whether their appointment and removal have been notified by the Nomination Committee and approved by the board in plenary session.

Appointment and removal procedure
The procedure for the appointment and removal of the secretary of the board is described in Article 17.4 d) of the Rules and Regulations of the Board. **Article 17.4 d) of the Rules and Regulations of the Board** "*The appointments and remuneration committee[23] shall have the following duties in terms of appointments, and any other provided for in applicable law:* *(…)* *d) Report on proposals for appointment or withdrawal of the secretary of the board, prior to submission thereof to the board.*

	Yes	No
Does the Nomination Committee propose appointments?	X	
Does the Nomination Committee report on dismissals?	X	
Do appointments have to be approved by the Board in plenary session?	X	
Do dismissals have to be approved by the Board in plenary session?	X	

[23] Presently, appointments committee.

Is the secretary to the board entrusted in particular with the function of overseeing corporate governance recommendations?

Yes [X] No [ ]

Remarks
This is common practice at the Bank and is expressly contemplated in Articles 45.2 of the Bylaws and 11.3 of the Rules and Regulations of the Board. Article 45.2 of the Bylaws: "*The secretary shall ensure the formal and substantive legality of all action taken by the board, ensure observance of the good governance recommendations adopted by the company and ensure that governance procedures and rules are observed and regularly reviewed.*" Article 11.3 of the Rules and Regulations of the Board: "*The secretary shall at all times ensure the formal and substantive legality of all action taken by the board, shall endeavour to ensure the good governance recommendations assumed by the Company are followed, and shall ensure observance and periodic review of the procedures and rules of governance.*"

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

a. External auditors

Deloitte, S.L. was the external auditor for the individual and consolidated accounts for the Santander Group in 2014.

Article 35 of the Rules and Regulations of the Board states that

"*1. All relations between the board of directors and the auditor shall be channelled through the audit committee.*

Notwithstanding the foregoing, the auditor shall attend the meetings of the board of directors twice a year in order to submit its report and permit all the directors to have access to as much information as possible regarding the content and conclusions of the auditor's reports relating to the Company and the Group.

2. The board of directors shall not hire audit firms in which the fees intended to be paid to them, for all and any services, are equal to more than two percent of the total income thereof during the last fiscal year.

3. No services shall be contracted with the audit firm, other than audit services proper, which might risk the independence of such firm.

*4. The board of directors shall make public the overall amount of fees paid by the Bank to the audit firm for services other than auditing.***"**

The fees for services rendered in 2014 by the worldwide Deloitte organisation to Group companies were as follows:

	Millions of euros
Audit	44.2
Audit services	31.1
Tax advice	6.6
Other services	8.0
TOTAL	**89.9**

The main *audit expenses* were as follows:

	Millions of euros
Audit of companies by Deloitte	28.3
Of which:	
Santander UK plc	*5.8*
Santander Holdings USA, Inc./Santander Consumer USA Holdings Inc.	*5.7*
Banco Santander (Brasil) S.A.	*1.8*
Audit of the Bank's individual and consolidated financial statements	*2.1*
Other audit work	15.9
Audit of internal control (SOX) and capital calculations (Basel)	*6.9*
Half-yearly Group audit	*6.0*
Issue of comfort letters	*3.0*
Audit expenses	**44.2**

The main expenses relating to *audit services* were as follows:

	Millions of euros
Other recurrent work and reports required by national supervisory bodies in the countries where the Group operates	8.8
Limited reviews and other requirements on the Group for listing in Brazil	5.3
Non-recurrent audit work not required by regulators	0.6
Audit and other reviews of acquisitions (due diligence)	1.7
Issue of other security reports	4.0
Review of procedures, data and controls and other services	10.7
Expenses for audit services	**31.1**

The audit committee believes that there are no objective grounds for doubting the independence of the Group's external auditor. In accordance with current legislation and the criteria set down in relevant international documents intended to ensure the effectiveness of external auditing services, the committee:

1. Has reviewed all the services rendered by the auditor for the audit and related services, tax services and other services described above, finding that the services arranged with the Group's auditors comply with the independence requirements set out in Legislative Royal Decree 1/2011, of 1 July, approving the Consolidated Audit Act, as well as the *Sarbanes-Oxley Act of 2002* adopted by the *Securities and Exchange Commission* (SEC) and the Rules and Regulations of the Board.

2. Has examined the relationship between the fees received by the auditor during the year for services other than audit and related services as a proportion of the total fees received by the auditor for all of its services, with the ratio being 16.2%.

By way of reference, and in accordance with available information on leading financial institutions whose shares are listed on official markets, the average fees paid by such institutions to their auditors during fiscal year 2014 for non-audit services were 22% of the total fees.

3. Has examined the percentage that the fees paid for all items represent compared to the total fees generated by the audit firm. In the case of the worldwide *Deloitte* organisation, this ratio is less than 0.3% of its total revenue.

Therefore, the audit committee, at the meetings of 19 and 23 February 2015, issued a favourable report on the independence of the auditors and stating its position, inter alia, on the performance of additional services as mentioned in the foregoing paragraph.

The aforesaid report, to be issued prior to the auditor's report, will include the content required by article 529 quaterdecies of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital).

b. Financial analysts

The department for investor relations and analysts channels communication with the institutional shareholders and financial analysts that cover Santander's activities. Every care is taken, in accordance with Article 32.2 of the Rules and Regulations of the Board, that institutional shareholders do not receive any information that might place them in a privileged or advantageous position vis-à-vis the other shareholders.

c. Investment banks and rating agencies

The Bank is compliant with the **"***Guidelines for transmission of insider information to third parties [Guía de actuación para la transmisión de información privilegiada a terceros]***"** published by the CNMV on 9 March 2009 (which expressly includes financial institutions and rating agencies as recipients of information) and with **"***Recommendations on informational meetings with analysts, institutional investors and other securities market professionals [Recomendaciones sobre reuniones informativas con analistas, inversores institucionales y otros profesionales del mercado de valores]***"** issued by the CNMV on 22 December 2005.

In particular, when Banco Santander is advised by investment banks in a transaction and, within the framework of such services, these receive insider information, Banco Santander includes the personnel of such entities on lists of insiders drawn up in compliance with applicable legislation, and it also alerts such entities that they must draw up their own list of insiders.

Such entities should provide a description of the internal mechanisms they use to preserve their independence.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor:

Yes ☐ **No** ☒

Explain any disagreements with the outgoing auditor and the reasons for the same:

Yes ☐ **No** ☒

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group.

Yes [X] No [ ]

	Bank	Group	Total
Amount of non-audit work (in thousands euros)	4,361	10,191	14,552
Amount of non-audit work as a % of the total amount billed by the audit firm	17.9%	15.6%	16.2%

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the chairman of the audit committee to explain the content and scope of those reservations or qualifications.

Yes [ ] **No** [X]

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited:

	Bank	Group
Number of consecutive years	13	13

	Bank	Group
No. of years audited by current audit firm/No. of years the company's financial statements have been audited (%)	39.4%	40.6%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice.

Yes [X] No [ ]

Details of the procedure
The Rules and Regulations of the Board (article 27) expressly recognise that directors and the audit, risk supervision, regulation and compliance, appointments, and remuneration committees are entitled to be assisted by experts in the performance of their duties and thus are entitled to ask the board to hire external advisors, at the Bank's cost, to deal with specific issues of special significance or complexity arising during the performance of their duties. The board may only reject such requests with good reason. Article 27 of the Rules and Regulations of the Board reads as follows: "*1. In order to be assisted in the performance of their duties, the directors and the audit, risk supervision, regulation and compliance and appointments and remuneration committees may address a request to the general secretary for the hiring of legal, accounting, financial, or other expert advisors, whose services shall be paid for by the Company.* *The assignment must deal with specific issues of special significance or complexity arising during the performance of their duties.* *2. The hiring decision lies with the board of directors, which may dismiss the request if the board considers:* *a) That the hiring is not necessary for the proper performance of the duties entrusted to the directors;* *b) That the cost thereof is not reasonable in light of the significance of the issues; or* *c) That the technical assistance sought may be adequately provided by the Company's own technical experts.*"

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes [X] No [ ]

Details of the procedure
The announcement of meetings must be sent 15 days in advance by the secretary to the board, or in the absence thereof, by the vice secretary. The draft agenda, which is approved by the Board, and required documentation is sent to directors five business days prior to the board meeting. The information provided to the directors prior to the meetings is prepared specifically for the purpose of preparing for these meetings and is intended for such purpose. In the opinion of the board, such information is complete and is sent sufficiently in advance. In addition, the Rules and Regulations of the Board expressly vest directors with the right to request and obtain information regarding any aspect of the Bank and its subsidiaries, whether domestic or foreign, as well as the right of inspection, which allows them to examine the books, files, documents and any other records of corporate transactions, and to inspect the premises and facilities of such companies. Directors have the right to request and obtain, through the secretary, such information and advice as deemed necessary for the performance of their duties. Article 19 of the Rules and Regulations of the Board reads as follows: "*2. The board shall approve the annual calendar for its meetings, which must be held with the frequency needed to effectively perform its duties, with a minimum of nine meetings. In addition, the board shall meet whenever the chairman so decides at his own initiative, at the request of at least three directors or at the request of the lead director.* *The meetings shall, in all events, be called by the secretary or, in the absence thereof, the vice secretary,*

in compliance with the instructions received from the chairman; notice of the call to meeting shall be sent 15 days in advance and in writing (which includes notice by fax or by electronic and data telecommunication means).

The draft agenda proposed by the chairman shall be sent at least 4 days prior to the meeting of the board by the same means provided for in the preceding paragraph. The information to be presented at the meeting of the board shall be provided to the directors reasonably in advance thereof.

When a meeting that is not contemplated in the annual calendar is called, notice of the call shall be given as early as possible. In such case, notice may also be given by telephone, and neither the time periods nor the formalities set forth in the preceding paragraphs with respect to the meetings contemplated in the annual calendar shall apply.

3. *The agenda shall be approved by the board at the meeting itself. Any member of the board may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board.*

4. *In the course of the meeting and/or subsequently thereto, the directors shall be provided with all such information or clarifications as they deem fit in connection with the items on the agenda. In addition, any director shall have the right to request and obtain such information and advice as is necessary for the performance of his duties; the exercise of this right shall be channelled through the secretary of the board.*"

As noted in the preceding section, the Rules and Regulations of the Board expressly recognise that directors and the audit, risk supervision, regulation and compliance, appointments and remuneration committees are entitled to be assisted by experts in the performance of their duties and thus are entitled to ask the board to hire external advisors, at the Bank's cost, to deal with specific issues of special significance or complexity arising during the performance of their duties. The board may only reject such requests with good reason.

Lastly, in accordance with the Rules and Regulations of the Board, any director may attend and participate but not vote at the meetings of any committees of the board of directors of which he or she is not a member, by invitation of the chair of the board of directors and of the chair of the respective committee, after having requested such attendance from the chair of the board. Likewise, all members of the board who are not also members of the executive committee may attend the meetings of the latter at least twice a year, for which purpose they shall be called by the chair.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be:

Yes [X] No [ ]

Details of the rules
As part of the duty of loyalty of the directors, Article 30 of the Rules and Regulations of the Board establishes the obligation of directors to report any circumstances that might harm the good name or reputation of the Bank. In addition, when these circumstances arise, Articles 56.2 of the Bylaws and 23.2 of the Rules and Regulations of the board of directors establish that directors must tender their resignation to the board and formally resign from their position if the board, following a report from the appointments committee, deems this appropriate. **Article 30 of the Rules and Regulations of the Board** "*The director shall fulfil all the duties and obligations which are inherent in his position as such and which are provided for by Law, the Bylaws, the rules and regulations for the general shareholders' meeting and the rules and regulations of the board of directors, including the following:*

(…)

- Duty of loyalty:

(…)

(iv) The directors must notify the board, as soon as possible, of those circumstances affecting them that might prejudice the credit or reputation of the Company, and particularly the criminal cases with which they are charged.

(…)"

Article 56.2 of the Bylaws

"*The directors shall tender their resignation to the board of directors and formally resign from their position if the board, upon the prior report of the appointments and remuneration committee*[24]*, deems it appropriate, in those cases that might adversely affect the operation of the board or the credit and reputation of the Company and, particularly, when they are prevented by any legal prohibition against or incompatibility with holding such office.*"

Article 23.2 of the Rules and Regulations of the Board

23.2

"*Directors must tender their resignation to the board of directors and formally resign from their position if the board of directors, following a report from the appointments and remuneration committee*[24]*, deems it fit, in those cases in which they may adversely affect the operation of the board or the credit or reputation of the Company and, in particular, when they are involved in any of the circumstances of incompatibility or prohibition provided by law.*"

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the LSC:

Yes [ ] **No** [**X**[25]]

Name of director	Criminal proceedings	Remarks

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

Yes [ ] **No** [**X**[26]]

Decision/action taken	Justified explanation

[24] Presently, appointments committee.

[25] Not applicable.

[26] Not applicable.

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

None.

C.1.45 Identify, in aggregate form and provide detailed information on, agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other.

Number of beneficiaries	17
Type of beneficiary	**Description of the resolution**
Senior executives	In 2013, all remaining "golden handcuffs" were ended for senior executives still entitled to them.
Other employees	A number of employees have a right to compensation equivalent to between one and two years of their basic salary in the event of their contracts being terminated by the Bank in the first two years of their contract. In addition, for the purposes of legal compensation, in the event of redundancy a number of employees are entitled to recognition of length of service including services provided prior to being contracted by the Bank; this would entitle them to higher compensation than they would be due based on their actual length of service with the Bank itself.

In the event of termination of his contract before 1 January 2018, Rodrigo Echenique Gordillo will be entitled to compensation of double his annual fixed salary, except in the event of voluntary resignation, death or permanent disability, or serious failure in his duties.

(*) Figures to 31 December 2014
(**) Mr. Echenique was appointed chief executive officer on 16 January 2014. The right described is set out in the contract signed when he was appointed chief executive officer.

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group:

	Board of directors	**General shareholders' meeting**
Body authorising clauses	X	

	YES	**NO**
Is the General Shareholders' Meeting informed of such clauses?	X	

C.2 Board committees

C.2.1 Give details of all the board committees, their members and the proportion of proprietary and independent directors.

The membership of board committees described in the tables of this section corresponds to the situation at year-end 2014.

EXECUTIVE COMMITTEE

Name	Position[1]	Type
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Chair	Executive director
Mr. Matías Rodríguez Inciarte	Member	Executive director
Mr. Guillermo de la Dehesa Romero	Member	External independent director
Mr. Rodrigo Echenique Gordillo[2]	Member	External director[2]
Ms. Isabel Tocino Biscarolasaga	Member	External independent director
Mr. Fernando de Asúa Álvarez[3]	Member	External independent director
Mr. Javier Marín Romano[4]	Member	Executive director
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary	Non director

% of executive directors	43%
% of proprietary directors	0%
% of independent directors	43%
% of other external directors	14%

1. Position on committee.
2. At its meeting on 16 January 2015, the board of directors appointed Rodrigo Echenique Gordillo as vice-chair of the board.
3. He resigned as a director on 12 February 2015.
At its meeting of 25 November 2014, the board of directors decided to cover this vacancy by appointing as director and member of the executive committee Mr. Bruce Carnegie-Brown.
4. Resigned as director on 12 January 2015.
At its meeting of 25 November 2014, the board of directors decided to cover this vacancy by appointing as director and member of the executive committee Mr. José Antonio Álvarez Álvarez.

Currently, the following directors are members of the committee, in addition to the chair Ms. Ana Botín-Sanz de Sautuola y O'Shea: Mr. José Antonio Álvarez Álvarez, Mr. Matías Rodríguez Inciarte, Mr. Rodrigo Echenique Gordillo, Mr. Guillermo de la Dehesa Romero, Mr. Bruce Carnegie-Brown and Ms. Isabel Tocino Biscarolasaga.

EXECUTIVE RISK COMMITTEE

Name	Position (1)	Type
Mr. Matías Rodríguez Inciarte	Chair	Executive director
Mr. Rodrigo Echenique Gordillo	Member	External director[2]
Mr. Juan Rodríguez Inciarte	Member	Executive director
Ms. Isabel Tocino Biscarolasaga	Member	External independent director
Mr. Fernando de Asúa Álvarez[3]	Vice chairman	External independent director
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary	Non director

% of executive directors	40%
% of proprietary directors	0%
% of independent directors	40%
% of other external directors	20%

1. Position on committee.
2. At its meeting on 16 January 2015, the Board of Directors resolved to appoint Mr. Rodrigo Echenique Gordillo, the then vice-chair of the board, as the chief executive officer.
3. He resigned as a director on 12 February 2015.

Currently, the following directors are members of the committee, in addition to the chair Mr. Matías Rodríguez Inciarte: Mr. José Antonio Álvarez Álvarez, Mr. Rodrigo Echenique Gordillo, Mr. Angel Jado Becerro de Bengoa, Mr. Juan Rodríguez Inciarte and Ms. Isabel Tocino Biscarolasaga.

AUDIT COMMITTEE

Name	Position 1	Type
Mr. Guillermo de la Dehesa Romero	Chair	External independent director
Mr. Fernando de Asúa Álvarez[2]	Member	External independent director
Mr. Abel Matutes Juan[3]	Member	External independent director
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary	Non director

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	100%
% of other external directors	0%

1. Position on committee.
2. He resigned as a director on 12 February 2015.

3. He resigned as a director on 18 February 2015.

In addition to its chair, Mr. Guillermo de la Dehesa Romero(*), the committee currently comprises the directors Mr. Carlos González Fernández, Mr. Angel Jado Becerro de Bengoa, Ms. Isabel Tocino Biscarolasaga and Mr. Juan Miguel Villar Mir(**).

(*) Mr. Guillermo de la Dehesa Romero is expected to be re-elected as a director at the 2015 general shareholders' meeting. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years. Additionally, Mr. De la Dehesa will also cease to be a member of this committee.
(**) Member of the committee at the date of this report, replacing Mr. Guillermo de la Dehesa Romero as chair of the committee at the 2015 general shareholders' meeting.

APPOINTMENTS COMMITTEE

Name	Position [(1)]	Type
Mr. Guillermo de la Dehesa Romero[2]	Member	External independent director
Mr. Rodrigo Echenique Gordillo	Member	External director[2]
Mr. Fernando de Asúa Álvarez[3]	Chair	External independent director
Mr. Abel Matutes Juan[4]	Member	External independent director
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary	Non director

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	75%
% of other external directors	25%

1. Position on committee.
2. Mr. Guillermo de la Dehesa Romero is expected to be re-elected as a director at the 2015 general shareholders' meeting. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years. Additionally, Mr. De la Dehesa will also cease to be a member of this committee.
3. At its meeting on 16 January 2015, the Board of Directors resolved to appoint Mr. Rodrigo Echenique Gordillo, the then vice-chair of the board, as the chief executive officer.
4. Resigned as a director on 12 February 2015. He has been replaced as the chair of this committee by Mr. Bruce Carnegie-Brown.
5. He resigned as a director on 18 February 2015.

In addition to its chair, Mr. Bruce Carnegie-Brown, the committee currently comprises the directors Mr. Guillermo de la Dehesa Romero, Ms. Sol Daurella Comadrán, Mr. Carlos Fernández González and Mr. Angel Jado Becerro de Bengoa.

REMUNERATION COMMITTEE

Name	Position (1)	Type
Mr. Guillermo de la Dehesa Romero[2]	Member	External independent director
Mr. Rodrigo Echenique Gordillo	Member	External director[2]
Ms. Isabel Tocino Biscarolasaga	Member	External independent director
Mr. Fernando de Asúa Álvarez[3]	Chair	External independent director
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary	Non director

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	75%
% of other external directors	25%

1. Position on committee.
2. Mr. Guillermo de la Dehesa Romero is expected to be re-elected as a director at the 2015 general shareholders' meeting. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years. Additionally, Mr. De la Dehesa will also cease to be a member of this committee.
3. At its meeting on 16 January 2015, the Board of Directors resolved to appoint Mr. Rodrigo Echenique Gordillo, the then vice-chair of the board, as the chief executive officer.
4. He resigned as a director on 12 February 2015. He has been replaced as the chair of this committee by Mr. Bruce Carnegie-Brown.

In addition to its chair, Mr. Bruce Carnegie-Brown, the committee currently comprises the directors Mr. Guillermo de la Dehesa Romero, Ms. Sol Daurella Comadrán and Mr. Angel Jado Becerro de Bengoa and Ms. Isabel Tocino Biscarolasaga.

RISK SUPERVISION, REGULATION AND COMPLIANCE COMMITTEE

Name	Position (1)	Type
Ms. Sheila C. Bair	Member	External independent director
Mr. Rodrigo Echenique Gordillo	Member	External director[2]
Mr. Ángel Jado Becerro de Bengoa	Member	External independent director
Mr. Fernando de Asúa Álvarez[3]	Chair	External independent director
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary	Non director

% of executive directors	0%
% of proprietary directors	0%

% of independent directors	75%
% of other external directors	25%

1. Position on committee.
2. At its meeting on 16 January 2015, the Board of Directors resolved to appoint Mr. Rodrigo Echenique Gordillo, the then vice-chair of the board, as the chief executive officer.
3. He resigned as a director on 12 February 2015. He has been replaced as the chair of this committee by Mr. Bruce Carnegie-Brown.

In addition to its chair, Mr. Bruce Carnegie-Brown, the committee currently comprises the directors Ms. Sheila C. Bair, Mr. Carlos Fernández González, Mr. Angel Jado Becerro de Bengoa, Mr. Guillermo de la Dehesa Romero, Ms. Isabel Tocino Biscarolasaga and Mr. Juan Miguel Villar Mir.

Mr. Guillermo de la Dehesa Romero is expected to be re-elected as a director at the 2015 general shareholders' meeting. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years. Additionally, Mr. De la Dehesa will also cease to be a member of this committee.

INTERNATIONAL COMMITTEE

Name	Position (1)	Type
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Chair	Executive director
Mr. Guillermo de la Dehesa Romero	Member	External independent director
Mr. Rodrigo Echenique Gordillo	Member	External director[2]
Ms. Esther Giménez-Salinas i Colomer	Member	External independent director
Mr. Javier Marín Romano[3]	Member	Executive director
Mr. Abel Matutes Juan[4]	Member	External independent director
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary	Non director

% of executive directors	33%
% of proprietary directors	0%
% of independent directors	50%
% of other external directors	17%

1. Position on committee.
2. At its meeting on 16 January 2015, the Board of Directors resolved to appoint Mr. Rodrigo Echenique Gordillo, the then vice-chair of the board, as the chief executive officer.
3. Resigned as director on 12 January 2015.
4. He resigned as a director on 18 February 2015.

In addition to its chair, Ms. Ana Botín-Sanz de Sautuola y O'Shea, the committee currently comprises the directors Mr. José Antonio Álvarez Álvarez, Mr. Guillermo de la Dehesa Romero, Mr. Rodrigo Echenique Gordillo and Ms. Esther Giménez-Salinas i Colomer.

INNOVATION AND TECHNOLOGY (FORMERLY TECHNOLOGY, PRODUCTIVITY AND QUALITY) COMMITTEE

Name	Position (1)	Type
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Chair	Executive director
Mr. Javier Marín Romano[2]	Member	Executive director
Mr. Fernando de Asúa Álvarez[3]	Member	External independent director
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary	Non director

% of executive directors	67%
% of proprietary directors	0%
% of independent directors	33%
% of other external directors	0%

1. Position on committee.
2. Resigned as director on 12 January 2015.
3. He resigned as a director on 12 February 2015.

In addition to its chair, Ms. Ana Botín-Sanz de Sautuola y O'Shea, the committee currently comprises the directors Mr. José Antonio Álvarez Álvarez, Mr. Matías Rodríguez Inciarte, Mr. Guillermo de la Dehesa Romero, Mr. Rodrigo Echenique Gordillo, Mr. Bruce Carnegie-Brown and Ms. Esther Giménez-Salinas i Colomer.

The number of meetings held by the board of directors and its committees during 2014, and the individual attendance of the directors are disclosed in sections C.1.29. and C.1.30, respectively, of this report.

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years:

	Number of female directors							
	2014		2013		2012		2011	
	%	Number	%	Number	Number	%	Number	%
Executive committee	28.57%	2	25.00%	1	2	25.00%	1	10.00%
Executive risk committee	20.00%	1	20.00%	1	1	20.00%	1	0.00%
Audit committee	0.00%	0	0.00%	0	0	0.00%	0	0.00%
Appointments and remuneration committee(1)	-	-	25.00%	1	1	25.00%	1	0.00%
Appointments committee(1)	0.00%	-	-	-	-	-	-	-
Remuneration committee(1)	25.00%	1	-	-	-	-	-	-
Risk supervision, regulation and compliance committee[2]	25.00%	1	-	-	-	-	-	-
International committee	33.33%	2	28.57%	1	2	28.57%	1	12.50%
Innovation and Technology (formerly Technology, productivity and quality) committee	33.33%	1	25.00%	1	1	25.00%	1	12.50%

1. Pursuant to articles 54.1 of the Bylaws and 17.10 of the Rules and Regulations of the Board, the board of directors, at its meeting of 23 October 2014, resolved to separate in two the appointments and remuneration committee. The appointments committee would undertake the functions relating to appointments set out in section 4 of the aforesaid article 17 of the Rules and Regulations of the Board, and the remuneration committee would undertake those set out in section 5 of the same article and, in both cases, any others assigned to them by the applicable legislation.
2. Created in June 2014, it held its first meeting on 23 July 2014.

At the date of this document, the following are the percentages of female directors with seats on board committees: executive (29%), executive risk (17%), audit (20%), appointments (20%), remuneration (40%), risk supervision, regulation and compliance (29%), international (40%) and innovation and technology (29%).

C.2.3 Indicate whether the Audit Committee is responsible for the following:

	Yes	No
Monitoring the preparation and integrity of financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter and the correct application of accounting principles.	X	
Reviewing internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.	X [1]	

Monitoring the independence and efficacy of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verifying that senior management are acting on the findings and recommendations of its reports.	X	
Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.	X	
Making recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms of their engagement.	X	
Receiving regular information from the external auditor on the progress and findings of the audit programme, and checking that senior management are acting on its recommendations.	X	
Monitoring the independence of the external auditor.	X	

1. Review of risk management systems was assigned to the risk supervision, regulation and compliance committee, which was created in June 2014, pursuant to article 38 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions.

The functions of the audit committee are described in Article 16.4 of the Rules and Regulations of the Board. Sections b), c), d), e), f), g), h), i), j), k), and l) are of particular relevance in this regard.

The audit committee report, which is published along with the Annual Report, describes the activities carried out by the committee in 2014.

Article 16.4 of the Rules and Regulations of the Board

4. The audit committee shall have the following duties, and any other provided for in applicable law:
(…)
b) Propose the appointment of the auditor, as well as the conditions under which such auditor will be hired, the scope of its professional duties and, if applicable, the revocation or non-renewal of its appointment. The committee shall favour the Group's auditor also assuming responsibility for auditing the companies making up the Group.

c) Review the accounts of the Company and the Group, monitor compliance with legal requirements and the proper application of generally accepted accounting principles and report on the proposals for alterations to the accounting principles and standards suggested by management.

d)Supervise the internal audit function, and particularly:

(i)Proposing the selection, appointment and withdrawal of the party responsible for internal audit;
(ii)Reviewing the annual working plan for internal audit, for its subsequent review and approval by the board, and the annual activities report;
(iii)Ensuring the independence and effectiveness of the internal audit function;

(iv)Proposing the budget for this service;

(v)Receiving periodic information regarding the activities thereof; and

(vi)Verifying that senior management takes into account the conclusions and recommendations of its reports.

(e) Supervise the process for gathering financial information and for the internal control systems. In particular, the audit committee shall:

(i)Supervise the process of preparing and presenting the regulated financial information relating to the Company and the Group, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of group consolidation and the correct application of accounting standards; and

(ii)Oversee the effectiveness of the internal control systems, so that the principal risks are duly identified, managed and disclosed.

(iii)Discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit.

f) Serve as a channel of communication between the board and the auditor, assess the results of each audit and the response of the management team to its recommendations, and act as a mediator in the event of disagreement between the board and the auditor regarding the principles and standards to be applied in the preparation of the financial statements. Specifically, it shall endeavour to ensure that the statements ultimately drawn up by the board are submitted to the shareholders at the general shareholders' meeting without any qualifications or reservations in the auditor's report.

g) Supervise the fulfilment of the audit contract, endeavouring to ensure that the opinion on the annual financial statements and the main contents of the auditor's report are set forth in a clear and accurate fashion.

h) Ensure the independence of the auditor, by taking notice of those circumstances or issues that might risk such independence and any others related to the development of the auditing procedure, as well as receive information and maintain such communication with the auditor as is provided for in legislation regarding the auditing of financial statements and in technical auditing regulations. And, specifically, verify the percentage represented by the fees paid for any and all reasons of the total income of the audit firm, and the length of service of the partner who leads the audit team in the provision of such services to the Company. The annual report shall set forth the fees paid to the audit firm, including information relating to fees paid for professional services other than audit work.

In any event, the audit committee should receive annually from the external auditor written confirmation of the latter's independence versus the Company or institutions directly or indirectly linked to the Company, as well as information on any type of additional services provided to such institutions by the aforementioned auditor or by persons or institutions related to the latter, as stipulated in External Auditing Act 19/1988, of 12th July[27].

Likewise, prior to the issuing of the external auditor's report, the committee shall issue annually a report expressing an opinion on the independence of the external auditor. In any event, such report should make a statement as to the providing of the additional services referred to in the preceding paragraph.

i) The committee shall ensure that the Company publicly communicates a change of auditor and accompanies such communication with a declaration regarding the possible existence of disagreements with the outgoing auditor and, if any, regarding the content thereof and, in the event of the resignation of the auditor, the committee shall examine the circumstances causing it.

j) Report to the board, in advance of the adoption by it of the corresponding decisions, regarding:

[27] Currently Legislative Royal Decree 1/2011, of 1 July, Spain's Consolidated Audit Act.

(i)The financial information that the Company must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices applicable to the annual financial statements.

(ii)The creation or acquisition of equity interests in special purpose entities or entities domiciled in countries or territories that are considered to be tax havens.

k)Know and, if applicable, respond to the initiatives, suggestions or complaints put forward or raised by the shareholders regarding the area of authority of this committee and which are submitted to it by the office of the general secretary of the Company. The committee shall also:

(i)Receive, deal with and keep a record of the claims received by the Bank on matters related to the process for gathering financial information, auditing and internal controls.

(ii)Receive on a confidential and anonymous basis possible communications from Group employees who express their concern on possible questionable practices in the areas of accounting or auditing.

l) Receive information from the person responsible for the Company's taxation matters on the tax policies applied, at least prior to the drawing-up of the annual accounts and the filing of the Corporate Tax return, and where relevant, on the tax consequences of transactions or matters submitted to the board of directors or the executive committee for approval, unless such bodies have been informed directly, in which case this will be reported to the committee at the first subsequent meeting held by it.

The audit committee shall transfer the information received to the board of directors.

C.2.4 Describe the organisational and operational rules and responsibilities attributed to each of the board committees.

1. Executive committee:

The executive committee is governed by Article 51 of the Bank's Bylaws and Article 14 of the Rules and Regulations of the Board. All the powers of the board of directors have been permanently delegated to the executive committee, except those which may not be legally delegated and the following:

a) Approval of the general policies and strategies of the Bank, particularly:
   - i) Strategic plans, management targets and annual budget;
   - ii) Dividend and treasury stock policy;
   - iii) General risk management policy;
   - iv) Corporate governance policy;
   - v) Corporate social responsibility policy.

b) Approval of the policies for the provision of information to and for communication with the shareholders, the markets and public opinion. The board assumes the duty to promptly provide the markets with accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related party transactions of particular importance and treasury stock.

c) Control of management activities and evaluation of managers.

d) And those of the board in relation to its composition and functioning, the remuneration and duties of directors, the contracting of technical advisors and board relations with shareholders, markets and the external auditor.

The board believes that the composition of the executive committee is well balanced, given that it is made up of the following at the date of this document: 7 directors, 4 executive and 3 external independent.

The executive committee submits to the board matters that fall within the exclusive jurisdiction of the latter. It also reports to the board on any matters or decisions it has adopted at its meetings and furnishes board members with copies of the minutes for such meetings.

Article 3 of the Rules and Regulations of the Board states that the following powers of the board may be exercised by the executive committee when required on the grounds of urgency, with a subsequent report thereof to the board at the immediately following board meeting:

a) Approval of the financial information that the Bank must make public on a periodic basis.
b) Approval of transactions entailing the acquisition and disposition of substantial assets of the Company and major corporate transactions, unless such approval must be given by the shareholders at a general shareholders’ meeting, pursuant to the provisions of article 20 of the Bylaw.

c) Approval, within the framework of the provisions of Article 58 of the Bylaws, of the compensation to which each director is entitled.

d) Approval of the contracts governing the performance by directors of duties other than those of a mere director and the compensation to which they are entitled for the performance of additional duties, whether they are the duties of an executive director or otherwise, other than the duties of supervision and collective decision-making that they discharge in their capacity as mere members of the board.

e) The selection, appointment, and where applicable, removal of the other members of senior management (senior executive vice presidents and similar officers), as well as the control of the management activity and continued evaluation of the same.

f) The definition of the basic conditions of senior management contracts, as well as approval of the remuneration of the latter and of those other officers who, although not part of senior management, receive significant compensation (especially variable remuneration) and whose activities may have a significant impact on the assumption of risk by the Group.

g) Authorisation for the creation or acquisition of holdings in special purpose entities or entities resident in countries or territories considered to be tax havens.

Following the coming into force of Act 31/2014, articles 249 bis and 529 ter of the Spanish Corporate Enterprises Act add to the list of board powers that are not delegable. Further, the aforesaid article 529 ter adds to the list of decisions the executive committee may adopt for reasons of urgency. Following the ordinary general shareholders’ meeting of 2015, Banco Santander will amend article 3 of the Rules and Regulations of the Board to adapt it to the new legal framework described above.

2. Executive Risk Committee:

The executive risk committee is governed by Article 52 of the Bylaws and Article 15 of the Rules and Regulations of the Board.

At year-end 2014, it comprised five directors, two executive and three external. Of the latter, two were independent and one not proprietary or independent.

Its chair is a vice chair of the board with executive duties in accordance with the Rules and Regulations of the Board (Article 15.1).

Article 15.1 of the Rules and Regulations of the Board

"*The executive risk committee shall be composed of a minimum of four and a maximum of six directors. The chairmanship of the committee shall be held by a vice chairman with executive duties.*

(…)"

The committee has been permanently delegated the following powers of the board of directors:

"a) Decide on the granting of loans, the opening of credit accounts and risk operations in general, as well as the modification, transfer and cancellation thereof, and on global risk management (country, interest rate, credit, market, operational, treasury and derivatives risk), as well as determining and approving the general and specific conditions applicable to discounts, loans, deposits, guarantees and all types of banking operations.

b) Establish, change, subrogate and terminate lease agreements for all kinds of personal and real assets, upon the terms and conditions that it may freely determine, as well as acquire the underlying assets of such financial leasing, with no limit on amount or volume.

c) Create, modify and cancel all manner of sureties, bonds and any other guarantees before all kinds of natural persons, bodies corporate and public or private entities and bodies, in particular for the purposes of the Public Administration Contracts Act (Ley de Contratos de las Administraciones Públicas) and consolidating legislation, subject to the terms and conditions it deems appropriate, thereby establishing the necessary deposits in cash or securities, with entitlement to bind the Company, even jointly and severally with the main debtor, therefore waiving the benefits of discussion and division, all the foregoing on its own behalf in order to secure the obligations of third parties, whether natural persons or legal entities, with no limitation whatsoever on the amount thereof."

It has the following duties pursuant to Article 15.3 of the Rules and Regulations of the Board:

"*a) To manage exposures to different customers, economic sectors of activity, geographic areas and risk types.*

b) To authorise management tools, improvement initiatives, advancement of projects and any other relevant activity relating to the control of risks, including the policy on internal risk models and the internal validation thereof.

c) To monitor, in the scope of its activities, the statements made by supervisory authorities in the exercise of their duties.

d) To ensure that the activities of the Group are consistent with the risk appetite previously decided by the board of directors, with the advice of the risk supervision, regulation and compliance committee, and to delegate to lower-level committees or managers the powers to assume risks.

e) To make resolutions on transactions that go beyond the powers delegated to lower decision-making bodies, as well as on the global limits of pre-classification in favour of economic groups or with respect to exposures by classes of risks.

f) Provide the risk supervision, regulation and compliance committee with the information it may require for the fulfilment of its responsibilities set forth by the law, Bylaws and by these rules and regulations, *without prejudice to the obligation of keeping the board duly informed of its actions in terms of risk management.*"

Further information can be found in note 54 (*Risk management*) to the 2014 consolidated financial statements of the Santander Group, which sets out in detail the risk control systems of the Bank and its Group.

3. Audit committee:

The audit committee of the Bank was originally created in 1986, although its functions and duties have changed significantly since then.

The committee is regulated by article 529 quaterdecies of the Spanish Corporate Enterprises Act and articles 53 of the Bylaws and 16 of the Rules and Regulations of the Board. In addition, articles 27 and 35 of the Rules and Regulations contain specific regulations on certain aspects of their activities.

The risk supervision, regulation and compliance committee, which was created in June 2014 (pursuant to article 38 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions) has undertaken a part of the functions that had previously been assigned to the audit committee.

The audit committee must consist of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive, with independent directors having majority representation.

The members of the audit committee are appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience in the areas of accounting, auditing or risk management.

The audit committee must at all times be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management.

At the date of this report, the chair of the audit committee is Mr. Guillermo de la Dehesa Romero.

Mr. Guillermo de la Dehesa Romero is expected to be re-elected as a director at the 2015 general shareholders' meeting. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years. Additionally, Mr. De la Dehesa will also cease to be a member of this committee.

Mr. Juan Miguel Villar Mir, a member of the audit committee at the date of this report, will replace Mr. Guillermo de la Dehesa Romero as chair of this committee at the 2015 general shareholders' meeting

The functions of the committee are, under article 16.4 of the Rules and Regulations of the Board, the following, and any others assigned to it by applicable legislation:

"*a) Have its chairman and/or secretary report to the shareholders at the general shareholders' meeting with respect to matters raised therein by shareholders regarding its powers.*

b) Propose the appointment of the auditor, as well as the conditions under which such auditor will be hired, the scope of its professional duties and, if applicable, the revocation or non-renewal of its appointment. The committee shall favour the Group's auditor also assuming responsibility for auditing the companies making up the Group.

c) Review the accounts of the Company and the Group, monitor compliance with legal requirements and the proper application of generally accepted accounting principles, and report on the proposals for alterations to the accounting principles and standards suggested by management.

d) Supervise the internal audit function, and particularly:

(i) Proposing the selection, appointment and withdrawal of the party responsible for internal audit;
(ii) Reviewing the annual working plan for internal audit, for its subsequent review and approval by the board, and the annual activities report;
(iii) Ensuring the independence and effectiveness of the internal audit function;
(iv) Proposing the budget for this service;
(v) Receiving periodic information regarding the activities thereof; and
(vi) Verifying that senior management takes into account the conclusions and recommendations of its reports.

e) Supervise the process for gathering financial information and for the internal control systems. In particular, the audit committee shall:

(i) Supervise the process of preparing and presenting the regulated financial information relating to the Company and the Group, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of group consolidation and the correct application of accounting standards; and
(ii) Supervise the effectiveness of the systems for the internal monitoring, reviewing them periodically, so that the principal risks are identified, managed and properly disclosed.
(iii) Discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit.

f) Serve as a channel of communication between the board and the auditor, assess the results of each audit and the response of the management team to its recommendations, and act as a mediator in the event of disagreement between the board and the auditor regarding the principles and standards to be applied in the preparation of the financial statements. Specifically, it shall endeavour to ensure that the statements ultimately drawn up by the board are submitted to the shareholders at the general shareholders' meeting without any qualifications or reservations in the auditor's report.

g) Supervise the fulfilment of the audit contract, endeavouring to ensure that the opinion on the annual financial statements and the main contents of the auditor's report are set forth in a clear and accurate fashion.

h) Ensure the independence of the auditor, by taking notice of those circumstances or issues that might risk such independence and any others related to the development of the auditing procedure, as well as receive information and maintain such communication with the auditor as is provided for in legislation regarding the auditing of financial statements and in technical auditing regulations. And, specifically, verify the percentage represented by the fees paid for any and all reasons of the total income of the audit firm, and the length of service of the partner who leads the audit team in the provision of such services to the Company. The annual report shall set forth the fees paid to the audit firm, including information relating to fees paid for professional services other than audit work.

In any event, the audit committee should receive annually from the external auditor written confirmation of the latter's independence versus the Company or institutions directly or indirectly linked to the Company, as well as information on any type of additional services provided to such institutions by the aforementioned auditor or by persons or institutions related to the latter, as stipulated in External Auditing Act 19/1988, of 12th July[28].

Likewise, prior to the issuing of the external auditor's report, the committee shall issue annually a report expressing an opinion on the independence of the external auditor. In any event, such report should make a statement as to the providing of the additional services referred to in the preceding paragraph.

[28] Currently Legislative Royal Decree 1/2011, of 1 July, Spain's Consolidated Audit Act.

i) The committee shall ensure that the Company publicly communicates a change of auditor and accompanies such communication with a declaration regarding the possible existence of disagreements with the outgoing auditor and, if any, regarding the content thereof and, in the event of the resignation of the auditor, the committee shall examine the circumstances causing it.

j) Report to the board, in advance of the adoption by it of the corresponding decisions, regarding:

> *(i) The financial information that the Company must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices applicable to the annual financial statements.*
>
> *(ii) The creation or acquisition of equity interests in special purpose entities or entities domiciled in countries or territories that are considered to be tax havens.*

k) Know and, if applicable, respond to the initiatives, suggestions or complaints put forward or raised by the shareholders regarding the area of authority of this committee and which are submitted to it by the office of the general secretary of the Company. The committee shall also:

> *(i) Receive, deal with and keep a record of the claims received by the Bank on matters related to the process for gathering financial information, auditing and internal controls.*
> *(ii) Receive on a confidential and anonymous basis possible communications from Group employees who express their concern on possible questionable practices in the areas of accounting or auditing.*

l) Receive information from the person responsible for the Company's taxation matters on the tax policies applied, at least prior to the drawing-up of the annual accounts and the filing of the Corporate Tax return, and where relevant, on the tax consequences of transactions or matters submitted to the board of directors or the executive committee for approval, unless such bodies have been informed directly, in which case this will be reported to the committee at the first subsequent meeting held by it. The audit committee shall transfer the information received to the board of directors.

m) Evaluate, at least one a year, its operation and the quality of its work.

n) And the others specifically provided for in these Rules and Regulations."

One of its meetings will be devoted to preparing the information the board must approve and include in annual public documentation.

4. Appointments committee

This is a specialised board committee with no delegated functions. It is charged with reporting and formulating proposals within the scope of its powers.

Article 529 quindecies of the Spanish Corporate Enterprises Act and article 31 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, set out the legal requirements relating to this committee. Article 54 of the Bylaws includes basic regulations for the appointments committee, which the Rules and Regulations of the Board consolidate and expand. Article 17 of the Rules and Regulations of the Board defines the composition, duties and powers of this committee. In addition, Articles 21, 23, 24, 27 and 30 of the rules and regulations contain specific regulations on certain aspects of its activities.

The appointments committee must be made up of a minimum of three and a maximum of seven directors, all external and non-executive, with a majority representation of independent directors, with one of these independent directors being its chairman.

The members of the appointments committee are designated by the Board, taking into consideration the knowledge, skills and experience of the directors and the requirements of said committee.

During 2014, no members of the appointments committee were executive directors, members of the senior management, or Bank employees. Similarly, no executive director or member of the senior management of the Bank has belonged to the board (or an appointments committee) of any company that has employed members of the appointments committee.

It has the following duties pursuant to Article 17.4 of the Rules and Regulations of the Board:

"*a) Propose and review the internal criteria and procedures to be followed in order to determine the composition of the board and select those persons who will be proposed to serve as directors, as well as for the continuous evaluation of directors, reporting on such continuous evaluation. In particular, the appointments and remuneration committee*[29]*:*

> *(i) Shall establish the knowledge and experience necessary for directors, likewise assessing the time and dedication required for appropriately carrying out the position.*
>
> *(ii) Shall receive for taking into consideration, the proposals of potential candidates for the covering of vacancies that the directors, where applicable, may propose.*

b) Prepare, by following standards of objectiveness and conformance to the corporate interests, the proposals for appointment, re-election and ratification of directors provided for in section 2 of article 21 of these rules and regulations, as well as the proposals for appointment of the members of each of the committees of the board of directors. Likewise, it shall prepare, by following the same aforementioned standards, the proposals for the appointment of positions on the board of directors and its committees.

c) Annually verify the classification of each director (as executive, proprietary, independent or other) for the purpose of their confirmation or review at the ordinary general shareholders' meeting and in the annual corporate governance report.

d) Report on proposals for appointment or withdrawal of the secretary of the board, prior to submission thereof to the board.

e) Propose and review the internal criteria and procedures for the selection and continuous evaluation of senior executive vice presidents or similar officers and other employees responsible for internal control functions or who hold key positions for the daily carrying-out of banking activity, and to report on their appointment and removal from office and their continuous evaluation.

f) Ensure compliance by the directors with the duties prescribed in article 30 of these rules and regulations, prepare the reports provided for herein and receive information, and, if applicable, prepare a report on the measures to be adopted with respect to the directors in the event of non-compliance with the abovementioned duties or with the code of conduct of the Group in the securities market.

g) Examine the information sent by the directors regarding their other professional obligations and assess whether such obligations might interfere with the dedication required of directors for the effective performance of their work.

[29] Presently, appointments committee.

h) Evaluate, at least one a year, its operation and the quality of its work.

i) Report on the process of evaluation of the board and of the members thereof.

j) Examine or organize the succession of both the chairman of the board and the chief executive officer and, if appropriate, make proposals to the board of directors in order for that such succession to occur in an orderly and planned way according to the provisions of article 24.

k) And the others specifically provided for in these rules and regulations."

5. Remuneration committee

This is a specialised board committee with no delegated functions. It is charged with reporting and formulating proposals within the scope of its powers.

Article 529.n of the Spanish Corporate Enterprises Act and article 36 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, set out the legal requirements relating to this committee. Article 54 of the Bylaws includes basic regulations for the remuneration committee, which the Rules and Regulations of the Board consolidate and expand. Article 17 of the Rules and Regulations of the Board defines the composition, duties and powers of this committee. In addition, Articles 27, 28, 29 and 33 of the rules and regulations contain specific regulations on certain aspects of its activities.

The remuneration committee must be made up of a minimum of three and a maximum of seven directors, all external and non-executive, with a majority representation of independent directors, with one of these independent directors being its chair.

The members of the remuneration committee are designated by the Board, taking into consideration the knowledge, skills and experience of the directors and the requirements of said committee.

During 2014, no members of the remuneration committee were executive directors, members of the senior management, or Bank employees. Similarly, no executive director or member of the senior management of the Bank has belonged to the board (or a remuneration committee) of any company that has employed members of the remuneration committee.

It has the following duties pursuant to Article 17.5 of the Rules and Regulations of the Board:

"*(a) Propose to the board:*

> *(i) The policy for compensation of directors and the corresponding report, upon the terms of Article 29 of these rules and regulations.*
>
> *(ii) The policy for compensation of the members of senior management.*
>
> *(iii) The individual compensation of the directors.*
>
> *(iv) The individual compensation of the executive directors and, if applicable, external directors, for the performance of duties other than those of a mere director, and other terms of their contracts.*
>
> *(v) The basic terms of the contracts and compensation of the members of senior management.*
>
> *(vi) The remuneration of those other officers who, whilst not members of senior management, receive significant compensation, particularly variable compensation, and whose activities may have a significant impact on the assumption of risk by the Group.*

(b) Ensure compliance with the policy established by the Company for compensation of the directors and the members of senior management.

(c) Periodically review the compensation programmes, assessing the appropriateness and yield thereof and endeavouring to ensure that the compensation of directors shall conform to standards of moderation and correspondence to the earnings of the Company.

(d) Ensure the transparency of such compensation and the inclusion in the annual report and in the annual corporate governance report of information regarding the compensation of directors and, for such purposes, submit to the board any and all information that may be appropriate.

(e) And others specifically provided for in these rules and regulations."

6. Risk supervision, regulation and compliance committee

The committee is regulated by article 38 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions and articles 54 of the Bylaws and 17 of the Rules and Regulations of the Board.

The risk supervision, regulation and compliance committee shall consist of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive, with independent directors having majority representation.

The members of the risk supervision, regulation and compliance committee shall be appointed by the board of directors taking into account the directors' knowledge, skills and experience and the responsibilities of the committee.

The risk supervision, regulation and compliance committee must in all events be presided over by an independent director.

In 2014, none of the members of the risk supervision, regulation and compliance committee were executive directors, members of senior management or employees of the Bank.

The functions of the committee are, under article 17 bis. 4 of the Rules and Regulations of the Board, the following, and any other provided for in applicable law:

"*(a) Support and advice to the board in defining and assessing risk policies affecting the Group, and in determining the risk appetite and risk strategy.*
Group'*s risk policies shall include:*

> *(i) The identification of the various types of risk (operational, technological, financial, legal and reputational, among others) that the Company faces, including, among financial and economic risks, contingent liabilities and others which are off-balance sheet;*
>
> *(ii) The setting of the risk appetite that the Company deems acceptable;*
>
> *(iii) The planned measures to mitigate the impact of identified risks, in the event that they materialize; and*
>
> *(iv) The information and internal monitoring systems that will be used to monitor and manage such risks.*

(b) Assistance to the board in monitoring the implementation of the risk strategy.

(c) Systematically review exposure to principal customers, economic sectors of activity, geographic areas and risk types.

(d) Know and assess the management tools, improvement initiatives, evolution of projects and any other relevant activity relating to the control of risks, including the policy on internal risk models and the internal validation thereof.

(e) Support and advice to the board regarding supervisors and regulators in the different countries where the Group operates.

(f) Supervise the observance of the general code of conduct of the Group, the manuals and procedures for the prevention of money laundering and financing of terrorism and, in general, the rules of governance and compliance program in effect in the Company, and make such proposals as are deemed necessary for the improvement thereof. In particular, the committee shall have the duty to receive information and, if applicable, issue a report on disciplinary measures to be imposed upon members of senior management.

(g) Supervision of the Group's policy and governance and compliance rules and, in particular, of the adoption of actions and measures that result from the reports issued or the inspection proceedings carried out by the administrative authorities of supervision and control.

(h) Tracking and evaluation of policy proposals and regulatory changes that may be applicable, and possible consequences for the Group.

(i) Report on any proposed amendments to these Rules and Regulations prior to the approval thereof by the board of directors."

7. International committee:

The International committee (as referred to in Article 13 of the Rules and Regulations of the Board) is responsible for monitoring the progress of the Group's strategy and the activities, markets and countries in which the Group wishes to operate through direct investments or through the deployment of specific business. The committee is informed of the commercial initiatives and strategies of the various Group units and of any new projects presented to it.

8. Innovation and technology (formerly technology, productivity and quality) committee:

The Innovation and Technology (formerly Technology, productivity and quality) committee is also dealt with in Article 13 of the Rules and Regulations of the Board, and is responsible for studying and reporting on plans and actions relating to information systems and application programming, investments in computer equipment, design of operational processes to improve productivity, and programmes to improve service quality and measurement procedures, as well as programmes relating to resources and costs.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also indicate whether an annual report on the activities of each committee has been prepared voluntarily.

There are no specific regulations on board committees, because the regulations that govern these are set out, as mentioned in section C.2.4 above, in the Bylaws and the Rules and Regulations of the Board.

- **Audit committee report**

The audit committee issued its first activities report in 2003.

The 2014 audit and compliance report addresses the following issues in detail:

a) Regulatory aspects, functioning, duties, composition and the attendance of its members at the committee meetings held in 2014.

b) Activities performed in 2014, grouped in accordance with the core duties of the committee:

- Financial information
- External auditor
- Internal audit
- Internal control systems of the Group
- Information for the general shareholders' meeting and corporate documents for 2014.

c) Self-assessment by the committee of its performance of its duties in 2014.

- **Appointments committee report**

The 2014 report addresses the following issues in detail:

a) Regulatory aspects, functioning, duties, composition and the attendance of its members at the committee meetings held in 2014.

b) Activities performed in 2014:

- Succession of the chair
- Renewal of the board and of its committees and description of the selection process of their members
- Annual assessment of the category of the directors
- Assessment of the suitability of directors
- Appointment of members of board committees
- Participation in the board self-assessment process
- Appointment of members of senior management who do not sit on the board of directors
- Training of directors and information programme
- Institutional documentation
- Self-assessment
- Civil liability insurance

c) Self-assessment by the committee of its performance of its duties in 2014.

- **Remuneration committee report.**

The 2014 report addresses the following issues in detail:

a) Regulatory aspects, functioning, duties, composition and the attendance of its members at the committee meetings held in 2014.

b) Report on the compensation policy of directors.

- Principles of compensation policy
- Principles of corporate governance with regard to compensation

• Compensation policy in 2014
• Individual compensation and compensation for all director services in 2014
• Remuneration policy of directors
• Preparatory work and decision-making with details on involvement of remuneration committee and on the identity of external advisors
• Appendix

c) Compensation of members of senior management who do not sit on the board of directors.

d) Self-assessment by the committee of its performance of its duties in 2014.

- **Risk supervision, regulation and compliance committee report.**

The 2014 report addresses the following issues in detail:

a) Regulatory aspects, functioning, duties, composition and the attendance of its members at the committee meetings held in 2014.

b) Activities performed in 2014, grouped in accordance with the core duties of the committee:

- Risk
- Compliance
- Research and public policy service
- Corporate governance

c) Self-assessment by the committee of its performance of its duties in 2014.

C.2.6 Indicate whether the composition of the Executive Committee reflects the participation within the board of the different types of directors:

Yes [X] No [ ]

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Identify the competent body and explain, if applicable, the procedures for approving related-party or intragroup transactions:

Competent body for approving related-party transactions
The board of directors, except for transactions related to directors in which article 230 of the Corporate Enterprises Act confers competence upon the general meeting[30].

<table>
<tr><th>Procedure for the approval of related-party transactions</th></tr>
<tr><td>
Article 33 of the Rules and Regulations of the Board states:
"1. The board of directors shall examine the transactions that the Company enters into, either directly or indirectly, with directors, with significant shareholders or those represented on the board, or with persons related thereto. Such transactions shall require the authorisation of the board, after a favourable report from the appointments and remuneration committee[31]. Such transactions shall be evaluated in the light of the principle of equal treatment amongst all shareholders and the prevailing market conditions, and shall be contained in the annual corporate governance report and in the periodic public information, upon the terms set forth in applicable law.
2. However, the authorisation provided for in the preceding sub-section shall not be required for those transactions that simultaneously meet the following three conditions:
1. They are carried out under contracts with basically standard terms that customarily apply to the customers contracting for the type of product or service in question.
2. They are performed at prices or rates generally established by the party acting as supplier of the good or service in question or, when the transactions concern goods or services for which no rates are established, they are performed under customary market conditions, similar to those applied to commercial relationships with customers having similar characteristics.
3. The amount thereof does not exceed 1% of the Company's annual income.
If the foregoing conditions are satisfied, the affected directors shall not be required to report such transactions or to preventively seek the authorisation of the board.
3. On an exceptional basis, when so advised for reasons of urgency, related-party transactions may be authorised by the executive committee, with subsequent ratification by the board."
The Bank has a finance policy for the Bank's senior management, setting out the terms and conditions for loans, mortgages and consumer credit to executive directors and other members of senior management, and the procedures for granting of these. This policy includes general rules on maximum borrowing levels, interest rates and the rules applicable to changes in the status of the beneficiary.
Identical rules (approval bodies and procedures) apply to intragroup transactions as to transactions with customers, with processes in place to monitor that such transactions are under market terms and conditions and prices.
</td></tr>
</table>

Explain if the authority to approve related-party transactions has been delegated to another body or person.

Article 33.3. of the Rules and Regulations of the Board establishes that, on an exceptional basis, when so advised for reasons of urgency, related-party transactions may be authorised by the executive committee, with subsequent ratification by the board.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders.

[30] "*Authorisations for release from the prohibition to obtain an advantage or remuneration from third parties, or that relate to a transaction whose value is greater than ten percent of company assets, must be granted by the general meeting*".

[31] Presently, appointments committee.

As indicated above (see section A.2.), the Bank is not aware of the existence of significant shareholders and accordingly, there is no information regarding transactions therewith.

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors.

No director, other member of the bank's senior management or person represented by a director or a member of the bank's senior management, or any company where they are directors, members of the senior management or significant shareholders or any other person who has entered into a concerted action or acting through any third party, carried out any transactions with the bank that were unusual or significant for the bank, to the best of its knowledge, pursuant to Order EHA/3050/2004 of 15 September on the information that companies issuing securities admitted for trading on official secondary markets should provide in connection with related-party transactions in their interim reports.

The board, following a favourable report from the remuneration committee, authorised the sale under market conditions by the bank of 2,403,923 shares in MED 2001 Inversiones, SICAV, S.A. held by Mr. Ángel Jado Becerro de Bengoa and companies in his family group. Mr. Becerro de Bengoa did not take part in the board's deliberations on the issue.

The direct risks of the Group with the directors of the Bank in terms of loans, credit and guarantees at 31 December 2014 are shown below. The table includes all the aforementioned risks, even if not relating to signification transactions. The conditions of these transactions are equivalent to those carried out under market conditions or with corresponding cash amounts.

All these transactions are part of the ordinary course of business of the Bank or the company of the Group with which the transaction was made.

Name or corporate name of director or senior manger	Name or corporate name of the related party	Relationship	Type of transaction	Amount (in thousands of euros)
Mr. Matías Rodríguez Inciarte	Banco Santander, S.A.	Director	Financing	8
Mr. Rodrigo Echenique Gordillo	Banco Santander, S.A	Director	Financing	317
Mr. Javier Botín-Sanz de Sautuola y O´Shea	Banco Santander, S.A.	Director	Financing	18
Mr. Ángel Jado Becerro de Bengoa	Banco Santander, S.A.	Director	Financing	1
Mr. Juan Rodríguez Inciarte	Banco Santander, S.A.	Director	Financing	4,182
Ms. Isabel Tocino Biscarolasaga	Banco Santander, S.A	Director	Financing	7
Mr. Javier Marín Romano *	Banco Santander, S.A.	Director	Financing	723

* Resigned on 12 January 2015.

D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens:

Pursuant to Spanish legislation, below we provide details of transactions and the results of the Company (Banco Santander S.A.) at 31 December 2014 with Group entities resident in countries or territories that were considered tax havens. These results were eliminated in the consolidation process.

These jurisdictions are not considered tax havens by the OECD, as they have successfully passed the evaluations of the Global Forum on Transparency and Exchange of Information for Tax Purposes.

Refer to note 3 c) of the 2014 consolidated financial statements of the Santander Group for more information on offshore entities.

Corporate name of the group company	Brief description of the transaction	Amount*
SCH Issuances Ltd. (Cayman Islands)	In relation to subordinated debt issuance guaranteed by Banco Santander, S.A. (a):	
	Deposits (liability)	(10,910)
	Subordinated debt (asset)	3,971
Banesto Holding (In liquidation) (Guernsey)	Demand deposit accounts (liability) (b)	(158)
Totta & Açores Financing Ltd. (Cayman Islands)	In relation to issuance of preference shares guaranteed by Banco Santander Totta, S.A. and subscribed in full by Banco Santander, S.A.(c)	12,360
Banco Santander (Brasil) S.A. (Cayman Islands Branch)	Contracting of derivatives with the New York branch of Banco Santander, S.A. (d)	10,611
	Overnight deposits with the New York branch of Banco Santander, S.A. (liability) (e)	(2,340)
	Credit risk hedging contracts (f)	15,901
	Debt instruments (asset) (g)	138

*Profit/(loss) for 2014 in thousand euros earned by the company on the activities described.

Details of these transactions and the current balances of these at 31/12/2014 are given below: these were eliminated in the consolidation process:

(a) USD 200 million 1995 issue. The bank holds deposits of EUR 167 million, and debt purchased of EUR 88 million.

(b) Issuer in liquidation. Two demand deposit accounts of EUR 1.8 million with the bank.
(c) EUR 300 million 2005 issue, 100% subscribed by Banco Santander, S.A.
(d) Derivatives with a net negative market value of EUR 5.3 million in the company, as follows:
  - 42 Non Delivery Forward.
  - 14 Options.
  - 4 Swaps.
  - 4 Cross Currency Swaps.
(e) Nominal overnight deposits of EUR 1,050 million.
(f) Hedging transactions on asset positions of EUR 659 million for the Cayman branch of Banco Santander (Brasil) S.A.
(g) No open position at 31/12/2014.

D.5 Indicate the amount from related-party transactions.

The Group-s transactions with related parties, including associates and multi-group entities, members of the Bank's board of directors and senior managers relate to the Group's ordinary business. The conditions of these transactions are equivalent to those carried out under market conditions or with corresponding cash amounts, as the case may be.

At year-end 2014, the Group's related-party transactions were as follows: with associates and multi-group entities, assets, liabilities, earnings and others (off-balance positions) of EUR 6,885, 1,034, 656 and 4,270 million, respectively; with members of the board of directors, assets and liabilities of EUR 5, 9 and 2 million, respectively; with senior managers, assets, liabilities and others (off-balance positions) of EUR 25, 20 and 3 million, respectively; and with other related parties, assets, liabilities and others (off-balance positions) of EUR 1,276, 315, 11 and 3,720 million, respectively.

In addition to the above, there were also insurance contracts related to pensions amounting to EUR 345 million at 31 December 2014.

See note 53 (Related parties) to the Group's 2014 financial statements.

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

- **Directors.**

In the case of the Company's directors, conflict of interest are governed by Article 30 of the Rules and Regulations of the Board, which stipulates that directors must notify the board of any direct or indirect conflict with the interests of the Company in which they may be involved. If the conflict arises from a transaction with the Bank, the director shall not be allowed to conduct it unless the board, following a report from the appointments committee, approves the transaction. In the event of conflict, the director involved shall not participate in the deliberations and decisions on the transaction to which the conflict refers.

The abovementioned Rules and Regulations are supplemented by the provisions of articles 229 of the Spanish Corporate Enterprises Act (in the wording given by Act 31/2014), which regulates the duty of directors to avoid conflicts of interest as part of directors' duty of loyalty, as set out in article 228 of the Corporate Enterprises Act.

- Mechanisms used to detect, determine and resolve conflicts of interests with members of senior management who are not directors.

The code of conduct in securities markets, which may be found on the Group's corporate website (www.santander.com), governs this matter under Title I, chapter III, letter A (Statement of Personal Situation). Specifically relevant are sections 12 and 13 of the code, the texts of which are set forth below:

"12. General statement of linkages.

Subjected Persons should present a statement to Compliance Management detailing their linkages. Such statement should be constantly updated.

13. Situations of possible conflict.

Subjected Persons should notify Compliance Management of any situation in which a conflict of interest could occur, from the point of view of an impartial and unbiased observer and with respect to a specific act, service or operation, owing to the linkages of such Subjected Person or because of any other reason or circumstance."

Title 1, chapter III, letter B (*Conduct in the event of conflicts of interest*) of the code of conduct in securities markets regulates the actions of subjected persons in conflicts of interest based on the principle of *avoidance of conflicts of interest*. Point 14 of the code states:

"*Subjected Persons shall endeavour to avoid conflicts of interests, both their own and those of the Group, and if affected personally by such conflicts, shall abstain from deciding (or where applicable, issuing) their vote in situations where such conflicts arise and shall likewise advise those who are to take the respective decision.*"

Regarding the rules to be applied in resolving conflicts of interest, section 15 of the code provides that the following shall be borne in mind:

"*15.1 In the event of a conflict between the Group and a customer, the safeguarding of the latter's interests.*

15.2 In the event of a conflict between Subjected Persons and the Group, the loyal obligation of the former.

15.3 In the event of a conflict between customers, the affected persons will be notified, and the services or operations where the conflict is present may only be implemented if the affected parties agree. The favouring of any affected party shall be avoided."

Decision-making bodies that regulate and resolve conflicts of interest:

- Directors.

These matters are the responsibility of the board of directors.

- Senior Management.

The provisions contained in title I, chapter III, letter B (*Conduct in the event of a conflict of interest*), section 15, establish the following decision-making bodies:

"Conflicts of interest shall be resolved by the person holding maximum responsibility for the area affected. If several areas are affected, the resolution shall be made by the immediately senior officer of all such areas, or if none of the foregoing rules are applicable, by whomsoever Compliance Management may decide. In the event of any doubt, Compliance Management should be consulted."

D.7 Is more than one group company listed in Spain?

Yes [ ] **No [X]**

Identify the listed subsidiaries in Spain:

Listed subsidiaries

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies:

Yes [ ] No [ ]

Define the possible business relationship between the listed subsidiary company and the other companies in the group
Not applicable.

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies:

Mechanisms to resolve potential conflicts of interest
Not applicable.

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the risk management system in place at the company.

The Santander Group considers that the first option set out in CNMV Circular 5/2013 best reflects the scope of its risk management system, as follows:

"The risk management system works in an integrated, continuous and consolidated manner for activity and business areas or units, subsidiaries, geographic areas and support areas (such as human resources, marketing and management control) at the corporate level."

The Group's risk management and control model ensures that its risk profile remains within its defined risk appetite levels and other limits. It likewise includes corrective and mitigating measures to ensure that risk remains within the defined limits.

Adequate management and control of all risks resulting from the Bank's activities is guaranteed through:

1) Risk maps

Identifying and assessing all risks is a cornerstone of risk control and management. The risk map covers the main risk categories in which Banco Santander has its most significant actual and/or potential exposure, facilitating their identification.

The first level of the risk map identifies:

Financial risks
• Credit risk: deriving from failure to comply with agreed contractual obligations for financial transactions.
• Trading market risk: arising from possible changes in market factors affecting the value of positions in trading portfolios.
• Liquidity risk: risk of not compliance with payment obligations in due time, or at excessive cost.
• Structural market risk: arising from management of different balance sheet items, including capital adequacy and insurance and pension activities.

Non-financial risks
• Operational risk: risk of losses due to inadequacies or failures in processes, people and internal systems, or external events.
• Conduct risks: arising from inadequate customer relationship and treatment practices and the suitability of the products offered to each specific customer.
• Compliance and legal risk: arising from failure to comply with the legal framework, internal regulations or the requirements of regulators and supervisors.

Transversal risks
• Model risk: losses arising from decisions based mainly on the results of models, due to errors in their concept, application or use.
• Reputational risk: risk of damage to the perception of the Bank among customers, investors, public opinion and other stakeholders.
• Strategic risk: the risk that results might diverge significantly from the firm's business strategy or plan, due to changes in general business conditions and risks relating to strategic decisions. This includes the risk of poor implementation of decisions and lack of capacity to react to changes in the business environment.
• Capital risk: the risk that the Group or one of its companies might not have sufficient capital, or the right quality of capital, to comply with regulatory requirements for banking operators or to meet market expectations in relation to credit solvency and supporting business growth and potential strategies.

2) Group Wide Risk Management (GWRM)

The GWRM ensures adequate identification, assessment, management and control of all risk, from a comprehensive and integrated perspective at all levels of the organisation. The coordinated implementation and management of its elements ensures on-going assessment and comprehensive management of the Group's risk profile, improving risk management at all levels of the organisation.

The Group has implemented the *Santander Advanced Risk Management* programme to accelerate implementation of its strategic improvement projects to improve its risk management and control capacity, seeking to position the Santander Group at the forefront of best practices in today's financial services market.

The programme seeks to achieve excellence in risk management at both the corporate and local levels, maintaining a commitment to doing "more and better" business.

3) Risk assessment

As part of its routine activity, Banco Santander identifies and assesses the financial and non-financial risks inherent to its activities to which it is exposed in the markets where it operates.

In a process of continuous improvement, and to achieve a more comprehensive and consistent overview of this process, Banco Santander has launched in 2014 a corporate "*risk identification & assessment*" project to enhance the robustness of, and its systematic approach to, its risk identification and assessment. This complements the other initiatives it has implemented independently and in parallel for operational risk (self-assessment questionnaires), legal and compliance risk (*regulatory risk assessment*) and internal control.

4) Risk appetite and limits structure

Santander's risk appetite is defined as the quantity and types of risk it considers reasonable to assume in implementing its business strategy, so that the Group can maintain its ordinary activities in the event of unexpected events. This involves examining severe scenarios that might negatively impact its capital, liquidity, profitability and/or share price.

The board of directors is responsible for establishing the entity's risk appetite and updating this annually: it is also responsible for monitoring its effective risk profile and ensuring that the two are consistent. The risk appetite is formulated for the Group as a whole, and for each of its business units, based on a corporate methodology adapted to the nature of each business and unit. Locally, the boards of subsidiaries are responsible for approving their own risk appetite proposals, once these have been validated by the Group.

The local implementation of risk appetite was extended to cover almost all Group units in 2014.

5) Scenario analysis

Banco Santander takes an advanced approach to risk management by analysing the potential impact of different scenarios in the environment in which it operates. These scenarios involve both macroeconomic variables and other variables affecting the management of our business.

Scenario analysis is a very useful tool for senior management, as it tests the Bank's robustness in the face of stressed environments and scenarios, enabling it to put in place measures to reduce our risk profile and mitigate the potential impact of such scenarios.

6) Recovery and resolution plans (*Living wills*)

In 2014, the Santander Group presented the fifth version of its corporate viability plan, the most relevant part of which covers the measures available to the entity to overcome a very severe crisis situation on its own. The Group's senior management is fully involved in preparing and monitoring the content of these plans, through specific technical committee meetings and monitoring at the institutional level to ensure that the content and structure of the documents is compliant with local and international crisis management regulations, which have been constantly developing over recent years.

In terms of resolution plans, the competent authorities involved in the crisis management group (CMG) have agreed a common approach to the strategy for resolution of the Group. Given its legal and business structure, Santander applies a *multiple point of entry* (MPE) approach. The corresponding resolution cooperation agreement (COAG) has been signed and the first operational resolution plans have been drawn up for our main operating areas (Spain, the UK and Brazil). The Group is working continuously with the competent authorities, providing the detailed information they need to prepare the resolution plans, which they are, in general, responsible for preparing.

7) Independent reporting

Our risk information framework is one of the key elements in our management model. This set of standards ensures we have a comprehensive overview of all the risks we face, enabling the board of directors and senior management to take the decisions and implement the actions needed.

This framework is constantly evolving to incorporate best practice in the market. In this regard, in 2014 Santander launched a project to ensure that the risk information provided to senior management incorporates the basic principles defined for *Risk Data Aggregation* in the Basel Committee on Banking Supervision's "Principles for effective risk data aggregation and risk reporting".

8) Internal Control Framework

Our risk management model features an internal control environment ensuring a comprehensive overview and adequate control of all the risks we face. This control is carried out in all Group units and for every risk type, ensuring that the Group's global risk profile and exposure remains within the limits set by the board of directors and regulators.

The main functions involved in guaranteeing effective risk control are:

1. Aggregated consolidation and supervision for all risks
2. Assessment of internal control mechanisms
3. Comprehensive internal risk validation and control
4. Evaluation by internal audit

9) Risk culture

The Group's risk culture is based on principles of responsibility, prudence and compliance. We consider that all our units and employees -irrespective of their roles- are responsible for ensuring not only that the entity is compliant, but also that it is prudent and responsible in everything that it does.

Our risk culture is also based on the principles in Santander's risk management model and is communicated to all our business and management units, through the mechanisms detailed in the Group's 2014 annual report.

Section E.3 sets out the main risks to which the Group is exposed. The Bank's operating areas account for much of this, particularly in terms of credit risk, as is natural given the commercial banking in which the Group is involved.

The Group also manages the risks that might arise in its support areas (such as operational, compliance and reputational risks, including tax risks).

Note 54 (risk management) to the Santander Group's 2014 consolidated financial statements provides more information in this regard.

E.2 Identify the bodies responsible for preparing and implementing the Risk Management System.

- Governing body and its duties:

The board of directors is responsible for approving the company's general policies and strategies, particularly the general risk policy.

The board is supported in this by two board committees: the risk supervision, regulation and compliance committee, which is an independent committee for controlling and supervising risks, and the executive risk committee itself, which is the highest executive risk committee.

In addition, the Group's executive committee, which is chaired by the chair of the board, dedicates a weekly session specifically to managing the Group's risk.

Risk supervision, regulation and compliance committee

This committee was established to support the board of directors in its risk control and oversight duties; in the definition of the Group's risk policies; in relations with supervisory authorities; and in regulation and compliance matters.

At the proposal of the board, the 2014 general shareholders' meeting amended the Bylaws to include the creation of this committee, in compliance with the European CRD IV Directive. This committee is now responsible for certain duties that were previously the responsibility of the audit committee. The committee members are external or non-executive directors, with a majority of independent directors. The committee is chaired by an independent director.

Executive risk committee (ERC)

This committee has been delegated powers by the board to manage risks and take decisions to ensure that the Group risk profile resulting from its business strategy complies with the risk appetite limits and global policies approved by the board. In exercise of these responsibilities, the ERC approves risk operations, establishes risk policies and monitors the global risk profile, ensuring that the Group has the structure, resources and systems needed for adequate risk control and management.

The ERC is chaired by an executive vice-chair. It has four other members, all of whom are directors of the Bank. Reflecting the importance the Santander Group places on adequate risk management, the executive risk committee met 96 times in 2014.

Basic risk management committees

The ERC has delegated some of its powers to corporate risk committees. These are organised by risk types and activities, ensuring adequate escalation of decisions and continuous oversight of the risk profile.

There is a specific committee structure for each risk type. Thus, credit risk is managed by client segment and market risk is governed by the global market risk committee. Actuarial and pension risks are governed in the global business risk committee.

E.3 Indicate the main risks which may prevent the company from achieving its targets.

Note 54 (*risk management*) of the Santander Group's 2014 consolidated financial statements details how the Group identifies, measures and manages the risks to which it is exposed in its ordinary activities.

In addition, section E.5 of this report details the risks that arose during the year.

The Group's economic capital model enables it to quantify its risk profile, considering all the significant risks involved in its activities and the diversification effects inherent to a multi-national, multi-business group such as Santander.

Traditionally, the concept of economic capital has been counterpoised against regulatory capital, as required under solvency regulations. The Basel capital framework brings these two concepts together. Whilst Pillar I determines minimum regulatory capital requirements, Pillar II quantifies the Group's overall solvency, through its economic capital.

As of 31 December 2014, the Group's main risks, measured in terms of economic capital, were: credit (42%), market (12%), operational (5%) and ALM (8%).

By operating area, Continental Europe accounted for 26%, Latin America including Brazil 20%, the UK 12% and the USA 9%.

The concept of diversification is essential for adequately understanding and measuring the risk profile of the activity of a global group such as Santander. The fact that the Group undertakes a particular business activity in several countries through a structure of different legal entities, involving a variety of customer segments and products, subject to different interest rates, means that the Group is less vulnerable to poor conditions in particular markets and portfolios or for particular customers or risks. Despite the significant scale of globalisation in today's world, economic cycles are not the same and differ in degree in different geographic areas. This gives groups with a global presence greater business stability and enhanced capacity to resist a crisis in a particular market or portfolio: this contributes to lower risk. In other words, the risk and related economic capital of the Group as a whole is lower than that risk and capital would be if its parts were considered separately.

E.4 Identify if the company has a risk tolerance level.

As explained in section E.1, risk appetite is one of the cornerstones of the Santander Group's risk management and control.

The Group's risk appetite is defined and established consistently with its risk culture, and its banking business model is consistent from the risk perspective. The main elements defining this business model and providing the foundations for the Santander Group's risk appetite are:

• A predictable, low-medium general risk profile. This is based on a diversified business model focusing on retail banking, with a diversified international presence and significant market shares, and a wholesale business model that prioritises relationships with our customer base in the Group's main markets.
• A stable, recurrent policy of generating income and shareholder returns, founded on a robust capital base and liquidity, with an effective diversification strategy of sources and maturities.
• A corporate structure based on autonomous subsidiaries that are self-sufficient in capital and liquidity, minimising the use of non-operating companies and special purpose vehicles.

• An independent risk function with intense involvement from senior management, ensuring a robust risk culture focused on protecting and ensuring adequate returns on capital.
• A management model ensuring a global and interrelated overview of all risks, through a robust corporate risk control and monitoring environment with global responsibilities: every risk, every business and every geographic area.
• A business model built around products the Group considers it really understands and has the capacity (systems, processes and resources) to manage.
• A model of conduct that seeks to protect the interests of customers and shareholders.
• Adequate and sufficient availability of human resources, systems and tools to ensure the risk profile remains compatible with the established risk appetite, both globally and locally.
• A remuneration policy featuring the incentives needed to ensure the individual interests of employees and managers are consistent with the corporate risk appetite framework, and that they are consistent with the entity's long-term performance.

Risk appetite limit, structure and factors

The risk appetite is expressed through limits based on quantitative metrics and qualitative indicators that measure the entity's risk profile and exposure by risk type, portfolio, segment and business line, under both actual and stressed conditions. These risk appetite limits and metrics are based on 5 major factors that define the positions Santander's senior management seeks to adopt or maintain in developing its business model:

• The income statement volatility the Group is prepared to accept.
• The solvency position the Group wishes to maintain.
• The minimum liquidity the Group wishes to have available.
• The maximum risk concentrations the Group considers reasonable.
• Qualitative aspects and complementary metrics.

For more information, see note 54 (risk management) to the Santander Group's 2014 financial statements.

Risk appetite limit structure, monitoring and control

The Group's risk appetite is assessed annually and expresses the maximum risk exposure each Group entity, and the Group as a whole, is prepared to assume, in quantitative and qualitative terms.

Compliance with risk appetite limits is continuously monitored. The Group's specialist control functions report at least quarterly to the board and its executive risk committee on the fit of the risk profile with the authorised risk appetite.

Any breaches of risk appetite limits are reported by the risk control function to the relevant governance bodies. Such presentations are accompanied by an analysis of the causes of the breach, an estimate of how long the situation will last and proposals for any corrective actions deemed appropriate.

This linking of risk appetite limits with the limits used in managing business units and portfolios is a key element in ensuring the effectiveness of risk appetite as a risk management tool.

The management policies and the limit structure used in managing the various risk types and categories are directly related and traceable to the defined risk appetite principles and limits.

Therefore, any changes in the risk appetite feed through to changes in Santander's risk management limits and controls. Each business and risk area is then responsible for ensuring that the limits and controls they use in their day-to-day activities could not result in any breach of the risk appetite limits.

The risk control and supervision function then monitors this assessment, ensuring that management limits are appropriate for the risk appetite.

E.5 Identify any risks which have occurred during the year.

The Group is exposed to the risks identified in the risk map in section E.1. The most important of these - in terms of economic capital- is credit risk.

Credit risk with customers increased by 9% in 2014. This increase was general, except for Spain (although considering only loans and advances to customers this increased slightly), Portugal and Puerto Rico. These investment levels, together with non-performing loans of EUR 41,709 million (-1.4% compared to 2013), reduced the Group’s non-performing loans ratio to 5.19% (-45 b.p. compared to 2013).

In order to provide for this, the Group has made insolvency provisions EUR 10,562 million (-3% compared to 2013), having deducted recoveries. This decrease is reflected in a 1.43% reduction in the cost of credit, 10 b.p. down on the previous year.

Total funds for insolvencies stand at EUR 28,046 million, with a coverage ratio for the Group of 67%. It should be noted that this ratio is reduced by the weight of mortgage portfolios (particularly in the UK and Spain), which, as they are backed by collateral, require lower balance sheet provisions.

E.6 Explain the response and monitoring plans for the main risks the company is exposed to.

Note 54 (risk management) to the Santander Group’s 2014 consolidated financial statements provides detailed information on the Group’s plans for responding to the main risks to which it is exposed: credit, market, liquidity and financing, operational and compliance and reputational risk.

As set out in section E.1, in general terms, a range of mechanisms are in place to respond to and monitor the entity’s risk, such as the *risk assessment*, scenario analysis, the risk appetite, *living wills* and the risk control framework.

From a structural point of view, the *chief risk officer* (CRO) is responsible for the risk function and reporting to a Bank's executive vice-chair, who is a member of the board of directors and the chair of the executive risk committee.

The CRO, who advises and challenges the executive branch, reports independently to the risk supervision, regulation and compliance committee and the board.

The risk control and management model is based on:

• Specialised risk management, enabling units to manage the risks they generate through established limits and policies.

• Control of financial, non-financial and transversal risks (refer to the risk map in section E.1.), verifying that they are managed correctly, and exposure is appropriate, for each risk type, as established by senior management.

• Group Wide Risk Management provides a comprehensive and aggregated oversight of risks, assessing the entity's global risk profile and ensuring it complies with the risk appetite, structure and limits established by the board; monitoring that risk control and management systems remain adequate and compliant with the most demanding criteria and best practices observed in the industry and/or required by regulators.

- Development of the regulations, methodology and information infrastructure.

- Planning and internal governance.

- Internal validation of risk models to assess their suitability for both management and regulatory purposes. This validation exercise involves reviewing the theoretical foundations of the model and the quality of the data used in its construction and calibration, the uses to which it is put and the associated governance process.

- The regulatory project control and coordination division ensures the design and implementation of best management practices for regulatory risk in the Group, and consistent and effective compliance with regulatory requirements in all countries.

F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

This section describes key aspects of the internal control and risk management systems in place at the Santander Group with respect to the financial reporting process, specifically addressing the following aspects:

- The entity's control environment
- Risk assessment in financial reporting
- Control activities
- Information and communication
- Monitoring

F.1 The entity's control environment

Specify at least the following components with a description of their main characteristics:

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The board of directors is ultimately responsible for the internal control and risk management systems.

In keeping with article 16.4.e) of the board regulations, this function is entrusted to the audit committee, which must:

"*(e) Supervise the process for gathering financial information and for the internal control systems. In particular, the audit committee shall:*

(i) Supervise the process of preparing and presenting the regulated financial information relating to the Company and the Group, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of group consolidation and the correct application of accounting standards; and
(ii) Supervise the effectiveness of the systems for the internal monitoring, reviewing them periodically, so that the principal risks are identified, managed and properly disclosed.
(iii) Discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit."

In addition, article 34.2 of the Rules and Regulations of the Board establishes that the board will adopt any measures required to ensure that the quarterly, semi-annual, and any other financial information that is made available to the markets is prepared in accordance with the same principles, standards and professional practices used to prepare the annual financial statements and is as reliable as such financial statements. To this end, such information shall be reviewed by the audit committee before dissemination thereof.

Moreover, the management control departments and management control units in each of the countries in which the Group operates -each of which is headed by a controller- and the corporate internal control department are responsible for the existence, maintenance and implementation of an appropriate ICFR structure. Section F.1.2. below provides further information on the roles of the controllers and the corporate internal control department.

The General Code of Conduct[32] sets out the main ethical principles and regulations on behaviour for all Group employees. Chapter VIII of Title IV of the Code of Conduct (section 35) sets out obligations relating to the appropriate design of ICFR with regard to the Group's accounting obligations. A number of internal control systems are in place to ensure that ICFR is implemented correctly. These are described in section 36.

These sections state.

35. Accounting obligations

1. Reliability and strictness shall be applied in the drawing-up of the Group's financial information, ensuring that:

- *i. The transactions, facts and other events contained in the financial information actually exist and have been recorded at the appropriate time.*
- *ii. The information reflects all transactions, facts and other events in which the institution is an affected party.*
- *iii. Transactions, facts and other events are recorded and valued according to applicable regulations.*
- *iv. Transactions, facts and other events are classified, presented and divulged in the financial information in accordance with applicable regulations.*
- *v. The financial information reflects, as of the respective date, the rights and obligations through the respective assets and liabilities, in accordance with applicable regulations.*

2. The financial information includes all information of an accounting and economic nature which the Group presents to securities markets and files with supervisory bodies. It therefore includes the annual financial report, the half-yearly financial report and intermediate statements, both individual and consolidated, and the prospectuses drawn up by the Group for the issuances of financial instruments.

36. Internal controls

1. *All the internal control procedures established by the Group to guarantee the correct entry of transactions and their appropriate reflection in the financial information published by the Group shall be observed.*
2. *On preparing financial information, the areas of the Group responsible for each activity, process and sub-process shall certify that they have observed the controls established by the Group and that the information supplied is correct.*
3. *The Audit Committee will supervise the financial information presentation process, the effectiveness of internal controls and the internal audit and risk management systems.*

The General Code of Conduct allocates responsibility for these obligations to management and other employees at their corresponding levels.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.**

[32] The complete text of the Santander Group's General Code of Conduct can be found on the corporate website (www.santander.com).

The Group, through the corporate organisation division and the organisation units for each country/entity or business (within the area of expertise of the human resources, organisation and costs division), defines, implements and maintains the organisational structures, catalogue of job positions and size of the units. Specifically, the corporate organisation division is responsible for defining and documenting the Corporate Model for Managing Structures and Staff, which serves as the framework manual across the Group; it is similarly responsible for communicating this framework model to all Group entities.

The organisational function delegated to the countries/entities/businesses is designed to:

- optimise and align the organisational structures to the strategy defined by the corresponding corporate divisions and the Group's strategic targets;
- define the job map in the units under its remit as a core tool for organising how the structure works and facilitating the management of its human resources.

The business/support areas channel any initiatives relating to their organisational structures through the aforementioned organisation units. These units are tasked with analysing/reviewing and, where appropriate, inputting the opportune structural modifications into the corporate IT tools. In addition, the organisation units are responsible for identifying and defining the main functions attributed to each structural unit.

The purpose of this is to try to ensure, among other things, that the organisational structure provides a solid model of internal control over financial reporting.

With respect to the specific process of preparing its financial information, the Group has defined clear lines of responsibility and authority. The process entails exhaustive planning, including, among other things, the distribution of tasks and functions, the required timeline and the various reviews to be performed by each manager. To this end, the Group has management control departments in each of its operating markets; these are headed up by a controller whose duties include the following:

- Integrating the corporate policies defined at the Group level into their management, adapting them to local requirements.
- Ensuring that the organisational structures in place are conducive to due performance of the tasks assigned, including a suitable hierarchical-functional structure.
- Deploying critical procedures (control models), leveraging the Group's corporate IT tools to this end.
- Implementing the corporate accounting and management information systems, adapting them to each entity's specific needs as required.

In order to preserve their independence, the controllers report to their country heads and to the Group's corporate management control division.

The Bank has also set up a corporate internal control unit which reports to the corporate management control department and is tasked with designing and implementing the ICFR model (also known internally as the Santander Group Internal Control Model). This unit is responsible for ensuring the quality, consistency and continual updating of the ICFR model, and that sufficient procedures are in place to ensure that the organisational structure for the generation of financial information is correctly applied by all persons involved in producing such information in the entity and its Group. The corporate internal control unit continually monitors and oversees the work of local internal control units, ensuring that they are working as they should and are adequate, reporting its findings back to management and the audit committee. Each unit also has a head of internal control who reports back to this unit.

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

The Group's General Code of Conduct is approved by the board of directors, setting out behavioural guidelines relating to accounting and financial information requirements, among other matters[33].

This code is binding on all members of the Group's governance bodies and all employees of Banco Santander, S.A. and Santander Group companies, who acknowledge as much when they join the Group, notwithstanding the fact that some of these individuals are also bound by the Code of Conduct in Securities Markets and other codes of conduct specific to the area or business in which they work.

The Group provides all its employees with e-learning courses on the aforementioned General Code of Conduct. Moreover, the compliance department is available to address any queries with respect to its application.

Title V, Chapter I of the General Code sets out the functions of the Group's governance bodies, units and areas with competences for compliance with the Code, in addition to the compliance area.

The Irregularities Committee, consisting of representatives from various parts of the Group, is responsible for imposing disciplinary measures for breaches of the General Code and proposing corrective actions.

Title V, Chapter II, section 57 sets out the consequences of breaches, which may "*lead to labour-offence sanctions, notwithstanding any sanctions under administrative or criminal law that may also result from such breach*".

• '**Whistle-blowing**' **channel, for the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

Article 16.4.k of the Rules and Regulations of the Board of Directors includes among the responsibilities of the audit committee the duties to: "*(i) receive, deal with and keep a record of the claims received by the Bank on matters related to the process for gathering financial information, auditing and internal controls;* and *(ii) receive on a confidential and anonymous basis possible communications from Group employees who express their concern on possible questionable practices in the areas of accounting or auditing*".

No such communications have been received during the last three fiscal years.

The procedure for communicating such claims to the audit committee is regulated by internal regulations that establish that such communications -whether from employees or others- must be sent in writing to the Entity's registered office.

The following measures are in place to ensure the confidentiality of communications prior to their examination by the audit committee:

• The personal details and the sender and their contact details are not required in such communications.

• Only certain persons from the board and general secretariat division may review the communication, so as to determine whether it deals with accounting or audit matters and forward it to the accounting committee or the head of the relevant area or department as appropriate, who will report to the committee.

[33] The complete text of the Santander Group's General Code of Conduct can be found on the corporate website (www.santander.com).

- **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

Group employees involved in preparing and reviewing its financial information participate in training programmes and regular refresher courses which are specifically designed to provide them with the knowledge required to allow them to discharge their duties properly.

The training and refresher courses are mostly promoted by the management control unit itself and are designed and overseen together with the corporate learning and career development unit which is in turn part of the human resources, organisation and costs department and is responsible for coordinating and imparting training across the Group.

These training initiatives take the form of a mixture of e-learning and onsite sessions, all of which are monitored and overseen by the aforementioned corporate unit in order to guarantee they are duly taken and that the concepts taught have been properly assimilated.

With respect to the training received concerning financial information preparation and reviews, the human resources, organisation and costs division, in coordination with the management control unit, among others, has provided the employees involved in preparing and reviewing the financial information with courses on the following topics: risk analysis and management, accounting and financial statement analysis, the business, banking and financial environment, financial management, costs and budgeting, numerical skills, calculations and statistics and financial statement auditing, among other matters directly and indirectly related to the financial information process.

In 2014, 48,466 employees from the Group's entities in the various countries in which it operates were involved in such training, involving over 335,000 training hours at the Corporate Centre in Spain and remotely (*e-learning)*. In addition, each country develops its own training programme based on that developed by the parent.

F.2 Risk assessment in financial reporting

Report at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

• The process exists and is documented.

• The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.

• A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.

• The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

• Which of the company's governing bodies is responsible for overseeing the process.

The Santander Group's internal control over financial reporting model (hereinafter, the ICFR model) encompasses all of the processes and procedures put in place to ensure reasonable assurance that the control targets set at the corporate level will be met.

The Group's ICFR model complies with the most stringent international standards and specifically complies with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its most recent framework (published in 2013), which addresses control targets in terms of corporate strategy, operations' effectiveness and efficiency, financial information reliability and compliance with applicable rules and regulations.

The ICFR model is implemented at the main Group companies using standard and uniform methodology such that it ensures inclusion of the appropriate controls and covers all material financial information risk factors.

The risk identification process takes into account all classes of risk (particularly those included in the recommendations issued by the Basel Risk Committee). Its scope is greater than the totality of risks directly related to the preparation of the Group's financial information.

Moreover, this process evaluates all the risk factors identified, regardless of whether or not they have a direct impact on the preparation of financial information, based on the criteria in place for prioritising and estimating their importance on the basis of the probability of occurrence and magnitude of the risk event.

In addition, for each risk event identified, the model assigns the potential risk of error or fraud in the issuance of the financial information, i.e., potential errors in terms of: i) the existence of the assets, liabilities and transactions as of the corresponding date; ii) the fact that the assets are Group goods or rights and the liabilities Group obligations; iii) proper and timely recognition and correct measurement of its assets, liabilities and transactions; and iv) the correct application of the accounting rules and standards and adequate disclosures.

The following aspects of the Group's ICFR model are worth highlighting:

- It is a corporate model involving the totality of the Group's relevant organisational structure by means of a direct structure of individually-assigned lines of responsibility.

- Management of the ICFR model is decentralised, being delegated to the Group's various units, while its coordination and monitoring is the duty of the corporate internal control unit which issues general criteria and guidelines so as to ensure uniform and standard procedures, validation tests, classification standards and rule changes.

- It is a far-reaching model with a global scope of application. In order to ensure its comprehensiveness, the model not only includes activities relating to generation of the consolidated financial information, its core scope of application, but also other procedures developed by each entity's support areas which, while not generating a direct impact on the accounting process, could cause possible losses or contingencies in the case of incidents, errors, regulatory breaches and/or fraud.

- It is dynamic and updated continually to mirror the reality of the Group's business as it evolves, the risks to which it is exposed and the controls in place to mitigate these risks.

- It generates comprehensive documentation of all the processes falling under its scope of application and includes detailed descriptions of the transactions, evaluation criteria and checks applied to the ICFR model.

All of the Group companies' ICFR documentation is compiled into a corporate IT application in which more than 5,400 employees are registered with differing levels of responsibility in the evaluation and certification process of the Santander Group's internal control system.

The Group has a specific process for identifying the companies that should be included within its scope of consolidation. This is mainly monitored by the management control unit and the general secretariat.

This procedure enables the identification of not just those entities over which the Group has control through voting rights from its direct or indirect holdings, but also those over which it exercises control through other channels, such as mutual funds, securitisations and other structured vehicles. This procedure analyses whether the Group has control over the entity, has rights over or is exposed to its variable returns, and whether it has the capacity to use its power to influence the amount of such variable returns. If the procedure concludes that the Group has such control, the entity is included in the scope of consolidation, and is fully consolidated. If not, it is analysed to identify whether there is significant influence or joint control. If this is the case, the entity is included in the scope of consolidation, and consolidated using the equity method.

Finally, as stated in section F.1.1 above, the audit committee is responsible for supervising the Company and Group's regulated financial information process and internal control system.

In supervising this financial information, particular attention is paid to its integrity, compliance with regulatory requirements and accounting criteria, and the correct definition of the scope of consolidation. The internal control and risk management systems are regularly reviewed to ensure their effectiveness and adequate identification, management and reporting.

F.3 Control activities

Indicate the existence of at least the following components, and specify their main characteristics:

F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

As already noted elsewhere in this report, the board itself has delegated to its audit committee the duty to "*supervise the process of preparing and presenting the regulated financial information relating to the Company and the Group, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of group consolidation and the correct application of accounting standards*" (article 16.4.(e)(i) of the Rules and Regulations of the Board of Directors).

The process of generating, reviewing and authorising financial information and the description of the ICFR is documented in a corporate tool that includes a description of the activities, processes, risks and controls associated with all transactions that could have a material impact on the financial statements. This documentation covers recurrent banking transactions and one-off operations (stock trading, property deals, etc.) and aspects related to judgements and estimates, covering the registration, assessment, presentation and disclosure of financial information. The information in the tools is updated to reflect changes in the way of carrying out, reviewing and authorising procedures for generating financial information.

The audit committee also has the duty to "*report to the board, in advance of the adoption by it of the corresponding decisions, regarding: (i) The financial information that the Company must periodically* *make public, ensuring that such information is prepared in accordance with the same principles and practices applicable to the annual financial statement*" (article 16.4.(k)(i) of the Rules and Regulations of the Board).

The most significant aspects of the accounting close process and the review of the material judgements, estimates, measurements and projections used are as follows:

- impairment losses on certain assets;
- the assumptions used to calculate the value of liabilities and commitments relating to post-employment benefits and other obligations;
- the useful lives of property, plant and equipment and intangible assets;
- the measurement of goodwill;
- the fair value of certain unlisted securities;
- contingent liability provisions and consideration; and
- the recoverability of deferred tax assets.

The Group's general auditor presents the Group's financial information to the audit committee on a quarterly basis, at least, providing explanations of the main criteria employed for estimates, valuations and value judgements.

The board of directors is responsible for approving the financial information that the Bank is obliged to publish, in accordance with article 3.2 c) of its Rules and Regulations.

The information provided to directors prior to board meetings, including information on value judgements, estimates and forecasts relating to the financial information, is prepared specifically for the purposes of these meetings.

Representatives of the corporate internal control unit regularly attend meetings of the audit committee to report on the internal control model, any weaknesses identified and progress with plans implemented to correct such weaknesses.

To verify that the ICFR model is working properly and check the effectiveness of the established controls, processes and activities, the Group has in place an evaluation and certification process which starts with an evaluation of the control activities by the staff responsible for them. Depending on the conclusions, the next step is to certify the sub-processes, processes and activities related to the generation of financial information so that, having analysed all such certifications, the chief executive officer, the chief financial officer and the controller can rule on the effectiveness of the ICFR model.

In 2014, the Group performed two evaluation processes:

- Evaluation of the effectiveness of the controls during the first half of the year in order to identify any potential weaknesses and remedy them before year end.
- Annual evaluation of the effectiveness of the controls (approximately 40,000 Group-wide) and processes (approximately 12,000)[34].

The corporate internal control unit prepares a report spelling out the conclusions reached as a result of the certification process conducted by the units, taking the following aspects into consideration:

- A list of the certifications obtained at all levels.
- Any additional certifications considered necessary.
- Specific certification of all significant outsourced services.

[34] The conclusions of the annual evaluation of these controls and processes for 2014 were presented to the audit committee at its meetings of 19 and 23 February 2015.

- The ICFR model design and operation tests performed by those responsible for its maintenance and/or independent experts.

This report also itemises any incidents unearthed throughout the certification process by any of the parties involved, indicating whether these incidents have been properly resolved or, to the contrary, the plans in place to bring them to a satisfactory conclusion.

Lastly, on the basis of this report, the Group's general auditor, chief financial officer and its chief executive officer rule on the effectiveness of the ICFR model in terms of preventing or detecting errors which could have a material impact on the consolidated financial information.

F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The technology and operations division issues corporate IT policies.

For internal control purposes, the following policies are of particular importance.

The Group's IT systems which are directly or indirectly related to the financial statements are configured to ensure the correct preparation and publication of financial information at all times by means of a specific internal control protocol.

To this end, the entity has internal policies and procedures, which are duly updated and distributed, relating to systems security and access to the IT applications and systems based on roles and in accordance with the duties and clearances assigned to each unit/post so as to ensure proper separation of powers.

The Group's internal policies establish that access to all systems that store or process data shall be strictly controlled, and that the level of access control required is determined by potential impact on the business. Access rights are assigned by Group experts in this area (known as authorised signatures), by roles and functions. In addition, to ensure compliance, the user and profile maintenance control and review processes in which responsible personnel in each area are involved ensure that information is only accessed by persons who need it for their work.
The Group's methodology is designed to ensure that any new software developments and the updating and maintenance of existing programmes go through a definition-development-testing cycle that guarantees that financial information is handled reliably.

In this way, once software developments have been completed on the basis of the defined requirements (detailed documentation of the processes to be implemented), these developments are subjected to exhaustive testing by a specialist 'software lab'.

The Corporate Certification Office (CCO) is then responsible for the complete testing cycle of the software in a pre-production environment, prior to its final implementation. The CCO manages and coordinates this whole cycle, which includes: technical and functional testing, performance testing, user acceptance testing, and pilot and prototype testing as defined by the entities, prior to making the applications available to all end users.

Underpinned by corporate methodology, the Group guarantees the existence of business continuity plans that ensure on-going performance of key functions in the event of disasters or other events that could halt or interrupt business operations.

These plans catalogue the measures, which translate into specific initiatives, designed to mitigate the scale and severity of IT incidents and to ensure that operations are up and running again as quickly and with as little fallout as possible.

To this end, the Group has highly-automated back-up systems to ensure the continuity of the most critical systems with little or no human intervention thanks to parallel redundant systems, high-availability systems and redundant communication lines.

In addition, there are specific force majeure risk mitigation strategies in place, such as virtual data processing centres, back-up power suppliers and offsite storage facilities.

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

With regard to suppliers belonging to the Group, policies and procedures have been put in place to ensure coverage of the risks associated with such outsourcing.

The relevant processes include the following:

- The performance of tasks relating to the initiation, recording, processing, settlement, reporting and accounting of asset valuations and transactions.
- The provision of IT support in its various manifestations: software development, infrastructure maintenance, incident management, IT security and IT processing.
- The provision of other material support tasks which are not directly related to the generation of financial information: supplier management, property management, HR management, etc.

The main control procedures in place to ensure adequate coverage of the risks intrinsic to these processes are:

- Relations among Group companies are documented in contracts which detail exhaustively the type and level of service provided.
- All of the Group's service providers document and validate the processes and controls related to the services they provide.
- Entities to which activities are outsourced document and validate their controls in order to ensure that the material risks associated with the outsourced services are kept within reasonable levels.

The Group assesses its estimates in-house. Whenever it considers it advisable to hire the services of a third party to help with specific matters, it does so having verified their expertise and independence, for which procedures are in place, and having validated their methods and the reasonableness of the assumptions made.

Furthermore, the Group has signed service level agreements and put in place controls to ensure the integrity and quality of information for external suppliers providing significant services that might impact the financial statements -mainly the management of foreclosed property and management of non-performing loans.

F.4 Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

The management control division includes the financial regulation and accounting processes area, the head of which reports directly to the controller and has the following exclusive responsibilities:

- Defining the accounting treatment of the operations that constitute the Bank's business in keeping with their economic substance and the regulations governing the financial system.
- Defining and updating the Group's accounting policies and resolving any questions or conflicts deriving from their interpretation.
- Enhancing and standardising the Group's accounting practices.
- Assisting and advising the professionals responsible for new IT developments with respect to accounting requirements and ways of presenting information for internal consumption and external distribution and on how to maintain these systems as they relate to accounting issues.

Our accounting policies are set out in the Santander Group Accounting Principles and Policies and Applicable Measurement Bases manual. This is stored in the accounting regulation library (IAS-KEY) and is accessible to all Group units. The document was up-to-date at 31 December 2014.

The Management Control Division has put in place procedures to ensure it has all the information it needs to update the Audit Plan to cover the issue of new products and regulatory and accounting changes that make it necessary to adapt the Plan and accounting principles and policies.

The Group entities, through the heads of their operations or accounting units, maintain an on-going and fluid dialogue with the financial regulation and accounting processes area and with the other areas of the management control unit.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

The Group's computer applications are configured in a management model which, using an IT system structure appropriate for a bank, is divided into several 'layers' supplying different kinds of services, including:

- General IT systems: these provide information to division/business unit heads.
- Management systems: these produce information for business monitoring and control purposes.
- Business systems: software encompassing the full product-contract-customer life cycle.
- Structural systems: these support the data shared and used by all the applications and services. These systems include all those related to the accounting and financial information.

All these systems are designed and developed in accordance with the following IT architecture:
- The general software architecture defines the design patterns and principles for all systems.
- Technical architecture, including the mechanisms used in the model for design outsourcing, tool encapsulation and task automation.

One of the overriding purposes of this model is to provide the Group's IT systems with the right software infrastructure to manage all the transactions performed and their subsequent entry into the corresponding accounting registers, with the resources needed to enable access to and consultation of the various levels of supporting data.

The software applications do not generate accounting entries per se; they are based on a model centred on the transaction itself and a complementary model of accounting templates that specifies the accounting entries and movements to be made for the said transaction. These accounting entries and movements are designed, authorised and maintained by the management control division.

The applications execute the transactions performed in a day across the various distribution channels (branches, internet, telephone banking, e-banking, etc.) and store them in the ‘daily transaction register’ (DGO for its acronym in Spanish).

The DGO generates the transaction accounting entries and movements on the basis of the information contained in the accounting template, uploading it directly into the accounting IT infrastructure.

This application carries out the other processes necessary to generate financial information, including: capturing and balancing the movements received, consolidating and reconciling with application balances, cross-checking the software and accounting information for accuracy, complying with the accounting allocation structural model, managing and storing auxiliary accounting data and making accounting entries for saving in the accounting system itself.

Some applications do not use this process. These rely instead on their own account assistants who upload the general accounting data directly by means of account movements, so that the definition of these accounting entries resides in the applications themselves.

In order to control this process, before inputting the movements into the general accounting system, the accounting information is uploaded into a verification system which performs a number of controls and tests.

The accounting infrastructure and the aforementioned structural systems generate the processes needed to prepare, disclose and store all the financial information required from a financial institution for regulatory and internal purposes, under the guidance, supervision and control of the management control unit.

To minimise the attendant operational risks and optimise the quality of the information produced in the consolidation process, the Group has developed two IT tools which it uses in the financial statement consolidation process.

The first channels information flows between the units and the management control division, while the second performs the consolidation proper on the basis of the information provided by the former.

Each month, all of the entities within the Group’s scope of consolidation report their financial statements, in keeping with the Group’s audit plan.

The Group’s audit plan, which is included in the consolidation application, generally contains the disclosure needed to comply with the disclosure requirements imposed on the Group by Spanish and international authorities.

The consolidation application includes a module that standardises the accounting criteria applied so that the units make the accounting adjustments needed to make their financial statements consistent with the accounting criteria followed by the Group.

The next step, which is automated and standardised, is to convert the financial statements of the entities that do not operate in euros into the Group’s functional currency.

The financial statements of the entities comprising the scope of consolidation are subsequently aggregated.

The consolidation process identifies intragroup items, ensuring they are correctly eliminated. In addition, in order to ensure the quality and comprehensiveness of the information, the consolidation application is configured to make investment-equity elimination adjustments and to eliminate intragroup transactions, which are generated automatically in keeping with the system settings and checks.

Lastly, the consolidation application includes another module (the annex module) which allows all units to upload the accounting and non-accounting information not specified in the aforementioned audit plan and which the Group deems opportune for the purpose of complying with applicable disclosure requirements.

This entire process is highly automated and includes automatic controls to enable the detection of incidents in the consolidation process. The management control division also performs additional oversight and analytical controls.

F.5 Monitoring

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1. The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

As provided for in the Bylaws and Rules and Regulations of the Board of Directors, the audit committee supervises the Group's internal audit function.

In fulfilling this duty, the audit committee is tasked with*: (i) Proposing the selection, appointment and withdrawal of the party responsible for internal audit; (ii) Reviewing the annual working plan for internal audit, for its subsequent review and approval by the board, and the annual activities report; (iii) Ensuring the independence and effectiveness of the internal audit function;(iv) Proposing the budget for this service; (v) Receiving periodic information regarding the activities thereof; and (vi) Verifying that senior management takes into account the conclusions and recommendations of its reports*". (article 16.4.(d) of the Rules and Regulations of the Board)*.*

At its meeting of 21 October 2013, the board approved the current corporate internal audit framework for the Santander Group, defining the corporate function of internal audit and how this is carried out.

The internal audit division reports directly to the board of directors, while the audit committee is responsible for overseeing its work.

Article 16.5 of the Rules and Regulations of the Board states that "*The internal audit function of the Bank shall be controlled by the board of directors, to whom it shall report. Without prejudice to the foregoing, the internal audit of the Bank shall respond to requests for information that it receives from the audit committee in the performance of its duties.*"

Internal Audit is a permanent corporate function and independent from all other Group functions and units. Its purpose is to provide the board of directors and senior management with certainty about the areas on which it reports, contributing to protecting the organisation and its reputation.

It supervises:

- the quality and effectiveness of internal control systems and processes, management of risks and governance;
- compliance with applicable regulations;
- the reliability and integrity of financial and operating information; and
- the integrity of capital.

The scope of internal audit work encompasses:

- all Group entities over which it exercises effective control;
- separate asset pools (for example, mutual funds) managed by the entities mentioned in the previous section; and
- all entities (or separate asset pools) not included in the previous points, for which there is an agreement for the Group to provide internal audit functions.

The scope subjectively defined in the previous sections covers the activities, businesses and processes carried out (either directly or through outsourcing), the existing organisation and any commercial networks.

The manager of the internal audit division has the highest responsibility for the internal audit function in the Group, and is appointed by the board of directors of Banco Santander, S.A., at the proposal of the audit committee.

The division has the flexibility required to adapt its structure and circumstances to reflect those of the Group, and to achieve its objectives with the greatest efficiency and effectiveness.

To achieve this adaptability objective, internal audit has:

- A corporate division that covers, at least, the needs of the corporation and those units, businesses and geographic areas that do not have their own permanent internal audit function, and the management of the division as a whole.

- Permanent local units in those countries where the Group's presence justifies this or this is required by specific legislative provisions, integrated into the organisational structure of the main commercial banks in these, and reporting to the competent local body.

At year-end 2014, internal audit employed 1,001 people, all dedicated exclusively to this service. Of these, 230 were based in the Corporate Centre and 771 in local units abroad.

Every year, internal audit prepares an annual audit plan to assess the risks faced by the Group. Internal audit is exclusively responsible for implementing this plan. The audits carried out may result in audit recommendations being made. These are prioritised by their relative importance, and then continuously monitored until fully implemented.

The management of internal audit reported directly to the audit committee on its plan for the year at its meeting of 23 January 2014.

In 2014, the audit committee and the board of directors were kept informed of the work carried out by the internal audit division on its annual plan and other issues related to the audit function at eleven out of the thirteen meetings of the audit and compliance committee and two of the sixteen board meetings.

The audit committee assessed whether the work of internal audit was sufficient and the results of its activity and monitored the recommendations made, particularly the most important. It also reviewed the effects of the results of this work on the financial information. Finally, the committee monitored the corrective actions implemented, giving priority to the most important of these.

At its meetings of 19 and 23 February 2015, the committee reviewed its internal work plan for the year. At its 23 February 2015 meeting, the committee was informed of internal audit activities in 2014 and it approved the annual audit plan for 2015.

In 2014, the effectiveness and functioning of the main elements of the internal control system and controls on information systems in the units analysed were assessed.

F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

As stipulated in the Bylaws and Rules and Regulations of the Board of Directors, the audit committee is officially tasked with overseeing the financial information process and the internal control systems.

The audit committee deals with any possible control deficiencies that might affect the reliability and accuracy of the financial statements. To this end it can call in the various areas of the Group involved to provide the necessary information and clarifications. The committee also takes stock of the potential impact of any flaws detected in the financial information.

Article 16.4.e) iii) of the Rules and Regulations of the Board defines one of the functions of the audit committee as to:

"*(e) Supervise the process for gathering financial information and for the internal control systems. In particular, the audit committee shall:*
(iii) Discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit."

Moreover, article 16.4.d) points v) and vi) of the Rules and Regulations of the Board establish that the supervision duties of the audit committee with regard to the internal audit function include "*v) Receiving periodic information regarding the activities thereof; and vi) Verifying that senior management takes into account the conclusions and recommendations of its reports*."

As part of its supervision work, the audit committee assesses the results of the work of the internal audit division, and can take action as necessary to correct any effects identified on the financial information.

F.6 Other relevant information:

F.7 External auditor review

State whether:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The information relating to the internal control over financial reporting (ICFR) system (also known internally as the Santander Group Internal Control Model) provided in this section of the annual corporate governance report is assessed by the external auditor, which issues an opinion on the same and on the effectiveness of the ICFR system with respect to the financial information included in the Group's consolidated financial statements for the year ended 31 December 2014.

The auditor's report on the ICFR system is included as an appendix to this report and the 2014 consolidated financial statements.

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with corporate governance recommendations.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

This section details the compliance by the Entity with the recommendations contained in the Report of the Special Working Group on the Good Governance of Listed Companies, approved by the CNMV in May 2006 and updated in June 2013 (the "Unified Code"), including text from the Bylaws and the Rules and Regulations of the General Shareholders' Meeting and the Board of Directors as applicable.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

See sections: A.10, B.1, B.2, C.1.23 and C.1.24

Compliant [X] Explain [ ]

In keeping with Articles 26.1 (paragraph one) and 35.2 of the Bylaws, there are no restrictions on voting right or on the acquisition or transfer of shares.

Article 26.1 (first paragraph) of the Bylaws

"*The holders of any number of shares registered in their name in the respective book-entry registry five days prior to the date on which the general shareholders***'** *meeting is to be held and who are current in the payment of pending subscriptions shall be entitled to attend general shareholders***'** *meetings.***"**

Article 35.2 of the Bylaws

"*The attendees at the general shareholders' meeting shall have one vote for each share which they hold or represent. Non-voting shares shall have the right to vote in the specific cases laid down in the Corporate Enterprises Act (Ley de Sociedades de Capital).*"

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;

b) The mechanisms in place to resolve possible conflicts of interest.

See sections: D.4 and D.7

Compliant [ ] Partially compliant [ ] Explain [ ] **Not applicable** [**X**]

3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the general shareholders' meeting for approval or ratification. In particular:

a) The transformation of listed companies into holding companies through the process of subsidiarisation, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;

b) Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;

c) Operations that effectively add up to the company's liquidation.

See sections: B.6

Compliant [**X**] Partially compliant [ ] Explain [ ]

The basic rules and regulations of the Bank expressly accept the authority of the general shareholders' meeting to take decisions regarding certain operations of special relevance. Article 20.2 of the Bylaws and Article 2.2 of the Rules and Regulations for the General Shareholders' Meeting reserve the right to approve the subsidiarisation or contribution to subsidiaries of the operating assets of the Bank, thus turning the Bank into a mere holding company, to approve, if applicable, the acquisition or disposition of assets whenever, because of the quality and volume, they entail an actual change of the corporate purpose or, to agree operations whose effect would be tantamount to the liquidation of the Bank.

Article 20.2 of the Bylaws

"*The general shareholders' meeting has the power to decide on all matters assigned to it by the law or the bylaws. Specifically and merely by way of example, it has the following powers:*

(…)

(xi) *To approve the subsidiarisation or contribution to subsidiaries of the operating assets of the Company, thus turning the Company into a mere holding company;*
(xii) *To approve, if applicable, the acquisition or disposition of assets whenever, because of the quality and volume thereof, they entail an actual change of the corporate purpose; and*
(xiii) *To approve transactions whose effect is tantamount to the liquidation of the Company.*"

Article 2.2 of the Rules and Regulations for the general shareholders' meeting

"*Pursuant to the provisions of the Bylaws, the shareholders at a general shareholders' meeting may adopt resolutions on any matter pertaining to the Company, with the following powers being specifically reserved to them:*

(…)

XIII. *Resolutions on the contribution to dependent companies of the Company's operating assets, converting it into a pure holding company.*

XIV. *Approval, if appropriate, of the acquisition or transfer of assets when, due to the quality or volume thereof, such acquisition or transfer entails an effective change in the corporate purpose.*

XV. *Resolutions approving transactions that would have an effect equivalent to the liquidation of the Company.*"

It is further noted that, following the coming into force of Act 31/2014, articles 160 and 511 bis of the Spanish Corporate Enterprises Act add such decisions to the listing of the powers of the general meeting.

4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information stated in Recommendation 27, should be made available at the same time as the publication of the meeting notice.

Compliant X Explain

The Bank makes public the information referred to in Recommendation 4 via its corporate website (www.santander.com). This information is available from the date the shareholders' meeting is announced until it is held.

Article 6.1 of the Rules and Regulations for the general shareholders' meeting

"*In addition to what is required by provisions of Law or the Bylaws, beginning on the date of publication of the announcement of the call and until the General Shareholders' Meeting is held, the Bank shall maintain the following information continuously published on its website:*

(i) the announcement of the call to meeting;

(ii) the total number of shares and voting rights on the date the meeting is called, with a breakdown by class of shares, if any such classes exist;

(iii) the documents to be submitted to the shareholders at the General Shareholders' Meeting and, specifically, the reports prepared by directors, auditors and independent experts;

(iv) the full text of the proposed resolutions submitted by the Board of Directors in connection with the items on the agenda or, if none, a report prepared by the competent bodies, containing a discussion of each of the items on the agenda. The proposed resolutions, if any, submitted by the shareholders as provided by Article 5.5 above shall also be included in the order that they are received; and

(v) the forms of the attendance, proxy-granting and distance voting card, unless they are sent directly by the Bank to each shareholder. If they cannot be published on the website for technical reasons, the Bank shall specify how to obtain the forms in paper format, which it shall send to all shareholders that request them.

Furthermore, when there is a supplement to the call to Meeting, the Bank shall, starting on the date of publication thereof, also publish on its website the text of the proposals and rationales provided to the Bank and to which such supplement refers."

5. Separate votes should be taken at the general shareholders' meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:

a) The appointment or ratification of directors, with separate voting on each candidate;

b) Amendments to the Bylaws, with votes taken on all articles or groups of articles that are materially different.

Compliant	**X**	Partially compliant		Explain	

The Rules and Regulations for the general shareholders' meeting (Article 21.2) regulate the practice of separate voting on the appointment of each director, and in the event of amendments to the Bylaws or Rules and Regulations for the general shareholders' meeting, each Article or group or Articles that are substantially independent. Nevertheless, all those proposals made that are configured as unitary or indivisible, such as those relating to the approval of a complete text of the Bylaws or the Rules and Regulations of the General Shareholders' Meeting, shall be voted on as a whole.

Since 2005, the appointment, ratification and re-election of every director have been subject to a separate vote at the general shareholders' meeting.

Article 21.2 of the Rules and Regulations for the General Shareholders' Meeting

"When various proposals are included under a single item of the agenda, they shall be voted upon separately. In particular, there shall be separate voting on the appointment of each director and, in the event of amendments to the Bylaws or these Rules and Regulations, each article or group of articles that are substantially independent. As an exception, all those proposals made that are configured as unitary or indivisible, such as those relating to the approval of a complete text of the Bylaws or the Rules and Regulations for the General Shareholders' Meeting, shall be voted on as a whole."

6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.

Compliant	**X**	Explain	

Article 22 of the Rules and Regulations for the General Shareholders' Meeting expressly discusses this matter.

Article 22 of the Rules and Regulations for the general shareholders' meeting

"*A proxy-holder may represent more than one shareholder, without limitations as to the number of shareholders represented. When a proxy-holder represents more than one shareholder, he may cast votes in different directions in accordance with the instructions given by each shareholder.*

In addition, financial intermediaries that appear to have standing as shareholders in the book entry registries may divide their vote when required to carry out the voting instructions received from the various customers.

In other cases, fractional voting shall apply when, in the opinion of the Chairman of the Meeting, it is required for justified reason."

7. The Board of Directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the company's best interest and, as such, strive to maximise its value over time.

It should likewise ensure that the company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Compliant	**X**	Partially compliant		Explain	

The Bank accepts the principles set out in Recommendation 7 in the performance of the duties of the board.

Article 40 of the Bylaws

"*1. The board of directors and its representative decision-making bodies shall exercise their powers and, in general, perform their duties with a view to maximising the value of the company in the interest of the shareholders.*
2. Additionally, the board shall ensure that the Bank faithfully complies with applicable law, respects the uses and good practices of the industries or countries where it carries out its activities and observes the additional principles of social responsibility that it has voluntarily accepted".

Article 5 of the Rules and Regulations of the Board

"*The board of directors and its representative bodies shall exercise their powers and, in general, perform their duties with a view to maximising the value of the Company in the interest of the shareholders.*

The board of directors shall also ensure that the Company faithfully complies with applicable law, respects the uses and good practices of the industries or countries where it carries out its activities and observes the principles of social responsibility that it has voluntarily accepted."

8. The board should see the core components of its mission as to approve the company's strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the board in full should reserve the right to approve:

a) The company's general policies and strategies, and in particular:

i) The strategic or business plan, management targets and annual budgets;

ii) Investment and financing policy;

iii) Design of the structure of the corporate group;

iv) Corporate governance policy;

v) Corporate social responsibility policy;

vi) Remuneration and evaluation of senior officers;

vii) Risk control and management, and the periodic monitoring of internal information and control systems;

viii) Dividend policy, as well as the policies and limits applying to treasury stock.

See sections: C.1.14, C.1.16 and E.2

b) The following decisions:

i) On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.

ii) Directors' remuneration, and, in the case of executive directors, the additional remuneration for their executive functions and other contract conditions.

iii) The financial information that all listed companies must periodically disclose.

iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the general shareholders' meeting;

v) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").

However, board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard form agreements applied on an across-the-board basis to a large number of clients;

2. They go through at market rates, generally set by the person supplying the goods or services;

3. Their amount is no more than 1% of the company's annual revenues.

It is advisable that related-party transactions should only be approved on the basis of a favourable report from the Audit Committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full board.

See sections: D.1 and D.6

Compliant [X]   Partially compliant [ ]   Explain [ ]

Article 3 of the Rules and Regulations of the Board

"*1. Except for those matters which are reserved to the shareholders acting at the general shareholders*' *meeting, the board of directors is the highest decision-making body of the Company.*

2. Without prejudice to the foregoing, the policy adopted by the Board consists of delegating the day-to-day management of the Company to the executive bodies and the management team and focusing its activity on the general supervisory function, assuming and discharging per se, without the power of delegation, the responsibilities entailed in this function and, in particular, those set forth below:

a) Approval of the general policies and strategies of the Bank, particularly:

i) Strategic plans, management targets and annual budget;
ii) Dividend and treasury stock policy;
iii) General risk management policy;
iv) Corporate governance policy;
v) Corporate social responsibility policy.

b) Approval of the policies for the provision of information to and for communication with the shareholders, the markets and the public opinion. The board assumes the duty to promptly provide the markets with accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related party transactions of particular importance and treasury stock.

c) Approval of the financial information that the Bank must make public on a periodic basis.

d) Approval of transactions entailing the acquisition and disposition of substantial assets of the Bank and major corporate transactions, unless such approval must be given by the shareholders at a general shareholders' *meeting, pursuant to the provisions of Article 20 of the Bylaws.*
e) Approval, within the framework of the provisions of Article 58 of the Bylaws, of the compensation to which each director is entitled.

f) Approval of the contracts governing the performance by directors of duties other than those of a mere director and the compensation to which they are entitled for the performance of additional duties, whether they are the duties of an executive director or otherwise, other than the duties of supervision and collective decision-making that they discharge in their capacity as mere members of the board.

g) The selection, appointment by cooption and continued evaluation of directors.
h) The selection, appointment, and where applicable, removal of the other members of senior management (senior executives and similar officers), as well as the control of the management activity and continued evaluation of the same.

i) The definition of the basic conditions of senior management contracts, as well as approval of the remuneration of the latter and of those other officers who, although not part of senior management, receive significant compensation (especially variable remuneration) and whose activities may have a significant impact on the assumption of risk by the Group.

j) Authorisation for the creation or acquisition of holdings in special purpose entities or entities resident in countries or territories considered to be tax havens.

k) And those specifically provided for in these Rules and Regulations.

The powers set forth in paragraphs (c), (d), (e), (f), (h), (i) and (j) may be exercised by the executive committee, whenever advisable for reasons of urgency, with a subsequent report thereof to the board at the first meeting thereafter held by it."

Following the coming into force of Act 31/2014, articles 249 bis and 529.b of the Spanish Corporate Enterprises Act add to the list of board powers that are not delegable. Further, the aforesaid article 529.b adds to the list of decisions the executive committee may adopt for reasons of urgency. Following the general shareholders' meeting of 2015, Banco Santander will amend article 3 of the Rules and Regulations of the Board to adapt it to the new legal framework described above.

For letter c) of this recommendation, see section D.3. of this report. It should also be noted that, following the coming into force of Act 31/2014, article 230 of the Spanish Corporate Enterprises Act requires that the general meeting authorise certain transactions related to directors, particularly when the value of the transaction, benefit or remuneration is greater than ten per cent of company assets.

9. In the interests of maximum effectiveness and participation, the board of directors should ideally comprise no fewer than five and no more than fifteen members.

See section: C.1.2

Compliant X Explain

In 2006, the general shareholders' meeting agreed to modify the Bylaws, reducing the maximum number of directors from 30 to 22. The minimum was kept at 14.

Since 2010, the size of the board has decreased by 25%, from 20 to 15 members at the time of writing.

The board of directors considers its current size to be adequate in terms of the Group's size, complexity and geographical diversity. The board considers that its modus operandi, in full and via its committees, in which it has delegated executive, supervisory, advisory, reporting and proposal-making duties, guarantees its effectiveness and due participation by all its members.

10. External directors, proprietary and independent, should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

See sections: A.3 and C.1.3

Compliant X Partially compliant Explain

Articles 42.1 of the Bylaws and 6.1 of the Rules and Regulations of the Board stipulate that shareholders at the general shareholders' meeting shall endeavour to ensure that the board of directors is made up such that external or non-executive directors represent a large majority over executive directors.

At year-end 2014, the board had a large majority of external directors. Of the 14 directors then sitting on the board of directors, four were executive and 10 were external. Of the 10 external directors, eight were independent, one was proprietary and one was, in the opinion of the board, neither proprietary nor independent.

The board of directors considers the current number of executive directors to be adequate in terms of the size, complexity and geographical diversity of the Group.

Of the 15 directors currently sitting on the board of directors, five are executive and 10 are external at the date of this writing. Of the 10 external directors, nine are independent and one is proprietary.

Article 42.1 of the Bylaws

"*The shareholders at the general shareholders*' *meeting shall endeavour to ensure that the board of directors is made up such that external or non-executive directors represent a large majority over executive directors, and that a reasonable number of the former are independent directors. The shareholders at the general shareholders*' *meeting shall likewise endeavour to ensure that independent directors represent at least one-third of the total number of directors.*"

Article 6.1 of the Rules and Regulations of the Board

"*In exercising its powers to make proposals at the general shareholders*' *meeting and to designate directors by interim appointment (co-option) to fill vacancies, the board of directors shall endeavour to ensure that the external or non-executive directors represent a wide majority over the executive directors and that the former include a reasonable number of independent directors. In addition, the board of directors shall cause the number of independent directors to represent at least one-third of all directors.*"

11. That among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital.

This proportional criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:

1. In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.

2. In companies with a plurality of shareholders represented on the board but not otherwise related.

See sections: A.2, A.3 and C.1.3

Compliant [X] Explain [ ]

Banco Santander believes that it complies with Recommendation 11, as the circumstances contemplated in the Code for relaxing the strict proportional criterion apply in full.

a) Banco Santander is a large cap company (EUR 88,040.6 million as listed on the Spanish Stock Exchanges at 31 December 2014) where there are no shareholder interests legally considered significant, but there is a shareholder with a shareholding of a high absolute value.

b) Since 2002, the criterion that the appointments and remuneration committee[35] and the board of directors at Banco Santander have followed, as a necessary but not sufficient condition, is that the percentage of capital that a shareholder must hold in order to be considered an external proprietary director is 1% of the capital of the Bank. Current article 529.k of the Spanish Corporate Enterprises Act is consistent with this criterion, as it expressly establishes that proprietary directors are "*those holding a shareholding equal to or greater than that legally considered significant, or who have been appointed because they are shareholders, even if their shareholding is below this amount, and the representatives of such shareholders*".

[35] Presently, appointments committee.

c) In the judgement of the appointments committee and of the board of directors, only one shareholder must be considered an external proprietary director of Banco Santander: Mr. Javier Botín-Sanz de Sautuola y O'Shea, who has been designated as director to represent the interests of Fundación Botín, Bafimar, S.L., Cronje, S.L., Puente de San Miguel, S.L.U., Inversiones Zulú, S.L., Latimer Inversiones, S.L., Nueva Azil, S.L., Agropecuaria El Castaño S.L.U., Bright Sky 2012, S.L., the estate of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea, Mr. Emilio Botín-Sanz de Sautuola y O'Shea, Ms. Carmen Botín-Sanz de Sautuola y O'Shea, Ms. Paloma Botín-Sanz de Sautuola y O'Shea, Mr. Jorge Botín-Sanz de Sautuola Ríos, Mr. Francisco Javier Botín-Sanz de Sautuola Ríos, Ms. Marta Botín-Sanz de Sautuola Ríos and his own interest (in total, 1.275% of the Bank's capital at 31 December 2014).

The 2006 Report of the special working group on the good governance of listed companies specifies that this recommendation is not intended as a mathematical equation, but rather as a rule of thumb to ensure that independents are sufficiently present and that no significant shareholders can exert an influence on the board's decisions that is out of step with their capital ownership, adding specifically that in large cap companies it makes sense to grant board places to one or more shareholders whose stakes may be short of the electoral threshold entitling them to proportional representation but are nonetheless significant in legal terms as well as in volume. And the text of the new article 529.k reinforces this idea, allowing directors holding or representing an interest of less than 3% of the share capital to be considered proprietary.

The fact that the proprietary director constitutes 10% of external directors in the Bank at year-end 2014, whilst representing 1.275% of its capital does not, in the opinion of the board, imply non-compliance with the proportional criterion of recommendation 11.

A distortion or slant on the proportional make-up of the board is inevitable if two circumstances are taken into account, which are in both the spirit and the letter of this recommendation, as follows:

(i) The minimum overweighting possible is that which allows a significant shareholder to be attributed a proprietary director; and

(ii) In the case of a shareholder with a percentage interest of less than 3% but of a high absolute value (in the Company's case the shareholding reported by the proprietary director exceeded EUR 1,123 million at 31 December 2014) it must be possible, in agreement with the recommendation, for the Company to designate this person as a proprietary director. The recommendation states just this (*in large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested).*

Given the sums involved, it is undeniable that strict application of this recommendation will always give rise to disproportions of some scale between the different categories of director, although without implying as a result that this goes beyond or exceeds the requirements of strict proportionality provided for in the recommendation, so that it applies in spirit.

12. The number of independent directors should represent at least one third of all board members.

See section: B.1.3

Compliant X Explain

Articles 42.1 of the Bylaws and 6.1 of the Rules and Regulations of the Board stipulate that the board must seek to ensure that the number of independent directors represents at least one third of the directors.

At year-end 2014, of the 10 directors, 8 are external independent directors (57% of its members). The composition at the date of writing is as follows: of the 10 external directors, nine are independent external directors (60% of the members).

See the transcript of Articles 42.1 of the Bylaws and 6.1 of the Rules and Regulations of the Board under Recommendation 10 above.

13. The nature of each director should be explained to the General Meeting of Shareholders, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Nomination Committee. The said Report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

See sections: C.1.3 and C.1.8

Compliant	**X**	Partially compliant		Explain	

In accordance with article 6.3 of its Rules and Regulations, the board has set out, as it has in the past, the nature of the directors whose reappointment or ratification is subject to approval at the 2015 annual general shareholders' meeting.

As also stated in that article, the appointments committee proceeded to review the nature of all the directors at its meetings of 20 and 23 February 2015. The proposal was approved by the board of directors at its meeting on 23 February 2015.

Following the coming into force of Act 31/2014, article 529.k.6 of the Spanish Corporate Enterprises Act requires registration of the nature of the director upon appointment, re-election or ratification.

Section C.1.3 describes the nature of each director. This section, and in the reference to compliance of recommendation 11 above, describes the criteria followed by the board to appoint directors representing a percentage interest in the capital of the Bank higher than 1% and lower than 3%[36] as external proprietary directors.

No formal requests to be appointed to the board of directors have been received from shareholders with an equal or larger percentage interest in the Bank than the current proprietary director.

Article 6.3 of the Rules and Regulations of the Board

"*The board shall specify the nature of each director at the general shareholders' meeting wherein the appointment thereof is to be made or ratified. Furthermore, such nature shall be reviewed on an annual basis by the board of directors, after prior verification by the appointments and remuneration committee*[37]*, and disclosed in the annual corporate governance report.*"

Article 17.4.c) of the Rules and Regulations of the Board

[36] Percentage corresponding to a significant interest.

[37] Presently, appointments committee.

"*The appointments and remuneration committee*[37] *shall have the following duties in terms of appointments, and any other provided for in applicable law:*
(…)
c) Annually verify the classification of each director (as executive, proprietary, independent or other) for the purpose of their confirmation or review at the ordinary general shareholders' meeting and in the annual corporate governance report."

14. When women directors are few or non existent, the Nomination Committee should take steps to ensure that:

a) The process of filling board vacancies has no implicit bias against women candidates;
b)
c) The company makes a conscious effort to include women with the target profile among the candidates for board places.

See sections: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 and C.2.4

Compliant [ ] Partially compliant [ ] Explain [ ] **Not applicable** [X]

This recommendation is considered not applicable because the number of female directors on the Bank's Board of Directors is neither low nor nil.

The percentage of women on the board of Banco Santander (33.3%) is clearly higher than the average among major listed European companies. A European Commission study with figures to March 2014 found that this percentage in the 28 European Union countries was 17.8%, and 14.8% in Spain.

15. The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive, along with the chairmen of the relevant board committees.

See section: C.1.19 and C.1 41

Compliant [X] Partially compliant [ ] Explain [ ]

The established practice of the Bank is that the chair of the board assumes responsibility for the duties contained in this recommendation. This practice is outlined in Article 43.2 of the Bylaws and the third and fourth sections of Article 8 and the seventh section of article 19 of the Rules and Regulations of the Board.

Article 43.2 of the Bylaws

"*The chairman of the board shall call board of directors' meetings and direct debate thereat.*"

Article 8.3 and 4 of the Rules and Regulations of the Board:

"*3. The chairman shall endeavour to ensure that the directors receive sufficient information prior to the meetings, and shall direct debate at the meetings of the board.*

4. The chairman shall organise and coordinate a periodic evaluation of the board with the chairman of the audit and appointments and remuneration[38] *committees, except when it comes to his own evaluation, which will be organized by the lead director."*

The board undertakes on-going self-assessment with the support of the company Spencer Stuart based on a questionnaire and personal interviews with the directors. In accordance with the Rules and Regulations of the Board, this includes a specific section for the individual assessment of the chair of the board, the chief executive and the other directors.

For further information, refer to section C.1.20.

Article 19.7 of the Rules and Regulations of the Board

"*The operation of the board and of the committees thereof, the quality of its work, and the individual performance of its members, including the chairman and the managing director or directors, shall be evaluated once a year.*"

16. When a company's Chairman is also its chief executive, an independent director should be empowered to request the calling of board meetings or the inclusion of new business on the agenda; to coordinate and organise meetings of non-executive directors; and to lead the board's evaluation of the Chairman.

See sections: C.1.22

Compliant	**X**	Partially compliant		Explain		Not applicable	

The general meeting of 28 March 2014 resolved to raise the position of lead director to the level of the Bylaws. This position was already contemplated in the Rules and Regulations of the Board. The position is defined in article 49 bis of the Bylaws. Pursuant to the latter, the lead director shall be specially authorised to: (i) request the calling of board meetings or the inclusion of new business on the agenda. (ii) coordinate and organise meetings of non-executive directors; and (iii) direct the regular evaluation of the chairman of the board of directors.

At its meeting of 25 November, the board of directors appointed Mr. Bruce Carnegie-Brown first vice chair and lead director, replacing Mr. Fernando de Asúa Álvarez.

The lead director was appointed to hold office for an indefinite period. The executive directors abstained from the vote, in accordance with the Bylaws.
All the directors are empowered to call for a board meeting to be convened and the chairman is obliged to accept such a call if the request comes from at least three directors.

Further, any board member may request the inclusion of new items on the agenda to be submitted to the board by the chairman, pursuant to Article 46.1 and 2 of the Bylaws and 19.2 and 3 of the Rules and Regulations of the Board.

Article 46.1 and 46.2 of the Bylaws

"*1. The board shall meet with the frequency required for the proper performance of its duties, and shall be called to meeting by the chairman. The chairman shall call board meetings on his own initiative or at the request of at least three directors.*

[38] Presently, appointments committee.

2. The agenda shall be approved by the board at the meeting itself. Any board member may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board."

Article 19.2 and 3 of the Rules and Regulations of the Board:

19.2

"*The board shall approve the annual calendar for its meetings, which must be held with the frequency needed to effectively perform its duties, with a minimum of nine meetings. In addition, the board shall meet whenever the chairman so decides at his own initiative, at the request of at least three directors or at the request of the lead director.*
(…)"

19.3

"*The agenda shall be approved by the board at the meeting itself. Any member of the board may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board.*"

Pursuant to article 49 bis of the Bylaws and 12 bis of the Rules and Regulations of the Board, the lead director is authorised to: (i) request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board of directors that has already been called; (ii) coordinate and organise meetings of non-executive directors; and (iii) direct the regular evaluation of the chairman of the board of directors.

Further, the appointments committee, chaired by an independent director (Article 17.3 of the Rules and Regulations of the Board) shall be responsible for informing the board of the evaluation process for the board and individual directors (Article 17.4.i of the Rules and Regulations of the Board). The scope of the evaluation shall include the operations of the board and its committees, the quality of their work and the individual performance of the directors, including the chairman and the chief executive officer(s) (Article 19.7 of the Rules and Regulations of the Board). At present, the first vice chair is the chairman of the appointments committee.

Article 12 bis.1 of the Rules and Regulations of the Board

"*1. The board of directors shall appoint from among the independent directors a lead director, who shall be especially authorised to:*
i) request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board of directors that has already been called.
ii) coordinate and organise meetings of non-executive directors; and
iii) direct the regular evaluation of the chairman of the board of directors."

Article 17.3 of the Rules and Regulations of the Board

"*The appointments and remuneration committee*[39] *must in all events be presided over by an independent director.*"

[39] Currently, divided into two: an appointments committee and a remuneration committee.

Article 17.4 of the Rules and Regulations of the Board

"*The appointments and remuneration committee*[40] *shall have the following duties in terms of appointments, and any other provided for in applicable law:*

(…)

i) Report on the process of evaluation of the board and of the members thereof."

Article 19.7 of the Rules and Regulations of the Board

"*The operation of the board and of the committees thereof, the quality of its work, and the individual performance of its members, including the chairman and the managing director or directors, shall be evaluated once a year.*"

The chairman of the board of directors is the highest executive in the Bank (Articles 48.1 and 8.1 of the Bylaws and the Rules and Regulations of the Board, respectively) and has been delegated all powers delegable under the law, the Bylaws and the Rules and Regulations of the Board.

Article 10.3 of the Rules and Regulations of the Board states that the chief executive officer is in charge of the daily management of the various business lines.

There is clear separation of duties between the executive chair, the chief executive officer, the board of directors and its committees (on which detailed information is given in C.2), and sufficient measures to ensure the Bank's corporate governance structure is duly balanced. These include:

• The board and its committees exercise duties of supervision and control over the actions of the chair as well as the chief executive officer.
• The vice chair coordinating the external directors is considered independent and presides over the appointments, the remuneration and the risk supervision, regulation and compliance committees.
• The chair of the executive risk committee is an executive vice chair of the board who does not report to the chief executive officer.
• The audit committee is chaired by a vice chair who is an independent director.
• The powers delegated to the chair and to the chief executive officer exclude those reserved exclusively to the board itself.

As a result, the board believes that it has established sufficient measures to ensure the Bank's corporate governance structure is duly balanced. The Bank has opted for an executive chair, as it deems that this best suits the Bank's particular circumstances.

Article 48 of the Bylaws

"*1.* "*The chairman of the board of directors shall have the status of executive chairman of the Bank and shall be considered as the highest executive in the Company, vested with such powers as are required to hold office in such capacity. Considering his particular status, the executive chairman shall have the following powers and duties, among others set forth in these bylaws or in the rules and regulations of the board:*

a) To ensure that the Bylaws are fully complied with and that the resolutions adopted at the general shareholders' meeting and by the board of directors are duly carried out.

b) To be responsible for the overall inspection of the Bank and all services thereof.

[40] Presently, appointments committee.

c) *To hold discussions with the managing director and the general managers in order to inform himself of the progress of the business.*

2. The board of directors shall delegate to the chairman all its powers, except for those that are legally non-delegable or that may not be delegated pursuant to the provisions of these bylaws or the rules and regulations of the board, without prejudice to entrusting to the managing director the duties set forth in article 49 of these bylaws.

3. The chairman shall be appointed to hold office for an indefinite period and shall require the favourable vote of two-thirds of the members of the board. The chairman may not at the same time hold the position of managing director provided for in article 49 of these bylaws."

Article 8.1 of the Rules and Regulations of the Board

"*The chairman of the board of directors shall be chosen from amongst the members of this management decision-making body, shall have the status of executive chairman of the Bank and shall be the highest-ranking officer of the Company. Accordingly, there shall be delegated to him all such powers as may be delegated pursuant to the provisions of law, the Bylaws and these rules and regulations. The chairman may not at the same time hold the position of managing director envisaged in article 10 of these rules and regulations.*"

Article 10.1 of the Rules and Regulations of the Board

"*The board of directors shall appoint from its members a chief executive officer, who will be entrusted with the day-to-day management of the business, with the highest executive functions.*"

17. The secretary should take care to ensure that the board's actions:

a) Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;

b) Comply with the company Bylaws and the regulations of the general shareholders' meeting, the board of directors and others;

c) Are informed by those good governance recommendations of the Unified Code that the company has subscribed to.

In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Nomination Committee and approved by a full board meeting; the relevant appointment and removal procedures being spelled out in the board regulations.

See section: C.1.34

Compliant	**X**	Partially compliant		Explain	

The Bylaws (Article 45.2) and the Rules and Regulations of the Board (Article 11.3) specifically incorporate the duties mentioned under this recommendation into the duties of the secretary of the board. Such functions are also supplemented by article 529 octies of the Spanish Corporate Enterprises Act (in the text given by Act 31/2014).

The procedure for the appointment of the secretary, as referred to in recommendation 17, is set out in Article 17.4.d) of the Rules and Regulations of the Board.

Article 45.2 of the Bylaws

"*The secretary shall ensure the formal and substantive legality of all action taken by the board, ensure observance of the good governance recommendations adopted by the company and ensure that governance procedures and rules are observed and regularly reviewed.*"

Article 11.3 of the Rules and Regulations of the Board

"*The secretary shall at all times ensure the formal and substantive legality of all action taken by the board, shall endeavour to ensure the good governance recommendations assumed by the Company are followed, and shall ensure observance and periodic review of the procedures and rules of governance.*"

Article 17.4 d) of the Rules and Regulations of the Board

"*The appointments and remuneration committee*[41] *shall have the following duties in terms of appointments, and any other provided for in applicable law:*

(…)

d) Report on proposals for appointment or withdrawal of the secretary of the board, prior to submission thereof to the board."

18. The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.

See section: C.1.29

Compliant	X	Partially compliant		Explain	

Articles 19.1 and 2 of the Rules and Regulations of the Board establish that the board shall meet with the frequency required for the proper performance of its duties, and shall approve the annual calendar for its meetings, with a minimum of nine meetings. In addition, and as noted, the board of directors will meet whenever the chair so decides at his own initiative or at the request of at least three directors or at the request of the lead director.

In 2014, the board met on 16 occasions.

In 2014, the board has had continual and thorough knowledge of the performance of the Group's various businesses through the management and risk reports presented, respectively, by the chief executive officer and the second vice-chair heading the risk division, at the meetings held throughout the year. The chair also presents reports in each ordinary meeting.

The board was apprised of the outcome of the internal and external audits during the year.

Article 19.1 and 2 of the Rules and Regulations of the Board:

"*1. The board shall meet with the frequency required for the proper performance of its duties, and shall be called to meeting by the chairman.*

[41] Presently, appointments committee.

2. The board shall approve the annual calendar for its meetings, which must be held with the frequency needed to effectively perform its duties, with a minimum of nine meetings. In addition, the board shall meet whenever the chairman so decides at his own initiative, at the request of at least three directors or at the request of the lead director.

(…)"

The reply to recommendation 16 stated that directors are able to propose other items for the meeting agenda.

19. Director absences should be kept to the bare minimum and quantified in the annual corporate governance report. When directors have no choice but to delegate their vote, they should do so with instructions.

See sections: C.1.28, C.1.29 and C.1.30

Compliant [X] Partially compliant [ ] Explain [ ]

In accordance with Article 20.1 and 2 of the Rules and Regulations of the Board of Directors, the directors must seek to reduce absences to a bare minimum, and if absent they must delegate their vote with instructions.

Average attendance at board meetings in 2014 was 89.8% (90.0% in terms of total votes, as set out in section C.1.30).

The meetings held in 2014 by the board of directors and its committees, and individual (in-person) attendance of the directors at these meetings, as well as an estimate of the time dedicated to committee meetings by the directors are detailed in sections C.1.29 and C.1.30 of this report.

Article 20.1 and 2 of the Rules and Regulations of the Board:

"*1. Meetings of the board shall be validly held when more than one-half of its members are present in person or by proxy. The directors shall endeavour to ensure that absences are reduced to cases of absolute necessity.*

2. When directors cannot attend personally, they may grant a proxy to any other director, for each meeting and in writing, in order that the latter shall represent them at the meeting for all purposes. A director may hold more than one proxy. The proxy shall be granted with instructions."

20. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

Article 11.2 of the Rules and Regulations of the Board of Directors states:

"*The secretary shall assist the chairman in his duties and see to the proper operation of the board, for which purposes he shall, most importantly, give the directors such advice and information as may be requisite, keep custody of the corporate documents, duly record the proceedings of meetings in the minute books, including those statements for which a request has been made to reflect them in the minutes, and attest to the resolutions adopted by the board.*"

21. The board in full should evaluate the following points on a yearly basis:

a) The quality and efficiency of the board's operation;

b) Starting from a report submitted by the nomination committee, how well the chairman and chief executive have carried out their duties;

c) The performance of its committees on the basis of the reports furnished by the same.

See sections: C.1.19 and C.1.20

Compliant	X	Partially compliant		Explain	

Since the first self-assessment exercise was carried out in 2005, in response to a commitment made by the chairmen at the annual general meeting of 19 June 2004, its scope has been widened, in keeping with Recommendation 21. Since 2006, this process has included the individual assessment of the chair of the board, the chief executive officer and the other directors.

The Rules and Regulations of the Board of Directors (Article 19.7) establish that the board will evaluate once a year the individual performance of its members, including the chairman and the chief executive officer, as well as its own operation and that of its committees.

Article 19.7 of the Rules and Regulations of the Board

"*The operation of the board and of the committees thereof, the quality of its work, and the individual performance of its members, including the chairman and the managing director or directors, shall be evaluated once a year.*"

The Rules and Regulations of the Board establish that the functions of the audit and compliance and the appointments and remuneration[42] committees includes assessment, at least one a year, of its operation and the quality of its work. In addition, the appointments committee contributes to the assessment of the board and its members (articles 16.4.m) and 17.4.h) and i)).

Article 16.4 of the Rules and Regulations of the Board

"*The audit committee shall have the following duties:*
(…)
m) Evaluate, at least one a year, its operation and the quality of its work."

Article 17.4 of the Rules and Regulations of the Board

"*The appointments and remuneration committee*[43] *shall have the following duties in terms of appointments, and any other provided for in applicable law:*
(…)
h) Evaluate, at least one a year, its operation and the quality of its work.
i) Report on the process of evaluation of the board and of the members thereof.
(…)"

[42] Presently, appointments committee.
[43] Currently, divided into two: an appointments committee and a remuneration committee.

22. All directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the bylaws or board regulations indicate otherwise, such requests should be addressed to the chairman or secretary.

See section: C.1.41

Compliant X Explain

The Rules and Regulations of the Board (Article 26 sections 1 and 2) expressly confer the directors with the broadest powers to obtain information regarding any aspect of the Bank, to examine the books, records, documents and other records of corporate transactions, and to inspect all of its premises and facilities. This right to receive information also applies to subsidiary companies, be they domestic or foreign.

Directors have the right to request and obtain, through the secretary, such information and advice as deemed necessary for the performance of their duties.

Article 26, 1 and 2 of the Rules and Regulations of the Board

"*1. A director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine the books, records, documents and other records of corporate transactions, and to inspect all of its premises and facilities. The right to receive information also applies in respect of subsidiary companies, be they domestic or foreign.*

2. In order not to disrupt the day-to-day management of the Company, the exercise of the powers of information shall be channelled through the secretary of the board of directors, who shall respond to the requests made by the director by directly providing him with the information, offering to him the appropriate parties with whom to interact at such level of the organisation as may be fit, or taking any steps that may be appropriate so that the director may carry out an on-site examination or inspection as requested by him."

23. All directors should be entitled to call on the company for the advice and guidance they need to carry out their duties. The company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the company's expense.

See sections: C.1.40

Compliant X Explain

The Rules and Regulations of the Board (Article 27) expressly recognise the right of the board members and the audit, risk supervision, regulation and compliance and appointments and remuneration committees to employ external advisors to help in fulfilling their duties. A request to contract external advisors, charged to the Bank, to assist with specific problems or issues of a special nature or particular complexity must be made to the board of directors. This request may only be dismissed by the board with good reason.

During 2014 the board once again employed the services of Spencer Stuart to assist in the self-evaluation process. In addition, the firm Towers Watson has collaborated with the remuneration committee in the preparation of its report on activities in 2014, which includes information on the compensation policy of the directors. Further, the remuneration committee and the board of directors were assisted by Towers Watson as provider of market information and consultancy services in designing the Group's compensation policy and in preparing the report on compensation policy for the board of directors and the annual remuneration report.

Furthermore, the functions of the secretary include providing the directors with the advice and information they need.

Article 27 of the Rules and Regulations of the Board

"*1. In order to be assisted in the performance of their duties, the directors and the audit, risk supervision, regulation and compliance and appointments and remuneration*[43] *committees may address a request to the general secretary for the hiring of legal, accounting, financial, or other expert advisors, whose services shall be paid for by the Company.*

The assignment must deal with specific issues of special significance or complexity arising during the performance of their duties.

2. The hiring decision lies with the board of directors, which may dismiss the request if the board considers:

- *a) That the hiring is not necessary for the proper performance of the duties entrusted to the directors;*
- *b) That the cost thereof is not reasonable in light of the significance of the issues; or*
- *c) That the technical assistance sought may be adequately provided by the Company's own technical experts.*"

Article 11.2 of the Rules and Regulations of the Board

"*The secretary shall assist the chairman in his duties and see to the proper operation of the board, for which purposes he shall, most importantly, give the directors such advice and information as may be requisite, keep custody of the corporate documents, duly record the proceedings of meetings in the minute books, including those statements for which a request has been made to reflect them in the minutes, and attest to the resolutions adopted by the board.*"

24. Companies should organise induction programmes for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so advise.

Compliant	X	Partially compliant		Explain	

As a result of the self-assessment process of the board carried out in 2005, a continuous training programme for directors was put in place.

In 2014, seven training sessions were provided, with average attendance by nine directors, and with each session lasting on average one hour. These meetings covered the following issues in depth, among others: risk decision systems and future trends; the technological implications of the new regulatory environment and the European directive on bank resolution, and aspects related to the Group business in capital markets, operational risk, the Advanced Management Model and the new European supervisor.

[43] Currently, divided into two: an appointments committee and a remuneration committee

The continuous training and updating programme for directors and the content of Recommendation 24 in relation to induction programmes for new directors is covered by article 21.7 of the Rules and Regulations of the Board.

Board members Mr. Bruce Carnegie-Brown, Ms. Sol Daurella Comadrán and Mr. Carlos Fernández González, who were appointed by the board on 25 November 2014, are taking part in an information programme for new directors covering the following issues:

- A general presentation of the Group and the regulatory environment in which it operates.
- The Group's main geographic areas and businesses.
- The most significant support areas: technology and operations, risk and audit.
- Sustainability, communication and the Santander brand.

Article 21.7 of the Rules and Regulations of the Board

"*The board shall establish a programme of information for new directors which gives them quick and sufficient information regarding the Bank and its Group, including the governance rules thereof. The board shall also maintain a programme of continuous training and updating directed to the directors.*"

25. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:

a) Directors should apprise the nomination committee of any other professional obligations, in case they might detract from the necessary dedication;

b) Companies should lay down rules about the number of directorships their board members can hold.

See sections: C.1.12, C.1.13 and C.1.17

Compliant	**X**	Partially compliant		Explain	

Pursuant to Article 17.4 g) of the Rules and Regulations of the Board, at its meetings of 20 and 23 February 2015, the appointments committee examined the information submitted by the directors regarding other professional obligations to evaluate whether these might detract from the dedication needed to carry out their directorship duties.

Based on this information, the appointments committee will decide whether the other activities of the external directors detract from the dedication of their time and efforts needed to fulfil their duty of diligent management, as stated in Article 30 of the Rules and Regulations of the Board.

Among the obligations and duties of the board, the Rules and Regulations (Article 30) establish the need to provide information on other professional duties and the maximum number of boards to which they may belong, pursuant to Article 26 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions.

Article 17.4.g) of the Rules and Regulations of the Board

"*4.* "*The appointments and remuneration committee*[44] *shall have the following duties in terms of appointments, and any other provided for in applicable law:*
(…)

[44] Presently, appointments committee.

g) Examine the information sent by the directors regarding their other professional obligations and assess whether such obligations might interfere with the dedication required of directors for the effective performance of their work.

(…)."

Article 30 of the Rules and Regulations of the Board

"*The director shall fulfil all the duties and obligations which are inherent in his position as such and which are provided for by Law, the Bylaws, the rules and regulations for the general shareholders*' *meeting and the rules and regulations of the board of directors, including the following:*

- Duty of diligent management. The directors shall discharge their duties with the diligence of an orderly businessman and a faithful representative. Each of the directors shall diligently inform himself of the progress of the Company and dedicate to the position the time and effort needed to effectively carry it out. The directors shall inform the appointments and remuneration committee[44] regarding their other professional obligations, and the maximum number of boards to which they may belong shall be governed by the provisions of article 26 of the Law 10/2014, of 26 June, on the organization, supervision and solvency of credit institutions.

(…)."

26. The proposal for the appointment or renewal of directors which the board submits to the general shareholders' meeting, as well as provisional appointments by the method of co-option, should be approved by the board:

a) On the proposal of the nomination committee, in the case of independent directors.

b) Subject to a report from the nomination committee in all other cases.

See section: C.1.3

Compliant	**X**	Partially compliant		Explain	

As established in Article 21.2 of the Rules and Regulations of the Board, the appointments committee is charged, irrespective of the type of director, with preparing the proposal for appointments, re-elections and ratifications of directors submitted at the annual general shareholders' meeting with the prior approval of the board.

Although the proposals of the committee are not binding, the Rules and Regulations of the Board stipulate that if the board disregards the proposal, it shall substantiate its decision and shall record the reasons in the minutes.

At present, all the directors have been appointed, re-elected or ratified at the proposal of the appointments and remuneration committee (presently, the appointments committee), as indicated in section C.1.3 of this report.

Article 21.2 of the Rules and Regulations of the Board

"*The proposals for appointment, re-election and ratification of directors, regardless of the category to which they are assigned, that the board of directors submits for consideration at the general shareholders*' *meeting, as well as the decisions regarding appointments that the board makes in the exercise of the powers conferred upon it by law to designate directors by interim appointment (co-option) to fill vacancies shall, in turn, be preceded by the corresponding proposal made by the appointments* *and remuneration committee[45]. In the event of re-election or ratification, such proposal made by the committee shall contain an assessment of work performed and actual dedication to the position during the last period of time in which the proposed director held office. In all events, should the board disregard the proposal made by the appointments and remuneration committee[45], the board shall substantiate its decision and shall record the reasons therefore in the minutes.*"

27. Companies should post the following director particulars on their websites, and keep them permanently updated:

a) Professional experience and background;

b) Directorships held in other companies, listed or otherwise;

c) An indication of the director's classification as executive, proprietary or independent; in the case of proprietary directors, stating the shareholder they represent or have links with;

d) The date of their first and subsequent appointments as a company director, and;

e) Shares held in the company and any options on the same.

Compliant [**X**] Partially compliant [ ] Explain [ ]

The current Bylaws (Article 61) stipulate that without prejudice to any additional documentation required by applicable regulations, the Bank's website shall include at least the information and documents set forth in the Rules and Regulations of the Board.

Included in this information is that specifically referred to in Recommendation 27, as stated in Article 34.4 of the Rules and Regulations of the Board.

Section B.7 provides access details for corporate governance and other information on general shareholders' meetings on the corporate website.

Article 61 of the Bylaws (sections 1 and 3)

"*1. The Company shall have a website (www.santander.com) through which it shall report to its shareholders, investors and the market at large the relevant or significant events that occur in connection with the Company.*
(…)
3. Without prejudice to any additional documentation required by applicable regulations, the Company's website shall include at least the information and documents set forth in the rules and regulations of the board."

Article 34.4 of the Rules and Regulations of the Board

"*The following information regarding the directors shall be publicly disclosed and kept current on the Bank's website:*

a. *Professional and biographical profile.*

b. *Other boards of directors to which they belong.*

[45] Presently, appointments committee.

c. *An indication of the category of director to which they belong, and in the case of external proprietary directors, the shareholder that they represent or with which they are connected.*

d. *Dates of their first appointment as director and subsequent appointments.*

e. *Shares of the Bank and options thereon that they hold.*"

28. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

See sections: A.2, A.3 and C.1.2

Compliant	X	Partially compliant		Explain	

None of the circumstances described in recommendation 28 arose in 2014 with regard to the sole proprietary director of the Bank, Mr. Javier Botín-Sanz de Sautuola y O'Shea.

Article 23.3 of the Rules and Regulations of the Board stipulates that proprietary directors must submit their resignations when the shareholder that they represent parts with its shareholdings or reduces them in a significant manner.

Article 23.3 of the Rules and Regulations of the Board

"*In addition, proprietary directors must submit their resignations, in the corresponding numbers, when the shareholder that they represent parts with its shareholdings or reduces them in a significant manner.*"

29. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where just cause is found by the board, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds enumerated in Ministerial Order ECC/461/2013.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in recommendation 11.

See sections: C.1.2, C.1.9, C.1.19 and C.1.27

Compliant	X	Explain	

The Bank's practice is to maintain directors in position during the period for which they are appointed, except in the event of resignation or unless any of the due causes or other circumstances set forth in applicable legislation arise.

30. Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the crimes stated in article 213 of the Corporate Enterprises Act, the board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The board should also disclose all such determinations in the annual corporate governance report.

See sections: C.1.42, C.1.43

Compliant	**X**	Partially compliant		Explain	

The abovementioned obligations relating to the provision of information and the dismissal of directors is stated in Article 56.2 of the Bylaws and Article 23.2 and 30 of the Rules and Regulations of the board of directors.

Articles 56.2 of the Bylaws and 23.2 of the Rules and Regulations of the Board

"*Directors must tender their resignation to the board of directors and formally resign from their position if the board of directors, following a report from the appointments and remuneration committee[46], deems it fit, in those cases in which they may adversely affect the operation of the board or the credit or reputation of the Company and, in particular, when they are involved in any of the circumstances of incompatibility or prohibition provided by law.*"

Article 30 of the Rules and Regulations of the Board

"*The director shall fulfil all the duties and obligations which are inherent in his position as such and which are provided for by Law, the Bylaws, the rules and regulations for the general shareholders*' *meeting and the rules and regulations of the board of directors, including the following:*
(…)
- Duty of loyalty:
(…)

(iv) The directors must notify the board, as soon as possible, of those circumstances affecting them that might prejudice the credit or reputation of the Company, and particularly the criminal cases with which they are charged."

31. All directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this recommendation should also apply to the secretary of the board, director or otherwise.

Compliant		Partially compliant		Explain		**Not applicable**	**X**

46 Presently, appointments committee.

According to the instructions for completing the annual corporate governance report, this recommendation must be considered as not applicable to companies in which the directors do not believe proposals damaging to the corporate interest have been made, as is the case of the Bank during the year.

32. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the annual corporate governance report.

See section: C.1.19

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

Article 23.4 of the Rules and Regulations of the Board establishes that when a director withdraws from their position, due to resignation or for other reasons, prior to the end of the director's term, the director shall explain the reasons for this in a letter sent to the other members of the board. Disclosure thereof shall also be made in the annual corporate governance report.

At the meeting of the board of directors on 16 December 2013, Lord Burns submitted his resignation as a director, with effect from 31 December 2013.

At the meeting of 24 July 2014, Mr. Vittorio Corbo Lioi informed the board of his voluntary resignation as a director, ceasing to a member of the board.

Being present at the meetings and having explained the reasons for their resignations, which were personal, the objective that the other directors should be aware of the reasons for the resignations is considered to have been fulfilled.

Following the death on 9 September of the previous Chair Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, at its meeting of 10 September 2014, the board of directors unanimously appointed Ms. Ana Botín-Sanz de Sautuola y O'Shea as the new chair, at the proposal of the appointments and remuneration committee (presently, the appointments committee), which met on the same day.

At its meeting of 25 November 2014, the board of directors appointed Mr. José Antonio Álvarez Álvarez as chief executive officer, replacing Mr. Javier Marín Romano.

As a result, Mr. Marín Romano stated at the meeting that he was resigning his post as a director with effect from his resignation as chief executive officer.

Mr. Fernando de Asúa Álvarez and Mr. Abel Matutes Juan being present at the meeting and giving the reasons for their resignations, which were personal, the objective that the other directors should become aware of such reasons is considered to have been fulfilled.

33. Remuneration comprising the delivery of shares in the company or other companies in the group, share options or other share-based instruments, payments linked to the company's performance or membership of pension schemes should be confined to executive directors.

The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.

Compliant [**X**] Partially compliant [ ] Explain [ ] Not applicable [ ]

The policy of the Group is that only executive directors can be beneficiaries of compensation systems relating to the provision of shares or options. In such event, it would be the responsibility of the board of directors to submit the proposal to the annual general shareholders' meeting.

Section A.3 of this report describes the Bank's share-based compensation programmes in which executive directors participated at year-end 2014.

34. External directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.

Compliant [**X**] Partially compliant [ ] Explain [ ]

Articles 58.1 and 2 of the Bylaws and 28.1, 2 and 6 of the Rules and Regulations of the Board specify the criteria that must be used in setting the compensation awarded to executive directors.

Article 58. 1 and 2 of the Bylaws

"*1. The directors shall be entitled to receive compensation for performing the duties entrusted to them by reason of their appointment as mere members of the board of directors by the shareholders at a general shareholders*' *meeting or by the board itself exercising its power to make interim appointments to fill vacancies.*

2. The remuneration referred to in the preceding paragraph shall consist of an annual fixed amount to be determined by shareholders at the general meeting. Such amount shall remain in force until such time as its amendment is agreed at the general meeting, although the board may reduce the amount in years when this is considered justified. Such compensation shall have two components: (a) an annual amount and (b) attendance fees.

The specific amount payable for the above-mentioned items to each of the directors shall be determined by the board of directors. For such purpose, it shall take into consideration the positions held by each director on the board and their membership in and attendance at the meetings of the various committees."

Article 28. 1, 2 and 6 of the Rules and Regulations of the Board

"*1. The directors shall be entitled to receive compensation for performing the duties entrusted to them by reason of their appointment as mere members of the board of directors by the shareholders at a general shareholders*' *meeting or by the board itself exercising its power to make interim appointments (co-option) to fill vacancies.*

2. The remuneration referred to in the preceding paragraph shall consist of an annual fixed amount to be determined by shareholders at the general meeting. Such amount shall remain in force until such time as its amendment is agreed at the general meeting, although the board may reduce the amount in years when this is considered justified. The aforementioned remuneration shall consist of two components: (a) an annual allocation and (b) attendance allowances.

The board of directors shall specifically determine the amount payable to each director in respect of the above items and the manner of making such payment, following the proposal by the appointments and remuneration committee[47]*. For such purpose, the positions held by each of the directors on the board itself and their membership of and attendance at the meetings of the different committees shall be taken into consideration.*
(…)

6. The board shall endeavour to ensure that director compensation meets standards of moderation and correspondence to the earnings of the Company. In particular, it shall endeavour to ensure that the compensation of external directors is sufficient to compensate them for the dedication, qualifications and responsibilities required for the performance of their duties."

35. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Compliant		Explain		**Not applicable**	**X**

No reservations or qualifications have been made to the 2014 individual financial statements of the Bank or to the 2014 consolidated financial statements of the Group.

Had there been any, the remuneration risk assessment committee, a body comprised of members of senior management who are also the heads of the divisions of the Group directly related to the financial reporting process and others such as risk, human resources and the general secretariat, would have taken into consideration said reservations in determining compensation.

36. In the case of variable awards, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.

Compliant	**X**	Explain		Not applicable	

In 2015, directors will receive remuneration pursuant to the same principles as in 2014, which are described below.

- That compensation shall be consistent with rigorous risk management without encouraging the inappropriate assumption of risks and shall be aligned with the interests of shareholders, promoting the creation of long-term value.
- That fixed compensation shall represent a sufficiently high percentage of total compensation.
- That variable compensation shall reward performance based on the attainment of the Group's targets. Furthermore, in compliance with sector legislation applicable to Banco Santander, there is a maximum percentage limit on the variable remuneration components compared to the fixed components.
- That the overall compensation package and structure shall be competitive, helping to attract, retain and reward directors and officers appropriately.

Variable remuneration includes a long-term incentive, the amount of which is determined by the relative performance of total shareholder return of the Bank compared to a reference Group of credit institutions.

[47] Presently, appointments committee.

This is explained in the annual remuneration report and in the report of the remuneration committee.

Both reports can be found on the Group website (www.santander.com).

37. When the company has an Executive Committee, the breakdown of its members by director category should be similar to that of the board itself. The Secretary of the board should also act as secretary to the Executive Committee.

See section: C.2.1 and C.2.6

Compliant	X	Partially compliant		Explain		Not applicable	

The executive committee is a core corporate governance mechanism for both the Bank and its Group.

Given the nature of the executive committee and its general delegated powers, the board considers it sufficient to use the efficiency criteria set out in Article 14.2. of the Rules and Regulations of the Board. This committee has three executive directors at year-end 2014, without discounting the participation of external directors, and particularly, independents, seeking to ensure that its composition reflects, as far as possible, the composition of the board.

The board believes that the composition of the executive committee is well balanced, given that it is made up of the following at year-end 2014: seven directors, three executive and four external. Of the external directors, three are independent and one is neither proprietary nor independent. At year-end 2014, 43% of the committee is made up of independent directors. At the date of this writing, independent directors account for 43%.

In addition, according to the Bylaws (articles 45.1 and 45.5) and the Rules and Regulations of the Board (article 11. 1 and 11.4) the secretary of the board will be the general secretary and the secretary of all the board committees.

Consequently, the board believes that it is compliant with recommendation 37.

Article 14.2 of the Rules and Regulations of the Board

"*The board of directors shall endeavour to ensure that the size of and types of directors making up the executive committee shall conform to standards of efficiency and reflect the guidelines followed in determining the composition of the board.*"

Article 45.1 and 5 of the Bylaws

45.1

"*The secretary of the board of directors shall always be the general secretary of the company.*"

45.5

"*The general secretary shall also be the secretary of all the committees of the board.*"

Article 11.1 and 4 of the Rules and Regulations of the Board:

11.1

"*The secretary of the board shall always be the general secretary of the Company, without needing to be a director in order to hold such position.*"

11.4

"*The general secretary shall also serve as the secretary of all the committees of the board.*"

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Compliant	X	Partially compliant		Explain	

The content of Recommendations 38 is expressly covered under Articles 51.5 of the Bylaws and 14.7 of the Rules and Regulations of the Board.

Articles 51.5 of the Bylaws and 14.7 of the Rules and Regulations of the Board

"*The executive committee shall report to the board of directors on the affairs discussed and the decisions made in the course of its meetings and shall make a copy of the minutes of such meetings available to the members of the board.*"

39. In addition to the Audit Committee mandatory under the Securities Market Law, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration.

The rules governing the make-up and operation of the Audit Committee and the committee or committees of Nomination and Remuneration should be set forth in the board regulations, and include the following:

a) **The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting;**

b) **These committees should be formed exclusively of external directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, for information purposes, at the committees' invitation;**

c) **Committees should be chaired by an independent director;**

d) **They may engage external advisors, when they feel this is necessary for the discharge of their duties;**

e) **Meeting proceedings should be minuted and a copy sent to all board members.**

See sections: C.2.1 and C.2.4

Compliant	X	Partially compliant		Explain	

The audit committee is regulated by article 529.m of the Spanish Corporate Enterprises Act (which replaces the previous regulation in the Securities Market Act) and articles 53 of the Bylaws and 16 of the Rules and Regulations of the Board. In addition, articles 27 and 35 of the Rules and Regulations of the Board contain a specific ruling on certain aspects of their activities.

Aspects relating to Recommendation 39 are found in articles 53. 1, 2 and 3 of the Bylaws and 16.1, 2, 3 and 8 and 27.1 of the Rules and Regulations of the Board.

Articles 53.1, 2 and 3 of the Bylaws

53.1

"*The audit committee shall consist of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive, with independent directors having majority representation.*"

53.2

"*The members of the audit committee shall be appointed by the board of directors, taking into account the directors*' *knowledge, aptitude and experience in the areas of accounting, auditing or risk management."*

53.3

"*The audit committee must at all times be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management. The chairman of the audit and compliance committee shall be replaced every four years, and may be re-elected once after the passage of one year from the date on which his term of office expired.*"

Article 16.1, 16.2, 16.3 and 16.8 of the Rules and Regulations of the Board

16.1

"*The audit committee shall consist of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive, with independent directors having majority representation.*"

16.2

"The members of the audit committee shall be appointed by the board of directors, taking into account the directors' *knowledge, aptitude and experience in the areas of accounting, auditing or risk management."*

16.3

"*The audit committee must in all events be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management. The chairman of the audit committee shall be replaced every four years, and may be re-elected after the passage of one year from the end of his preceding term.*"

16.8

"*The audit and compliance committee, through its chairman, shall report on its activities to the board of directors. This reporting process shall be carried out at meetings of the board planned for this purpose.*

However, if the chairman of the committee deems it necessary based on the urgency and significance of the matters in question, the information shall be given to the board at the first meeting thereof to be held after the meeting of the committee.
Furthermore, a copy of the minutes of the meetings of the committee shall be made available to all directors."

Article 27.1 of the Rules and Regulations of the Board

"*In order to be assisted in the performance of their duties, the directors and the audit, risk supervision, regulation and compliance and appointments and remuneration*[48] *committees may address a request to the general secretary for the hiring of legal, accounting, financial, or other expert advisors, whose services shall be paid for by the Company.*

The assignment must deal with specific issues of special significance or complexity arising during the performance of their duties."

The audit committee report contains more information on this subject.

At year-end 2014, all the members of the audit committee were external independent directors.

All members of the audit committee have the necessary knowledge to effectively perform their duties.

The Group website (www.santander.com) includes a summary of the professional biographies and academic qualifications of the members of the audit committee.

In relation to the appointments and remuneration committees, article 54 of the Bylaws includes a basic regulation, which is complemented and implemented by article 17 of the Rules and Regulations of the Board (section 4 for the appointments committee and 5 for the remuneration committee). In addition, Articles 21, 23, 24, 27, 28, 29 and 30 of the regulations set out specific rules governing certain aspects of the activities of these committees.

Specifically, those aspects regarding Recommendation 39 are covered under Articles 54.1, 2, 3 and 4 of the Bylaws and 17.1, 2, 3 and 8 and 27.1 of the Rules and Regulations of the Board.

Articles 54.1, 54.2, 54.3 and 54.4 of the Bylaws

54.1

"*An appointments and remuneration committee shall be established and entrusted with general proposal-making and reporting powers on matters relating to compensation, appointment and withdrawal of directors on the terms established by law. The board may decide to establish two committees and attribute separately to each of them powers in connection with appointments, on the one hand, and with remuneration, on the other.*"

54.2

"*The appointments and remuneration committee shall be composed of a minimum of three and a maximum of seven directors, all of whom shall be external or non-executive, with independent directors having majority representation.*"

[48] Currently, divided into two: an appointments committee and a remuneration committee.

54.3

"*The members of the appointments and remuneration committee shall be appointed by the board of directors taking into account the directors*' *knowledge, skills and experience and the responsibilities of the committee.*"

54.4

"*The appointments and remuneration committee must in all events be presided over by an independent director.*"

Article 17.1, 17.2, 17.3 and 17.8 of the Rules and Regulations of the Board

17.1

"*The appointments and remuneration committee shall be composed of a minimum of three and a maximum of seven directors, all of whom shall be external or non-executive, with independent directors having majority representation.*"

17.2

"*The members of the appointments and remuneration committee shall be appointed by the board of directors taking into account the directors*' *knowledge, skills and experience and the goals of the committee.*"

17.3

"*The appointments and remuneration committee must in all events be presided over by an independent director.*"

17.8

"*The appointments and remuneration committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, a copy of the minutes of the meetings of this committee shall be made available to all directors.*"

The appointments and remuneration committees' reports contain more information on this matter.

At the date of writing, all members of the appointments and remuneration committees are external independent directors.

In addition, directors on the appointments and remuneration committee have a proven capacity to perform their duties owing to their experience in banking and their knowledge of the subject of remuneration.

The Group website (www.santander.com) includes a summary of the professional biographies and academic qualifications of the members of the appointments and remuneration committees.

Article 27.1 of the Rules and Regulations of the Board

"*In order to be assisted in the performance of their duties, the directors and the audit, risk supervision, regulation and compliance and appointments and remuneration committees may address a request to the general secretary for the hiring of legal, accounting, financial, or other expert advisors, whose services shall be paid for by the Company.*

The assignment must deal with specific issues of special significance or complexity arising during the performance of their duties."

40. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Nomination Committee or, as the case may be, separate Compliance or Corporate Governance committees.

See sections: C.2.3 and C.2.4

Compliant X Explain ☐

Pursuant to article 17 bis 4.f) and g) of the Rules and Regulations of the Board of Directors, overseeing compliance with the internal codes of conduct and corporate governance regulations is the responsibility the risk supervision, regulation and compliance committee.

Article 17 bis. 4.f) and g) of the Rules and Regulations of the Board

"*The risk supervision, regulation and compliance committee shall have the following responsibilities, and any other provided for in applicable law:*

(…)

f) *Supervise the observance of the general code of conduct of the Group, the manuals and procedures for the prevention of money laundering and financing of terrorism and, in general, the rules of governance and compliance program in effect in the Company, and make such proposals as are deemed necessary for the improvement thereof. In particular, the committee shall have the duty to receive information and, if applicable, issue a report on disciplinary measures to be imposed upon members of senior management.*

g) *Supervision of the Group's policy and governance and compliance rules and, in particular, of the adoption of actions and measures that result from the reports issued or the inspection proceedings carried out by the administrative authorities of supervision and control."*

41. Audit committee members, particularly the Chairman, are appointed in light of their knowledge and experience of accounting, audit or risk management.

Compliant X Explain ☐

The audit and compliance committee is currently chaired by the external independent director Guillermo de la Dehesa Romero[49]. Section C.1.3 of this report provides a brief synopsis of his professional background, highlighting the fact that both he and the other members of the committee have the necessary knowledge and experience referred to in this recommendation.

Mr Guillermo de la Dehesa Romero is expected to be re-elected as director at the 2015 general shareholders' meeting. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years. In addition, Mr. De la Dehesa will cease to be a member of this committee.

[49] Mr. Guillermo de la Dehesa Romero is expected to stand for re-election as director in the ordinary general shareholders' meeting of 2015. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years.

Mr. Juan Miguel Villar Mir, a member of the audit committee at the date of this report, will replace Mr. Guillermo de la Dehesa Romero as the chair of this committee at the 2015 general shareholders' meeting.

Section C.1.3 of this report provides a brief synopsis of Mr. Villar Mir's professional background, highlighting the fact that both he and the other members of the committee have the necessary knowledge and experience referred to in this recommendation.

Article 53.3 of the Bylaws

"*The audit and compliance committee must in all events be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management."*

Article 16.3 of the Rules and Regulations of the Board

"*The audit committee must in all events be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management. The chairman of the audit committee shall be replaced every four years, and may be re-elected after the passage of one year from the end of his preceding term.*"

42. Listed companies should have an internal audit function, under the supervision of the audit committee, to ensure the proper operation of internal reporting and control systems.

See section: C.2.3

Compliant [X] Explain [ ]

The internal audit division reports directly to the board of directors, with the audit committee being responsible for overseeing its work. The internal audit function's job is to oversee the effective and efficient performance of the internal control systems, the reliability and quality of the accounting information, with all the Group's companies, business units, departments and services falling under its sphere of influence in this respect.

There is a single internal audit division for the entire Santander Group. It is based in Spain and has offices in those countries where the Group's presence so warrants.

Supervision by the audit committee of internal audit duties is set out in Article 53.4 (ii) of the Bylaws and is implemented by Article 16.4 d) of the Rules and Regulations of the Board as follows:

Article 53.4 (ii) of the Bylaws

"*The audit and compliance committee shall have at least the following powers and duties:*

(…)

(ii) Supervise the effectiveness of the Bank's internal control, the internal audit and the risk management systems, and discuss with the auditor any significant weaknesses detected in the internal control system during the conduct of the audit."

Article 16.4 d) of the Rules and Regulations of the Board

"The audit committee shall have the following duties, and any other provided for in applicable law:
(…)

d) Supervise the internal audit function, and particularly:

- *(i) Proposing the selection, appointment and withdrawal of the party responsible for internal audit;*
- *(ii) Reviewing the annual working plan for internal audit, for its subsequent review and approval by the board, and the annual activities report;*
- *(iii) Ensuring the independence and effectiveness of the internal audit function;*
- *(iv) Proposing the budget for this service;*
- *(v) Receiving periodic information regarding the activities thereof; and*
- *(vi) Verifying that senior management takes into account the conclusions and recommendations of its reports.*"

The 2014 audit committee report includes a description of internal audit activities in the year.

43. The head of internal audit should present an annual work programme to the Audit Committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.

Compliant [X] Partially compliant [ ] Explain [ ]

The internal audit division prepares an annual plan every year regarding risks, establishing the work to be carried out that year.

The head of the internal audit function at the Group reported to the audit committee on its work programme for the year ahead at a meeting of the latter on 23 January 2014.

At its meetings of 19 and 23 February 2015, the committee reviewed its internal work plan for the year. At its 23 February 2015 meeting, the committee was informed of internal audit activities in 2014 and approved the annual audit plan for 2015.

44. Control and risk management policy should specify at least:

- **a) The different types of risk (operational, technological, financial, legal, reputational…) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks;**
- **b) The determination of the risk level the company sees as acceptable;**
- **c) Measures in place to mitigate the impact of risk events should they occur;**
- **d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.**

See section: E

Compliant [X] Partially compliant [ ] Explain [ ]

Article 54 bis of the Bylaws and article 17 bis of the Rules and Regulations of the Board detail the regulation of the risk supervision, regulation and compliance committee, which include the functions set out under Recommendation 44, as follows:

Article 54 bis of the Bylaws

"*1. A risk supervision, regulation and compliance committee shall be established and entrusted with general powers to support and advise the board of directors in its risk control and oversight duties,* *in the definition of the risk policies of the Group, in relations with supervisory authorities and in compliance matters.*

2. *The risk supervision, regulation and compliance committee shall consist of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive, with independent directors having majority representation.*

3. *The members of the risk supervision, regulation and compliance committee shall be appointed by the board of directors taking into account the directors' knowledge, skills and experience and the tasks of the committee.*

4. *The risk supervision, regulation and compliance committee shall be in any case presided over by an independent director.*

5. *The rules and regulations of the board shall govern the composition, operation and powers of the risk supervision, regulation and compliance committee.*"

Article 17 bis of the Rules and Regulations of the Board

"*1. The risk supervision, regulation and compliance committee shall consist of a minimum of three and a maximum of seven members, all external or non-executive, with a majority of independent directors.*

2. The members of the risk supervision, regulation and compliance committee shall be appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience, and the duties of this committee.

3. The risk supervision, regulation and compliance committee shall be in any case presided over by an independent director.

4. The risk supervision, regulation and compliance committee shall have the following responsibilities, and any other provided for in applicable law:

(a) Support and advice to the board in defining and assessing risk policies affecting the Group, and in determining the risk appetite and risk strategy.

Group's risk policies shall include:

(i) The identification of the various types of risk (operational, technological, financial, legal and reputational, among others) that the Company faces, including, among financial and economic risks, contingent liabilities and others which are off-balance sheet;
(ii) The setting of the risk appetite that the Company deems acceptable;
(iii) The planned measures to mitigate the impact of identified risks, in the event that they materialise; and
(iv) The information and internal monitoring systems that will be used to monitor and manage such risks.

(b) Assistance to the board in monitoring the implementation of the risk strategy.

(c) Systematically review exposure to principal customers, economic sectors of activity, geographic areas and risk types.

(d) Know and assess the management tools, improvement initiatives, evolution of projects and any other relevant activity relating to the control of risks, including the policy on internal risk models and the internal validation thereof.

(e) Support and advice to the board regarding supervisors and regulators in the different countries where the Group operates.

(f) Supervise the observance of the general code of conduct of the Group, the manuals and procedures for the prevention of money laundering and financing of terrorism and, in general, the rules of governance and compliance program in effect in the Company, and make such proposals as are deemed necessary for the improvement thereof. In particular, the committee shall have the duty to receive information and, if applicable, issue a report on disciplinary measures to be imposed upon members of senior management.

(g) Supervision of the Group'*s policy and governance and compliance rules and, in particular, of the adoption of actions and measures that result from the reports issued or the inspection proceedings carried out by the administrative authorities of supervision and control.*

(h) Tracking and evaluation of policy proposals and regulatory changes that may be applicable, and possible consequences for the Group.

(i) Report on any proposed amendments to these rules and regulations prior to the approval thereof by the board of directors.

5. The risk supervision, regulation and compliance committee shall meet as many times as it is called to meeting upon resolution made by the committee itself or by the chairman thereof, and at least four times per year, and all the members of the management team or staff of the Company shall be obliged to attend its meetings and to cooperate and provide access to the information available to them.

6. Meetings of the risk supervision, regulation and compliance committee shall be validly held when more than half of its members are present in person or by proxy. The risk supervision, regulation and compliance committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the risk supervision, regulation and compliance committee shall be recorded in a minute book, and every one of such minutes shall be signed by the chairman and the secretary

7. The risk supervision, regulation and compliance committee, through its chairman, shall report on its activities and work to the board of directors. Furthermore, a copy of the minutes of the meetings of the committee shall be made available to all directors."

Note 54 (Risk management) to the Santander Group's 2014 consolidated financial statements provides detailed information in this regard.

45. The Audit Committee's role should be:

1. With respect to internal control and reporting systems:

a) Review internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed.

b) Monitor the independence and efficacy of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2. With respect to the external auditor:

a) Receiving regular information from the external auditor on the progress and findings of the audit programme, and checking that senior management are acting on its recommendations.

b) Monitor the independence of the external auditor, to which end:

i) The company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same;

ii) The committee should investigate the issues giving rise to the resignation of any external auditor.

See sections: C.1.36, C.2.3, C.2.4 and E.2

Compliant [X] Partially compliant [ ] Explain [ ]

Article 16.4 of the Rules and Regulations of the Board includes all of these competencies.

In accordance with the Rules and Regulations of the Board, the audit committee must ensure that the Bank publicly communicates the appointment of a new external auditor, and issues a declaration on any possible disagreements with the outgoing external auditor.

In the event of the resignation of the external auditor, the Rules and Regulations of the Board stipulate that the audit committee must examine the circumstances that may have motivated the resignation (Article 16.4.i).

During this fiscal year no external auditor has tendered its resignation.

Article 16.4 of the Rules and Regulations of the Board

"*The audit committee shall have the following duties and any other provided for in applicable law:*

a) Have its chairman and/or secretary report to the shareholders at the general shareholders' meeting with respect to matters raised therein by shareholders regarding its powers.
b) Propose the appointment of the auditor, as well as the conditions under which such auditor will be hired, the scope of its professional duties and, if applicable, the revocation or non-renewal of its appointment. The committee shall favour the Group's auditor also assuming responsibility for auditing the companies making up the Group.
c) Review the accounts of the Company and the Group, monitor compliance with legal requirements and the proper application of generally accepted accounting principles, and report on the proposals for alterations to the accounting principles and standards suggested by management.
d) Supervise the internal audit function, and particularly:

(i) Proposing the selection, appointment and withdrawal of the party responsible for internal audit;

(ii) Reviewing the annual working plan for internal audit, for its subsequent review and approval by the board, and the annual activities report;

(iii) Ensuring the independence and effectiveness of the internal audit function;

(iv) Proposing the budget for this service;

(v) Receiving periodic information regarding the activities thereof; and

(vi) Verifying that senior management takes into account the conclusions and recommendations of its reports.

e) Supervise the process for gathering financial information and for the internal control systems. In particular, the audit committee shall:

(i) Supervise the process of preparing and presenting the regulated financial information relating to the Company and the Group, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of group consolidation and the correct application of accounting standards; and

(ii) Supervise the effectiveness of the systems for the internal monitoring, reviewing them periodically, so that the principal risks are identified, managed and properly disclosed.

(iii) Discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit.

f) Serve as a channel of communication between the board and the auditor, assess the results of each audit and the response of the management team to its recommendations, and act as a mediator in the event of disagreement between the board and the auditor regarding the principles and standards to be applied in the preparation of the financial statements. Specifically, it shall endeavour to ensure that the statements ultimately drawn up by the board are submitted to the shareholders at the general shareholders' meeting without any qualifications or reservations in the auditor's report.

g) Supervise the fulfilment of the audit contract, endeavouring to ensure that the opinion on the annual financial statements and the main contents of the auditor's report are set forth in a clear and accurate fashion.

h) Ensure the independence of the auditor, by taking notice of those circumstances or issues that might risk such independence and any others related to the development of the auditing procedure, as well as receive information and maintain such communication with the auditor as is provided for in legislation regarding the auditing of financial statements and in technical auditing regulations. And, specifically, verify the percentage represented by the fees paid for any and all reasons of the total income of the audit firm, and the length of service of the partner who leads the audit team in the provision of such services to the Company. The annual report shall set forth the fees paid to the audit firm, including information relating to fees paid for professional services other than audit work.

In any event, the audit committee should receive annually from the external auditor written confirmation of the latter's independence versus the Company or institutions directly or indirectly linked to the Company, as well as information on any type of additional services provided to such institutions by the aforementioned auditor or by persons or institutions related to the latter, as stipulated in External Auditing Act 19/1988, of 12th July[50].

Likewise, prior to the issuing of the external auditor's report, the committee shall issue annually a report expressing an opinion on the independence of the external auditor. In any event, such report should make a statement as to the providing of the additional services referred to in the preceding paragraph.

[50] Currently Legislative Royal Decree 1/2011, of 1 July, Spain's Consolidated Audit Act.

i) The committee shall ensure that the Company publicly communicates a change of auditor and accompanies such communication with a declaration regarding the possible existence of disagreements with the outgoing auditor and, if any, regarding the content thereof and, in the event of the resignation of the auditor, the committee shall examine the circumstances causing it.

j) Report to the board, in advance of the adoption by it of the corresponding decisions, regarding:

> *(i) The financial information that the Company must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices applicable to the annual financial statements.*
> *(ii) The creation or acquisition of equity interests in special purpose entities or entities domiciled in countries or territories that are considered to be tax havens.*

k) Know and, if applicable, respond to the initiatives, suggestions or complaints put forward or raised by the shareholders regarding the area of authority of this committee and which are submitted to it by the office of the general secretary of the Company. The committee shall also:

> *(i) Receive, deal with and keep a record of the claims received by the Bank on matters related to the process for gathering financial information, auditing and internal controls.*
> *(ii) Receive on a confidential and anonymous basis possible communications from Group employees who express their concern on possible questionable practices in the areas of accounting or auditing.*

l) Receive information from the person responsible for the Company's taxation matters on the tax policies applied, at least prior to the drawing-up of the annual accounts and the filing of the Corporate Tax return, and where relevant, on the tax consequences of transactions or matters submitted to the board of directors or the executive committee for approval, unless such bodies have been informed directly, in which case this will be reported to the committee at the first subsequent meeting held by it. The audit committee shall transfer the information received to the board of directors.
m) Evaluate, at least one a year, its operation and the quality of its work.
n) And the others specifically provided for in these Rules and Regulations."

The audit committee report contains more information on this subject.

Section F describes the relationship of the audit committee with the Group's information and internal control and reporting systems referred to in the first part of Recommendation 45.

46. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Compliant X Explain ☐

This is included in Articles 53.5 of the Bylaws and 16.6 of the Rules and Regulations of the Board. This practice is seen in the audit committee report, which illustrates, among other aspects, that this committee has a constant and open dialogue with the external auditor and the Group's management team, with the auditor and the head of the internal audit division regularly attending meetings.

Article 53.5 of the Bylaws

"*The audit and compliance committee shall meet as many times as it is called to meeting upon resolution made by the committee itself or by the chairman thereof, and at least four times per year. Any member of the management team or of the Company's personnel shall, when so required, attend the meetings of the audit and compliance committee, provide it with his cooperation and make available to it* *such information as he may have in his possession. The audit and compliance committee may also require that the auditor attend such meetings. One of its meetings shall be devoted to evaluating the efficiency of and compliance with the rules and procedures for governance of the Company and preparing the information that the board is to approve and include in the annual public documents".*

Article 16.6 of the Rules and Regulations of the Board

"*The audit committee shall meet as many times as it is called to meeting upon resolution made by the committee itself or by the chairman thereof, and at least four times per year. Any member of the management team or of the Company's personnel shall, when so required, attend the meetings of the audit and compliance committee, provide it with his cooperation and make available to it such information as he may have in his possession. The audit and compliance committee may also require that the auditor attend such meetings. One of its meetings shall be devoted to preparing the information that the board is to approve and include in the annual public documents."*

47. The Audit Committee should prepare information on the following points from Recommendation 8 for input to board decision-making:

a) The financial information that all listed companies must periodically disclose. The committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.

b) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

c) Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.

See sections: C.2.3 and C.2.3

Compliant [X] Partially compliant [ ] Explain [ ]

Article 16.4.j)(i) of the Rules and Regulations of the Board, as transcribed in the comments on recommendation 45 above, stipulates that the audit committee is responsible for informing the board, prior to any decision-making, of financial information that must be made public, formally incorporating into the regulations the practice the Bank had followed up until now.

The audit committee reviews the accounts prepared by the services of the Bank and its Group.
In reference to the annual financial statements and management report for 2014, which will be submitted at the annual general meeting to be held on either 26 or 27 March 2015, on first or second call, respectively, the committee, at its meetings held on 19 and 23 February 2015, following its review, issued a favourable report on their content prior to their authorisation for issue by the board, which occurred – following certification by the general auditor of the Group – at the meeting held on 23 February 2015.

In meetings held on 23 April, 22 July and 20 October 2014 and on 14 January 2015, the audit committee reported favourably on the financial statements for the periods ended 31 March, 30 June, 30 September and 31 December 2014, respectively. These reports were issued prior to approval of the corresponding financial statements by the board and disclosure to the markets and regulators.

The financial statements for the Group expressly note that the audit committee has ensured that the 2014 financial information is prepared in accordance with the same principles and practices applied to the financial statements.

Article 16.4.j.(ii) of the Rules and Regulations of the Board also attributes to the audit committee responsibility for reporting to the board in advance of any decision-making on the creation of, or acquisition of shareholdings in, special purpose vehicles or entities residing in countries or territories considered tax havens.

Finally, as previously mentioned, in accordance with Article 30 of the Rules and Regulations of the Board, it is the responsibility of the remuneration committee to prepare reports in reference to letter c) of Recommendation 47. Furthermore, as noted in relation to Recommendation 8, following the coming into force of Act 31/2014, article 230 of the Spanish Corporate Enterprises Act requires that the general meeting authorise certain transactions related to directors, particularly when the value of the transaction, benefit or remuneration is greater than ten per cent of company assets.

48. The Board of Directors should seek to present the annual accounts to the General Shareholders' Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

See section: C.1.38

Compliant [X] Partially compliant [ ] Explain [ ]

There have been no reservations or qualifications in the individual accounts of the Bank or in the consolidated Group accounts.

In reference to the regulation of this matter, Article 62.3 of the Bylaws and Article 35.5 of the Rules and Regulations of the Board apply.

Articles 62.3 of the Bylaws and 35.5 of the Rules and Regulations of the Board

"*The board of directors shall use its best efforts to prepare the accounts such that there is no room for qualifications by the auditor. However, when the board believes that its opinion must prevail, it shall provide a public explanation, through the chairman of the audit committee, of the content and scope of the discrepancy, and shall also endeavour to ensure that the auditor likewise discloses its considerations in this regard.*"

49. The majority of nomination committee members – or nomination and remuneration committee members as the case may be – should be independent directors.

See section: C.2.1

Compliant [X] Partially compliant [ ] Explain [ ]

Articles 54.2 and 4 of the Bylaws and 17.1 and 3 of the Rules and Regulations of the Board stipulate that the appointments committee is made up exclusively of external directors, with its chairman being an independent director, as is currently the case. At year-end 2014, the four members of the audit committee are external independent directors. Of the four external directors, three are independent and one is neither proprietary nor independent.

During 2014, no members of the appointments committee were executive directors, members of the senior management, or Bank employees. Similarly, no executive director or member of the senior management of the Bank has belonged to the board (or an appointments committee) of any company that has employed members of the appointments committee.

At the date of writing, all five members of this committee are external independent directors.

Article 54.2 of the Bylaws and 17.1 of the Rules and Regulations of the Board

"*The appointments and remuneration committee*[51] *shall be composed of a minimum of three and a maximum of seven directors, all of whom shall be external or non-executive, with independent directors having majority representation.*"

Article 54.4 of the Bylaws and 17.3 of the Rules and Regulations of the Board states:

"*The appointments and remuneration committee*[52] *must in all events be presided over by an independent director.*"

50. The Nomination Committee should have the following functions in addition to those stated in earlier recommendations:

a) Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.
b) Examine or organise, in appropriate form, the succession of the Chairman and chief executive, making recommendations to the board so the handover proceeds in a planned and orderly manner.

c) Report on the senior officer appointments and removals which the chief executive proposes to the board.

d) Report to the board on the gender diversity issues discussed in Recommendation 14 of this Code.

See section: C.2.4

Compliant	X	Partially compliant		Explain		**Not applicable**	

Articles 17.4, a) and e) of the Rules and Regulations of the Board expressly mention functions a) and c) of Recommendation 50.

Article 17.4 of the Rules and Regulations of the Board

"*The appointments and remuneration committee*[53] *shall have the following duties in terms of appointments, and any other provided for in applicable law:*

a) Propose and review the internal criteria and procedures to be followed in order to determine the composition of the board and select those persons who will be proposed to serve as directors, as well as for the continuous evaluation of directors, reporting on such continuous evaluation. In particular, the appointments and remuneration committee:

51 Currently, divided into two: an appointments committee and a remuneration committee.
52 Presently, appointments committee.
53 Presently, appointments committee.

(i) Shall establish the knowledge and experience necessary for directors, likewise assessing the time and dedication required for appropriately carrying out the position.
(ii) Shall receive for taking into consideration, the proposals of potential candidates for the covering of vacancies that the directors, where applicable, may propose.
(…).
e) Propose and review the internal criteria and procedures for the selection and continuous evaluation of senior executive vice presidents or similar officers and other employees responsible for internal control functions or who hold key positions for the daily carrying-out of banking activity, and to report on their appointment and removal from office and their continuous evaluation.
(…)."

The regulation of the succession plans for the chairman and the managing director referred to in letter b) of Recommendation 50 is stipulated in Article 24 of the Rules and Regulations of the Board.

Article 24 of the Rules and Regulations of the Board

"*In the cases of withdrawal, announcement of renunciation or resignation, disability or death of the members of the board of directors or its committees or withdrawal, announcement of renunciation or resignation of the chairman of the board of directors or of the managing director or directors, as well as from other positions on such bodies, at the request of the chairman of the board of directors or in his absence at the request of the highest-ranking vice chairman, the appointments and remuneration committee*[54]*, will be convened in order for such committee to examine and organise the process of succession or replacement in an orderly manner and to present the corresponding proposal to the board of directors. Such proposal shall be communicated to the executive committee and subsequently submitted to the board of directors at the following meeting scheduled to be held by the board's annual calendar of meetings or at such extraordinary meeting as may be called if deemed necessary.*"

Article 44.2 of the Bylaws

"*The vice chairman or vice chairmen, in the established numerical sequence, and in their absence, the appropriate director according to a numerical sequence established by the board of directors, shall replace the chairman in the event of absence or impossibility to act or illness.*"

51. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

Any board member may suggest directorship candidates to the nomination committee for its consideration.

Compliant	X	Partially compliant		Explain		Not applicable	

The content of recommendation 51, which forms part of the practices and regulation of the appointments committee, is covered by Articles 17.4.a. (ii) and 17.6 of the Rules and Regulations of the Board).

Article 17.4.a.(ii) of the Rules and Regulations of the Board

"*4.* "*The appointments and remuneration committee*[55] *shall have the following duties in terms of appointments, and any other provided for in applicable law:*

[54] Presently, appointments committee.
[55] Presently, appointments committee.

a) Propose and review the internal criteria and procedures to be followed in order to determine the composition of the board and select those persons who will be proposed to serve as directors, as well as for the continuous evaluation of directors, reporting on such continuous evaluation. In particular, the appointments and remuneration committee[55]:

(…)

(iii) Shall receive for taking into consideration, the proposals of potential candidates for the covering of vacancies that the directors, where applicable, may propose."

Article 17.6 of the Rules and Regulations of the Board

"*The chairman and any director may make suggestions to the committee with respect to matters that fall within the scope of its powers.*"

52. The Remuneration Committee should have the following functions in addition to those stated in earlier Recommendations:

a) Make proposals to the board of directors regarding:

- **i) The remuneration policy for directors and senior officers;**
- **ii) The individual remuneration and other contractual conditions of executive directors.**
- **iii) The standard conditions for senior officer employment contracts.**

b) Oversee compliance with the remuneration policy set by the company.

See section: C.2.4

Compliant	**X**	Partially compliant		Explain		Not applicable	

Functions a) and b) of Recommendation 52 are expressly mentioned in Article 17.5, letters a) and b), respectively, of the Rules and Regulations of the Board.

Article 17.5 of the Rules and Regulations of the Board

"*The appointments and remuneration committee[56] shall have the following functions in terms of remuneration, and any other provided for in applicable law:*

"*(a) Propose to the board:*

- *(i) The policy for compensation of directors and the corresponding report, upon the terms of Article 29 of these rules and regulations.*
- *(ii) The policy for compensation of the members of senior management.*
- *(iii) The individual compensation of the directors.*
- *(iv) The individual compensation of the executive directors and, if applicable, external directors, for the performance of duties other than those of a mere director, and other terms of their contracts.*
- *(v) The basic terms of the contracts and compensation of the members of senior management.*

[56] Presently, remuneration committee.

(vi) The remuneration of those other officers who, whilst not members of senior management, receive significant compensation, particularly variable compensation, and whose activities may have a significant impact on the assumption of risk by the Group.

(b) Ensure compliance with the policy established by the Company for compensation of the directors and the members of senior management.

(…)."

53. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant	X	Partially compliant		Explain	

Article 17.6 of the Rules and Regulations of the Board covers the content of Recommendation 53. Refer to the transcript of this article in the comments on Recommendation 51.

H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption.

Banco Santander does not file any annual corporate governance report other than as stipulated under the Spanish Corporate Enterprises Act, Order ECC/461/2013, of 20 March, and CNMV Circular 5/2013, of 12 June.

Upon the listing of Bank shares on the Warsaw Stock Exchange, a document was disclosed on 3 December analysing the corporate governance of the Bank from the perspective of the Polish government’s good governance recommendations. This document will updated each year upon publication of the Bank’s annual corporate governance report. This document can be found on the corporate website: www.santander.com

Since 2010, Banco Santander, S.A. has adhered to the code of good tax practices approved in the Tax Forum of Large Companies, a body in which large Spanish companies and the Spanish tax agency participate, and it complies with the contents thereof. As in previous years, and in accordance with its commitments under the aforementioned code, and in application of its compliance programme and the Group’s General Code of Conduct, the head of the tax consultation service has reported to the audit committee on the Group’s fiscal policies in Spain.

Banco Santander is also signatory to a number of international sustainability initiatives, such as the United Nations Global Compact Principles (since 2002) and the Ecuador Principles (since 2009).

This annual corporate governance report was adopted by the company’s board of directors at its meeting held on:

23 February 2015.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes ☐ **No** ☒

Name or corporate name of director	Reasons (voted against, abstention, non-attendance)	Explain the reasons
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AUDITOR'S REPORT ON THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

To the Board of Directors of
Banco Santander, S.A.:

We have examined the information relating to the system of Internal Control over Financial Reporting (ICFR) of Banco Santander, S.A. ("the Bank") and subsidiaries ("the Group") contained in section f of the Annual Corporate Governance Report for the year ended 31 December 2014. This examination includes an evaluation of the effectiveness of the system of ICFR in relation to the financial information contained in the Group's consolidated financial statements as at 31 December 2014, prepared 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. The objective of this system is to contribute to the transactions performed being presented fairly under the aforementioned accounting framework and to provide reasonable assurance in relation to the prevention or detection of any errors that might have a material effect on the consolidated financial statements. The aforementioned system is based on the rules and policies defined by Group management in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its report "Internal Control-Integrated Framework (2013)".

A system of internal control over financial reporting is a process designed to provide reasonable assurance on the reliability of financial information in accordance with the accounting principles and standards applicable to it. A system of internal control over financial reporting includes policies and procedures that: (i) enable the records reflecting the transactions performed to be kept accurately and with a reasonable level of detail; (ii) guarantee that these transactions are performed only in accordance with the authorisations established; (iii) provide reasonable assurance as to the proper recognition of transactions to make it possible to prepare the financial information in accordance with the accounting principles and standards applicable to it; and (iv) provide reasonable assurance in relation to the prevention or timely detection of unauthorised acquisitions, uses or sales of Group assets which could have a material effect on the financial information. In view of the limitations inherent to any system of internal control over financial reporting, certain errors, irregularities or fraud may not be detected. Also, the projection to future periods of an evaluation of internal control is subject to risks, including the risk that internal control may be rendered inadequate as a result of future changes in the applicable conditions or that there may be a reduction in the future of the degree of compliance with the policies or procedures established.

Group management is responsible for maintaining the system of Internal Control over the Financial Reporting included in the consolidated financial statements and for evaluating its effectiveness. Our responsibility is limited to expressing an opinion on its effectiveness, based on the work performed by us in accordance with the requirements established in Standard ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issuance of reasonable assurance reports.

A reasonable assurance engagement includes understanding the system of internal control over the financial reporting contained in the consolidated financial statements, evaluating the risk of there being material errors therein, performing tests and evaluations of the design and operating effectiveness of the system, and performing such other procedures as we consider appropriate. We consider that our examination provides a reasonable basis for our opinion.

In our opinion, at 31 December 2014, Santander Group maintained, in all material respects, an effective system of Internal Control over the Financial Reporting contained in its consolidated financial statements, and this internal control system is based on the rules and policies defined by Group management in accordance with the criteria established in the guidelines provided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its report "Internal Control-Integrated Framework (2013)". Also, the disclosures contained in the information relating to the system of ICFR which is included in the Group's Annual Corporate Governance Report at 31 December 2014 comply, in all material respects, with the requirements established by Spanish Corporate Enterprises Act, by the Order ECC/461/2013, of 20 March, and by Spanish National Securities Market Commission Circular 5/2013, of 12 June.

This examination does not constitute an audit of financial statements and is not subject to the Consolidated Audit Law approved by Legislative Royal Decree 1/2011, of 1 July, and, therefore, we do not express an audit opinion on the terms provided for in the aforementioned legislation. However, we have audited, in accordance with the audit regulations in force in Spain, the consolidated financial statements of Banco Santander, S.A. and subsidiaries prepared by the Bank's directors 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, and our report dated 24 February 2015 expresses an unqualified opinion on the aforementioned consolidated financial statements.

DELOITTE, S.L.

Ignacio Gutiérrez
24 February 2015

BALANCE SHEET AS AT 31 DECEMBER 2014
BANCO SANTANDER AND SUBSIDIARIES COMPOSING SANTANDER GROUP

	EUROS	
ASSETS		
1. CASH AND BALANCES WITH CENTRAL BANKS		**69,428,000,000**
2. FINANCIAL ASSETS HELD FOR TRADING		**148,888,000,000**
2.1 Loans and advances to credit institutions	1,815,000,000	
2.2 Loans and advances to customers	2,921,000,000	
2.3 Debt instruments	54,374,000,000	
2.4 Equity instruments	12,920,000,000	
2.5 Trading derivatives	76,858,000,000	
3. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		**42,673,000,000**
3.1 Loans and advances to credit institutions	28,592,000,000	
3.2 Loans and advances to customers	8,971,000,000	
3.3 Debt instruments	4,231,000,000	
3.4 Equity instruments	879,000,000	
4. AVAILABLE-FOR-SALE FINANCIAL ASSETS		**115,250,000,000**
4.1 Debt instruments	110,249,000,000	
4.2 Equity instruments	5,001,000,000	
5. LOANS AND RECEIVABLES		**781,635,000,000**
5.1 Loans and advances to credit institutions	51,306,000,000	
5.2 Loans and advances to customers	722,819,000,000	
5.3 Debt instruments.	7,510,000,000	
6. HELD-TO-MATURITY INVESTMENTS		**-**
7. CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE		**1,782,000,000**
8. HEDGING DERIVATIVES		**7,346,000,000**
9. NON-CURRENT ASSETS HELD FOR SALE		**5,376,000,000**
10. INVESTMENTS		**3,471,000,000**
12.1 Associates	1,775,000,000	
12.2 Jointly controlled entities	1,696,000,000	
11. INSURANCE CONTRACTS LINKED TO PENSIONS		**345,000,000**
12. REINSURANCE ASSETS		**340,000,000**
13. TANGIBLE ASSETS		**23,256,000,000**
13.1 Property, plant and equipment	**16,889,000,000**	
13.1.1 For own use	8,324,000,000	
13.1.2 Other assets leased out under an operating lease	8,565,000,000	
13.1.3 Assigned to welfare projects	-	
13.2 Investment property	**6,367,000,000**	
14. INTANGIBLE ASSETS		**30,401,000,000**
14.1 Goodwill	27,548,000,000	
14.2 Other intangible assets	2,853,000,000	
15. TAX ASSETS		**27,956,000,000**
15.1 Current	5,792,000,000	
15.2 Deferred	22,164,000,000	
16. OTHER ASSETS		**8,149,000,000**
16.1 Inventories	1,099,000,000	
16.2 Other	7,050,000,000	
TOTAL ASSETS		**1,266,296,000,000**

BALANCE SHEET AS AT 31 DECEMBER 2014
BANCO SANTANDER AND SUBSIDIARIES COMPOSING SANTANDER GROUP

LIABILITIES AND EQUITY

	EUROS	
1. FINANCIAL LIABILITIES HELD FOR TRADING		**109,792,000,000**
1.1 Deposits from central banks	2,041,000,000	
1.2 Deposits from credit institutions	5,531,000,000	
1.3 Customer deposits	5,544,000,000	
1.4 Marketable debt securities	-	
1.5 Trading derivatives	79,048,000,000	
1.6 Short positions	17,628,000,000	
1.7 Other financial liabilities	-	
		62,317,000,000
2. OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		
2.1 Deposits from central banks	6,321,000,000	
2.2 Deposits from credit institutions	19,039,000,000	
2.3 Customer deposits	33,127,000,000	
2.4 Marketable debt securities	3,830,000,000	
2.5 Subordinated liabilities	-	
2.6 Other financial liabilities	-	
3. FINANCIAL LIABILITIES AT AMORTISED COST		**961,052,000,000**
3.1 Deposits from central banks	17,290,000,000	
3.2 Deposits from credit institutions	105,147,000,000	
3.3 Customer deposits	608,956,000,000	
3.4 Marketable debt securities	193,059,000,000	
3.5 Subordinated liabilities	17,132,000,000	
3.6 Other financial liabilities	19,468,000,000	
4. CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTERI		**31,000,000**
5. HEDGING DERIVATIVES		**7,255,000,000**
6. LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		**21,000,000**
7. LIABILITIES UNDER INSURANCE CONTRACTS		**713,000,000**
8. PROVISIONS		**15,376,000,000**
8.1 Provisions for pensions and similar obligations	9,412,000,000	
8.2 Provisions for taxes and other legal contingencies	2,916,000,000	
8.3 Provisions for contingent liabilities and commitments	654,000,000	
8.4 Other provisions	2,394,000,000	
9. TAX LIABILITIES		**9,379,000,000**
9.1 Current	4,852,000,000	
9.2 Deferred	4,527,000,000	
10. WELFARE FUND		-
11. OTHER LIABILITIES		**10,646,000,000**
11.1 Welfare fund	-	
11.2 Other	10,646,000,000	
12. EQUITY REFUNDABLE ON DEMAND	-	**-**
TOTAL LIABILITIES		**1,176,582,000,000**
EQUITY		
1. SHAREHOLDERS' EQUITY		**91,663,000,000**
1.1 Capital or endowment fund	**6,292,000,000**	
1.1.1 Registered	6,292,000,000	
1.1.2 Less: Uncalled capital	-	
1.2 Share premium	**38,611,000,000**	
1.3 Reserves	**41,160,000,000**	
1.3.1 Accumulated reserves (losses)	40,973,000,000	
1.3.2 Reserves (losses) of entities accounted for using the equity method	187,000,000	
1.4 Other equity instruments	**265,000,000**	
1.4.1 Equity component of compound financial instruments	-	
1.4.2 Non-voting equity units and associated funds (savings banks)	-	
1.4.3 Other	265,000,000	
1.5 Less: Treasury shares	**(10,000,000)**	
1.6 Profit for the year attributable to the Parent	**5,816,000,000**	
1.7 Less: Dividends and remuneration	**(471,000,000)**	
2. VALUATION ADJUSTMENTS		**(10,858,000,000)**
2.1 Available-for-sale financial assets	1,560,000,000	
2.2 Cash flow hedges	204,000,000	
2.3 Hedges of net investments in foreign operations	(3,570,000,000)	
2.4 Exchange differences	(5,385,000,000)	
2.5 Non-current assets held for sale	-	
2.6 Entities accounted for using the equity method	(85,000,000)	
2.7 Other valuation adjustments	(3,582,000,000)	
3. NON-CONTROLLING INTERESTS		**8,909,000,000**
3.1 Valuation adjustments	(655,000,000)	
3.2 Other	9,564,000,000	
TOTAL EQUITY		**89,714,000,000**
TOTAL LIABILITIES AND EQUITY		**1,266,296,000,000**
MEMORANDUM ITEMS		
1. CONTINGENT LIABILITIES		**44,078,000,000**
2. CONTINGENT COMMITMENTS		**208,040,000,000**

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014
BANCO SANTANDER AND SUBSIDIARIES COMPOSING SANTANDER GROUP

	EUROS	
Interest and similar income		54,656,000,000
Interest expense and similar charges		(25,109,000,000)
NET INTEREST INCOME		**29,547,000,000**
Income from equity instruments		**435,000,000**
Share of results of entities accounted for using the equity method		**243,000,000**
Fee and commission income		**12,515,000,000**
Fee and commission expense		**(2,819,000,000)**
Gains/losses on financial assets and liabilities (net)		**3,974,000,000**
Held for trading	2,377,000,000	
Other financial instruments at fair value through profit or loss	239,000,000	
Financial instruments not measured at fair value through profit or loss	1,427,000,000	
Other	(69,000,000)	
Exchange differences (net)		**(1,124,000,000)**
Other operating income		**5,214,000,000**
Income from insurance and reinsurance contracts issued	3,532,000,000	
Sales and income from the provision of non-financial services	343,000,000	
Other	1,339,000,000	
Other operating expenses		**(5,373,000,000)**
Expenses of insurance and reinsurance contracts	(3,395,000,000)	
Changes in inventories	(255,000,000)	
Other	(1,723,000,000)	
GROSS INCOME		**42,612,000,000**
Administrative expenses		**(17,899,000,000)**
Staff costs	(10,242,000,000)	
Other general administrative expenses	(7,657,000,000)	
Depreciation and amortisation charge		**(2,287,000,000)**
Provisions (net)		**(3,009,000,000)**
Impairment losses on financial assets (net)		**(10,710,000,000)**
Loans and receivables	(10,521,000,000)	
Other financial instruments not measured at fair value through profit or loss	(189,000,000)	
PROFIT FROM OPERATIONS		**8,707,000,000**
Impairment losses on non-financial assets (net)		**(938,000,000)**
Goodwill and other intangible assets	(701,000,000)	
Other non-financial assets	(237,000,000)	
Gains (losses) on disposal of assets not classified as non-current assets held for sale		**3,136,000,000**
Gains from bargain purchases arising in business combinations		**17,000,000**
Gains (losses) on non-current assets and disposal groups held for sale not classified as discontinued operations		**(243,000,000)**
PROFIT BEFORE TAX		**10,679,000,000**
Income tax		**(3,718,000,000)**
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**6,961,000,000**
Profit (loss) from discontinued operations (net)		**(26,000,000)**
CONSOLIDATED PROFIT FOR THE YEAR		**6,935,000,000**
Profit attributable to the Parent		**5,816,000,000**
Profit attributable to non-controlling interests		**1,119,000,000**

We want to help people and businesses prosper

2014 Annual review

Santander

Santander in 2014

« Santander's purpose is to help people and businesses prosper. We want to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities. »

Ana Botín
Group executive chairman

Employees

185,405
employees

Gender

45% **55%**

97%
employees received training in 2014

Customers

117
million customers

International network

12,951
branches

Customer loans (net)

734,711
million euros

Shareholders

3.2
million shareholders

€0.479
EPS in 2014

Positioning

#1
largest market capitalisation in the euro zone

Communities

12
million students and teachers benefit from cooperation agreements between universities and the Bank

Agreements with universities

1,151
cooperation agreements in 21 countries

Contribution to higher education

146
million euros for universities

Recognitions

The Banker Bank of the Year 2014 Western Europe

FTSE4Good

Member of Dow Jones Sustainability Indices In Collaboration with RobecoSAM

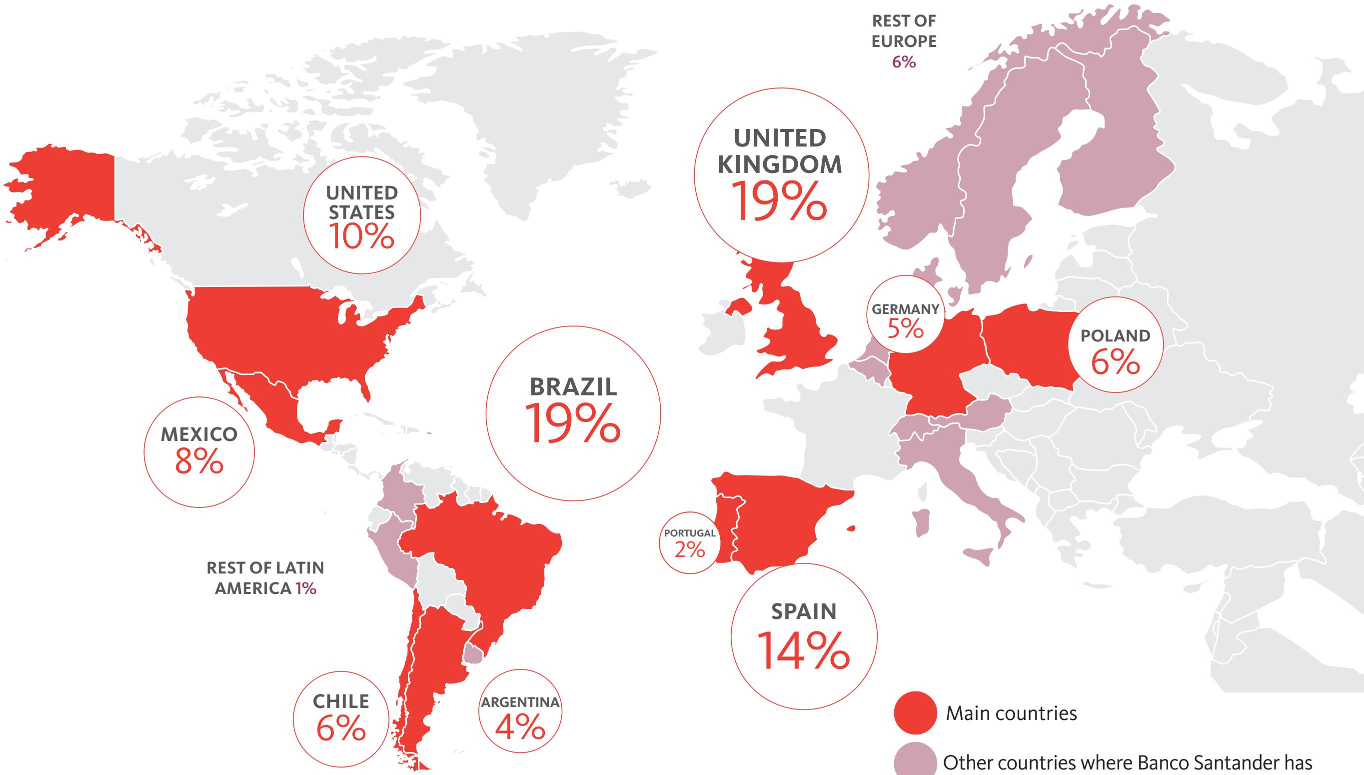
CDP Climate Disclosure Leader 2014

The World's Greenest Banks

Bloomberg Markets

Geographic diversification

Contribution to attributable profit (%)



Main countries

Other countries where Banco Santander has commercial and retail banking businesses: Peru, Puerto Rico, Uruguay, Colombia, Norway, Sweden, Finland, Denmark, Holland, Belgium, Austria, Switzerland and Italy.

Financial indicators

Total on-balance sheet assets

1,266,296

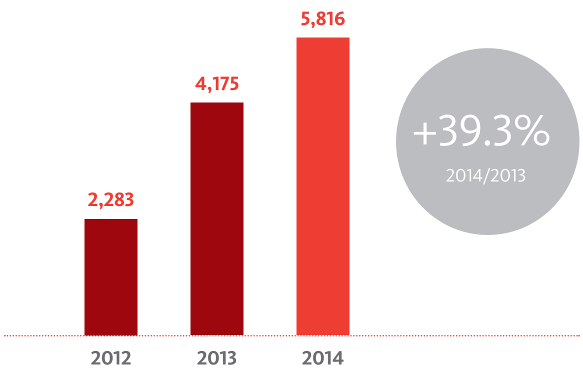
Million euros

CET1 fully loaded

9.7%

Group attributable profit

Million euros



Balance sheet and results (Million euros)

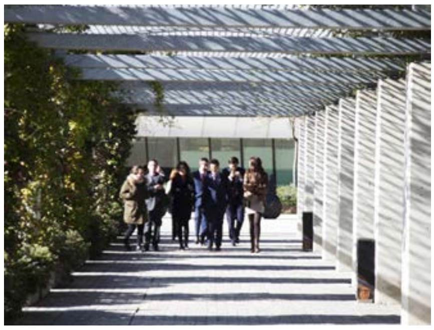
	2014	2013
Customer loans (net)	734,711	684,690
Customer deposits	647,628	607,836
Shareholders' funds	80,806	70,326
Gross income	42,612	41,920
Pre-provision profit (net operating income)	22,574	21,762
Attributable profit to the Group	5,816	4,175

Ratios (%)

	2014	2013
Earnings per share (euros)	0.479	0.385
RoE*	7.0	5.8
RoTE*	11.0	9.6
Efficiency (with amortisation)	47.0	48.1
Non-performing loan (NPL) ratio	5.2	5.6
Loan-to-deposit ratio	113	112

* Proforma figure in 2014 that includes the January 2015 capital increase of €7,500 million.

Annual review 2014



6 MESSAGE FROM ANA BOTÍN, GROUP EXECUTIVE CHAIRMAN
"Our foundations give us a unique opportunity to further improve our culture, to build better and more lasting relationships with our customers."

24 BUSINESS MODEL AND STRATEGY
Santander's business model is customer-focused, enabling it to compete successfully in the international banking panorama.

50 2014 RESULTS
Santander posted an attributable profit of €5,816 million in 2014 (+39.3%).

Message from Ana Botín

Ana Botín, Group executive chairman.

I became Group executive chairman of Santander Group last September. As you will know, since then we have made some significant changes to the board and governance and to the management team. We have also focused on reviewing our capital position and our dividend policy. This done, I now want to focus on how Santander is to grow in the years ahead. To do that, we have reviewed the markets in which we do business, our strategy and how we operate.

I now want to set out why I am so confident about Santander's future – the fantastic opportunities for growth that lie before us, and how we are going to take advantage of them.

Santander today

Santander is a retail and commercial bank listed in Madrid and on the NYSE, with a market capitalization of ~€90bn, total assets of €1.2trn and a capital base of ~€88bn. In 2014 the Bank achieved a net attributable profit of €5.8bn in 2013 and remunerated shareholders with €0.60 per share.

The bank has a unique model and franchise to compete in the global retail banking landscape. This model has been developed over the last 158 years, especially under the inspiring leadership of my father Emilio Botín. At its core lies:

- **A diversified presence.** Our well-balanced emerging-mature markets mix is delivering growth above our peers. Average GDP growth in our markets is forecast to be close to 3% in 2016.
- **Strong retail and commercial operations.** We are or aim to be one of the top 3 banks in our core 10 markets, which give us access to one billion customers.
- **Autonomous subsidiaries in liquidity and capital.** This creates incentives for good local management and enhances our stability and flexibility.
- **International talent management, a common culture and a top global brand.** We are able to attract and retain world class talent. We have a shared approach as to how we want to operate and behave. And we have created a powerful, global brand: according to Brand Finance, we are number 10 in the world.
- **Prudent risk management and balance sheet strength, underpinned by our Group's solid control framework.** We have delivered a dividend every year for more than 50 years, including during the financial crisis.
- **Investment in innovation, driving digital transformation, and sharing best practice.** Our global scale enables the Group to add value to our subsidiaries around the world.

Market capitalization
88
bn euros

Total assets
1.2
trn euros

Capital base
88
bn euros

Our virtuous circle

Santander's purpose, aim and culture

These strong foundations give us a unique opportunity to grow. We can only do this with **a team that fulfills Santander's purpose, understands its aim and lives by its values**.

Santander's purpose is to help people and businesses prosper.

Back in 1857, the founders of Santander wanted to finance trade between Spain and Latin America that generated jobs and prosperity in both continents. Today, our role is obviously broader but the outcome of our efforts is the same.

Our aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

I am convinced that the only way to achieve such aim is by having the best possible relationships with our team, our customers, our shareholders and the communities that we serve. And the most precious asset in these relationships is loyalty:

- A loyal team is one that feels motivated, engaged and rewarded to go the extra mile for customers.
- When our customers get excellent service and can see we are addressing their personal needs, their loyalty to us will grow.
- When that happens, our return and value will also grow – securing loyal sharehol-ders who will invest more in us.
- This, in turn, allows us to do more to support our local communities, generating loyalty to us and strengthening our team's pride in the business.

And then this virtuous circle will begin again.

At the heart of our culture we believe that, wherever we operate, everything we do should be Simple, Personal and Fair

At the heart of our culture we believe that, wherever we operate, everything we do should be Simple, Personal and Fair.

We have picked these three words because, together, they reflect what our teams and our customers around the world tell us they want from a bank.

A **simple** bank offers its customers a service that is convenient and products that are easy to understand, however and whenever they choose to bank. It makes its processes better every day, so they are easy and clear for customers and its team.

A **personal** bank treats its customers as valued individuals, providing a professional, personal service they can trust. It supports colleagues to develop their skills and achieve their ambitions.

A **fair** bank treats people as they like to be treated – and it earns investors an adequate and sustainable return, while contributing its share to help communities.

Our strategy going forward

As I said, we have reviewed our strategy from the perspective of our purpose, our aim and our culture. I should stress that I am not in favor of changing processes or platforms that are delivering results. We will stick to the elements that have underpinned our success and will build upon them to take Santander to the next level and achieve our goals.

With Simple, Personal and Fair as our guiding principle, we will focus on the following:

People

A strong internal culture. Above all else, Santander's continued success depends on our employees. We should be able to attract, retain and develop our talent to have the best professionals, so we have a very ambitious goal for 2017: to be the one of the Top 3 banks to work for in the majority of our core geographies (according to the relevant rankings).

Customers

Earn the loyalty of our retail and commercial customers; and improve our franchise. We have more than 100 million customers: 53 million are "active", but only 13 million are classified as "loyal", that is, banking regularly with us. This presents us with a great opportunity – and one we need to grasp.

For instance, if 40% of our total retail active customers were to become "loyal" in UK and Spain, and 25% in Mexico and Brazil, we could generate two to three billion Euro of additional income. Critically, these would be satisfied customers, and that means a better and more sustainable revenue generation.

In the UK, for example, we **increased the number of loyal customers from about 1 million** to 3.3 million by rewarding their loyalty with our innovative, transparent, value-adding products and services, such as the 1|2|3 world, for both existing customers and new customers. By having more loyal customers we were able to reduce the cost of our retail deposits and our Group **profit before taxes in the UK rose from £1,008m in 2012 to £1,612 in 2014 (+c.60%).**

So we know how to earn and retain loyalty. Our task now is to change how we do things, so that we increase the loyalty of retail and commercial customers across all our core markets in Europe and the Americas.

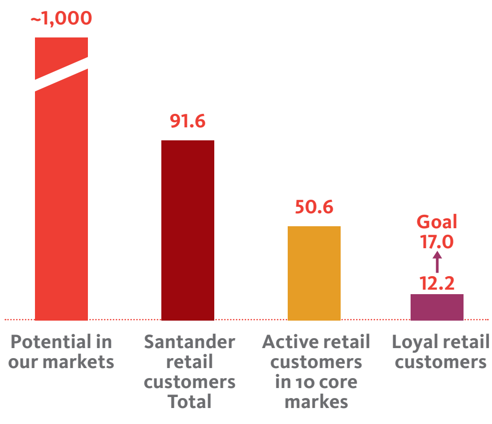
Our goal for 2017 is to have 17 million loyal retail customers —40% more than today— and 1.1 million loyal SME customers.

Operational Excellence: We will continue to build on our operational excellence, starting with customer satisfaction. Our goal is to be within the top 3 group in customer satisfaction across our core markets.

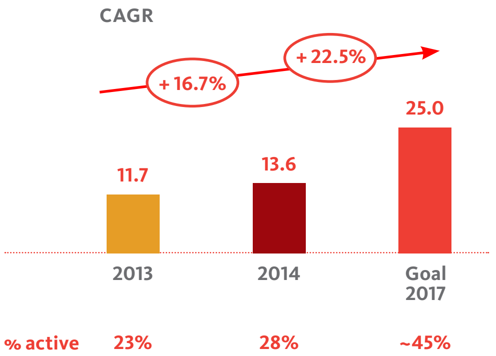
Our digital offering is key to this. Only 28% of customers use our digital channels now: **the objective is to increase this to 45% in 2017.** To achieve this, a number of initiatives have already started including a Multichannel Development Plan, Mobile First, the deployment of Smart ATMs and our unique Innoventures Fintech Fund.

Our opportunity

Retail customers (million)



Digital transformation
Number of digital customers



The results of these initiatives are encouraging. In 2014 alone the number of digital customers across the Group grew by 17%.

We will also continue to simplify internal processes and to improve the role of the Corporate Center in order to achieve our efficiency plan targets of a Cost to Income of less than 45% by 2017.

In 2014 we improved this ratio to 47% from 48% in 2013. We are, for example, simplifying the group structure from 15 to 11 divisions.

Shareholders

Reinforced capital and risk management. Even before our capital increase we were amongst the best in several important capital ratios, as shown by the recent AQR and stress tests where we came out "best-in-class".

Our €7.5bn capital increase was a huge success: 235 investors participated with a total demand of above €11bn –79% of the demand coming from US and UK investors.

We did this for two reasons. First, we wanted to be able to accelerate organic growth, with the new capital allowing us prudently to gain profitable market share now that most of our core markets are forecast to see economic growth once again.

Second, we wanted to be able to have in place a sustainable dividend policy and increase the cash component of the pay-out to between 30-40% of recurrent earnings. **Our cash dividend will go up from €1bn to €2.5bn.**

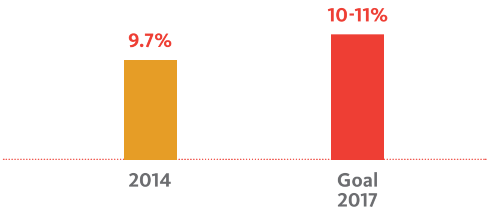
Looking ahead, we will be amongst the best in overall capital ratios, reaching a CET1 fully loaded of 10% in 2015 and a target 10-11% for 2017.

We will focus on organic growth – mainly in Europe and the Americas; be stricter in our capital allocation – allocating capital to businesses with higher potential returns; and although acquisitions are not a priority, were we to consider an acquisition, we would be stricter in our criteria. Our goal is a ROTE of 12-14% by 2017.

To achieve this, excellence in risk management is essential. We are working on a Group Wide Risk Management Program to enhance our holistic and timely control of all types of risks. In our Risk Data Aggregation project alone we are investing €500m. Our goal is to continue to achieve a predictable risk profile, with NPLs below 5%.

The most important aspect of risk management, however, is strong corporate governance. Banco Santander's board of directors is fully involved in the Group's risk oversight and management. Our modern, diverse and international board has broad knowledge of different sectors and the right balance between executive and independent directors (60% of the total), and 33% are women.

Reinforced capital
CET1 fully loaded



I would like to thank Fernando de Asúa and Abel Matutes for their invaluable contribution to the Bank over many years.

Enhanced profitability. Our strategy of focusing on loyal customers will enable us to deliver higher growth than our peers and improved profitability to our shareholders.

Our aim is to deliver higher EPS growth than peers.

Communities

Santander Universities lies at the heart of our support for our communities. Since 1996 Banco Santander has invested more than EUR 1.0 bn in universities projects and has supported more than 160,000 students and professors through its scholarship program in countries where we operate.

Over the next four years we will invest EUR 700 million in universities; and we will continue to support charities and NGOs on a range of other initiatives, including corporate volunteering.

The ultimate measure of success

I joined Santander in 1988, so I know well the Santander team and our businesses around the world. Over the last few months, we have made the necessary changes both at executive and board level so that, together, we will become the **best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.**

Ultimately, the measure of our success will be that wherever we operate, our customers are the ones who champion our services and bring in new customers.

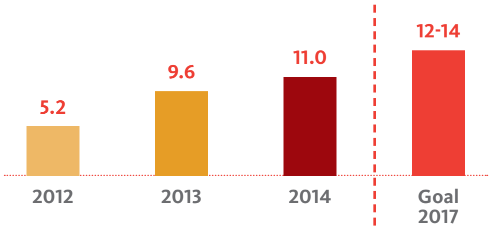
I am confident we will achieve this because each of us at Santander is committed to going the extra mile to serve our customers. **I would like to thank every member of our team:** their hard work, commitment and loyalty to Santander are the foundation of our success.

Finally, I would like to thank you, as one of our shareholders, and our board for the support and loyalty shown over the years. We can all be proud of what has been achieved - but our best days lie ahead.

Kind regards and all the best for 2015,

Ana Botín
Group executive chairman

Enhanced profitability
Return on tangible equity (RoTE) %



The measure of our success will be that wherever we operate, our customers are the ones who champion our services and bring in new customers

Message from José Antonio Álvarez

José Antonio Álvarez, chief executive officer.

2014 was a year when the global economic situation improved, particularly in the developed economies, the hardest hit by the financial crisis. The financial situation of both consumers and companies improved which, coupled with the measures taken by central banks, is facilitating access to credit.

The year, however, was not free of volatility and uncertainties, with geopolitical risks and falls in commodity prices. Interest rates continued to decline globally, particularly in the euro zone where the ECB's benchmark rate was 0.05%. The regulatory environment also continued to evolve with new capital measures and new stress tests conducted by several of our regulators, which our Bank passed in all cases better than the sector's average.

In this environment, Grupo Santander generated an attributable profit of €5,816 million in 2014, 39.3% more than in 2013. Attributable profit per share was 24.4% higher at €0.479.

We posted a higher quality profit, characterised by:

- **Gross income** rose in nine of the 10 core units, mainly due to the improvement in commercial activities.

- **Costs were controlled;** they rose in the Group at below the average inflation rate, while absorbing investments in order to be able to grow.

- **Loan-loss provisions declined** in seven of the 10 core units, particularly in countries hit by recession or affected by an economic downturn in the last few years.

- **All units increased their pre-tax profits** in local currency for the first time since 2007, reflecting a differentiated management and one tailored to each country's situation.

As regards the **balance sheet**, the downward trend in lending was reversed and growth returned at Group level after several years of falling. Moreover, this growth occurred in both individual customers as well as companies and in all the core countries except for Portugal. This was made possible thanks to the effort made to offer our customers new products and services.

On the liabilities side, we combined an increase in all the units with management focused on reducing the cost of deposits, particularly in countries with interest rates at historically low levels.

In this way, **the Group ended the year with a larger but also more solid balance sheet:**

- **With better credit quality.** The sharp fall in entries of non-performing loans was reflected in lower NPL ratios at Group level and in its main units, while the coverage ratio continued to increase.
- **With a comfortable liquidity situation.** The net loan-to-deposit ratio (LTD) of 113% remained within our comfort zone and we expect to comply ahead of schedule and amply with the short-term regulatory requirements (liquidity coverage ratio or LCR), both at Group level and in the main subsidiaries.
- **With strengthened capital ratios** via organic generation, the issue of additional Tier 1 capital and, in January 2015, a capital increase.

Santander's balance sheet strength, recurrent results and low risk business model were underscored by the European Central Bank's comprehensive assessment of the European Union's largest banks. Two big conclusions can be drawn from the results of these tests:

1. Santander has a **clean and prudently valued balance sheet.** The Bank registered a marginal impact (€200 million in a balance sheet of almost €1,300 billion), as a result of the Asset Quality Review (AQR), the lowest among its European peers.
2. Our business model is **less volatile** than that of the rest of the banking sector and **consumes less capital in unfavourable economic situations.** In the adverse stress test scenario, we were the bank with the least impact among our peers as we showed a €19,500 million capital surplus above the minimum requirement.

In short, **the profit and balance sheet evolution increased Grupo Santander's profitability**. Return on tangible capital (RoTE) was 1.4 p.p. higher than in 2013 at 11.0%, while return on risk weighted assets (RoRWA) improved to 1.3% and reached levels that although comparing well with many of our competitors are still far from our potential.

For the first time since 2007, all units increased their pre-tax profit in local currency terms, reflecting our differentiated management and one tailored to each country's situation

The Group ended the year with a larger but also more solid balance sheet

The profit and balance sheet evolution increased Grupo Santander's profitability

Outlook by business unit

The economic outlook for 2015 is better than in recent years. In particular, we expect the European recovery to firm up and emerging countries to grow more strongly. Banks, however, will continue to operate in a very complex environment of low interest rates and economic growth below that of the previous cycle.

The regulatory environment, meanwhile, will continue to evolve quickly in order to have stronger and more transparent banking systems. We are conscious of the correctness of the objective, but also of the increasing complexity it generates and its impact on the structural profitability of banks in the coming years. Consequently, we believe that the regulator should assess the impact that the reforms and the new environment have on economic growth and banks' capacity to conduct on a sustained basis the function entrusted in them: to finance the economy's growth and contribute to the wealth of households and companies.

The executive chairman explains in detail in her letter the Group's strategic priorities for the next few years. I will review the performance of the main units in 2014 and their management priorities for 2015.

Developed markets

Contribution to Group profit

19%

- **United Kingdom**

The transformation of the commercial franchise and the favourable economic environment had a positive impact in 2014 on Santander UK's business, commercial revenues and provisions. Attributable profit was 30% higher at £1,270 million. Also noteworthy was the growth in lending to companies above that of the market, the increased engagement of individual customers and the change of trend in mortgages (+1%).

These business dynamics, combined with our balance sheet strength, represent an excellent foundation for tackling 2015, a year when we will maintain the main strategic lines: increase the number of engaged customers, demand deposit accounts and lending to companies by more than the market. We will also continue to invest in digital technology, which we will combine with a further improvement in the efficiency ratio.

Contribution to Group profit

14%

- **Spain**

The year 2014 saw a return to profit and business growth. Attributable profit more than doubled to €1,121 million, driven by a lower cost of liabilities, reduced costs and a fall in provisions from the credit risk improvement. Also of note was the growth in lending, for the first time since 2008, due to companies and SMEs, as well as the strong rise in new mortgage lending.

In 2015, with a macroeconomic environment that will further improve, profit and profitability will continue to normalise. With the integration completed, we will focus more on the commercial business, the quality of service and customer engagement. We also aim to increase our market share in the most attractive lending segments, where we believe we can again surpass the sector. And the particular attention paid to improving the cost of credit and operational excellence will positively affect results.

Santander CONSUMER FINANCE

Contribution to Group profit

11%

- **Santander Consumer Finance**

Santander Consumer Finance (SCF) is one of the areas that best performed during the crisis, and better than its peers. Attributable profit in 2014 was €891 million, 12% more than in 2013, fuelled by greater lending and revenues and a very low cost of credit for its type of business.

We also reached agreements that enhanced our position and future growth potential. In 2015, the entry into force of the agreement with Banque PSA Finance and of the business acquired from GE Nordics will consolidate our leadership in auto finance in various European countries, enabling us to enter markets such as France and Switzerland where we have not operated until now.

The priority for the year will be to achieve a model integration of the new operations in order to extract all their potential, without overlooking the growth of the rest of units and with spreads tailored to each market.

• United States
Santander USA posted an attributable profit of $1,061 million in 2014, similar to 2013. It did not increase because of the higher minority interests of SCUSA after its stock market listing. Before these interests, profit was 4% higher due to the units' varied strategies:

- Santander Bank, our retail and commercial bank in the north east of the US, focused its business growth on companies and auto finance, while repositioning its balance sheet in terms of profitability, by reducing unproductive assets and cancelling long-term debt whose cost was above the market's.

- SCUSA, our consumer finance unit, increased origination and sale of credits, following the agreement with Chrysler, as well as the weight of servicing in total business.

Our two main objectives in 2015 are: on the one hand, continue to improve the commercial franchise in order to be in a position to gain market share in a growing economy; on the other, strengthen governance and control structures by investing more in technology, risk and regulatory compliance, enabling us to fulfil the regulator's requirements as quickly as possible. It will take time, but we will build a better bank.

Contribution to Group profit

10%

• Portugal
In a still weak market context, Santander Totta continues to be the country's most profitable bank. Attributable profit increased 65% to €189 million, with revenues, costs and provisions all contributing to this growth.

We will continue to normalise profit in 2015. In an environment where competitors are in a situation of weakness, we have the opportunity to gain profitable market share in the next few years, growing in customers and revenues. We will see further improvements in costs and lower provisions.

Contribution to Group profit

2%

Emerging markets

• Brazil
In an environment of adjustment and low growth, we are improving our business model in order to make it more sustainable, through increased commercial activity, greater engagement of customers, more recurrent revenues and lower risk.

The 2014 results began to reflect this strategy. Attributable profit rose 8% in constant currency to €1,558 million. The drivers of this growth were lower provisions and growth in costs well below the inflation rate. Revenues are still growing weakly because of the change of mix to lower risk businesses and lower spreads, already reflected in the cost of credit.

Contribution to Group profit

19%

This year we are implementing measures to increase the number of engaged customers, keep on growing in the high segment of companies and in those sectors where our presence is low, while continuing to improve efficiency. In addition, the acquisition of minority interests and investments in GetNet and Bonsuceso endorses the Bank's confidence in the country's medium and long term potential, and will have a positive direct impact on results.

Contribution to Group profit
8%

- **Mexico**

Santander Mexico continued in 2014 to expand and strengthen its franchise. As a result, pre-tax profit rose 9% to €1,057 million at constant exchange rates, fuelled by higher gross income from business volumes and an improvement in the cost of credit. Attributable profit fell 3%, due to the higher tax charge.

We will combine in 2015 investments in the multi-channel business and in opening branches with the efficiency plan. The objective is to grow more than the market, particularly in high income clients (*Select*), SMEs (*Advance*) and companies. We are ready to take advantage of the economic recovery and want to be one of the leading banks in financing the government's infrastructure plan.

Contribution to Group profit
6%

- **Chile**

Santander Chile made an attributable profit of €509 million, 35% more than in 2013 at constant exchange rates. This was an excellent result generated by growth in target segments, lower provisions and the favourable impact on revenues of the UF portfolio, indexed to inflation, in a year when inflation was higher than expected.

The Bank focused on improving commercial management and customer engagement, which helped to boost customer satisfaction in all networks and channels. The more expansive tone of monetary and fiscal policy in 2015 heralds an upturn in activity. The Bank's strategy will continue to focus on perfecting the customer experience, transforming commercial and retail banking and deepening the relationship model with companies and large corporations.

Contribution to Group profit
6%

- **Poland**

In a context of a sharp drop in interest rates, BZ WBK posted an attributable profit of €358 million, 7% more than in 2013 at constant exchange rates. Of note was the improvement in commercial revenues, distinguishing us from our peers, following the success of that commercial campaigns that enabled us to increase lending and funds.

We face 2015 in a good market position, with the integration of BZ WBK and Kredyt Bank completed. We draw strength from our leadership in cards, mobile banking and electronic banking, from our capacity to offer innovative solutions to individual customers and companies, and development of the *Next Generation Bank* strategic programme, whose main objective is to make BZ WBK the Bank of first choice.

Contribution to Group profit
4%

- **Argentina**

In a complex environment, Santander Río increased its attributable profit by 33%, to €298 million. We continue to be the leading private sector bank in volume terms, we have a very transaction-based business model and a solid balance sheet of low structural risk.

We will continue to develop in 2015 a strategy focused on improving our commercial position in order to fully exploit the country's more developed banking system, with greater emphasis on high income individuals, SMEs and transaction products.

Global businesses

Santander Global Banking and Markets posted an attributable profit of €1,614 million in 2014, 16% more than in 2013 in constant euros. Growth was fuelled by customer revenues and lower provisions. The Group will continue to develop in 2015 its capacities to expand its presence in the segment of large multinationals that operate in our main geographic areas: Europe and the United Kingdom, North America and Latin America.

Private Banking, Asset Management and Insurance continued to increase their contribution to the Group. This business generated total revenues of €4,528 million including those paid to the commercial network, 7% higher than in 2013 with constant exchange rates and perimeter (10% of the Group's total). A key driver was the good performance of our strategic agreements with product specialists in various countries in order to spur the insurance and asset management businesses in the coming years.

Conclusions

I will conclude with some basic ideas on Santander's outlook for the next few years:

- We began 2015 with good dynamics in results and volumes.
- We have comfortable liquidity and capital positions to be able to grow in an environment of greater activity in our core markets.
- We know what to do in order to be commercially successful: make the customer the focal point of our management.
- We will maintain our focus on operational excellence in order to streamline internal processes, transform the Bank digitally and improve efficiency and customer service.
- We will strengthen risk management, a longstanding priority for Santander.
- We will use capital much more efficiently and exit non-strategic businesses, focusing on growth areas.
- Our ultimate objective is to improve the return on the capital employed.

I expect the Group's profits to normalise and return to pre-crisis levels. As the chairman indicated in her letter, **we aspire to attain a return on tangible equity of between 12% and 14%**, with most of the dividend distribution in cash and in accordance with the growth in profits. This will have a positive impact on the value of our share.

In order to implement our strategy and meet our goals, **we have an experienced team** and the capacities of adequate management, which we will continue to strengthen via the strategic Human Resources plan. Its objective is to make Santander the best bank to work for.

I am confident that, with the support and motivation of our employees and the confidence of our customers and shareholders, we will be able to achieve all the goals set for 2015.

José Antonio Álvarez
Chief executive officer

Our ultimate objective is to improve the return on the capital employed. We aspire to attain a return on tangible capital of between 12% and 14%

Corporate governance

Balanced and committed board

- Of the 15 directors, 10 are non-executive and five executive.

Equality of shareholders' rights

- The principle of one share, one dividend, one vote.
- No anti-takeover measures in the corporate Bylaws.
- Encourage informed participation by shareholders in meetings.

Maximum **transparency**, particularly in the remuneration sphere

- This is key for generating shareholder and investor confidence and security.

Recognised by **socially responsible** investment indices

- Santander has been in the FTSE4Good and DJSI indices since 2003 and 2000, respectively.

The board of directors

Banco Santander's board of directors is the top decision-making body, except for matters reserved for the general shareholders' meeting. It is responsible, among other things, for the Group's strategy. Its functioning and activities are regulated by the Bank's internal rules, which are based on principles of transparency, efficiency and defence of shareholders' interests. The board also oversees compliance, taking into account the best international practices in corporate governance, and closely involves itself in the Group's taking of risks. In particular, the board, at the proposal of senior management, is the body responsible for establishing and monitoring the Group's risk appetite.

The board's composition is balanced between executive and non-executive directors.

There are 15 directors, five of which are executive and 10 non-executive. Of the 10 non-executive directors, nine are independent and one proprietary.

All members are recognised for their professional capacity, integrity and independence. The non-executive directors are noted for their financial expertise, wide knowledge of the markets where the Group operates and different sectors and customer attention models, from top executive positions.

The board held 16 meetings in 2014.

Remuneration policy

The remuneration policy for directors and the Bank's senior management is based on the following principles:

1. Remuneration must be consistent with rigorous and prudent risk management.

2. Anticipating and adapting to regulatory changes in remuneration matters. The executive director's variable remuneration deferred period, as well as that of other directors within the Group's identified category, are consistent with the provisions of the CRD IV.

3. Involvement of the board, as, at the proposal of the remuneration committee, it approves the annual remuneration report for directors and submits it to the general meeting of shareholders on a consultative basis and as a separate item on the agenda.

4. Transparent information.

The board's total remuneration increased 8.9% compared to the Group's profit growth of 39%.

In 2014, the board increased its gender and geographic diversity

For more information on corporate governance, see pages 68 to 99 of the annual report.

El Faro, Santander Group City, Boadilla del Monte, Madrid, Spain.

Changes in the board's composition

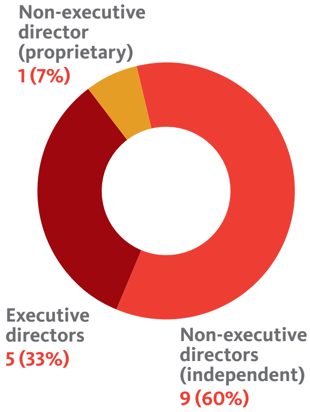
On September 10, following the death of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, the Bank's board agreed to appoint **Ms. Ana Botín-Sanz de Sautuola y O'Shea** executive chairman.

The board, at its meeting on November 25, appointed **Mr. José Antonio Álvarez Álvarez** chief executive officer, in the place of Mr. Javier Marín Romano, and it also agreed the following appointments:

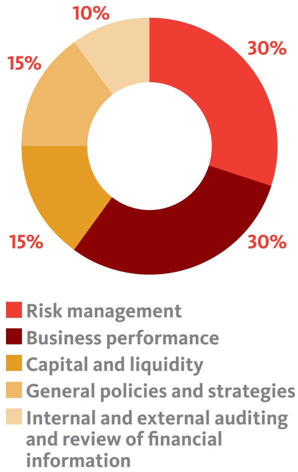
- **Mr. Rodrigo Echenique Gordillo**, as vice chairman. In 2015, he was appointed executive director responsible for compliance, as well as other functions that might be delegated in him by the executive chairman.
- **Mr. Bruce Carnegie-Brown,** vice chairman, independent director, lead independent director and coordinator of the non-executive directors.
- **Ms. Sol Daurella Comadrán,** as independent director.
- **Mr. Carlos Fernández González,** as independent director.

The new independent directors filled the vacancies occurred, including those produced by the resignations of Mr. Fernando de Asúa Álvarez and Mr. Abel Matutes Juan.

Composition of the board

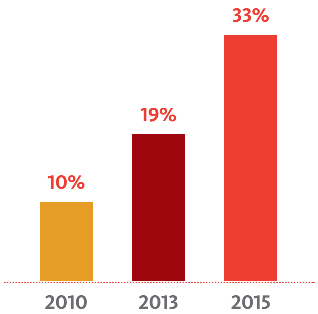


Approximate time spent by the board on each function

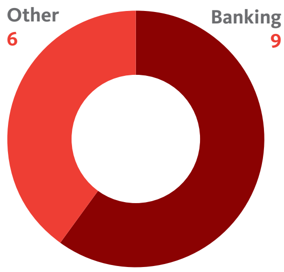


Diversity in the board

% of female directors



Areas of speciality



Board of directors of Banco Santander

1.
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea
Executive chairman. Executive director
● □ △

2.
Mr. José Antonio Álvarez Álvarez
Chief executive officer and executive director
● ■ □ △

3.
Mr. Bruce Carnegie-Brown
Vice chairman. Non-executive director (independent), coordinator of the non-executive directors and lead independent director
● ● ■ ○ △

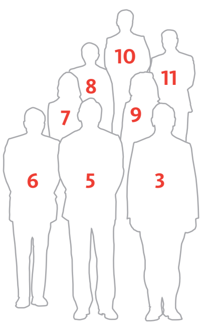
4.
Mr. Rodrigo Echenique Gordillo
Vice chairman. Executive director
● ■ □ △

5.
Mr. Matías Rodríguez Inciarte
Vice chairman. Executive director
● ■ △

6.
Mr. Guillermo de la Dehesa Romero
Vice chairman. Non-executive director (independent)
● ▲ ● ■ ○ □ △

7.
Ms. Esther Giménez-Salinas i Colomer
Non-executive director (independent)
□ △

8.
Mr. Juan Miguel Villar Mir
Non-executive director (independent)
▲ ○



● Executive committee
■ Executive risk committee
▲ Audit and compliance committee
● Appointments committee
■ Remunerations comittee
○ Supervision of risks, regulation and compliance committee
□ International committee
△ Innovation and technology committee

9.
Ms. Isabel Tocino Biscarolasaga
Non-executive director (independent)
● ■ ▲ ■ ○

10.
Mr. Javier Botín-Sanz de Sautuola y O' Shea
Non-executive director (proprietary)

11.
Mr. Carlos Fernández González
Non-executive director (independent)
▲ ● ○

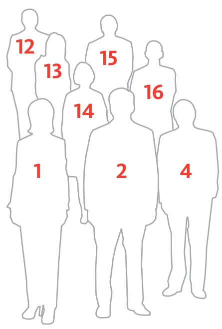
12.
Mr. Ángel Jado Becerro de Bengoa
Non-executive director (independent)
■ ▲ ● ■ ○

13.
Ms. Sol Daurella Comadrán
Non-executive director (independent)
● ■

14.
Ms. Sheila C. Bair
Non-executive director (independent)
○

15.
Mr. Juan Rodríguez Inciarte
Executive director
■

16.
Mr. Ignacio Benjumea Cabeza de Vaca
General secretary and secretary of the board
● ■ ▲ ● ■ ○ □ △



Structure and internal governance of Grupo Santander

Model of subsidiaries

Grupo Santander is structured via a model of subsidiaries autonomous in terms of capital and liquidity. The Group's parent company is Banco Santander whose registered office is in the city of Santander, Spain, and operating headquarters and corporate centre are in Boadilla del Monte, Madrid.

The Group's model of subsidiaries is characterised by:

- The administration bodies of each subsidiary are responsible for rigorous and prudent management, ensuring economic soundness and overseeing the interests of shareholders and other stakeholders.
- The subsidiaries are managed on the basis of local criteria and by local teams that contribute a lot of expertise of clients in their markets, while benefiting from the synergies and advantages of belonging to Grupo Santander.
- They are subject to the regulation and supervision of their local authorities, without detriment to that exercised by the European Central Bank on the Group.
- Their deposits are guaranteed by the respective deposit guarantee funds of the countries where they are located.

The subsidiaries are funded autonomously in terms of capital and liquidity.

- **Capital:** the local units are endowed with the capital required to conduct their business and meet regulatory requirements.
- **Liquidity:** each subsidiary develops its financial plans and liquidity projections and calculates its funding needs without counting on the parent company's resources and guarantees. The subsidiaries obtain liquidity autonomously in local and international markets on the basis of their needs.

The Group's capital and liquidity needs are coordinated in corporate committees. Intragroup exposures are limited, transparent and at market prices.

The subsidiaries' autonomy limits the contagion risks between the Group's different units, which reduces systemic risk. Each subsidiary has its own resolution plan.

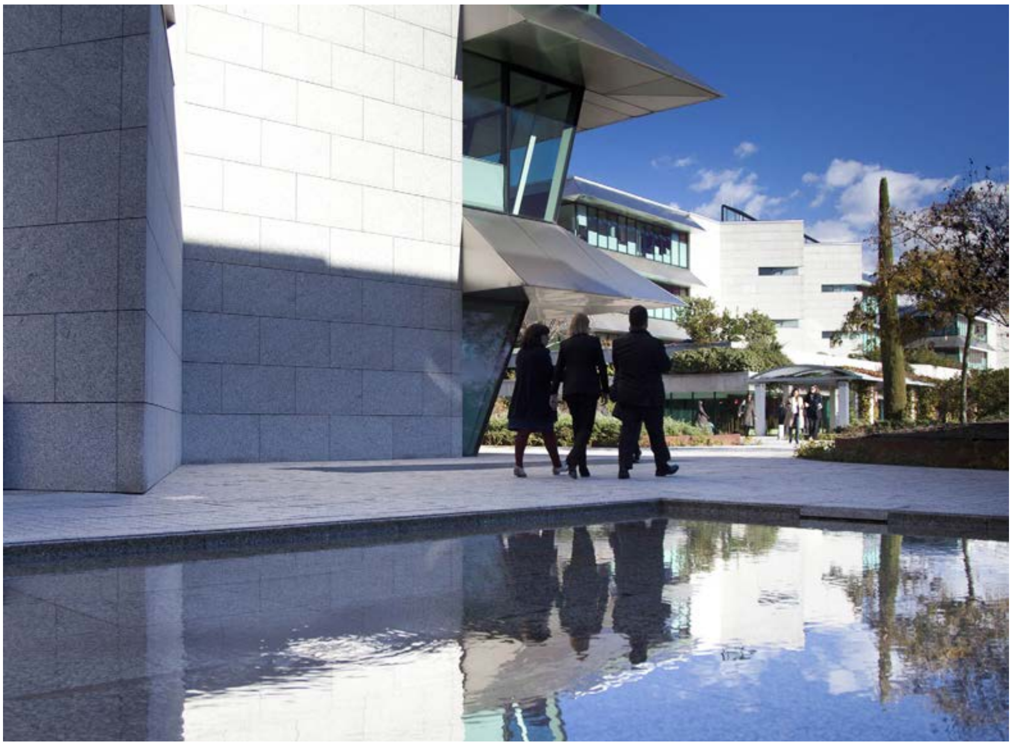
Listed subsidiaries

The Group has subsidiaries listed in their respective markets, always retaining a stake that gives it control.

The listed subsidiaries:

- Provide access to local funding sources. They are submitted to market discipline, which generates incentives for good management.
- They guarantee a high level of transparency and corporate governance, and strengthen the Group brand in its respective countries.

Grupo Santander's subsidiaries are autonomous in terms of capital and liquidity



Santander Group City, Boadilla del Monte, Madrid, Spain.

Internal governance in Grupo Santander

Santander has an internal governance framework to which its subsidiaries adhere. This framework establishes the principles that govern relations between the Group and its subsidiaries, and articulates:

- The Group's supervision and control mechanisms, and
- The Group's participation in certain of the subsidiaries' important decisions.

In particular, the subsidiaries formulate their risk appetite in line with the global framework agreed at the corporate level, which includes quantitative metrics and qualitative elements.

Under the internal governance framework, Banco Santander has drawn up common frameworks for certain functions – notable among which are risks, capital, liquidity, corporate governance, auditing, marketing of products and services, prevention of money laundering, and brand and communication – which have been approved by the subsidiaries' administration bodies.

The value of the corporation

Banco Santander's subsidiaries' model is complemented by global support and control units that carry out functions to do with risk, auditing, technology, human resources, legal matters, communication and marketing, among others. This adds value to the Group's different units through:

- **Its international team, corporate culture and brand.** The Group's more than 180,000 professionals throughout the world are at the service of 117 million customers. The Santander culture attaches particular importance to fulfilling a purpose that is the same in all countries and businesses (helping people and businesses prosper) and how to achieve it in a Simple, Personal and Fair way.
- **Prudent risk management and capital strength.** Santander comprehensively manages all risks and has units for global supervision and control.
- **Investment in innovation.** The Group's size gives it a high innovation capacity to carry out the digital transformation. Santander also has mechanisms to transfer the best practices quickly from one market to others.

All these factors enable Santander to post better results and contribute more value than that which would be derived from the mere sum of each of the local banks.

Santander has a value added structure which enables the Bank to obtain better results than that which would come from the sum of each of the local banks

Purpose

Santander's purpose is to help people and businesses prosper.

Aim

Santander's aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

1

Business model and strategy

Purpose and business model

Our purpose is to help people and businesses prosper

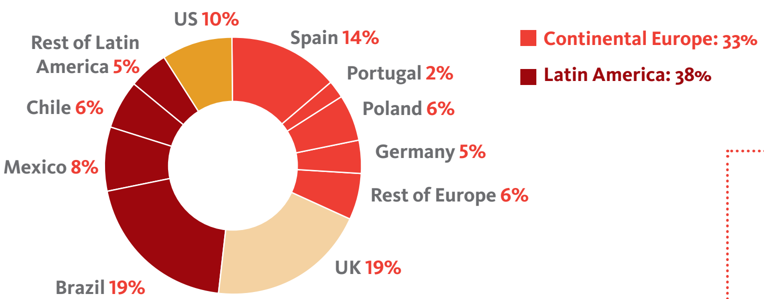
In order to fulfil this purpose, Santander has a customer-focused business model that is unique among the major international banks.

1.- Diversification, focused on Europe and the Americas

Grupo Santander's geographic distribution is balanced between its 10 core markets: Spain, Germany, Poland, Portugal, the United Kingdom, Brazil, Mexico, Chile, Argentina and the United States. It also has significant market shares in Uruguay and Puerto Rico, consumer finance businesses in other European countries and a presence in China through wholesale banking and consumer finance.

Santander also has global business areas that develop products that are distributed through the Group's retail networks and provide services to clients globally.

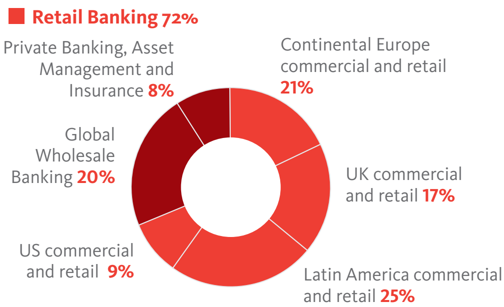
Distribution of attributable profit by geographic operating area



2.- Focus on retail banking and customer loyalty

Banco Santander's commercial model aims to satisfy the needs of all types of customer: individuals with different income levels, companies of any size and different sectors of activity, private companies and public institutions. Developing lasting and sustainable relations with them is the Bank's main objective. The Bank has high market shares in commercial and retail banking in the main countries where it operates.

Distribution of attributable profit by operating business segments



117
million customers

3.- Subsidiaries' model

Grupo Santander is structured via a model of subsidiaries autonomous in capital and liquidity, which are managed according to local criteria and by local teams that contribute substantial knowledge and experience with customers in their markers, while also benefiting from the synergies and advantages of belonging to Grupo Santander.

The subsidiaries' autonomy limits the contagion risk between the Group's units and reduces systemic risk.

See page 22 of this annual review

4.- International talent, with a shared culture and a global brand

The Group has over 180,000 professionals at the service of its 117 million customers. Santander's employees share a culture focused on complying with the Group's purpose (helping people and businesses prosper) and attaining its aim (be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities).

The Santander brand synthesises the Group's identity and expresses a corporate culture and unique international positioning that is consistent with conducting banking in a Simple, Personal and Fair way worldwide.

185,405
employees

#1
World's top retail banking brand
(Brand Finance)

Simple | Personal | Fair

5.- A strong balance sheet, prudent risk management and global control frameworks

Santander has a medium-low risk profile and high asset quality, with solid capital tailored to its business model, balance sheet structure, risk profile and regulatory requirements. It funds most of its lending with customer deposits, maintains wide access to wholesale funding and has a broad array of instruments and markets to obtain liquidity.

Banco Santander has frameworks and corporate policies, common customer attention models and global control systems. This enables the Group to obtain better results and contribute greater value than that which would come from the sum of each of the local banks.

9.7
Capital (CET1 fully loaded)

113%
Loan-to-deposit ratio
(112% in 2013)

5.2%
NPL ratio
(5.6% in 2013)

6.- Innovation, digital transformation and best practices

Innovation has been one of Grupo Santander's hallmarks since it was founded. On many occasions the Bank has revolutionised the financial sector with new products and services.

Santander is carrying out an intense digital transformation in order to anticipate, with innovative and attractive solutions, customers' new needs. Some examples of this are improvements in online banking, mobile banking, mobile wallet and a new strategy for digital payments.

The Group's size enables it to identify and quickly and efficiently transfer its best practices between the different markets in which it operates, adapting them to local features. In the last few years, moreover, Santander has launched global value proposals for its high-income clients *(Santander Select)*, for SMEs *(Santander Advance)* and for companies *(Santander Passport)*, all of which underscores the advantages of working with an international and diversified bank such as Santander.

Aim and value creation

Our aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

1 Best bank for our employees

→ Attract, retain and engage the best professionals capable of providing the best service to our customers and guaranteeing the success and sustainability of the business.

2 Best bank for our customers

→ Construct long-term relations of loyalty with our customers, offering them simple and tailored solutions, fair and equal treatment, and an excellent service via our branches and digital channels, in order to enhance their satisfaction and engagement with the Bank.

3 Best bank for our shareholders

→ Generate an attractive and sustainable return for our shareholders on the basis of a business model with a high degree of recurrent revenues, prudence in risks, efficient, disciplined use of capital and financial strength.

4 Best bank for communities

→ Conduct our banking activity by contributing to the economic and social progress of the communities in which we operate, in a responsible and sustainable way, and particularly committed to the sphere of higher education.

Our six strategic priorities

Stakeholder	Priority	Indicator	2014	2017 Targets
Employees	1 Be the best bank to work in and transform our culture: Simple, Personal and Fair	Number of core markets where the Bank is among the top three banks to work for (according to the relevant local rankings)	3	6
Customers	2 Increase the number of loyal individual customers and companies	Loyal individual customers (million)	12.2	17.1
		Loyal corporate banking and SMEs customers (thousand)	767	1,049
		Credit growth to customers	5%	outperforming competitors in terms of growth
	3 Operational excellence	Number of countries where the Bank is among the top 3 for customer satisfaction among its peers	5	9
		Number of digital customers (million)	13.6	25.0
		Cost-to-income ratio	47%	<45%
Shareholders	4 Capital strength and risk management	CET1 fully loaded capital ratio	9.7%	10%-11%
		Non-performing loan ratio	5.2%	<5%
		RoTE	11%	12-14%
	5 Enhanced profitability	Growth in earnings per share (EPS)	24%	outperforming competitors in terms of growth
Communities	6 Santander Universities as the main support of communities	€700 million for universities over the next four years		
		90,000 scholarships for students between 2015 and 2017		
		Among the first 10 in the Dow Jones Sustainability Index		

For more information, see Ana Botín's message (pages 6-11).

Simple | **Personal** | **Fair**

Simple, Personal and Fair

Simple, Personal and Fair transmits how all Santander's professionals think and act and what our customers demand of us as a bank. It defines what guides our actions and decisions and the way in which we must relate to our customers, shareholders and communities.

Simple, Personal and Fair is the way to become the best bank for our customers and the best company for our employees.

Simple

- We offer a convenient service to our customers with products that are simple, easy to understand and uncomplicated.
- We use clear, concise and understandable language.
- We improve our processes every day for customers and professionals by simplifying procedures and eliminating unnecessary steps.

Personal

- We treat our customers in an individual and personalised manner by offering them products, services and tools so they can decide which ones best suit their needs.
- We strive to make every customer feel unique and appreciated.
- We are committed to our professionals and support them so they can develop their full potential and achieve their objectives.

Fair

- We treat our customers in a just and fair way, through transparency and resolving their complaints quickly and diligently.
- We establish relations in such a way that both the Bank as well as employees, customers and shareholders obtain a profit, as we understand that what is good for them is also good for the Bank.
- We meet our promises and take responsibility for the commitments made with our customers.

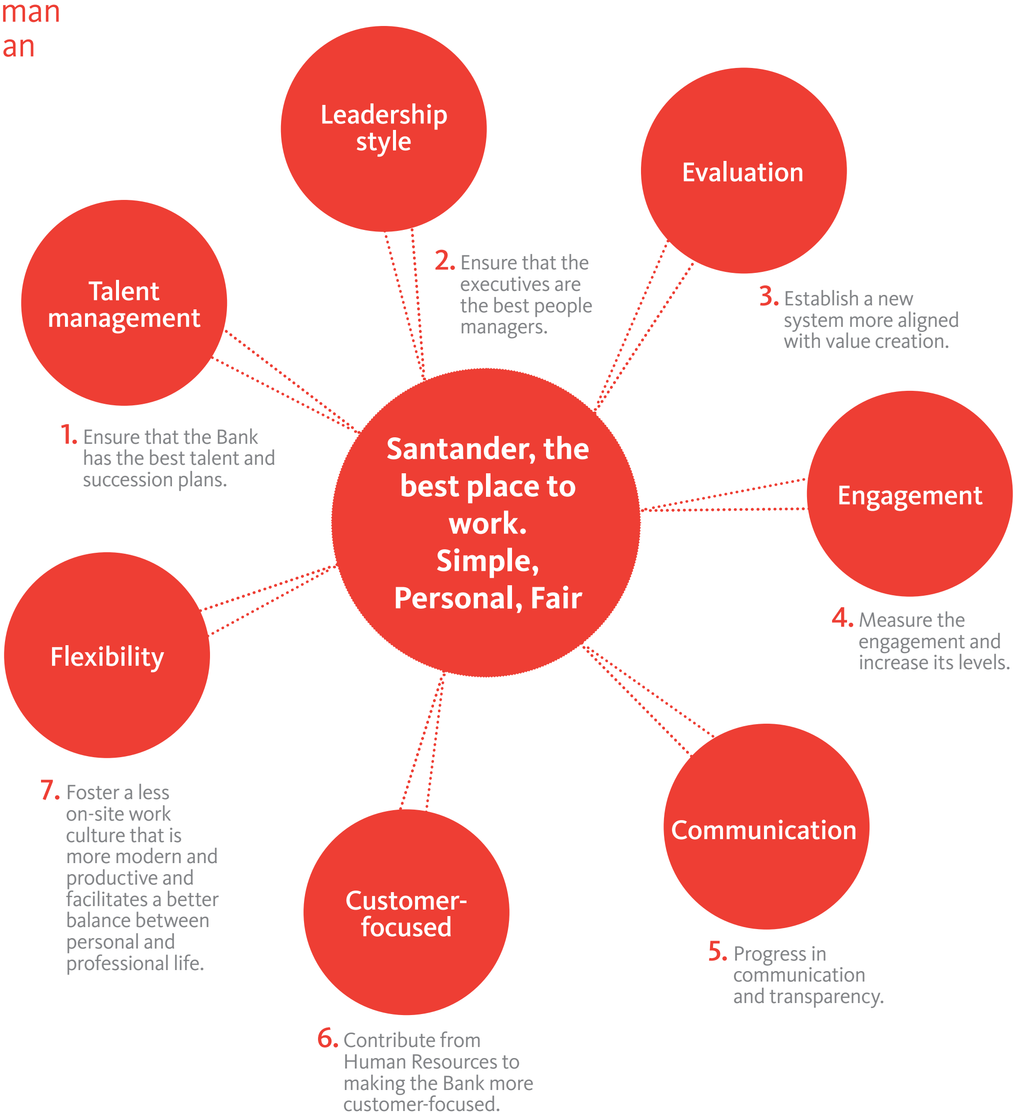
Employees

In order to be the best retail and commercial bank for our customers, we must begin with our employees. If they feel proud of belonging to Santander and more engaged, they will be able to earn the lasting loyalty of our customers.

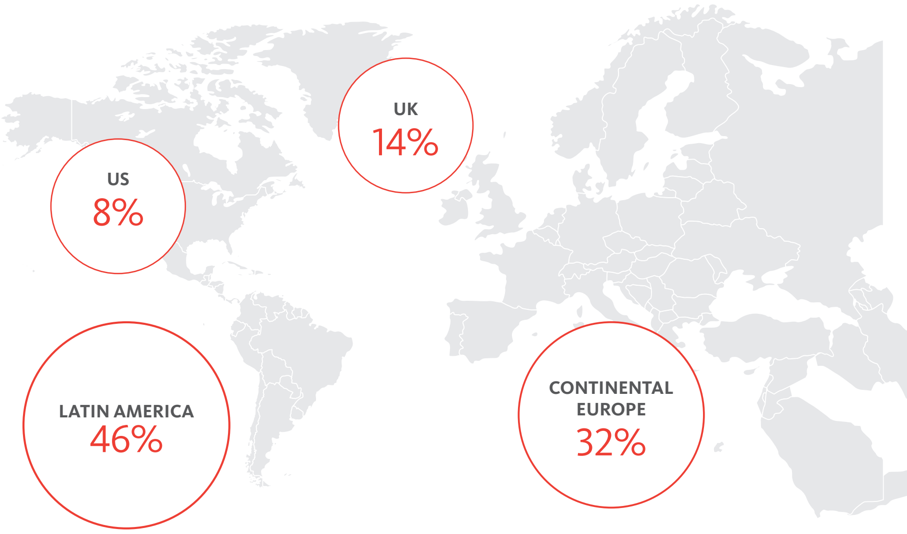
Santander launched in 2014 a strategic Human Resources plan whose main objective is to **make Santander the best place to work.**

This plan revolves around **seven elements** and has a system of governance and monitoring for overseeing the execution and impact of the initiatives included in each one of them.

Strategic Human Resources plan



Geographic distribution of professionals



Other key figures

55% 45%

9 **11**
Average number of years with Santander

55% **46%**
Graduates

37 **39**
Average age (years)

Total number of professionals

185,405

58,878	25,599	15,919	85,009
Continental Europe	UK	US	Latin America

Among the main projects launched during 2014 under this plan were:

Talent management
Santander drew up a harmonised and homogeneous plan to identify and develop the Group's talent, as well as a succession plan that guarantees the viability of the business.

The following steps were taken:

- **Committees to assess talent,** bodies that meet regularly and involve senior management: division executives, country heads and members of management committees. These committees analyse professionals, their career path and future potential. In some cases, individual development plans are established to accelerate professional development. There were 143 of these committees in 2014.

- **Global job posting:** a corporate platform that offers all the Group's professionals the possibility of knowing and opting for vacant positions in other countries. The objective is to facilitate employee mobility, foster their development and make internal selection processes more transparent. More than 500 positions in various countries have been publicised since its launch in July 2014 and 60 offers of incorporation made.

Santander continued to be **committed to gender diversity** through various initiatives:

- Programmes such as *Sumando Talento* or *Take the Lead* for women in executive or pre-executive positions in all countries in order to foster the development of talent and female leadership.

- In Spain, Banco Santander signed a voluntary agreement with the Ministry of Health, Social Services and Equality to increase the presence of women in executive and pre-executive positions in four years.

- The III Santander Woman and Company Meeting was held at the Bank's headquarters in Boadilla del Monte with the title *Other leadership perspectives*. Close to 1,000 people attended.

El Solaruco training centre, Santander Group City, Boadilla del Monte, Madrid, Spain.

Assessment

The new management performance model, launched in 2014 for corporate executives, includes the following developments:

- Independent measurement of objectives and powers including a 180º process of assessment involving direct reports as well as the person's immediate superior.
- Incorporation of an objective of "people management" with a minimum weight of 15% which the 180º assessment will take into account.
- Strengthening crossed or functional evaluation.
- Elimination of the curve of differentiation of evaluations.

Commitment

The Group launched for the first time a **global survey** of professionals in all countries in order to gauge their level of engagement, as well as the organisational aspects they most value and those where there is room for improvement.

The global participation rate in the survey was 78% and the results indicate that 70% of the Bank's professionals have a high level of engagement (6 p.p. above the financial sector's average). Furthermore, 78% of professionals are proud to work for Santander and want to continue doing so for a long time. Of note among the aspects most valued by employees are professional development opportunities, the Bank's innovative spirit in developing products and services and the social benefits they can access. There are also areas of improvement regarding flexibility, cooperation and recognition.

Communication

In order to foster the active listening of professionals and a more transparent and participative style of communication, two key projects were launched in 2014:

- **Santander Ideas,** the Group's first internal social network that enables professionals from all countries to share their ideas on strategic issues for the Bank, vote on them and comment on them. This channel energises internal communication and fosters a culture of work focused on innovation, cooperation and participation, taking advantage of the diversity and collective intelligence of Santander's more than 180,000 professionals throughout the world.

  More than 10,000 ideas were obtained from almost 25,000 participants in all the Group's countries, via the three global challenges launched in 2014 related to customers, employees and branches. Of them, 213 were selected for implementation and 50 have already been put into effect in various countries.

- ***Somos Santander* (*We are Santander*)**, a communications campaign that fosters the idea of a united and cohesive team, where the talent and commitment of all the Group's professionals is vital for achieving sustainable growth that benefits our customers, shareholders and communities.

  The Semana *Somos Santander (We are Santander* week) is one of the main events and enables professionals from all the Group's countries to become protagonists and celebrate the pride of working for Santander. Furthermore, during this week Santander volunteers expressed their solidarity and in just one day collected 59 tonnes of food that was delivered to various NGOs throughout the world.

Social networks to foster communication and team work

SANTANDER **ideas:)**

25,000
participants

10,000
ideas

233,489
followers in the global profile of Santander in LinkedIn

Santander Select branch in Sao Paulo, Brazil.

This was one of the corporate volunteer activities organised in all countries during 2014, involving 60,000 volunteers.

Customer-focused

Santander continued in 2014 to be committed to training its professionals, paying particular attention to developing training programmes and exchange of best practices that support the commercial transformation into a more customer-focused Bank. Of note were:

- **Santander Retail and Commercial Banking College**, whose purpose is to enhance the development and knowledge of its commercial and retail banking professionals via specialised training programmes by segment and/or business in each country.
- **Santander Business Insights**, conferences to disseminate good practices related to customers, both the Group's and those of external organisations.
- **Knowledge without limits**, a new training platform for all the Group's professionals that provides access, in an open and participative way, to a wide variety of training resources and best internal and external practices in order to give a better customer service.

Recognitions

Among the recognitions obtained by Banco Santander in various countries during 2014 were the following:

- Santander UK obtained the *Top Employer* certification granted to those banks that attain the highest standards of excellence in the conditions they offer to their employees. The Bank was also recognised in the *Top 50 Employers for Women* for supporting gender diversity and in the Top *100 Graduate Employers* for being one of the preferred companies among university graduates.
- Santander Consumer Germany was recognised as *Top Employer* in the country and received the *Total E-Quality Award* for its initiatives in favour of diversity and equality of opportunity among its employees.
- In Argentina, Banco Santander was ranked first for the third year running in the *Great Place to Work* classification.
- In Spain, the Bank obtained the following recognitions:
  - The *MercoPersonas* 2014 ranking put Santander as the best bank to work for and the fourth best company in Spain.
  - The annual survey *Empleadores Ideales*, conducted by the Swedish consultancy Universum and which gathers the opinions of more than 16,000 Spanish students, put Banco Santander among the five favourite companies to work for among business school students who also regard it as their preferred bank.
  - The survey by the consultancy Randstad among more than 8,000 potential candidates between the ages of 18 and 65 recognised Santander as one of the preferred places to work in Spain in the banking category.

103.2
million euros invested in training for Santader employees

97%
employees received training in 2014

44.6
hours of training per employee

Customers

We want to help our customers prosper and meet their goals. In order to achieve this, the Bank's more than 180,000 professionals strive every day to build long-term relationships that increase the satisfaction and loyalty of our customers.

In order to continue to increase the loyalty of customers with the Bank and provide them with excellent service, we continued to work in 2014 on a commercial model that aims to offer value with simple and tailored solutions, via the most appropriate and efficient channels and with just and fair treatment.

Customer loyalty

Progress was made during 2014 in improving knowledge of customers and adapting the attention model and solutions that the Bank offers to satisfy their demands.

Knowing our customers

In order to facilitate a personalised dialogue with customers that enables us to better understand their behaviour, expectations and needs, new management tools and other initiatives were launched, such as events and group dynamics.

After the launch in 2012 of NEO CRM in Chile, it was introduced in 2014 in Brazil, Spain and the US. It will be implemented throughout 2015 in Argentina, Mexico, Portugal, Poland and the UK.

The **NEO CRM** project is a novel tool for organising commercial activity that enables us to gather and analyse the information of each customer and have a 360º vision of their performance and relationship with the Bank. This information enables customer needs to be anticipated and tailored solutions to be offered.

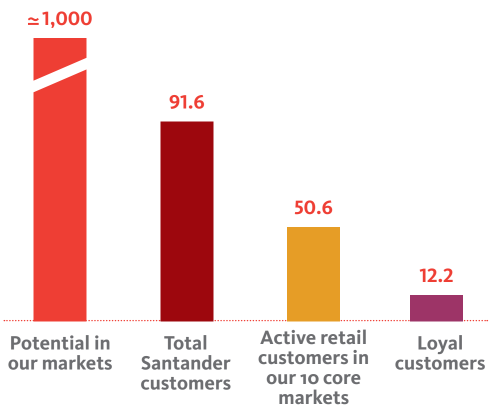
Group customers

Million

Spain	12.6
Portugal	3.6
UK	25.7
Poland	4.3
Germany	6.3
Rest of Europe	10.3
Total Europe	**62.8**
Brazil	31.1
Mexico	11.7
Chile	3.6
Argentina	2.5
Rest of Latin America	0.5
Total Latin America	**49.4**
United States	**4.7**
Total customers	**117.0**

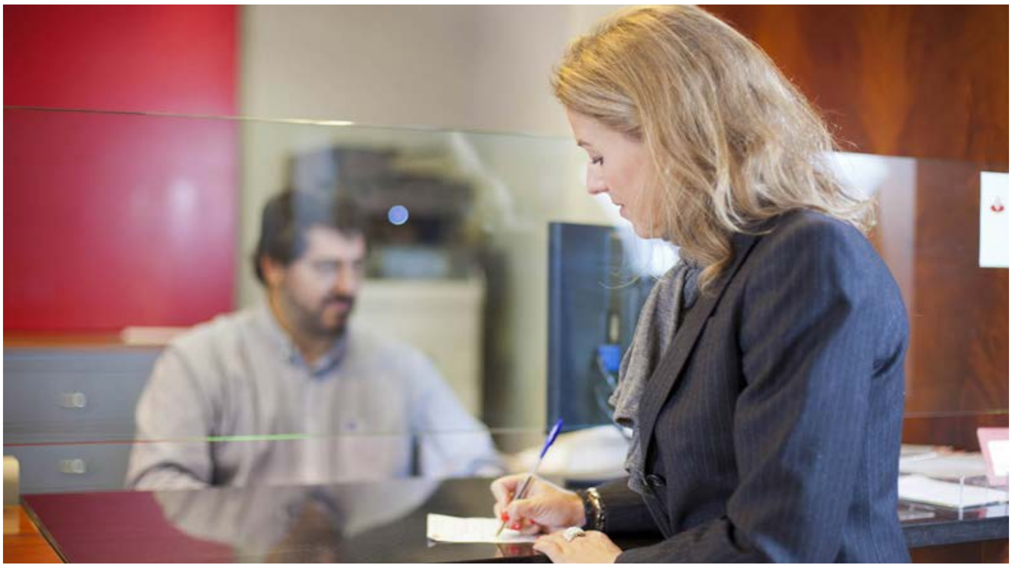
Individual customers

Million



New customer behaviours

- Customer behaviour is changing due to greater access to new technologies
- Mobile phones have changed the way customers interact to the Bank
- Customers demand a more comprehensive and simple service and greater accessibility, seeking comfort and convenience when operating with the Bank



Santander branch in Boadilla del Monte, Madrid, Spain.

Specialised solutions

Banco Santander's commercial model aims to satisfy the needs of all types of customer: individuals with different income levels, companies of all sizes and sectors, private corporations and public institutions.

Santander continued to innovate and develop solutions during 2014 for each customer type:

Individuals:

- The Bank remained committed to ***Santander Select*** as the Group's differentiated value proposal for high income customers. This specialised attention model, with products and services tailored to suit these customers' needs, is already operating in all our markets.

  Moreover, by taking advantage of its international franchise, Santander is able to make global value offers to these customers, such as the *Débito Global Select* card, which can be used to make cash withdrawals in the Bank's more than 30,000 ATMs throughout the world without paying a fee.

- In the UK, the range of products of the 1|2|3 account continued to function successfully. There are more than 3.6 million customers with a high degree of engagement with the Bank. The 1|2|3 current account reimburses in cash part of household bills and pays a better interest on large balances.

  In Spain, Poland and the US, similar products were launched in 2013 and in 2014 in Germany.

Companies:

In order to turn the Bank into **a strategic partner for growth in business with SMEs**, various initiatives were developed including *Santander Advance,* a programme that offers a powerful financial offer and other non-financial solutions to spur internationalisation, foster job creation, talent and training.

Santander Advance was launched in Spain, Mexico and Portugal in 2014, with the participation of more than 28,000 SMEs, and during 2015 will be extended to the rest of the countries where the Group operates.

Also in the UK, the Breakthrough programme, launched in 2012, offers value added services and alternative financing for SMEs to grow in this country. The results have been very notable and pushed up the Bank's market share in SMEs from 3.5% in 2012 to 6.5% in 2014.

Santander is also promoting other initiatives that take advantage of its international scope and network:

- ***Santander Passport*** is a specialised attention programme for companies with an international scope. These companies are recognised and served homogeneously as the Bank's preference clients in all the Group's subsidiaries.

  Santander Passport was launched during 2014 in eight countries (Argentina, Brazil, Chile, Spain, Mexico, Portugal, the UK and Uruguay) and is expected to be operational in the rest of the Group's markets by the end of 2015.

Santander Select branch in Mexico.

- ***Santander Trade*** is a unique platform in the financial sector that helps to internationalise the activity of companies, thanks to bringing business opportunities to the business community. It has been launched in 12 countries: Argentina, Brazil, Chile, Spain, the US, Mexico, Poland, Portugal, Peru, Puerto Rico, the UK and Uruguay.

  The Bank strengthened this service in 2014 with *Santander Trade Club*, an online community that enables clients from various countries to get in contact with one another in order to step up their international activity. More than 9,000 companies are currently involved, more than one million visits were registered and more than 50,000 data bases downloaded.

- The new cooperation project between retail and commercial banking and wholesale banking (collaboration revenues) aims to put at the disposal of all the Bank's customers the products and services that best suit their needs and which, until now, were only available to large companies.

Operational excellence

Santander wants to provide its customers with excellent service and so in 2014 the Bank launched new initiatives that aim to improve processes from the customers' standpoint, incorporating the benefits brought by the digital transformation.

Multichannel and digital strategy

The digital transformation is a strategic priority for Banco Santander. During 2014, the Bank progressed in developing a multichannel distribution model that facilitates customers' relations with the Bank where they want, how they want and when they want.

The Bank also continued to work during 2014 on a new model based on the concept of the multichannel branch.

In the case of branches, which are the main channel for forging and maintaining long-term relations with customers, the objective is to have more modern and simpler spaces that combine the advantages of the use of technology with the proximity and professionalism provided by the Bank's employees to customers.

Santander also strengthened its range of services via mobile phones, electronic banking and the contact centre.

- *Mobile First* was promoted in the mobile phone sphere, which aims to improve the client's experience with initiatives such as the simple mobile banking in the UK (*Smartbank*), the mobile wallet in Spain to manage payments from the smartphone, and the new mobile apps in Brazil, Germany, Poland, Uruguay, Puerto Rico and Portugal.

Benefits of *Santander Passport*

- → A global interlocutor that will tend to a company in any country with the support of local account managers
- → Personalised attention with the support of local specialists in new markets
- → Facilities to open an account or contract products
- → Quick response to credit requests, as the Bank will have at its fingertips the risk analysis of the company's activity in different markets
- → App *Passport* to access via mobile devices to all the advantages of *Santander Passport*

12,951
branches.
The largest network among international banks

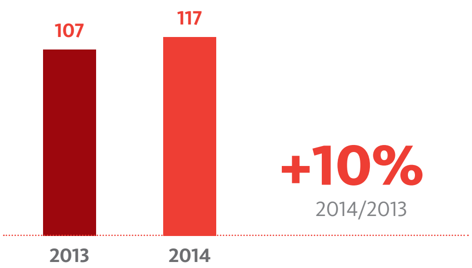
Customer satisfaction

% of active customers satisfied

Bank	End 2014	End 2013
Argentina	86.8%	85.2%
Brazil	70.6%	78.4%
Chile	88.4%	85.4%
Spain	85.0%	87.2%
Mexico	95.0%	92.0%
Poland	93.5%	96.7%
Portugal	94.1%	93.8%
UK	94.5%	92.3%
US	80.8%	80.8%
Total	**85.3%**	**86.9%**

Customers

Million



- Of note in the online sphere was the launch of new commercial websites in the United Kingdom, Portugal, Spain and Argentina, the new online banking project in Brazil, the virtual advisor in Poland, which facilitates advice at a distance to customers, and the digital manager in Spain.
- As regards the contact centres, of note is the success of the voiceprint in Mexico (customer identified by their voice).
- An extra push is being given to social networks in order to reach customers with offers of products and services in the appropriate place and moment.

Customer satisfaction

One of Banco Santander's strategic objectives is to have more satisfied customers. We believe that such customers use the Bank's products more assiduously, their average savings balances are higher and the probability of them leaving is significantly lower than in the case of an unsatisfied customer.

In 2014, 85.3% of Grupo Santander's active individual customers were satisfied. Of particular note was the increased satisfaction of customers in Mexico, Chile, the UK and Argentina.

As for complaints, their number was 14% lower in 2014 than in 2013, reflecting Santander's commitment to continuously improve customer attention and the quality of service. Among the main markets, those that most reduced the volume of complaints were Portugal, the UK, Chile, the US and Brazil.

As well as the programme to continuously improve quality, established in the Group years ago, an initiative was launched in 2014 to transform the customer experience for the main customer journeys.

This project, launched in the Group's 10 core markets, identifies the customer processes that impact the most on their experience and redesigns them from the customer's perspective.

A methodology is used whose basis is the customers' views and expectations and with the work carried out by many of the Bank's areas a new experience is delivered to the customer.

At the moment the two to three main customer journeys in each country are being improved, such as the process of taking on a customer.

Innovation

Santander's commitment to innovation, in response to the challenges that digital transformation represents for the business and our customers, is reflected in the following two initiatives:

- **Corporate unit of innovation,** whose purpose is to plan and develop the Group's digital innovation strategy from a global perspective, taking advantage of the innovation capacities that already exist in the different units and businesses. Of note among its functions is the global observatory, which analyses and consolidates the market's trends and best practices, and the laboratories, which conceptualise and execute projects using innovative methodologies.
- The mutual fund ***Santander InnoVentures***, with $100 million to invest in start-ups and innovative companies in the financial sector.

Simplification in the process of registering customers

An initiative that aims to improve the customer experience during the first 90 days of their relationship with the Bank

Examples of progress in countries:

→ **United Kingdom:** simplifying documents delivered to the customer

→ **Spain:** digital signing in a tablet

Other Customers Journeys

Improvement in the various processes which are critical in customers' daily interaction with the Bank

For example:

→ **Mexico:** paperless process for loans, beginning with the customer's first visit and online pre-evaluation

→ **Argentina:** incidents resolved immediately and via the same channel the customer uses to communicate it

Shareholders

Banco Santander pays particular attention to its shareholders and strives to reward them with an attractive and sustainable dividend per share and return, and with a personalised service and attention model and regular and transparent information.

The base of Banco Santander's value proposal for its shareholders is a business model with a high degree of recurring revenues, prudence in risks, efficient and with disciplined use of capital and financial strength.

Capital strength and risk management

Banco Santander's strategy focuses on organic growth and an efficient capital allocation among its businesses. The Bank is implementing an enterprise wide risk management *(Santander Advanced Risk Management)* model, which will enable it to strengthen and improve its medium-low risk profile and reduce its NPL ratio below 5% by 2017.

The results of the stress test and the Asset Quality Review (AQR) conducted by the European Central Bank in 2014 showed that Santander has one of Europe's best-capitalised balance sheets.

- The adjustment to Grupo Santander's levels of provisions resulting from the AQR was the lowest among its international peers (impact of 0.04 p.p. on its capital ratio).
- In the adverse scenario of the stress test, Santander was the bank whose capital was reduced the least among its international peers, representing a €20,000 million surplus above the minimum capital required at that time.

In 2015, Banco Santander has increased its capital by €7,500 million, through the issue of 1,214 million new shares. The issue consisted of an accelerated book building process aimed at institutional investors. The new shares began to be listed on January 13, 2015 on the Spanish stock exchange.

This capital strengthening will enable the Bank to benefit from the strong growth envisaged in its core markets in 2016, taking advantage of the organic growth opportunities and increasing lending and its market share. It will also make it possible to comply ahead of schedule with the Basel III capital requirements, assuming then fully as of 2015 although they will only be required as of January 2019.

As a result of this capital increase, the Bank will attain in 2015 a fully loaded capital ratio of around 10%, making Santander one of the best capitalised banks at an international level, bearing in mind its geographic diversification and retail and commercial banking model that enable it to generate results with a low level of volatility.

International investors received the capital increase warmly, as shown by the speed with which it was carried out, the number of participating investors and the high demand for the new shares. This operation is positive for shareholders, as earnings per share are estimated to improve as of 2016.

Main figures of the January 2015 capital increase

- €7,500 million capital increase, representing 8.8% of the Bank's capital after the transaction
- 1,214 million new shares issued
- €6.18 per share: placement price
- 235 investors took part in the transaction
- €11,000 million total demand for the new shares
- Operation closed after four hours
- 79% of the demand for the new shares came from the US and the UK

The capital increase will enable the Bank to benefit from the growth envisaged in its core markets and be one of the international banks with the strongest capital position

Banco Santander's extraordinary general meeting of shareholders, September 2014, Santander, Spain.

Enhanced profitability

The growth expectations in the main markets in which Santander operates enable us to anticipate a substantial improvement in the Bank's profitability, as shown by the sharp rise in profits in 2014 (+39.3%). The Group's objective is to increase its return on tangible equity from 11% in 2014 to 12-14% in 2017.

The amount assigned by Banco Santander to its shareholders charged to 2014's earnings will be €0.60 per share, if the proposal that the board submits to the 2015 general meeting of shareholders is approved.

The *Santander Scrip Dividend Scheme* has enabled shareholders to opt to receive their dividend in shares or in cash and allowed the Bank, during the years of the crisis, to recapitalise at the pace of the regulatory requirements.

Following the capital increase, Banco Santander decided to reformulate its dividend policy.
In the context of the improvement in the economic growth scenario and the change in tax regulations, which worsens the treatment of receiving a dividend in the scrip format, the board decided to set the remuneration per share charged to 2015's earnings at €0.20 per share, which will be paid, as always, in four payments, three of them in cash and the other in shares or cash, at the shareholder's choice.

In the coming years, the evolution of the dividend will be in accordance with the growth in earnings, with the objective that the cash pay-out represents between 30% and 40% of the recurring profit, instead of the current 20%.

Shareholder remuneration in 2014 and 2015

2014
remuneration per share
€0.60

- **February » €0.15 :** *Santander Scrip Dividend* charged to 2013's earnings
- **May » €0.15 :** *Santander Scrip Dividend* charged to 2013's earnings
- **August » €0.15 :** *Santander Scrip Dividend* charged to 2014's earnings
- **November » €0.15 :** *Santander Scrip Dividend* charged to 2014's earnings

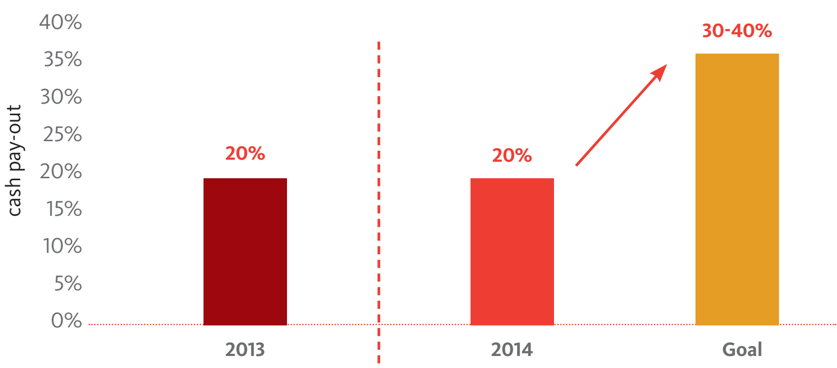
2015
estimated remuneration per share
€0.40

- **February » €0.15 :** *Santander Scrip Dividend* charged to 2014's earnings
- **May » €0.15 :** *Santander Scrip Dividend* charged to 2014's earnings
- **August » €0.05 :** Cash dividend charged to 2015's earnings
- **November » €0.05 :** *Santander Scrip Dividend* charged to 2015's earnings

... In the coming years, the evolution of the dividend will be in accordance with the growth in earnings

Cash pay-out policy until now and Santander's new policy

Dividend in cash (%)



Evolution of the Santander share

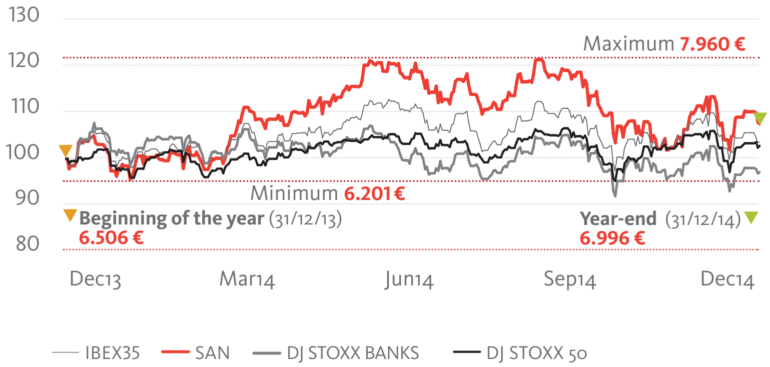
Santander continued to be the largest bank in the euro zone in 2014 by market capitalisation for the 12th year running, and the 11th in the world, with a value of €88,041 million.

The Santander share ended 2014 at €6.996 per share, 7.5% higher than a year earlier. This evolution outperforms that of the Ibex 35 (+3.7%), the Spanish blue chip index, and of the main international indices, such as the DJ Stoxx Banks (-2.8%) and the DJ Stoxx 50 (+2.9%).

At the beginning of 2015, the Santander share was affected by the announcement of the Bank's capital increase and by the turbulence in the market due to political risks in Greece, the oil prices and the correction in the US monetary policy.

Comparative performance of the Santander share

December 2013 VS December 2014



Shareholder base and capital

Number of shareholders

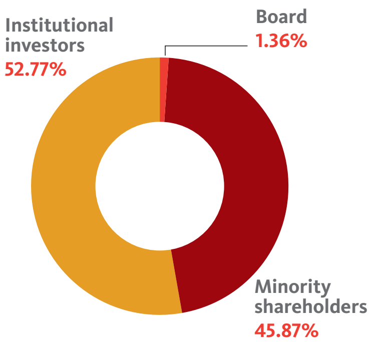
At the end of 2014, Banco Santander had 3.2 million shareholders in more than 100 different countries.

Number of shares

The number of Banco Santander shares was 12,584,414,659 at the end of 2014, after four capital increases to tend to the demand of the four scrip dividend programmes during the year. These entailed issuing a total of 880,057,105 new shares (7.8% of the capital at the beginning of the year). In addition, and in order to tend to the exchange of the offer for acquiring 13.65% of Santander Brazil, 370,937,066 shares were issued.

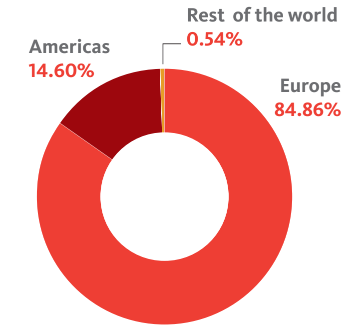
Distribution of capital stock by type of shareholder

31/12/14



Geographic distribution of capital stock

31/12/14



3.2 million shareholders

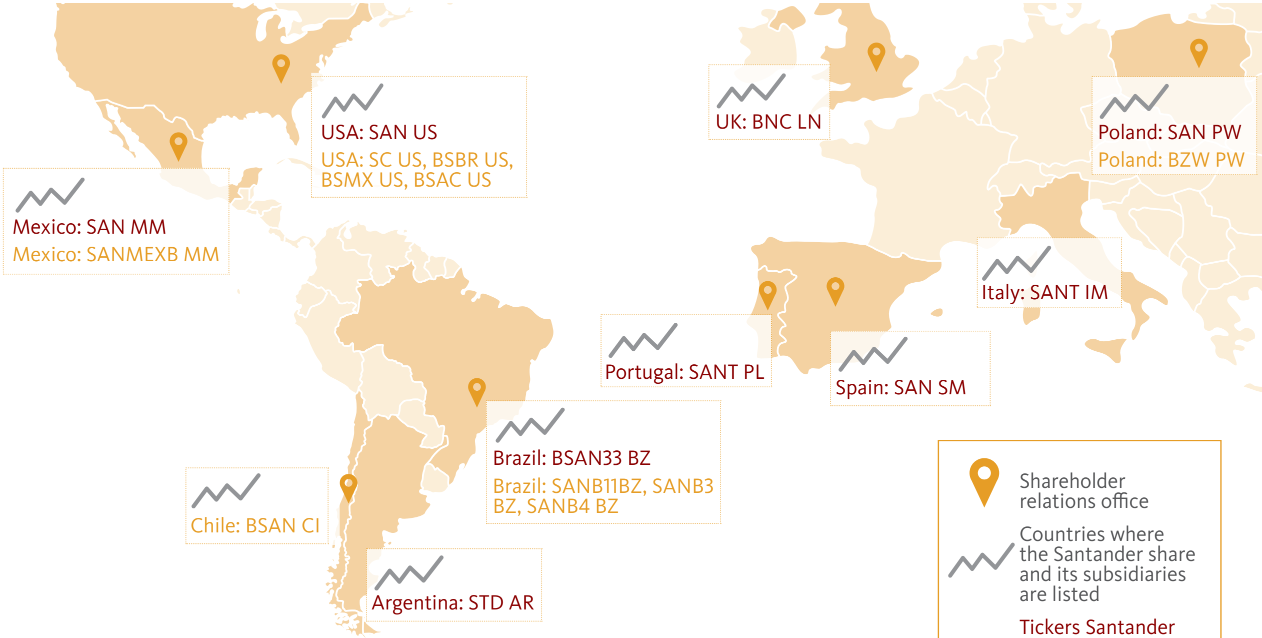
Earnings per share **24.4%** growth in 2014

Market capitalisation **88,041** million euros

Milestones in 2014

- **January 30:** presentation of 2013's results
- **February:** third interim dividend, 2013
- **March 28:** general shareholders' meeting
- **April 29:** presentation of first quarter 2014 results
- **May:** final dividend, 2013
- **July 31:** presentation of second quarter 2014 results
- **August:** first interim dividend, 2014

The Santander share in the world



Listing in two new stock markets

The Santander share began to be listed on the Sao Paulo stock exchange on November 17 after the offer to acquire 13.65% of Santander Brazil's capital. This meant issuing new Banco Santander shares. The Santander share was also listed on the Warsaw stock exchange on December 3, bringing the number of markets where the share is traded to nine: the four Spanish markets, New York, Milan, Lisbon, London, Buenos Aires, Mexico, Sao Paulo and Warsaw.

Shareholder relations offices

Banco Santander wants to listen to all its shareholders and, in order to do so, puts at their disposal, via shareholder relations offices, varied channels to facilitate their communication with the Bank, including: shareholder mail box, telephone line, corporate website, the *I am a shareholder* website and the Santander Shareholders app.

Shareholders can send their comments and suggestions via these channels, while also receiving all the information on the evolution of the share and of the Group. Also, 329 events were held with shareholders to inform them of the Group's results and offer them a personalised attention.

In 2014 :

32,034
e-mails tended to

227,968
telephone consultations received

339,049
letters

3,826,979
alerts sent via SMS

September 15: extraordinary meeting of shareholders

October 26: stress test on European banks

November 4: presentation of third quarter 2014 results

November: second interim dividend, 2014

November 17: SAN share publicly quoted in Brazil

December 3: SAN share publicly quoted in Poland

January 2015: €7,500 million capital increase

February 3 : presentation of 2014's results

Communities

Banco Santander develops its business in a responsible way in order to contribute greater value to its employees, customers and shareholders. We take into account the impact of our activity on the environment and we contribute to the economic and social progress of the communities in which we operate.

Banco Santander's commitment to society and the environment is manifested in two fundamental spheres:

1. Responsibility in developing its activity

Banco Santander is aware of the enormous impact its regular activity has on the environment and is committed to acting responsibly.

- It has a sustainability committee chaired by the chief executive officer, which is responsible for integrating sustainability within the Group's business model.
- It has developed corporate policies and rigorous processes of marketing products and services that aim to guarantee they are sold appropriately.
- It fosters compliance with the codes of conduct that govern the behaviour of its professionals.
- It measures the social and environmental risks in large credit operations.
- It has internal policies that govern the Bank's activities in sensitive sectors, such as defence, energy and forestry.
- It complies with the highest standards of corporate governance as regards transparency, effectiveness and defence of shareholders' interests.
- It promotes compliance with the *United Nations Global Compact* among its suppliers and manages purchase processes in a coordinated, efficient and sustainable way.
- It has implemented energy efficiency measures in all the Group's facilities and offers funding lines for the development of clean energy projects.

2. Commitment with the community

Santander shows its commitment to the society in which it conducts its business by investing in its development and social progress, with initiatives in different spheres:

- **Education.** A quality education for everyone is a guarantee of social and economic wellbeing. Banco Santander supports education as the engine of communities' progress, particularly higher education. The Santander Universities programme is the hallmark of the Group's social commitment. Moreover, the Bank promotes access to quality nursery education through various initiatives, some of which directly involve employees.
- **Entrepreneurship and job creation.** Santander promotes entrepreneurship and job creation, paying particular attention to the spheres of higher education and universities. The Bank has various business incubation initiatives and promotion of young talent with entrepreneurial spirit, as well as programmes that contribute to strengthening the business fabric and sustainable development.
- **Financial inclusion**. Banco Santander pursues financial inclusion and the socio occupational integration of vulnerable collectives, in order to improve their quality of life and that of their environment. Santander has microcredit programmes in Brazil, Chile and El Salvador. Furthermore, the Bank is firmly committed to financial education, conscious of the need to promote better knowledge of basic aspects of finance.
- **Culture.** Santander carries out intense activity to protect, preserve and disseminate art and culture. The Banco Santander Foundation in Spain and Santander Cultural in Brazil are the best examples of the Group's cultural investment.

Santander forms part of the main stock market indices that analyse and assess the companies' activity in the sphere of corporate social responsibility: the Dow Jones Sustainability Index (DJSI) in the bronze category, and the FTSE4Good

"Banco Santander is the leading company in the world in education investment," according to the Varkey Foundation report in conjunction with Unesco

Santander Universities

Investment in higher education is a hallmark of the Bank's social commitment and this support is articulated and managed via Santander Universities.

For 18 years Santander has maintained a long-term strategic alliance with universities, unique in the world. Santander cooperates in launching projects to improve education, internationalisation and modernisation of universities, student and teacher mobility, the entry of students into the labour market and fostering an entrepreneurial culture in universities.

This cooperation is articulated via comprehensive cooperation agreements, support for international cooperation agreements between universities, encouraging and cooperating with international academic networks, and backing global projects.

Of note among the main activities in 2014 were:

- The **4th edition of the internship aid programme for professionals in SMEs in Spain,** which made 5,000 grants. The success of this programme led to its launch, for the second time, in Argentina, the UK and Puerto Rico. The programme facilitates the insertion of students in the labour market. Almost 50% of students who were interns under this programme had a work relation with the company at the end of the programme.
- The **Universia network** also helps young people to enter the labour market. There were 2.8 million job offers in 2014 and 16 million job requests registered in the platforms of the work community.
- **Innovation and entrepreneurship** is a key priority in the support that Santander Universities gives to the university community. Of note was the holding of the 10th edition of the Santander Universities prizes for Innovation and Entrepreneurship in Brazil (20,100 projects presented) and the editions in Mexico, Argentina, Chile and Puerto Rico. Of note also is the organisation of Spin 2014, an international event held in Mexico City, in cooperation with Red Emprendia, the Latin American university network of business incubation that promotes the transfer of knowledge, technological development, innovation and responsible entrepreneurship.
- Launch of the latest edition of the ***Santander Iberoamérica* scholarship** programmes, fulfilling the commitment made at the II Meeting of University vice-chancellors in Guadalajara, Mexico, in 2010.

€146
million contribution to universities

1,151
agreements with universities in 21 countries on four continents

28,443
scholarships and grants made in 2014

1,345
universities form part of Universia

2.8
million job offers for university students

Latin American summit of heads of state, Veracruz, Mexico.

The **III International Meeting of Vice-chancellors** was held by Universia in 2014 in Rio de Janeiro, attended by 1,109 vice-chancellors from universities in 32 countries who, during two days, debated the projection of universities and their capacity to respond to society's demands.

The conclusions of the different working sessions are set out in the 2014 Universia Rio Declaration, which details the main challenges and priorities facing Latin American universities in the 21st century and along which is fostering entrepreneurship. This declaration was delivered by Ana Botín, executive chairman of Banco Santander, to Enrique Peña Nieto, the president of Mexico, King Felipe VI of Spain and the Ibero-American General Secretariat in the framework of the summit of heads of state held in December 2014 in Veracruz, Mexico.

At the Rio meeting, the Bank announced its commitment to invest €700 million in university support programmes over the next four years. Of it, 40% will go on university entry scholarships and national and international student and teacher mobility; 30% on fostering research, innovation and university entrepreneurship; and the remaining 30% on supporting academic projects and initiatives to modernise and incorporate new technologies to universities.

III INTERNATIONAL RECTORS MEETING
universia
"THE UNIVERSITY OF THE CENTURY XXI – A REFLECTION FROM IBEROAMERICA"

The 2014 Universia Rio Declaration

Key strategic areas and proposals for Latin American universities

1. Consolidation of the Ibero-American Knowledge Space.

2. Universities' social and environmental responsibility.

3. Improvement of information on Ibero-American universities.

4. Attention to students' expectations.

5. Continuous training of professors and strengthening of teaching resources.

6. Guarantee for teaching quality and adaptation to social needs.

7. Improvement of research, transfer of its results and innovation.

8. Extending internationalisation and mobility initiatives.

9. Full use of digital technologies.

10. Adaptation to new outlines of organisation, governance and funding.

See more information on the 2014 Universia Rio Declaration at: www.universiario2014.com

Recognitions

Prestigious international organisations recognised during 2014 Banco Santander's commitment to society:

- **The world's greenest bank** for the third time, according to the magazine Bloomberg Markets, which for the last four years has drawn up a ranking of the world's greenest banks which assesses the financing of renewable energy projects and the reduction of the environmental impact with energy efficiency measures.
- **World's most transparent bank,** according to the NGO Transparency International, which drew up the second edition of its Transparency in Corporate Reporting index. Santander was classified in fifth place in the ranking of the world's most transparent multinationals and the first among international banks, thanks to the information provided on its anti-corruption programmes and organisational transparency.

Other recognitions obtained during the year in countries where Santander operates include:

- **Santander Brazil won the BeyondBanking award,** in the Banking Planet category –adapting and responding to climate change effects– granted by the Inter-American Development Bank (IDB), for its Reduce and Compensate CO_2 programme. This award recognises the best financial institutions in the sustainability sphere in all of Latin America.
- **Santander Chile was recognised as the leading company in corporate governance** by ALAS20 on its report on sustainability and responsible investments. It also obtained an award in the leading company in sustainability and investor relations categories.
- **Santander UK attained a national award for the Community Plus programme** of the Santander UK Foundation for being considered the best corporate foundation programme in the 2014 Corporate Engagement Awards, which are granted to corporate social responsibility initiatives.
- **Santander Totta was recognised for its energy efficiency management plans** at its headquarters, in the ninth edition of the EDP Electric Energy and Environment awards.

Santander experiences

Santander Chile: financial education

In order to promote financial education in an inclusive way, foster conducts such as responsible consumption, savings and good use of banking products and services, various initiatives were developed for individuals and SMEs such as sanodelucas.cl, a digital and interactive platform with contents and tools, and the recently launched Financial Education Centre.

Santander Mexico: nursery education

The Bécalos project, in which the Bank has participated for many years in cooperation with the Mexican Banking Association and the Televisa Foundation, promotes education in Mexico through granting scholarships to students and teachers in public schools.

Under Bécalos, 90 out of every 100 students can attend the following school course. The Bank collected more than €53,000 in 2014 for this initiative via ATMs. The Bank, on its part, contributed €200,000. Over 200.000 students have benefited from this programme.

Santander Brazil: microcredit programme

- Santander Brazil is the leading private bank and the second in microcredits in Brazil. It is present in more than 600 municipalities throughout the country.
- The programme grants credits of €700-€800, with maturities of around eight months, to charity groups formed by five to six people.
- More than 300,000 people, 70% of them women, have benefited from this programme since 2002.

Risk management

Quality in risk management is one of our hallmarks and a priority area for action and value creation.

During its more than 150 years of activity, Santander has developed a combination of prudence in risk management together with the use of advanced techniques that have proven to be decisive in generating recurring economic results.

Grupo Santander's risk policy is focused on maintaining a medium-low and predictable profile for all of its risks. Its risk management model is a key factor for achieving the Group's strategic objectives.

Grupo Santander's corporate risk management principles

Integration of the risk culture and involvement of senior management in managing and taking decisions on risks

An independent risk function

Comprehensive approach to all risks

Formulating the risk appetite of the Group and its units

Clear definition of attributions and decision-making via collegiate bodies

Use of common management instruments among countries

The board is responsible for annually establishing and updating the risk appetite

Corporate governance of the risk function

The board is responsible for annually establishing and updating the risk appetite, monitoring the risk profile, and ensuring consistency between both. The risk appetite is set for the whole Group, as well as for each of its main business units, in accordance with the corporate methodology adapted to each market. At the local level, the boards of the subsidiaries are responsible for approving the respective risk appetite proposals once these have been validated by the Group.

The executive risk committee (ERC) is the Group's maximum executive body on risks and adopts decisions in the sphere of the powers delegated by the board to ensure that the Group's risk profile derived from the business strategy is aligned with the risk appetite limits and global policies approved by the board. Under these powers, the DRC approves risk operations, sets the risk policies and monitors the profile of global risks, ensuring that the Group has the structure, resources and necessary systems for adequately managing and controlling risks.

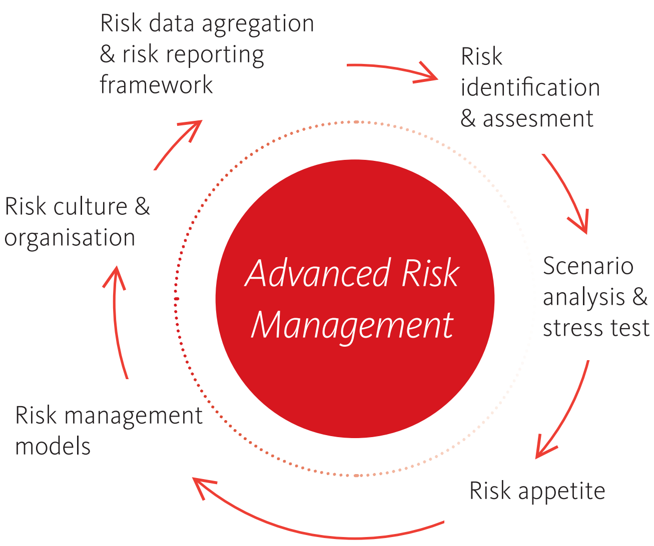
The DRC delegates some of its powers in corporate risk committees, structured by risk type and activity, which facilitate an adequate scaling process for taking final decisions and continuous monitoring of the risk profile. Moreover, both the executive committee as well as the Bank's board devote particular attention to managing the Group's risks.

See pages 179-181 of the annual report

A new board committee was created in 2014 to supervise risks, regulation and compliance. Its functions are to support and advise the board on defining and assessing the risk strategy and policies and in the Bank's relation with supervisors and regulators in the various countries where it operates, supervise compliance with the general code of conduct and, in general, the Bank's rules of governance and compliance programme.

Advanced Risk Management (ARM)

The Group launched the Santander Advanced Risk Management programme to accelerate the implementation of its strategic projects to improve risk management and control capacity. The aim is to have comprehensive and integrated risk management at all levels of the organisation, efficiently aligning the strategic objectives with a medium-low and stable risk profile.



Grupo Santander's risk profile

The risks that Santander faces as a result of its activity are: credit, market, liquidity, structural and capital, operational, conduct, compliance and legal, model, reputational and strategic. We set out below a brief description of the main risks and their evolution in 2014.

Credit risk

See pages 194-222 of the annual report

Definition

This risk comes from the possibility of losses derived from total or partial failure to perform the financial obligations contracted with the Group by its customers or counterparties.

Other credit risk optics:

- Credit risk from activity in the financial markets.
- Concentration risk.
- Country risk.
- Sovereign risk and that with the rest of public administrations.
- Environmental risk.

Risk profile

- More than 80% of Grupo Santander's credit risk comes from commercial and retail banking activities.
- 64% of the Group's loan portfolio has real guarantees.
- High degree of geographic diversification of risks.
- Limited concentrations in clients, business groups, sectors, products and countries.
  - The largest concentration in a loan portfolio in a particularly sector and country represents 16% of the Group's total risk and corresponds to residential loans in the UK.
  - The exposure to Spain's sovereign risk represents only 3% of the Group's total assets.
- Very limited cross-border risk exposure, in line with the model of subsidiaries autonomous in terms of capital and liquidity.
- High credit rating of the Group's assets.

Evolution in 2014

- The credit risk with customers increased in 2014, to €804,084 million, following two years of decreases.
- The trend toward reducing loan-loss provisions and the cost of credit, which stood at 1.43%, was maintained.
- The NPL ratio was reduced to 5.19% and the coverage ratio increased to 67%.
- The net exposure to run-off real estate risk in Spain was reduced by €2,015 million, to €7,320 million.
- The adjustment in Grupo Santander's level of provisions as a result of the ECB's Asset Quality Review (AQR) was marginal (€200 million in a balance sheet of €1.3 trillion).

Liquidity and funding risk

See pages 245-258 of the annual report

Definition

Liquidity risk is that incurred from potential losses that could arise as a result of a bank's incapacity to obtain funding in the market and/or from the higher financial cost of accessing new ways of funding.

Management of this risk aims to ensure the availability of the funds needed in adequate time and cost to tend to obligations and develop operations.

Risk profile

- Liquidity management and funding is a basic element of the business strategy.
- The funding and liquidity model is decentralised and based on autonomous subsidiaries that are responsible for covering their own liquidity needs.
- The needs derived from medium and long-term activity must be funded by medium and long-term instruments.
- High participation of customer deposits, as a result of an essentially retail and commercial banking balance sheet.
- Diversification of wholesale funding sources by: instruments/investors, markets/currencies, and maturities.
- Limited recourse to short-term wholesale funding.
- Availability of a sufficient liquidity reserve, which includes the discounting capacity in central banks to be used in adverse situations.

Evolution in 2014

- Net loan-to-deposit ratio in the Group at very comfortable levels (113%).
- High capturing of medium and long-term wholesale funds (issues and securitisations): €52,000 million via 18 issues in 15 countries and 13 different currencies.
- Compliance ahead of schedule of regulatory ratios: at the end of the year, the liquidity coverage ratio exceeded 100% in the Group and the main subsidiaries compared to 60% required as of October 2015.
- The liquidity reserve stood at €230,000 million, after rising in the quantity (+€30,000 million) and quality of its assets.

	Definition	Risk profile	Evolution in 2014
Market risk See pages 223-244 of the annual report	Market risk covers those financial activities where equity risk is assumed as a result of a change in market factors. This risk emanates from changes in interest rates, the inflation rate, exchange rates, equities, credit spreads, commodity prices and volatility in each one of these factors, as well as the liquidity risk of the various products and markets in which the Group operates.	• Santander maintains a moderate exposure to market risk. • Diversification both in terms of risk factors as well as geographic distribution. • Trading activity centred on customer business. • The average VaR in trading activity remained in a low range, in line with previous years. • Limited exposure to complex, structured assets.	• The VaR of trading activity in markets fluctuated in 2014 between €8 million and €24 million. • The most significant fluctuations were due to changes in the exposure to Brazil's exchange rate and to interest rates and credit spreads in Spain's treasury.
Operational risk See pages 259-267 of the annual report	The risk of losses resulting from defects or failures in internal processes, human resources or systems, or from external circumstances. In general, and unlike other types of risk, it is not a risk associated with products or businesses. It is found in processes and/or assets and is internally generated (people, systems, processes) or as a result of external risks, such as natural disasters.	• In the sphere of operational risk control and management, the Group focuses on identifying, measuring/assessing, controlling/mitigating and communicating. • Organisational model of control and management based on three lines of defence. • The Group has over 500 mitigation measures in place in response to the main risk sources. • The business continuity management system ensures the operation of processes in the event of disaster or serious incident.	• Progress was made on the evolution towards an advanced model (AMA) to calculate regulatory capital by operational risk.

Compliance and reputational risk
See pages 268-273 of the annual report
	Compliance risk
	This is the risk of receiving sanctions, economic or otherwise, or being the object of another type of disciplinary measure by supervisory bodies, as a result of not complying with laws, regulations, rules, standards of self-regulation or codes of conduct applicable to the activity developed.
	Reputational risk
	This is the risk linked to the perception that the various stakeholders have of the Group, both internal and external, in the development of its activity, and which can have an adverse impact on results or expectations of business development including, among others, legal, economic and financial, ethical, social and environmental aspects.
		• Explicit declaration of zero tolerance in matters of compliance and reputational risk.
		• The Group's compliance programme focuses on:
		  • Prevention of money laundering and financing of terrorism.
		  • Marketing of products and services.
		  • Conduct in the securities markets.
		  • Prevention of penal risks.
		  • Relations with regulators and supervisors.
		  • Drawing up and disseminating the Group's institutional information.
			• In the sphere of money laundering 22.9 million transactions were analysed and training courses given to 129,233 employees.
			• The corporate committee of marketing analysed a total of 103 new products/services.
			• 12,000 Group employees are subject to the Code of Conduct in the Securities Markets.
			• Banco Santander made public 90 material facts.

In 2014 Santander generated an attributable profit of

€ 5,816 million.

Profit was up 39.3%, backed by solid revenues, cost control and lower provisions.

2

2014 Results

Economic, banking and regulatory environment

International economic environment

The global economy grew by around 3.3% in 2014, in line with 2013 but with important differences. On the one hand, the developed economies grew more strongly which was offset by more moderate growth among the emerging economies. On the other, the differences in cyclical positions between the developed countries and among the emerging ones were more accentuated.

- The **United States** is in a solid expansion stage. The economy grew at above its potential rate, as a result of which unemployment and the excess of installed capacity were reduced substantially. Inflation remained low. In these conditions, the Federal Reserve concluded its bond-buying programme, without abandoning the expansive tone of its monetary policy.

- The **United Kingdom** performed very positively in 2014. Inflation consolidated at below 2%, enabling the Bank of England to hold its discount rate at 0.5%.

- The **euro zone** registered a slow recovery. Inflation was close to 0%, which led the ECB to cut its benchmark rates and launch new quantitative easing measures in the form of injecting long-term liquidity (TLTROs) and purchases of securities issued by the private sector.

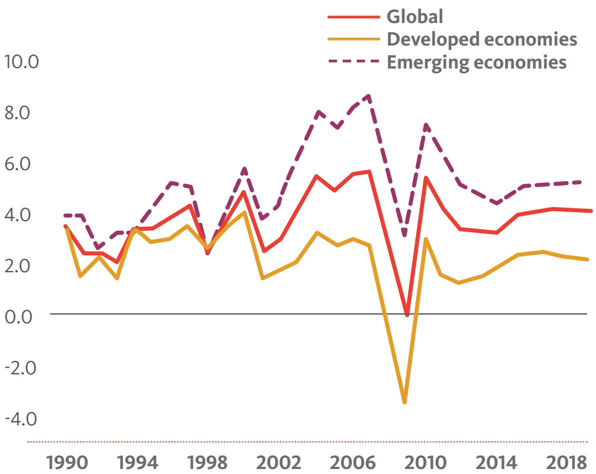
- **Spain** grew clearly above the euro zone average in 2014. Job creation, which began in the fourth quarter of 2013, was consolidated and produced a gradual decline in the unemployment rate. The recovery is the result of the adjustments and reforms made in the public and private sectors in the last few years, notably among which has been the improvement in competitiveness, via internal devaluation, labour market reforms and restructuring of the financial system.

- **Germany's** growth eased as the year progressed, while maintaining the strength of its labour market and the high level of competitiveness of its exports.

- **Poland** grew strongly in 2014, although the economy lost steam in the last part of the year due to the conflict in the Ukraine (which hit Poland's trade with East Europe) and the euro zone's modest growth.

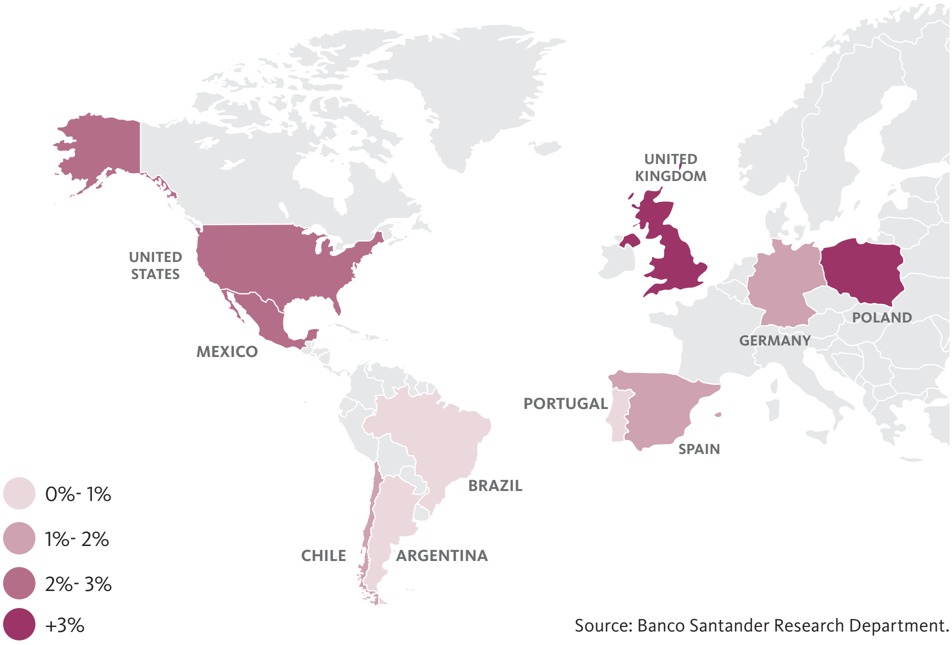
The developed economies grew more strongly, while the emerging ones moderated their growth

GDP
% change



Source: FMI, World Economic Outlook

GDP 2014
% change



Source: Banco Santander Research Department.

» In the United States and the United Kingdom, consolidation of the recovery was particularly noticeable

» In the euro zone, the pace of growth was moderate, with Spain growing faster than the European average

» In Latin America, growth slowed but by varying degrees

- In **Latin America**, growth slowed in 2014 (1.3% vs. 2.7% in 2013) in an international environment characterised by the normalisation of monetary policy in the US, lower growth in China and less favourable terms of foreign trade than in the past. Despite this lower growth, inflation rose, as a result of several supply shocks and the impact of the depreciation of Latin American currencies.

- **Brazil** recorded moderate growth, despite which the jobless rate remained very low. The first measures announced by the new government were positively valued by the markets.

- The **Chilean** economy slowed down, which allowed for more expansive monetary (benchmark interest rate at 3%) and fiscal policies.

- **Mexico** was on an upward growth trend during 2014, thanks to the strong trade links with the US and the expectations raised by the major structural reforms.

The main international institutions foresee an upturn in the global economy in 2015 which would gain steam in 2016.

Financial markets and exchange rates

In general, financial conditions improved substantially. The advances mainly occurred in the first half of the year when the global perception of risk declined substantially, stock market indices registered widespread gains, public and private debt risk premiums fell sharply, access to capital markets was more fluid and the conditions of bank credit – in developed economies – eased.

This performance was linked to central banks' monetary policies, which resulted in abundant liquidity and in the consequent search for profitability. Another important factor was the progress in the European Banking Union and the idea that the most extreme risks were a thing of the past.

In the second half of 2014 there was a correction and a greater differentiation in the performance depending on the nature of the asset and the prospects of each economy in the face of the downgrading of global growth forecasts, the end of the US bond buying programme and the notable fall in commodity prices, particularly in the case of oil.

Exchange rates registered important changes during 2014. The dollar, in particular, appreciated sharply against the euro and against the main Latin American currencies.

Financial conditions improved substantially and exchange rates registered important changes during 2014

Headquarters of the European Central Bank in Frankfurt, Germany.

Banking sector environment

The most important development for the banking systems in which Santander operates was the progress toward the Banking Union in the euro zone. The ECB assumed the function of supervisor of all euro zone banks and directly for the 120 most important (82% of the system's total assets).

Before beginning this task, it conducted an exhaustive health check of the banks' assets and liabilities. The assessment included two key elements: an Asset Quality Review and a simulation of the impact of different macroeconomic scenarios on the solvency of banks (stress test). Of the 123 banks analysed, only 13 recorded a net deficit of capital (€9,475 million total) when the results were announced.

2014 represented a turning point for European banks, thanks to the assessment of their balance sheets and the preparatory work by the banks, which strengthened their solvency decisively.

This was reflected in a clear improvement during the year in the confidence in the European financial system. Economic weakness, meanwhile, continued to weigh on business and the low interest rates continued to exert downward pressure on results. Even so, the trend of improvement during the year in the evolution of credit and the cost of credit is expected to support a gradual improvement in spreads in 2015.

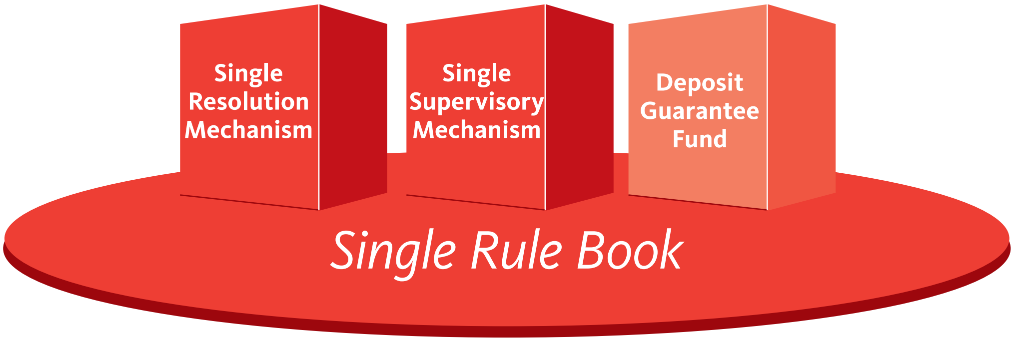
2014 represented a turning point toward a clear improvement in the confidence in the European financial system, thanks to the ECB's assessment of their balance sheets

Analysis of European banks

- 123 banks with €28 trillion in assets (70% of the European banking system)
- Asset Quality Review: average European banking impact on CET1 of -40 b.p. but only -4 b.p. for Santander.
- Stress test: European banking impact on CET1 of -260 b.p. in the adverse scenario (Santander -139 b.p.).
- 13 banks with capital needs of €9,475 million did not pass the test.

See pages 174-176 of the annual report

Pillars of European Banking Union



Regulatory context

At the international level, the Financial Stability Board progressed in drawing up the **crisis management framework** to be applied to globally systemic banks (G-SIBs). The most novel element of these frameworks is the requirement of a minimum total loss-absorbing capacity (TLAC) to recapitalise an institution in the event of resolution. During 2015, an impact and market study will be developed to close the TLAC definition and calibration by the end of the year.

In Europe the crisis management directive was approved. This directive constituted a significant advance in the ordered resolution of banks in Europe and helped to break the feedback loop between banking and sovereign risk, by making bank creditors the first to absorb losses and reduce to the maximum the possibility of using public funds in the case of a banking crisis.

Another sphere of intense regulatory activity was the review of the **capital requirement frameworks for credit, market and operational risk**, both of standard as well as advanced models, which the Basel Committee is developing. This work is expected to be completed before the end of 2015. On its success will depend the role of risk sensitive requirements is maintained in the prudential framework or, on the contrary, a greater weight is given to non-risk sensitive measures such as the leverage ratio. Meanwhile, in Europe, the European Banking Authority (EBA) continued to issue standards and guidelines to guarantee a harmonised implementation in the European Union of the minimum capital requirements. All this work will be key for reducing the changes in capital requirements. All this work will be key for reducing the variability in capital requirements across banks not justified by their different risk profile. This will also help to guarantee a level playing field and meaningful comparisons.

The year in Europe was marked by progress in the **Banking Union**. The ECB assumed its supervision responsibilities in the euro zone on November 4. Furthermore, the regulations of the Single Resolution Mechanism (SRM) and of the Single Resolution Fund were approved.

The European Commission published in January 2014 its proposed regulations for **structural reform** that ban proprietary trading and the possibility of requiring separation of market making in some cases. The European Parliament and Council will continue to advance in these negotiations during 2015. As well as the UK, France, Germany and Belgium have also approved laws separating banking activity (fundamentally the separation and/or prohibition of proprietary trading) that will enter into force during 2015.

As regards **investor protection**, of note was the publication of MiFID II, which will come into force in January 2017. The European Securities Market Authority (ESMA) and the European Commission are developing it.

The year in Europe was marked by the launch of the single supervisor

Highlights

Balance sheet (Million euros)	2014	2013	% 2014/2013	2012
Total assets	**1,266,296**	1,134,128	11.7	1,282,880
Net customer loans	**734,711**	684,690	7.3	731,572
Customer deposits	**647,628**	607,836	6.5	626,639
Managed customer funds	**1,023,437**	946,210	8.2	990,096
Stockholders' funds	**80,806**	70,326	14.9	71,797
Total managed and commercialised funds	**1,428,083**	1,270,042	12.4	1,412,617

Income statement[1] (Million euros)	2014	2013	% 2014/2013	2012
Net interest income	**29,548**	28,419	4.0	31,914
Gross income	**42,612**	41,920	1.7	44,989
Pre-provision profit (net operating income)	**22,574**	21,762	3.7	24,753
Profit before tax	**9,720**	7,362	32.0	8,942
Attributable profit to the Group	**5,816**	4,175	39.3	2,283

EPS, profitability and efficiency (%)	2014	2013		2012
Attributable earnings per share (euros)	**0.479**	0.385	24.4	0.234
RoE[2]	**7.0**	5.8		3.1
RoTE[2]	**11.0**	9.6		5.2
RoA	**0.6**	0.4		0.3
RoRWA[3]	**1.3**	—		—
Efficiency ratio (with amortisations)	**47.0**	48.1		45.0

Solvency and non-performing loans (%)				
CET 1 fully loaded [3,4]	**9.7**	—		—
CET 1 phase-in [3,4]	**12.2**	—		—
Non-performing loan (NPL) ratio	**5.2**	5.6		4.6
Coverage ratio	**67.2**	64.9		75.4

The share and capitalisation	2014	2013	% 2014/2013	2012
Number of shares (million)	**12,584**	11,333	11.0	10,321
Share price (euros)	**6.996**	6.506	7.5	6.100
Market capitalisation (million euros)	**88,041**	73,735	19.4	62,959
Shareholders' funds per share (euros)	**6.42**	6.21		6.99
Share price/shareholders' funds per share (times)	**1.09**	1.05		0.87
PER (share price/attributable earnings per share) (times)	**14.59**	16.89		26.10

Other figures	2014	2013	% 2014/2013	2012
Number of shareholders	**3,240,395**	3,299,026	(1.8)	3,296,270
Number of employees	**185,405**	186,540	(0.6)	189,460
Number of branches	**12,951**	13,781	(6.0)	14,238

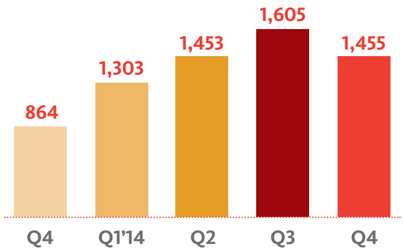
1. Changes excluding the impact of exchange rates: net interest income: +8.8%; gross income: +6.2%; pre-provision profit: +9.1%; attributable profit: +49.3%.
2. RoE: Attributable profit to the Group/(Average capital+reserves+retained earnings+valuation adjustments). In 2014, proforma data including the January 2015 capital increase of €7,500 million.
RoTE: Attributable profit to the Group/(Average capital+reserves+retained earnings+valuation adjustments-goodwill-intangible assets). In 2014, proforma data including the January 2015 capital increase.
3. The previous years' figures are excluded because they are not compatible due to the new CRD IV directive.
4. In 2014, proforma data including the January 2015 capital increase.

Income statement

1 Sharp rise in the Group's attributable profit, fuelled by the improvement in commercial activity. Profit before tax rose in the 10 core markets.

See more information
on pages 104-109 of the annual report

Quarterly attributable profit
Million euros

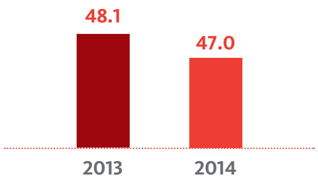


2014 attributable profit
€5,816
million

+39.3%

2 Gross income (€42,612 million) evolved favourably in quarterly terms and costs (€20,038 million) increased at below the inflation rate, which improved the efficiency ratio.

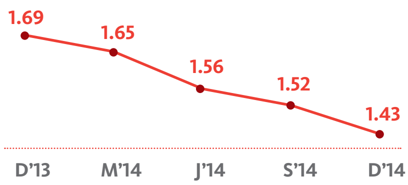
Efficiency ratio (%)



2014-2016 efficiency and productivity plan revised upward
€2,000
million

3 Sustained trend of improvement in the cost of credit due to lower provisions than in 2013.

Cost of credit (%)



-14.4%
Loan-loss provisions

Balance sheet

1 Recovery in lending and faster pace of growth in deposits and mutual funds, enabling the Bank to maintain a comfortable liquidity position.

+5%* Loans

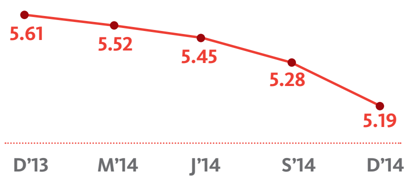
+6%* Customer funds

113% Net loan-to-deposit ratio

* Excluding exchange rates

2 Fall in the NPL ratio due to the sharp reduction in NPL entries. Rise in the coverage ratio.

Non performing loan (NPL) ratio (%)



67%
Coverage ratio

3 High solvency and leverage ratios. The results of the ECB's comprehensive assessment reflect the Group's good management and balance sheet quality. Santander stands out among its peers for the small adjustment as a result of the Asset Quality Review and less impact on capital in the stress test.

9.7%* CET1 fully loaded

12.2%* CET1 phase-in

* Proforma data that includes the January 2015 capital increase.

See more information
on pages 174-176 of the annual report

Results by countries and businesses

Spain

Santander Spain has retail, commercial, wholesale, private banking and online banking (OpenBank) business. Its market share in loans is 13.5% and 14.8% in savings.

Santander Private Banking branch in Madrid, Spain.

Aim:

Be the best bank for our customers and the best place to work.

We want to maintain our current position in the segment of high income individuals (*Select* and Private Banking) and grow our position in SMEs. Increase the loyalty and satisfaction of our individual customers. Drive innovation and digitalisation in order to be the best bank in the market. And strengthen excellence in service quality by streamlining critical processes.

2014 highlights

- Santander Spain granted some 400,000 credits and loans for a total amount of €34,000 million (+84 b.p. in market share).

- In a challenging economic and financial environment, but with a small and gradual upturn during the year, the strategy focused on:

  • Launching the *Santander Advance* project for SMEs with a financial and non-financial offer that has brought considerable recognition to the Bank, thanks to the activities organised with customers.

  • Attract new customers and greater engagement with current ones. In order to improve the customer experience, the *We want to be your Bank* programme was transformed so that it is better adapted to each customer profile.

  • Manage customer funds (+5%), which has largely shifted from deposits to mutual funds, consolidating leadership in investment funds.

- Net interest income increased 9.4% in the year, mainly due to the reduction in the cost of funds. Operating costs were down 6.7% and the synergies envisaged and communicated to the market at the time of the merger were surpassed. Provisions fell sharply.

Integration of Santander, Banesto and Banif

The integration ended in July, ahead of schedule. All private banking clients were incorporated to the attention model that Banif had.

We took advantage of the integration to optimise segmentation and specialisation of branches, with a particular emphasis on private banking, *Select* and company banking, and increasing coverage in specialised portfolios to almost 100%.

Employees
24,979

Customers (Million)
12.6

Branches
3,511

Loans[1 2]
157,047 (+2%)

Attributable profit[1]
1,121 (+141%)

1. Million euros
2. Change without repos

Contribution to Group profit

14%

Poland

Bank Zachodni WBK is the country's third largest bank by market share in loans (7.5%) and deposits (8.3%).

Aim: To increase our market share and to maintain our leadership in terms of profitability.

Bank Zachodni WBK branch in Poland.

2014 highlights

- The Group's business model in Poland focuses on commercial and retail banking, with a noteworthy presence in asset management, stockbroking, factoring and leasing. The Bank provides services to corporate clients and has the Global Banking & Markets unit that provides services to international clients.

- The Bank continues to offer innovative and tailored solutions, not only to attract new customers, but also to deepen already existing relations. The objective is to improve transaction banking and increase in this way the Bank's market share. The strategic programme *Next Generation Bank* continued to develop the Bank at all levels, with the focus on customers and their satisfaction, so that it becomes the bank of first choice.

- The integration of BZ WBK with Kredyt Bank was completed, with an effective management of costs and gains in productivity and commercial activity.

- Lending (+7%) and funds (+10%) grew in 2014, following the success of commercial campaigns. The funding structure was improved, with a net loan-to-deposit ratio of 84%. The efficiency ratio was 42.2%.

- Bank Zachodni generated the largest amount of returns for its shareholders between 2004 and 2013 of all the banks listed on the Warsaw stock market, and was first in the Zlota Akacja ranking (Golden Share) of the WIG banks index.

Employees
11,971

Customers (Million)
4.3

Branches
788

Loans[1 2]
16,976 (+7%)

Attributable profit[1]
358 (+7%)

1. Million euros, change in local currency
2. Change without repos

Contribution to Group profit
6%

Portugal

Santander Totta is the third largest private sector bank by assets in Portugal and the leader in terms of attributable profit.

Aim: To be a reference in customer service quality, to grow in market share and to be the most profitable local bank.

Santander Select branch in Portugal.

2014 highlights

- Santander Totta's market share in loans is 10.7% (+46 b.p. in 2014) and 10.4% in mutual funds plus deposits (+73 b.p.).

- Its strategy is to remain focused on increasing profitability and market shares in the company segment. Priority objectives are to manage net interest income, both assets and liabilities, and control non-performing loans. The Bank is the leader in customer satisfaction.

- The Bank has been active in the international markets through two covered bond issues: the first, in March, of €1,000 million with maturity at three years; and the second, in June, of €750 million at five years. The Bank reduced its exposure to the European Central Bank.

- Deposits rose 4% and mutual funds 21%. Lending fell 5% in a deleveraging environment.

- Gross income increased 4.3% and operating costs remained very controlled (-0.9%). Loan-loss provisions evolved well (-35.7%).

- In 2014, Santander Totta was named Best Bank in Portugal by *Euromoney* and *Global Finance* and Bank of the Year by *The Banker*.

Employees
5,410

Customers (Million)
3.6

Branches
594

Loans[1 2]
23,180 (-5%)

Attributable profit[1]
189 (+65%)

1. Million euros
2. Change without repos

Contribution to Group profit
2%

Santander Consumer Finance

With a position of leadership in Europe's consumer finance market, SCF specialises in auto finance and offers personal credits, loans to buy durable goods and credit cards.

Headquarters of Santander Consumer Bank in Poland.

Aim:

Maintain the consumer finance industry leadership at a European and local level, increasing profitability and creating value

We aim to extend and maximise captive car finance, resume growth in consumer loans, continue with efficiency leadership, and maintain diversified funding and solid capital ratios.

SCF provides financing solutions so that clients can buy goods through more than 120,000 associated points-of-sale. It also has 65 finance agreements with car and motorbike manufacturers, as well as various cooperation agreements with large retail distribution groups.

In an environment of the beginning of a recovery in consumption and car sales, SCF continued to gain market share, backed by a business model whose pillars are geographic diversification and critical mass in key products, higher efficiency than its competitors and a risk control and loan loss recovery management system common to all the markets in which it operates, which translates into a high credit quality.

- Solid results supported by growth in commercial revenues (+6.4%) and lower loan-loss provisions (-3.7%).
- The main units evolved well in profits. Of note was the growth in Poland and in the Nordics and the recovery in the euro zone periphery countries, led by Spain.
- Lending increased 9%, supported by growth in the markets of central and northern Europe, and with Spain showing signs of improvement. The cost of credit was below 1%, the NPL ratio 4.82% and the coverage ratio 100%.

The agreements materialised in 2014 strengthen SCF's position in its markets:

- The agreement with **Banque PSA Finance** (PSA Peugeot Citroën Group) will enable it to bolster leadership in auto finance in various European countries and enter the French and Swiss markets.
- SCF is the leader in auto finance and consumer credit in Spain, and strengthened its position in the latter segment after acquiring 51% of Financiera El Corte Inglés.
- In the Nordics, SCF's leadership in auto finance was joined by that in direct lending and cards after buying GE Money's business in Norway, Sweden and Denmark.

Germany

SCF is the consumer finance leader in Germany (market share of 14% in term credit). By business lines, it is the leader in financing consumer durables and second in auto finance and direct lending. It also has commercial banking businesses.

Employees
13,046

Customers (Million)
16.6

Branches
579

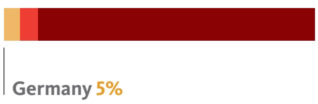
Loans[1 2]
60,448 (+9%)

Attributable profit[1]
891 (+12%)

1. Million euros
2. Change without repos

Contribution to Group profit

11%



Germany 5%

United Kingdom

Against a backdrop of economic recovery, Santander UK is well placed to accelerate its growth, strengthen relations with customers and push its business with corporates in 2015.

Santander UK headquarters in London.

Aim:

To be the best bank for our employees, customers, shareholders and communities.

Santander UK's strategy centres on increasing the number of loyal and satisfied customers; becoming the bank of choice for UK companies and growing in the wholesale banking business; and maintaining a solid base of profitability, while continuing to invest in technology, advance in digital transformation, improve efficiency and foster the risk culture across the organisation.

Santander UK has a growing presence in current accounts, thanks to its innovative 1|2|3 World accounts, and is increasing its lending in both corporate banking and with SMEs, which currently represents 6.6% of loans to customers.

Its objective is to become a more diversified bank, capable of providing all types of service to cover the financial needs of individuals, households and companies.

2014 highlights

- Gross income grew 7.7% in local currency, largely due to the improvement in margins on mortgage interest rates and growth in loans to SMEs and mid corporates, with underlying cost efficiency well managed. Provisions fell 45.7%.

- Santander UK successfully increased the number of customers who have their main current account and hold more than one product. There was a large rise in 2014 with 1.2 million new 1|2|3 World customers, bringing the total balances in current accounts to £41,100 million (+47% versus 2013). The 1|2|3 World now has 3.6 million current account and credit card customers.

- Gross mortgages increased by 43%, to £26,260 million.

- Loans to companies increased 8%, bringing total lending to £23,900 million. This business is developed through an extensive network of corporate business centres, whose number rose from 50 to 66 in the last 12 months.

- Improving customer satisfaction is a priority for Santander UK and in 2014 significant progress was made in this sphere. Retail customer satisfaction, as calculated by the Financial Reporting Survey (FRS), improved to 59.7% from 57.3% in 2013. Improvements in corporate customer satisfaction also continued to be delivered, rising to 58% from 50% as reported in the Charterhouse UK business survey.

- Santander UK continues to be one of the banks with the most solid capital ratios in the United Kingdom (CET1 11.9%).

Employees
25,599

Customers (Million)[1]
25.7

Branches
929

Loans[2 3]
251,191 (+3%)

Attributable profit[2]
1,576 (+30%)

1. 14 million active customers
2. Million euros, change in local currency
3. Change without repos

Contribution to Group profit

19%

Brazil

Santander Brazil is the country's third largest private sector bank by assets and the leading foreign bank.

Santander headquarters in Sao Paulo.

Aim:

Be the bank of first choice for an increasingly large number of satisfied customers, providing high value-added and innovative services to individual customers and companies.

We want to develop a sustainable commercial banking business, with recurring results and centred on increasing the number of customers, as well as their confidence and satisfaction. Grow wholesale banking, corporate and financial businesses, with an efficient capital allocation among the various businesses. Gain market share, increase net recurring profit and boost Brazil's contribution to the Group's total profit.

2014 highlights

- In Brazil, the Bank has a market share of 12.4% in unrestricted loans and 7.9% in deposits.
- Results were on a positive trend during 2014, with higher profits, costs rising at below the inflation rate and a fall in non-performing loans.
- The Bank made progress in 2014 in its strategic priorities. Of note from a commercial standpoint were:
  - The acquisition of GetNet, one of the largest networks in Brazil for processing electronic transactions, in order to advance in the customer attention model and improve customer satisfaction.
  - In order to promote the payroll business, a joint venture was created with Banco Bonsucesso to increase the range of products and improve the distribution and marketing capacity.
  - The acquisition of 50% of *Super Pagamentos*, a digital platform that sells financial products and services via pre-payment cards, was announced. This operation will help the process of increasing the penetration of banking services in Brazil.
  - Channels were reformulated (attention centre, Internet, mobile banking) with a simpler, more accessible and commercial proposal.
  - The Santander *Conta Conecta*, a current account for individual customers and SMEs, which offers a device that enables payments to be received with cards in smartphones and tablets, has attracted some 50,000 customers.
- A total of around 400 ideas suggested by employees via *A bank for your ideas* in the corporate intranet were implemented in 2014, and since then the number of complaints dropped by 26% and customers' perception of the quality of service improved.
- The Bank will continue to streamline its processes and make the customer experience easier. The objective is to be a benchmark in customer satisfaction, with greater engagement and profitability.
- The offer to acquire the shares of Banco Santander Brazil not owned by Grupo Santander was concluded on October 30, 2014. This offer was accepted by shareholders representing 13.65% of the Bank's share capital. As a result, Grupo Santander's stake in Banco Santander Brazil increased to 88.3%.

Employees
46,464

Customers (Million)
31.1

Branches
3,411

Loans[1,2]
74,373 (+10%)

Attributable profit[1]
1,558 (+8%)

1. Million euros, change in local currency
2. Change without repos

Contribution to Group profit
19%

Mexico

Santander is the country's third largest bank by business volume, with market shares of 13.8% in loans and 13.7% in deposits.

Santander Select branch in Mexico.

Aim:

Be the leading bank in profitability, competitiveness, technological innovation, quality of service and pride in belonging to Santander.

We want to consolidate our leadership in strategic markets, double our customer base, be the preferred bank for our customers, convert the Santander brand into the most recognised in the market, increase our participation in the key sectors of energy and infrastructure, and be the bank of technological innovation in Mexico.

2014 highlights

- Santander Mexico continues to focus on developing the high income and SME segments. In 2014, against a backdrop of lower growth in Mexico, lending rose 18% and deposits 14%, outperforming the market in its strategic businesses:
  - **Mortgages.** The strong growth of 17% consolidated the Bank as the second largest player in the country's mortgage market.
  - **SMEs**. The Bank secured its leadership in this sector with growth of 26% in lending, surpassing the market and further strengthening its position as the partner for SMEs. *Santander Advance,* the largest programme of financing and integral services for SMEs in Mexico, was launched, which will double this loan portfolio over the next three years. This plan includes a MXN 1,000 million fund for SMEs' growth projects in sectors such as telecoms, energy and renewables.
- Gross income continued to grow notably (+6.0%), with a positive evolution in the main lines of the income statement. Of note was the growth in net interest income (+7.3%) and fee income (+2.6%).
- Operating costs rose 7.2%, mainly due to the continuous investment in strategic businesses and the opening of 95 new branches. With an efficiency ratio of 41%, Santander Mexico is one of the most efficient franchises in the country.
- Loan-loss provisions remained at a similar level to 2013 despite the growth in lending in 2014. The slight fall in attributable profit was due to the higher tax charge.
- In order to increase transaction banking engagement, campaigns were carried out to improve the interest rate on loans for engaged customers. Innovative products continued to be launched such as the first credit card shared with American Express and the first agri-business credit card in Mexico.
- In order to finance investment projects in infrastructure related to the structural reforms underway in Mexico, Santander launched a $10,000 million fund that will strengthen the Bank's leadership in this sector.
- In 2014, *LatinFinance* recognised Santander Mexico as the Best Bank in infrastructure in Mexico and *Euromoney* named it the Best Bank in Mexico for the third year running.

Employees
16,933

Customers (Million)
11.7

Branches
1,347

Loans[1 2]
25,873 (+18%)

Attributable profit[1]
660 (-3%)

1. Million euros, change in local currency
2. Change without repos

Contribution to Group profit

8%

Chile

Santander Chile is the country's largest bank in terms of assets and customers.

Aim: To be the leading and most valued bank in Chile, setting the client at the centre of our raison d'etre.

Santander branch in Chile.

2014 highlights

- Santander Chile has market shares of 19.2% in lending and 17.6% in deposits.
- The Bank continued with its strategic plan to position the customer at the centre of its activity and looks to consolidate the franchise and leadership positions.
- The four main pillars are: enhance the quality of customer attention and experience; focus on commercial and retail banking; proactive and conservative management of risks; and continuously streamlining processes.
- Work continued in 2014 on the project to transform the Bank in order to grow prudently and with higher profitability; improve the relationship with customers and the quality of service; and manage risk and capital conservatively.
- Lending grew 8%, with growth in high-income clients (+16%) and companies (+8%). Deposits increased 13%. The efficiency ratio was 38.9%. There was a strong rise in profits, fuelled by growth in gross income, cost control and stable provisions.
- Santander Chile was ranked first in corporate transparency by Chile Transparente, the University for Development (UDD) and KPMG; and was named Bank of the Year by *LatinFinance*.

Employees
12,081

Customers (Million)
3.6

Branches
475

Loans[1,2]
30,550 (+8%)

Attributable profit[1]
509 (+35%)

1. Million euros, change in local currency
2. Change without repos

Contribution to Group profit
6%

Argentina

Santander Río is the country's leading private sector bank by assets and liabilities.

Aim: Be the leading private sector bank in terms of profitability and market capitalisation.

Santander Río branch in Argentina.

2014 highlights

- Santander Río has a market share of 9.2% in lending and 9.5% in deposits.
- The business strategy centres on capturing and linking customers, particularly high income ones and SMEs. The Bank has a multi-channel network which focuses on quality of service and customer satisfaction. The number of branches increased by 5% in 2014 and 9 new spaces as well as 28 *Select* corners and 135 *Select* boxes were inaugurated for high income clients. A project was also launched to transform the branch network in order to improve service and efficiency. Work was carried out too on new mobile banking functionalities and on renewing the website.
- In an environment of lower growth and greater regulation, the Bank showed a strong momentum. Lending rose 23% and savings 37%. Gross income was 34.3% higher in pesos.
- Santander Río was named the Best Bank in Argentina by *Euromoney* and the Best Online Bank by *Global Finance*.
- In the medium and long term, Santander Río will centre on enhancing its efficiency and quality of attention with new investments in technology, buildings and cost management. It will also progress in the launch of *Advance*, the Group's value offer for SMEs.

Employees
7,275

Customers (Million)
2.5

Branches
396

Loans[1,2]
5,470 (+23%)

Attributable profit[1]
298 (+33%)

1. Million euros, change in local currency
2. Change without repos

Contribution to Group profit
4%

United States

Grupo Santander does retail banking in the northeast of the country, provides consumer finance and wholesale banking services throughout the country as well as a wide range of financial services in Puerto Rico and private banking services in Miami.

Santander branch in New York City.

Aim:

To become the regional bank of choice in the northeast and enhance our position as a national leader in auto finance.

To achieve this, Santander will strive to increase the number of loyal and satisfied customers, digitalise the Bank, and generate profitable growth while re-balancing the business mix.

2014 highlights

- Santander Bank closed the year with 206,000 new *extra20 checking* accounts, representing 11% of its customer base. This account is the first in the US which pays customers $20 every month if they deposit directly at least $1,500 a month and pay online two bills every month.
- In order to improve customer satisfaction, Santander Bank installed more than 600 new ATMs and added 537 cash points without printed receipt to its branch network.
- Santander Bank launched *Santander Bravo MasterCard®* in February 2014. Cardholders benefit from promotions for each dollar they spend at service stations, supermarkets and restaurants.
- Wholesale banking continued to increase its number of clients (+14% in large corporate clients, to 387), and attract various high profile multinational clients.
- The Bank launched its *Real Change* advertising campaign in September 2014, which highlights the commitment of the Santander brand in the US to create real change that promotes progress for its clients and the communities it serves.
- The successful listing of Santander Consumer USA in January 2014 generated capital gains of €730 million for the Group. SCUSA's growth during the year (new lending +25%) was spurred above all by the agreement to provide auto finance services to Chrysler Corp.'s clients, now in its second year.
- According to the main credit rating agencies, Santander BanCorp is the only Investment Grade-rated financial institution in Puerto Rico, and it has a better credit rating than the country's sovereign debt.
- In the framework of new regulatory trends and in order to apply the best management standards, the Group began a process of transformation in the US, consolidating all its businesses under a holding (Santander Holdings USA) and strengthening governance and control structures.
- Through the Santander Universities website, Universia, Santander sponsored President Barack Obama's multinational initiative, *100,000 strong in the Americas*, created to foster the bi-directional exchange of 100,000 students between Latin America and the Caribbean, on the one hand, and the United States, on the other.

Employees
15,919

Customers (Million)
4.7

Branches
811

Loans[1,2]
67,175 (+4%)

Attributable profit[1]
800 (0%)

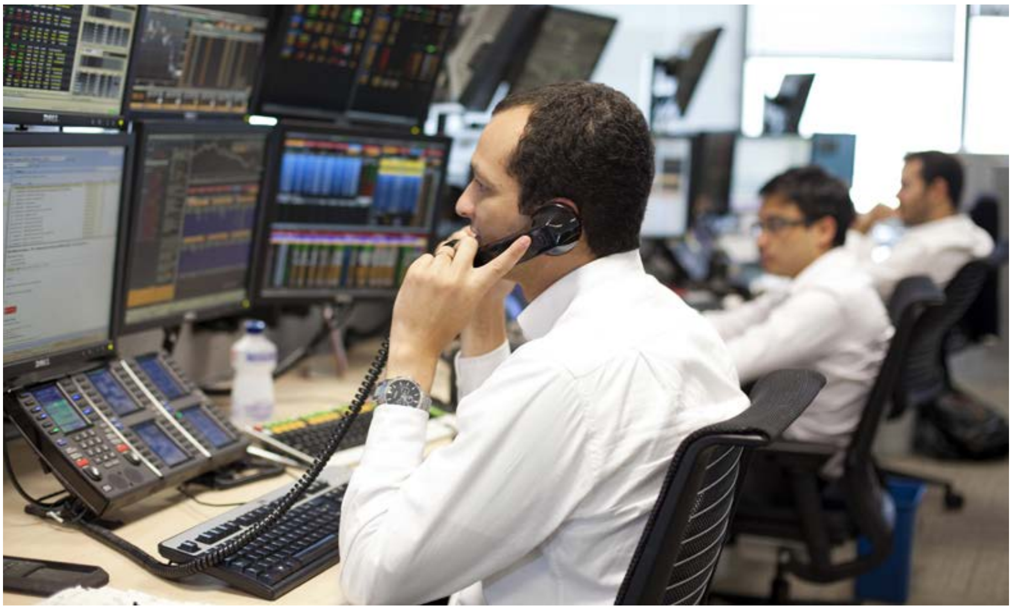
1. Million euros, change in local currency
2. Change without repos

Contribution to Group profit

10%

Global Wholesale Banking

Santander Global Banking & Markets (SGBM) posted an attributable profit of €1,614 million.



Treasury room, Torre Santander, Sao Paulo, Brazil.

Santander Global Banking & Markets (SGBM) is the global business unit for corporate clients and institutions that, because of their size, complexity and sophistication, require specially-tailored services or value-added wholesale products.

2014 highlights

- SGBM continued to reinforce the pillars of its business model, focused on the customer, global product capacities and interconnection with its local units, together with an optimum management of risk, capital and liquidity.

- Its results were backed by the strength and diversification of client revenues, which represent 89% of total revenues. The efficiency ratio remained at levels that are a reference for the sector (36.4%).

- Of note among SGBM's activities in 2014 was the push given to the transaction business in the UK, the US and Poland, which complements the reinforcement of the franchise of clients in all markets; the creation of the Financing Solutions & Advisory unit to provide a comprehensive solution to clients' advisory and structural funding needs; the development, together with Commercial Banking, of the offer and advisory in high value products for various client segments in all the Group's units; and the drive in custody business in Spain and Latin America through a strategic agreement with an investment group.

Main transactions

- In cash management, SGBM continued consolidating its local strength and development of regional solutions to accompany clients in their internationalisation process. Of note was the mandate for the treasury and payroll management of General Electric and its subsidiaries in Brazil.

- Strong drive in trade finance, helping clients to import and export, such as the financing for the Sao Paulo Government. Notable growth in the area of working capital solutions, with programmes such as that of the Danone Group to make annual payments to its suppliers.

- SGBM strengthened its capacities in the global capital markets sphere, leading rankings such as that of Brazilian issues in euros or that of the Housing Associations in the UK. An example of this were the euro issues of the Brazilian and Chilean Treasuries.

- SGBM is one of the leading banks in placing project bonds for Europe, Mexico and Brazil, with issues such as that of Odebrecht Offshore Drilling Finance Limited.

- In the sphere of corporate finance, it led the main operations in its core markets, such as advisory services for American Tower in its acquisition of the Brazilian BR Towers or Orange's takeover bid for Jazztel.

- Regarding corporate syndicated loans, SGBM remains the reference in Europe and Latin America.

Employees
3,152

Customers (Thousand)
57

Loans[1]
86,589 (+0%)

Attributable profit[1]
1,614 (+16%)

1. Million euros, change in constant currency

Contribution to Group profit[2]

20%

2. This figure is included in the profit contribution of each of the local units

Private Banking

Private banking includes the units that focus on providing a comprehensive and specialised service to the Group's high net worth clients.

Santander Private Banking operates in Spain, Italy, Portugal, Brazil, Mexico and Chile, through a domestic private banking model, and in the US and other countries with a specialised offer for international clients.

2014 highlights

- Assets under management rose 7% on a like-for-like basis, due to the generation of new business opportunities and the new clients attracted.
- Once the integration of Santander, Banesto and Banif in Spain was completed, Santander was consolidated as the reference bank for high net worth clients in the country.
- Cooperation with the Group's different areas such as Wholesale Banking, Corporate Banking and Commercial Banking was reinforced through projects that facilitate common work for the benefit of the client.
- *The Banker* named Santander Private Banking as the Best Private Bank in Latin America and *Euromoney* recognised the units in Chile, Portugal and Spain as the Best Private Banks.

Assets under management[1]
153,471 (+7%)

Gross income[1]
889 (+2%)

Attributable profit[1]
319 (+17%)

1. Million euros, change in constant currency, and assets under management on a like-for-like basis.

Asset Management

Santander has a wide range of savings and investment products covering different customer needs which are distributed globally via its retail networks.

This activity revolves around three business areas: Santander Asset Management (SAM), for mutual and pension funds, companies and discretional portfolios; Santander Real Estate, specialised in managing property investments; and Santander Private Equity for venture capital.

Santander Asset Management continued to develop in 2014 a global business model, supported by the local fund managers' market strength and knowledge, and by the strategic agreement with the partners Warburg Pincus and General Atlantic to drive the global business of asset management.

2014 highlights

- In 2014, new ranges of profiled *Select* funds were launched in Poland, Portugal and Brazil and the range of funds for the retail segment was completed with the Tandem profiled funds.
- The offer of investment solutions in the form of profiled funds in Spain, Portugal, Chile, Brazil, Mexico, Poland, Germany and the UK was consolidated. Uruguay is expected to be included in 2015.
- Training was stepped up in the commercial networks to strengthen knowledge of the profiled product offering and their sale tailored to the needs of each client.

Assets managed and commercialised[1]
161,788 (+17%)

Total revenues[1]
1,039 (+22%)

Attributable profit[1]
114 (+100%)

1. Million euros, change in constant currency and on a like-for-like basis

Insurance

The insurance business offers protection and savings solutions to close to 20 million clients in 20 countries, with a segmented offer and multi-channel distribution.

2014 highlights

- Insurance continued to progress in transforming business, centred on clients and their protection needs. It focused on improving the customer experience, offering protection solutions adapted to the different segments and developing an innovative multi-channel marketing model. All of this strengthens customer loyalty and engagement, and builds long-term relations of confidence.
- The insurance activity in 2014 centred on:
  - Continued development of a sustainable business model focused on excellence and quality of service.
  - Continued innovation and expansion of the range of insurance products, with a special emphasis on *Select* and *Advance*.
  - Strengthen the bancassurance business through the strategic alliances with Zurich in Brazil, Mexico, Chile, Argentina and Uruguay; with Aegon in Spain; and Aviva in Poland. An agreement was signed in 2014 with insurance company CNP to develop the insurance business of Santander Consumer Finance in Europe and cooperation with Aegon was increased and extended to Portugal.

Total revenues[1]
2,599 (+3%)

Gross income[1]
455 (+12%)

Attributable profit[1]
270 (+24%)

1. Million euros, change in constant currency

General information

Banco Santander, S.A.

The parent group of Grupo Santander was established on 21 March 1857 and incorporated in its present form by a public deed executed in Santander, Spain, on 14 January 1875, recorded in the Mercantile Registry of the Finance Section of the Government of the Province of Santander, on folio 157 and following, entry number 859. The Bank's By-laws were amended to conform with current legislation regarding limited liability companies. The amendment was registered on 8 June 1992 and entered into the Mercantile Registry of Santander (volume 448, general section, folio 1, page 1,960, first inscription of adaptation).

The Bank is also recorded in the Special Registry of Banks and Bankers 0049, and its fiscal identification number is A-39000013. It is a member of the Bank Deposit Guarantee Fund.

Registered office

The Corporate By-laws and additional public information regarding the Company may be inspected at its registered office at Paseo de la Pereda, numbers 9 to 12, Santander.

Operational headquarters

Santander Group City
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Madrid
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Photographs:
Miguel Sánchez Moñita, Lucía M. Diz, Javier Vázquez

Production:
MRM Worldwide

Printing:
Alborada

Legal deposit:

At Banco Santander, we take advantage of new communications technologies and the social networks to improve dialogue with our stakeholders.

Santander

www.santander.com

Santander in 2014

« Santander's purpose is to help people and businesses prosper. We want to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.»

Ana Botín
Group executive chairman

Employees

185,405
employees

Gender

45% **55%**

97%
employees received training in 2014

Customers

117
million customers

International network

12,951
branches

Customer loans (net)

734,711
million euros

Shareholders

3.2
million shareholders

€0.479
EPS in 2014

Positioning

1º
largest market capitalisation in the euro zone

Communities

12
million students and teachers benefit from cooperation agreements between universities and the Bank

Agreements with universities

1,151
cooperation agreements in 21 countries

Contribution to higher education

146
million euros for universities

Recognitions

The Banker — Bank of the Year 2014 — Western Europe

FTSE4Good

Member of Dow Jones Sustainability Indices — In Collaboration with RobecoSAM

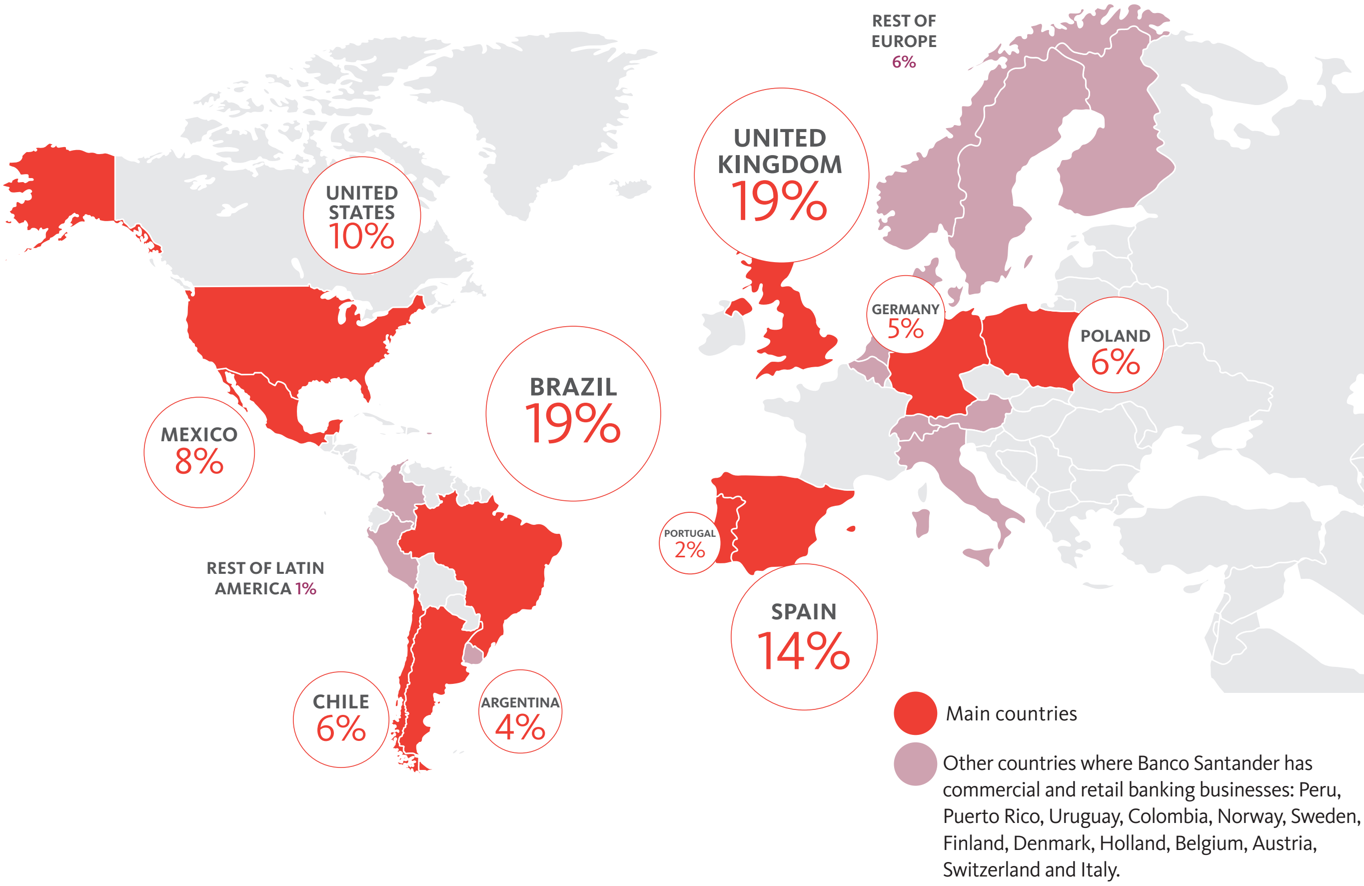
CDP Climate Disclosure Leader 2014

The World's Greenest Banks

Bloomberg Markets

Geographic diversification

Contribution to attributable profit (%)



Financial indicators

Total on-balance sheet assets

1,266,296

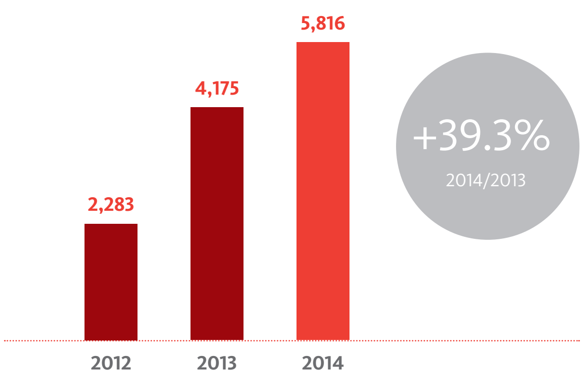
Million euros

CET1 fully loaded

9.7%

Group attributable profit

Million euros



Balance sheet and results (Million euros)	2014	2013
Customer loans (net)	734,711	684,690
Customer deposits	647,628	607,836
Shareholders' funds	80,806	70,326
Gross income	42,612	41,920
Pre-provision profit (net operating income)	22,574	21,762
Attributable profit to the Group	5,816	4,175

Ratios (%)	2014	2013
Earnings per share (euros)	0.479	0.385
RoE*	7.0	5.8
RoTE*	11.0	9.6
Efficiency (with amortisation)	47.0	48.1
Non-performing loan (NPL) ratio	5.2	5.6
Loan-to-deposit ratio	113	112

* Proforma figure in 2014 that includes the January 2015 capital increase of €7,500 million.

Highlights

Balance sheet (Million euros)	2014	2013	% 2014/2013	2012
Total assets	**1,266,296**	1,134,128	11.7	1,282,880
Net customer loans	**734,711**	684,690	7.3	731,572
Customer deposits	**647,628**	607,836	6.5	626,639
Managed customer funds	**1,023,437**	946,210	8.2	990,096
Stockholders' funds	**80,806**	70,326	14.9	71,797
Total managed and commercialised funds	**1,428,083**	1,270,042	12.4	1,412,617

Income statement[1] (Million euros)	2014	2013	% 2014/2013	2012
Net interest income	**29,548**	28,419	4.0	31,914
Gross income	**42,612**	41,920	1.7	44,989
Pre-provision profit (net operating income)	**22,574**	21,762	3.7	24,753
Profit before tax	**9,720**	7,362	32.0	8,942
Attributable profit to the Group	**5,816**	4,175	39.3	2,283

EPS, profitability and efficiency (%)	2014	2013		2012
Attributable earnings per share (euros)	**0.479**	0.385	24.4	0.234
RoE[2]	**7.0**	5.8		3.1
RoTE[2]	**11.0**	9.6		5.2
RoA	**0.6**	0.4		0.3
RoRWA[3]	**1.3**	—		—
Efficiency ratio (with amortisations)	**47.0**	48.1		45.0

Solvency and non-performing loans (%)				
CET 1 fully loaded[3 4]	**9.7**	—		—
CET 1 phase-in[3 4]	**12.2**	—		—
Non-performing loan (NPL) ratio	**5.2**	5.6		4.6
Coverage ratio	**67.2**	64.9		75.4

The share and capitalisation	2014	2013	% 2014/2013	2012
Number of shares (million)	**12,584**	11,333	11.0	10,321
Share price (euros)	**6.996**	6.506	7.5	6.100
Market capitalisation (million euros)	**88,041**	73,735	19.4	62,959
Shareholders' funds per share (euros)	**6.42**	6.21		6.99
Share price/shareholders' funds per share (times)	**1.09**	1.05		0.87
PER (share price/attributable earnings per share) (times)	**14.59**	16.89		26.10

Other figures	2014	2013	% 2014/2013	2012
Number of shareholders	**3,240,395**	3,299,026	(1.8)	3,296,270
Number of employees	**185,405**	186,540	(0.6)	189,460
Number of branches	**12,951**	13,781	(6.0)	14,238

1. Changes excluding the impact of exchange rates: net interest income: +8.8%; gross income: +6.2%; pre-provision profit: +9.1%; attributable profit: +49.3%.
2. RoE: Attributable profit to the Group/(Average capital+reserves+retained earnings+valuation adjustments). In 2014, proforma data including the January 2015 capital increase of €7,500 million.
RoTE: Attributable profit to the Group/(Average capital+reserves+retained earnings+valuation adjustments-goodwill-intangible assets). In 2014, proforma data including the January 2015 capital increase.
3. The previous years' figures are excluded because they are not compatible due to the new CRD IV directive.
4. In 2014, proforma data including the January 2015 capital increase.

Message from Ana Botín

Ana Botín, Group executive chairman.

I became Group executive chairman of Santander Group last September. As you will know, since then we have made some significant changes to the board and governance and to the management team. We have also focused on reviewing our capital position and our dividend policy. This done, I now want to focus on how Santander is to grow in the years ahead. To do that, we have reviewed the markets in which we do business, our strategy and how we operate.

I now want to set out why I am so confident about Santander's future – the fantastic opportunities for growth that lie before us, and how we are going to take advantage of them.

Santander today

Santander is a retail and commercial bank listed in Madrid and on the NYSE, with a market capitalization of ~€90bn, total assets of €1.2trn and a capital base of ~€88bn. In 2014 the Bank achieved a net attributable profit of €5.8bn in 2013 and remunerated shareholders with €0.60 per share.

The bank has a unique model and franchise to compete in the global retail banking landscape. This model has been developed over the last 158 years, especially under the inspiring leadership of my father Emilio Botín. At its core lies:

- **A diversified presence.** Our well-balanced emerging-mature markets mix is delivering growth above our peers. Average GDP growth in our markets is forecast to be close to 3% in 2016.
- **Strong retail and commercial operations.** We are or aim to be one of the top 3 banks in our core 10 markets, which give us access to one billion customers.
- **Autonomous subsidiaries in liquidity and capital.** This creates incentives for good local management and enhances our stability and flexibility.
- **International talent management, a common culture and a top global brand.** We are able to attract and retain world class talent. We have a shared approach as to how we want to operate and behave. And we have created a powerful, global brand: according to Brand Finance, we are number 10 in the world.
- **Prudent risk management and balance sheet strength, underpinned by our Group's solid control framework.** We have delivered a dividend every year for more than 50 years, including during the financial crisis.
- **Investment in innovation, driving digital transformation, and sharing best practice.** Our global scale enables the Group to add value to our subsidiaries around the world.

Market capitalization
88
bn euros

Total assets
1.2
trn euros

Capital base
88
bn euros

Our virtuous circle

At the heart of our culture we believe that, wherever we operate, everything we do should be Simple, Personal and Fair

Santander's purpose, aim and culture

These strong foundations give us a unique opportunity to grow. We can only do this with **a team that fulfills Santander's purpose, understands its aim and lives by its values**.

Santander's purpose is to help people and businesses prosper.

Back in 1857, the founders of Santander wanted to finance trade between Spain and Latin America that generated jobs and prosperity in both continents. Today, our role is obviously broader but the outcome of our efforts is the same.

Our aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

I am convinced that the only way to achieve such aim is by having the best possible relationships with our team, our customers, our shareholders and the communities that we serve. And the most precious asset in these relationships is loyalty:

- A loyal team is one that feels motivated, engaged and rewarded to go the extra mile for customers.
- When our customers get excellent service and can see we are addressing their personal needs, their loyalty to us will grow.
- When that happens, our return and value will also grow – securing loyal shareholders who will invest more in us.
- This, in turn, allows us to do more to support our local communities, generating loyalty to us and strengthening our team's pride in the business.

And then this virtuous circle will begin again.

At the heart of our culture we believe that, wherever we operate, everything we do should be Simple, Personal and Fair.

We have picked these three words because, together, they reflect what our teams and our customers around the world tell us they want from a bank.

A **simple** bank offers its customers a service that is convenient and products that are easy to understand, however and whenever they choose to bank. It makes its processes better every day, so they are easy and clear for customers and its team.

A **personal** bank treats its customers as valued individuals, providing a professional, personal service they can trust. It supports colleagues to develop their skills and achieve their ambitions.

A **fair** bank treats people as they like to be treated – and it earns investors an adequate and sustainable return, while contributing its share to help communities.

Our strategy going forward

As I said, we have reviewed our strategy from the perspective of our purpose, our aim and our culture. I should stress that I am not in favor of changing processes or platforms that are delivering results. We will stick to the elements that have underpinned our success and will build upon them to take Santander to the next level and achieve our goals.

With Simple, Personal and Fair as our guiding principle, we will focus on the following:

People

A strong internal culture. Above all else, Santander's continued success depends on our employees. We should be able to attract, retain and develop our talent to have the best professionals, so we have a very ambitious goal for 2017: to be the one of the Top 3 banks to work for in the majority of our core geographies (according to the relevant rankings).

Customers

Earn the loyalty of our retail and commercial customers; and improve our franchise. We have more than 100 million customers: 53 million are "active", but only 13 million are classified as "loyal", that is, banking regularly with us. This presents us with a great opportunity – and one we need to grasp.

For instance, if 40% of our total retail active customers were to become "loyal" in UK and Spain, and 25% in Mexico and Brazil, we could generate two to three billion Euro of additional income. Critically, these would be satisfied customers, and that means a better and more sustainable revenue generation.

In the UK, for example, we **increased the number of loyal customers from about 1 million** to 3.3 million by rewarding their loyalty with our innovative, transparent, value-adding products and services, such as the 1|2|3 world, for both existing customers and new customers. By having more loyal customers we were able to reduce the cost of our retail deposits and our Group **profit before taxes in the UK rose from £1,008m in 2012 to £1,612 in 2014 (+c.60%).**

So we know how to earn and retain loyalty. Our task now is to change how we do things, so that we increase the loyalty of retail and commercial customers across all our core markets in Europe and the Americas.

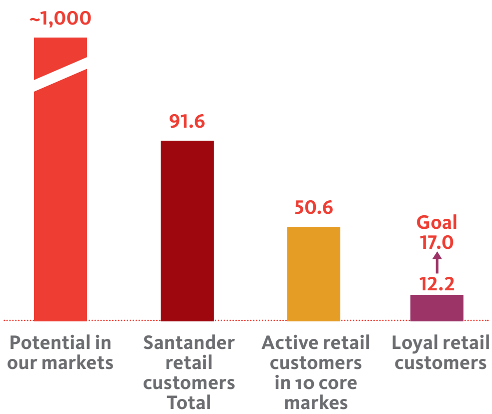
Our goal for 2017 is to have 17 million loyal retail customers —40% more than today— and 1.1 million loyal SME customers.

Operational Excellence: We will continue to build on our operational excellence, starting with customer satisfaction. Our goal is to be within the top 3 group in customer satisfaction across our core markets.

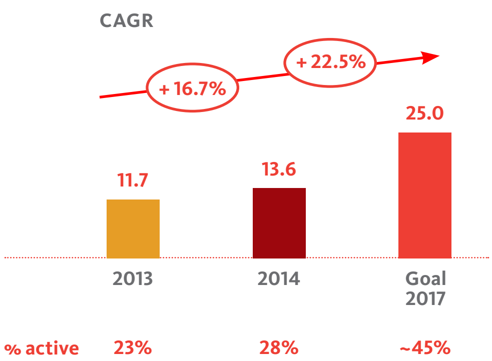
Our digital offering is key to this. Only 28% of customers use our digital channels now: **the objective is to increase this to 45% in 2017.** To achieve this, a number of initiatives have already started including a Multichannel Development Plan, Mobile First, the deployment of Smart ATMs and our unique Innoventures Fintech Fund.

Our opportunity

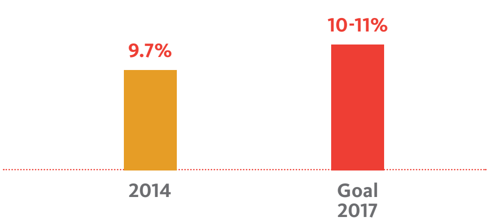
Retail customers (million)



Digital transformation
Number of digital customers



Reinforced capital
CET1 fully loaded



The results of these initiatives are encouraging. In 2014 alone the number of digital customers across the Group grew by 17%.

We will also continue to simplify internal processes and to improve the role of the Corporate Center in order to achieve our efficiency plan targets of a Cost to Income of less than 45% by 2017.

In 2014 we improved this ratio to 47% from 48% in 2013. We are, for example, simplifying the group structure from 15 to 11 divisions.

Shareholders

Reinforced capital and risk management. Even before our capital increase we were amongst the best in several important capital ratios, as shown by the recent AQR and stress tests where we came out "best-in-class".

Our €7.5bn capital increase was a huge success: 235 investors participated with a total demand of above €11bn –79% of the demand coming from US and UK investors.

We did this for two reasons. First, we wanted to be able to accelerate organic growth, with the new capital allowing us prudently to gain profitable market share now that most of our core markets are forecast to see economic growth once again.

Second, we wanted to be able to have in place a sustainable dividend policy and increase the cash component of the pay-out to between 30-40% of recurrent earnings. **Our cash dividend will go up from €1bn to €2.5bn.**

Looking ahead, we will be amongst the best in overall capital ratios, reaching a CET1 fully loaded of 10% in 2015 and a target 10-11% for 2017.

We will focus on organic growth – mainly in Europe and the Americas; be stricter in our capital allocation – allocating capital to businesses with higher potential returns; and although acquisitions are not a priority, were we to consider an acquisition, we would be stricter in our criteria. Our goal is a ROTE of 12-14% by 2017.

To achieve this, excellence in risk management is essential. We are working on a Group Wide Risk Management Program to enhance our holistic and timely control of all types of risks. In our Risk Data Aggregation project alone we are investing €500m. Our goal is to continue to achieve a predictable risk profile, with NPLs below 5%.

The most important aspect of risk management, however, is strong corporate governance. Banco Santander's board of directors is fully involved in the Group's risk oversight and management. Our modern, diverse and international board has broad knowledge of different sectors and the right balance between executive and independent directors (60% of the total), and 33% are women.

I would like to thank Fernando de Asúa and Abel Matutes for their invaluable contribution to the Bank over many years.

Enhanced profitability. Our strategy of focusing on loyal customers will enable us to deliver higher growth than our peers and improved profitability to our shareholders.

Our aim is to deliver higher EPS growth than peers.

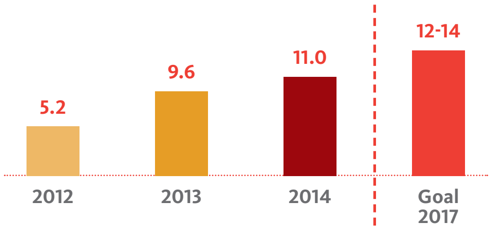
Communities

Santander Universities lies at the heart of our support for our communities. Since 1996 Banco Santander has invested more than EUR 1.0 bn in universities projects and has supported more than 160,000 students and professors through its scholarship program in countries where we operate.

Over the next four years we will invest EUR 700 million in universities; and we will continue to support charities and NGOs on a range of other initiatives, including corporate volunteering.

Enhanced profitability

Return on tangible equity (RoTE) %



The ultimate measure of success

I joined Santander in 1988, so I know well the Santander team and our businesses around the world. Over the last few months, we have made the necessary changes both at executive and board level so that, together, we will become the **best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.**

Ultimately, the measure of our success will be that wherever we operate, our customers are the ones who champion our services and bring in new customers.

I am confident we will achieve this because each of us at Santander is committed to going the extra mile to serve our customers. **I would like to thank every member of our team:** their hard work, commitment and loyalty to Santander are the foundation of our success.

Finally, I would like to thank you, as one of our shareholders, and our board for the support and loyalty shown over the years. We can all be proud of what has been achieved - but our best days lie ahead.

Kind regards and all the best for 2015,

Ana Botín
Group executive chairman

The measure of our success will be that wherever we operate, our customers are the ones who champion our services and bring in new customers

Message from José Antonio Álvarez


José Antonio Álvarez, chief executive officer.

2014 was a year when the global economic situation improved, particularly in the developed economies, the hardest hit by the financial crisis. The financial situation of both consumers and companies improved which, coupled with the measures taken by central banks, is facilitating access to credit.

The year, however, was not free of volatility and uncertainties, with geopolitical risks and falls in commodity prices. Interest rates continued to decline globally, particularly in the euro zone where the ECB's benchmark rate was 0.05%. The regulatory environment also continued to evolve with new capital measures and new stress tests conducted by several of our regulators, which our Bank passed in all cases better than the sector's average.

In this environment, Grupo Santander generated an attributable profit of €5,816 million in 2014, 39.3% more than in 2013. Attributable profit per share was 24.4% higher at €0.479.

We posted a higher quality profit, characterised by:

- **Gross income** rose in nine of the 10 core units, mainly due to the improvement in commercial activities.
- **Costs were controlled;** they rose in the Group at below the average inflation rate, while absorbing investments in order to be able to grow.
- **Loan-loss provisions declined** in seven of the 10 core units, particularly in countries hit by recession or affected by an economic downturn in the last few years.
- **All units increased their pre-tax profits** in local currency for the first time since 2007, reflecting a differentiated management and one tailored to each country's situation.

As regards the **balance sheet**, the downward trend in lending was reversed and growth returned at Group level after several years of falling. Moreover, this growth occurred in both individual customers as well as companies and in all the core countries except for Portugal. This was made possible thanks to the effort made to offer our customers new products and services.

On the liabilities side, we combined an increase in all the units with management focused on reducing the cost of deposits, particularly in countries with interest rates at historically low levels.

In this way, **the Group ended the year with a larger but also more solid balance sheet:**

- **With better credit quality.** The sharp fall in entries of non-performing loans was reflected in lower NPL ratios at Group level and in its main units, while the coverage ratio continued to increase.
- **With a comfortable liquidity situation.** The net loan-to-deposit ratio (LTD) of 113% remained within our comfort zone and we expect to comply ahead of schedule and amply with the short-term regulatory requirements (liquidity coverage ratio or LCR), both at Group level and in the main subsidiaries.
- **With strengthened capital ratios** via organic generation, the issue of additional Tier 1 capital and, in January 2015, a capital increase.

Santander's balance sheet strength, recurrent results and low risk business model were underscored by the European Central Bank's comprehensive assessment of the European Union's largest banks. Two big conclusions can be drawn from the results of these tests:

1. Santander has a **clean and prudently valued balance sheet.** The Bank registered a marginal impact (€200 million in a balance sheet of almost €1,300 billion), as a result of the Asset Quality Review (AQR), the lowest among its European peers.
2. Our business model is **less volatile** than that of the rest of the banking sector and **consumes less capital in unfavourable economic situations.** In the adverse stress test scenario, we were the bank with the least impact among our peers as we showed a €19,500 million capital surplus above the minimum requirement.

In short, **the profit and balance sheet evolution increased Grupo Santander's profitability**. Return on tangible capital (RoTE) was 1.4 p.p. higher than in 2013 at 11.0%, while return on risk weighted assets (RoRWA) improved to 1.3% and reached levels that although comparing well with many of our competitors are still far from our potential.

For the first time since 2007, all units increased their pre-tax profit in local currency terms, reflecting our differentiated management and one tailored to each country's situation

The Group ended the year with a larger but also more solid balance sheet

The profit and balance sheet evolution increased Grupo Santander's profitability

Outlook by business unit

The economic outlook for 2015 is better than in recent years. In particular, we expect the European recovery to firm up and emerging countries to grow more strongly. Banks, however, will continue to operate in a very complex environment of low interest rates and economic growth below that of the previous cycle.

The regulatory environment, meanwhile, will continue to evolve quickly in order to have stronger and more transparent banking systems. We are conscious of the correctness of the objective, but also of the increasing complexity it generates and its impact on the structural profitability of banks in the coming years. Consequently, we believe that the regulator should assess the impact that the reforms and the new environment have on economic growth and banks' capacity to conduct on a sustained basis the function entrusted in them: to finance the economy's growth and contribute to the wealth of households and companies.

The executive chairman explains in detail in her letter the Group's strategic priorities for the next few years. I will review the performance of the main units in 2014 and their management priorities for 2015.

Developed markets

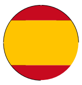
Contribution to Group profit

19%

- **United Kingdom**

The transformation of the commercial franchise and the favourable economic environment had a positive impact in 2014 on Santander UK's business, commercial revenues and provisions. Attributable profit was 30% higher at £1,270 million. Also noteworthy was the growth in lending to companies above that of the market, the increased engagement of individual customers and the change of trend in mortgages (+1%).

These business dynamics, combined with our balance sheet strength, represent an excellent foundation for tackling 2015, a year when we will maintain the main strategic lines: increase the number of engaged customers, demand deposit accounts and lending to companies by more than the market. We will also continue to invest in digital technology, which we will combine with a further improvement in the efficiency ratio.



Contribution to Group profit

14%

- **Spain**

The year 2014 saw a return to profit and business growth. Attributable profit more than doubled to €1,121 million, driven by a lower cost of liabilities, reduced costs and a fall in provisions from the credit risk improvement. Also of note was the growth in lending, for the first time since 2008, due to companies and SMEs, as well as the strong rise in new mortgage lending.

In 2015, with a macroeconomic environment that will further improve, profit and profitability will continue to normalise. With the integration completed, we will focus more on the commercial business, the quality of service and customer engagement. We also aim to increase our market share in the most attractive lending segments, where we believe we can again surpass the sector. And the particular attention paid to improving the cost of credit and operational excellence will positively affect results.

Santander CONSUMER FINANCE

Contribution to Group profit

11%

- **Santander Consumer Finance**

Santander Consumer Finance (SCF) is one of the areas that best performed during the crisis, and better than its peers. Attributable profit in 2014 was €891 million, 12% more than in 2013, fuelled by greater lending and revenues and a very low cost of credit for its type of business.

We also reached agreements that enhanced our position and future growth potential. In 2015, the entry into force of the agreement with Banque PSA Finance and of the business acquired from GE Nordics will consolidate our leadership in auto finance in various European countries, enabling us to enter markets such as France and Switzerland where we have not operated until now.

The priority for the year will be to achieve a model integration of the new operations in order to extract all their potential, without overlooking the growth of the rest of units and with spreads tailored to each market.

• United States

Santander USA posted an attributable profit of $1,061 million in 2014, similar to 2013. It did not increase because of the higher minority interests of SCUSA after its stock market listing. Before these interests, profit was 4% higher due to the units' varied strategies:

- Santander Bank, our retail and commercial bank in the north east of the US, focused its business growth on companies and auto finance, while repositioning its balance sheet in terms of profitability, by reducing unproductive assets and cancelling long-term debt whose cost was above the market's.

- SCUSA, our consumer finance unit, increased origination and sale of credits, following the agreement with Chrysler, as well as the weight of servicing in total business.

Our two main objectives in 2015 are: on the one hand, continue to improve the commercial franchise in order to be in a position to gain market share in a growing economy; on the other, strengthen governance and control structures by investing more in technology, risk and regulatory compliance, enabling us to fulfil the regulator's requirements as quickly as possible. It will take time, but we will build a better bank.

Contribution to Group profit

10%

• Portugal

In a still weak market context, Santander Totta continues to be the country's most profitable bank. Attributable profit increased 65% to €189 million, with revenues, costs and provisions all contributing to this growth.

We will continue to normalise profit in 2015. In an environment where competitors are in a situation of weakness, we have the opportunity to gain profitable market share in the next few years, growing in customers and revenues. We will see further improvements in costs and lower provisions.

Contribution to Group profit

2%

Emerging markets

• Brazil

In an environment of adjustment and low growth, we are improving our business model in order to make it more sustainable, through increased commercial activity, greater engagement of customers, more recurrent revenues and lower risk.

The 2014 results began to reflect this strategy. Attributable profit rose 8% in constant currency to €1,558 million. The drivers of this growth were lower provisions and growth in costs well below the inflation rate. Revenues are still growing weakly because of the change of mix to lower risk businesses and lower spreads, already reflected in the cost of credit.

Contribution to Group profit

19%

This year we are implementing measures to increase the number of engaged customers, keep on growing in the high segment of companies and in those sectors where our presence is low, while continuing to improve efficiency. In addition, the acquisition of minority interests and investments in GetNet and Bonsuceso endorses the Bank's confidence in the country's medium and long term potential, and will have a positive direct impact on results.

Contribution to Group profit
8%

- **Mexico**

Santander Mexico continued in 2014 to expand and strengthen its franchise. As a result, pre-tax profit rose 9% to €1,057 million at constant exchange rates, fuelled by higher gross income from business volumes and an improvement in the cost of credit. Attributable profit fell 3%, due to the higher tax charge.

We will combine in 2015 investments in the multi-channel business and in opening branches with the efficiency plan. The objective is to grow more than the market, particularly in high income clients (*Select*), SMEs (*Advance*) and companies. We are ready to take advantage of the economic recovery and want to be one of the leading banks in financing the government's infrastructure plan.

Contribution to Group profit
6%

- **Chile**

Santander Chile made an attributable profit of €509 million, 35% more than in 2013 at constant exchange rates. This was an excellent result generated by growth in target segments, lower provisions and the favourable impact on revenues of the UF portfolio, indexed to inflation, in a year when inflation was higher than expected.

The Bank focused on improving commercial management and customer engagement, which helped to boost customer satisfaction in all networks and channels. The more expansive tone of monetary and fiscal policy in 2015 heralds an upturn in activity. The Bank's strategy will continue to focus on perfecting the customer experience, transforming commercial and retail banking and deepening the relationship model with companies and large corporations.

Contribution to Group profit
6%

- **Poland**

In a context of a sharp drop in interest rates, BZ WBK posted an attributable profit of €358 million, 7% more than in 2013 at constant exchange rates. Of note was the improvement in commercial revenues, distinguishing us from our peers, following the success of that commercial campaigns that enabled us to increase lending and funds.

We face 2015 in a good market position, with the integration of BZ WBK and Kredyt Bank completed. We draw strength from our leadership in cards, mobile banking and electronic banking, from our capacity to offer innovative solutions to individual customers and companies, and development of the *Next Generation Bank* strategic programme, whose main objective is to make BZ WBK the Bank of first choice.

Contribution to Group profit
4%

- **Argentina**

In a complex environment, Santander Río increased its attributable profit by 33%, to €298 million. We continue to be the leading private sector bank in volume terms, we have a very transaction-based business model and a solid balance sheet of low structural risk.

We will continue to develop in 2015 a strategy focused on improving our commercial position in order to fully exploit the country's more developed banking system, with greater emphasis on high income individuals, SMEs and transaction products.

Global businesses

Santander Global Banking and Markets posted an attributable profit of €1,614 million in 2014, 16% more than in 2013 in constant euros. Growth was fuelled by customer revenues and lower provisions. The Group will continue to develop in 2015 its capacities to expand its presence in the segment of large multinationals that operate in our main geographic areas: Europe and the United Kingdom, North America and Latin America.

Private Banking, Asset Management and Insurance continued to increase their contribution to the Group. This business generated total revenues of €4,528 million including those paid to the commercial network, 7% higher than in 2013 with constant exchange rates and perimeter (10% of the Group's total). A key driver was the good performance of our strategic agreements with product specialists in various countries in order to spur the insurance and asset management businesses in the coming years.

Conclusions

I will conclude with some basic ideas on Santander's outlook for the next few years:

- We began 2015 with good dynamics in results and volumes.
- We have comfortable liquidity and capital positions to be able to grow in an environment of greater activity in our core markets.
- We know what to do in order to be commercially successful: make the customer the focal point of our management.
- We will maintain our focus on operational excellence in order to streamline internal processes, transform the Bank digitally and improve efficiency and customer service.
- We will strengthen risk management, a longstanding priority for Santander.
- We will use capital much more efficiently and exit non-strategic businesses, focusing on growth areas.
- Our ultimate objective is to improve the return on the capital employed.

I expect the Group's profits to normalise and return to pre-crisis levels. As the chairman indicated in her letter, **we aspire to attain a return on tangible equity of between 12% and 14%**, with most of the dividend distribution in cash and in accordance with the growth in profits. This will have a positive impact on the value of our share.

In order to implement our strategy and meet our goals, **we have an experienced team** and the capacities of adequate management, which we will continue to strengthen via the strategic Human Resources plan. Its objective is to make Santander the best bank to work for.

I am confident that, with the support and motivation of our employees and the confidence of our customers and shareholders, we will be able to achieve all the goals set for 2015.

José Antonio Álvarez
Chief executive officer

Our ultimate objective is to improve the return on the capital employed. We aspire to attain a return on tangible capital of between 12% and 14%

«« We are beginning a new era, reinforcing our aim to become the best commercial bank in the world as we move forward with the highest international standards of corporate governance »»

Ana Botín, chairman of Banco Santander
Internal communication.
25 November 2014.

3

Corporate governance report

Balanced and committed board.

- Of 15 directors, 10 are non-executive and 5 are executive.

Equality of rights of shareholders.

- Principle of one share, one vote, one dividend.
- No defensive mechanisMs in Bylaws.
- Encouragement of informed participation at meetings.

Maximum transparency, particularly as regards remuneration.

A corporate governance model recognised by socially responsible investment indices.

- Santander has been included in the FTSE4Good and DJSI indices since 2003 and 2000, respectively.

Executive summary

Changes in the composition of the board

The following changes have led to a more international and diversified board:

- On 10 September, after the death of the former chairman, Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, the Bank's board of directors resolved to appoint Ms Ana Botín-Sanz de Sautuola y O'Shea as executive chairman of the Group.
- At its meeting of 25 November, the board of directors appointed Mr José Antonio Álvarez Álvarez as chief executive officer, replacing Mr Javier Marín Romano, and also approved the following appointments:
  - Mr Bruce Carnegie-Brown, as first vice-chairman, independent director and lead director (*consejero coordinador*).
  - Mr Rodrigo Echenique Gordillo, as fourth vice-chairman.
  - Ms Sol Daurella Comadrán and Mr Carlos Fernández González, as independent directors.
- The new independent directors filled the vacancies created by the death of Mr Emilio Botín-Sanz de Sautuola y García de los Ríos as well as by the resignations of Mr Fernando de Asúa Álvarez and Mr Abel Matutes Juan.
- In 2015, at its meeting of 16 January, the board of directors approved the appointment of Mr Rodrigo Echenique Gordillo, vice-chairman of the board, as an executive director with responsibility for the duty of compliance in accordance with the regulatory recommendations on corporate governance and also assuming the other duties assigned to him by the chairman of the Bank.

Activities of the board

- The board held 16 meetings during 2014. In addition to the report made by the chairman at each ordinary meeting, at 9 meetings, the chief executive officer submitted management reports to the board, and the second vice-chairman and chairman of the executive risk committee reported on Group risks. The board has already held one meeting on the global strategy of the Group in 2015.
- The Group's external auditors and heads of internal audit participated in 11 of the 13 meetings held by the audit committee and reported to the board on 2 occasions during 2014.

Increase in capital and new dividend policy

- In January 2015, a capital increase of 7,500 million euros, approximately 8.8% of the Bank's capital after the increase, was carried out by means of accelerated bookbuilding.
- The dividend policy of the Bank has also been redirected, effective from the first dividend to be paid for financial year 2015, resulting in the expected distribution of three cash dividends and a scrip dividend (*Santander Scrip Dividend*), in an estimated amount of five cents per share for each of them.

  There is a compensation of 0.60 euros per share by means of scrip dividends with a charge to financial year 2014, in accordance with the announcement at the general shareholders' meeting of 28 March 2014.

Remuneration of directors

- The total remuneration of directors for 2014 is 8.9% more than 2013.

Bylaw-mandated payments

- The total amount paid by the board in bylaw-mandated payments amounted to 4.4 million euros in 2014, which is 27.2% less than the maximum amount approved at the general shareholders' meeting.

Remuneration of executive directors

- At the general shareholders' meeting in 2014 it was resolved to amend the Bylaws to adjust the remuneration rules for the executive directors to the provisions of Royal Decree-Law 14/2013 (today Law 10/2014) and of CRD IV, such that the variable components of their remuneration may not exceed 100% of the fixed components, unless a higher ratio is approved at the general shareholders' meeting, which ratio shall in no case exceed 200%.

- One of the main new elements of the 2014 director remuneration policy included a long-term share incentive based on the performance of the Bank over a multi-year period, in order to increase the alignment of variable remuneration with the creation of long-term value for the shareholders.

Appointment of new chairmen at subsidiaries in the United Kingdom, in Brazil and in the United States

- During December 2014, the appointments were announced of Baroness Vadera, who will be the new non-executive chairman of Santander UK from 30 March 2015, replacing Lord Burns, and of Mr T. Timothy Ryan, Jr., a former vice chairman of JP Morgan Chase, who has been appointed non-executive chairman of the boards of directors of Santander Holdings USA (SHUSA) and of Santander Bank.

- The appointment of Mr Sérgio Rial as chairman of the board of Santander Brazil was announced in January 2015. Mr Rial has held executive positions in ABN-AMRO (CEO for the Asia region), Bear Stearns, Marfrig (CEO) and Cargill (executive vice president and CFO) among others.

Financial information periodically published by the Bank

- The board approved the quarterly financial information, the annual accounts and the management report for 2014, in addition to other documents such as the annual report, the sustainability report, prudential information (Pillar III), the annual corporate governance report, the reports of the committees of the board and the annual director remuneration report.

1. Ownership structure

Number of shares and significant interests

Number of shares

In 2014, the Bank carried out five capital increases, effective 30 January, 29 April, 30 July, 4 November and 5 November, with the issuance of 227,646,659, 217,013,477, 210,010,506, 210,010,506 and 225,386,463 new shares, representing 2.009%, 1.915%, 1.853%, 3.273% and 1.989%, respectively, of the Bank's share capital at year-end 2013. The first three and the last were within the framework of the *Santander Scrip Dividend* programme, and the fourth resulted from the offer made for the shares of Banco Santander (Brasil) S.A. not owned by Santander Group. All this entailed a total increase in share capital equal to 11.038% in comparison with share capital at year-end 2013.

	Nº of shares	% of share capital *
30 January	227,646,659	2.009%
29 April	217,013,477	1.915%
30 July	210,010,506	1.853%
4 November	370,937,066	3.273%
5 November	225,386,463	1.989%
Total	**1,250,994,171**	**11.038%**

* Share capital at year-end 2013.

The Bank's share capital at 31 December 2014 was represented by 12,584,414,659 shares, whose value per the listing price on the Electronic Trading System (*Sistema de Interconexión Bursátil*) (continuous market) of the Spanish stock exchanges at such date was 88,040.6 million euros.

All shares carry the same economic, voting and related rights.

Significant interests

No shareholder held significant interests (of more than 3% of the share capital[1] or interests that would permit a significant influence on the Bank) at 31 December 2014.

The interests held by: State Street Bank and Trust Company (11.43%); Chase Nominees Limited (5.78%); The Bank of New York Mellon Corporation (4.80%); EC Nominees Limited (4.35%); Guaranty Nominees Limited (4.21%); and Clearstream Banking S.A. (3.47%), which were the only ones in excess of 3%, were held by them on behalf of their customers. The Bank is not aware of any of them holding individual stakes of 3% or more of its share capital.

Bearing in mind the current number of members of the board of directors (15), the percentage of capital needed to exercise the right to appoint a director, in accordance with article 243 of the Spanish Companies Act (*Ley de Sociedades de Capital*) on proportional representation, is 6.67%.

Shareholders' agreements and other significant agreements

Section A.6 of the annual corporate governance report, which forms part of the management report, contains a description of the private shareholders' agreement (*pacto parasocial*) executed in February 2006 by Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea, Mr Emilio Botín-Sanz de Sautuola y O'Shea, Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea, Simancas, S.A., Puente San Miguel, S.A., Puentepumar, S.L., Latimer Inversiones, S.L. and Cronje, S.L. Unipersonal, providing for the syndication of the shares of the Bank held by them or in respect of which they have voting rights. Such agreement was also reported to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) (CNMV) as a significant event (*hecho relevante*) and is described in the public records thereof.

On 3 August and 19 November 2012, Banco Santander reported to the CNMV as material facts that it had been formally notified of amendments to this shareholders' agreement with regard to the signatories thereto.

On 17 October 2013, the Bank also reported to the CNMV as a material fact an update of the holders and of the distribution of shares included in the syndication, as a consequence of a business reorganisation carried out by one of the parties to the agreement.

On 3 October 2014, Banco Santander reported to the CNMV as a material fact a new update of the holders and of the distribution of shares included in the syndication, as well as the change of the chairmanship of the syndicate, which is vested in Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea, current chairman of the board of trustees of the Botín Foundation, completing such information by a material fact notification on 6 February 2015.

1. Limit set by Royal Decree 1362/2007, of 19 October, for defining the concept of significant interest..

Shares included in the syndication

At the date of this document, the syndication included a total of 73,732,624 shares of the Bank (0.6% of its share capital), broken down as follows:

Signatories to the shareholders' agreement	Number of shares
Estate *(herencia yacente)* of Mr Emilio Botín-Sanz de Sautuola y Garcia de los Ríos	552,426
Ms Ana Patricia Botín-Sanz de Sautuola O'Shea[1]	8,079,986
Mr Emilio Botín-Sanz de Sautuola O'Shea[2]	16,873,709
Mr Francisco Javier Botín-Sanz de Sautuola O'Shea[3]	16,288,313
Ms Paloma Botín-Sanz de Sautuola O'Shea[4]	7,835,293
Ms Carmen Botín-Sanz de Sautuola O'Shea	8,636,449
PUENTEPUMAR, S.L.	—
LATIMER INVERSIONES, S.L.[5]	553,508
CRONJE, S.L., Unipersonal	9,337,661
NUEVA AZIL, S.L.	5,575,279
TOTAL	**73,732,624**

1. 7,996,625 shares of Banco Santander, S.A. indirectly through Bafimar, S.L.
2. 7,800,332 shares of Banco Santander, S.A. indirectly through Puente San Miguel, S.L.U.
3. 4,652,747 shares of Banco Santander, S.A. indirectly through Inversiones Zulú, S.L. and 6,794,391 shares through Agropecuaria El Castaño, S.L.U.
4. 6,628,291 shares of Banco Santander, S.A. indirectly through Bright Sky 2012, S.L.
5. Bare ownership of 553,508 shares corresponds to the Botín Foundation, but voting rights are assigned to Latimer Inversiones, S.L. as beneficial owner thereof.

In all other respects the aforementioned shareholders' agreement remains unchanged.

The aforementioned material facts may be viewed on the Group's corporate website (www.santander.com).

Treasury shares

Treasury share policy

The sale and purchase of own shares, by the Company or by companies controlled thereby, must conform to the provisions of applicable law and the resolutions of the shareholders in this regard.

The Bank, by resolution of the board of directors on 23 October 2014 approved a new treasury stock policy[2] taking into account the criteria recommended by the CNMV.

Treasury share transactions have the following objectives:

a) To provide liquidity or a supply of securities, as applicable, in the market for the shares of the Bank, giving depth to such market and minimising possible temporary imbalances between supply and demand.

b) To benefit shareholders as a whole, to take advantage of situations of weakness in the price of the shares in relation to prospects of changes in the medium-term.

They shall be subject to the following general guidelines:

- They shall not entail proposed intervention in the free formation of prices.
- Trading may not take place if the unit entrusted with such transaction is in possession of insider or relevant information.
- Where applicable, the execution of buy-back programmes and the acquisition of shares to cover obligations of the Bank or the Group shall be permitted.

Treasury stock transactions shall be carried out by the Investments and Holdings Department, which is isolated as a separate area from the rest of the Bank's activities and protected by the respective chinese walls, preventing it from receiving any insider or relevant information. The head of such department is responsible for the management of treasury stock.

2. The treasury share policy is published on the Group's corporate website (www.santander.com).

Key data

At 31 December 2014, the Bank held 1,465,371 treasury shares, representing 0.012% of its share capital at such date (at year-end 2013, there were 1,425,239 treasury shares, representing 0.013% of the Bank's share capital at such date).

The following table sets out the monthly average percentages of treasury shares in 2014 and 2013.

Monthly average percentages of treasury shares[1]

% of the Bank's social capital[2]

	2014	2013
January	0.154	0.441
February	0.232	1.264
March	0.241	0.792
April	0.136	0.794
May	0.260	1.061
June	0.297	0.752
July	0.284	0.209
August	0.414	0.497
September	0.337	0.482
October	0.156	0.171
November	0.258	0.431
December	0.141	0.393

1. Further information in this regard is included in section A.8 of the annual corporate governance report, which forms part of the management report, and in the capital and treasury stock section of this latter report.
2. Monthly average of daily positions of treasury stock.

The transactions in own shares carried out by companies forming part of the consolidated Group in the interest thereof during financial year 2014 entailed the acquisition of 487,590,901 shares, equal to a nominal amount of 243.8 million euros (actual amount of 3,442.0 million euros), and the sale of 487,550,769 shares, in the nominal amount of 243.8 million euros (actual amount of 3,498.5 million euros).

The average purchase price of shares of the Bank in financial year 2014 was 7.06 euros per share, and the average sale price of shares of the Bank was 7.18 euros per share.

The effect on equity (net of taxes) generated by transactions carried out during the financial year with shares issued by the Bank was equal to a profit of 40 million euros, which was recorded in the Group's equity section under *Shareholders' equity–Reserves*.

Authorisation

The current authorisation for transactions in treasury shares arises from resolution 5 adopted by the shareholders acting at the general shareholders' meeting held on 28 March 2014, item II) of which reads as follows:

"To grant express authorisation for the Bank and the subsidiaries belonging to the Group to acquire shares representing the share capital of the Bank for valuable consideration in any manner permitted by law, within the limits of the law and subject to all legal requirements, up to a maximum number of shares –including the shares they already hold– equal to 10% of the share capital existing at any given time or such greater maximum percentage as is established by the law while this authorisation is in effect. Such shares shall be fully paid-in at a minimum price per share equal to the par value thereof and a maximum price of up to 3% over the last listing price for transactions in which the Bank does not act on its own behalf on the Continuous Market of the Spanish stock exchanges (including the block market) prior to the acquisition in question. This authorisation may only be exercised within five years of the date of the general shareholders' meeting. The authorisation includes the acquisition of shares, if any, that must be delivered directly to the employees and managers of the Company, or that must be delivered as a result of the exercise of the options held by them".

Resolutions in effect regarding the possible issuance of new shares or of bonds convertible into shares

The capital authorised by the shareholders acting at the annual general meeting held on 28 March 2014, under item 9 of the agenda, amounts to 2,890,266,786.50 euros. The period available to the directors of the Bank to carry out and make capital increases up to such limit expires on 28 March 2017. The resolution gives the board (or, by delegation, the executive committee) the power to exclude pre-emptive rights in whole or in part, pursuant to the provisions of section 506 of the Companies Act, though this power is limited to capital increases carried out pursuant to this delegation up to 1,156,106,714.50 euros.

In addition, the shareholders acting at the annual general meeting held on 28 March 2014 approved the following resolutions in connection with the content of this section:

1. Four increases in share capital with a charge to reserves in the maximum amounts of 1,875 million, 1,950 million, 2,025 million and 2,100 million euros at market value, respectively, within the shareholder compensation scheme (*Santander Scrip Dividend*) whereby the Bank has offered shareholders the possibility of receiving shares under a scrip issue for an amount equal to the dividends on the quarterly dates on which they are customarily paid.

   For such purposes, at 31 December 2014, the first three aforementioned increases in capital had been implemented, taking place on 29 April, 30 July and 5 November 2014. A number of shares having a nominal value of 0.5 euro each were issued in each case, equal to 108,506,738.50 euros, 105,005,253 euros and 112,693,231.50 euros, respectively, which corresponds to a total of 5.184% of the Bank's share capital at year-end 2014.

   The fourth increase in capital was implemented 29 January 2015. A number of shares having a nominal value of 0.5 euro each were issued, representing 131,289,496.50 euros, which corresponds to 1.903% of share capital at such date.

2. Delegation to the board of directors, in accordance with the general rules on issuance of obligations and pursuant to the provisions of article 319 of the Regulations of the Commercial Register (*Reglamento del Registro Mercantil*), of the power to issue, on one or more occasions, debentures, bonds, preferred shares and other fixed-income securities or debt instruments of a similar nature in any of the forms allowed by law and convertible into and/or exchangeable for shares of the Bank (resolution Eleven A) of the general shareholders' meeting of 28 March 2014). Such delegation also includes warrants or similar securities that may directly or indirectly carry the right to subscribe for or acquire shares of the Bank, whether newly-issued or already outstanding, payable by physical delivery or through set-off. The issuance or issuances of securities carried out pursuant to this delegation come to the aggregate maximum amount of 10,000 million euros or the equivalent thereof in another currency, and the period available to the directors of the Bank within which to implement this resolution expires on 28 March 2019.

   At the date of this document, pursuant to this delegation, two issuances of preferred shares convertible into newly issued ordinary shares of the Bank, excluding pre-emptive rights of shareholders, were carried out in May and September 2014, respectively, the former in the nominal amount of 1,500 million dollars (1,077,044,589.65 euros at the exchange rate of 1.3927 US dollars per euro) and the latter for 1,500 million euros. The issuance of these contingently convertible securities involves the approval of corresponding increases in capital, if applicable, to provide for the conversion of the preferred shares. Consequently, the two aforementioned issuances mean that of the authorised capital mentioned at the beginning of this section, 264,009,622 euros has been used for those purposes with respect to the two described authorised capital limits.

   On 5 March 2014, pursuant to the delegation implemented by the board of directors under resolution Twelve A. II) of the general shareholders' meeting held on 22 March 2013 (which was later rescinded under the aforementioned resolution Eleven A) of the general shareholders' meeting of 28 March 2014), an issuance of preferred shares contingently convertible into newly issued ordinary shares of the Bank was carried out, excluding pre-emptive rights of shareholders, in the nominal amount of 1,500 million euros.

3. Delegation to the board of directors, pursuant to the provisions of section 297.1.a) of the Companies Act, of the broadest powers such that, within one year of the date on which the aforementioned shareholders' meeting is held, it may set the date and the terms and conditions, as to all matters not provided for by the shareholders themselves, of an increase in capital in the amount of 500 million euros. If the board does not exercise the powers delegated thereto within the period established by the shareholders for implementation of this resolution, such powers shall be rescinded.

With relation to the takeover bid offer for all the securities representing the share capital of Banco Santander Brasil that were not held by the Santander Group, the shareholders of the Bank acting at the extraordinary general shareholders' meeting on 15 September 2014 approved six increases in share capital in the amount necessary to be able to acquire all such securities of Banco Santander Brasil, delivering new shares of the Bank as consideration.

After the initial period for acceptance of the offer, the holders of 13.65% of the securities representing the share capital of Banco Santander Brasil accepted the offer. As the percentage of acceptance was lower than the limit that would have permitted the holders of securities representing the share capital of Banco Santander Brasil who did not accept the offer to request that the Bank purchase their shares during the three following months at the same exchange ratio in accordance with the provisions in the terms of the offer, it was only necessary to implement the first of the aforementioned six increases in share capital.

On 4 November, Banco Santander, S.A., in implementation of the aforementioned resolution of the general shareholders' meeting, issued 370,937,066 shares, which represented approximately 3.09% of the Bank's share capital at such date.

Finally, in financial year 2015, on 8 January the board of directors approved an increase in share capital with the exclusion of pre-emptive rights pursuant to the delegation contained in resolution Nine of the general shareholders' meeting of 28 March 2014 and described at the beginning of this section. After an accelerated bookbuilding among qualified investors, on 9 January 2015 the executive committee declared the capital increase closed in the total nominal amount of 606,796,117 euros, which represents 9.64% of the Bank's share capital at such date.

After such capital increase, the available authorised capital amounts to 1,996,946,432 euros with respect to the capacity of the board of directors (or, replacing them, the executive committee) to approve increases in capital and to 262,786,360 euros with respect to the power to approve increases in capital with the exclusion of pre-emptive rights.

2. Banco Santander's board of directors[3]

Ms Ana Botín-Sanz de Sautuola y O'Shea

›Chairman
Executive director

Born in 1960 in Santander (Spain).

Joined the board in 1989.

Graduate in Economics.

Joined the Bank after a period at JP Morgan (1980-1988). She has been executive vice president of Banco Santander, S.A. since 1992, was executive chairwoman of Banesto from 2002 to 2010, and chief executive officer of Santander UK from 2010 to 2014.

Other significant positions: she is a non-executive director of The Coca-Cola Company. She is also Business Ambassador of the government of the United Kingdom.

Committees of the board of which she is a member
Executive (chairman), international (chairman) and innovation and technology (chairman).

Mr José Antonio Álvarez Álvarez

›Chief executive officer
Executive director

Born in 1960 in León (Spain).

Appointed director on an interim basis at the board meeting of 25 November 2014.

M.A. degree in Economics and Business Administration. MBA at the Chicago University.

Joined the Bank in 2002 and was appointed executive vice president of the financial management and investor relations division in 2004 (chief financial officer).

Other significant positions: He is a member of the board of Banco Santander (Brasil), S.A. and SAM Investments Holdings Limited. Has also served as a director of Santander Consumer Finance, S.A. and a member of the supervisory boards of Santander Consumer AG, Santander Consumer Holding GMBH, Santander Holdings USA, Inc. and Bank Zachodni WBK, as well as a director of Bolsas y Mercados Españoles (BME).

Committees of the board of which he is a member
Executive, executive risk, international and innovation and technology.

Mr Bruce Carnegie-Brown

›First vice-chairman
Non-executive (independent) director and lead independent director

Born in 1959 in Freetown (Sierra Leone).

Appointed director on an interim basis at the board meeting of 25 November 2014.

M. A. degree in English Language and Literature.

Other significant positions: He is currently non-executive chairman of Moneysupermarket.com Group Plc and Aon UK Ltd and a non-executive director of Santander UK Plc. He was previously founder and managing partner of the quoted private equity division of 3i Group plc, president and CEO of Marsh Europe and has held various positions at JP Morgan Chase and Bank of America. He was also lead independent director at Close Brothers Group plc (2008-2014) and Catlin Group Ltd (2010-2014)

Committees of the board of which he is a member
Executive, appointments (chairman), remuneration (chairman), risk supervision, regulation and compliance (chairman) and innovation and technology.

Mr Matías Rodríguez Inciarte

›Second vice-chairman
Executive director

Born in 1948 in Oviedo (Spain).

Joined the board in 1988.

Graduate in Economics, and Government Economist. He also carried out Business Administration studies at the MIT.

Other significant positions: minister of the Presidency between 1981 and 1982, as well as technical general secretary of the Ministry of Finance, general secretary of the Ministry for European Community Relations and deputy secretary of state to the President. He is currently chairman of the Fundación Princesa de Asturias and of the social council of the Universidad Carlos III de Madrid, as well as an external director of Sanitas, S.A. de Seguros and of Financiera Ponferrada, S.A., SICAV.

Committees of the board of which he is a member
Executive, executive risk (chairman) and innovation and technology.

3. Unless otherwise specified, the main activity of the members of the board is that carried out at the Bank in their capacity as directors, whether executive or non-executive.

Mr Guillermo de la Dehesa Romero

›Third vice-chairman
Non-executive (independent) director

Born in 1941 in Madrid (Spain).

Joined the board in 2002.

Government Economist and head of office of Banco de España (on leave of absence).

Main activity:
international advisor to Goldman Sachs International.

Other significant positions:
former state secretary of Economy, secretary general for Trade, chief executive officer of Banco Pastor, S.A. He is presently the non-executive vice-chairman of Amadeus IT Holding, S.A., chairman of the Centre for Economic Policy Research (CEPR) based in London, a member of the Group of Thirty based in Washington, chairman of the board of trustees of IE Business School and non-executive chairman of Aviva Grupo Corporativo, S.L. and of Aviva Vida y Pensiones, S.A. de Seguros y Reaseguros.

Committees of the board of which he is a member
Executive, audit (chairman), appointments, remuneration, risk supervision, regulation and compliance, international and innovation and technology.

Mr Rodrigo Echenique Gordillo

›Fourth vice-chairman
Executive director

Born in 1946 in Madrid (Spain).

Joined the board in 1988.

Graduate in Law and Government Attorney.

Other significant positions:
former chief executive officer of Banco Santander, S.A. (1988-1994). He is also currently non-executive director of Inditex, S.A. Has served on the board of directors of several industrial and financial companies such as Ebro Azúcares y Alcoholes, S.A. and Industrias Agrícolas, S.A. He was also a member and subsequently chairman of the advisory board of Accenture, S.A. He is also non-executive chairman of NH Hotels Group, S.A. and has been non executive chairman of Vocento, S.A. and Vallehermoso, S.A.

Committees of the board of which he is a member
Executive, executive risk, international and innovation and technology.

Ms Sheila C. Bair

Non-executive director (independent)

Born in 1954 in Wichita, Kansas (USA).

Joined the board in 2014.

JD from the University of Kansas School of Law and BA from the University of Kansas.

Main activity:
Senior advisor to and chair of the Systemic Risk Council at The Pew Charitable Trusts and columnist for Fortune magazine.

Other significant positions:
She was chairman of the Federal Deposit Insurance Corporation (2006-2011), professor of Financial Regulatory Policy for the Isenberg School of Management at the University of Massachusetts-Amherst (2002-2006) and Assistant Secretary for Financial Institutions at the US Department of the Treasury (2001-2002). She is also a non-executive director of Thomson Reuters Corporation and Host Hotels & Resorts Inc. In addition, she is a founding board member of The Volcker Alliance.

Committees of the board of which she is a member
Risk supervision, regulation and compliance.

Mr Javier Botín-Sanz de Sautuola y O'Shea

Non-executive (proprietary) director

Born in 1973 in Santander (Spain).

Joined the board in 2004.

Graduate in Law.

Main activity:
chairman and chief executive officer of JB Capital Markets, Sociedad de Valores, S.A.

Other significant positions:
In addition to his professional activity in the financial sector, he cooperates with several non-profit making organisations. Chairman since 2014 of the Botín Foundation and trustee of th Princess of Gerona Foundation and of the Prehistoric Research Institute of Cantabria.

Ms Sol Daurella Comadrán

Non-executive (independent) director

Born in 1966 in Barcelona (Spain).

Appointed director on an interim basis at the board meeting of 25 November 2014.

Graduate in Business and MBA in Business Administration.

Main activity:
Executive chairwoman of Coca-Cola Iberian Partners, S.A.

Other significant positions:
She is currently a non-executive director of Acciona, S.A. Has served as a member of the governing board of the Círculo de Economía and an independent external director of Banco Sabadell, S.A. She is also Honorary Consul-General for Iceland in Catalonia.

Committees of the board of which he is a member
Appointments and remuneration.

Mr Carlos Fernández González

Non-executive (independent) director

Born in 1966 in Mexico City, (Mexico).

Appointed director on an interim basis at the board meeting of 25 November 2014.

An **Industrial Engineer**, he has undertaken graduate studies in business administration at the Instituto Panamericano de Alta Dirección de Empresas.

Main activity:
He is the chairman of the board of directors and vice president of Finaccess, S.A.P.I.

Other significant positions:
He is currently a member of the board of Grupo Financiero Santander, S.A.B. de C.V. and of Grupo Modelo.

Committees of the board of which he is a member
Audit, appointments and risk supervision, regulation and compliance.

Ms Esther Giménez-Salinas i Colomer

Non-executive (independent) director

Born in 1949 in Barcelona (Spain).

Joined the board in 2012.

Doctor of Laws.

Main activity:
full professor of Criminal Law at ESADE-URL Law School.

Other significant positions:
she has been a Rector of the Ramon Llull University, a member of the Spanish Supreme Judicial Council, a member of the Standing Committee of the Conference of Rectors of Spanish Universities and an executive vice president of the Centre for Legal Studies of the Department of Justice of the Generalitat de Catalunya.

Committees of the board of which she is a member
International and innovation and technology.

Mr Ángel Jado Becerro de Bengoa

Non-executive (independent) director

Born in 1945 in Santander (Spain).

Joined the board in 2010.

Graduate in Law and in Business Administration.

Other significant positions:
he was director of Banco Santander from 1972 to 1999 and director of Banco Banif, S.A. from 2001 to 2013. Currently, he holds various positions in investment trusts.

Committees of the board of which he is a member
Executive risk, audit, appointments, remuneration and risk supervision, regulation and compliance.

Mr Juan Rodríguez Inciarte

Executive director and executive vice president

Born in 1952 in Oviedo (Spain).

Joined the board in 2008.

Graduate in Economics.

Other significant positions: he is director of Santander UK plc, Santander Consumer Finance, S.A. and SAM Investment Holdings Limited. Was formerly a member of the board of directors of The Royal Bank of Scotland and NatWest Bank, director and member of the executive committee of Instituto Bancario San Paolo di Torino and director of First Union (now Wells Fargo & Company). Has likewise served on the board of NIBC Bank NV, Sovereign Bancorp (now Santander Bank N.A.), CEPSA and ABN AMRO, among others.

Committees of the board of which he is a member
Executive risk.

Ms Isabel Tocino Biscarolasaga

Non-executive (independent) director

Born in 1949 in Santander (Spain).

Joined the board in 2007.

Doctor in Law. She has undertaken graduate studies in business administration at IESE and the Harvard Business School.

Main activity: full professor at Universidad Complutense de Madrid.

Other significant positions: she has formerly been Spanish Minister for the Environment, chairwoman of the European Affairs Committee and of the Foreign Affairs Committee of the Spanish Congress and chairwoman for Spain and Portugal and vice-chairwoman for Europe of Siebel Systems. She is currently an elected member of the Spanish State Council, a member of the Royal Academy of Doctors and a non-executive director of ENCE Energía y Celulosa, S.A. and Enagas, S.A.

Committees of the board of which she is a member
Executive, executive risk, audit, remuneration and risk supervision, regulation and compliance.

Mr Juan Miguel Villar Mir

Non-executive (independent) director

Born in 1931 in Madrid (Spain).

Joined the board in 2013.

Doctorate in Civil Engineering, graduate in Law and degree in Industrial Organisation.

Main activity: he is the chairman of Grupo OHL and of Grupo Villar Mir, and represents these entities as vice-chairman of Abertis Infraestructuras, S.A. and Inmobiliaria Colonial, S.A., respectively.

Other significant positions: he was minister of Finance and government vice-chairman for Economic Affairs between 1975 and 1976. He has been chairman of Electra de Viesgo, Altos Hornos de Vizcaya, Hidro Nitro Española, Empresa Nacional de Celulosa, Empresa Nacional Carbonífera del Sur, Cementos del Cinca y Cementos Portland Aragón and Puerto Sotogrande. He is also currently a member of the Royal Academy of Engineering.

Committees of the board of which he is a member
Audit and risk supervision, regulation and compliance.

Mr Ignacio Benjumea Cabeza de Vaca

General secretary and secretary of the board

Born in 1952 in Madrid (Spain).

Joined the Group in 1987.

Graduate in Law at the Deusto University, ICADE-E3, and Government Attorney.

Other important positions: Vice Chairman of the Fundación de Estudios Financieros. He was Technical General Secretary of the Ministry of Labour and Social Security, general secretary of Banco de Crédito Industrial, general secretary and executive vice president of Banco Santander de Negocios and director of Dragados, S.A., Bolsas y Mercados Españoles (BME) and of the Governing Body of the Madrid Stock Exchange.

Secretary of committees of the board
Executive, executive risk, audit, appointments, remuneration, risk supervision, regulation and compliance, international and innovation and technology.

Re-election of directors at the 2015 annual general shareholders' meeting

Pursuant to article 55 of the Bylaws* and article 22 of the Rules and Regulations of the Board*, directors are appointed to three-year terms, such that one-third of the board is renewed each year.

The following directors will be proposed for re-election at the 2014 annual general shareholders' meeting, scheduled for 26 or 27 March on first and second call, respectively, and following the order determined by seniority for annual renewal and for renewal of one-third of the board as established by article 55 of the Bylaws: Mr Juan Rodríguez Inciarte, Mr Matías Rodríguez Inciarte, Mr Juan Miguel Villar Mir and Mr Guillermo de la Dehesa Romero, the first two as executive directors, the third as non-executive (independent) director, and the last as non-executive (neither proprietary nor independent) director.

* The Bylaws and the Rules and Regulations of the Board of Banco Santander are published on the Group's website (www.santander.com).

The general shareholders' meeting will also be asked to ratify the appointments of Mr Carlos Fernández González (also re-electing him for a three-year term), Ms Sol Daurella Comadrán, Mr Bruce Carnegie-Brown and Mr José Antonio Álvarez Álvarez, the first three as independent directors and the last as an executive director. Their professional profiles, together with a description of their activities, appear on the preceding pages.

The re-elections will be submitted separately to a vote of the shareholders at the general shareholders' meeting (article 21.2 of the rules and regulations for the general shareholders' meeting). In view of the fact that this election practice has been followed since the 2005 annual general shareholders' meeting, the election of all of the current directors has been submitted to a separate vote of the shareholders.

Powers and duties

The basic responsibility of the board of directors is to supervise the Group, delegating the day-to-day management thereof to the appropriate executive bodies and the various management teams.

Composition and structure of the board of directors[1]

Board of Directors				Committees							
		Executive	Non-executive	1. Executive committee	2. Executive risk committee	3. Audit committee	4. Appointments committee	5. Remuneration committee	6. Risk supervision, regulation and compliance committee	7. International committee	8. Innovation and technology
Chairman	Ms Ana Botín-Sanz de Sautuola y O'Shea	■		C						C	C
Chief executive officer	Mr José Antonio Álvarez Álvarez[2]	■		■	■					■	■
First vice-chairman	Mr Bruce Carnegie-Brown[2]		I	■			C	C	C		■
Second vice-chairman	Mr Matías Rodríguez Inciarte	■		■	C						■
Third vice-chairman	Mr Guillermo de la Dehesa Romero[3]		I	■		C	■	■	■	■	■
Fourth vice-chairman	Mr Rodrigo Echenique Gordillo	■		■	■					■	■
Members	Ms Sheila C. Bair		I						■		
	Mr Javier Botín-Sanz de Sautuola y O'Shea		P								
	Ms Sol Daurella Comadrán[2]		I				■	■			
	Mr Carlos Fernández González[2]		I			■	■		■		
	Ms Esther Giménez-Salinas i Colomer		I							■	■
	Mr Ángel Jado Becerro de Bengoa		I		■	■	■	■	■		
	Mr Juan Rodríguez Inciarte	■			■						
	Ms Isabel Tocino Biscarolasaga		I	■	■	■		■	■		
	Mr Juan Miguel Villar Mir		I			■			■		
General secretary and secretary of the board	Mr Ignacio Benjumea Cabeza de Vaca			■	■	■	■	■	■	■	■

1. Data as at 23 February 2015.
2. Their appointment will be submitted for ratification at the general shareholders' meeting scheduled for 26 or 27 March 2015, on first or second call.
3. The re-election of Mr Guillermo de la Dehesa Romero as a director is expected at the annual general shareholders' meeting in 2014, from which moment of his re-election he will be considered a non-executive but not independent director, having held the position of director for more than 12 years.

The Rules and Regulations of the Board (article 3) reserve thereto the power to approve general policies and strategies and, in particular, strategic plans, management objectives and the annual budget, corporate governance, corporate social responsibility and dividend and treasury share policies, the general risk policy, and the policies for the provision of information to and for communication with the shareholders, the markets and the public opinion, which power cannot be delegated.

The board also reserves for itself, and likewise cannot delegate, the following matters, among others: decisions regarding the acquisition and disposition of substantial assets (except when the decisions come within the purview of the shareholders at a general shareholders' meeting) and major corporate transactions; the determination of the remuneration of each director and the approval of the contracts governing the performance by the directors of duties other than those of a director, including executive duties, as well as the remuneration to which they are entitled for the discharge thereof; the selection, the interim appointment and the on-going evaluation of the directors, the selection, appointment and, if appropriate, removal of the other members of senior management (executive vice presidents and equivalents) and the monitoring of management activity and on-going evaluation thereof, as well as the determination of the basic terMs of their contracts, as well as the creation or acquisition of interests in special purpose entities or in entities registered in countries or territories regarded as tax havens. With respect to certain of the matters mentioned in this paragraph, the executive committee may make any appropriate decisions, by delegation of the board and whenever justified by reasons of urgency, reporting such decisions to the board at the first subsequent meeting held thereby.

The Bylaws (article 40) as well as the aforementioned Rules and Regulations (article 5) establish the board's obligation to ensure that the Bank faithfully complies with applicable law, observes usage and good practices of the industries or countries where it does business and abides by the additional social responsibility principles that it has voluntarily accepted.

In addition, the board of the Bank takes a very active interest in the Group's risk function. Of its 15 members, 12 are members of at least one of the three board committees with powers in the area of risks: the executive committee, the executive risk committee and the risk supervision, regulation and compliance committee.

Shareholding

Direct	Indirect	Shares represented	**Total**	% of share capital	Date of first appointment	Date of last appointment	Expiration date[8]	Date of last proposal of the appointments and remuneration committees
110,464	17,334,286	-	17,444,750	0.124%	04.02.1989	28.03.2014	First six months of 2017	17.02.2014
425,458	-	1,240	426,698	0.003%	25.11.2014[4]	25.11.2014	First six months of 2018	25.11.2014
2	-	-	2	0.000%	25.11.2014[5]	25.11.2014	First six months of 2018	21.11.2014
1,385,728	120,966	181,935	1,688,629	0.012%	07.10.1988	30.03.2012	First six months of 2015	17.02.2012
139	-	-	139	0.000%	24.06.2002	22.03.2013	First six months of 2016	17.02.2014
658,758	13,594	-	672,352	0.005%	07.10.1988	28.03.2014	First six months of 2017	13.02.2013
1	-	-	1	0.000%	27.01.2014	27.01.2014	First six months of 2017	23.01.2014
4,793,481	-	128,348,014	133,141,495	0.947%	25.07.2004	22.03.2013	First six months of 2016	13.02.2013
920	270,370	-	271,290	0.002%	25.11.2014[6]	25.11.2014	First six months of 2018	21.11.2014
15,434,451	-	-	15,434,451	0.110%	25.11.2014[5]	25.11.2014	First six months of 2018	21.11.2014
5,181	-	-	5,181	0.000%	30.03.2012	28.03.2014	First six months of 2017	17.02.2014
2,050,000	5,100,000	-	7,50,000	0.051%	11.06.2010	22.03.2013	First six months of 2016	13.02.2013
1,673,175	-	-	1,673,175	0.012%	28.01.2008	30.03.2012	First six months of 2015	17.02.2012
166,888	-	-	166,888	0.001%	26.03.2007	22.03.2013	First six months of 2016	13.02.2013
1,176	-	-	1,176	0.000%	07.05.2013	28.03.2014	First six months of 2017	17.02.2014
26,705,822	**22,839,216**	**128,531,189**	**178,076,227**	**1.266%**				**Total**

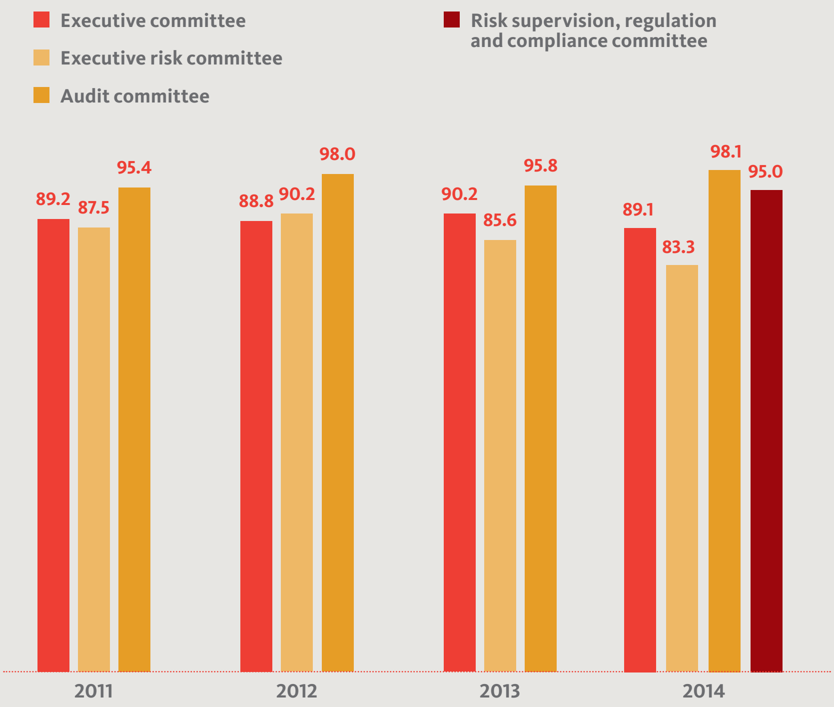
4. Effective 13 January 2015.
5. Effective 12 February 2015.
6. Effective 18 February 2015.
7. However, and pursuant to the provisions of article 55 of the Bylaws, one-third of the board will be renewed each year, based on length of service and according to the date and order of the respective appointment.

C Chairman of the committee
V Vice-chairman of the committee
P Proprietary
I Independent
N Non-executive, neither proprietary nor independent

Corporate governance in risk management

Average rate of attendance at meetings of the committees of the board

%



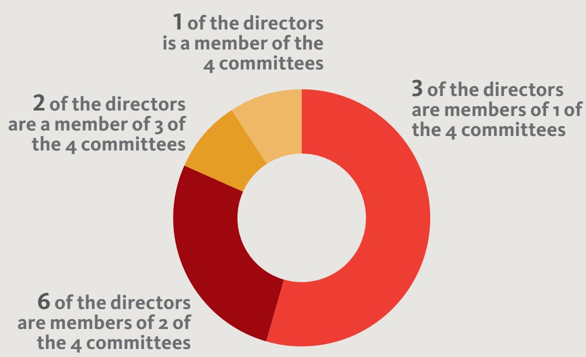
- Mr Matías Rodríguez Inciarte, executive vice-chairman of Banco Santander, chairs the executive risk committee.
- The executive risk committee held 96 meetings in 2014, each of which lasted approximately three hours.
- The executive committee held 65 meetings in 2014 and devoted a very significant amount of its time to discussions on risks.
- The risk supervision, regulation and compliance committee supports and advises the board of directors on risk supervision and control, on the definition of the Group's risk policies, on relations with supervisory authorities and on regulation and compliance. It has been established in July 2014 and has held five meetings in 2014.

Number of meetings of the executive, executive risk, audit, and risk supervision, regulation and compliance committees

Committees	2010	2011	2012	2013	2014
Executive	55	59	59	58	65
Executive risk	99	99	98	97	96
Audit	11	12	11	12	13
Risk supervision, regulation and compliance*	-	-	-	-	5
Total meetings	**165**	**170**	**168**	**167**	**179**

* In accordance with the provisions of article 54 *bis* of the Bylaws and article 17 *bis* of the Rules and Regulations of the Board, the risk supervision, regulation and compliance committee held its first meeting on 23 July 2014.

Cross-participation on executive, executive risk, audit, and risk supervision, regulation and compliance committees



Size and composition of the board

Since the end of 2010, the size of the board has been reduced by 25%, from 20 to 15 members.

The composition of the board of directors is balanced between executive and non-executive directors. All members are distinguished by their professional ability, integrity and independence of opinion.

Pursuant to article 6.3 of the Rules and Regulations of the Board, the appointments committee verified the status of each director at its meetings of 20 and 23 February 2015. Its proposal was submitted to the board, which approved it at its meeting of 23 February 2015.

Of the 15 members currently sitting on the board, five are executive and 10 are non-executive. Of the latter, nine are independent and one is proprietary.

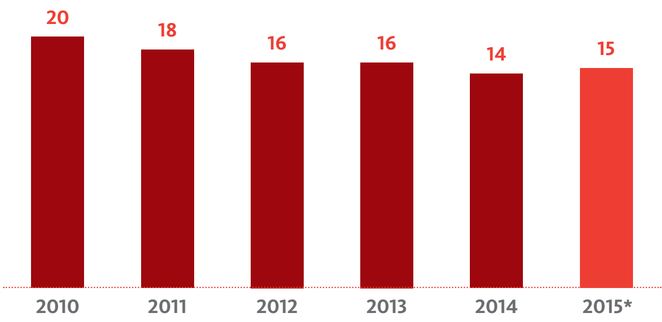
The following changes to the composition of the board occurred during financial year 2014:

After the death of the former chairman, Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, the Bank's board of directors agreed to appoint Ms Ana Botín-Sanz de Sautuola y O'Shea as executive chairman of the Bank at its meeting of 10 September 2014.

At its meeting of 25 November, the board appointed Mr José Antonio Álvarez Álvarez as chief executive officer, replacing Mr Javier Marín Romano, and also approved the appointments of Mr Bruce Carnegie-Brown, as vice-chairman, independent director and lead director, and of Ms Sol Daurella Comadrán and Mr Carlos Fernández González, as independent directors, filling the vacancies created by the death of Mr Emilio Botín-Sanz de Sautuola y García de los Ríos as well as by the resignations of Mr Fernando de Asúa Álvarez and Mr Abel Matutes Juan.

At its meeting of 16 January 2015, the board of directors approved the appointment of Mr Rodrigo Echenique Gordillo, vice-chairman of the board, as an executive director thereof with responsibility for the compliance function in accordance with the regulatory recommendations on corporate governance, also assuming the other duties assigned to him by the chairman of the Bank.

Size of the board



* Data at 23 February 2015.

Executive directors

Pursuant to the Rules and Regulations of the Board (article 6.2.a)), the following are executive directors: Ms Ana Botín-Sanz de Sautuola y O'Shea, Mr José Antonio Álvarez Álvarez, Mr Rodrigo Echenique Gordillo, Mr Matías Rodríguez Inciarte and Mr Juan Rodríguez Inciarte.

Proprietary non-executive directors

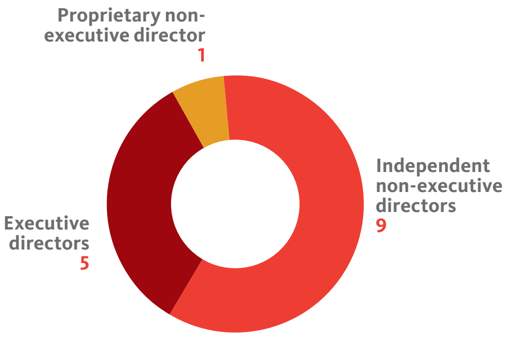
According to article 6.2.b) of the Rules and Regulations of the Board, proprietary directors are non-executive directors who hold or represent shareholdings equal to or greater than the one legally considered as significant, or who have been designated for their condition as shareholders despite their shareholdings not reaching the threshold to be considered significant, as well as anyone representing such shareholders.

Taking into account the circumstances of the case, and upon the prior report of the appointments committee, the board considers Mr Javier Botín-Sanz de Sautuola y O'Shea to be a proprietary non-executive director.

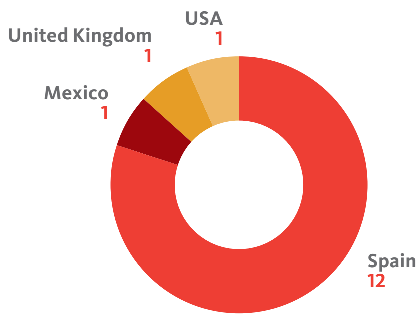
Independent non-executive directors

The Rules and Regulations of the Board (article 6.2.c)) include the legal definition of independent director established in article 8 of Order ECC/461/2013, which coincides with that currently established in section 529 *duodecies* (4) of the Companies Act.

Current composition of the board



Geographical diversity on the board



Taking into account the circumstances of each case and upon a prior report of the appointments committee, the board considers the following nine directors to be independent non-executive directors: Mr Bruce Carnegie-Brown, Mr Guillermo de la Dehesa Romero, Ms Sheila C. Bair, Ms Sol Daurella Comadrán, Mr Carlos Fernández González, Ms Esther Giménez-Salinas i Colomer, Mr Ángel Jado Becerro de Bengoa, Ms Isabel Tocino Biscarolasaga and Mr Juan Miguel Villar Mir.

Mr Guillermo de la Dehesa Romero, who is currently considered to be an independent non-executive director, will continue to be considered as such until the completion of his term at the next general shareholders' meeting. The board has agreed to propose his re-election as non-executive director, neither proprietary nor independent, at the general shareholders' meeting.

Given the current number of directors (15), independent non-executive directors account for 60% of the board.

Such percentage significantly exceeds the minimum of one-third established by article 6.1 of the Rules and Regulations of the Board and reflects the board's goal for the board to be made up predominantly of non-executive directors, which in turn are predominantly independent.

Diversity on the board

As established in article 17.4a) of the Rules and Regulations of the Board, the appointments committee is responsible for proposing and reviewing the standards that must be followed for the composition of the board and for determining who is to be proposed for the position of director.

As regards gender diversity, both the appointments committee and the board of directors are aware of the importance of fostering equal opportunities between men and women and of the appropriateness of appointing to the board women who fulfil the requirements of ability, suitability and effective dedication to the position of director.

At the proposal of the appointments committee, the board has approved a goal regarding its composition setting the minimum percentage of female directors at 25%.

At present, there are five women on the board of directors, of whom one is its chairman, Ms Ana Botín-Sanz de Sautuola y O'Shea, while the others are non-executive independent directors: Ms Sheila C. Bair, Ms Sol Daurella Comadrán, Ms Esther Giménez-Salinas and Ms Isabel Tocino Biscarolasaga.

The percentage of women on the Banco Santander board (33.3%) is clearly higher than the average for large European listed companies. According to a study carried out by the European Commission with data from March 2014, this percentage was 17.8% for the group of 28 countries forming the European Union and 14.8% for Spain.

Executive chairman and chief executive officer

The chairman of the board is the highest-ranking officer of the Bank (article 48.1 of the Bylaws and article 8.1 of the Rules and Regulations of the Board) and all the powers that may be delegated under the law, the Bylaws and the Rules and Regulations of the Board have been delegated thereto.

Pursuant to article 10.3 of the Rules and Regulations of the Board, the chief executive officer is entrusted with the day-to-day management of the various business areas.

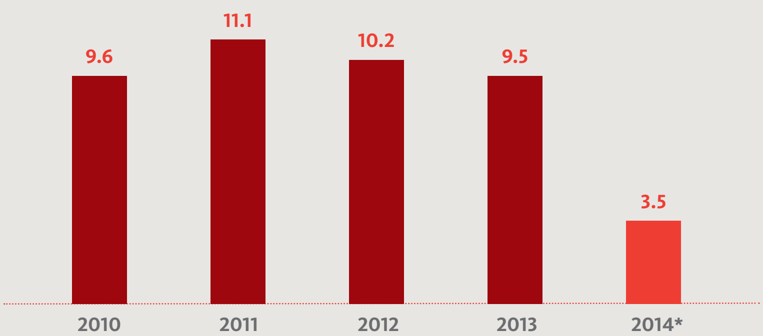
There is a clear separation of duties between the executive chairman, the chief executive officer, the board, and its committees, and various checks and balances that assure proper equilibrium in the corporate governance structure of the Bank, including the following:

- The board and its committees oversee and control the activities of both the executive chairman and the CEO.
- The lead director, who is independent, chairs the appointments, the remuneration and the risk supervision, regulation and compliance committees.
- The executive risk committee is chaired by an executive vice chairman of the board who does not report to the CEO.
- The audit committee is chaired by a vice chairman who is an independent director.
- The powers delegated to the executive chairman and the CEO exclude those that are exclusively reserved for the board itself.

Years of service of independent directors

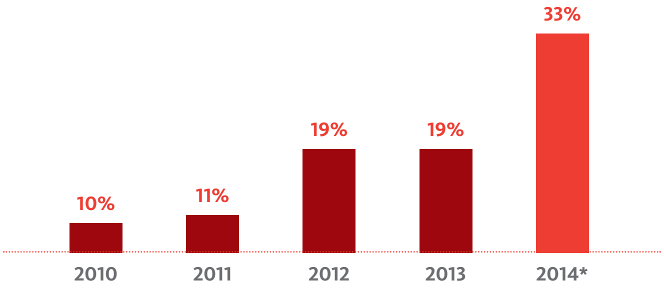
Data at financial year-end except for 2014

At the date of this document, the average length of service of non-executive independent directors in the position of board member is 3.5 years.



* Data at the date of this document.

% of women on the board
Data at financial year-end except for 2014



* Data at 23 February 2015.

	Number of members	Number of female directors	% of female directors
Board	15	5	33.3%
Executive committee	7	2	28.6%
Executive risk committee	6	1	16.7%
Audit committee	5	1	20.0%
Appointments committee	5	1	20.0%
Remuneration committee	5	2	40.0%
Risk supervision, regulation and compliance committee	7	2	28.6%
Innovation and technology	7	2	28.6%
International committee	5	2	40.0%

Succession plans for the chairman and the chief executive officer

Succession planning for the main directors is a key element of the good governance of the Bank, assuring an orderly leadership transition at all times. This process is regulated in article 24 of the Rules and Regulations of the Board.

Appointment of the new chairman

After the death of the former chairman, Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, at its meeting of 10 September 2014 the Bank's board of directors resolved to appoint Ms Ana Botín-Sanz de Sautuola y O'Shea as executive chairman of the Bank.

Pursuant to the provisions of article 24 of the Rules and Regulations of the Board, the appointments and remuneration committee proposed such appointment. Having analysed the suitability of Ms Botín, the appointments and remuneration committee considered that given her personal and professional qualities, her experience, her career within the Group and her unanimous national and international recognition, she was the most appropriate person for the position.

Rules for interim replacement of the chairman

Article 44.2 of the Bylaws sets out interim replacement rules for the temporary performance (in cases of absence, inability to act or indisposition) of the duties of the chairman of the board of directors in the absence of the vice-chairmen.

Lead director

By resolution of the general shareholders' meeting of 28 March 2014, the figure of lead director (*consejero coordinador*), already established in the Rules and Regulations of the Board, has been included in the Bylaws, the responsibilities thereof being defined in article 49 *bis*. Pursuant to those provisions, the lead director will be especially authorised to: (i) request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board that has already been called; (ii) coordinate and organise meetings of the non-executive directors; and (iii) direct the regular evaluation of the chairman of the board of directors.

At its meeting of 25 November 2014, the board of directors appointed Mr Bruce Carnegie-Brown as first vice-chairman and lead director, replacing Mr Fernando de Asúa Álvarez.

The appointment of the lead director has been made for an indefinite period and with the abstention of the executive directors, as provided in the Bylaws.

Secretary of the board

The Bylaws (article 45.2) include among the duties of the secretary those of ensuring the formal and substantive legality of all action taken by the board, ensuring observance of the good governance recommendations adopted by the Bank, and ensuring that governance procedures and rules are observed and regularly reviewed.

The secretary of the board is the general secretary of the Bank, and also acts as secretary of all the committees of the board.

The Rules and Regulations of the Board (article 17.4.d)) provide that the appointments committee must report on proposals for the appointment or withdrawal of the secretary of the board prior to submission thereof to the board.

Proceedings of the board

There were 16 meetings during financial year 2014.

The board holds its meetings in accordance with an annual calendar. The Rules and Regulations of the Board provide that the board shall hold not less than nine annual ordinary meetings.

The board shall meet whenever the chairman so decides, acting on her own initiative or at the request of not less than three directors (article 46.1 of the Bylaws). Additionally, the lead director shall be especially authorised to request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting that has already been called (article 49. bis.1 (i) of the Bylaws).

When directors cannot attend a meeting personally, they may give a proxy to any other director, in writing and specifically for each meeting, to represent them for all purposes at such meeting. A proxy shall be given with instructions. Non-executive directors may only be represented by another non-executive director.

The board may meet in various rooms at the same time, provided that interactivity and communication among them in real time is ensured by audiovisual means or by telephone and the concurrent holding of the meeting is thereby ensured.

Meetings of the board shall be validly held when more than one-half of its members are present in person or by proxy.

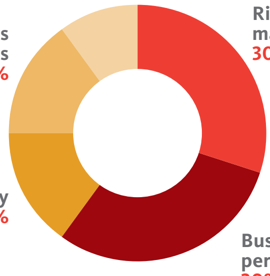
Except in instances in which a greater majority is specifically required pursuant to legal provisions, the Bylaws or the Rules and Regulations of the Board, resolutions are adopted by absolute majority of the directors attending in person or by proxy. In the event of a tie, the chairman has a tie-breaking vote.

In 2014, the board was kept continuously and fully informed of the performance of the various business areas of the Group through the management reports and risk reports presented by the chief executive officer and the executive vice-chairman who chairs the executive risk committee, respectively.

During the year, the board has also reported on the conclusions of the external and internal audits.

The chart below shows a breakdown of the approximate time dedicated to each duty at the meetings held by the board in financial year 2014.

Approximate time dedicated to each duty



Dedication to board duties

One of the directors' duties expressly established in the Rules and Regulations of the Board is that of diligent management, which, among other duties, requires that directors dedicate the necessary time and effort to their position. The maximum number of boards of directors to which they may belong is established in section 26 of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions.

In this regard, the directors of the Bank may not at the same time hold more than: (a) one executive position and two non-executive positions; or (b) four non-executive positions. For such purposes, positions held within the same group (including companies in which the Bank has a significant shareholding) will be counted as a single position, and positions held at non-profit organisations or organisations not pursuing commercial ends will not be counted. The European Central Bank may authorise a director to hold an additional non-executive position if it considers that it does not impede the proper performance of the director's duties at the Bank.

Comparison of number of meetings held*

In a study carried out on the dedication of directors, the firm Spencer Stuart concluded that the average time dedicated by each director of the Bank to the tasks of the board and its committees was 300.1 hours, against an average of 80.8 hours for the directors of the main banks in the UK (Lloyds, Barclays, Standard Chartered and HSBC), 120.8 hours for those in the US and Canada (Bank of America, Goldman Sachs, JP Morgan Chase, Citigroup, Morgan Stanley, Wells Fargo and Royal Bank of Canada), and 109.6 hours for a range of international banks (Société Générale, BNP Paribas, BBVA, Credit Suisse, Deutsche Bank, UBS, UniCredit, Intesa SanPaolo, Nordea and Itaú).

	Santander	US and Canada average	UK average	Europe and other countries average
Board	11	13.7	8.8	12.8
Executive committee	59	3	-	22.0
Executive risk committee	98	7.7	7.3	13.8
Audit committee	11	12.1	9.3	10.8
Appointments committee**	11	6.1	3.3	6.2
Remuneration committee**	11	8.7	7.5	9.0

* The data refer to 2012, the latest year for which comparative information is available.
** Until 23 October 2014, there was a combined appointments and remuneration committee.

The directors shall endeavour to ensure that absences from meetings of the board and of the committees to which they belong are reduced to cases of absolute necessity.

The appointments committee analyses directors' dedication to their position on an annual basis, using information received regarding their other professional obligations and other available information to evaluate whether the directors are able to dedicate the necessary time and effort to complying with the duty of diligent management. Dedication is also taken into account for re-election, since proposals by the appointments committee must contain an evaluation of work and of effective dedication to the position during the latest period of time in which the proposed director has performed his or her duties.

Training of directors and information programme

As a result of the self-evaluation of the board carried out in 2005, an on-going director training programme was put in place.

Seven meetings were held in 2014 with an average attendance of nine directors, who devoted approximately one hour to each session. Various issues were reviewed in depth at such meetings, including: risk decision systems and future trends, the technological implications of the new regulatory system and the European Bank Recovery and Resolution Directive, as well as aspects relating to the Group's business in capital markets, operational risk, the Advanced Management Model, and the new European supervisory authority.

The Rules and Regulations (article 21.7) provide that the board shall make available to new directors an information programme providing quick and sufficient information regarding the Bank and its Group, including the governance rules thereof.

The board members Mr Bruce Carnegie-Brown, Ms Sol Daurella Comadrán and Mr Carlos Fernández González, appointed by resolution of the board at its meeting of 25 November 2014, attend in an information programme for new directors, which addressed the following matters:

- General presentation of the Group and of the regulatory context within which it operates.
- Main territories and businesses of the Group.
- Key support areas (technology and operations, risk and audit).
- Sustainability, communication and the Santander brand.

Self-evaluation by the board

In line with the provisions of the Rules and Regulations of the Board, the on-going self-evaluation exercise performed by the board with the support of the firm Spencer Stuart, on the basis of a questionnaire and personal interviews with the directors, includes a special section for the individual evaluation of the chairman of the board, the chief executive officer and the other directors, as well as an independent evaluation based, among other things, on benchmarking with respect to other comparable international banks.

The last self-evaluation exercise focused on the following subjects: organisation, operation and content of the board and its committees; comparison with other international banks; and open questions relating to the future (strategy and internal and external factors that may affect the Group) and other matters of interest.

As in recent years, the directors highlighted the following as strengths of the Group's corporate governance: the high level of devotion and commitment of the members of the board and their involvement in the control of all risks, not merely credit risks; the directors' experience in and knowledge of the banking business; balance between executive and non-executive directors, both on the board and on its committees; and the very good operation of the board committees, particularly the executive committee.

For the independent evaluation exercise, Spencer Stuart performed a comparison with 23 leading international financial institutions with regard to the composition and dedication of the board, remuneration, and other aspects of corporate governance, with the Bank holding a very notable position.

Appointment, re-election and ratification of directors

The proposals for appointment, re-election and ratification of directors, regardless of the status thereof, that the board of directors submits to the shareholders for consideration at the general shareholders' meeting, as well as the appointment decisions made by the board itself in the exercise of its powers to make interim appointments as permitted by law, must, in turn, be preceded by the corresponding proposal of the appointments committee.

Although the proposals of such committee are not binding, the Rules and Regulations of the Board provide that if the board does not follow them, it must give reasons for its decision.

Currently, all directors have been appointed or re-elected at the proposal of the appointments committee.

Some specific measures adopted as a consequence of the board's self-evaluation in the last years

→ An amendment to the Bylaws, approved at the general shareholders' meeting, to reduce the maximum size of the board from 30 directors to 22.

→ A more detailed replacement procedure for positions on the board, in particular those of chairman and chief executive, established in the Rules and Regulations of the Board.

→ Holding of annual board meetings dedicated specifically to the strategy of the Group.

→ An on-going director training programme that has been carried out continuously since it was proposed during the self-evaluation process of 2005.

Due to the vacancies left on the board by the death of the former chairman, Mr Emilio Botín Sanz de Sautuola y García de los Ríos, and the resignations from their posts and other positions on the board presented by the independent directors Mr Fernando de Asúa Álvarez and Mr Abel Matutes Juan, the appointments committee commenced a process to select new directors, with the assistance of the firm Russell Reynolds Associates, which engaged in the search process based on an evaluation of the skills of the board (using a skill map) to determine the profiles that would optimise the strategic objectives of the Group.

Various candidates were considered for each vacancy.

Pursuant to an analysis of competencies and diversity, the skills sought to be strengthened on the board were those relating to the following matters: business knowledge beyond banking, new technologies; strategy, international experience, and range of nationalities, and, lastly, diversity (particularly the number of women). Based on the foregoing, the committee proposed to the board the appointment as independent directors of Mr Bruce Carnegie-Brown, Ms Sol Daurella Comadrán and Mr Carlos Fernández González, whose profiles may be consulted in the preceding pages of this report.

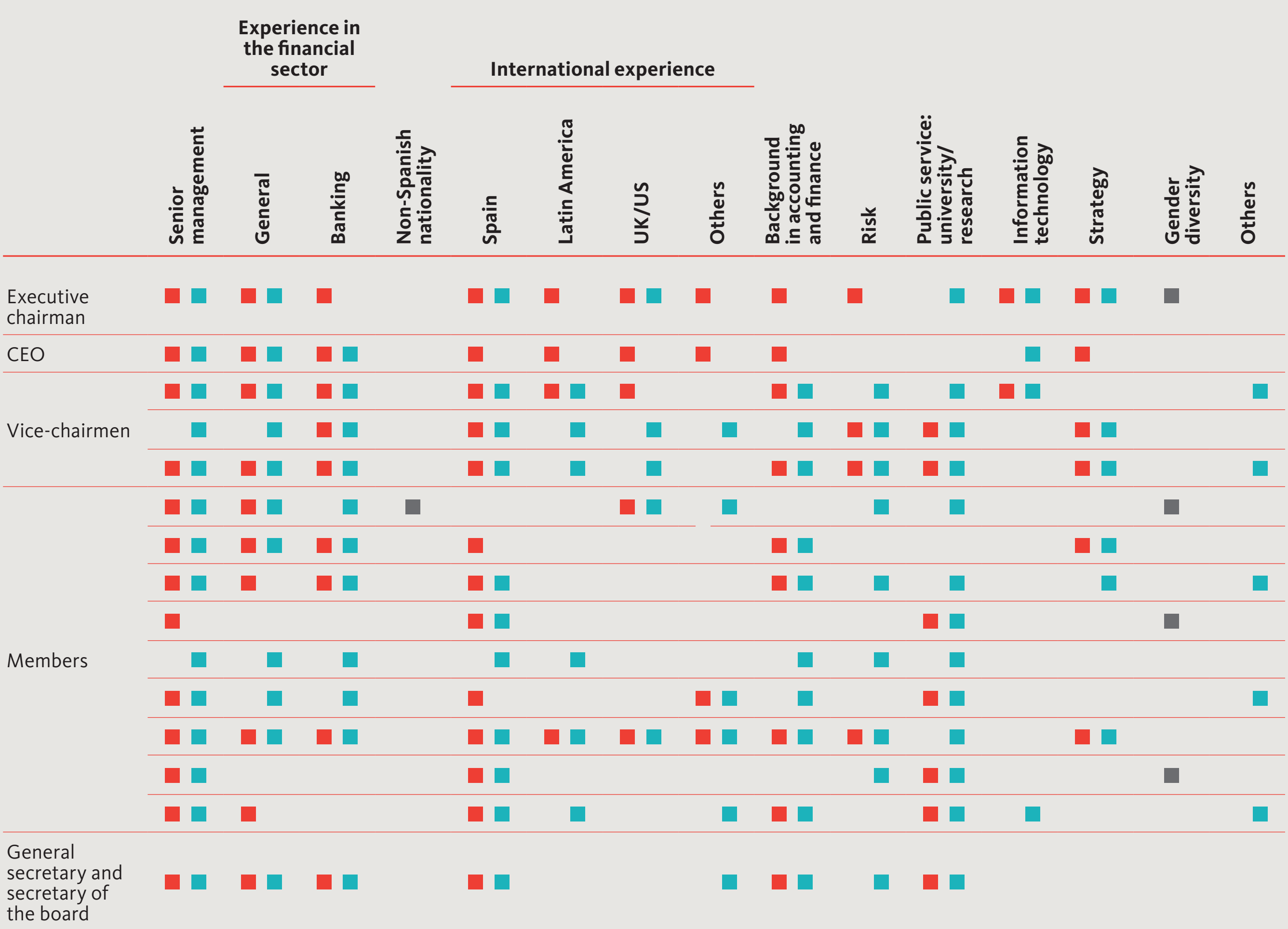
In selecting Mr José Antonio Álvarez Álvarez as CEO, the appointments committee considered several candidates, concluding that the then executive vice president in charge of the financial management and investor relations division of Grupo Santander was the most suitable person for this position.

Skill map for the members of the board

In financial year 2014, Russell Reynolds Associates were engaged to prepare an analysis of the competencies and diversity of the members of the board of directors. The following skill map shows the results of this analysis.

From this analysis, the skills to be strengthened on the board were the following:
- Business knowledge beyond banking.
- New technologies.
- Strategy.
- International experience and range of nationalities.
- Diversity (particularly the number of women).

Skill map for the members of the board and analysis of diversity*



Skills as executive   Skills as non-executive

* Data at November 2014.

Remuneration

Remuneration system

The shareholders acting at the general shareholders' meeting of 28 March 2014 resolved to amend the Bylaws to adjust the remuneration regime of the executive directors to the provisions contained in Royal Decree-Law 14/2013 (today Law 10/2014) and in CRD IV, such that the variable components of their remuneration may not exceed 100% of the fixed components, unless the shareholders acting at the general shareholders' meeting approve a higher ratio, which shall in no case exceed 200%.

With relation to the foregoing, the shareholders acting at the aforementioned general shareholders' meeting approved a maximum ratio between fixed and variable components of executive directors' remuneration of 200% for financial year 2014.

The remuneration of directors is approved by the board at the proposal of the remuneration committee, except for such remuneration as consists of the delivery of shares or options thereon, or that is paid under other remuneration systems established by reference to the value of the shares of the Bank, the approval of which, under the law and the Bylaws, is within the purview of the shareholders acting at a general shareholders' meeting, at the proposal of the board made after a report of the remuneration committee.

The Group's policy provides that only executive directors may be beneficiaries of remuneration systems consisting of the delivery of shares or rights thereon.

Remuneration of the board in 2014

In 2014, the board resolved to increase the total remuneration of the directors, for all items, by 8.9%.

The total amount accrued by the board as attendance fees amounted to 4.4 million euros in 2014, which is 27.2% lower than the maximum amount of 6 million euros approved by the shareholders for the financial year and very similar to the amount paid in 2013.

The chart below shows the evolution of total remuneration of directors with executive duties against the total return for shareholders *pay for performance*.

All details regarding the director remuneration policy in 2014 may be consulted in the report of the remuneration committee forming part of the corporate documentation of Banco Santander.

Anticipation of and adjustment to the regulatory framework

The board of directors, at the proposal of the remuneration committee, promotes and encourages a remuneration system that fosters a rigorous management of risks, and implements on-going monitoring of the recommendations issued by the principal national and international bodies with authority in this field.

Annual director remuneration report

As provided in section 541 of the Companies Act and in the Bylaws (article 59.1), the board of directors annually approves an annual director remuneration report, which sets forth the standards of and basis for determining remuneration for the current financial year, as well as an overall summary of the application of the remuneration policy during the financial year ended, and a breakdown of the individual remuneration paid for all items to each of the directors during such financial year, making the report available to the shareholders on occasion of the call to the annual general shareholders' meeting and submitting it to a consultative vote.

The content of such report is subject to the provisions of article 10 of Order ECC/461/2013 and in CNMV Circular 4/2013, of 12 June, which provisions have not been amended following the entry into force of the aforementioned section 541 of the Companies Act (introduced by Law 31/2014).

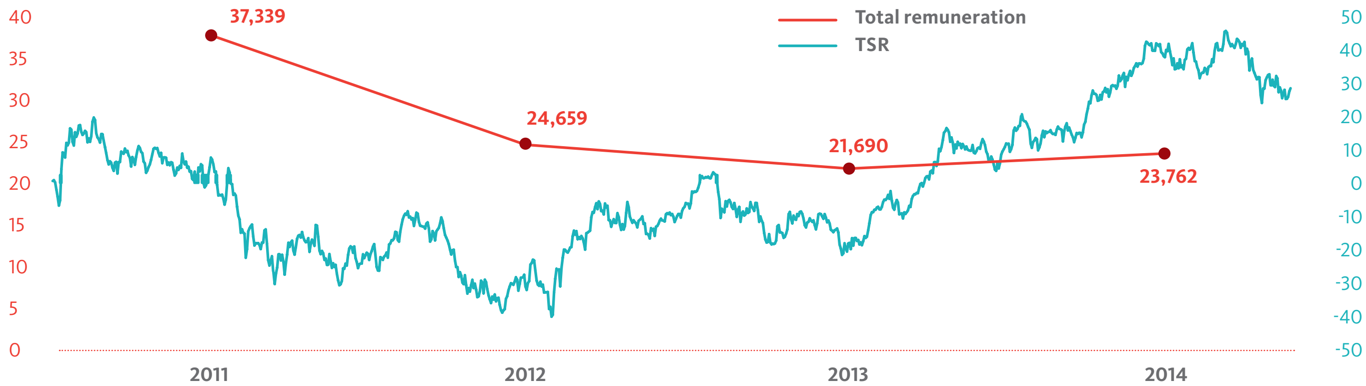
In 2014, the report corresponding to financial year 2013 was submitted to the shareholders at the general shareholders' meeting held on 28 March, as a separate item on the agenda and as a consultative matter, with 91.422% of the votes being in favour of the report.

In 2015, as well as submitting the annual report on director remuneration in respect of 2014 to the consultative vote of shareholders at the general meeting, the board will also propose the binding approval of the director remuneration policy for 2015 and 2016, in compliance with the new article 529 novodecies of the Capital Corporations Act.

Transparency

Pursuant to the Bylaws (article 59.2), the annual report includes itemised information on the remuneration received by each director, with a statement of the amounts for each item of

Evolution of the remuneration for all items of directors with executives duties against the total return for shareholders*



* Remuneration data of executive directors in euro thousands and return for shareholders in percentages.

remuneration. The report also sets forth, on an individual basis for each item, the remuneration for the executive duties entrusted to the executive directors of the Bank. All such information is contained in note 5 to the Group's legal report.

Duties of directors, related-party transactions and conflicts of interest

Duties

The duties of the directors are governed by the Rules and Regulations of the Board[4], which conform to both the provisions of current Spanish law and to the recommendations of the Unified Good Governance Code.

The Rules and Regulations expressly provide for the duties of diligent management, loyalty, secrecy and inactivity in the event of knowledge of confidential information.

The duty of diligent management includes the directors' duty to adequately inform themselves of the progress of the Bank and to dedicate the time and effort needed to effectively carry out their duties.

Related-party transactions

No member of the board of directors, no person represented by a director, and no company of which such persons, or persons acting in concert with them or through nominees therein, are directors, members of senior management or significant shareholders, has to the Bank's awareness entered into any significant transaction or any transaction on non-customary market conditions with the Bank during financial year 2014 and through the date of publication of this report.

The board, without the intervention of the interested party and on a prior favourable report of the remuneration committee, authorised the sale by the Bank under market conditions of 2,403,923 shares of MED 2001 Inversiones, Sicav, S.A., of which it was the owner, to Mr Ángel Jado Becerro de Bengoa and companies of his family group.

Control mechanisms

As provided in the Rules and Regulations of the Board (article 30), directors must inform the board of any direct or indirect conflict of interest with the interests of the Bank in which they may be involved. If the conflict relates to a transaction, the director may not carry it out without the approval of the board, following a report from the appointments committee.

The director involved must abstain from participating in the discussion and voting on the transaction to which the conflict refers, the body in charge of resolving any disputes being the board of directors itself.

In addition to the above-described situation, there were another 136 occasions during financial year 2014 on which other directors abstained from participating in and voting on the discussion of matters at the meetings of the board of directors or of the committees thereof.

The breakdown of the 103 cases is as follows: on 52 occasions, the abstention was due to proposals to appoint, re-elect, withdraw or empower directors; on 43 occasions, the matter under consideration was the approval of terms of remuneration; on 27 occasions, the matter concerned discussion of financing proposals or other risk transactions in favour of companies related to various directors; on 5 occasions abstention related to the suitability evaluation procedure that the Bank, as a credit institution, must undertake regarding members of the management body and holders of key positions, all in accordance with the provisions of Royal Decree 84/2015; on 4 occasions, the abstention concerned the annual verification of the status of the directors made by the appointments and remuneration committee pursuant to article 6.3 of the Rules and Regulations of the Board; on 3 occasions, the matter concerned the evaluation entrusted to the appointments committee under article 17.4 g) of the Rules and Regulations of the Board regarding the professional obligations of the directors to evaluate if such obligations may interfere with the dedication required thereof for the effective performance of their work; on one occasion, the matter concerned approval of a related-party transaction; and on another the matter related to the attendance of a director as a guest at the meetings of the committees of the board when the director was no longer a member thereof.

Some measures taken by the board

2012: maximum limit for increases in share capital without pre-emptive rights

At the proposal of the board, the shareholders for the first time established a maximum limit on the power to exclude pre-emptive rights for increases in share capital; pre-emptive rights may only be excluded for up to the equivalent of 20% of the share capital of the Bank as of the date of the general shareholders' meeting.

2013: cap on annual remuneration of the directors

The shareholders established a maximum amount of six million euros, which may only be amended by a decision of the shareholders acting at the general shareholders' meeting.

2014: maximum variable remuneration for executive directors

The shareholders approved an amendment to the Bylaws establishing a maximum ratio between the fixed and variable components of total remuneration of the executive directors and other employees belonging to categories with professional activities that significantly affect the risk profile of the Group.

4. The recent Law 31/2014 amends the regulation of directors' duties contained in the Companies Act. At the next general shareholders' meeting, the board will propose the corresponding amendments to adapt the Bylaws to such regulations, which shall be followed by the corresponding amendments to the Rules and Regulations of the Board.

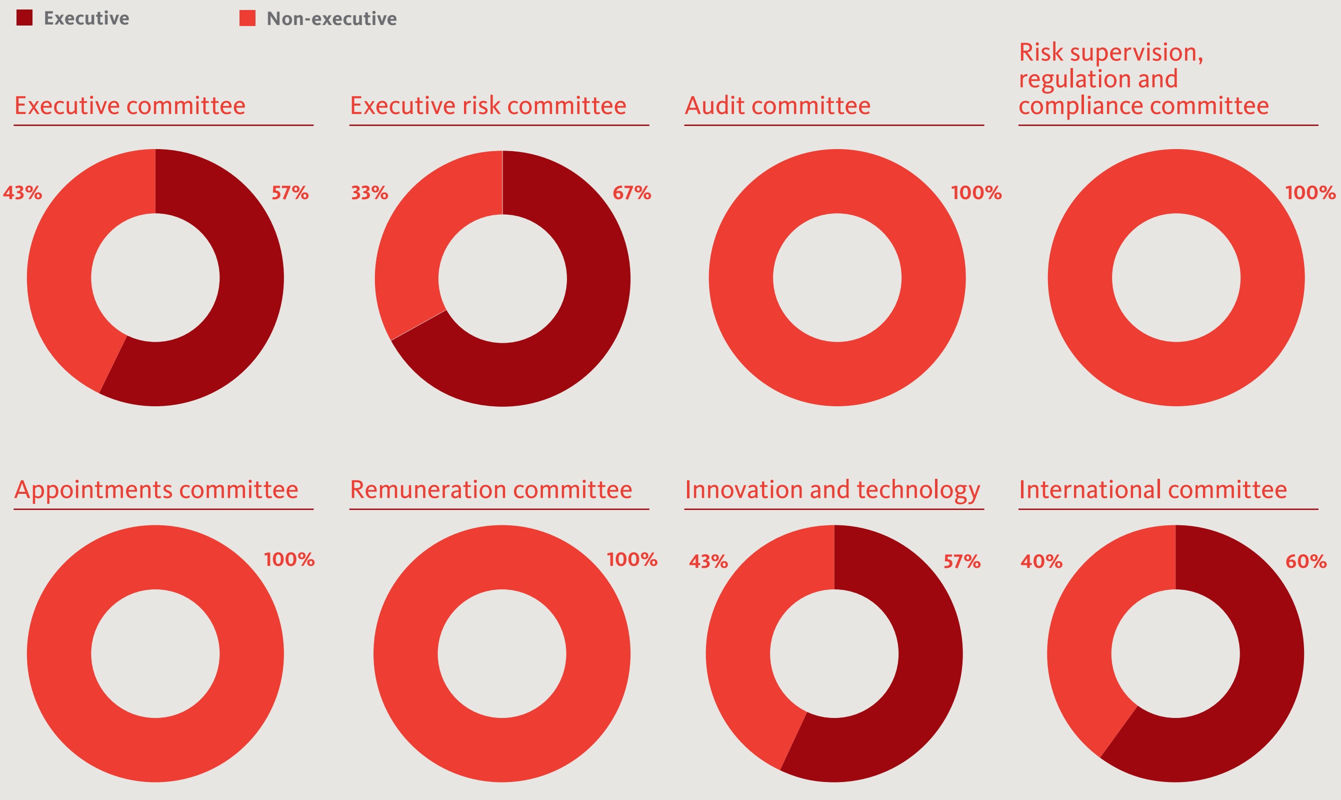
Committees of the board

General information

The board has the following decision-making committees: an executive committee, to which general decision-making powers are delegated, and an executive risk committee, with delegated powers specifically relating to risk.

The board also has other committees with powers of supervision, information, advice and proposal (the audit, appointments, remuneration, risk supervision, regulation and compliance, innovation and technology and international committees).

Composition of the committees of the board



Number of meetings and duration of committees

Committees	No. of meetings	Hours[1]
Executive committee	65	325
Executive risk committee	96	288
Audit committee	13	65
Appointments and remuneration committee[2]	21[2]	63[2]
Risk supervision, regulation and compliance committee[3]	5	25
Innovation and technology	2	4
International committee	-	-

1. Estimated average hours devoted by each director.
2. Pursuant to articles 54.1 of the Bylaws and 17.10 of the Rules and Regulations of the Board, at its meeting on 23 October 2014, the board of directors unanimously resolved to separate into two the appointments and remuneration committee, which until such date had met on 12 occasions, with an average dedication of approximately 36 hours per director in preparing and participating in the meetings. Subsequently, within the 2014 financial year, the appointments and the remuneration committees held 5 and 4 meetings, with an average dedication of approximately 15 and 12 hours, respectively, per director.
3. In accordance with the provisions of article 54 *bis* of the Bylaws and article 17 *bis* of the Rules and Regulations of the Board, the risk supervision, regulation and compliance committee held its first meeting on 23 July 2014.

Executive committee

The executive committee is a basic instrument for the corporate governance of the Bank and its Group. It exercises by delegation all the powers of the board (except those which cannot be legally delegated or which cannot be delegated pursuant to the law, the Bylaws or the Rules and Regulations of the Board). It reports to the board on the principal matters dealt with and resolutions adopted and makes the minutes of its meetings available to the directors. It meets once per week.

There are currently seven directors sitting on the committee, of whom four are executive and the other three are independent non-executive directors.

Its duties, composition and functioning are established in the Bylaws (article 51) and in the Rules and Regulations of the Board (article 14).

Executive risk committee

This is also an executive committee, with powers delegated thereto by the board in matters regarding risks. It normally meets twice per week.

It is governed by the Bylaws (article 52) and the Rules and Regulations of the Board (article 15), which define the composition, functioning and duties of this committee.

The committee is currently made up of six directors, of whom four are executive and two are independent non-executive directors. Its chairman is a vice-chairman with executive duties, pursuant to the Rules and Regulations of the Board (article 15.1).

Pages 168 *et seq*. of this annual report contain broad information on the executive risk committee and the Group's risk policies.

Audit committee

The audit committee, among other duties, reviews the Group's financial information and its internal control systems, serves as a communication channel between the board and the auditor, ensuring the independent exercise of the latter's duty, and supervises work regarding the internal audit function. It normally meets on a monthly basis (it met 13 times in 2014).

As provided in the Bylaws (article 52) and the Rules and Regulations of the Board (article 16), the committee must be made up of non-executive directors, the majority of whom must be independent, with an independent director acting as chairman.

It is currently composed of five independent non-executive directors.

Appointments committee

The appointments committee, among other duties, proposes the appointments of members of the board, including executive directors, and those of the other members of senior management and key Group personnel.

The Bylaws (article 54) and the Rules and Regulations of the Board (article 17) provide that this committee is also to be made up exclusively of non-executive directors and that its chairman shall be an independent director.

It is currently composed of five independent non-executive directors.

Remuneration committee

Banco Santander established the remuneration committee, then named the compensation committee, in 1995.

Among other duties, this committee proposes the director remuneration policy to the board, producing the corresponding report, and proposes the remuneration of the members of the board, including executive directors, and that of the other members of senior management and key Group personnel also proposing the remuneration policy for the latter.

The Bylaws (article 54) and the Rules and Regulations of the Board (article 17) provide that this committee is also to be made up exclusively of non-executive directors, and that its chairman shall be an independent director.

Its five current members are independent non-executive directors.

Risk supervision, regulation and compliance committee

The risk supervision, regulation and compliance committee, among other duties, supports and advises the board regarding the definition and evaluation of risk strategy and policies and with relation to authorities and regulators in the various countries in which the Group has a presence, and monitors compliance with the General Code of Conduct and with the Bank's governance rules and compliance programme generally. It normally meets on a monthly basis (it met 5 times in 2014)[5].

As provided in the Bylaws (article 54 *bis*) and the Rules and Regulations of the Board (article 17 *bis*), the committee must be made up of non-executive directors, the majority of whom must be independent, with an independent director acting as chairman.

It is currently composed of seven independent non-executive directors.

International committee

Pursuant to article 13 of the Rules and Regulations of the Board, the international committee has the duty to monitor the development of the Group's strategy and of the activities, markets and countries in which the Group desires to have a presence through direct investments or specific transactions. It is kept informed of the commercial initiatives and strategies of the various units within the Group and of the new projects presented thereto.

It is made up of five directors, of whom two are executive and three are independent non-executive.

Innovation and technology committee

Pursuant to article 13 of the Rules and Regulations of the Board, the innovation and technology committee (previously, technology, productivity and quality committee) has the duty to review and report on plans and activities regarding information systems and programming of applications, investments in computer equipment, design of operating processes in order to improve productivity, and programmes for the improvement of service quality and measurement procedures, as well as those relating to means and costs.

It is made up of seven directors, of whom four are executive and three are independent non-executive.

* * *

5. The risk supervision, regulation and compliance committee held its first meeting on 23 July 2014.

In accordance with the Rules and Regulations of the Board, any director may attend meetings of board committees of which the director is not a member, with the right to participate but not to vote, at the invitation of the chairman of the board and of the respective committee, and by prior request to the chairman of the board.

Additionally, all board members who are not also members of the executive committee may attend its meetings, whatever the reason for the chairman calling such meetings. During financial year 2014, six directors not forming part of the executive committee each attended an average of 15 meetings thereof.

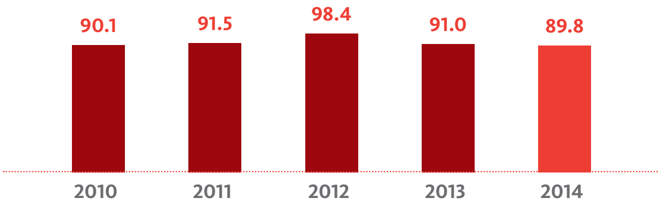
The audit, appointments, remuneration, and risk supervision, regulation and compliance committees have prepared reports on their activities in 2014, containing, among other things, a description of the manner in which such committees carry out the Group's supervision of risk, internal audit and compliance. The report of the remuneration committee also includes the director remuneration policy. All such reports are made available to the shareholders as part of the annual documentation of the Bank for financial year 2014.

Attendance at meetings of the board of directors and its committees in 2014

Pursuant to the Rules and Regulations of the Board (article 20.1), absences from meetings must be limited to unavoidable cases. The average attendance rate at meetings of the board in financial year 2014 was 89.84%.

Rate of attendance at meetings of the board

%



Committees

		Decision-making							Reporting	
Directors	**Board**	**Executive**	**Executive risk**	**Audit**	**Appointments and remuneration6[8]**	**Appointments6[8]**	**Remuneration[8]**	**Risk supervision, regulation and compliance[9]**	**Innovation and technology**	**International**
Average attendance	**89.8%**	**89.1%**	**83.3%**	**98.1%**	**100%**	**100%**	**93,8%**	**95.0%**	**100%**	**-**
Individual attendance										
Ms Ana Botín-Sanz de Sautuola y O´Shea[1]	15/16	50/65							2/2	-
Mr Matías Rodríguez Inciarte	16/16	63/65	96/96							
Mr Guillermo de la Dehesa Romero	16/16	62/65		13/13	12/12	5/5	4/4			-
Mr Rodrigo Echenique Gordillo[2]	15/16	55/65	67/96	4/4				4/5		-
Ms. Sheila C. Bair	13/16							5/5		
Mr Javier Botín-Sanz de Sautuola y O´Shea	12/16									
Ms Esther Giménez-Salinas i Colomer	15/16				12/12	5/5	4/4			-
Mr Ángel Becerro de Bengoa	16/16							5/5		
Mr Juan Rodríguez Inciarte	16/16		53/96							
Ms Isabel Tocino Biscarolasaga	15/16	60/65	92/96		12/12		3/4			
Mr Juan Miguel Villar Mir	10/16									
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos[3]	9/9	39/45							1/2	-
Mr Javier Marín Romano[4]	15/16	56/65							2/2	-
Mr Fernando de Asúa Álvarez[5]	15/16	61/65	92/96	13/13	12/12	5/5	4/4	5/5	2/2	
Mr Vittorio Corbo Lioi[6]	6/8									
Mr Abel Matutes Juan[7]	13/16			12/13		5/5				-

1. Apponited chairman of the board of directors effective 10 September 2014.
2. Presented his resignation from the position of member of the audit committee effective 23 April 2014.
3. Died on 9 September 2014.
4. Withdrawal from position of director effective 12 January 2015.
5. Withdrawal from position of director effective 12 February 2015.
6. Withdrawal from position of director effective 24 July 2014.
7. Withdrawl from position of director effective 18 February 2015.
8. In accordance with the provisions of article 54.1 of the Bylaws and article 17.10 of the Rules and Regulations of the Board, at its meeting of 23 October 2014, the board of directors resolved to separate the appointments and remuneration committee into two committees. The appointments committee assumed the duties relating to appointments contained in article 17.4 of the Rules and Regulations of the Board, and the remuneration committee assumed those included in article 17.5 of the Rules and Regulations of the Board, as well as, in both cases, any other duties corresponding thereto under applicable law.
9. As provided in article 54 bis of the Bylaws and article 17 bis of the Rules and Regulations of the Board, the risk supervision, regulation and compliance committee held its first meeting on 23 July 2014.

3. Shareholder rights and the general shareholders' meeting

One share, one vote, one dividend. No defensive mechanisMs contemplated in the Bylaws

The Bank has eliminated all defensive mechanisMs in the Bylaws, fully conforming to the one share, one vote, one dividend principle.

The Bylaws of Banco Santander provide for only one class of shares (ordinary shares), granting all holders thereof the same rights.

There are no non-voting or multiple-voting shares, or preferences in the distribution of dividends, or limitations on the number of votes that may be cast by a single shareholder, or quorum requirements or qualified majorities other than those established by law.

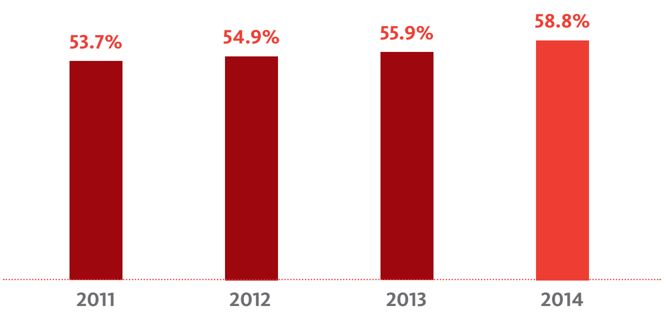
Any person is eligible for the position of director, subject only to the limitations established by law.

Quorum at the annual general shareholders' meeting held in 2014

The informed participation of shareholders at general shareholders' meetings is an objective expressly acknowledged by the board (article 31.3 of the Rules and Regulations of the Board).

The quorum at the 2014 annual general shareholders' meeting was 58.820%, continuing a trend of improvement in each of the last three years.

Quorum at annual general shareholders' meetings



Encouragement of informed participation of shareholders at shareholders' meetings

The Bank continues to implement measures designed to encourage the informed participation of shareholders at shareholders' meetings. Thus, since the annual general meeting held in 2011, shareholders have had access to an electronic shareholders' forum, in compliance with the provisions of the Companies Act.

Such forum, which the Bank made available on the corporate website (www.santander.com), enables the shareholders to post proposed supplements to the agenda announced in the call to meeting, requests for adherence to such proposals, initiatives aimed at reaching the percentage required to exercise a minority right contemplated by law, as well as voluntary proxy offers or solicitations.

Information provided to the shareholders and communication with them

During 2014, there were 562 meetings with investors, analysts and rating agencies, which entailed contact with 1,325 investors/analysts. In addition, the investor relations department maintained direct contact with the principal shareholders throughout the financial year to disseminate information regarding the Group's policies relating to sustainability and governance.

Santander has continued to strengthen the channels for shareholder information and service through eight shareholders' offices in certain significant markets in which it is present. The Bank currently has offices in Spain, the United Kingdom, the United States, Mexico, Portugal, Brazil and Poland to serve the shareholders in the share of the parent bank, as well as offices in Mexico, Chile and Brazil to serve the shareholders of its subsidiaries.

During financial year 2014, the shares of Banco Santander were admitted to listing on the stock exchanges of São Paulo and Warsaw, on 17 November and 3 December, respectively.

Channels for shareholder information and service

Telephone service lines	227,968	Questions
Shareholder's mailbox	32,034 235,292	E-mails answered Subscriptions
Events	17,671 329	Participants Held
SMS alerts	3,826,479 97,409	Alerts sent Subscriptions
Letters	339,049	Letters answered

Finally, in compliance with recommendations of the National Securities Market Commission, both notices of the meetings with analysts and investors and the documentation to be used thereat are being published sufficiently in advance.

Annual general shareholders' meeting held on 28 March 2014

Information on the call to meeting, establishment of a quorum, attendance, proxy-granting and voting

A total of 402,814 shareholders attended in person or by proxy, with 6,800,244,239 shares. The quorum was thus 58.820% of the share capital of the Bank at the date of the annual general shareholders' meeting.

The shareholders acting at the general shareholders' meeting approved the corporate management of the Bank in 2013 with a 95.384% favourable vote.

The average percentage of affirmative votes upon which the proposals submitted by the board were approved was 92.372%.

The following data are expressed as percentages of the Bank's share capital:

Physically present	0.274%[1]
By proxy	42.708%[2]
Absentee votes	15.838%[3]
Total	**58.820%**

1. Of such percentage (0.274%), 0.002% is the percentage of share capital that attended by remote means through the Internet.
2. The percentage of share capital that granted proxies through the Internet was 0.223%.
3. Of such percentage (15.838%), 15.777% is the percentage of votes case by postal mail, and the rest is the percentage of electronic votes.

Extraordinary general shareholders' meeting of 15 September 2014

Information on the call to meeting, the establishment of a quorum, attendance, proxy-granting and voting

A total of 262,139 shareholders attended in person or by proxy, with 6,255,472,979 shares. The quorum was thus 52.181% of the share capital of the Bank at the date of the extraordinary general shareholders' meeting.

The average percentage of affirmative votes upon which the proposals submitted by the board were approved was 98.740%.

Key points of the 2014 annual general shareholders' meeting

Shareholders approved the corporate management of the Bank in 2014 with a 95% favourable vote.

The 2013 annual report on director remuneration received a 91% favourable vote.

The following data are stated as percentages of the Bank's share capital at the date of the extraordinary general shareholders' meeting:

Physically present	0.130%[1]
By proxy	37.930%[2]
Absentee votes	14.121%[3]
Total	**52,181%**

1. Of such percentage (0.130%), 0.001% is the percentage of share capital that attended by remote means through the Internet.
2. The percentage of share capital that granted proxies through the Internet was 0.297%.
3. Of such percentage (14.121%), 14.061% is the percentage of votes cast by postal mail, and the rest is the percentage of electronic votes.

Resolutions adopted at the general shareholders' meetings held in 2014

The full texts of the resolutions adopted at the general shareholders' meetings held in 2014 are available on the websites of both the Group (www.santander.com) and the CNMV (www.cnmv.es).

4. Santander group management team

Composition

Chairman	Ms Ana Botín-Sanz de Sautuola y O'Shea
Chief executive officer	Mr José Antonio Álvarez Álvarez
Executive vice chairman, to whom the chief compliance officer reports	Mr Rodrigo Echenique Gordillo
Executive vice chairman, to whom the chief risk officer reports	Mr Matías Rodríguez Inciarte
Businesses	
Germany	Mr Ulrich Leuschner
Argentina	Mr Enrique Cristofani
Asia	Mr Juan Rodríguez inciarte
Brazil	Mr Jesús María Zabalza Lotina Mr Sérgio Rial*
Chile	Mr Claudio Melandri Hinojosa
United States	Mr Román Blanco Reinosa
Spain	Mr Enrique García Candelas Mr Rami Aboukhair**
Mexico	Mr Marcos Martínez Gavica
Poland	Mr Gerry Byrne Mr Mateusz Morawiecki
Portugal	Mr Antonio Vieira Monteiro
United Kingdom	Mr Nathan Bostock
Uruguay	Mr Juan Carlos Chomali
Business divisions	
Global Wholesale Banking***	Mr Jacques Ripoll
Consumer Finance	Ms Magda Salarich Fernández de Valderrama
Business support divisions	
Commercial Banking	Mr Francisco Javier San Félix García
Support and control functions	
Chief risk officer	Mr José María Nus Badía
Chief financial officer	Mr José García Cantera
General Secretariat and of the board	Mr Ignacio Benjumea Cabeza de Vaca
Chief compliance officer	Ms Mónica López-Monís Gallego
Internal Audit	Mr Juan Guitard Marín
Communications, Corporate Marketing and Research	Mr Juan Manuel Cendoya Méndez de Vigo
Corporate Development	Mr José Luis de Mora Gil-Gallardo
Innovation	Mr José María Fuster van Bendengem
Financial Accounting and Control	Mr José Francisco Doncel Razola
Chairman's Office and Strategy	Mr Víctor Matarranz Sanz de Madrid
Human Resources, Organisation and Costs	Mr Jesús Cepeda Caro
Technology and Operations	Mr Andreu Plaza López
Universities	Mr José Antonio Villasante Cerro

* This appointment is subject to regulatory authorisation
** Executive vice president of Commercial Banking.
*** The results of this unit are accounted in the income statements of the various countries.

Remuneration

Information on the remuneration of executive vice presidents is provided in note 5 to the Group's legal report.

Related-party transactions and conflicts of interest

Related-party transactions

To the knowledge of the Bank, no member of senior management who is not a director, no person represented by a member of senior management who is not a director, and no company in which such persons or persons with whom they act in concert or who act through nominees therein are directors, members of senior management or significant shareholders, has made any unusual or significant transaction therewith during financial year 2014 and through the date of publication of this report.

Conflicts of interest

The control mechanisMs and the bodies in charge of resolving this type of situation are described in the Code of Conduct in Securities Markets, which is available on the Group's website (www.santander.com).

5. Transparency and independence

Santander is among the five most transparent companies in the world according to the latest ranking of Transparency International, an NGO that evaluates international companies in the context of the fight against corruption. The Bank is the leading financial institution in the world as well as the leading Spanish company.

Financial information and other significant information

Financial information

Pursuant to the provisions of its Rules and Regulations (article 34.2), the board has taken the necessary actions to ensure that the quarterly and semi-annual information and any other information made available to the markets is prepared following the same principles, standards and professional practices as are used to prepare the annual accounts. To such end, the aforementioned information is reviewed by the audit committee prior to the release thereof.

The annual accounts are reported on by the audit committee and certified by the head of financial accounting prior to the preparation thereof by the board.

Other material information

Pursuant to the provisions of the Code of Conduct in Securities Markets, the compliance area is responsible for communicating to the CNMV the material information generated in the Group.

Such communication is simultaneous to the release of material information to the market or to the media and occurs as soon as the decision in question is made or the resolution in question has been signed or carried out. Material information shall be disseminated in a true, clear, complete and equitable fashion and on a timely basis and, whenever practicable, such information shall be quantified.

In financial year 2014, the Bank published 90 material facts, which are available on the websites of the Group (www.santander.com) and the CNMV (www.cnmv.es).

Relationship with the auditor

Independence of the auditor

The shareholders acting at the general shareholders' meeting of 2014 approved the re-election of Deloitte, S.L. as auditor for one year, with the affirmative vote of 94.233% of the share capital present in person or by proxy.

The Bank has mechanisMs in place to preserve the independence of the auditor, including the obligation of the board to refrain from hiring audit firMs when the fees intended to be paid to them for any and all services are more than 2% of the total income thereof during the last financial year.

In addition, the Rules and Regulations of the Board establish limits upon hiring the audit firm for the provisions of services other than audit services that could jeopardise the independence thereof, and impose on the board the duty to make public the overall fees paid by the Bank to the auditor for services other than audit services. The information for financial year 2014 is contained in note 48 to the Group's legal report.

The Rules and Regulations determine the mechanisMs to be used to prepare the accounts such that there is no room for qualifications in the auditor's report. Nevertheless, the Bylaws as well as the Rules and Regulations also provide that, whenever the board believes that its opinion must prevail, it shall provide an explanation, through the chairman of the audit committee, of the content and scope of the discrepancy and shall endeavour to ensure that the auditor issue a report in this regard. The annual accounts of the Bank and of the consolidated Group for financial year 2014 are submitted without qualifications.

At its meetings of 19 and 23 February 2015, the audit committee received from the auditor a written confirmation of its independence in respect of the Bank and the entities directly or indirectly related thereto, as well as information regarding additional services of any kind provided to such entities by the auditors or by entities related thereto, pursuant to the provisions of Royal Legislative Decree 1/2011, of 1 July, restated text of the Audit of Accounts Act.

Such committee, at the aforementioned meetings of 19 and 23 February 2015, issued a report setting forth a favourable opinion regarding the independence of the auditors and reporting, among other matters, upon the provision of the additional services mentioned in the preceding paragraph.

The aforementioned report, issued prior to the audit report, has the content established in article 529 *quarterdecies* of the Companies Act.

Intra-group transactions

There were no intra-group transactions in financial year 2014 that were not eliminated in the consolidation process and that are not part of the ordinary course of business of the Bank or of the companies of its Group as regards the purpose and conditions thereof.

The end of the acceptance period for the offer made to acquire the shares representing the share capital of Banco Santander Brasil not owned by the Santander Group was announced on 31 October. Such offer was accepted by owners of shares representing 13.65% of the share capital of Banco Santander Brasil, and as such the shareholding of the Santander Group in such subsidiary now represents 89.58% of its share capital at year end 2014.

Website

Since 2004, the Group's website (www.santander.com) has disclosed in the Investor Relations section of the main menu all information required under applicable law (currently, the Companies Act and Order ECC/461/2013 of 20 March).

The content of the Group's website, which is presented with specific sections for institutional investors and shareholders and is accessible in Spanish, English and Portuguese, receives approximately 185,000 visits per week.

The information available on such website includes:

- The Bylaws.
- The Rules and Regulations for the General Shareholders' Meeting.
- The Rules and Regulations of the Board.
- Professional profiles and other information regarding the directors.
- The annual report.
- The annual corporate governance report.
- The Code of Conduct in the Securities Markets.
- The General Code of Conduct.
- The sustainability report.
- The reports of the committees of the board.

The announcement of the call to the 2015 annual general shareholders' meeting will be viewable as from the date of publication thereof, together with the information relating thereto, which shall include the proposed resolutions and mechanisMs for the exercise of rights to receive information, to grant proxies and to vote, including an explanation of the mechanisMs for the exercise of such rights by means of data transmission and the rules applicable to the electronic shareholders' forum that the Bank will make available on its website (www.santander.com).

Unified Good Governance Code

Banco Santander follows all of the recommendations concerning corporate governance in the special working group report on the good governance of listed companies.

Furthermore, Banco Santander follows the recommendations and best practices in corporate governance applicable to credit institutions, and likewise complies with the codes of good governance of the stock exchanges on which its shares are listed.

4

Economic and financial review

Consolidated Financial Report

2014 Summary of Grupo Santander

The global economy grew by more than 3% in 2014, reflecting an upturn in developed economies, mainly the UK and US, and slower growth in emerging countries.

This environment was not free of bouts of uncertainty and volatility in the markets. Furthermore, banking activity was again affected by interest rates still at historically low levels in many countries. Regulatory requirements are also affecting revenues and costs.

Against this backdrop, Grupo Santander is focusing its management on measures to boost profits and profitability while maintaining a solid, liquid and low risk balance sheet.

The main aspects in 2014 were:

- **Strong results.** In the last few years and despite the difficult scenario, Grupo Santander has proven its capacity to generate recurring results, backed by its geographic diversification and management tailored to each market. This has enabled it to generate profits throughout the crisis and be in a position to take advantage of a cycle of stronger growth.

  Grupo Santander posted an attributable profit of EUR 5,816 million in 2014, 39.3% more than in 2013. This growth was fuelled by the good evolution of the three main lines of the income statement:

  - Gross income increased after falling in 2013 thanks to the growth in net interest income and net fee income.
  - Operating expenses rose by below the average inflation rate of the countries in which the Group operates, benefiting from the processes of integration (Spain and Poland) and the three-year efficiency and productivity plan launched at the end of 2013.
  - Loan-loss provisions continued on a path of normalisation and the cost of credit improved.

  All units increased their profits before tax in local currency.

- **A faster pace of business.** The increased volumes reflect the Group's strategy in segments, products and countries.

  The trend in lending changed and after two years of falling rose in 2014, both to individuals as well as companies. This growth occurred in nine of the Group's ten largest units.

  Growth in funds was also higher than in 2013 and, as in lending, occurred in most countries and was combined with a policy of reducing the funding cost, particularly in those countries where interest rates were lower.

- **Progress was made in the commercial transformation programme** whose main aims are to improve knowledge of the Group's customers, specialised management of each segment, develop a multichannel distribution model and continuously improve the customer experience.

  Among the actions taken is a new commercial front, expanding the *Select* model for high-income clients and launching the *Advance* programme for SMEs.

  The goal is to increase customer linkage and satisfaction in all units.

- **Solid funding and liquidity structure.**

  A priority objective in the Group's strategy in the last few years has been to improve the liquidity position. It was achieved thanks to the capacity to capture funds in the retail market of the extensive branch network and the wide and diversified access to wholesale markets via the Group's model of subsidiaries.

  In 2014, the net loan-to-deposit ratio and the ratio of deposits plus medium and long term funds / lending remained at comfortable levels for the Group as well as the main units.

We took advantage of the better market environment with lower interest rates to issue at longer maturities, increasing the liquidity reserve to close to EUR 230,000 million.

All of this enables us to meet ahead of schedule the regulatory ratios for the Group and its main units.

- **Improve the Group's credit quality.** The main risk indicators evolved positively during the year.

  Of note was the fall in net entries of non-performing loans, which excluding the exchange rate and perimeter effects declined 51% in 2014.

  The NPL ratio dropped from 5.61% in 2013 to 5.19% at the end of 2014, and fell in every quarter. The ratios for Spain, Brazil, UK and the US reflect better evolution. The coverage ratio rose by 2 percentage points to 67%.

- **Reinforced solvency.** The Group ended the year with high levels of capital, and this was bolstered in January 2015 with a capital increase of EUR 7,500 million.

  After this, the Group's phased-in CET1 ratio was 12.2% and the fully loaded ratio 9.7%.

  These levels put Santander among the banks with the strongest capital at the international level, bearing in mind our business model, geographic diversification and capacity to withstand adverse stress scenarios.

- **Higher profitability.** The evolution of the balance sheet and income statement improved the ratios of financial management and profitability.

  The efficiency ratio improved by 1.1 percentage points to 47%, making it a reference for our peers; earnings per share rose 24%, and the return on tangible equity (RoTE) increased by 1.4 points to 11.0% (including in it the capital increase).

- In addition, and in order to attain the best competitive position, the Group adopted a series of **measures that should be reflected in better results in the future:**

1. Acquisition in Spain by Santander Consumer Finance of 51% of Financiera El Corte Inglés.
2. Acquisition by Santander Consumer Finance of GE Capital's business in Sweden, Denmark and Norway, which is mainly direct credit and cards.
3. Framework agreement of Santander Consumer Finance with Banque PSA Finance, the auto finance unit of PSA Peugeot Citroën, for cooperation in various European countries. The approvals by the regulatory authorities in France and the UK were obtained in January 2015.
4. Offer to acquire the minority interests of Banco Santander Brazil, which was accepted by shareholders representing 13.65% of the capital. This raised Grupo Santander's stake to 88.30%.
5. Banco Santander Brazil's purchase of GetNet to strengthen its acquiring business.
6. Creation by Banco Santander Brazil of a joint venture with Banco Bonsucesso to drive payroll business, which is expected to come into operation during the first quarter of 2015.
7. Agreement to acquire the listed Canadian company Carfinco, specialised in auto finance.

Exchange rates: 1 euro / currency parity

	2014		2013	
	Year end	**Average**	**Year end**	**Average**
US$	1.214	1.326	1.379	1.327
Pound sterling	0.779	0.806	0.834	0.849
Brazilian real	3.221	3.118	3.258	2.852
Mexican peso	17.868	17.647	18.073	16.931
Chilean peso	737.323	756.718	724.579	656.524
Argentine peso	10.277	10.747	8.990	7.220
Polish zloty	4.273	4.185	4.154	4.196

Grupo Santander. Income statement

- **Attributable profit increased 39.3% to EUR 5,816 million.** Moreover, pre-tax profit grew in all units in their respective currencies.
- **Commercial revenues** (net interest income and net fee income) **rose** 7.9% excluding the exchange rate impact (decline in 2013).
- **Strict control of costs.** They declined 0.6% thanks to the efficiency and productivity plan.
- Continued downward trend in **loan-loss provisions** (-14.4%) with leeway to normalisation.
- **Improved profitability:** RoTE reached 11.0% (+1.4 p.p.).

Grupo Santander continued to increase its results and the process of normalization of profitability. Attributable profit of EUR 5,816 million was 39.3% higher than the figure in 2013, which has already been adjusted to the entry into force with retroactive effect of the interpretation of the international accounting standard IFRIC 21. This means anticipating the recording of contributions to the deposit guarantee funds. As a result, 2013's profit was reduced by EUR 195 million and 2012's by EUR 12 million.

This strong growth in profit was due to the good performance of the main lines of the income statement and the improved results in almost all the business units. Of note were commercial revenues, which returned to growth after falling in 2013, and the downward trend in loan-loss provisions that still have some way to go. Costs were also contained by the efficiency and productivity plan announced.

Before analyzing the income statement some aspects that affect year-on-year comparisons need to be pointed out:

Income statement

EUR Million

	2014	2013	Variation amount	%	% w/o FX	2012
Net interest income	**29,548**	**28,419**	**1,129**	**4.0**	**8.8**	**31,914**
Net fees	9,696	9,622	74	0.8	5.4	10,125
Gains (losses) on financial transactions	2,850	3,496	(646)	(18.5)	(16.1)	2,691
Other operating income	519	383	136	35.5	37.1	259
Dividends	435	378	57	15.0	16.7	423
Income from equity-accounted method	243	283	(39)	(14.0)	(5.7)	185
Other operating income/expenses	(159)	(278)	119	(42.7)	(36.8)	(349)
Gross income	**42,612**	**41,920**	**693**	**1.7**	**6.2**	**44,989**
Operating expenses	(20,038)	(20,158)	120	(0.6)	3.0	(20,236)
General administrative expenses	(17,781)	(17,758)	(23)	0.1	3.9	(18,044)
Personnel	*(10,213)*	*(10,276)*	*63*	*(0.6)*	*2.8*	*(10,474)*
Other general administrative expenses	*(7,568)*	*(7,482)*	*(86)*	*1.1*	*5.3*	*(7,570)*
Depreciation and amortisation	(2,257)	(2,400)	143	(6.0)	(3.3)	(2,193)
Net operating income	**22,574**	**21,762**	**813**	**3.7**	**9.1**	**24,753**
Net loan-loss provisions	(10,562)	(12,340)	1,778	(14.4)	(10.5)	(13,521)
Impairment losses on other assets	(375)	(524)	149	(28.4)	(27.6)	(853)
Other income	(1,917)	(1,535)	(382)	24.9	28.3	(1,437)
Ordinary profit before taxes	**9,720**	**7,362**	**2,357**	**32.0**	**41.3**	**8,942**
Tax on profit	(2,696)	(1,995)	(701)	35.1	44.5	(2,617)
Ordinary profit from continuing operations	**7,024**	**5,367**	**1,657**	**30.9**	**40.1**	**6,325**
Net profit from discontinued operations	(26)	(15)	(11)	73.2	70.2	70
Ordinary consolidated profit	**6,998**	**5,352**	**1,646**	**30.8**	**40.0**	**6,395**
Minority interests	1,182	1,177	5	0.4	7.1	1,066
Ordinary attributable profit to the Group	**5,816**	**4,175**	**1,641**	**39.3**	**49.3**	**5,329**
Net capital gains and provisions	—	—	—	—	—	(3,047)
Attributable profit to the Group	**5,816**	**4,175**	**1,641**	**39.3**	**49.3**	**2,283**
EPS (euros)	**0.479**	**0.385**	**0.094**	**24.4**		**0.234**
Diluted EPS (euros)	**0.478**	**0.383**	**0.095**	**24.7**		**0.232**
Pro memoria:						
Average total assets	1,203,260	1,230,166	(26,906)	(2.2)		1,287,619
Average stockholders' equity*	82,545	71,509	11,036	15.4		72,689

(*) Stockholders' equity: Shareholders' equity + equity adjustments by valuation. In 2014, pro-forma taking into account the January 2015 capital increase.

- A more favourable global macroeconomic environment of recovery, despite the signs of weakness in some European economies and in emerging ones during the second half of 2014.

- Improved financial conditions in markets, but interest rates generally remained low.

- A more demanding regulatory environment, limiting revenues and increasing costs.

- In order to facilitate comparisons with the previous period, the financial information of 2013 has been re-expressed as set out on page 120 of this report. The changes were mainly due to taking control of Santander Consumer USA, in 2014, and the loss of control of the fund management companies in 2013, as if they had been effective in the previously presented periods. Non recurring capital gains and provisions are shown separately as "net capital gains and provisions".

  The capital gains correspond to the Altamira operation (EUR 385 million net), the IPO of SCUSA (EUR 730 million net), the change in pension commitments in the UK (EUR 224 million net) and the insurance operation (EUR 250 million net).

  Total charges net of taxes of EUR 1,589 million were recorded for restructuring costs, impairment of intangible assets and other provisions. The impact of these amounts on profits was thus zero.

- A positive perimeter effect of 2 p.p. from the incorporation of Financiera El Corte Inglés, GetNet and the consumer finance business of GE Capital in the Nordic countries, as well as the acquisition of minority interests in Brazil in September 2014.

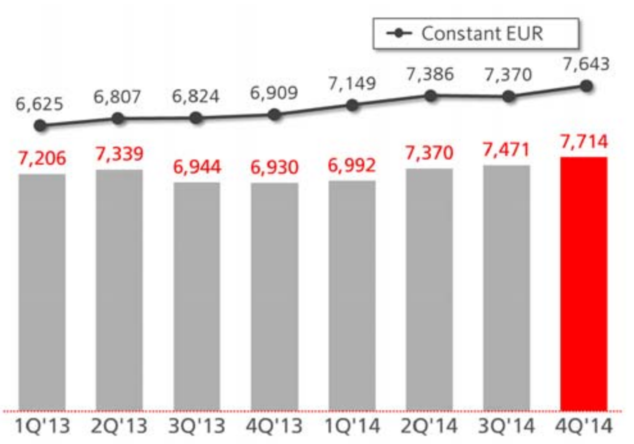
- The impact of exchange rates of various currencies against the euro was 4/5 p.p. negative for the whole Group in year-on-year comparisons for revenues and costs. The negative effects were in Brazil (-8/-9 p.p.), Mexico (-4 p.p.) and Chile (-14/-15 and positive in the UK (+6 p.p.) There was hardly any impact in the US (+0.1 p.p.).

Quarterly. Income statement

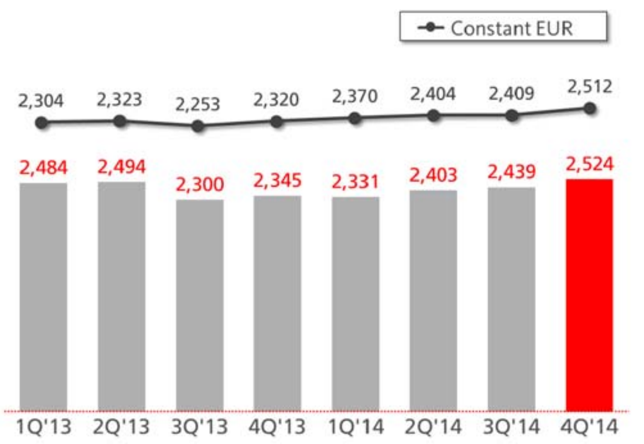
EUR Million

	2013				2014			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Net interest income	**7,206**	**7,339**	**6,944**	**6,930**	**6,992**	**7,370**	**7,471**	**7,714**
Net fees	2,484	2,494	2,300	2,345	2,331	2,403	2,439	2,524
Gains (losses) on financial transactions	967	880	995	653	767	511	952	620
Other operating income	66	134	94	89	34	204	99	182
Dividends	59	145	72	102	31	220	72	112
Income from equity-accounted method	66	58	80	79	65	42	72	64
Other operating income/expenses	(59)	(69)	(58)	(92)	(63)	(58)	(45)	6
Gross income	**10,722**	**10,847**	**10,333**	**10,017**	**10,124**	**10,488**	**10,961**	**11,040**
Operating expenses	(5,068)	(5,088)	(4,943)	(5,060)	(4,847)	(4,906)	(5,070)	(5,216)
General administrative expenses	(4,497)	(4,485)	(4,381)	(4,395)	(4,256)	(4,360)	(4,509)	(4,656)
Personnel	*(2,631)*	*(2,606)*	*(2,478)*	*(2,559)*	*(2,455)*	*(2,515)*	*(2,572)*	*(2,670)*
Other general administrative expenses	*(1,865)*	*(1,879)*	*(1,902)*	*(1,836)*	*(1,801)*	*(1,844)*	*(1,937)*	*(1,985)*
Depreciation and amortisation	(571)	(602)	(562)	(665)	(590)	(546)	(560)	(560)
Net operating income	**5,655**	**5,760**	**5,390**	**4,957**	**5,277**	**5,582**	**5,891**	**5,824**
Net loan-loss provisions	(3,142)	(3,399)	(3,025)	(2,774)	(2,695)	(2,638)	(2,777)	(2,452)
Impairment losses on other assets	(110)	(126)	(141)	(146)	(87)	(71)	(67)	(151)
Other income	(262)	(422)	(368)	(483)	(347)	(438)	(491)	(642)
Ordinary profit before taxes	**2,141**	**1,812**	**1,856**	**1,554**	**2,149**	**2,435**	**2,556**	**2,580**
Tax on profit	(577)	(453)	(518)	(447)	(569)	(664)	(649)	(814)
Ordinary profit from continuing operations	**1,564**	**1,359**	**1,338**	**1,107**	**1,579**	**1,771**	**1,908**	**1,766**
Net profit from discontinued operations	—	(14)	(0)	(1)	(0)	(0)	(7)	(19)
Ordinary consolidated profit	**1,564**	**1,345**	**1,337**	**1,106**	**1,579**	**1,771**	**1,901**	**1,746**
Minority interests	359	294	282	242	277	318	296	291
Ordinary attributable profit to the Group	**1,205**	**1,050**	**1,055**	**864**	**1,303**	**1,453**	**1,605**	**1,455**
Net capital gains and provisions	—	—	—	—	—	—	—	—
Attributable profit to the Group	**1,205**	**1,050**	**1,055**	**864**	**1,303**	**1,453**	**1,605**	**1,455**
EPS (euros)	**0.116**	**0.098**	**0.096**	**0.076**	**0.113**	**0.122**	**0.131**	**0.112**
Diluted EPS (euros)	**0.115**	**0.098**	**0.095**	**0.076**	**0.113**	**0.122**	**0.131**	**0.112**

Net interest income
EUR Million



Net fees
EUR Million



The performance of the main lines of the income statement was:

Gross income rose 1.7% year-on-year to EUR 42,612 million (+6.2% without the exchange rate effect). Growth was of greater quality based on rises in the most commercial drivers of revenues (net interest income and fee income), together with a fall in trading gains that only represented 7% of the Group's gross income. The main developments were:

- The rise was mainly due to **net interest income**, which accounted for 69% of gross income and amounted to EUR 29,548 million (+4.0% year-on-year, +8.8% excluding the exchange rate impact). Of note was:
  - General improvement in all countries except for Brazil, with very positive growth in Spain, UK, US and Chile.
  - Good evolution of lending, with growth in all units except Portugal, which is still immersed in deleveraging.
  - Growth in deposits, consistent with falls in the average cost mainly in developed countries.

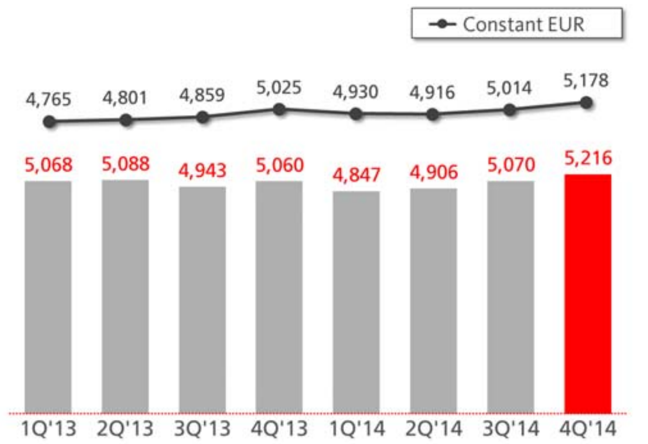
  Of note in net interest income by geographic areas:

  - Favourable evolution in the UK (+16.5%) and the US (+11.2%), thanks to the effort made to reduce the cost of retail deposits in the first case and greater consumer activity (SCUSA) in the second. Continental Europe's net interest income increased 7.9% excluding the exchange rate impact, with growth in all units. Spain's rose 9.4%, due to greater activity and the fall in the cost of deposit. Latin America as a whole grew because of larger volumes.
  - Brazil is the only unit that declined (-2.7%) due to lower spreads from the change of business mix toward lower risk segments. This evolution was offset by the improvement in the cost of credit, which resulted in a rise of 11.5% in net interest income net of provisions.

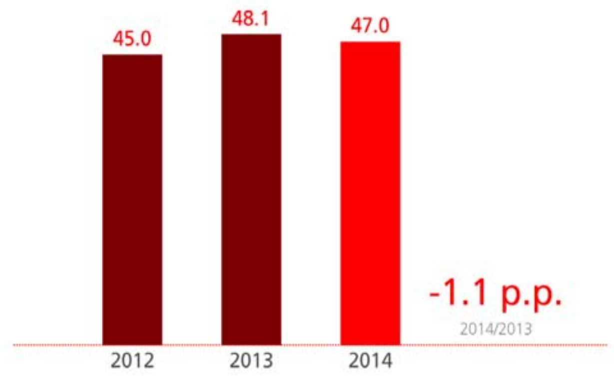
Net fees
EUR Million

	2014	2013	Variation amount	%	2012
Fees from services	5,827	5,851	(24)	(0.4)	6,217
Mutual & pension funds	913	831	81	9.8	903
Securities and custody	763	655	108	16.4	678
Insurance	2,193	2,284	(91)	(4.0)	2,326
Net fee income	**9,696**	**9,622**	**74**	**0.8**	**10,125**

Operating expenses
EUR Million



Efficiency ratio
%



- **Net fee income** rose 0.8% to EUR 9,696 million (+5.4% without the exchange rate impact). This line was affected by reduced activity in some markets because of the environment and regulatory impacts that affected in some countries revenues from insurance and cards, due to the limits on interchange rates. The best performance came from mutual funds, securities and custody, advisory and management of operations and foreign exchange business.

- The aggregate of **net interest income and net fee income** was 7.9% higher (without the exchange rate impact) and accounted for 92% of the Group's total revenues (91% in 2013).

- **Trading gains** fell 18.5% due to the lower results from wholesale banking and management of the portfolio of assets and liabilities.

- **Other operating income** was EUR 519 million, EUR 136 million more than in 2013 (+35.5%). This growth is the net of the following movements: rise of EUR 57 million in dividends; increase of EUR 119 million in other operating income and costs, mainly from the greater generation of leasing operations in the US; and fall of EUR 39 million in income by the equity method due to the reduced perimeter in asset management business.

Operating expenses declined 0.6%. Excluding the exchange rate impact, costs rose 3.0% and 2.2% without the perimeter effect, of over one percentage point lower than the average inflation rate of the countries where the Group operates (3.6%). This is the fruit of the three-year efficiency and productivity plan announced at the end of 2013, which saved more than EUR 1,100 million in its first year. Part of these savings was used for investments to increase productivity.

The performance by units varied:

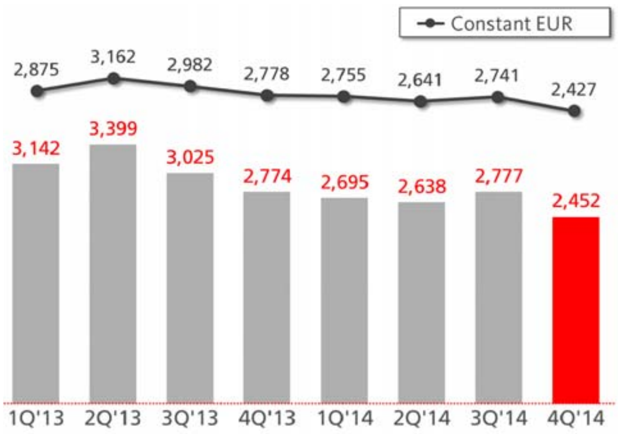
- A first block with units in processes of integration (Spain and Poland) or adjusting structures (Portugal), whose operating costs declined in nominal terms. Brazil also did well, reflecting the effort in efficiency improvement plans and a nominal rise of

Operating expenses
EUR Million

	2014	2013	Variation amount	%	2012
Personnel expenses	10,213	10,276	(63)	(0.6)	10,474
General expenses	7,568	7,482	86	1.1	7,570
Information technology	936	985	(49)	(4.9)	877
Communications	489	540	(51)	(9.5)	660
Advertising	654	637	17	2.7	669
Buildings and premises	1,775	1,815	(40)	(2.2)	1,750
Printed and office material	155	169	(13)	(7.8)	167
Taxes (other than profit tax)	460	458	2	0.5	422
Other expenses	3,098	2,879	219	7.6	3,025
Personnel and general expenses	**17,781**	**17,758**	**23**	**0.1**	**18,044**
Depreciation and amortisation	2,257	2,400	(143)	(6.0)	2,193
Total operating expenses	**20,038**	**20,158**	**(120)**	**(0.6)**	**20,236**

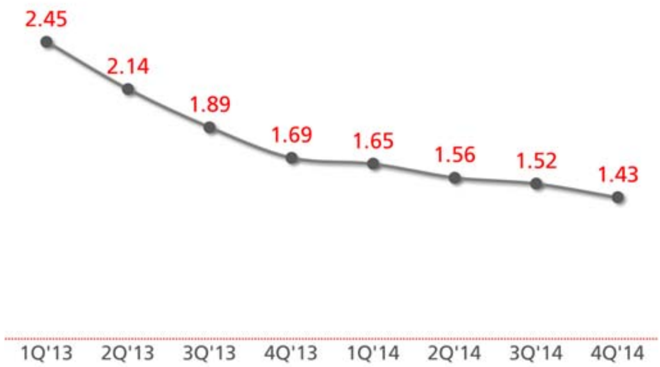
Net loans-loss provisions

EUR Million



Cost of credit

%



1.0% (-0.6% without the perimeter effect) compared to inflation of more than 6%.

- In a second block, the UK is combining investments in its digital transformation plan, commercial plan and in branches with efficiency improvements. The same goes for Chile.

- Lastly, higher rises in Mexico and Argentina because of their expansion plans or programmes to improve commercial capacity, and in the US, which is enhancing the franchise of Santander Bank and adapting to regulatory requirements (+7.6%).

The **efficiency** ratio improved by one percentage point in 2014 to 47% and compares very well with our main European and North American competitors.

Net operating income (pre-provisions profit) was EUR 22,574 million, 3.7% more than in 2013 (+9.1% without the exchange rate impact).

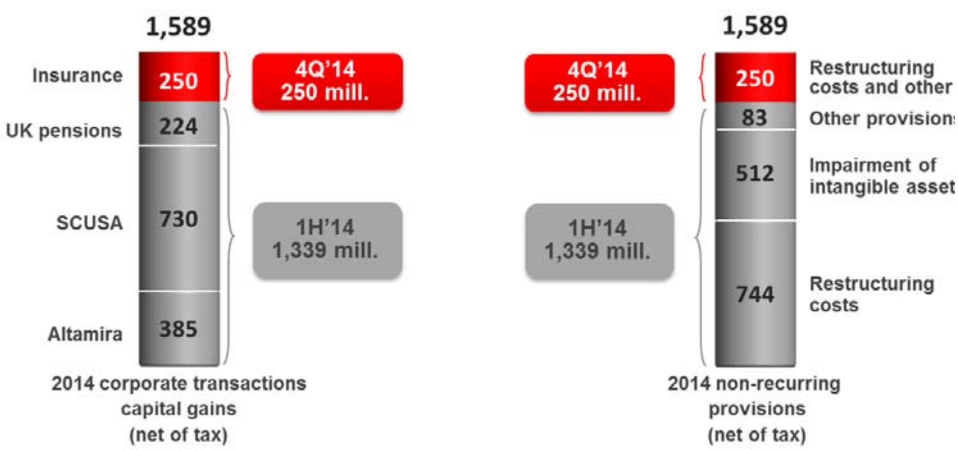
Loan-loss provisions were EUR 10,562 million, 14.4% less than in 2013. Excluding the exchange rate impact, provisions were 10.5% lower. The main falls were in the UK (-45.7%), Spain (-27.6%), Brazil (-17.7%) and Portugal (-35,7%), due to the better macroeconomic situation and balance sheet management. Among the rest of the large units, the only significant rise was in the US because of the larger provisions made by SCUSA, partly due to the larger volume of business following the agreement with Chrysler.

Other asset impairment losses and other results were EUR 2,292 million negative, compared to EUR 2,059 million also negative in 2013.

Profit before tax was EUR 9,720 million (+32.0%).

Capital gains and provisions net of tax

EUR Million



Net loans-loss provisions

EUR Million

	2014	2013	Variation amount	%	2012
Non performing loans	11,922	13,405	(1,483)	(11.1)	15,497
Country-risk	(24)	2	(26)	—	(2)
Recovery of written-off assets	(1,336)	(1,068)	(268)	25.1	(1,974)
Total	**10,562**	**12,340**	**(1,778)**	**(14.4)**	**13,521**

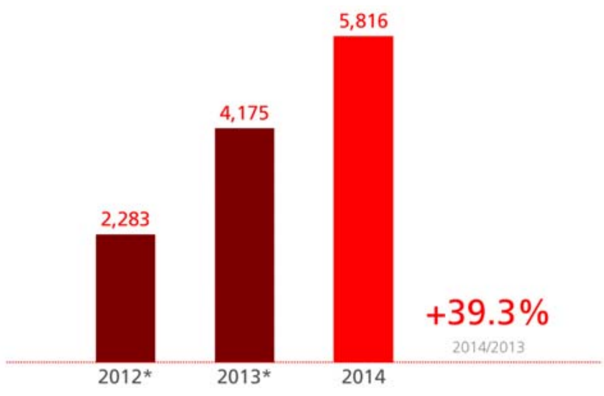
After taxes, discontinued operations and minority interests **attributable profit** increased 39.3% to EUR 5,816 million (+49.3% excluding the exchange rate impact).

Earnings per share in 2014 were EUR 0.48 (24.4% more than in 2013), affected by the rise in the number of shares issued to meet payment of the amounts equivalent to the dividend for shareholders who opted to receive Santander shares.

The Group's **RoE** (attributable profit/average shareholders' funds plus valuation adjustments) was 7.0% and the **RoTE** was 11.0%. Both cases take into account from January 1, 2014, the capital increase made in 2015. The **RoRWA** was 1.3%. All these figures were better than in 2013.

Attributable profit

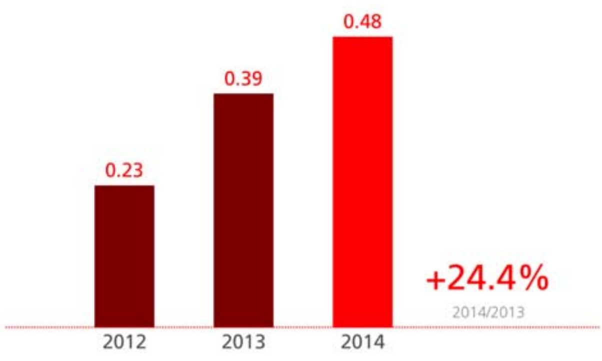
EUR Million



(*) Profit adjusted to the entry into force with retroactive effect, of the interpretation of the international accounting standard IFRIC 21

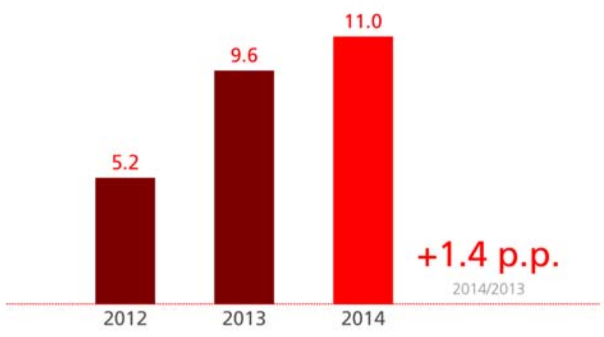
Earning per share

Euros



RoTE*

%



(*) RoTE: Group attributable profit / (Average of capital + reserves + retained profit + valuation adjustments - goodwill -other intangible assets). In 2014, pro-forma taking into account the January 2015 capital increase.

Balance sheet

EUR Million

Assets	2014	2013	Variation amount	%	2012
Cash on hand and deposits at central banks	69,428	77,103	(7,675)	(10.0)	118,488
Trading portfolio	148,888	115,309	33,579	29.1	177,917
Debt securities	*54,374*	*40,841*	*13,533*	*33.1*	*43,101*
Customer loans	*2,921*	*5,079*	*(2,158)*	*(42.5)*	*9,162*
Equities	*12,920*	*4,967*	*7,953*	*160.1*	*5,492*
Trading derivatives	*76,858*	*58,920*	*17,938*	*30.4*	*110,319*
Deposits from credit institutions	*1,815*	*5,503*	*(3,688)*	*(67.0)*	*9,843*
Other financial assets at fair value	42,673	31,441	11,232	35.7	28,356
Customer loans	*8,971*	*13,255*	*(4,285)*	*(32.3)*	*13,936*
Other (deposits at credit institutions, debt securities and equities)	*33,702*	*18,185*	*15,517*	*85.3*	*14,420*
Available-for-sale financial assets	115,251	83,799	31,452	37.5	92,339
Debt securities	*110,249*	*79,844*	*30,406*	*38.1*	*87,797*
Equities	*5,001*	*3,955*	*1,046*	*26.4*	*4,542*
Loans	781,635	731,420	50,216	6.9	770,349
Deposits at credit institutions	*51,306*	*57,178*	*(5,872)*	*(10.3)*	*54,817*
Customer loans	*722,819*	*666,356*	*56,463*	*8.5*	*708,473*
Debt securities	*7,510*	*7,886*	*(376)*	*(4.8)*	*7,059*
Investments	3,471	3,377	93	2.8	2,427
Intangible assets and property and equipment	26,109	18,137	7,972	44.0	17,346
Goodwill	27,548	24,263	3,284	13.5	25,652
Other	51,293	49,279	2,014	4.1	50,005
Total assets	**1,266,296**	**1,134,128**	**132,168**	**11.7**	**1,282,880**

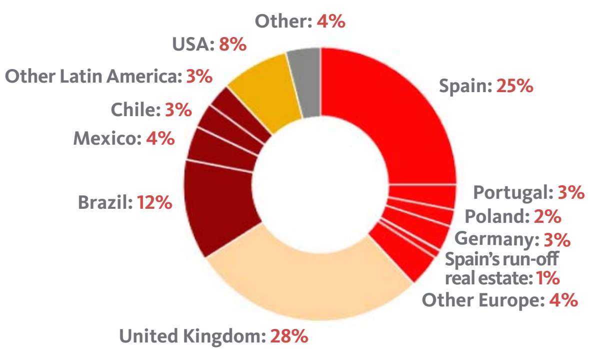
Liabilities and shareholders' equity	2014	2013	Variation amount	%	2012
Trading portfolio	109,792	94,695	15,097	15.9	143,244
Customer deposits	*5,544*	*8,500*	*(2,956)*	*(34.8)*	*8,897*
Marketable debt securities	—	*1*	*(1)*	(100.0)	*1*
Trading derivatives	*79,048*	*58,910*	*20,138*	*34.2*	*109,746*
Other	*25,200*	*27,285*	*(2,085)*	*(7.6)*	*24,600*
Other financial liabilities at fair value	62,318	42,311	20,007	47.3	45,418
Customer deposits	*33,127*	*26,484*	*6,644*	*25.1*	*28,638*
Marketable debt securities	*3,830*	*4,086*	*(255)*	*(6.3)*	*4,904*
Due to central banks and credit institutions	*25,360*	*11,741*	*13,619*	*116.0*	*11,876*
Financial liabilities at amortized cost	961,053	880,115	80,937	9.2	971,659
Due to central banks and credit institutions	*122,437*	*92,390*	*30,047*	*32.5*	*134,467*
Customer deposits	*608,956*	*572,853*	*36,103*	*6.3*	*589,104*
Marketable debt securities	*193,059*	*182,234*	*10,825*	*5.9*	*210,577*
Subordinated debt	*17,132*	*16,139*	*993*	*6.2*	*18,238*
Other financial liabilities	*19,468*	*16,499*	*2,969*	*18.0*	*19,273*
Insurance liabilities	713	1,430	(717)	(50.2)	1,425
Provisions	15,376	14,599	776	5.3	16,019
Other liability accounts	27,331	20,680	6,651	32.2	23,369
Total liabilities	**1,176,581**	**1,053,830**	**122,752**	**11.6**	**1,201,133**
Shareholders' equity	91,664	84,479	7,185	8.5	81,268
Capital stock	*6,292*	*5,667*	*625*	*11.0*	*5,161*
Reserves	*80,026*	*75,044*	*4,982*	*6.6*	*74,475*
Attributable profit to the Group	*5,816*	*4,175*	*1,641*	*39.3*	*2,283*
Less: dividends	*(471)*	*(406)*	*(64)*	*15.8*	*(650)*
Equity adjustments by valuation	(10,858)	(14,153)	3,295	(23.3)	(9,471)
Minority interests	8,909	9,972	(1,063)	(10.7)	9,950
Total equity	**89,714**	**80,298**	**9,416**	**11.7**	**81,747**
Total liabilities and equity	**1,266,296**	**1,134,128**	**132,168**	**11.7**	**1,282,880**

Grupo Santander. Balance sheet

- Growth in lending and in funds in most countries in 2014:
  - In **lending**, growth in the 10 core markets, except for Portugal, and notably in Latin America.
  - In **funds**, also widespread growth, with a greater focus on the cost of deposits and on the marketing of mutual funds.
  - The Group's **net loan-to-deposit ratio** was 113% (112% in 2013).
- The fully-loaded **CET1** ratio was 9.7% after the capital increase in January 2015. The fully-loaded total capital ratio was 11.8%.

Distribution of total assets

December 2014



Total **managed and marketed funds** at the end of 2014 amounted to EUR 1,428,083 million, of which EUR 1,266,296 million (89%) were on-balance sheet and the rest mutual and pension funds and managed portfolios.

When making comparisons with 2013 it is important to take into account the significant impact of changes in exchange rates of the currencies in which the Group operates. On the basis of year-end exchange rates, the dollar appreciated 14% against the euro, sterling 7% and the Brazilian real and the Mexican peso around 1%, while the Chilean and Argentine pesos depreciated 2% and 13%, respectively and the Polish zloty 3%. The impact on year-on-year changes in lending and customer funds was 3-4 p.p. positive.

There was also a positive perimeter effect of less than one point on lending, as a result of the incorporation to the Group of the consumer finance business of El Corte Inglés and GE's business in Nordic countries, both of them in the unit of Santander Consumer Finance.

Customer lending

The Group's gross lending amounted to EUR 761,928 million at the end of 2014, 7% higher. Excluding the exchange rate impact and eliminating repos, balances were 5% higher, and grew in every quarter of the year. The evolution by geographic areas was as follows.

In **Continental Europe,** the evolution varied. Lending fell in Portugal, still affected by the low demand, and in the Run-off Real Estate Activity in Spain, as the strategy of reducing this type of risk continued. It rose at Santander Consumer Finance, benefiting from the perimeter in Poland, with a good evolution by products and segments, and in Spain, where the trend of the last few years was reversed as a result of growth to companies and public administrations.

Customer loans

EUR Million

	2014	2013	Variation amount	%	2012
Spanish Public sector	17,465	13,374	4,091	30.6	16,884
Other residents	154,905	160,478	(5,572)	(3.5)	183,130
Commercial bills	7,293	7,301	(8)	(0.1)	8,699
Secured loans	96,426	96,420	6	0.0	103,890
Other loans	51,187	56,757	(5,570)	(9.8)	70,540
Non-resident sector	589,557	537,587	51,970	9.7	558,572
Secured loans	369,266	320,629	48,637	15.2	339,519
Other loans	220,291	216,958	3,333	1.5	219,052
Gross customer loans	**761,928**	**711,439**	**50,489**	**7.1**	**758,586**
Loan-loss allowances	27,217	26,749	468	1.7	27,014
Net customer loans	**734,711**	**684,690**	**50,021**	**7.3**	**731,572**
Pro memoria: Doubtful loans	40,424	41,088	(664)	(1.6)	36,002
Public sector	167	99	68	69.1	121
Other residents	19,951	21,763	(1,812)	(8.3)	16,025
Non-resident sector	20,306	19,226	1,080	5.6	19,856

- Gross lending in **Spain** (excluding the Run-off Real Estate Activity unit and repos) rose 2%. The distribution was as follows:

  – Lending to individuals amounted to EUR 59,746 million, of which EUR 47,333 million are home mortgages. This portfolio was concentrated in financing first homes, with a strong concentration in the lowest tranches of loan-to-value (73% with an LTV of less than 80%). The balance of mortgages dropped 6%, as the sharp rise of 64% in new loans still does not offset the amortisations made.

  – Loans directly to SMEs and companies without real estate purpose amounted to EUR 86,459 million and accounted for the largest share of lending (53% of the total). Growth was 5%, benefiting from the special plan to promote business with SMEs launched during 2014.

  – Lending to the Spanish public sector rose significantly in the year due to the higher funding of both the Central Administration and the local and autonomous regions, while also participating in corporate operations such as financing the electricity tariff deficit.

- In **Portugal**, lending dropped 5% in a context of deleveraging. Santander Totta gained market share, both in individual customers and companies. In the latter, balances in construction and real estate (2% of lending) dropped 27%.

- In **Poland**, credit increased 7% y-o-y in local currency, with growth in all products and segments. Of note were SMEs (+11%) and large companies, a segment being developed, where lending rose 32% from a still small base.

- **Santander Consumer Finance's** balances increased 9%. The evolution varied by country. In local currency terms, Germany's lending, which accounted for almost 50% of the area's credit, remained stable, Poland's rose 6%, the Nordic countries' 48% and Spain's 32% (both benefiting from the perimeter effect). The portfolios in Portugal and Italy continued to be adjusted.

  New loans increased 14%, with significant rises in direct credit, cards and new auto finance, where the evolution was better than the average for the sector.

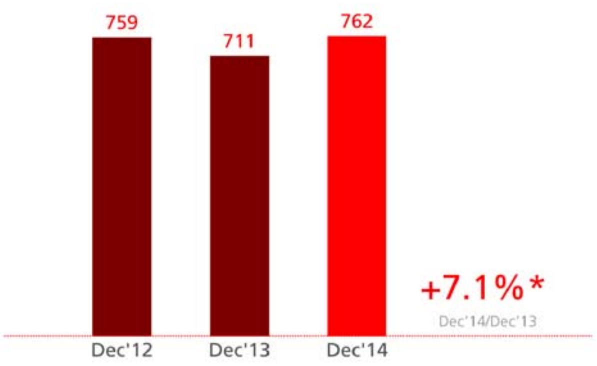
- Net customer lending included in the unit of **Run-off Real Estate Activity** in Spain amounted to EUR 3,787 million, a decline of EUR 1,948 million (-34%).

In the **United Kingdom,** the balance of customer loans was 3% higher in sterling. In local criteria, the balance of mortgages increased 1% and lending to companies 8%.

Lending in **Latin America** in constant currency increased 12%, with significant growth in all countries: Brazil (+10%), Mexico (+18%), Chile (+8%), Argentina (+23%), Uruguay (+17%) and Peru (+28%).

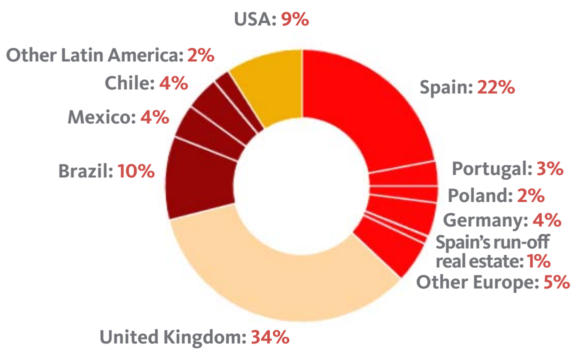
Lastly, lending in the **US** rose 4% in dollars, due to the sale and securitisations of assets in the second half of the year (+7% without this impact). Santander Bank's lending increased 1% (+6% excluding the sale of assets) and SCUSA's 13%, benefiting from the

Gross customer loans
EUR Billion



(*) Excluding exchange rate impact: +3.3%

Customer loans
% o/ operating areas. December 2014



Credit risk management*

EUR Million

	2014	2013	Variation amount	%	2012
Non-performing loans	41,709	42,420	(711)	(1.7)	36,761
NPL ratio (%)	5.19	5.61	(0.42 p.)		4.55
Loan-loss allowances	28,046	27,526	520	1.9	27,704
Specific	*21,784*	*22,433*	*(650)*	*(2.9)*	*22,213*
Collective	*6,262*	*5,093*	*1,170*	*23.0*	*5,491*
Coverage ratio (%)	67.2	64.9	2.3 p.		75.4
Cost of credit (%) **	1.43	1.69	(0.26 p.)		2,38

(*) Excluding country-risk
(**) 12 months net loan-loss provisions / average lending

Note: NPL ratio: Non-performing loans / computable assets

strategic alliance with Chrysler, while Puerto Rico's dropped 16% against a backdrop of deleveraging.

At the end of 2014, Continental Europe accounted for 37% of the Group's total net lending (22% Spain), the UK 34%, Latin America 20% (10% Brazil) and the US 9%.

Risks

Net NPL entries in 2014 amounted to EUR 9,652 million after eliminating the perimeter and exchange-rate effects (-51%). They declined in all countries, particularly in Spain, Portugal, Poland, UK and Chile.

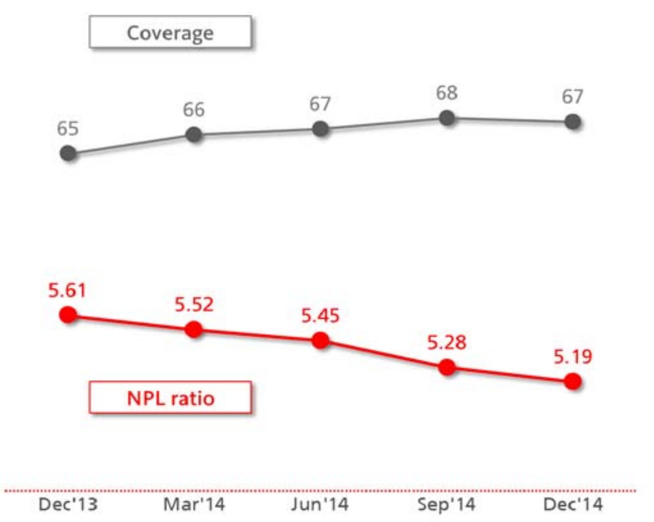
Bad and doubtful loans were EUR 711 million lower at EUR 41,709 million at the end of 2014. This balance, together with the level of lending, brought the Group's NPL ratio to 5.19%, 42 b.p. lower than in 2013 and the first decline since the start of the crisis.

Loan-loss provisions amounted to EUR 28,046 million, of which EUR 6,262 million are collectively assessed. The total was slightly higher (+2%) and combined with the fall in bad loans put coverage at the end of 2014 at 67% (65% in 2013).

The cost of credit (loan-loss provisions of the last 12 months as a percentage of average lending over the same period) was 1.43% (1.69% in 2013). Excluding SCUSA, which due the type of its

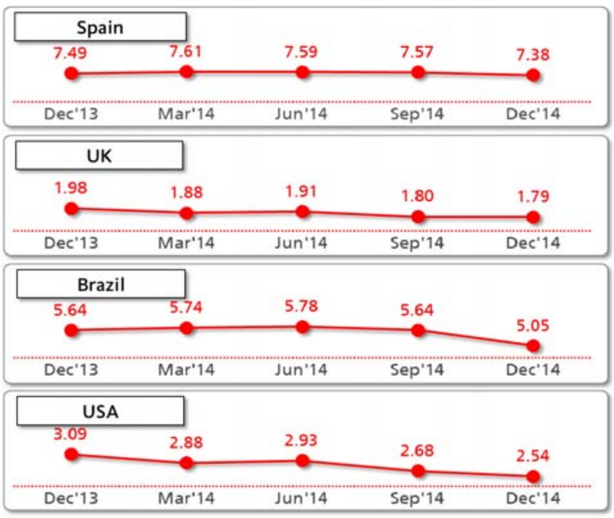
Grupo Santander. NPL and coverage ratios

%



Main units. NPL ratio

%



business has a high level of provisions and recoveries, the cost of credit was 1.15% (1.53% in 2013).

More information on credit risk, the control and monitoring systems and the internal risk models for calculating provisions can be found in the risk management report in this annual report.

Customer funds under management and marketed

Total managed funds, including mutual and pension funds and managed portfolios, amounted to EUR 1,023,437 million (+8%). Excluding the exchange rate impact, growth was 5%.

The strategy followed has been to grow in demand deposits, reduce expensive deposits and market mutual funds. The result was 9% growth in demand deposits (rise in the 10 main units), a 5% fall in time deposits and an increase of 18% in mutual funds.

Overall customer deposits excluding repos and mutual funds increased 9% (+6% excluding the forex impact).

Continental Europe's main units performed as follows:

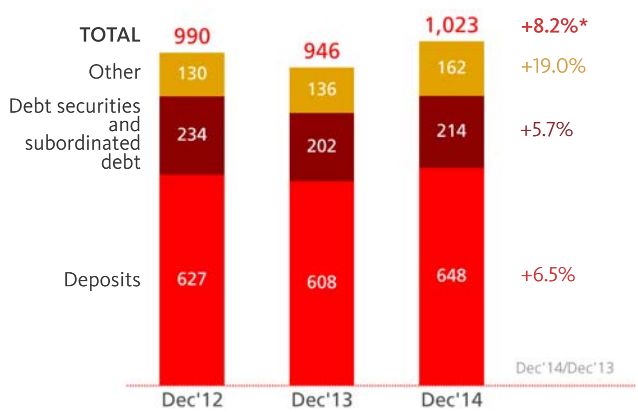
- **Spain's** total funds rose 5%. Spain is a clear example of the strategy followed: 25% growth in demand deposits and 28% in mutual funds, consolidating Grupo Santander's leadership. Time deposits, on the other hand, declined 22%.
- **Portugal's** funds increased 5% (+4% customer deposits without repos and +21% mutual funds). Demand deposits rose sharply and time ones remained virtually unchanged.
- **Poland's** deposits increased 12% in local currency, while mutual funds did not change. Their combined growth was 10%.
- **Santander Consumer Finance's** deposits declined 2%, due to the policy of reducing those of higher cost in Germany (81%of the area's total deposits).

In the **UK,** customer deposits excluding repos (in sterling) increased 3%, due to the strategy of replacing expensive and less stable deposits with those that offer a better opportunity of customer linkage. Demand deposits grew 24% because of the rise in current accounts as a result of the success of marketing the 1|2|3 range of products, which offset the reduction in time deposits. Mutual funds dropped 8%.

In **Latin America,** and in constant currency, the aggregate of deposits without repos plus mutual funds rose 14%: Brazil (+12%); Mexico (+13%); Chile (+17%); Argentina (+37%); Uruguay (+18%) and Peru (+32%).

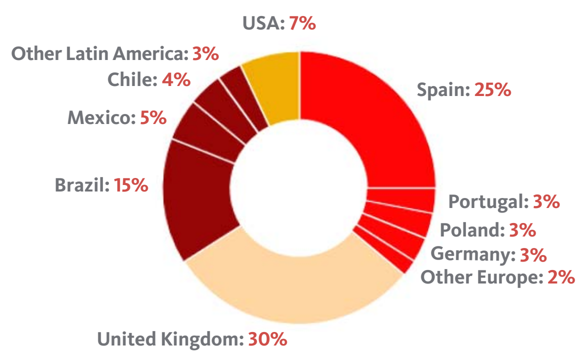
Lastly, in the **US** the aggregate of deposits without repos plus mutual funds increased 6%. Deposits rose 5% and continued to improve their composition and cost similar to that registered by other units (demand: +7%; time: -10%). Mutual funds increased 79% from a small base.

Managed and marketed customer funds
EUR Billion



(*) Excluding exchange rate impact: +5.0%

Managed and marketed customer funds
% o/ operating areas. December 2014



Managed and marketed customer funds

EUR Million

	2014	2013	Variation amount	%	2012
Resident public sector	9,349	7,745	1,604	20.7	8,487
Other residents	163,340	161,649	1,691	1.0	157,011
Demand deposits	88,312	74,969	13,343	17.8	71,526
Time deposits	67,495	80,146	(12,650)	(15.8)	75,414
Other	7,532	6,535	998	15.3	10,071
Non-resident sector	474,939	438,442	36,497	8.3	461,141
Demand deposits	273,889	230,715	43,175	18.7	228,698
Time deposits	151,113	161,300	(10,187)	(6.3)	179,503
Other	49,937	46,427	3,509	7.6	52,940
Customer deposits	**647,628**	**607,836**	**39,791**	**6.5**	**626,639**
Debt securities*	196,890	186,321	10,569	5.7	215,482
Subordinated debt	17,132	16,139	993	6.2	18,238
On-balance-sheet customer funds	**861,649**	**810,296**	**51,354**	**6.3**	**860,359**
Mutual funds	124,708	103,967	20,741	19.9	100,709
Pension funds	11,481	10,879	602	5.5	10,076
Managed portfolios	25,599	21,068	4,531	21.5	18,952
Other managed and marketed customer funds	**161,788**	**135,914**	**25,873**	**19.0**	**129,737**
Managed and marketed customer funds	**1,023,437**	**946,210**	**77,227**	**8.2**	**990,096**

(*).- Including retail commercial paper in Spain (EUR million): 274 in December 2014, 3,553 in December 2013 and 11,536 in December 2012

In addition to these advances, pension funds grew 5% in Spain and 7% in Portugal, the only countries where Santander markets this product.

By geographic areas, Continental Europe accounted for 36% of managed and marketed customer funds (25% Spain), the UK 30%, Latin America 27% (Brazil 15%) and the US 7%.

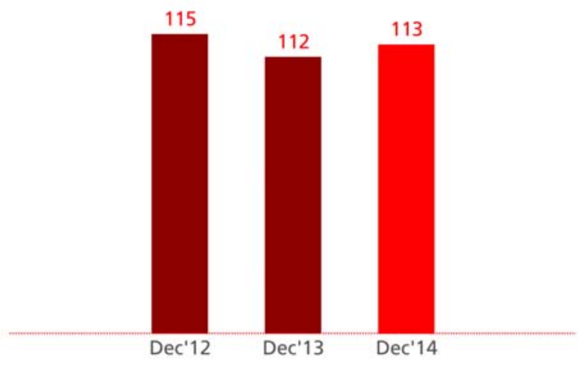
As well as capturing customer deposits, Grupo Santander, for strategic reasons, maintains a selective policy of issuing securities in the international fixed income markets and strives to adapt the frequency and volume of operations to the structural liquidity needs of each unit, as well as to the receptiveness of each market.

The Group captured EUR 26,423 million in medium- and long-term senior debt issues, and EUR 7,711 million in covered bonds.

Of note were: Santander Totta's placement of EUR 1,750 million in two issues of covered mortgage bonds, after four years of not being present in the international covered bonds market; the senior issue of EUR 1,500 million made in the European market by Banco Santander, S.A. in the first quarter; Santander UK's operations in September placing $1,500 million of senior debt in the US market and EUR 1,500 million of covered bonds in the European market; in November Banco Santander, S.A. Spain's issue of a covered mortgage bond in two tranches for an aggregate amount of EUR 3,000 million and maturities of 10 and 20 years, respectively, the longest maturity of a covered bond since the beginning of the crisis; and the senior debt issued by several European units of Santander Consumer Finance for a total amount of EUR 4,571 million in the local markets where it operates.

LTD ratio. Total Group

%



Managed and marketed mutual funds

EUR Million

	2014	2013	Variation amount	%	2012
Spain	42,183	33,104	9,078	27.4	26,720
Portugal	1,276	1,050	226	21.5	1,544
Poland	3,430	3,525	(96)	(2.7)	2,460
United Kingdom	9,524	9,645	(122)	(1.3)	13,919
Latin America	66,657	55,835	10,821	19.4	54,606
USA	1,640	807	833	103.3	1,460
Total	**124,708**	**103,967**	**20,741**	**19.9**	**100,709**

The Group's subsidiaries placed in the market during 2014 a total of EUR 13,391 million of securitisations, mainly via the consumer finance units.

This issuing activity underscores the Group's capacity to access the different segments of institutional investors via more than 10 issuance units, including the parent bank, Banco Santander, S.A. and the main subsidiaries of the countries where it operates. All this reaffirms the Group's policy of liquidity self-sufficiency for its subsidiaries so that each adapts its issuance programme to the evolution of its balance sheet.

Maturities and amortisation of medium- and long-term debt throughout the Group amounted to EUR 33,765 million in 2014, of which EUR 20,111 million was senior debt, EUR 10,175 million covered bonds, EUR 1,731 subordinated debt and EUR 1,749 million of preferred shares.

The net loan-to-deposit ratio was 113% in December, within the Group's comfort zone (around 120% or below). The ratio of deposits plus medium- and long-term funding to the Group's loans was 116%, underscoring the comfortable funding structure.

As regards funding from central banks, the Group took part in 2014 in the two auctions of long-term liquidity conditioned to the volume and evolution of non-mortgage loans (TLTROs) by the European Central Bank. The aggregate liquidity of both auctions taken via banks in Spain, Portugal and SCF was EUR 8,200 million.

Managed and marketed pension funds

EUR Million

	2014	2013	Variation amount	%	2012
Spain	10,570	10,030	539	5.4	9,289
Portugal	911	848	63	7.4	787
Total	**11,481**	**10,879**	**602**	**5.5**	**10,076**

Other balance sheet items

Total goodwill was EUR 27,548 million, EUR 3,284 million more than in 2013, due to SCUSA, the incorporations of Getnet and GE's business in Nordic countries and the evolution of exchange rates, particularly the US dollar and sterling.

The balance of financial assets available for sale amounted to EUR 115,251 million, EUR 31,452 million more than 2013 (+38%), due to the increased debt positions of Spain, Portugal, UK, Brazil and the US.

Trading derivatives amounted to EUR 76,858 million in assets and EUR 79,048 million in liabilities with year-on-year increases, due to the drop in interest rates in the long-term curve.

Shareholders' equity and solvency ratios

Total shareholders' funds, after retained profits, amounted to EUR 91,664 million (+7,185 million and +9%).

There were several issues of ordinary shares during 2014 to tend to those shareholders who opted to receive the equivalent amount of the interim dividends in shares under the *Santander Dividendo Elección* programme (scrip dividend). A total of 880,057,105 shares were issued for the four scrip dividends – the third and fourth of 2013 and the first and second of 2014, with an overall acceptance of 87.1% of the capital.

In addition, 370,937,066 shares were issued in September to tend to the exchange derived from the offer to acquire the minority interests of Banco Santander Brazil, S.A.

Valuation adjustments improved by EUR 3,295 million, with a notable positive impact of exchange rates (partly hedged) on the

Total equity and capital with the nature of financial liabilities

EUR Million

	2014	2013	Variation amount	%	2012
Capital stock	6,292	5,667	625	11.0	5,161
Additional paid-in surplus	38,611	36,804	1,807	4.9	37,302
Reserves	41,425	38,248	3,177	8.3	37,460
Treasury stock	(10)	(9)	(1)	11.1	(287)
Attributable profit	5,816	4,175	1,641	39.3	2,283
Less: dividends	*(471)*	*(406)*	*(64)*	*15.8*	*(650)*
Shareholders' equity	**91,664**	**84,479**	**7,185**	**8.5**	**81,268**
Valuation adjustments	(10,858)	(14,153)	3,295	(23.3)	(9,471)
Stockholders' equity	**80,806**	**70,326**	**10,480**	**14.9**	**71,797**
Minority interests	8,909	9,972	(1,063)	(10.7)	9,950
Total equity	**89,714**	**80,298**	**9,416**	**11.7**	**81,747**
Preferred shares and securities in subordinated debt	6,978	4,053	2,925	72.2	4,740
Total equity and capital with the nature of financial liabilities	**96,692**	**84,351**	**12,341**	**14.6**	**86,487**

value of stakes in foreign subsidiaries and by valuations of portfolios, mainly fixed income.

Total equity amounted to EUR 80,806 million at the end of 2014, (+EUR 10,479 million and +15%). Including the EUR 7,500 million capital increase in January 2015, total equity was EUR 88,306 million.

The Group's computable capital amounted to EUR 77,854 million including the capital increase.

Under the new European regulation on equity, and aimed solely at qualified investors, Banco Santander made three issues of contingent perpetual preferred securities convertible into ordinary shares of the Bank, eligible as additional Tier 1 (AT1) capital, to strengthen its solvency (Tier 1) in 2014.

These operations were for EUR 1,500 million in March, $1,500 million in May and EUR 1,500 million in September, and at annual rates of 6.25%, 6.375% and 6.25%, respectively, for the first five years in the first two cases and the first seven in the other. All were notably oversubscribed by the international investors at whom the issues were targeted. This meant pro-ratas in each one.

From a qualitative standpoint, the Group has solid ratios appropriate for its business model, balance sheet structure and risk profile.

The phased-in CET1 (common equity tier 1) is 12.2%, the same as that for the Tier 1 capital ratio, while the total ratio is 13.3%.

The fully-loaded CET1 is 9.7% and the total ratio is 11.8%. All these ratios take into account the capital increase made in 2015.

Computable capital*. December 2014

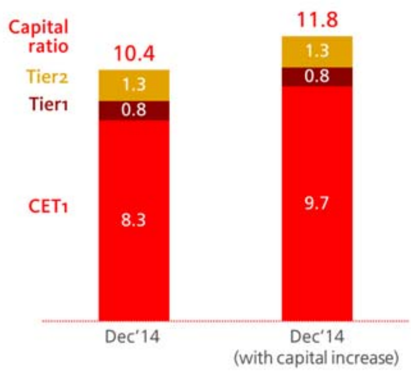
EUR Million

	Phase-in	Fully loaded
CET1	71,598	56,282
Basic capital	71,598	61,010
Computable capital	**77,854**	**68,570**
Risk-weighted assets	585,243	583,366
CET1 capital ratio	**12.2**	**9.7**
T1 capital ratio	**12.2**	**10.5**
BIS ratio	**13.3**	**11.8**

(*).- 2014 pro-forma taking into account the January 2015 capital increase

Capital ratios. Fully loaded

%



Rating agencies

The Group's access to wholesale funding markets, as well as the cost of issues, depends to some extent on the ratings accorded by rating agencies.

Rating agencies regularly review the Group's ratings. Debt classification depends on a series of internal factors (solvency, business model, capacity to generate profits, etc.) and external ones related to the general economic environment, the sector's situation and the sovereign risk of the countries in which the Group operates.

The rating and outlook for the Kingdom of Spain has improved. In 2014, Moody's improved its rating in February from Baa3 to Baa2 and the outlook from stable to positive, Fitch upgraded from BBB to BBB+ in April and confirmed it in October, and S&P in May from BBB- to BBB.

The methodology used by the agencies limits the rating of a bank above that of the sovereign of the country in which it is based. This means that despite the Group's good fundamentals, Santander's rating can be limited by the sovereign debt rating.

At the end of 2014, Banco Santander was the only bank in the world with a rating higher than that of the sovereign of the country in which it is based by the four agencies, following the upgradings in 2014 by Moody's from Baa2 to Baa1 with stable outlook, Fitch from BBB+ to A- with stable outlook and S&P from BBB to BBB+, also with stable outlook. The rating by DRBS remained at A. These higher ratings than the sovereign underscore Santander's financial strength and diversification.

During the first quarter of 2014, the Group obtained A+ and A from GBB Rating and Scope, respectively.

The agencies' good assessment of Santander's credit profile is reflected in the rating of the Bank's individual fundamentals, which in the case of S&P is "a-", a level equivalent to its peers including those based in countries with a better macroeconomic situation.

Rating agencies

	Long term	Short term	Outlook
DBRS	A	R1(low)	Negative
Fitch Ratings	A-	F2	Stable
GBB Rating	A+		Stable
Moody's	Baa1	P-2	Stable
Standard & Poor´s	BBB+	A-2	Stable
Scope	A		Stable

Description of the segments

Grupo Santander is maintaining in 2014 the general criteria applied in 2013, as well as the business segments with the following exceptions:

1) In the Group's financial statements:

- The Group has applied IFRIC 21, Levies, which addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37. The adoption of IFRIC 21 gave rise to a change in the recognition of the contributions made by Santander UK to the Financial Services Compensation Scheme and of the contributions made by the Group's Spanish financial institutions to the Deposit Guarantee Fund. Pursuant to the applicable standard, this change was applied retrospectively, giving rise to changes in the balances for 2013 (impact of -EUR 195 million on attributable profit and of -EUR 65 million on the Group's reserves) and 2012 (impact of -EUR 12 million on attributable profit and of -EUR 53 million on the Group's reserves).

- Some corporate operations recently carried out by the Group involve changes in the consolidation method. On the one hand, taking control of Santander Consumer USA (SCUSA) in 2014 meant changing to consolidation by global integration instead of by the equity accounted method, and, on the other, the loss of control of asset management companies sold at the end of 2013 meant consolidating by the equity accounted method instead of by global integration. Pro-forma information is provided with the Group's financial statements for previous periods, modified in order to facilitate comparisons as if these changes had been effective in the compared periods presented.

2) In geographic businesses by restructuring:

- The area for the United States includes Santander Bank, Santander Consumer USA, which as indicated, now consolidates by global integration, and Puerto Rico, which was previously included in Latin America.

- The sold units of Santander Asset Management consolidate by the equity accounted method, as commented, in the various countries.

3) Other adjustments:

- Annual adjustment of the perimeter of the Global Customer Relationship Model between Retail Banking and Global Banking and Markets. This change has no impact on the principal segments (or geographic).

- The Asset Management and Insurance area is now called Private Banking, Asset Management and Insurance. As regards the figures published in 2013, the domestic private banking units of Spain, Portugal, Italy, Brazil, Mexico and Chile are incorporated (management shared with local banks). Santander Private Banking in Latin America is also included.

For comparison purposes, the figures of previous periods of the principal and secondary segments have been re-expressed to include the changes in the affected areas.

The financial statements of each business segment have been drawn up by aggregating the Group's basic operating units. The information relates to both the accounting data of the units in each segment as well as that provided by the management information systems. In all cases, the same general principles as those used in the Group are applied.

The operating business areas are structured into two levels:

Principal level (or geographic). Geographical areas segment the activity of the Group's operating units. This coincides with the Group's first level of management and reflects Santander positioning in the world's three main currency areas (euro, sterling and dollar). The segments reported on are:

- **Continental Europe.** This covers all retail banking business, wholesale banking, and private banking and asset management and insurance conducted in this region, as well as the unit of Run-off Real Estate Activity in Spain. Detailed financial information is provided on Spain, Portugal, Poland and Santander Consumer Finance (which incorporates all the region's business, including the three countries mentioned herewith).

- **United Kingdom.** This includes retail and wholesale banking, and private banking asset management and insurance conducted by the Group's various units and branches in the country.

- **Latin America.** This embraces all the Group's financial activities conducted via its subsidiary banks and subsidiaries. It also includes the specialised units of Santander Private Banking, as an independent and globally managed unit, and New York's business. The financial statements of Brazil, Mexico and Chile are also provided.

- **United States.** Includes the businesses of Santander Bank, Santander Consumer USA and Puerto Rico.

Secondary level (or business). This segments the activity of the operating units by type of business. The segments are: Retail Banking, Wholesale Banking, Private Banking, Asset Management and Insurance and the unit of Run-off Real Estate Activity in Spain.

- **Retail Banking.** This covers all customer banking businesses, (except those of private banking and corporate banking, managed through the Global Customer Relationship Model). Because of their relative importance, details are also provided by the main geographic areas (Continental Europe, United Kingdom, Latin America and the United States). The results of the hedging positions in each country are also included, conducted within the sphere of each one's Assets and Liabilities Committee.

- **Global Wholesale Banking** (GBM). This business reflects the revenues from global corporate banking, investment banking and markets worldwide including all treasuries managed globally, both trading and distribution to customers (always after the appropriate distribution with Retail Banking customers), as well as equities business.

- **Private Banking, Asset Management and Insurance.** This includes the contribution to the Group for the design and management of mutual and pension funds and insurance, conducted in some cases via wholly-owned units and in other via units in which the Group participates through joint ventures with specialists. In both cases, the units remunerate the distribution networks used to place these products (basically the Group's, though not exclusively) via agreements. This means that the result recorded in this segment is net for each of the units included, in accordance with their participation and consolidation method, (i.e. deducting the distribution cost of sharing agreements from gross income). It also includes private banking business as defined above.

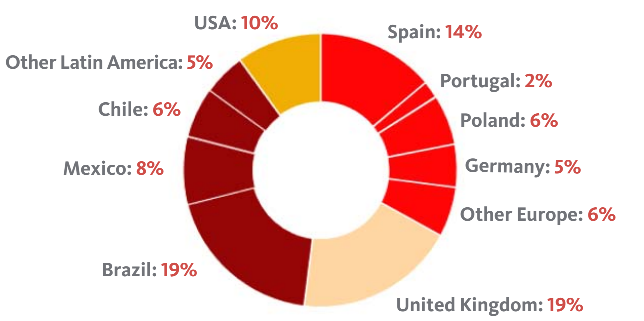
As well as these operating units, which cover everything by geographic area and by businesses, the Group continues to maintain the area of **Corporate Activities**. This area incorporates the centralised activities relating to equity stakes in financial companies, financial management of the structural exchange rate position and of the parent bank's structural interest rate risk, as well as management of liquidity and of shareholders' equity through issues and securitisations.

As the Group's holding entity, this area manages all capital and reserves and allocations of capital and liquidity. It also incorporates amortisation of goodwill but not the costs related to the Group's central services (charged to the areas), except for corporate and institutional expenses related to the Group's functioning.

The figures of the Group's units have been drawn up in accordance with these criteria, and so might not coincide with those published individually by each unit.

Distribution of attributable profit by operating geographic segments*. 2014

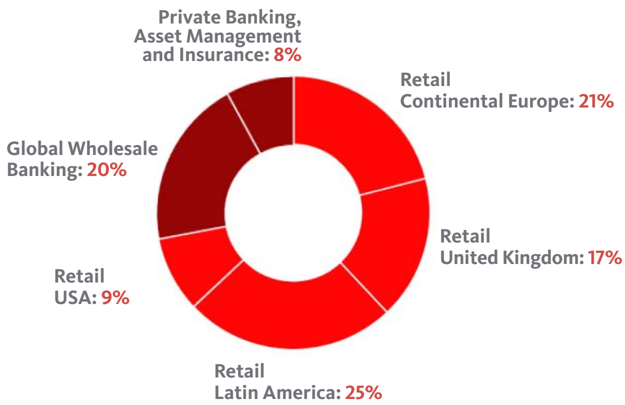
Continental Europe: 33%
Latin America: 38%



(*) Excluding Spain's run-off real estate

Distribution of attributable profit by operating business segments*. 2014

Retail Banking: 72%



Net operating income

EUR Million	2014	2013	Variation amount	%	% w/o FX
Continental Europe	**6,485**	**5,969**	**515**	**8.6**	**8.8**
o/w: Spain	3,515	3,220	295	9.2	9.2
Portugal	465	421	44	10.5	10.5
Poland	795	725	70	9.6	9.3
Santander Consumer Finance	1,857	1,720	137	8.0	8.0
United Kingdom	**2,651**	**2,276**	**375**	**16.5**	**10.6**
Latin America	**11,049**	**12,186**	**(1,137)**	**(9.3)**	**0.4**
o/w: Brazil	7,092	8,194	(1,102)	(13.5)	(5.4)
Mexico	1,812	1,796	16	0.9	5.2
Chile	1,343	1,322	20	1.5	17.0
USA	**3,611**	**2,975**	**636**	**21.4**	**21.3**
Operating areas	**23,795**	**23,406**	**390**	**1.7**	**6.5**
Corporate Activities	(1,221)	(1,644)	423	(25.7)	(25.7)
Total Group	**22,574**	**21,762**	**813**	**3.7**	**9.1**

Attributable profit

EUR Million	2014	2013	Variation amount	%	% w/o FX
Continental Europe	**2,078**	**1,115**	**963**	**86.4**	**87.4**
o/w: Spain	1,121	466	655	140.5	140.5
Portugal	189	114	75	65.1	65.1
Poland	358	334	24	7.2	6.9
Santander Consumer Finance	891	794	97	12.3	12.3
United Kingdom	**1,576**	**1,149**	**427**	**37.1**	**30.2**
Latin America	**3,150**	**3,181**	**(31)**	**(1.0)**	**10.8**
o/w: Brazil	1,558	1,577	(20)	(1.3)	8.0
Mexico	660	713	(53)	(7.4)	(3.5)
Chile	509	435	74	17.0	34.8
USA	**800**	**801**	**(1)**	**(0.1)**	**(0.2)**
Operating areas	**7,605**	**6,246**	**1,359**	**21.8**	**27.5**
Corporate Activities	(1,789)	(2,071)	282	(13.6)	(13.6)
Total Group	**5,816**	**4,175**	**1,641**	**39.3**	**49.3**

Customer loans

EUR Million	2014	2013	Variation amount	%	% w/o FX
Continental Europe	**266,827**	**266,355**	**471**	**0.2**	**(0.6)**
o/w: Spain	157,047	159,753	(2,706)	(1.7)	(1.7)
Portugal	23,180	24,482	(1,302)	(5.3)	(5.3)
Poland	16,976	16,214	761	4.7	7.7
Santander Consumer Finance	60,448	56,024	4,424	7.9	7.9
United Kingdom	**251,191**	**231,046**	**20,145**	**8.7**	**1.6**
Latin America	**144,714**	**128,684**	**16,030**	**12.5**	**12.1**
o/w: Brazil	74,373	66,446	7,927	11.9	10.7
Mexico	25,873	22,269	3,604	16.2	14.9
Chile	30,550	28,783	1,767	6.1	8.0
USA	**67,175**	**57,374**	**9,801**	**17.1**	**3.1**
Operating areas	**729,908**	**683,460**	**46,448**	**6.8**	**3.3**
Total Group	**734,711**	**684,690**	**50,021**	**7.3**	**3.8**

Customer deposits

EUR Million	2014	2013	Variation amount	%	% w/o FX
Continental Europe	**255,719**	**256,138**	**(418)**	**(0.2)**	**(0.1)**
o/w: Spain	178,446	181,117	(2,671)	(1.5)	(1.5)
Portugal	24,016	24,191	(174)	(0.7)	(0.7)
Poland	20,144	18,503	1,641	8.9	12.0
Santander Consumer Finance	30,847	30,878	(30)	(0.1)	(0.1)
United Kingdom	**202,328**	**187,467**	**14,862**	**7.9**	**0.8**
Latin America	**137,726**	**122,176**	**15,551**	**12.7**	**12.1**
o/w: Brazil	68,539	61,490	7,049	11.5	10.2
Mexico	28,627	24,663	3,964	16.1	14.8
Chile	23,352	20,988	2,364	11.3	13.2
USA	**46,575**	**39,206**	**7,369**	**18.8**	**4.6**
Operating areas	**642,348**	**604,985**	**37,363**	**6.2**	**3.0**
Total Group	**647,628**	**607,836**	**39,791**	**6.5**	**3.4**

Continental Europe

EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**8,728**	**8,107**	**622**	**7.7**	**7.9**
Net fees	3,457	3,420	37	1.1	1.1
Gains (losses) on financial transactions	453	774	(321)	(41.5)	(41.5)
Other operating income*	184	164	20	12.1	12.2
Gross income	**12,822**	**12,465**	**357**	**2.9**	**3.0**
Operating expenses	(6,337)	(6,495)	158	(2.4)	(2.3)
General administrative expenses	(5,632)	(5,737)	106	(1.8)	(1.7)
Personnel	*(3,316)*	*(3,488)*	*171*	*(4.9)*	*(4.8)*
Other general administrative expenses	*(2,315)*	*(2,249)*	*(66)*	*2.9*	*3.1*
Depreciation and amortisation	(706)	(758)	52	(6.9)	(6.8)
Net operating income	**6,485**	**5,969**	**515**	**8.6**	**8.8**
Net loan-loss provisions	(2,880)	(3,603)	724	(20.1)	(20.0)
Other income	(576)	(759)	184	(24.2)	(24.2)
Profit before taxes	**3,030**	**1,607**	**1,423**	**88.6**	**89.4**
Tax on profit	(756)	(351)	(406)	115.6	116.8
Profit from continuing operations	**2,273**	**1,256**	**1,017**	**81.0**	**81.8**
Net profit from discontinued operations	(26)	(6)	(20)	345.3	363.0
Consolidated profit	**2,247**	**1,250**	**997**	**79.8**	**80.5**
Minority interests	168	135	33	24.8	24.4
Attributable profit to the Group	**2,078**	**1,115**	**963**	**86.4**	**87.4**

Balance sheet	2014	2013	Variation amount	%	% w/o FX
Customer loans**	266,827	266,355	471	0.2	0.6
Trading portfolio (w/o loans)	65,859	50,317	15,543	30.9	30.9
Available-for-sale financial assets	52,858	37,319	15,539	41.6	42.3
Due from credit institutions**	65,754	38,547	27,207	70.6	70.9
Intangible assets and property and equipment	5,838	6,148	(311)	(5.1)	(4.9)
Other assets	22,523	39,902	(17,379)	(43.6)	(43.4)
Total assets/liabilities & shareholders' equity	**479,659**	**438,589**	**41,070**	**9.4**	**9.7**
Customer deposits**	255,719	256,138	(418)	(0.2)	0.1
Marketable debt securities**	19,435	16,781	2,654	15.8	17.2
Subordinated debt**	409	406	4	1.0	3.3
Insurance liabilities	713	1,430	(717)	(50.2)	(50.1)
Due to credit institutions**	76,889	59,440	17,449	29.4	30.1
Other liabilities	101,950	79,309	22,641	28.5	28.7
Shareholders' equity***	24,543	25,086	(543)	(2.2)	(1.7)
Other managed and marketed customer funds	**65,275**	**55,278**	**9,998**	**18.1**	**18.3**
Mutual and pension funds	58,369	48,559	9,810	20.2	20.4
Managed portfolios	6,906	6,719	187	2.8	2.8
Managed and marketed customer funds	**340,839**	**328,602**	**12,237**	**3.7**	**4.0**

Ratios (%) and operating means	2014	2013	Variation amount	%	% w/o FX
ROE	8.11	4.35	3.76		
Efficiency ratio (with amortisations)	49.4	52.1	(2.7)		
NPL ratio	8.93	9.13	(0.20)		
NPL coverage	57.2	57.3	(0.1)		
Number of employees	56,245	58,033	(1,788)	(3.1)	
Number of branches	5,482	6,160	(678)	(11.0)	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Continental Europe

→ **Attributable profit of EUR 2,078 million, 86.4% more than in 2013, due to the good performance of all the main lines of the income statement.**

- **Gross income increased 2.9% thanks to the 7.7% rise in net interest income (good performance by all units).**
- **Operating expenses were 2.4% lower, with falls in Spain, Portugal and Poland.**
- **Loan-loss provisions declined 20.1%, with reductions in Spain, Portugal and Santander Consumer Finance.**

→ **Growth strategy focused on more lending in an environment of still weak demand and reducing the cost of liabilities.**

Continental Europe includes all activities carried out in this zone: retail banking, global wholesale banking, private banking, asset management and insurance, as well as Run-off Real Estate Activity in Spain.

Environment and strategy

Units developed their business in 2014 in an environment of moderate growth, with significant differences by countries, and low interest rates. The system's high liquidity facilitated corporate issues and better access of companies and households to credit. All of this, however, did not prevent a further decline in lending in the euro zone (-1.5% year-on-year to October), reflecting deleveraging in some economies and disintermediation. The deposits of companies and households continued to grow at rates of around 3%.

In this context the integration of the retail networks in Spain and the banks in Poland was completed. In addition, the general strategic lines of the last few years were maintained:

- Defending spreads on loans and on deposits.
- Policy of reducing the cost of deposits in all units.
- Control of costs and exploiting synergies.
- Active risk management

Furthermore, the measures taken to push lending in those segments considered as strategic were intensified, particularly in the sphere of SMEs and companies.

Activity

Customer lending excluding repos increased 2%, due to the evolution in Spain, Poland and Santander Consumer Finance. It declined in Portugal and, above all, in Run-off Real Estate Activity in Spain.

Deposits excluding repos rose 2%, reflecting the cost reduction policy and the greater marketing of mutual funds (+24%). Pension funds increased 6%.

Results

Comparisons with 2013 are very favourable in the main income statement lines.

Gross income rose 2.9%, fuelled by net interest income (+7.7%), where the reduction in the cost of deposits in all units impacted favourably. Fee income was 1.1% higher, even though the impact in Spain of the incorporation of customers from Banesto to the programme *We want to be your Bank* was still felt, as well as regulatory effects in Spain, Portugal and Poland.

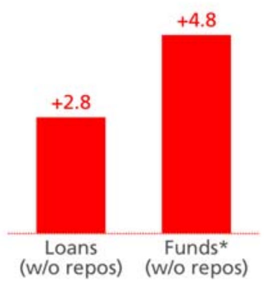
Operating expenses fell 2.4%, due to Spain (-6.7%), Poland (-2.2%) and Portugal (-0.9%).

Net operating income rose 8.6% and the efficiency ratio improved by 2.7 p.p. to below 50%.

Loan-loss provisions were 20.1% lower, with falls in all commercial units except Poland.

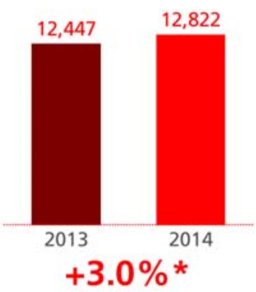
Net operating income after provisions jumped 52.4% to EUR 3,605 million and attributable profit surged 86.4%, due to the lower impact of the rest of provisions and other results.

Activity
% var. 2014/2013 (constant EUR)



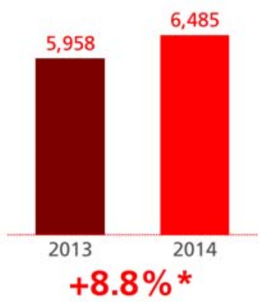
(*) Customer deposits + mutual funds

Gross income
Constant EUR Million



(*) In euros: +2.9%

Net operating income
Constant EUR Million



(*) In euros: +8.6%

Attributable profit
Constant EUR Million

(*) In euros: +86.4%

Spain

EUR Million

Income statement	2014	2013	Variation amount	%
Net interest income	**4,768**	**4,358**	**411**	**9.4**
Net fees	1,796	1,832	(36)	(2.0)
Gains (losses) on financial transactions	284	610	(326)	(53.5)
Other operating income*	149	153	(4)	(2.8)
Gross income	**6,997**	**6,954**	**43**	**0.6**
Operating expenses	(3,482)	(3,734)	252	(6.7)
General administrative expenses	(3,130)	(3,349)	219	(6.5)
Personnel	*(1,929)*	*(2,115)*	*185*	*(8.8)*
Other general administrative expenses	*(1,201)*	*(1,234)*	*34*	*(2.7)*
Depreciation and amortisation	(352)	(384)	33	(8.5)
Net operating income	**3,515**	**3,220**	**295**	**9.2**
Net loan-loss provisions	(1,745)	(2,411)	666	(27.6)
Other income	(173)	(135)	(38)	28.3
Profit before taxes	**1,597**	**674**	**923**	**136.9**
Tax on profit	(469)	(207)	(263)	127.0
Profit from continuing operations	**1,127**	**467**	**660**	**141.2**
Net profit from discontinued operations	—	0	(0)	(100.0)
Consolidated profit	**1,127**	**467**	**660**	**141.2**
Minority interests	6	1	5	414.9
Attributable profit to the Group	**1,121**	**466**	**655**	**140.5**

Balance sheet				
Customer loans**	157,047	159,753	(2,706)	(1.7)
Trading portfolio (w/o loans)	62,470	47,062	15,408	32.7
Available-for-sale financial assets	38,353	25,608	12,745	49.8
Due from credit institutions**	48,881	25,092	23,789	94.8
Intangible assets and property and equipment	3,423	4,111	(688)	(16.7)
Other assets	5,166	21,183	(16,017)	(75.6)
Total assets/liabilities & shareholders' equity	**315,340**	**282,808**	**32,531**	**11.5**
Customer deposits**	178,446	181,117	(2,671)	(1.5)
Marketable debt securities**	704	3,953	(3,248)	(82.2)
Subordinated debt**	6	8	(2)	(21.9)
Insurance liabilities	539	525	14	2.7
Due to credit institutions**	38,519	22,759	15,759	69.2
Other liabilities	86,235	62,926	23,308	37.0
Shareholders' equity***	10,891	11,521	(629)	(5.5)
Other managed and marketed customer funds	**58,554**	**48,267**	**10,288**	**21.3**
Mutual and pension funds	52,605	42,976	9,629	22.4
Managed portfolios	5,949	5,291	658	12.4
Managed and marketed customer funds	**237,710**	**233,344**	**4,367**	**1.9**

Ratios (%) and operating means				
ROE	9.88	3.93	5.95	
Efficiency ratio (with amortisations)	49.8	53.7	(3.9)	
NPL ratio	7.38	7.49	(0.11)	
NPL coverage	45.5	44.0	1.5	
Number of employees	24,979	27,237	(2,258)	(8.3)
Number of branches	3,511	4,067	(556)	(13.7)

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Spain

Attributable profit of EUR 1,121 million, 140.5% more than in 2013 and improvements in all lines. Of note were:

- **Growth in net interest income (+9.4%), reflecting the lower cost of deposits.**
- **Drop of 6.7% in operating expenses, due to synergies from the merger and optimization plans.**
- **Loan-loss provisions declined 27.6%, due to much lower entries and the better credit quality.**

In activity: higher new lending and balances growing. Deposits plus mutual funds combined growth in volumes with the lower cost of deposits.

Grupo Santander has a solid retail presence in Spain (3,511 branches, 4,986 ATMs and 12.6 million customers), which is reinforced with global businesses in key products and segments (wholesale banking, private banking, asset management, insurance and cards).

Environment and strategy

Spain began a solid recovery in 2014, which coupled with the improvement in financial conditions (risk premium on 10-year government bonds at 107 b.p. at the end of 2014), spurred retail banking loan flows to households and SMEs. The balance of loans to companies and households fell again, due to deleveraging in some sectors and growing issues of securities by large companies. Deposits declined slightly, due to drop in time deposits, in a low interest rate environment that favoured mutual funds.

The branch networks of Santander, Banesto and Banif were integrated and their specialization in Spain continued, through the migration of customers within the concentration process.

Optimization of networks and employees ahead of schedule is enabling cost synergies to be achieved and efficiency and profitability improved.

Of note in business was the strong push given to the *Santander Advance* strategy. The Bank aims to become the reference institution in the growth of SMEs via financial support and integral commitment to their development.

This initiative accelerated new lending and the capturing of customers, which constituted a clear turning point in business with SMEs. More than 10,000 companies and SMEs participated in 2014 in non-financial activities, either training (on site, at distance workshops) or promoting international business (virtual connection of Spanish companies with potential customers from the UK, Brazil, Mexico and Poland). Moreover, 6,000 training and internship grants with companies were made.

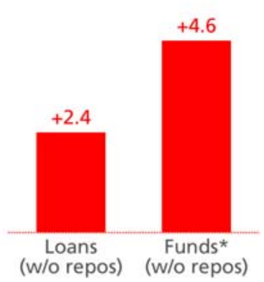
In the segment of individuals, the project *We want to be your Bank* was transformed to give it various levels on the basis of the customer's linkage with the Bank and providing a better customer experience.

As for customer funds, the Bank maintained its strategy of optimizing the cost of funding begun in the middle of 2013, once high levels of liquidity were attained. Net loan-to-deposit ratio was 88%.

This made possible a sharp reduction in the cost of funds, particularly time deposits, and a rise in fees from the marketing of mutual funds. In this segment, the Bank is positioning itself in higher value funds for customers, which is enabling it to lead net capturing in the market and keep on gaining market share.

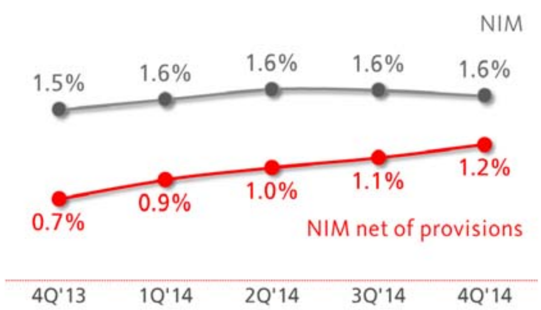
At the end of 2014, plans to increase positioning in some regions where the Bank operates below its natural market share were put into effect.

Activity
% var. 2014/2013

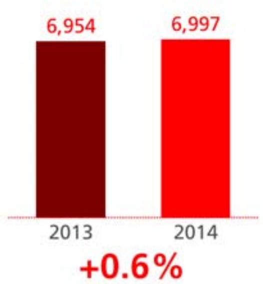


(*) Customer deposits + mutual funds

Net interest margin
%



Gross income
EUR Million



Activity

Lending continued to recover, with faster growth in new loans to individuals (mortgages: +64%; consumer credit: +72%) and to companies (+29% excluding commercial bills). Some 400,000 credits were granted for a total of EUR 34,000 million (market share gain of +84 b.p.).

The balance of gross loans to customers excluding repos rose by EUR 3,800 million, distinguishing us from most competitors and the sector as whole.

The aggregate of deposits without repos and mutual funds increased 5%.

Demand deposits increased 25% and time deposits fell 22%. This evolution reflected the strategy of reducing the cost of funds, which is feeding through to net interest income. In 2014, there was a further improvement of 94 b.p. in the cost of new time deposits, which reduced the cost of the stock of deposits by 64 b.p., between the two years

The reduction in time deposits was accompanied by a continuous rise in mutual funds managed and marketed by Santander (+28%). The greater demand for these products and the better evolution of the markets explain this evolution.

The balance of pension funds increased 5%. Lastly, repos fell by about EUR 3,000 million in twelve months, due to the reduction in clearing house activity.

Results

Net interest income was EUR 4,768 million, 9.4% more than in 2013, reflecting the good performance of the cost of deposits and the beginning of the recovery in lending.

Other revenues, including fee income, trading gains and other operating income, declined, affected by the *We want to be your Bank* strategy and regulatory changes in the first case, lower income from wholesale banking in the second, and the reduced perimeter from alliances in the businesses of funds management and insurance in the third.

Operating expenses were 6.7% lower, the product of synergies attained in the merger process and optimization plans put into effect.

Loan-loss provisions, which continued to normalize, were 27.6% lower at EUR 1,745 million and were the main reason for the improvement in profit.

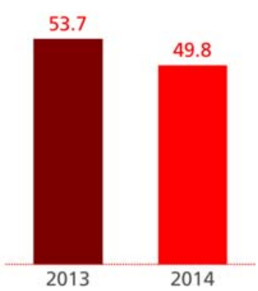
Attributable profit was EUR 1,121 million, up from EUR 466 million in 2013 (+140.5%).

The NPL ratio was 7.38% (-11 b.p.). Coverage was unchanged at 45%. Of note was the 92% fall in net entries of NPLs.

Strategy and objectives in 2015

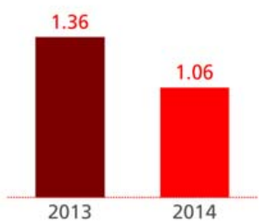
- **Increase the customer base. Focus on customer linkage with more transactions and cross selling.**
- **Lift the market share in lending, with the emphasis on SMEs *(Advance Plan).***
- **Continue to improve the cost of credit.**
- **Strategy of capturing and strengthening agri-food business.**

Efficiency ratio
%

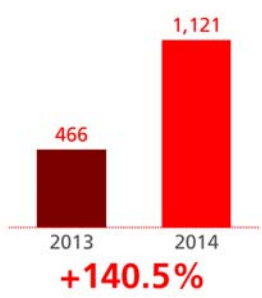


Net operating income
EUR Million

Cost of credit
%



Attributable profit
EUR Million



Portugal
EUR Million

Income statement	2014	2013	Variation amount	%
Net interest income	**546**	**514**	**32**	**6.3**
Net fees	280	318	(38)	(11.8)
Gains (losses) on financial transactions	88	51	37	72.9
Other operating income*	42	34	8	23.8
Gross income	**956**	**916**	**40**	**4.3**
Operating expenses	(491)	(495)	4	(0.9)
General administrative expenses	(419)	(417)	(3)	0.7
Personnel	*(297)*	*(299)*	*2*	*(0.5)*
Other general administrative expenses	*(122)*	*(118)*	*(4)*	*3.6*
Depreciation and amortisation	(72)	(79)	7	(9.0)
Net operating income	**465**	**421**	**44**	**10.5**
Net loan-loss provisions	(124)	(192)	69	(35.7)
Other income	(99)	(78)	(20)	26.2
Profit before taxes	**243**	**150**	**92**	**61.4**
Tax on profit	(57)	(44)	(14)	30.8
Profit from continuing operations	**185**	**106**	**79**	**74.1**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**185**	**106**	**79**	**74.1**
Minority interests	(4)	(8)	4	(52.4)
Attributable profit to the Group	**189**	**114**	**75**	**65.1**

Balance sheet	2014	2013	Variation amount	%
Customer loans**	23,180	24,482	(1,302)	(5.3)
Trading portfolio (w/o loans)	2,082	1,831	252	13.7
Available-for-sale financial assets	7,011	4,724	2,288	48.4
Due from credit institutions**	2,163	2,895	(732)	(25.3)
Intangible assets and property and equipment	729	821	(92)	(11.2)
Other assets	6,450	7,096	(646)	(9.1)
Total assets/liabilities & shareholders' equity	**41,616**	**41,848**	**(232)**	**(0.6)**
Customer deposits**	24,016	24,191	(174)	(0.7)
Marketable debt securities**	2,855	2,329	526	22.6
Subordinated debt**	0	0	(0)	(71.6)
Insurance liabilities	27	75	(48)	(63.6)
Due to credit institutions**	11,538	12,319	(781)	(6.3)
Other liabilities	559	356	204	57.3
Shareholders' equity***	2,620	2,579	41	1.6
Other managed and marketed customer funds	**2,501**	**2,041**	**460**	**22.5**
Mutual and pension funds	2,187	1,898	289	15.2
Managed portfolios	314	142	172	120.7
Managed and marketed customer funds	**29,372**	**28,560**	**812**	**2.8**

Ratios (%) and operating means	2014	2013	Variation amount	%
ROE	8.10	5.78	2.32	
Efficiency ratio (with amortisations)	51.4	54.1	(2.7)	
NPL ratio	8.89	8.12	0.77	
NPL coverage	51.8	50.0	1.8	
Number of employees	5,410	5,608	(198)	(3.5)
Number of branches	594	640	(46)	(7.2)

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Portugal

→ Attributable profit of EUR 189 million, 65.1% more than in 2013 due to :

- **Net interest income was 6.3% higher, due to lower funding costs.**
- **Operating expenses fell 0.9%.**
- **Loan-loss provisions declined 35.7%.**

→ The net loan-to-deposit ratio improved to 97%.

Santander Totta is Portugal's third largest bank by assets and it focuses on retail banking. It has 594 branches, over three million customers and a market share of 10%.

Environment and strategy

Portugal recovered positive growth rates in 2014, ending its economic and financial adjustment programme and returning to the international capital markets, taking advantage of the sharp fall in its risk premium. The total balance of loans, however, continued to decline, due to deleveraging, particularly in companies. Deposits remained stable throughout the year, contributing to an improvement in the sector's liquidity position.

Santander Totta's strategy in 2014 remained focused on increasing the levels of profitability and on market shares in various segments. At the same time, management of net interest income and control of non-performing loans continued to be critical objectives.

On the liabilities side, a strategy of reducing the cost of deposits and increasing their balances notably was combined, having taken advantage of market opportunities and some flight to quality to grow.

On the assets side, and despite the environment of deleveraging, Santander Totta put a lot of emphasis on the companies' segment, which produced a gain of 72 b.p. in 12 months in the market share of new lending.

Capital ratios remained very solid, with the CET1 CRD IV/CRR ending the year at 15.1%, well above the minimum required.

In the first half of the year, with a more favourable market environment, the Bank returned to the international markets with two issues of covered bonds. The first, at the end of March was for EUR 1,000 million at three years and the second, at the beginning of June, for EUR 750 million at five years. With these issues, for which there was large demand, the Bank reduced its exposure to the European Central Bank.

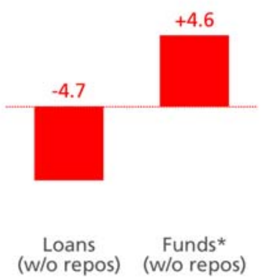
Activity

Customer deposits rose 4%, with sharp growth in demand deposits (+17%). Mutual funds increased 21%.

These rises, in a market that remained basically flat, produced a gain of 73 b.p. in the market share in the aggregate of deposits and mutual funds.

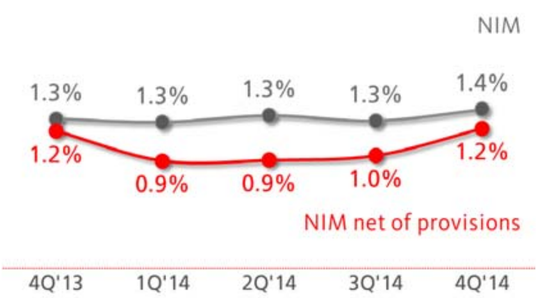
Lending declined 5% in a context of deleveraging. Despite this, the gain in market share was 46 b.p. during 2014, due to individuals and particularly to companies. Of note were the significant rises in new mortgage loans, in a market that was more dynamic (market share gain of 112 b.p. in twelve months), and in SMEs (+104 b.p.).

Activity
% var. 2014/2013



(*) Customer deposits + mutual funds

Net interest margin
%



Gross income
EUR Million

The net loan-to-deposit ratio improved to 97% from 101% in 2013.

Santander Totta ended the year with a NPL ratio of 8.89% (8.12% in 2013). Coverage was 52% (50% in 2013). In local criteria, the NPL and coverage ratios remained significantly better than Portugal's average, according to the latest available figures.

Results

Santander Totta recovered in 2014 the path of profit growth, as a result of the good performance of the main lines of the income statement. Of note was growth in gross income in a still weak business environment.

Gross income rose 4.3% to EUR 956 million, due to the positive evolution of net interest income and of trading gains, which offset the fall in net fee income.

Net interest income was EUR 546 million (+6.3%), thanks to lower funding costs, particularly in deposits.

Net fee income was 11.8% lower at EUR 280 million, affected by the reduced business volume and regulatory changes.

Trading gains amounted to EUR 88 million, higher than in 2013 due to the greater capital gains in portfolio management.

Operating expenses (EUR 491 million) declined for the fifth straight year (-0.9%) due to maintaining the policy of optimising the commercial network adjusted to the business environment.

The efficiency ratio improved by 2.7 p.p. in 2014 to 51.4%.

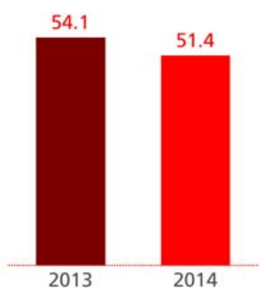
Loan-loss provisions fell 35.7% year-on-year to EUR 124 million, benefiting from lower NPL entries (-69%) during 2014.

Pre-tax profit was 61.4% higher at EUR 243 million and attributable profit rose 65.1% to EUR 189 million.

Strategy and objectives in 2015

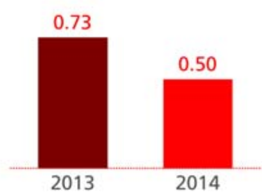
- Increase customer linkage with a greater effort in SMEs/companies.
- Boost market shares, mainly in companies, where we expect to change the trend of recent years and return to grow in volumes.
- Continue the normalisation process of the cost of deposits and the cost of credit.
- Maintain efficiency plans in order to reduce costs for the sixth consecutive year.
- Strengthen international business.

Efficiency ratio
%



Net operating income
EUR Million

Cost of credit
%



Attributable profit
EUR Million

Poland

EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**834**	**780**	**54**	**7.0**	**6.7**
Net fees	435	400	35	8.6	8.3
Gains (losses) on financial transactions	79	119	(39)	(33.2)	(33.3)
Other operating income*	28	19	9	46.2	45.8
Gross income	**1,376**	**1,317**	**58**	**4.4**	**4.1**
Operating expenses	(581)	(592)	11	(1.9)	(2.2)
General administrative expenses	(532)	(539)	7	(1.2)	(1.5)
Personnel	*(309)*	*(312)*	*3*	*(0.9)*	*(1.2)*
Other general administrative expenses	*(223)*	*(227)*	*4*	*(1.7)*	*(2.0)*
Depreciation and amortisation	(48)	(53)	5	(9.0)	(9.3)
Net operating income	**795**	**725**	**70**	**9.6**	**9.3**
Net loan-loss provisions	(186)	(167)	(18)	10.8	10.5
Other income	11	(6)	16	—	—
Profit before taxes	**620**	**552**	**68**	**12.3**	**12.0**
Tax on profit	(135)	(107)	(28)	26.3	25.9
Profit from continuing operations	**485**	**445**	**40**	**9.0**	**8.7**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**485**	**445**	**40**	**9.0**	**8.7**
Minority interests	127	111	16	14.2	13.9
Attributable profit to the Group	**358**	**334**	**24**	**7.2**	**6.9**

Balance sheet					
Customer loans**	16,976	16,214	761	4.7	7.7
Trading portfolio (w/o loans)	1,166	532	634	119.1	125.4
Available-for-sale financial assets	5,816	5,325	491	9.2	12.3
Due from credit institutions**	1,061	667	394	59.1	63.6
Intangible assets and property and equipment	236	273	(37)	(13.5)	(11.1)
Other assets	2,540	2,095	446	21.3	24.7
Total assets/liabilities & shareholders' equity	**27,794**	**25,106**	**2,688**	**10.7**	**13.9**
Customer deposits**	20,144	18,503	1,641	8.9	12.0
Marketable debt securities**	230	121	110	91.0	96.5
Subordinated debt**	337	333	4	1.1	4.0
Insurance liabilities	77	84	(6)	(7.4)	(4.7)
Due to credit institutions**	1,261	1,206	55	4.6	7.6
Other liabilities	3,876	2,984	891	29.9	33.6
Shareholders' equity***	1,869	1,875	(7)	(0.4)	2.5
Other managed and marketed customer funds	**3,515**	**3,631**	**(117)**	**(3.2)**	**(0.4)**
Mutual and pension funds	3,430	3,525	(96)	(2.7)	0.1
Managed portfolios	85	106	(21)	(19.8)	(17.5)
Managed and marketed customer funds	**24,226**	**22,588**	**1,638**	**7.3**	**10.3**

Ratios (%) and operating means				
ROE	16.16	15.85	0.31	
Efficiency ratio (with amortisations)	42.2	45.0	(2.7)	
NPL ratio	7.42	7.84	(0.42)	
NPL coverage	60.3	61.8	(1.5)	
Number of employees	11,971	12,363	(392)	(3.2)
Number of branches	788	830	(42)	(5.1)

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Poland (changes in local currency)

- Pre-tax **profit of EUR 358 million,** 6.9% more than in 2013:
  - Strong rise in commercial revenues (+7.2%) and good management of costs (-2.2%).
  - Pre-tax profit of EUR 620 million (+12.0%). Attributable profit affected by higher taxes and minority interests.
- **Integration with Kredyt Bank** completed, improving productivity and business
- Growth in lending and deposits, maintaining a solid funding structure.
- The strategic *Next Generation Bank* programme continues, with the main goal of converting us into the Bank of first choice for customers.

Santander is the third largest bank in Poland in terms of loans and deposits (market shares of 8.9% and 9.5%, respectively, including the business of Santander Consumer Finance in the country). Excluding it, the market shares are 7.5% in loans and 8.3% in deposits. The Bank has 788 branches and 115 agencies.

Environment and strategy

The Polish economy grew above 3% in 2014, partly benefiting from lower interest rates and a stable zloty against the euro. This environment encouraged faster growth in lending (+7%) coupled with an increased corporate over consumer credit. Deposits (+8%) accompanied this evolution in an interest rate environment that increased the attractiveness of mutual funds.

The merger of BZ WBK and Kredyt Bank was completed in the second half of the year. This process was carried out with very effective management of costs, due to the efficiency measures adopted and execution of the integration plan of the former Kredyt Bank. The successful integration is also reflected in productivity improvement.

The Group's business model in Poland continues to be based on retail banking and with a notable presence in asset management, intermediation of securities, factoring and leasing.

The Global Banking and Markets (GBM) market presence developed during 2014, through the continued offer of banking services to BZ WBK large customers and the Group's global customers. By the end of 2014 GBM had almost 150 companies, of which 36 were large Polish groups. Deposits in this segment increased 44% and loans 34%.

Santander continued to be the leader in cards, mobile banking and Internet, marketing different products and initiatives. In mobile banking and Internet, the *BZWBK 24* channel assumed importance and sales via it rose 52%. As of November, cash loans and the possibility of overdrafts in current accounts began to be included in this channel.

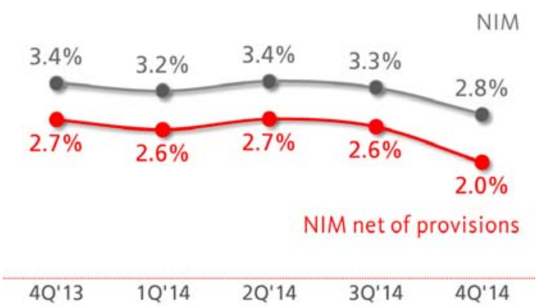
As regards cards, and despite the greater regulation of this market (recent reduction in the interchange fees), the Bank continued to perform well. In 2014, 680,000 debit cards were issued (+19%) and 57,000 credit cards (+9%). The total balances of credit cards increased 11% and turnover 14%.

All of this underscores a significant revenue potential in the coming years. The Bank also continued the *Next Generation Bank* programme to develop at all levels. The board, all businesses and product segments are involved in this programme, which is very focused on customer satisfaction. Its main goal is to streamline processes and products as part of our strategy.

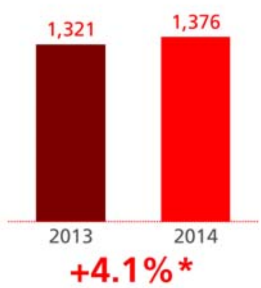
Activity
% var. 2014/2013 (constant EUR)

(*) Customer deposits + mutual funds

Net interest margin
%



Gross income
Constant EUR Million



(*) In euros: +4.4%

Activity

Net loans at the end of 2014 amounted to EUR 16,976 million and customer deposits EUR 20,144 million. The solid funding structure was underscored by a net loan-to-deposit ratio of 84% (88% in 2013). Gross lending grew 7% and customer funds 10%.

In retail banking area 2014 was a very good year as regards increasing volumes and performance. Deposits grew strongly thanks to the success of the campaigns conducted in the second half of the year. In lending, the year was a record one for sales, with growth of 27% in mortgages, 20% in SMEs and 7% in cash loans.

In the corporate banking area, various campaigns were launched to provide loans and alternative ways of financing business development.

Of note was the leasing and factoring areas. The factoring portfolio increased 36% and sales 33%, putting us in third place in the market with a 13% share. The gross leasing portfolio rose 18%, with new sales portfolio volume up 35% (SMEs: +32%; rest of companies: +53%).

Results

Attributable profit was 6.9% higher than in 2013 at EUR 358 million, spurred by commercial revenues and good management of costs. Net operating income increased 9.3%.

Net interest income rose 6.7% underscored by higher volumes and good management of spreads in a low interest rates environment. Net fee income rose 8.3%, with notable growth in that from higher credit fees (commercial credit) and higher insurance fees. Trading gains fell 33.3% (-EUR 40 million), due the high gains in 2013 in an environment of low interest rates.

Operating expenses declined 2.2%, reflecting the synergies of the integration. With this evolution of revenues and costs, the efficiency ratio improved by 2.7 percentage points to 42.2%.

Net loan-loss provisions grew 10.5%, with an improvement in credit quality. The NPL ratio at the end of 2014 was 7.42%, down from 7.84% in 2013.

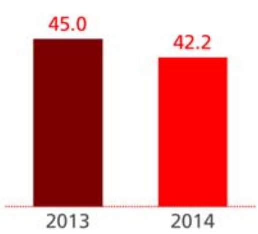
Attributable profit was dented by the 25.9% rise in taxes and the 13.9% increase in minority interests. Pre-tax profit was EUR 620 million (+12.0%).

In short, our unit continued to generate better quality results than its peers, strengthened by the success of the commercial strategy and higher productivity.

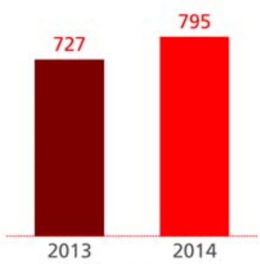
Strategy and objectives in 2015

- Be the Bank of first choice for customers and employees, focused on attaining greater satisfaction for both of them.
- Boost market share in companies.
- Continue to be the leader in cards, mobile banking and Internet.
- Improve efficiency, productivity and profitability, maintaining a solid structure of liquidity and capital.

Efficiency ratio
%



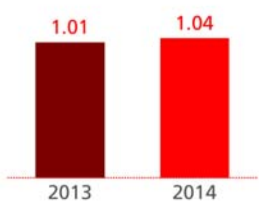
Net operating income
Constant EUR Million



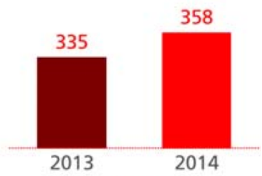
+9.3%*

(*) In euros: +9.6%

Cost of credit
%



Attributable profit
Constant EUR Million



+6.9%*

(*) In euros: +7.2%

Santander Consumer Finance

EUR Million

Income statement	2014	2013	Variation amount	%
Net interest income	**2,459**	**2,333**	**126**	**5.4**
Net fees	836	787	49	6.2
Gains (losses) on financial transactions	3	(7)	10	—
Other operating income*	12	(2)	14	—
Gross income	**3,309**	**3,111**	**198**	**6.4**
Operating expenses	(1,452)	(1,391)	(61)	4.4
General administrative expenses	(1,237)	(1,172)	(65)	5.5
Personnel	*(664)*	*(646)*	*(19)*	*2.9*
Other general administrative expenses	*(572)*	*(526)*	*(46)*	*8.8*
Depreciation and amortisation	(215)	(219)	4	(1.8)
Net operating income	**1,857**	**1,720**	**137**	**8.0**
Net loan-loss provisions	(544)	(565)	21	(3.7)
Other income	(37)	(70)	33	(47.2)
Profit before taxes	**1,277**	**1,085**	**191**	**17.6**
Tax on profit	(320)	(255)	(65)	25.6
Profit from continuing operations	**956**	**830**	**126**	**15.2**
Net profit from discontinued operations	(26)	(6)	(20)	345.2
Consolidated profit	**930**	**824**	**106**	**12.8**
Minority interests	39	31	8	27.1
Attributable profit to the Group	**891**	**794**	**97**	**12.3**

Balance sheet				
Customer loans**	60,448	56,024	4,424	7.9
Trading portfolio (w/o loans)	87	864	(776)	(89.9)
Available-for-sale financial assets	988	705	283	40.1
Due from credit institutions**	5,476	8,158	(2,682)	(32.9)
Intangible assets and property and equipment	786	934	(148)	(15.8)
Other assets	3,734	3,723	10	0.3
Total assets/liabilities & shareholders' equity	**71,520**	**70,409**	**1,111**	**1.6**
Customer deposits**	30,847	30,878	(30)	(0.1)
Marketable debt securities**	15,646	10,377	5,268	50.8
Subordinated debt**	66	64	2	3.3
Insurance liabilities	—	—	—	—
Due to credit institutions**	13,333	18,060	(4,727)	(26.2)
Other liabilities	4,091	3,901	189	4.9
Shareholders' equity***	7,537	7,128	408	5.7
Other managed and marketed customer funds	**7**	**6**	**1**	**9.8**
Mutual and pension funds	7	6	1	9.8
Managed portfolios	—	—	—	—
Managed and marketed customer funds	**46,566**	**41,326**	**5,241**	**12.7**

Ratios (%) and operating means				
ROE	10.89	9.95	0.94	
Efficiency ratio (with amortisations)	43.9	44.7	(0.8)	
NPL ratio	4.82	4.01	0.81	
NPL coverage	100.1	105.3	(5.2)	
Number of employees	13,046	11,695	1,351	11.6
Number of branches	579	613	(34)	(5.5)

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Santander Consumer Finance

- **Attributable profit of EUR 891 million,** 12.3% more than in 2013, due to:
  - Higher gross income (+6.4%), fuelled by net interest income and fee income (+5.6% overall).
  - Lower operating expenses at constant perimeter (-0.5%).
  - Reduced loan-loss provisions (-3.7%).
- **Rises in profitable market share.**
- **High credit quality** for the standards of the business: NPL ratio of 4.82% and coverage ratio of 100%, impacted by the entry of GE Nordics (3.86% and 106% excluding it).
- Agreements strengthened the future growth potential.

Environment and strategy

Santander Consumer Finance's (SCF) units in Continental Europe conducted their business in an environment of moderate recovery in consumption (+1% year-on-year in the third quarter in the euro zone) and of car sales (+5% in the footprint), as well as tougher competition.

In this environment, SCF continued to gain market share, backed by a business model that has been strengthened in the last few years. The model's pillars are high geographic diversification with critical mass in key products, better efficiency than its peers and a common system of risk control and recoveries, which enables SCF to maintain high credit quality.

Management focused in 2014 on:

- Promoting new loans and cross selling tailored to each market and supported by brand agreements and penetration of the used car market.
- Exploiting its competitive advantages in the European consumer finance market.

Several agreements reached and/or materialized in the year bolstered SCF's position:

- In Spain, we are the leaders in consumer credit since the beginning of the year.
- In the Nordic countries in the fourth quarter, after acquiring GE's business, we became the leaders in auto finance, direct credit and cards.
- As of 2015 and in several European countries (including France and Switzerland where SCF does not currently operate), implementation of the agreement with Banque PSA Finance will strengthen SCF's leadership in auto finance.

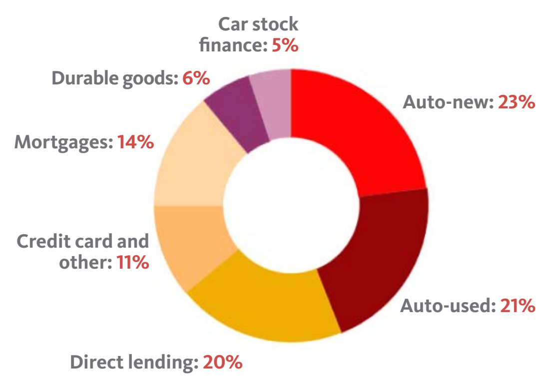
Activity

Gross lending increased 9% to EUR 63,509 million. Significant growth in the Nordic countries and Spain, favoured by the incorporations, as well as in Poland. Germany virtually unchanged and reduced business in Portugal and Italy.

New lending in 2014 amounted to EUR 25,073 million (+14%). Growth was strongly backed by direct credit and cards (+37% overall) and by new auto finance (+8%, higher than that of car registrations). All units grew in local currency terms, particularly

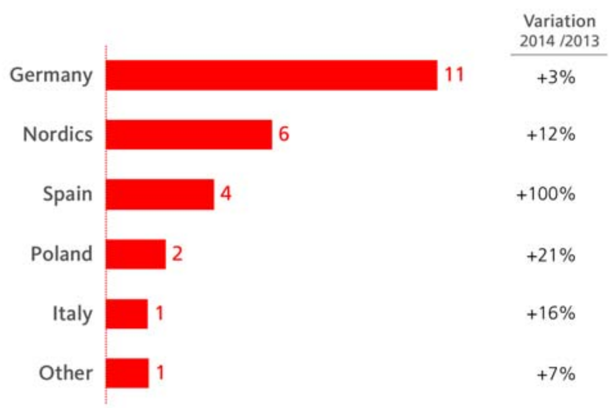
Portfolio distribution by products

%



New lending

EUR Billion



Poland (+21%), the euro zone periphery countries (double digit growth), Nordic countries (+12%) and Germany (+3%).

Of note on the funding side were stable customer deposits (around EUR 30,800 million), something that distinguishes us from our competitors.

As for wholesale funds capturing in markets, senior issues and securitisations in 2014 totalled EUR 6,750 million (EUR 6,200 million in 2013).

Deposits plus medium and long-term issues and securitisations covered 73% of net lending in 2014.

Results

Attributable profit was EUR 891 million, 12.3% more than in 2013 and slightly benefiting from the new incorporations.

Management of spreads on loans and the lower cost of funds absorbed the fall in interest rates, pushing up net interest income by 5.4%. Net fee income grew 6.2% and gross income was 6.4% higher at EUR 3,309 million.

Operating expenses grew 4.4%. Almost all of this growth was due to the new units in Spain and the Nordic countries (at constant perimeter costs dropped 0.5%).

The efficiency ratio improved by 0.8 p.p. to 43.9%.

Loan-loss provisions were 3.7% lower, which brought the cost of credit down to minimum levels of below 1%, a high level of credit quality for the standards of the business. The NPL ratio was 4.82% and the coverage ratio 100%. Both ratios have been impacted by the incorporation of GE's business in the Nordic countries as, excluding them, the NPL ratio was 3.86% and coverage 106%.

Net operating income after provisions increased 13.7%, with rises in all the big units.

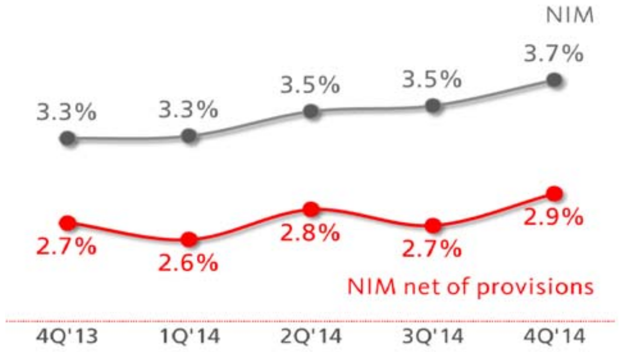
Of note was growth in Poland (+11.7%, due to higher gross income and lower operating expenses), the Nordic countries (+24.1%, because of the sharp rise in gross income favoured by the perimeter) and recovery in the euro zone periphery countries (good performance of gross income, costs and provisions). Germany grew 8.9%, with a favourable performance of gross income, particularly fee income, and lower costs and provisions.

Lastly, the UK (included in Santander UK for accounting purposes) generated an attributable profit of EUR 113 million (+6.2% excluding the forex impact).

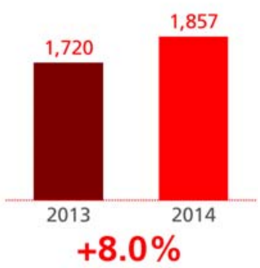
Strategy and objectives in 2015

- Focus on the integration of new joint operations with PSA and the business acquired from GE Nordics.
- Spur new lending with defence of spreads, tailored to the moment of each market and supported by brand agreements and penetration of the used car market.
- Boost cross selling via IT tools, as well as online lending.

Net interest margin
%



Net operating income
EUR Million



Attributable profit
EUR Million

United Kingdom

EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**4,234**	**3,451**	**784**	**22.7**	**16.5**
Net fees	1,028	992	36	3.6	(1.7)
Gains (losses) on financial transactions	241	403	(162)	(40.1)	(43.2)
Other operating income*	37	36	2	5.6	0.2
Gross income	**5,541**	**4,881**	**660**	**13.5**	**7.7**
Operating expenses	(2,890)	(2,605)	(285)	10.9	5.3
General administrative expenses	(2,458)	(2,181)	(277)	12.7	7.0
Personnel	*(1,613)*	*(1,401)*	*(212)*	*15.1*	*9.2*
Other general administrative expenses	*(845)*	*(780)*	*(65)*	*8.4*	*2.8*
Depreciation and amortisation	(432)	(424)	(8)	1.8	(3.4)
Net operating income	**2,651**	**2,276**	**375**	**16.5**	**10.6**
Net loan-loss provisions	(332)	(580)	248	(42.8)	(45.7)
Other income	(318)	(236)	(82)	34.9	28.0
Profit before taxes	**2,001**	**1,460**	**541**	**37.1**	**30.1**
Tax on profit	(425)	(301)	(123)	40.9	33.8
Profit from continuing operations	**1,576**	**1,159**	**418**	**36.0**	**29.1**
Net profit from discontinued operations	—	(9)	9	(100.0)	(100.0)
Consolidated profit	**1,576**	**1,149**	**427**	**37.1**	**30.2**
Minority interests	—	—	—	—	—
Attributable profit to the Group	**1,576**	**1,149**	**427**	**37.1**	**30.2**

Balance sheet					
Customer loans**	251,191	231,046	20,145	8.7	1.6
Trading portfolio (w/o loans)	39,360	28,831	10,528	36.5	27.5
Available-for-sale financial assets	11,197	6,003	5,193	86.5	74.2
Due from credit institutions**	14,093	17,136	(3,043)	(17.8)	(23.2)
Intangible assets and property and equipment	2,700	2,498	202	8.1	1.0
Other assets	35,695	38,229	(2,534)	(6.6)	(12.8)
Total assets/liabilities & shareholders' equity	**354,235**	**323,743**	**30,492**	**9.4**	**2.2**
Customer deposits**	202,328	187,467	14,862	7.9	0.8
Marketable debt securities**	69,581	64,092	5,489	8.6	1.4
Subordinated debt**	5,376	5,805	(429)	(7.4)	(13.5)
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	26,700	26,882	(182)	(0.7)	(7.2)
Other liabilities	35,833	26,855	8,978	33.4	24.7
Shareholders' equity***	14,415	12,642	1,774	14.0	6.5
Other managed and marketed customer funds	**9,667**	**9,645**	**21**	**0.2**	**(6.4)**
Mutual and pension funds	9,524	9,645	(122)	(1.3)	(7.8)
Managed portfolios	143	—	143	—	—
Managed and marketed customer funds	**286,953**	**267,010**	**19,943**	**7.5**	**0.4**

Ratios (%) and operating means				
ROE	11.21	8.87	2.34	
Efficiency ratio (with amortisations)	52.2	53.4	(1.2)	
NPL ratio	1.79	1.98	(0.19)	
NPL coverage	41.9	41.6	0.3	
Number of employees	25,599	25,421	178	0.7
Number of branches	929	1,011	(82)	(8.1)

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

United Kingdom (changes in sterling)

→ **Attributable profit of £1,270 million, up 30.2% from 2013:**

- **Net interest income growth of 16.5%, increasing for the eighth consecutive quarter.**
- **Cost efficiency absorbing more investment in businesses.**
- **Loan-loss provisions down 45.7%, supported by better credit quality in all portfolios and benign credit conditions.**

→ **The *1|2|3 World* customer numbers continued to grow, now 3.6 million, with a better business profile, stronger relationships and increasing levels of activity.**

→ **Strong growth in corporate loans (+8%) and deposits (+7%), backed by the development of ancillary services and the greater distribution capacity.**

Environment and strategy

In 2014 the pace of economic growth in the United Kingdom registered a strong pick up, and with sterling appreciating against the euro in an environment of low interest rates and high quantitative stimulus measures. Lending to the private sector registered limited growth (+2%), with loans to households increasing, underpinned by the rise in mortgage balances backed by higher house prices. On the other hand, loans to corporates continuing to decline. Deposits increased by around 5%.

Santander UK's strategy is built around three priorities: loyal and satisfied retail customers; Bank of Choice for UK companies; and consistent profitability and a strong balance sheet.

Santander UK continues to support its customers against a backdrop of a strengthening UK economy. In Retail Banking this is led by the *1|2|3 World* products, which is deepening customer relationships, realising greater transactionality and increased loyalty. This offering remains one of the most successful in the UK market and has contributed to a 47% increase in current account balances over the past twelve months. We are developing more targeted products and services for our key customer segments, such as our new *Select* segment for more affluent customers.

We continue to invest in branch refurbishments and digital technology. This year we have delivered a number of improvements in all of our digital platforms including our online and mobile banking services as well as introducing more digital technology into our branches. All of this is driving customer satisfaction and we are the most improved bank for retail customer satisfaction since December 2012, with the gap to the highest performing peers largely closed.

Santander UK is continuing to develop a more diversified business, with the growth of its corporate banking capability expanding its presence in this market whilst also widening its range of activities and the services offered to UK companies. Support for UK businesses continued with increased lending to corporates, rising 8% in the last 12 months meanwhile the market dropped. In addition, a strong positive evolution in customer deposits, which increased 7% and with a rise of 33% in account openings.

Balance sheet strength continues to underpin this strategy; capital and liquidity ratios are all robust, with Santander UK maintaining a leading capital position among the main UK banks. Santander UK exceeded the PRA's 2014 UK variant stress test threshold requirement of 4.5% with a stressed CET 1 capital ratio of 7.9% after PRA allowed management actions, demonstrating balance sheet strength and its resilience to a potential UK economic downturn.

At the end of December 2014, the CRD IV end point Common Equity Tier 1 capital ratio stood at 11.9% and leverage ratio was 3.8%.

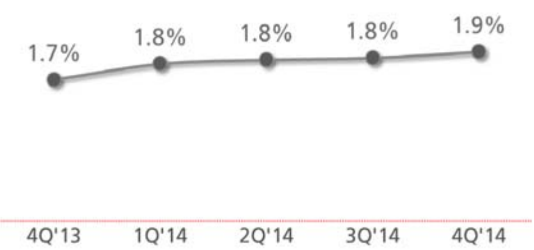
Activity

Santander UK is focused on the United Kingdom, with only 3% of assets being non-UK. Around 79% of customer loans are prime mortgages for homes in the UK. The portfolio of mortgages is of high quality, with no exposure to self-certified or subprime mortgages whilst buy to let mortgages are around 2% of customer loans. The loan to deposit ratio was 124%, one percentage point higher than in December 2013.

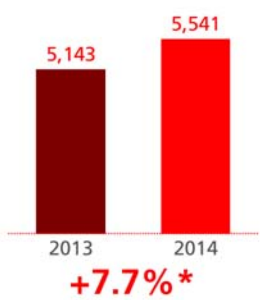
Activity
% var. 2014/2013 (constant EUR)

(*) Customer deposits + mutual funds

Banking NIM
%. Local criteria



Gross income
Constant EUR Million



(*) In euros: +13.5%

In local criteria, customer loans amounted to £190,700 million, 2% higher than in 2013. This was largely due to a 1% increase in mortgage loans and growth in corporate loans of 8%.

Gross mortgage lending amounted to £26,260 million, 43% more than in 2013, including £5,600 million to first time buyers and £1,200 million of *Help to Buy*. Net mortgage lending came to £2,000 million in 2014, as Santander UK resumed the growth of this business. This positive growth is expected to continue into 2015.

Both lending to corporates and, particularly, that to SMEs increased 8%.

At the end of 2014, there were 3.6 million customers in *1/2/3 World*, an increase of 1.2 million customers in a year. The *1/2/3 Current Account* attracts more loyal customers, with 93% of these customers having their primary bank account with Santander UK. Current account balances grew to £41,100 million, up 47% on 2013, or £1bn per month.

Customer deposits of £152,400 million increased 4% over 2013. In Retail Banking the managed reduction of more rate sensitive and short term deposits continued (mainly through maturities of higher rate *eSaver* savings products), and their replacement by deposits that offer better relationship opportunities and lower cost term ISA products.

Results

Attributable profit of £1,270 million, 30.2% more than in 2013.

This growth was largely due to net interest income, which increased 16.5%, with management focused on reducing the cost of retail liabilities following the strategy already mentioned. Gross revenues were 7.7% higher than in 2013, absorbing lower fee income and reduced gains on financial transactions.

Operating expenses increased by 5.3% in a year, with further investment in Retail Banking and Commercial Banking, partially offset by the efficiency plans we have in place. These investment programmes continued to support the transformation of the business and provide the underpinning for future efficiency improvements. The efficiency ratio was 52.2% (1.2 p.p. better than in 2013).

Loan-loss provisions fell 45.7%, with good credit quality across the product range and supported by an improving economic environment. The NPL ratio of 1.79% at the end of 2014 was lower than in 2013 (1.98%). We maintained our conservative lending criteria, with an average LTV of 65% on new lending, including *Help to Buy*, and 47% on the stock of mortgages. The Commercial Banking NPL ratio decreased to 3.01%, (3.02% at end 2013), as we continued to adhere to prudent lending criteria.

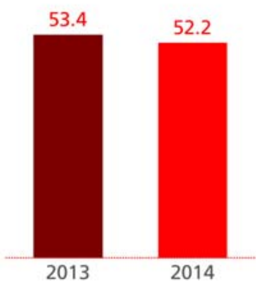
In short, the results demonstrated a further momentum in performance and continued progress evident through the year, particularly in net interest income. Banking NIM improved to 1.85% in the last quarter of 2014 from 1.71% in the last quarter of 2013.

Strategy and objectives in 2015

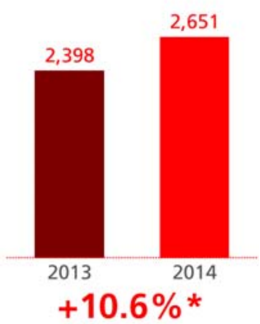
The strategy exhibited in 2014 will be maintained:

- On the assets side, growth in commercial lending and mortgages.
- On the liabilities side, increasing the number of customers who have their primary account with Santander UK.
- Improve the efficiency ratio, with management of 'jaws' to keep revenue growth higher than cost growth.
- Maintain good credit quality across all portfolios.
- Maintaining a strong capital base and prudent liquidity

Efficiency ratio
%

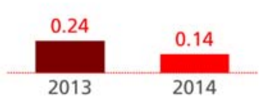


Net operating income
Constant EUR Million



(*) In euros: +16.5%

Cost of credit
%



Attributable profit
Constant EUR Million

(*) In euros: +37.1%

Latin America

EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**13,879**	**14,913**	**(1,034)**	**(6.9)**	**2.9**
Net fees	4,565	4,660	(95)	(2.0)	9.1
Gains (losses) on financial transactions	538	1,037	(499)	(48.1)	(41.3)
Other operating income*	83	51	32	64.0	86.7
Gross income	**19,065**	**20,661**	**(1,596)**	**(7.7)**	**2.3**
Operating expenses	(8,017)	(8,475)	459	(5.4)	5.0
General administrative expenses	(7,226)	(7,580)	354	(4.7)	5.9
Personnel	*(4,012)*	*(4,207)*	*196*	*(4.7)*	*5.9*
Other general administrative expenses	*(3,214)*	*(3,372)*	*158*	*(4.7)*	*5.8*
Depreciation and amortisation	(790)	(895)	105	(11.7)	(2.0)
Net operating income	**11,049**	**12,186**	**(1,137)**	**(9.3)**	**0.4**
Net loan-loss provisions	(5,119)	(6,435)	1,316	(20.5)	(12.7)
Other income	(839)	(543)	(295)	54.4	73.3
Profit before taxes	**5,091**	**5,207**	**(116)**	**(2.2)**	**9.4**
Tax on profit	(1,151)	(1,165)	14	(1.2)	12.7
Profit from continuing operations	**3,940**	**4,042**	**(102)**	**(2.5)**	**8.5**
Net profit from discontinued operations	—	0	(0)	(100.0)	(100.0)
Consolidated profit	**3,940**	**4,042**	**(102)**	**(2.5)**	**8.5**
Minority interests	790	861	(71)	(8.3)	0.3
Attributable profit to the Group	**3,150**	**3,181**	**(31)**	**(1.0)**	**10.8**

Balance sheet	2014	2013	Variation amount	%	% w/o FX
Customer loans**	144,714	128,684	16,030	12.5	12.1
Trading portfolio (w/o loans)	35,886	23,097	12,788	55.4	51.9
Available-for-sale financial assets	31,216	20,822	10,394	49.9	49.0
Due from credit institutions**	23,899	28,073	(4,174)	(14.9)	(16.2)
Intangible assets and property and equipment	3,967	3,895	72	1.9	1.9
Other assets	42,505	40,354	2,151	5.3	4.0
Total assets/liabilities & shareholders' equity	**282,187**	**244,925**	**37,262**	**15.2**	**14.3**
Customer deposits**	137,726	122,176	15,551	12.7	12.1
Marketable debt securities**	31,920	28,987	2,933	10.1	9.6
Subordinated debt**	6,467	4,833	1,635	33.8	33.1
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	35,263	24,489	10,773	44.0	42.4
Other liabilities	48,053	44,999	3,054	6.8	5.4
Shareholders' equity***	22,758	19,442	3,316	17.1	15.4
Other managed and marketed customer funds	**79,294**	**65,599**	**13,695**	**20.9**	**18.5**
Mutual and pension funds	66,657	55,835	10,821	19.4	18.1
Managed portfolios	12,637	9,764	2,874	29.4	20.3
Managed and marketed customer funds	**255,407**	**221,595**	**33,813**	**15.3**	**14.1**

Ratios (%) and operating means	2014	2013	Variation amount	%	% w/o FX
ROE	14.04	13.76	0.29		
Efficiency ratio (with amortisations)	42.0	41.0	1.0		
NPL ratio	4.65	5.00	(0.35)		
NPL coverage	84.7	85.4	(0.7)		
Number of employees	85,009	85,320	(311)	(0.4)	
Number of branches	5,729	5,789	(60)	(1.0)	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Latin America (all changes in constant currency)

→ **Attributable profit of EUR 3,150 million, 10.8% higher than in 2013:**

- **Gross income rose 2.3%, due to net interest income and fee income.**
- **Operating expenses increased (+5.0%) because of investments in commercial development, mainly in Mexico, Chile and Argentina and inflationary pressures.**
- **Loan-loss provisions declined 12.7%, mainly due to the improvement in Brazil.**

→ **Lending increased 12% and deposits 11%.**

Grupo Santander has the region's largest international franchise. It has 5,729 branches and points of attention, over 49 million customers and market shares of 9.9% in loans and 10.1% in deposits.

Environment and strategy

Growth slowed down in 2014, largely because of the international context. Central banks changed interest rates to varying degrees, with cuts in Mexico and Chile in order to support growth and hikes in others (Brazil) to contain inflation.

The slowdown was also reflected in the financial systems where Santander operates, reducing overall business. Total lending grew 11%, with stronger growth to companies and mortgages than consumer credit. Deposits increased 8%, mainly demand deposits.

Currencies depreciated against the dollar, but not against the euro where there was a slight appreciation except for the Chilean and Argentine pesos.

The strategy in 2014 was focused on expansion, consolidation and improvement in the business of the commercial franchise in the region.

We are strengthening the specialized offer of products and services tailored to suit customers' needs, which will enable us to push long-term business growth and improve customers' transaction business. Santander continued meanwhile to oversee the quality of risks. The measures being implemented to improve efficiency should be reflected in greater profitability.

The main aspects of the Group's activity and results are set out below. All percentage changes exclude the exchange rate impact.

Activity

Lending (excluding repos) increased 12%. Of note by country: Mexico increased 18%, Argentina 23% and Uruguay 17%.

Deposits excluding repos increased 11% with increases in all countries in demand deposits (up 15% for the whole region) and time deposits 8%. Mutual funds increased 18%.

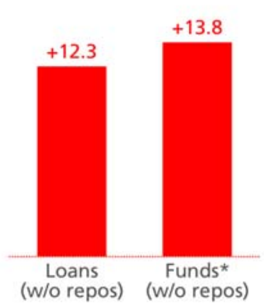
Results

Gross income was EUR 19,065 million, 2.3% higher than in 2013:

- Net interest income rose 2.9%, mainly affected by the change of mix toward lower cost of credit products and also reduced spreads. There was also pressure on spreads, particularly in Brazil and Mexico. Higher volumes and a lower cost of credit offset these effects.
- Net fee income increased 9.1%, with growth in all countries. Of note was the growth in that from cards (+9.8%) and insurance (+4.4%).
- Trading gains were 41.3% lower than in 2013 when income was obtained from the sale of portfolios, mainly in Brazil.

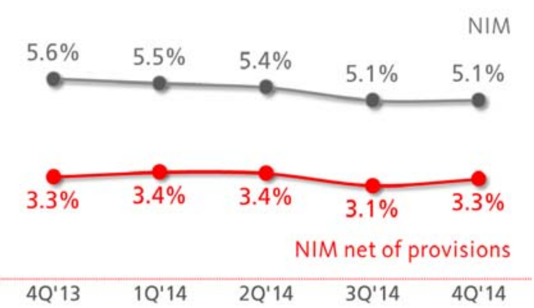
Operating expenses grew 5.0%, due to investment in networks and commercial projects (some traditional and others focused on priority customer segments) and inflationary pressures on salary agreements and contracted services. The consolidation of GetNet in Brazil also had some impact. Net operating income was EUR 11,049 million.

Activity
% var. 2014/2013 (constant EUR)

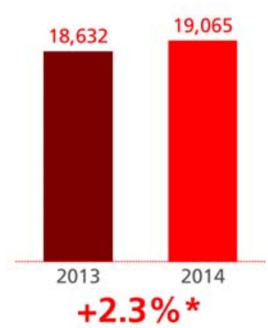


(*) Customer deposits + mutual funds

Net interest margin
%



Gross income
Constant EUR Million



(*) In euros: -7.7%

Latin America. Income statement

EUR Million

	Gross income			Net operating income			Attributable profit		
	2014	%	% w/o FX	2014	%	% w/o FX	2014	%	% w/o FX
Brazil	12,008	(11.2)	(2.9)	7,092	(13.5)	(5.4)	1,558	(1.3)	8.0
Mexico	3,072	1.7	6.0	1,812	0.9	5.2	660	(7.4)	(3.5)
Chile	2,197	(2.3)	12.6	1,343	1.5	17.0	509	17.0	34.8
Argentina	1,158	(9.8)	34.3	591	(14.2)	27.8	298	(10.5)	33.3
Uruguay	255	0.8	14.9	97	6.6	21.6	54	1.9	16.2
Peru	52	26.5	33.0	35	29.3	36.0	24	24.7	31.1
Other	32	391.3	394.9	(62)	(23.3)	(22.9)	(54)	(3.7)	(3.1)
Subtotal	**18,773**	**(7.8)**	**2.3**	**10,907**	**(9.4)**	**0.5**	**3,049**	**(0.8)**	**11.4**
Santander Private Banking	292	0.8	0.7	142	(4.3)	(4.4)	101	(4.8)	(4.9)
Total	**19,065**	**(7.7)**	**2.3**	**11,049**	**(9.3)**	**0.4**	**3,150**	**(1.0)**	**10.8**

Loan-loss provisions declined 12.7% due to Brazil (-17.7%, accentuating the change in trend started at the beginning of 2013). Mexico's provisions were slightly lower and Chile's almost unchanged.

The improvement in the cost of credit reflected the fall in NPLs. The NPL ratio ended the year at 4.65% (-35 b.p. in the year), positively impacted by Brazil. The coverage ratio was 85%.

After incorporating loan-loss provisions and other provisions, profit before tax was EUR 5,091 million (+9.4%).

The higher effective tax charge, mainly in Mexico, and lower minority interests in Brazil produced attributable profit of EUR 3,150 million (+10.8%).

Strategy and objectives in 2015

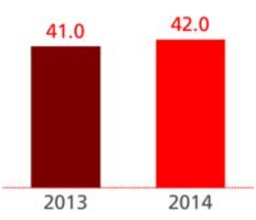
Improve business and the commercial franchise in the region:

- Increase the customer base and transactional linkage.
- Offer innovative value proposals (*Santander Advance* Programme – SMEs, *Select*- high-income clients – and be the Bank for companies' transactions).
- Improve productivity and profitability thanks to efficiency plans and quality of service

All of this, while keeping a permanent watch on the quality of risks.

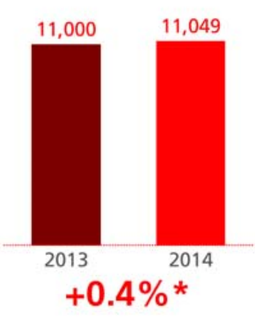
Efficiency ratio

%



Net operating income

Constant EUR Million



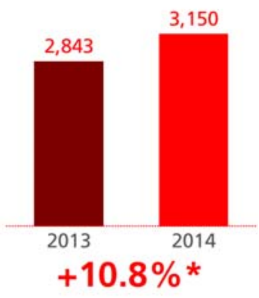
(*) In euros: -9.3%

Cost of credit

%

Attributable profit

Constant EUR Million



(*) In euros: -1.0%

Brazil

EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**8,959**	**10,067**	**(1,108)**	**(11.0)**	**(2.7)**
Net fees	2,836	2,871	(35)	(1.2)	8.0
Gains (losses) on financial transactions	96	540	(444)	(82.2)	(80.6)
Other operating income*	117	41	76	187.8	214.7
Gross income	**12,008**	**13,518**	**(1,510)**	**(11.2)**	**(2.9)**
Operating expenses	(4,916)	(5,324)	408	(7.7)	1.0
General administrative expenses	(4,407)	(4,743)	336	(7.1)	1.6
Personnel	*(2,386)*	*(2,563)*	*177*	*(6.9)*	*1.8*
Other general administrative expenses	*(2,021)*	*(2,180)*	*159*	*(7.3)*	*1.4*
Depreciation and amortisation	(509)	(581)	72	(12.4)	(4.2)
Net operating income	**7,092**	**8,194**	**(1,102)**	**(13.5)**	**(5.4)**
Net loan-loss provisions	(3,682)	(4,894)	1,212	(24.8)	(17.7)
Other income	(805)	(499)	(307)	61.5	76.5
Profit before taxes	**2,604**	**2,802**	**(197)**	**(7.0)**	**1.6**
Tax on profit	(679)	(763)	85	(11.1)	(2.8)
Profit from continuing operations	**1,926**	**2,039**	**(113)**	**(5.5)**	**3.3**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**1,926**	**2,039**	**(113)**	**(5.5)**	**3.3**
Minority interests	368	461	(93)	(20.2)	(12.7)
Attributable profit to the Group	**1,558**	**1,577**	**(20)**	**(1.3)**	**8.0**

Balance sheet					
Customer loans**	74,373	66,446	7,927	11.9	10.7
Trading portfolio (w/o loans)	18,256	10,321	7,935	76.9	74.9
Available-for-sale financial assets	22,939	14,175	8,764	61.8	60.0
Due from credit institutions**	10,276	14,734	(4,458)	(30.3)	(31.0)
Intangible assets and property and equipment	2,640	2,793	(153)	(5.5)	(6.6)
Other assets	27,803	25,456	2,347	9.2	8.0
Total assets/liabilities & shareholders' equity	**156,287**	**133,925**	**22,362**	**16.7**	**15.4**
Customer deposits**	68,539	61,490	7,049	11.5	10.2
Marketable debt securities**	21,903	20,002	1,901	9.5	8.3
Subordinated debt**	4,368	2,734	1,634	59.8	58.0
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	22,826	12,929	9,897	76.6	74.6
Other liabilities	25,684	25,229	455	1.8	0.7
Shareholders' equity***	12,967	11,542	1,425	12.4	11.1
Other managed and marketed customer funds	**49,806**	**42,640**	**7,166**	**16.8**	**15.5**
Mutual and pension funds	46,559	39,675	6,884	17.3	16.0
Managed portfolios	3,248	2,965	282	9.5	8.3
Managed and marketed customer funds	**144,616**	**126,866**	**17,750**	**14.0**	**12.7**

Ratios (%) and operating means				
ROE	13.28	12.64	0.64	
Efficiency ratio (with amortisations)	40.9	39.4	1.6	
NPL ratio	5.05	5.64	(0.59)	
NPL coverage	95.4	95.1	0.3	
Number of employees	46,464	49,371	(2,907)	(5.9)
Number of branches	3,411	3,566	(155)	(4.3)

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Brazil (changes in local currency)

→ Attributable profit of EUR 1,558 million, 8.0% more than in 2013).

- **Gross income fell 2.9%, due to net interest income (change of mix) and trading gains. Fee income improved.**
- **Operating expenses rose by only 1%, well below the inflation rate.**
- **Credit quality continues to improve: loan-loss provisions declined 17.7%, and the NPL ratio fell 59 b.p.**

→ Loans and customer funds rose over 10%, with growth above private sector banks.

Santander Brazil is the country's third largest private sector bank by assets and the largest foreign bank in the country. It operates in the main regions, with 3,411 branches and points of banking attention, 14,856 ATMs and more than 31 million customers.

Environment and strategy

Banking business was conducted in 2014 in an environment of close to zero growth and higher interest rates to contain inflation, causing the real to depreciate against the dollar (slight appreciation against the euro). The economic slowdown was reflected in lower growth in lending (+11% in December), which continued to be driven by earmarked credit (+20%) and state banks, whose growth comfortably doubled that of the private sector banks (+16% vs. +6%). Total customer funds increased 10%, with a growing share of mutual funds and other funds (debentures and *letras financieras)* which increased 26%.

In this environment, Santander Brazil, as a universal bank focused on retail banking, maintained the following guidelines:

1) Increasing customers preference and linkage: with segmented products and services, simple and effective, which via a multi channel platform seek to maximise customer satisfaction.

2) Improve recurrence and sustainability: business growth with greater revenue diversification, while maintaining rigorous risk management.

3) Disciplined use of capital and liquidity in order to maintain a sound balance sheet, manage regulatory changes and take advantage of growth opportunities.

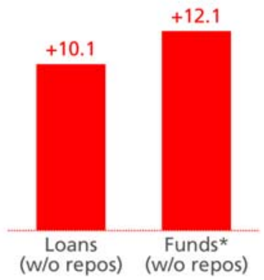
4) Increase productivity via an intense agenda of productive transformation.

5) Strengthen business lines with market share below the natural one.

Progress was made during 2014 in the Bank's strategic guidelines, through the reformulation of channels and launch of the new business model with a more efficient and agile management. In the segments of individuals and SMES, we launched products and made new agreements, expanded the *Select* branches (85 in 2014) and further strengthened the acquiring business. In the auto segment, Santander was the leader in car financing (19% market share).

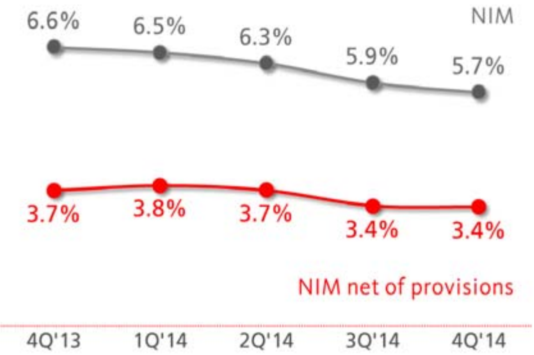
- Reformulation of channels with the creation of the multi channel concept, the proposal to improve the customer experience with simpler and more accessible processes. Of note was the launch of updated versions of the *Minha Conta app,* the new online banking and the special ATM for dollar withdrawals.
- Launch of *Santander Conta Conecta,* a current account for the segments of individuals and SMEs, which enables payments with cards to be received in smartphones and tablets. There are currently more than 60,000 accounts.
- Agreement to create a joint venture with Banco Bonsucesso to leverage activities in payroll business, as well as increase the offer of products and improve the distribution and marketing capacity. We expect to close this transaction in the first quarter of 2015.
- Acquisition of 50% of SuperBank, a digital platform that sells financial products and services for the massive segment of individuals, with a more efficient structure.
- Strengthen the acquiring business, following the purchase of GetNet. Banco Santander Brazil has an indirect participation with a stake of 88.5%.
- Launch of *Pague Directo*, a new payment means product which is focused on SMEs. This product enables shops to pay for their

Activity
% var. 2014/2013 (constant EUR)



(*) Customer deposits + mutual funds

Net interest margin
%



Gross income
Constant EUR Million

(*) In euros: -11.2%

orders with Santander's payment terminal more practically, quickly and securely.

- Lastly, at the end of 2014 the *CERTO* model was launched, which offers greater simplicity and commercial dedication to customers. The model has a unique commercial management platform with more integrated tools and aligned with a "customer vision", which will spur more business, efficiency and focus on the customer.

Activity

Lending rose 10%, higher than the average for private sector banks, backed by mortgages (+34%), where market penetration is still low, and large companies (+24%). The balances in segments of low risk/spreads such as agri business (+23%) and BNDES (+21%), where we want to boost our presence, also rose strongly.

Consumer finance lending declined 4% in a sluggish market and that to SMEs remained unchanged, after the falls of recent quarters with positive contribution of acquiring business.

Deposits without repos increased 8%, with demand deposits up 10%. Mutual funds rose 16%.

Santander Brazil's market share in total loans is 8.1% (12.4% for unearmarked lending) and 7.9% in deposits.

The strategy followed in the last few months increased the market share in segments where the Bank has a low presence, such as BNDES (+32 b.p.) and mortgages for individual borrowers (+32 b.p.) and also in auto finance, where Santander is the market leader.

Results

Gross income declined 2.9% to EUR 12,008 million, largely due to the fall in trading gains because of the reduced gains from markets activity in 2014. Net interest income was also lower because of the change of mix of portfolio to lower risk products/segments and the squeezing of spreads on loans.

Fee income, on the other hand, was 8.0% higher at EUR 2,836 million, backed by cards (+9%) and transaction banking (+15%), part of this growth came from the acquisition of GetNet.

Operating expenses rose by only 1.0% (-0.6% on a like-for-like basis), compared to inflation of more than 6%. This reflected the effort made in the last few years to control costs.

Loan-loss provisions declined 17.7%. The cost of credit fell to 4.9% from 6.3% in 2013.

Net operating income after provisions increased 13.0%. The NPL ratio was 5.05% (-0.6 p.p. in the year).

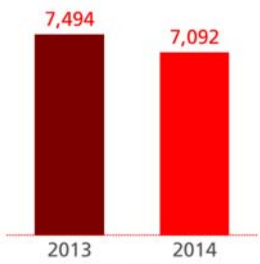
Attributable profit was 8.0% higher at EUR 1,558 million.

Strategy and objectives in 2015

- Continue the commercial business improvement and perception of services by customers.
- Grow the number of customers and increase linkage with more profitable products.
- Maintain the good lending trends.
- Increase commercial productivity via agile and modern tools.
- Maintain costs rise at below the inflation rate.
- Offer an innovative value proposal for SMEs, via *Santander Advance's* global programme.

Efficiency ratio
%

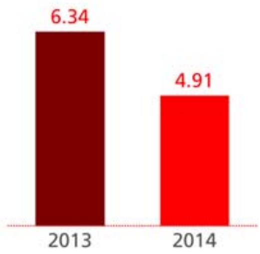
Net operating income
Constant EUR Million



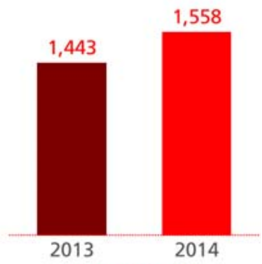
-5.4%*

(*) In euros: -13.5%

Cost of credit
%



Attributable profit
Constant EUR Million



+8.0%*

(*) In euros: -1.3%

Mexico

EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**2,182**	**2,120**	**62**	**2.9**	**7.3**
Net fees	770	783	(12)	(1.6)	2.6
Gains (losses) on financial transactions	165	141	24	17.0	21.9
Other operating income*	(45)	(23)	(22)	94.6	102.9
Gross income	**3,072**	**3,021**	**52**	**1.7**	**6.0**
Operating expenses	(1,260)	(1,225)	(36)	2.9	7.2
General administrative expenses	(1,129)	(1,105)	(24)	2.1	6.5
Personnel	*(607)*	*(593)*	*(14)*	*2.4*	*6.7*
Other general administrative expenses	*(522)*	*(512)*	*(10)*	*1.9*	*6.2*
Depreciation and amortisation	(131)	(120)	(12)	9.9	14.6
Net operating income	**1,812**	**1,796**	**16**	**0.9**	**5.2**
Net loan-loss provisions	(756)	(801)	44	(5.5)	(1.6)
Other income	2	17	(15)	(89.8)	(89.4)
Profit before taxes	**1,057**	**1,012**	**45**	**4.5**	**8.9**
Tax on profit	(207)	(79)	(127)	160.7	171.8
Profit from continuing operations	**851**	**933**	**(82)**	**(8.8)**	**(4.9)**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**851**	**933**	**(82)**	**(8.8)**	**(4.9)**
Minority interests	191	220	(29)	(13.4)	(9.7)
Attributable profit to the Group	**660**	**713**	**(53)**	**(7.4)**	**(3.5)**

Balance sheet	2014	2013	Variation amount	%	% w/o FX
Customer loans**	25,873	22,269	3,604	16.2	14.9
Trading portfolio (w/o loans)	10,185	8,685	1,500	17.3	15.9
Available-for-sale financial assets	4,624	3,387	1,238	36.6	35.0
Due from credit institutions**	7,058	7,975	(917)	(11.5)	(12.5)
Intangible assets and property and equipment	440	402	38	9.5	8.3
Other assets	5,545	5,681	(136)	(2.4)	(3.5)
Total assets/liabilities & shareholders' equity	**53,726**	**48,398**	**5,328**	**11.0**	**9.7**
Customer deposits**	28,627	24,663	3,964	16.1	14.8
Marketable debt securities**	3,266	2,896	370	12.8	11.5
Subordinated debt**	1,088	931	157	16.9	15.6
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	6,152	5,494	658	12.0	10.7
Other liabilities	11,004	11,601	(597)	(5.1)	(6.2)
Shareholders' equity***	3,589	2,814	775	27.5	26.1
Other managed and marketed customer funds	**11,523**	**10,349**	**1,174**	**11.3**	**10.1**
Mutual and pension funds	11,523	10,349	1,174	11.3	10.1
Managed portfolios	—	—	—	—	—
Managed and marketed customer funds	**44,504**	**38,838**	**5,665**	**14.6**	**13.3**

Ratios (%) and operating means	2014	2013	Variation amount	%	% w/o FX
ROE	14.25	15.15	(0.91)		
Efficiency ratio (with amortisations)	41.0	40.5	0.5		
NPL ratio	3.84	3.66	0.18		
NPL coverage	86.1	97.5	(11.4)		
Number of employees	16,933	14,745	2,188	14.8	
Number of branches	1,347	1,258	89	7.1	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Mexico (changes in local currency)

→ **Pre-tax profit of EUR 1,057 million, 8.9% more than in 2013, due to:**

- **Growth of 6.0% in gross income, backed by business dynamism and management of spreads.**
- **Operating costs rose 7.2%, due to the greater installed capacity, with the opening of 95 branches in 2014.**
- **Loan-loss provisions declined 1.6%.**
- **The normalisation of the effective tax rate and minority interests reduced attributable profit by 3.5% to EUR 660 million.**

→ Lending rose at a **faster pace** of 18% and deposits without repos 14%.

Santander is the third largest banking group in Mexico by business volume, with a market share in loans of 13.8% and 13.7% in deposits. It has 1,347 branches throughout the country and more than 11 million customers.

Environment and strategy

The economy, still far from its potential growth rate, showed a better quarterly profile in 2014 that looks as if it will continue to be supported by the strength of the US economy and the structural reforms underway. Lower interest rates also contributed to it, and the peso depreciated against the dollar (slight appreciation against the euro). In this environment, the system's total lending grew at a slower pace (+9%) due to consumer credit as lending to companies and mortgages was stronger (+9% in both cases). Deposits rose 9%, spurred by demand deposits.

Santander Mexico continued to strengthen its franchise via its expansion plan and the priority focus on improving the quality of service, innovation and forging closer relations with customers.

We continued the expansion plan begun in 2012 under which 185 new branches have been opened (95 in 2014). This enabled us to attain a market share in branches of 16.2% as of September 2014. The number of ATMs also increased to 5,528 (including the new full function ones).

This greater installed capacity was accompanied by an improvement in multichannel sales platforms and increasing the range of products.

In multichannel activity and innovation, we continued to develop measures in online and mobile banking and improve the experience and security of customers via our *Huella Vocal* platform. We also integrated the 7/eleven shops into our network (1,800 new points). The number of additional points of attention over and above our network of traditional branches reached 16,350.

As regards the strategy, we focused on developing retail banking, particularly the segments of SMEs, companies and individuals.

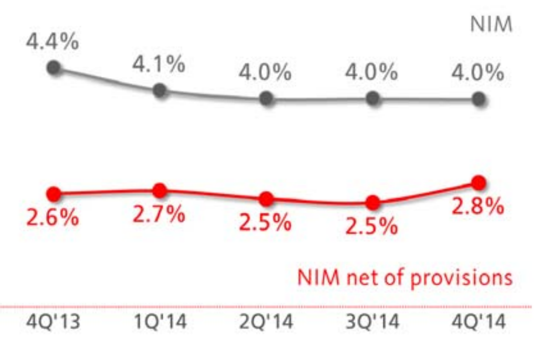
In companies, we strengthened our position as one of the main options in the market. In SMEs, the *Santander SMEs* programme was launched (within the global programme of Grupo *Santander Advance*) whose objective is to continue to foster the growth of this important segment. The programme consists, as in other countries, of a comprehensive offer, not only financial, with benefits for SMEs such as grants, training, support to develop companies, internationalisation, etc. We ended the year with 18 SME centres (six new ones opened in 2014) and six new specialised branches. This strategy is reflected in a 26% increase in loans to SMEs.

Of note in individuals is the mortgage segment, where we continued to offer a wide range of products in order to cover customers' needs, such as the *Hipoteca Light* that offers an initial low payment, the *10*1000* mortgage which offers fixed payments and the *Premier* mortgage, among others. We also acquired small mortgage portfolios, consolidating Santander as the second bank for mortgage loans.

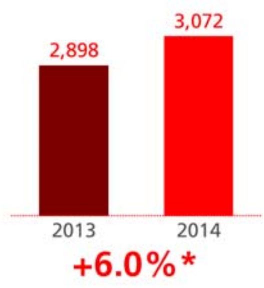
Activity
% var. 2014/2013 (constant EUR)

(*) Customer deposits + mutual funds

Net interest margin
%



Gross income
Constant EUR Million



(*) In euros: +1.7%

In consumer credit, we launched a product for high-income segments and new credit card products. Of note among the latter was the first brand card shared with American Express and the first card for agri business.

As regards the high-income segment, the *Select* attention model was consolidated through 121 specialised offices (14 opened in 2014) and the *Contact Centre Select*, in order to offer a differentiated service. In 2014, *Mundo Select* was launched, with exclusive products and services.

Activity

The described activities resulted in both loans and deposits growing at faster rates than in 2013, and at a stronger pace than the sector.

Lending grew 18%, mainly to SMEs (+26%) and mortgages (+17%), while consumer credit rose 15% and credit cards 5%.

Deposits increased 14% and improved their structure. A greater focus was placed on demand deposits (+14%), Mutual funds increased 10%.

This evolution produced gains in the market share of loans and deposits of around one percentage point in both in twelve months.

Results

Gross income rose 6.0% year-on-year, with a good performance of net interest income (+7.3%) and fee income (+2.6%).

Gross income was affected by lower economic growth than initially envisaged, as well as by the cut in benchmark interest rates and the reduced spreads, as a result of the strategy of changing the mix to lower risk products. The strong increase in business volumes compensated this.

Operating expenses rose 7.2%, reflecting the new commercial projects and the greater installed capacity. Net operating income increased 5.2%.

Loan-loss provisions declined 1.6%, well below the natural growth that would accompany the 18% rise in lending. This was favoured by the one-off charges (mainly home developers) made in 2013.

The NPL ratio was 3.8%, and remained very stable throughout the year (3.7% in 2013). The coverage ratio was 86%.

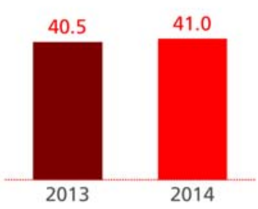
Pre-tax profit was 8.9% higher at EUR 1,057 million.

After deducting taxes (the tax rate rose from 7.8% to 19.5%) and minority interests, attributable profit was EUR 660 million.

Strategy and objectives in 2015

- Remain focused on SMEs, companies and individual customers.
- Promote business via technological innovation and multi channels, in order to increase the transactional linkage of customers.
- Position Santander as the leader in financing the government's infrastructure plan and the projects related to energy sector reform.

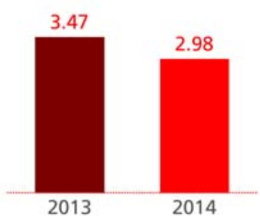
Efficiency ratio
%



Net operating income
Constant EUR Million

(*) In euros: +0.9%

Cost of credit
%



Attributable profit
Constant EUR Million

(*) En euros: -7,4%

Chile

EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**1,734**	**1,696**	**38**	**2.2**	**17.8**
Net fees	329	371	(42)	(11.4)	2.2
Gains (losses) on financial transactions	116	167	(51)	(30.5)	(19.9)
Other operating income*	18	14	3	22.5	41.2
Gross income	**2,197**	**2,249**	**(52)**	**(2.3)**	**12.6**
Operating expenses	(854)	(926)	72	(7.8)	6.3
General administrative expenses	(782)	(819)	36	(4.4)	10.2
Personnel	*(484)*	*(507)*	*23*	*(4.6)*	*10.0*
Other general administrative expenses	*(299)*	*(312)*	*13*	*(4.1)*	*10.5*
Depreciation and amortisation	(72)	(108)	36	(33.5)	(23.4)
Net operating income	**1,343**	**1,322**	**20**	**1.5**	**17.0**
Net loan-loss provisions	(521)	(597)	76	(12.8)	0.5
Other income	(24)	4	(28)	—	—
Profit before taxes	**798**	**730**	**68**	**9.3**	**26.0**
Tax on profit	(59)	(107)	48	(45.1)	(36.7)
Profit from continuing operations	**739**	**623**	**116**	**18.7**	**36.8**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**739**	**623**	**116**	**18.7**	**36.8**
Minority interests	230	187	42	22.7	41.4
Attributable profit to the Group	**509**	**435**	**74**	**17.0**	**34.8**

Balance sheet					
Customer loans**	30,550	28,783	1,767	6.1	8.0
Trading portfolio (w/o loans)	3,075	1,388	1,687	121.5	125.4
Available-for-sale financial assets	2,274	2,385	(111)	(4.7)	(3.0)
Due from credit institutions**	3,837	2,599	1,238	47.7	50.2
Intangible assets and property and equipment	347	327	20	6.2	8.1
Other assets	2,680	3,072	(392)	(12.8)	(11.2)
Total assets/liabilities & shareholders' equity	**42,763**	**38,553**	**4,210**	**10.9**	**12.9**
Customer deposits**	23,352	20,988	2,364	11.3	13.2
Marketable debt securities**	6,650	6,022	628	10.4	12.4
Subordinated debt**	985	1,147	(163)	(14.2)	(12.7)
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	4,382	4,253	129	3.0	4.8
Other liabilities	4,932	4,021	911	22.6	24.8
Shareholders' equity***	2,463	2,122	341	16.1	18.1
Other managed and marketed customer funds	**7,256**	**5,469**	**1,787**	**32.7**	**35.0**
Mutual and pension funds	5,564	4,067	1,497	36.8	39.2
Managed portfolios	1,693	1,402	291	20.7	22.8
Managed and marketed customer funds	**38,242**	**33,626**	**4,616**	**13.7**	**15.7**

Ratios (%) and operating means					
ROE	19.89	17.19	2.70		
Efficiency ratio (with amortisations)	38.9	41.2	(2.3)		
NPL ratio	5.97	5.91	0.06		
NPL coverage	52.4	51.1	1.3		
Number of employees	12,081	12,200	(119)	(1.0)	
Number of branches	475	493	(18)	(3.7)	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

Chile (changes in local currency)

→ **Attributable profit of EUR 509 million,** 34.8% more than in 2013 .

- Gross income increased 12.6%, backed by net interest income (+17.8%) and fee income (+2.2%).
- Operating expenses rose 6.3%, a little above the inflation rate, because of investments in technology.
- Loan-loss provisions were unchanged and the cost of credit improved.

→ **Lending** rose 8%, particularly in the target segments of high-income clients (+16%) and companies (+8%). **Deposits** grew 13%, with demand deposits up 16%.

Santander is the leading bank in Chile in terms of assets and customers, with a marked focus on retail activity (individuals and SMEs). Its market share in loans is 19.2% and 17.6% in deposits. Of note is its share of loans to individuals; it is the leader in consumer finance (market share of 24.6%) and in mortgages (20.9%). These shares exclude the investment of Corpbanca in Colombia. The Bank has 475 branches, 1,645 ATMs and 3.6 million customers.

Environment and strategy

In 2014, the economy slowed down to a greater extent than expected, despite the cut in interest rates and the peso's sharp depreciation against the dollar and, to a lesser extent, the euro. The system's total lending (excluding the investment of Corbanca in Colombia) increased 11%, backed by loans to individuals, as credit to companies declined in line with investment. Deposits increased 10%, against a backdrop of lower interest rates and the greater attractiveness of money market funds. Deposits plus mutual funds grew 14%.

In this environment, the Group maintained its objective of improving the long-term profitability in a scenario of lower spreads and greater regulations. The strategic plan recognises the importance of positioning the customer in the centre of the strategy and seeks to consolidate the franchise in the leadership positions it historically maintained.

The strategy is based on three pillars:

- The quality of customer attention and experience;
- Netput a greater focus on retail banking, particularly medium and high income customers, SMEs and medium sized companies;
- Netconservative risk management and continuous improvement in processes to enhance operational efficiency.

This management is reflected in business. As regards the quality of service the net satisfaction index of customers improved in all networks and channels, closing the gap with the competition. The *Select* model was consolidated and the *NEO customer relationship management (CRM)* by business segments continued to make progress, as it was expanded to all the retail network via *NEO SMEs* and *NEO ONE* (a version for supervisors).

The above programmes are producing sustained growth in the number of customers (+7% since March 2013 when *Select* and *NEO CRM* were launched), together with a significant improvement in transaction linkage. Lastly, and within credit card business, the alliance with the LATAM airline (Lanpass) was renewed for another five years.

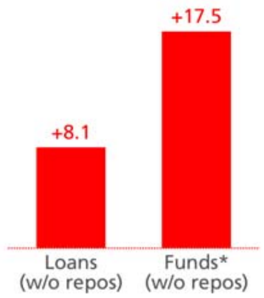
These efforts were reflected in the award by the magazine Euromoney to Santander as the best private bank in 2014, and the prize from Global Finance for the best website for customers.

In corporate banking, we continued to improve the model of specialised attention developed in 2013. This is aimed at strengthening growth in higher value added products, backed by differentiated offers such as *Santander Trade* and *Santander Passport,* the incorporation of eight company centres during the year and designing a new model of quality especially for the segment.

GBM successfully launched its *TOP 20* plan to reposition itself with the 20 main economic groups in Chile, which produced significant growth in revenues and profit. The focus was mainly on multinational customers, thanks to the advantages provided by the Group's global scope.

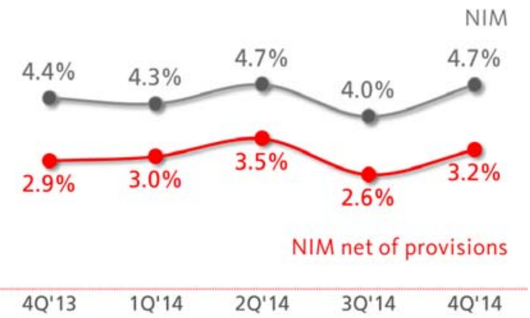
We placed $6,800 million in the international bond markets and we are leaders in the local market for funding the main

Activity
% var. 2014/2013 (constant EUR)



(*) Customer deposits + mutual funds

Net interest margin
%



Gross income
Constant EUR Million

(*) In euros: -2.3%

infrastructure works, including the Chacao bridge that will connect the island of Chiloé to the mainland.

Activity

The strategy followed produced an 8% rise in loans (+16% to high income customers and +8% to companies, objetive segments).

Deposits increased 13% (+16% demand deposits).

Several issues were made, among them an Australian dollar one by Santander Chile in February in the Australian market, the first of its kind by a Chilean bank.

Results

Gross income rose 12.6%, as follows:

- Net interest income increased 17.8%, spurred by growth of volumes in target segments, due to the better mix of deposits and the rise in revenues from the inflation-indexed UF portfolio.
- Fee income grew 2.2%, still impacted by the regulatory effects on insurance fees. Of note was the rise in fee income from means of payment (+11%), mutual funds (+17%) and transaction banking (+14%).
- Trading gains fell 19.9%, mainly due to lower gains from managing the portfolio of assets and liabilities. Activity with customers (*Santander Global Connect* and market-making), on the other hand, performed well due to the greater demand for exchange rate risk hedging because of the peso's depreciation.

Operating expenses rose 6.3%, above the inflation rate, due to contracts, rentals and salaries indexed to inflation, as well as the impact that the peso's depreciation had on technology services indexed to the dollar and the euro.

Loan-loss provisions were almost unchanged (+0.5%), which improved the cost of credit. The NPL ratio was 5.97% and the coverage ratio 52%.

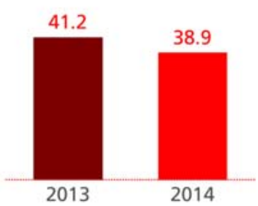
Pre-tax profit rose 26.0%. After deducting taxes (lower rate of 7% resulting from the updating of deferred taxes in accordance with the tax reform) and minority interests, attributable profit was 34.8% higher at EUR 509 million.

Strategy and objectives in 2015

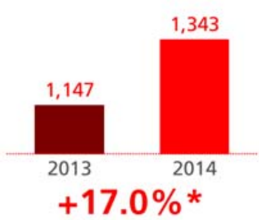
The strategy and objectives of the 2014-2017 plan include:

- Continue the transformation of retail and commercial banking in order to develop a new form of customer relations.
- Manage the development of employees, transforming them into drivers of the customer-focused culture.
- Grow in the segments of companies, institutions and GBM.
- Increase linkage via *Select*.

Efficiency ratio
%

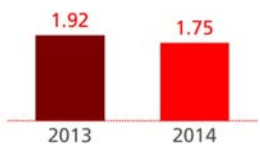


Net operating income
Constant EUR Million

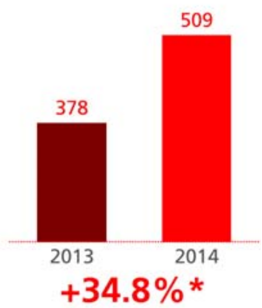


(*) In euros: +1.5%

Cost of credit
%



Attributable profit
Constant EUR Million



(*) In euros: +17.0%

Argentina (changes in local currency)

Santander Río generated an attributable profit of EUR 298 million in 2014, 33.3% more in local currency.

Santander Rio is the country's leading private sector bank in terms of assets, loans and customer funds, with market shares of 9.2% in lending and 9.5% in deposits. It has 396 branches and 2.5 million customers.

Environment and strategy

In 2014, banking was conducted against a backdrop of economic shrinkage, high inflation and liquidity. The peso's sharp depreciation against strong currencies at the start of the year resulted in a 27% Badlar interest rate (April), a maximum, which was then cut and stabilised at around 20%. Lending, with shorter maturities (60% of the total at less than one year), decelerated (+20%), particularly to companies, while credit cards (+34%) increased their weight. Stronger growth of deposits (+31%), more stable and balanced between demand and time, raised the system's liquidity.

The Bank's commercial strategy continued to focus on strengthening penetration and linkage to the segments of high-income individuals and SMEs, developing improvements in the functionalities of key products and actions to enhance the quality of service.

The Bank continued to focus on transaction services, collections and means of payment, through an offer adjusted to the needs of each customer segment. The objective is to continue increasing recurring revenues, on the basis of funding with low cost demand deposits and higher revenues for services.

Noteworthy activities in 2014 included:

- Launching of *Select* in order to improve the value offer for high-income clients and personalised attention. The Bank continued to spur *Infinity Black* products and services and inaugurate *Select* spaces and corners. These actions boosted cross-selling, transaction linkage and the profitability of these customers.
- We also continued the plan to transform branches, adapting the attention model to customers' needs, improving computerisation and self-management. By the end of 2014 we had transformed 68 branches.
- Under the *Financial Inclusion* programme, the Bank opened two "bankarisation" offices in the metropolitan area of Buenos Aires that sought to incorporate to the financial system customers without bank accounts. The Bank also began to introduce micro credits in association with local governments.
- Launch of the project to build two new corporate buildings, estimated to be operating in 2017. This will strengthen efficient use of resources and spaces.

Santander Rio received several awards in 2014: best bank in Argentina from the magazine Euromoney; best online bank in Argentina and best company to work for from the Great Place to Work Institute.

Activity

Lending rose 23%, particularly to SMEs and companies. Deposits increased 31%, with similar growth in time deposits (+40%) and demand deposits (+26%). Loan and deposit growth and trends were very aligned with the market.

Results

The commercial strategy is reflected in a 38.8% rise in net interest income and 29.6% in fee income, which combined with higher trading gains pushed up gross income by 34.3%.

Operating expenses grew 41.8%, as a result of increasing and transforming the branch network. Net operating income increased 27.8%.

Loan-loss provisions rose 52.3% from a low starting point. The cost of credit was 2.54%, underscoring the excellent credit quality. The NPL ratio was 1.61% and the coverage ratio 143%.

Argentina. Activity
% var. 2014/2013 (constant EUR)

(*) Customer deposits + mutual funds

Argentina. Attributable profit
Constant EUR Million

(*) In euros: -10.5%

Strategy and objectives in 2015

- Greater penetration of high-income and SME segments through more linkage.
- Strengthen transaction products.
- Increase the branch network, mainly in the country's interior with high economic potential.
- Continue to transform branches and improve technology to increase efficiency and the quality of service.

Uruguay (changes in local currency)

Attributable profit of EUR 54 million, 16.2% more than in 2013.

The Group maintained its leadership in Uruguay. Santander is the largest private sector bank in the country, with a market share in lending of 17.7% and 15.1% in deposits. The consumer finance company Creditel is the best positioned and with the highest brand recognition. Overall, the Group has 89 branches and over 500,000 customers in the country.

Environment and strategy

In 2014, the economy registered solid growth (+3.4% estimated), compared to neighbouring countries, although lower than in 2013. With inflation declining (8.3% in December), the official interest rate remained high, in line with the peso's depreciation against the dollar (stable against the euro) and high volatility of one-day interbank rates. The system's total lending and deposits grew 21% and 20%, respectively.

The Bank's strategy remained focused on the quality of customer attention and on making an offer tailored to their needs and by the most appropriate channel in each case.

The following measures from the commercial standpoint were taken in 2014:

- Launch of the *Select* debit card, which was very well received in the market, and penetration of the customer base, which made *Select* customers link transactionally.
- Focus on being the transaction bank for companies, increasing linkage and developing innovative products in the market.
- The *Mi proyecto* was launched in SMEs. This is an innovative credit campaign supporting this segment, so that new companies can access the financial system.
- Continued support for state companies, financing important projects for the country.
- Improvements in the quality of service, with a reduced number of complaints and lower response times. Market research shows customer satisfaction on the up. Credit and debit cards are the most valued products.

Activity

Lending rose 17, particularly to individuals (+19%) and SMEs (+31%). Deposits rose 18%.

Results

Gross income increased 14.9% without the exchange rate impact, fuelled by net interest income (+20.5%) and fee income (+24.1%).

Operating expenses rose 11.2%, after absorbing the higher cost of the ongoing plan to improve efficiency.

The efficiency ratio improved by 2.1 p.p. to 62.0% and net operating income increased 21.6%.

Loan-loss provisions, from a low starting point, increased 37.5%. The NPL ratio was 1.22% and the coverage ratio 217%.

Net operating income after provisions rose 16.0% and attributable profit 16.2%.

In short, the Bank continued to make progress in its objectives of generating recurring results, with a greater share of customer business, on the basis of growth in retail banking business, optimisation of spending and an improved efficiency.

Uruguay. Activity
% var. 2014/2013 (constant EUR)

(*) Customer deposits + mutual funds

Uruguay. Attributable profit
Constant EUR Million

(*) In euros: +1.9%

Strategy and objectives in 2015

- Maintain the business strategy, focused on growth in the retail segment.
- Position our leadership in segments such as Select, SMEs, middle and mass.
- Improve efficiency.
- Maintain low levels of NPLs.

Peru (changes in local currency)

Attributable profit was EUR 24 million, 31.1% more in local currency.

Environment and strategy

The economy registered slower growth in 2014 (+2.6% estimated), and continued to be driven by domestic demand (around 5%). With inflation under control (+3.2%), the central bank cut interest rates, which contributed to the sol's depreciation against the dollar (6%), but not against the euro. The system's lending grew 13% and deposits 4%

Grupo Santander focuses on corporate banking, commercial banking for companies and providing service to the Group's global customers. Considerable importance is attached to a close relationship with customers and quality of service, while exploiting the synergies with other Group units.

A new auto finance company, guided by a well-known international partner with a lot of experience in Latin America, consolidated its activity in 2014. The company has a specialised business model, focused on service and with installments that enable customers to acquire a new car via all the brands and dealers in Peru.

Activity

Lending rose 28% and deposits 32%, with stable growth in medium term funding.

Results

Gross income grew 33.0%, mainly due to net interest income (+36.3%) and operating expenses rose 27.3%.

The efficiency ratio improved by 1.5 p.p. to 32.8% and net operating income rose 36.0%.

Loan-loss provisions increased 82.0% from a low starting point. The NPL ratio remained very low (0.23%) and the coverage ratio was very high.

Peru. Activity
% var. 2014/2013 (constant EUR)

(*) Customer deposits + mutual funds

Peru. Attributable profit
Constant EUR Million

(*) In euros: +24.7%

Strategy and objectives in 2015

- Increase lending to the corporate segment, global customers and big companies in the country.
- Promote the development of advisory services for investment banking and financial structuring for public infrastructure works through public-private funded projects.
- Continue developing auto finance, in a stable economic environment and of sustained growth.

Colombia

Banco Santander de Negocios Colombia, the Group's new subsidiary in the country, began to operate in January 2014.

Colombia is an important market for Grupo Santander. It is the third most populated country in Latin America and has a high growth potential, due to the country's plans for infrastructure and economic and social development. Foreign direct investment in the country underscores this potential; there is growing interest among companies to set up in Colombia.

The new bank has capital of $100 million. Its target market is the corporate and business one, with a special emphasis on global customers, customers of the Group's International Desk and those local customers becoming more international.

Banco Santander de Negocios Colombia has a banking licence that allows it to operate as a local bank for all purposes. It focuses on offering investment banking products, treasury and risk hedging products, foreign trade financing and working capital products in local currency, such as confirming.

United States

EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**4,642**	**4,172**	**471**	**11.3**	**11.2**
Net fees	683	600	83	13.9	13.7
Gains (losses) on financial transactions	162	96	66	69.5	69.4
Other operating income*	155	(6)	161	—	—
Gross income	**5,643**	**4,861**	**781**	**16.1**	**16.0**
Operating expenses	(2,031)	(1,887)	(145)	7.7	7.6
General administrative expenses	(1,813)	(1,705)	(107)	6.3	6.2
Personnel	*(1,029)*	*(958)*	*(71)*	*7.4*	*7.3*
Other general administrative expenses	*(784)*	*(747)*	*(36)*	*4.9*	*4.7*
Depreciation and amortisation	(219)	(181)	(38)	20.7	20.6
Net operating income	**3,611**	**2,975**	**636**	**21.4**	**21.3**
Net loan-loss provisions	(2,233)	(1,520)	(713)	46.9	46.8
Other income	11	(85)	95	—	—
Profit before taxes	**1,389**	**1,370**	**19**	**1.4**	**1.3**
Tax on profit	(370)	(395)	26	(6.5)	(6.6)
Profit from continuing operations	**1,019**	**975**	**45**	**4.6**	**4.5**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**1,019**	**975**	**45**	**4.6**	**4.5**
Minority interests	219	174	46	26.3	26.2
Attributable profit to the Group	**800**	**801**	**(1)**	**(0.1)**	**(0.2)**

Balance sheet					
Customer loans**	67,175	57,374	9,801	17.1	3.1
Trading portfolio (w/o loans)	926	149	777	521.6	447.3
Available-for-sale financial assets	12,695	8,978	3,716	41.4	24.5
Due from credit institutions**	2,462	1,649	813	49.3	31.5
Intangible assets and property and equipment	6,858	2,144	4,715	219.9	181.7
Other assets	6,864	6,474	390	6.0	(6.7)
Total assets/liabilities & shareholders' equity	**96,982**	**76,768**	**20,213**	**26.3**	**11.2**
Customer deposits**	46,575	39,206	7,369	18.8	4.6
Marketable debt securities**	16,000	11,989	4,010	33.4	17.5
Subordinated debt**	772	1,225	(453)	(37.0)	(44.5)
Insurance liabilities	—	—	—	—	—
Due to credit institutions**	17,254	11,966	5,288	44.2	26.9
Other liabilities	5,910	4,464	1,446	32.4	16.5
Shareholders' equity***	10,472	7,918	2,554	32.2	16.4
Other managed and marketed customer funds	**7,552**	**5,392**	**2,160**	**40.1**	**23.3**
Mutual and pension funds	1,640	807	833	103.3	78.9
Managed portfolios	5,912	4,585	1,327	28.9	13.5
Managed and marketed customer funds	**70,897**	**57,811**	**13,086**	**22.6**	**8.0**

Ratios (%) and operating means					
ROE	7.96	9.04	(1.09)		
Efficiency ratio (with amortisations)	36.0	38.8	(2.8)		
NPL ratio	2.54	3.09	(0.55)		
NPL coverage	192.8	148.1	44.7		
Number of employees	15,919	15,334	585	3.8	
Number of branches	811	821	(10)	(1.2)	

(*) Including dividends, income from the equity-accounted method and other operating income/expenses
(**) Including all on-balance sheet balances for this item
(***) Not including profit of the year

United States (changes in dollars)

→ **Attributable profit of $1,061 million** virtually unchanged from 2013. Before minority interests, profit was up 4.5%.

- Gross income increased 16.0%, with improvements in all lines.
- Operating expenses rose 7.6%, largely due to those associated with regulatory compliance.
- Loan-loss provisions were 46.8% higher because of SCUSA.

→ In activity:

- Santander Bank's loans to companies increased and the structure of funds was improved.
- Notable growth in originations and sales at SCUSA, due to the strategic alliance with Chrysler.

The perimeter of Santander US includes retail banking activity, via Santander Bank and Banco Santander Puerto Rico, and consumer finance business, via Santander Consumer USA (SCUSA).

The business model of Santander Bank, with 705 branches and two million customers, focuses on retail customers and companies. It conducts business in the north east of the US, an area that generates 22% of the country's GDP.

Santander Puerto Rico has 54 branches, 410,000 customers and market shares of 10.0% in lending and 11.7% in deposits, as well as a network of 52 shops that tend to consumer customers. It focuses on individuals and companies.

SCUSA, based in Dallas, specializes in consumer finance, mainly auto finance and leasing of new and used vehicles (mainly focused on retail customers, although also on vehicle dealers), and on consumer credits without guarantees, as well as servicing of portfolios for third parties.

Economic environment

In 2014, business was conducted in an environment of faster growth. With interest rates at historic lows, this enabled the Fed's quantitative stimulus measures to be reduced and the dollar to strengthen against the euro. With data at September and according to the FDIC Quarterly Banking Profile, total lending rose 5%, strongly backed by commercial and industrial companies, cards and auto finance to individuals. The latter reflects, the rise in sales and auto finance for new and used vehicles. Deposits grew 5% with a higher weight of demand than time deposits because of the interest rate environment.

Retail banking

Santander Bank and Banco Santander Puerto Rico conduct the retail banking strategy.

Santander Bank's(*) strategy in 2014 centred on growth in loans to companies and consolidating the business derived from auto finance, and on increasing and improving the quality of deposits. In addition, measures to optimise the balance sheet were implemented which will have a positive impact on results in the future.

Lending to commercial and industrial companies continued to grow, led by Global Banking and Markets. Auto finance operations were also consolidated, which is expected to be one of the main sources of growth for Santander Bank over the coming years, obtaining synergies from the Group's global experience and the local one of SCUSA.

Of note in the retail segment was the good functioning of the innovative *Extra20* product launched at the end of 2013. Its main objective is to capture new customers, increase linkage and core deposits. Noteworthy in cards was the launch of the *Bravo* card, a product for high-income segments.

The strategy in deposits focused on increasing demand deposits and reducing time deposits. In addition, government banking continued to perform well.

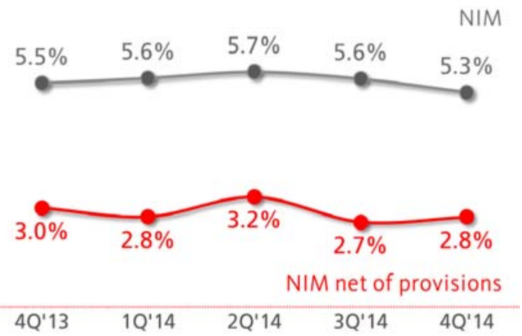
The Bank's balance sheet was restructured in the second half of the year, with the selling of $700 million of unproductive assets and securitising $2,100 million of mortgages. The results from these operations were used to reposition the balance sheet in terms of profitability, cancelling historic long-term debt whose costs were above the market's.

All of this was reflected in the evolution of lending, which would have risen 6% excluding the aforementioned balance sheet

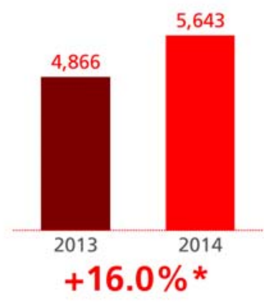
Activity
% var. 2014/2013 (constant EUR)

(*) Customer deposits + mutual funds

Net interest margin
%



Gross income
Constant EUR Million



(*) In euros: +16.1%

measures, as well as in deposit growth of 7% (+11% in core demand deposits).

Santander Bank's attributable profit fell 10.6% to $490 million.

Gross income declined 5.2%, affected by the reduction in the investments portfolio that impacted net interest income, as well as the decline in fee income largely due to the new regulations on overdrafts.

Operating expenses were 9.7% higher, due to the need to adapt to regulatory requirements, as well as investment in technology (ATMs, mobile banking and cards).

As regards credit quality, the performance remained good. The NPL ratio was 1.41% (-82 b.p. in twelve months) and coverage 109%, reflecting the portfolio's improved composition and strict risk management. As a result, provisions remained at very low levels.

Santander Puerto Rico stands out for its good credit quality, level of capitalisation, liquidity and quality of service.

The strategy of deleveraging led to a 16% fall in lending.

Attributable profit was $90 million, 12.1% less than in 2013, due to the recognition of deferred tax assets in 2013. Excluding them, pre-tax profit rose 5.2%.

The NPL ratio was 7.45% (+116 b.p. in the year) and coverage 56% (-6 p.p.).

Consumer finance

SCUSA completed in the first quarter of 2014 its public offering of shares and listing on the New York Stock Exchange.

SCUSA continued in 2014 its auto finance plan stemming from the agreement with Chrysler, as well as actions and agreements that enabled it to continue to grow in consumer credit without guarantees. The strategy of the last few quarters was centred on increasing originations, but maintaining more stable on-balance sheet balances, as a result of securitisations and sales of portfolios.

SCUSA continued to seek expansion opportunities in servicing, such as the agreement signed in the second quarter of 2014 with Citizens Bank of Pennsylvania to sell the prime portfolio of auto finance, maintaining collection management. This operation joined the agreement already existing with Bank of America.

New lending rose 25% and on-balance sheet balances 13%, mainly due to the agreement with Chrysler in 2013. Lower growth in recent quarters.

This evolution was reflected in growth in gross income of 32.3%, which did not feed through fully to profits because of the 45.6% rise in provisions, partly linked to greater new lending and the consumer credit portfolio without guarantee. Attributable profit was 16.5% higher at $481 million.

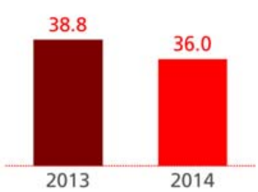
The NPL ratio declined 38 b.p. to 3.97% and the coverage ratio was very high (296%, compared to 240% in 2013).

(*) Including Santander Holding USA.

Strategy and objectives in 2015

- In commercial banking (Santander Bank and Puerto Rico):
  - In the retail segment, focus on capturing deposits and customer linkage. Consolidate *Select*.
  - In companies and GBM, growth in commercial and industrial companies loans, and transactional deposits.
- In consumer finance (SCUSA):
  - Consolidate the business in the agreement with Chrysler.
  - In auto finance and leasing, strategy of loan originations to sell, maintaining a flat balance sheet.
  - Increase servicing business for third parties.
- Strengthen the governance and control structures through more investments in technology, risks and regulatory compliance.

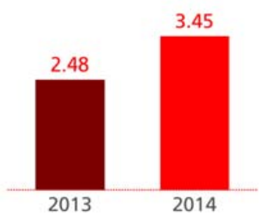
Efficiency ratio
%



Net operating income
Constant EUR Million

(*) In euros: +21.4%

Cost of credit
%



Attributable profit
Constant EUR Million

(*) In euros: -0.1%

Corporate Activities

EUR Million

Income statement	2014	2013	Variation amount	%
Net interest income	**(1,937)**	**(2,223)**	**286**	**(12.9)**
Net fees	(37)	(50)	13	(26.2)
Gains (losses) on financial transactions	1,456	1,186	270	22.8
Other operating income	60	139	(79)	(56.9)
Dividends	30	35	(5)	(13.8)
Income from equity-accounted method	(28)	(10)	(18)	170.1
Other operating income/expenses	58	114	(56)	(49.3)
Gross income	**(458)**	**(948)**	**490**	**(51.7)**
Operating expenses	(763)	(696)	(67)	9.7
General administrative expenses	(653)	(555)	(98)	17.7
Personnel	*(243)*	*(221)*	*(22)*	*9.8*
Other general administrative expenses	*(410)*	*(333)*	*(77)*	*23.0*
Depreciation and amortisation	(111)	(141)	31	(21.8)
Net operating income	**(1,221)**	**(1,644)**	**423**	**(25.7)**
Net loan-loss provisions	2	(201)	203	—
Other income	(571)	(436)	(135)	30.8
Ordinary profit before taxes	**(1,790)**	**(2,282)**	**491**	**(21.5)**
Tax on profit	6	218	(212)	(97.4)
Ordinary profit from continuing operations	**(1,785)**	**(2,064)**	**279**	**(13.5)**
Net profit from discontinued operations	—	(0)	0	(100.0)
Ordinary consolidated profit	**(1,785)**	**(2,064)**	**279**	**(13.5)**
Minority interests	4	7	(3)	(43.1)
Ordinary attributable profit to the Group	**(1,789)**	**(2,071)**	**282**	**(13.6)**
Net capital gains and provisions	—	—	—	—
Attributable profit to the Group	**(1,789)**	**(2,071)**	**282**	**(13.6)**

Balance sheet				
Trading portfolio (w/o loans)	2,916	2,743	173	6.3
Available-for-sale financial assets	7,285	10,676	(3,391)	(31.8)
Investments	643	477	167	35.0
Goodwill	27,548	24,254	3,294	13.6
Liquidity lent to the Group	42,130	17,712	24,419	137.9
Capital assigned to Group areas	72,189	65,088	7,100	10.9
Other assets	56,127	61,880	(5,753)	(9.3)
Total assets/liabilities & shareholders' equity	**208,837**	**182,829**	**26,009**	**14.2**
Customer deposits*	5,279	2,851	2,428	85.2
Marketable debt securities*	59,954	64,470	(4,516)	(7.0)
Subordinated debt*	4,107	3,871	236	6.1
Other liabilities	53,179	30,926	22,253	72.0
Group capital and reserves**	86,318	80,711	5,608	6.9
Other managed and marketed customer funds	—	—	—	—
Mutual and pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Managed and marketed customer funds	**69,340**	**71,192**	**(1,852)**	**(2.6)**

Operating means				
Number of employees	2,633	2,432	201	8.3

(*) Including all on-balance sheet balances for this item
(**) Not including profit of the year

Corporate Activities

Loss of EUR 1,789 million in 2014.

- **An improvement of 13.6% compared to the loss of EUR 2,071 million in 2013.**
- **This was due to improved net interest income from the lower cost of issues and trading gains (better results from management of assets and liabilities).**

Within Corporate Activities, the Financial Management area conducts the global functions of balance sheet management, both structural interest rate and liquidity risk (the latter via issues and securitizations), as well as the structural position of exchange rates.

- Interest rate risk is actively managed by taking market positions. This management seeks to soften the impact of interest rate changes on net interest income, and is done via bonds and derivatives of high credit quality and liquidity and low consumption of capital.
- The objective of structural liquidity management is to finance the Group's recurring activity in optimum conditions of maturity and cost, maintaining an appropriate profile (in volumes and maturities) by diversifying the funding sources.
- Management of the exposure to exchange rate movements in equity and in the counter value of units' results in euros is also conducted on a centralized basis. This management (which is dynamic) is conducted through exchange-rate derivatives, optimizing at all times the financial cost of hedging.

Hedging of net investments in the capital of businesses abroad aims to neutralize the impact on capital of converting into euros the balances of the main institutions that are consolidated and whose currency is not the euro.

The Group's policy seeks to immunize the impact, which, in situations of high volatility in the markets, sudden changes in interest rates would have on these exposures of a permanent nature. The investments that are currently hedged are those in Brazil, UK, Mexico, Chile, US, Poland and Norway and the instruments used are spot, FX forwards or tunnel options. EUR 15,546 million are currently hedged.

Exposures of a temporary nature – those regarding results that the Group's units will contribute in the next 12 months in non-euro currencies – are also managed on a centralized basis in order to limit their volatility in euros.

Meanwhile and separately from the financial management described here, Corporate Activities manages all capital and reserves and allocations of capital to each of the units, as well as providing the liquidity that some of the business units might need. The price at which these operations are carried out is the market rate (euribor or swap) plus the risk premium, which in concept of liquidity, the Group supports for immobilizing the funds during the life of the operation.

Lastly, and marginally, the equity stakes of a financial nature that the Group takes within its policy of optimizing investments are reflected in Corporate Activities.

The main developments in the income statement were:

- Net interest income was EUR 1,937 million negative compared to EUR 2,223 million negative in 2013. This improvement was due to the lower financial cost as a result of reduced outstanding average balance of wholesale funds, after the capturing by the parent bank of funds at lower maturities and amortisations (directly related to existing customer deposits whith balances higher than those of loans).
- Trading gains, which incorporate those derived from the centralized management of the interest rate and exchange rate risk of the parent bank as well as that from equities, were EUR 1,456 million positive, 22.8% more than in 2013.
- Operating expenses increased over the previous year because of the combined effect of stable recurring personnel costs (where the efficiency plans are producing their fruits), and the higher costs related to ongoing corporate transactions, which are recorded in the Corporate Centre until their effective entry into force. Costs related to the implementation of the various regulations are also recorded here.
- Loan-loss provisions recorded a release of EUR 2 million in 2014 as against an allocation of EUR 201 million in 2013, a year when a charge was made related to the integration of banks in Spain.
- Other income includes the net between various provisions and writedowns and positive results. This figure was EUR 571 million negative compared to EUR 436 million also negative in 2013. The difference was mainly due to provisions for contingencies made in the fourth quarter of 2014.
- Lastly, the tax line recorded a recovery of EUR 6 million (EUR 218 million in 2013), as a result of higher taxes, associated with the higher results of business units in Spain.

Retail Banking

→ **Attributable profit of EUR 5,870 million,** 21.8% more than in 2013. Excluding the exchange rate impact, growth was 26.4%, due to:

- Higher gross income from net interest income.
- Control of costs.
- Fewer provisions.

→ The Group progressed in **transforming retail banking** via three drivers:

- Specialised management in segments: implementation of *Santander Select, Santander Advance, Santander Trade* and *Santander Passport*.
- Develop the multi channel distribution model.
- Improve the customer experience.

Retail banking generated 85% of gross income and 72% of the attributable profit of the Group's operating areas in 2014.

Strategy

Significant advances were made during 2014 in the programme to transform retail banking. The main elements are to improve the knowledge of our customers, specialized management of each segment, develop a multi channel distribution model and continuous improvement in the customer experience, while fostering innovation and taking maximum advantage of the opportunities linked to Grupo Santander's international positioning.

As regards deepening knowledge of customers, progress was made in improving our analytical skills and a new commercial front was developed in order to put this knowledge at the disposal of all the channels and so enhance productivity and customer satisfaction.

This commercial tool, based on a best practice in Chile, is already being developed in Brazil, Spain, United States and United Kingdom. Installing the tool in all these countries will be completed in 2015 and extended to the rest of the Group.

Based on better knowledge of customers, significant progress was made in 2014 in installing the specialized models by segments. Advances were made on three fronts:

- Expansion of the *Select* model for high-income clients. It was installed during 2014 in Argentina, Uruguay, Portugal, United States and Germany, bringing the total number of countries to 11 (tending to two million customers).
- As part of the benefits for *Select* customers, we launched the *Global Select* debit card which received the prize for one of the "Best Ideas of 2014" from the magazine *Actualidad Económica*.
- Launch of the *Advance* programme to make us the reference partner for SMEs. This programme supports SMEs in their development and growth, offering a strong financial offer as well as non-financial support measures. It was launched during 2014 in Spain, Mexico and Portugal and will be extended to the rest of the Group's countries during 2015.
- Launch of the *Santander Trade Club* and *Santander Passport* to put the Bank's global reach at the service of our customers.

Retail Banking
EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**28,493**	**27,745**	**748**	**2.7**	**7.0**
Net fees	7,700	7,817	(117)	(1.5)	3.4
Gains (losses) on financial transactions	615	1,111	(497)	(44.7)	(41.8)
Other operating income*	(177)	(330)	153	(46.4)	(44.2)
Gross income	**36,631**	**36,343**	**288**	**0.8**	**5.2**
Operating expenses	(16,659)	(16,948)	289	(1.7)	2.2
Net operating income	**19,972**	**19,395**	**577**	**3.0**	**7.9**
Net loan-loss provisions	(9,736)	(10,874)	1,138	(10.5)	(5.9)
Other income	(1,335)	(1,057)	(279)	26.4	32.4
Profit before taxes	**8,901**	**7,464**	**1,437**	**19.2**	**24.5**
Tax on profit	(2,070)	(1,678)	(392)	23.4	29.6
Profit from continuing operations	**6,831**	**5,786**	**1,045**	**18.1**	**23.0**
Net profit from discontinued operations	(26)	(15)	(11)	73.2	70.2
Consolidated profit	**6,805**	**5,771**	**1,034**	**17.9**	**22.8**
Minority interests	935	952	(17)	(1.8)	4.2
Attributable profit to the Group	**5,870**	**4,819**	**1,050**	**21.8**	**26.4**
Business volumes					
Customer loans	629,874	583,915	45,959	7.9	4.0
Customer deposits	522,388	508,237	14,151	2.8	(0.6)

(*) Including dividends, income from the equity-accounted method and other operating income/expenses

Retail Banking. Income statement

EUR Million

	Gross income			Net operating income			Attributable profit		
	2014	%	% w/o FX	2014	%	% w/o FX	2014	%	% w/o FX
Continental Europe	10,125	5.9	6.1	5,046	18.5	18.8	1,694	71.4	72.4
United Kingdom	4,984	13.9	8.1	2,410	18.2	12.1	1,398	43.4	36.1
Latin America	16,058	(9.4)	0.5	9,018	(12.0)	(2.7)	2,037	(5.2)	5.8
United States	5,464	16.8	16.7	3,499	22.8	22.7	741	4.9	4.8
Total Retail Banking	**36,631**	**0.8**	**5.2**	**19,972**	**3.0**	**7.9**	**5,870**	**21.8**	**26.4**

The *Santander Trade Club* was launched in the middle of 2014, helping to generate new international business opportunities by facilitating connection between exporters and importers. The portal has received more than one million visitors.

Santander Passport is a specialized attention model, which enables our most international customers to be tended to in all Santander's subsidiaries in the same way, taking advantage of the Group's international positioning

Multi channel retail banking continued to be promoted so that customers can do business with the Bank in the most convenient way for them. Some examples include:

- New and better commercial websites in Argentina, Spain, Portugal and United Kingdom.
- New mobile apps in Germany, Brazil, Poland, Puerto Rico and Uruguay and the new concept of simple mobile banking in the UK *(Smartbank)* and in Spain *(sWallet)*.
- New services such as the virtual advisor in Poland which allows remote advising to customers, the customer-manager online collaboration in Spain and the possibility to make P2P payments between telephones in the UK, Poland, Spain and Mexico.
- Launch of the digital manager in Spain, a tablet application that supports the commercial activity of company managers.

In recognition of our value proposal in multi channels, the magazine Global Finance awarded our bank in Chile the prize for the best Latin American website for financial products and in payment of accounts and Santander Rio the best online bank in Argentina.

We continued to work in all countries to improve the customer experience. Of note was the UK, which, through its *Simple, Personal and Fair* programme and the success of the *1/2/3 account*, is improving on a sustained basis the customer satisfaction levels.

We also believe in the need to foster innovation as the key driver for leading the market in a changing environment. Reflecting this philosophy, **SANTANDER ideas:)**, a corporate social network that enables diversity, talent and the collective intelligence of all the Group's employees to be better exploited.

Three challenges have been launched, related to transforming retail banking, improving the management of talent and transforming branches, with the commitment to implement the best ideas generated by employees.

In the coming months, Santander will continue to make headway in the process of transforming retail banks, moving toward an increasingly simple, personal and fair model.

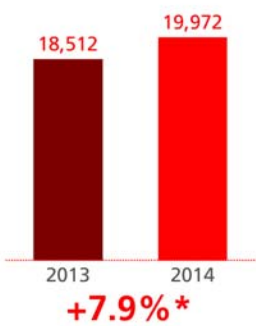
Results

Attributable profit was EUR 5,870 million, 21.8% more than in 2013. Excluding the exchange rate impact, growth was 26.4%.

This evolution was due to the good evolution of the main lines of the income statement. Gross income rose 5.2%, spurred by net interest income (+7.0%); control of costs, falling in real terms (-1.4%), and a 5.9% drop in loan-loss provisions.

Net operating income

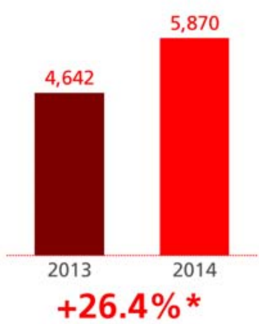
Constant EUR Million



(*) In euros: +3.0%

Attributable profit

Constant EUR Million



(*) In euros: +21.8%

Strategy and objectives in 2015

Continue the process of transforming the Group's retail banks, with a special focus on:

- **Knowing our customers better by improving our business intelligence skills.**
- **Strengthening the Santander franchise by implementing specialized models and global proposals.**
- **Progressing in the multi channel transformation of retail banks and promoting digital channels.**
- **All of this, with a clear focus on the customer experience and taking maximum advantage of the opportunities linked to Grupo Santander's international positioning.**

Global Wholesale Banking

→ Attributable profit of EUR 1,614 million (+10.0% and +16.3% in constant euros). Of note:

- **Solid revenues (+2.5%) and sharp fall in loan-loss provisions (-41.4%), both in constant euros.**
- **Higher operating expenses from investment in franchises being developed. The efficiency ratio of 36.4% is a benchmark for the sector.**

→ The focus remained on customers (89% of revenues) and on managing risks, liquidity and capital.

Santander Global Banking & Markets (SGB&M) contributed 12% of the operating areas' gross income and 20% of attributable profit.

Strategy

SGB&M maintained in 2014 the key pillars of its business model, focused on the customer, the global reach of the division and its interconnection with local units, within active management of risk, capital and liquidity.

The main actions of SGB&M were focused on:

- Developing together with Retail Banking a range of high value products for the various customer segments in all the Group's units.
- Promoting transaction business in the UK, US and Poland.
- Strengthening the results of the franchise of customers in the rest of the countries in order to gain market share.
- Building the Financial Solutions & Advisory unit in order to provide an integral solution to customers' advisory and structural financing needs.
- All with strict management of consumption of risk weighted assets in order to maximise the area's profitability.

Results and activity

Attributable profit was 10.0% higher at EUR 1,614 million. After eliminating the exchange rate impact, growth was 16.3%, fuelled by solid gross income and a sharp reduction in provisions.

Gross income rose 2.5%, backed by net interest income and fee income (+13.4% overall). The sharp fall in trading gains (-32.8%), due to the impact of markets on operations with customers and valuation adjustments, reduced the visibility of revenues.

Operating expenses (+6.5%) reflect investments in high potential markets, particularly in the UK and US. The combination of revenues and costs brought the efficiency ratio to 36.4%, levels that remain benchmarks for the sector, and net operating income was stable in constant euros (+0.4%).

The 41.4% drop in loan-loss provisions, basically due to Spain and Mexico, pushed up net operating income after provisions by 17.9%, and this growth fed through to attributable profit.

These results were backed by the strength and diversification of customer revenues, which accounted for 89% of the area's total

Global Wholesale Banking
EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**2,533**	**2,361**	**172**	**7.3**	**13.5**
Net fees	1,414	1,293	121	9.4	13.2
Gains (losses) on financial transactions	747	1,154	(407)	(35.3)	(32.8)
Other operating income*	302	279	23	8.4	8.2
Gross income	**4,997**	**5,088**	**(91)**	**(1.8)**	**2.5**
Operating expenses	(1,820)	(1,764)	(56)	3.2	6.5
Net operating income	**3,177**	**3,324**	**(147)**	**(4.4)**	**0.4**
Net loan-loss provisions	(546)	(953)	406	(42.7)	(41.4)
Other income	(107)	(70)	(36)	51.6	47.7
Profit before taxes	**2,524**	**2,301**	**223**	**9.7**	**16.9**
Tax on profit	(689)	(637)	(52)	8.2	16.6
Profit from continuing operations	**1,835**	**1,664**	**171**	**10.3**	**17.0**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**1,835**	**1,664**	**171**	**10.3**	**17.0**
Minority interests	220	197	24	12.1	22.5
Attributable profit to the Group	**1,614**	**1,468**	**147**	**10.0**	**16.3**

Business volumes					
Customer loans	86,589	85,390	1,199	1.4	(0.2)
Customer deposits	84,496	61,427	23,068	37.6	36.5

(*) Including dividends, income from the equity-accounted method and other operating income/expenses

and were 1.0% higher without the exchange rate impact (-2.9% in euros), with differences by business sub areas, as follows:

Transaction Banking

Global Transaction Banking[1] increased its customer revenues by 2.8% in constant euros, with a good contribution from most of activities in an environment of containment of spreads and low interest rates. The decline in euros was 2.3%, due to the impact of the depreciation of Latin American currencies.

By businesses, better evolution of trade finance, with strong growth in all countries. Of note was the UK, the units in Asia and the three large Latin American countries, a region that in 2014, once again, obtained awards for certain transactions.

Of note was Santander's leadership in export finance as a result of the help given to our customers in their large operations, as well as the strong growth in working capital solutions, a product in expansion in a context in which companies are aware of the competitive advantage generated by effective management of their supply chain.

Notable operations in 2014 included: the participation as lead arranger in a 12-year $300 million loan with the guarantee of the Multilateral Investment Guarantee Agency (MIGA); the participation as arranger in the Pemex bond of $1,000 million with a US Exim guarantee; as well as the signing of a $500 million receivable purchase programme with Vale, which incorporates risk mitigation structures through a credit insurance policy of Euler Hermes.

The solid contribution of cash management business was also maintained in 2014. Of note was the evolution of Brazil and Mexico, where Santander promoted a local offer combined with regional treasury management solutions, and there was an increasing contribution from the European units.

Custody and settlement also evolved well, strongly supported by the recovery in Spain and Brazil's contribution. The contribution of basic financing declined, however, due to a general containment of spreads in Europe, which was not offset by other countries.

Financing Solutions & Advisory

Financing Solutions & Advisory[2] increased its revenue contribution (+15.1% excluding the exchange rate effect and +11.6% in euros), thanks to the solid evolution of its various businesses.

In project finance, Santander remained one of the world's leading banks, actively contributing to the adjustment of the business and of the market to the new regulatory and financing conditions. In 2014, SGBM again stood out in placing project bonds for Europe, Mexico and Brazil, which means moving toward a less capital-intensive business. Also noteworthy were the results of the cooperation with the trade and export finance areas in structuring transactions that combine long-term financing with support for credit institutions (two deals closed in the year), as well as advisory activity, mainly in Latin America, where the Bank is in the top positions in the league tables.

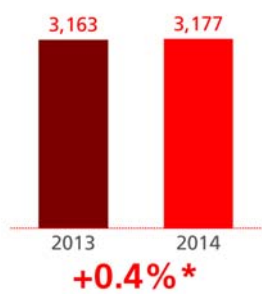
The most important operations include: issuance of a new $580 million project bond for a subsidiary of the Brazilian group Odebrecht where Santander acted as global coordinator and rating advisor; underwriting the tariff deficit and Capibara project in Spain; advice and future participation in the debt of Ramones together with the Ventika I and II project in Mexico, and Renova's Alto Sertao II wind complex in Brazil.

In syndicated corporate loans, Santander also maintained reference positions in Europe and Latin America. Of note was SGBM's participation throughout 2014 in syndicated loans for large companies such as Imperial Tobacco (£7,750 million) where it acted as underwriter, bookrunner and mandated lead arranger; Bayer ($14,200 million), as mandated lead arranger and BSkyB, in two operations (EUR 6,500 million and £1,450 million), where it was mandated lead arranger.

In the capital market, and in response to the scenario of disintermediation currently facing the financial industry, Santander strengthened its origination and distribution capacities, enabling it to lead the rankings in various countries and markets, from that of Brazilian issues in euros to one so specific and local as that of the Housing Associations in the UK. The issues in euros for the Treasuries in Brazil and Chile, as well as for Codelco (the first by a Chilean company in 15 years), are good examples. In addition, SGBM continues to strengthen its global capacities with growth projects in the high-grade market in the US, private placements and high yield in Europe.

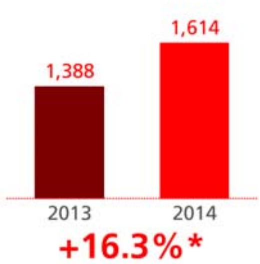
In corporate finance, SGBM also took advantage of the Group's position in markets and customers to participate in significant operations. Of note were advisory services for American Tower's purchase of the Brazilian BR Towers; the capital increase of Fibra Uno in Mexico, the country's second largest placement, where Santander acted as global coordinator; the advisory services in

Net operating income
Constant EUR Million



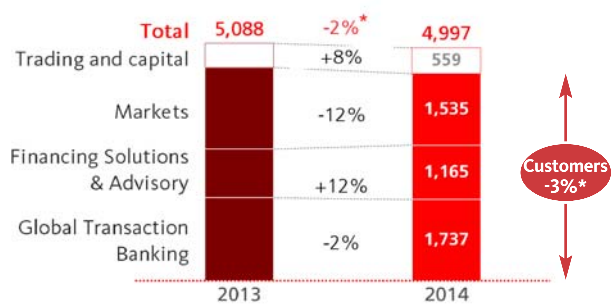
(*) In euros: -4.4%

Attributable profit
Constant EUR Million



(*) In euros: +10.0%

Gross income breakdown
EUR Million



(*) Excluding exchange rate impact: total revenues: +3%; customers: +2%

Orange's public offering to acquire 100% of Jazztel, the offering of Endesa and FCC's capital increase, all of them in Spain; as well as Enersis's takeover bid to increase its stake in Brazil's Coelce.

Lastly, the business of A&CS continued to increase its contribution to the Group in parallel with the growth in its portfolio of customers in all countries. Among the most notable operations was the leasing operation of three Boeing 777-300 ERs for Singapore Airlines and the bridge equity financing of a MW 138 wind farm project in Mexico for Renovalia and First Reserve.

Global Markets

Global markets[(3)] reduced its total customer revenues by 12.2% (-9.1% without the exchange rate impact), largely due to the smaller contribution form European units.

Positive evolution of revenues from the sales business, which accounted for more than half of the area's revenues, fuelled by double-digit growth in constant euros in the three big Latin American countries. There were also rises, although more moderate, in Spain and UK. By type of customer, growth in the retail and institutional segments in all units, with a varied contribution from the segment of corporate customers.

Sharp decline in revenues from the management of books in Europe, which was only partly offset by the rise for the whole of Latin America. Of note by products was the rise in primary placement of credit issues and the fall in the secondary market books of flow products in Europe.

Greater contribution from equities, which increased customer revenues in constant euros, backed by the strength of activity in Europe, both in the primary as well as the secondary market and offsetting the decline in Latin American countries. Weak organised derivative markets, where the Group has leadership positions in Spain (MEFF- Spanish Market of Financial Futures) and in Mexico, with market share in settlement and execution of orders of more than 20% in all the listed assets (exchange rates, interest rates and stock market indexes).

Strategy and objectives in 2015

The main priorities in 2015 are:

- **Continue the 2014 lines of action: cooperation with retail networks; commitment to transaction banking; develop franchises with high potential (UK, US and Poland).**
- **Increase our range of credit products for corporate clients and investors.**
- **Advance in our coverage in Asia and the Andean region, in line with the Group's stronger activity in these areas.**

Ranking in 2014

	Activity	Area	Country / region	Source
Award	Best Trade Advisor in Latin America	GTB	Latin America	Trade Finance
Award	Best Supply Chain Finance Bank in Latin America	GTB	Latin America	Trade Finance
Award	Best Commodity Finance Ban in Latin America	GTB	Latin America	Trade Finance
Award	Best Export Finance Arrager in Latin America	GTB	Latin America	Trade Finance
Award	Best Overall Trade Bank in Latin America	GTB	Latin America	Trade Finance
Award	Best Trade Finance Bank in Latin America	GTB	Latin America	GTR
Award	Americas Oil & Gas Deal of the Year: Los Ramones Sur	FS & Advisory	America	Project Finance International
Award	Europe Power Deal of Year: Gemini	FS & Advisory	Europa	Project Finance International
Award	Middle East & Africa Refinery Deal of the Year: Star Rafineri	FS & Advisory	Middle East y Africa	Project Finance International
Award	North American Renewables Deal of the Year - Regulus	FS & Advisory	North America	Infrastructure Journal
Award	SSAR Bond / Euro Bond: Spain´s € 10Bn 10-year bond	FS & Advisory	Spain	IFR
Award	Latin America Bond: Fibra Uno´s US$1Bn dual-tranche bond	FS & Advisory	Latin America	IFR
N1.	Equities Research Iberia	Global Markets	Iberia	Institutional Investors
N1.	Equities Research Iberia	Global Markets	Iberia	Thomson Reuters Extel
N1.	Equities Sales Iberia	Global Markets	Iberia	Thomson Reuters Extel
N1.	Equities Sales Trading Iberia	Global Markets	Iberia	Thomson Reuters Extel
N1.	Equities Corporate Access Iberia	Global Markets	Iberia	Thomson Reuters Extel

(*).- Ranking according to survey selection criteria

(1) Global Transaction Banking (GTB): includes the businesses of cash management, trade finance, basic financing and custody.

(2) Financing Solutions & Advisory (FS&A):): includes the units of origination and distribution of corporate loans or structured financing, the teams of origination of bonds and securitisation, the corporate finance units (mergers and acquisitions, primary equity markets, investment solutions for corporate clients via derivatives), as well as asset & capital structuring.

(3) Global Markets (GM): includes the sale and distribution of fixed income and equities, interest rates and inflation; trading and hedging of exchange rates and short-term money markets for the Group's wholesale and retail customers; management of the books associated with distribution; and brokerage of equities and derivatives for investment and hedging solutions.

Private Banking, Asset Management and Insurance

- **Attributable profit of EUR 703 million (+18.4% more than in 2013).**
  - Without the perimeter effect (sale of 50% of fund management entities in 2013) and the exchange rate impact, profit would have been 31.3% higher.
  - Total gross income for the Group (including that paid to the networks) represented 10% of the operating areas' total and increased 6.8% on a like-for-like basis (perimeter and exchange rates).
- **Private banking:** recovery of gross income and lower provisions spurred attributable profit, which grew 16.9% in constant euros.
- **Asset management:** on a like-for-like basis, total gross income increased 22.4% and attributable profit doubled.
- **Insurance:** 2.9% growth in constant euros in total gross income plus value of business recognized via corporate operations.

The area's attributable profit was EUR 703 million (8% of the operating areas' total).

Strategy

Private Banking. The process of developing and installing a homogeneous model, which offers comprehensive solutions for the financial needs of the Group's clients with the highest net worth, via commercial units specialized by countries and supported by the Group's other global areas, continued during 2014. Its three basic pillars are:

- Segmentation, as a tool to define a tailored and efficient value offer that also tends to the needs of the next generations.
- Customer linkage and satisfying customer needs.
- Decisive commitment to multi channels in an increasing digital environment.

An important milestone in 2014 was integrating the three specialized networks in Spain, consolidating Santander as the reference for high net worth clients in the country.

Asset Management. Under the strategic alliance with Warburg Pincus and General Atlantic to promote the global business of asset management, the area continued to advance in its marketing model, backed by the strength and knowledge of local markets. Of note among the key aspects in 2014 were:

- Review and general adjustment of the range of products, with a greater focus on clients and their saving-investment needs.
- An important effort in training commercial networks teams in order to strengthen the range of products and ensure their correct distribution in accordance with the features of each customer.
- Extending and consolidating investment solutions with profiled funds in eight of the Group's core countries, as well as launching specialized ranges for the *Select* segment in three of them.

Private Banking, Asset Management and Insurance
EUR Million

Income statement	2014	2013	Variation amount	%	% w/o FX
Net interest income	**462**	**498**	**(36)**	**(7.3)**	**(5.6)**
Net fees	610	547	63	11.5	13.4
Gains (losses) on financial transactions	32	43	(11)	(25.8)	(24.7)
Other operating income*	402	343	59	17.2	23.6
Gross income	**1,506**	**1,431**	**75**	**5.2**	**8.0**
Operating expenses	(579)	(575)	(4)	0.8	2.1
Net operating income	**927**	**857**	**70**	**8.2**	**11.9**
Net loan-loss provisions	(0)	(50)	50	(99.2)	(99.2)
Other income	(7)	(19)	12	(62.0)	(61.4)
Profit before taxes	**919**	**787**	**132**	**16.8**	**21.1**
Tax on profit	(193)	(171)	(22)	12.8	14.8
Profit from continuing operations	**726**	**616**	**110**	**17.9**	**23.0**
Net profit from discontinued operations	—	—	—	—	—
Consolidated profit	**726**	**616**	**110**	**17.9**	**23.0**
Minority interests	23	22	1	4.6	14.2
Attributable profit to the Group	**703**	**594**	**109**	**18.4**	**23.3**

(*) Including dividends, income from the equity-accounted method and other operating income/expenses

Insurance. The area continued to advance in building a sustainable business model focused on the customer and on their protection needs. The objective is to construct long-term relations of confidence on the basis of the customer's experience; protection solutions tailored to each segment and an innovative model of multi channel marketing.

The focuses in 2014 were:

- Increase the range of open market insurance, with a greater degree of segmentation and multi channel. With the launch in all countries of insurance products for different customer profiles, the main focus was on the *Select* (high income) and *Advance* (SMEs) segments.

- Strengthen bancassurance business via strategic alliances with insurers that are global leaders, thereby enabling Santander's clients to access a larger and more innovative range of products. An agreement was signed during 2014 with CNP to develop the insurance business of Santander Consumer Finance in Europe, and extend the cooperation agreement with Aegon to the Portuguese market.

- The strategic agreements with Zurich in five Latin American countries, with Aegon in Spain and Aviva in Poland continued to meet their goals.

Results and activity

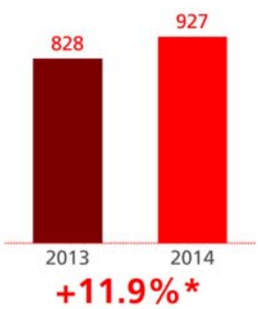
The whole area registered a trend of sustained improvement in gross income and spreads that resulted in the highest attributable profit in two years being recorded in the fourth quarter.

Of note was the 5.2% growth in 2014 in gross income, which absorbed the lower perimeter (sale of 50% of the fund management institutions in the fourth quarter of 2013) and the depreciation of Latin American currencies. Flat operating expenses and lower provisions lifted attributable profit by 18.4%. Eliminating these effects, growth was 11.2% and 31.3%, respectively.

The area's total contribution to the Group by these three global businesses (including revenues recorded by the distribution networks) amounted to EUR 4,528 million (+1.9% and +6.8% on a like-for-like basis and constant exchange rates). These revenues accounted for 10% of the operating areas' total.

Private Banking. Attributable profit was EUR 319 million (+15.7% and +16.9% in constant euros), with a good evolution of gross income, operating expenses and provisions.

Net operating income
Constant EUR Million

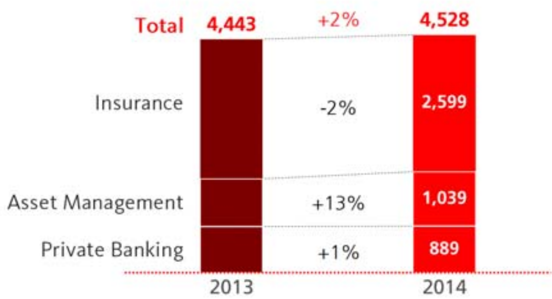


(*) In euros: +8.2%

Attributable profit
Constant EUR Million

(*) In euros: +18.4%

Total Group revenues
EUR Million



(*) At constant perimeter and exchange rates:
Total +7%; Insurance +3%; Asset Management +22%; Private Banking: +2%

Private Banking, Asset Management and Insurance. Income statement
EUR Million

	Gross income			Net operating income			Attributable profit		
	2014	%	% w/o FX	2014	%	% w/o FX	2014	%	% w/o FX
Private Banking	889	1.0	2.4	481	1.9	3.0	319	15.7	16.9
Asset Management	162	29.8	33.7	121	50.0	57.0	114	36.8	43.1
Insurance	455	6.7	12.2	325	7.0	14.4	270	14.9	24.0
Total	**1,506**	**5.2**	**8.0**	**927**	**8.2**	**11.9**	**703**	**18.4**	**23.3**

Excluding the exchange rate impact, gross income recovered, thanks to more commercial revenues (+3.9%) and costs (+1.6%) rising at below the inflation rate. Net operating income increased 3.0% in constant euros and the efficiency ratio improved to 46%, a reference for the sector. Lastly, the sharp fall in loan-loss provisions explains the rate of profit growth.

Strategy and objectives in 2015

Private Banking

The global business of private banking will continue to focus on consolidating the comprehensive advisory model which increase in the number of clients and their level of satisfaction and assets under management. Key aspects of this strategy are the development of:

- **a value offer that includes transaction banking, financing and investment advice.**
- **a technological platform that guarantees the quality of services provided and adjusts the recommendations to the customer's risk profile.**

Of note were the greater contributions of Spain and Portugal and in Latin America of Brazil and Chile (flatter contributions from the rest of units).

Asset Management. Attributable profit was EUR 114 million, 36.8% more than in 2013, after absorbing the sale of 50% of the fund management entities and the depreciation of Latin American currencies. On a like-for-like basis in terms of the perimeter and exchange rates, attributable profit doubled (+100.4%), basically due to the greater contribution of the shared fund management entities.

Total gross income including the fee income paid to the networks was EUR 1,039 million, 13.3% more than in 2013 (+22.4% with constant perimeter and exchange rates).

The rise in the business volume contributed to this. Total funds marketed and managed were 17% higher than in 2013 at EUR 162,000 million at constant exchange rates, of which EUR 136,000 million were mutual and pension funds, and the rest clients' managed portfolios. Three countries have three-quarters of the business:

- Spain's assets under management increased 21% to EUR 59,000 million. Of note is Santander Asset Management which, backed by capturing of mixed and profiled products (four funds in the year's top 10), consolidated its leadership.
- In Latin America, Brazil's assets amounted to EUR 50,000 million (15% in local currency), spurred by the high income and corporate segments.
- Mexico's managed assets increased 10% to EUR 11,500 million, due to robust demand for the profiled funds *Select* and *Elite* during the year

Strategy and objectives in 2015

Asset Management

- **Continue to build a sustainable business model on the foundations of the institutional and distribution capacities of the strategic alliance underway.**
- **Continue with the extension to the markets where the Group operates of more diversified profiled solutions that are tailored to the different customer segments in order to offer them greater value added.**

Of note among the rest of units was the high growth in volumes in local currency of Chile (+35%), Portugal (+23%) and United States (+25%).

Insurance posted an attributable profit of EUR 270 million, 14.9% more than in 2013. Eliminating the exchange rate effect, attributable profit was 24.0% higher, strongly backed by the greater contribution of joint venture insurers (at 50%) in the strategic alliances.

In terms of the total contribution to the Group, the revenues generated by business (including fee income paid to the networks) amounted to EUR 2,600 million, 2.9% more than in 2013 at constant exchange rates (-1.7% in current euros).

There was a similar evolution of the total result for the Group (pre-tax profit plus fee income paid to the networks), which increased 3.0% in constant euros. The evolution by geographic area varied

- Europe's contribution was 0.4% lower. The better evolution of Santander Consumer Finance (+5.8%) and Poland (+42%) offset the declines in Spain, Portugal and United Kingdom.
- Latin America's contribution was up 8.1% in an increasingly strict regulatory environment. Greater impact in Chile (-4.1%). The rest of countries continued to increase their total contribution, particularly Mexico (+18.5%).

Strategy and objectives in 2015

Insurance

- **Increase the customer linkage of the Group's units, with a range of more segmented products tailored to clients' needs.**
- **Facilitate contracting via any of the channels available in the Bank.**
- **Boost the weight of non-linked protection products.**
- **Extract the maximum value from the strategic alliances with world insurance leaders in the development of a sustainable business model.**

5

Risk management report

Executive summary

Grupo Santander's risk management and control principles

pages 177 to 178

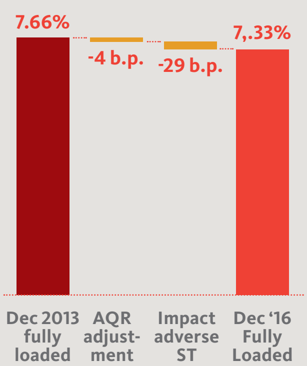
- Group Wide Risk Management (GWRM): comprehensive risk management integrated at all levels of the Group, efficiently aligning the strategic business objectives with a medium-low and stable risk profile.
- Integration of the risk culture throughout the Group, driven by senior management and with remuneration frameworks aligned with the risk appetite.
- The risk function is independent of the business functions.
- Powers and attributions with collegiate decisions that ensure opinions are contrasted.
- Formulation and monitoring of the risk appetite, analysis of scenarios using advanced models and metrics, establishing a framework of control, reporting and scaled that identifies the risks.

Regulatory capital

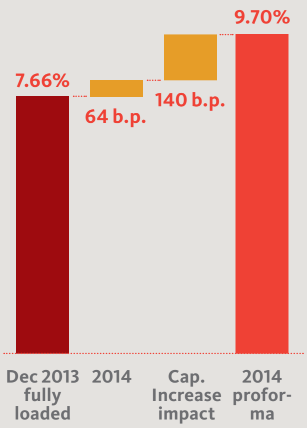
pages 275 to 280

CET1 fully loaded

Comprehensive Assessment



CET1 evolution 2014

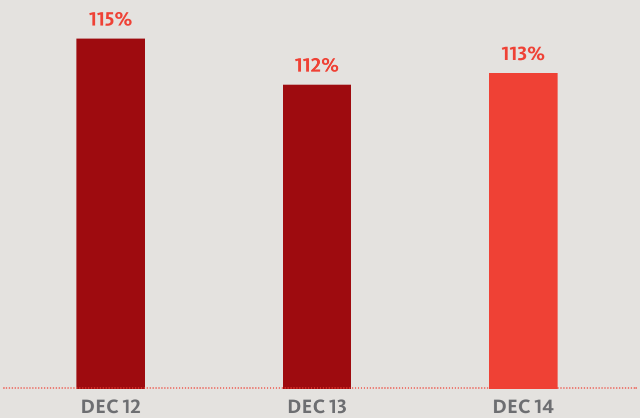


- The CET1 (Base III fully loaded) was 9.7% following the January 9, 2015 capital increase of EUR 7,500 million to support the Group's organic growth plans.
- The Comprehensive Assessment underscored the resilience of the Group's balance sheet.
  - Marginal adjustment (4 b.p. in CET1) of the AQR, reflecting correct classification of the risks and adequate coverage.
  - CET1 deterioration of only 29 b.p. in the stress tests, the smallest impact among our euro zone peers.

Liquidity risk and funding

pages 245 to 258

Net loan-to-deposit ratio total Group



Note: 2012 and 2013 figures on a like-for-like basis

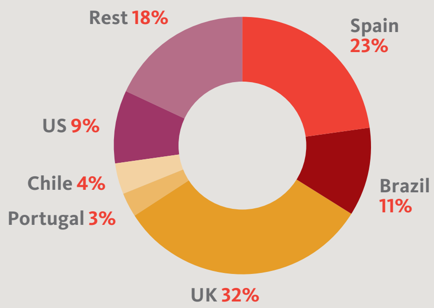
- Santander has a comfortable liquidity position, backed by its commercial strength and model of autonomous subsidiaries, with a high level of customer deposits.
- The net loan-to-deposit ratio at the Group level remained at very comfortable levels (113%).
- In a more favourable market environment, with abundant liquidity at lower cost, greater recourse in 2014 to medium and long-term wholesale funding: 18 units issuing in 15 countries and 13 currencies.
- Compliance ahead of schedule with the regulatory requirements, and further rise in the Group's liquidity reserve to EUR 230,000 million.

Improved credit risk profile

pages 194 to 222

Credit risk with clients by geographic areas

%

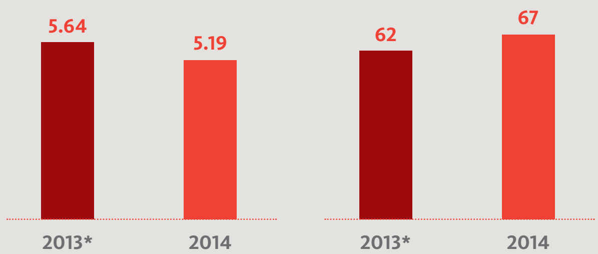


- More than 80% of risk is with commercial and retail banking.
- High geographic diversification and by sectors
- Better risk profile:
  - Group NPL ratio of 5.19%, 45 b.p. lower than in 2013. Of note Brazil (-59 b.p.), UK (-19 b.p.) and Spain (-11 b.p.).
  - Coverage ratio of 67% (+5 p.p.).
  - Provisions at the end of the year stood at EUR 10,562 million, and fell in all the large units.
  - Cost of credit 1.43% (1.53% end of 2013).

Main magnitudes

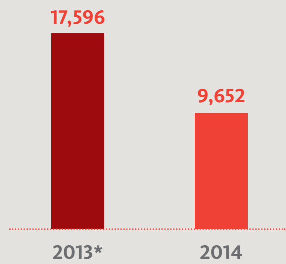
NPL ratio and coverage ratio

%



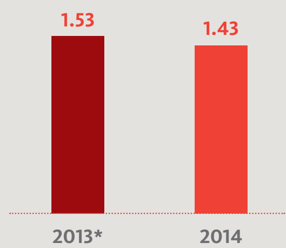
Net entries

Million euros



Cost of credit[1]

%



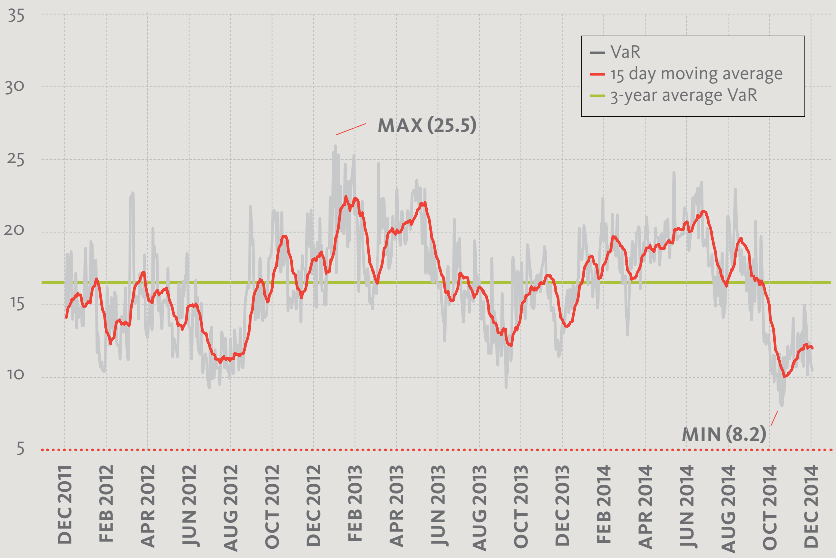
1. Cost of credit: 12 month loan-loss provisions/average lending.
* Excluded SCUSA.

Market trading and structural risks

pages 223 to 244

Evolution of VaR 2012- 2014

Million euros. VaR at 99%, with a time frame of one day



- The average VaR in trading activity of global wholesale banking remained at low levels due to the customer service focus and geographic diversification.
- The balance sheet structure enabled the changes in interest rates to have a low impact on net interest income and equity value.
- Coverage levels of the core capital ratio at around 100%, in the face of exchange rate movements.

This management report provides extensive information on the risks facing the Group, the way in which they are managed and controlled and how they are affecting the Group's activity and results. The actions taken by the Bank to minimise their occurrence and mitigate their severity are also set out.

In line with the best market practices, a map is included for navigating that enables the reader to track the main issues discussed in this risk management report through various documents published by the Group: Annual report, Auditor's report and annual consolidated accounts and Pillar 3. In this same line of fostering transparency, the IPR includes a glossary of terms that set out the basic terminology of risks used in this chapter, as well as in the IPR itself.

The appendix at the end of this report has a table showing the location in the information published by Grupo Santander of the recommendations of the Enhanced Disclosure Task Force (EDTF), promoted by the Financial Stability Board.

Map for navigating Grupo Santader's documents with risk management and control information

Block	Points	Annual Report	Audit Report & Annual accounts	IPR (Pillar III)
ECB comprehensive assessment	ECB comprehensive assessment	Page 174	Note 54.10	Section 5
Corporate principles	Corporate principles of risk management and control	Page 177	Note 54.1	Section 5
Corporate governance of the risk function	Corporate governance of the risk function	Page 179	Note 54.2	Sections 5 and 6
Management model and control of risks	Map of risks	Page 182	Note 54.3	Section 13
	Group Wide Risk Management (GWRM)	Page 183		
	Risk assessment	Page 183		
	Risk appetite and structure of limits	Page 184		
	Analysis of scenarios	Page 187		
	Viability plans and living wills	Page 188		
	Independent reporting	Page 188		
	Internal control framework	Page 189		
	Risk culture	Page 190		
Risk environment	Risk environment	Page 192		
Credit risk	Introduction to the treatment of credit risk	Page 194	Note 54.4 and other notes and related information	Sections 7 and 8
	Main magnitudes and evolution (risk map, evolution, conciliation, geographic distribution and segmentation, management metrics)	Page 194		
	Detail of main markets: UK, Spain, Brazil	Page 203		
	Other risk credit risk optics (credit risk by activities in financial markets, concentration risk, country risk, sovereign risk and environmental risk)	Page 210		
	Credit risk cycle (pre-sale, sale and post sale)	Page 218		
	Risk study and process of credit rating, and planning and setting of limits (analysis of scenarios)	Page 218		
	Decision on operations (mitigation techniques of credit risk)	Page 219		
	Monitoring, measurement and control	Page 220		
	Recovery management	Page 222		
Trading market risk and structural risk	Activities subject to market risk and types of market risk	Page 223	Note 54.5 and other notes and related information	Section 9
	Trading market risks	Page 224		
	Main magnitudes and evolution	Page 224		
	Methodologies	Page 234		
	System for controlling limits	Page 235		
	Structural risk balance sheet	Page 236		
	Main magnitudes and evolution	Page 236		
	Methodologies	Page 240		
	System of control of limits	Page 241		
	Pension, actuarial and fiduciary risks	Page 241		
Liquidity risk and funding	Introduction to the treatment of liquidity and funding risk	Page 245	Note 54.6 and other notes and related information	Section 10
	Liquidity management framework. Monitoring and control of liquidity risk (organisational and governance model, analysis of the balance sheet and liquidity risk measurement, management adapted to business needs)	Page 246		
	Financing strategy and evolution of liquidity in 2014	Page 250		
	Funding outlook for 2015	Page 258		
Operational risk	Definition and objectives. Corporate governance and organisational model	Page 259	Note 54.7 and other notes and related information	Section 11
	Risk management model and control of operational risk (management cycle, identification model, measurement and risk assessment, implementation of the model, reporting system)	Page 260		
	Evolution of the main metrics. Mitigation measures. Business continuity plan	Page 263		
	Other aspects of control and monitoring of operational risk	Page 266		
Compliance, conduct and reputational risk	Definitions and objectives. Corporate governance and organisational model	Page 268	Note 54.8 and other notes and related information	Section 12
	Risk appetite model and regulatory risk assessment exercise	Page 269		
	Risk management model (anti-money laundering and terrorist financing, marketing of products and services, conduct in the securities markets, corporate defence, relationship with supervisors)	Page 269		
Model risk	Model risk	Page 274	Note 54.9	
Capital management and capital risk control	New regulatory framework	Page 277	Note 54.10 and other notes and related information	Sections 2 and 5
	Economic capital	Page 277		
	Planning of capital and stress test	Page 279		
Appendix: EDTF transparency	EDTF table of recommendations	Page 281		

1. ECB comprehensive assessment

ECB comprehensive assessment

The European Central Bank began in October 2013 its comprehensive assessment with a view to launching as of November 4, 2014 the Single Supervisory Mechanism. This exercise submitted banks to an assessment of their risk, an analysis of their asset quality and a stress test. Its objective is to enhance transparency, control and credibility, so that the results strengthen private sector confidence in the solvency of European banks and in the quality of their balance sheets.

The EU's main banks participated, on the basis of meeting at least one of the following criteria: (1) Assets of more than EUR 30,000 million, (2) assets of more than 20% of the GDP of their country of origin and (3) being one of the three largest banks in a Member State.

The comprehensive assessment was based on three pillars:

- **Risk Assessment:** prior evaluation of the business model and the most relevant risks, including those related to liquidity, leverage and funding. Each bank's risk profile was taken into account, their relationship with other banks and their vulnerability to external factors.

- **Asset Quality Review (AQR):** qualitative and quantitative analysis of credit and market exposure at the end of 2013, including off-balance sheet assets, non-performing loans, refinancings and sovereign risk. Its objective is to assess whether the provisions and valuation of the collateral of credit exposure are adequate, as well as assess the complex instruments and high-risk assets. It was structured in three phases:

  - Portfolio selecion: at the proposal of each country's authorities, the portfolios to be included in the analysis were selected, complying with criteria on coverage at the bank level.

  - Execution: validation of the integrity of the data provided, assessment of the guarantees, and recalculation of the provisions and risk weighted assets.

  - Verification: analysis of the consistency in order to ensure the comparability of the results of all the portfolios and all banks in the European Union. Also included was an analysis of the control of quality, guidelines and definitions.

- **Stress Test:** analysis of the capacity of each bank to withstand an adverse scenario, carried out in conjunction with the European Banking Authority (EBA).

The exercise establishes baseline and adverse scenarios which impact a bank's performance, including its risks (credit, market, sovereign, securitisation and cost of funding), with a three-year time scale (2014-2016), using data at the end of 2013 and adjusted by the asset quality review. The adverse macroeconomic scenario took into account some systemic risks for the banking sector such as an increase in global bond yields, especially those linked to emerging economies or a further deterioration of asset quality in countries with weaker fundamentals and vulnerable financial sectors.

The minimum capital (CET1) is set at 8% in the baseline scenario and 5.5% in the adverse scenario, in accordance with the definition of Basel III (CRD IV/CRR) and its gradual schedule of introduction (phase-in).

The stress test results are based on scenarios defined in the methodology and are not forecasts of financial performance or capital ratios. The stress test is based on common methodology designed by the European Banking Authority, which includes a key hypothesis for simplifying the exercise (for example, a static balance sheet, a dividend distribution similar to the average of the last three years and valuation adjustments in sovereign debt).

Stress test 2014 basic data for the European Union as a whole (EBA perimeter)

Sample	Impact CET1 fully loaded	Capital shortfall
• 123 banks • EUR 28 trillion of assets (70% of EU banking system)	• AQR: -40 p.b. • Adverse scenario: -230 p.b. • Total: -270 p.b.	• Maximum: EUR 24.6 billion • Current: EUR 9.5 billion (after 2014 measures)

Results of the ECB's comprehensive assessment of Banco Santander

The ECB's comprehensive assessment of Banco Santander underscored the quality of its portfolios, the correct valuation of assets and adequate provisions, as well as the strength of its business model in the event of adverse macroeconomic scenarios.

As regards the **Asset Quality Review**, 16 large credit portfolios of several countries and various segments (residential, SMEs, corporates) which represented more than 50% of credit risks were analysed. Procedures and policies were revised, samples taken and cases reviewed, properties and guarantees assessed, as well as reviewing assessment of the trading portfolio.

The adjustment required as a result of this exhaustive analysis was marginal on the CET1 (-4 b.p.), the smallest impact among our peers and far from the average for the Spanish banking system (-40 b.p.). All of this reflects the correct classification and valuation of assets, as well as the adequate level of provisions for risks.

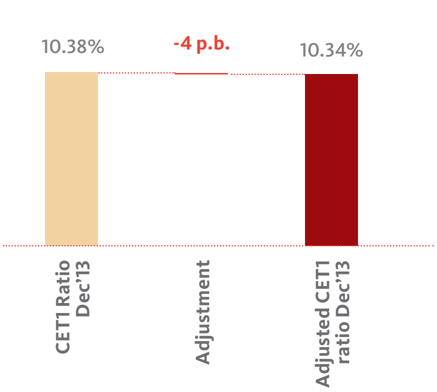
Furthermore, in terms of level 3 assets we are the bank with the least weight among the large European banks (0.13% of total assets), resulting from the low complexity of our balance sheet and our retail banking model.

As regards the **stress tests**, Santander comfortably exceeded the scenarios, particularly the adverse (and unlikely) one.

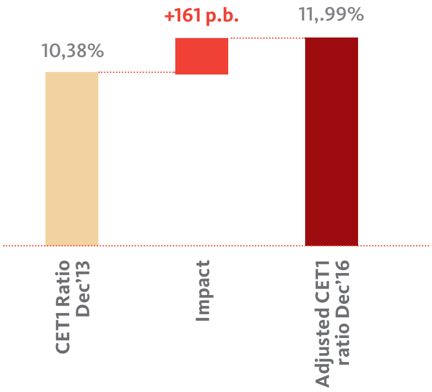
In the baseline scenario, Santander is one of the banks that generates the most capital in the three-year period (+161 b.p.). Its CET1 ratio reaches 12% in 2016. The surplus of capital over the minimum required in this scenario (8%) is around EUR 22,000 million, among the highest.

In the adverse scenario, Santander is the bank with the least negative impact among the major European banks. Its CET1 ratio in 2016 drops by 143 b.p. to 8.95%, which represents a surplus of 345 b.p. or EUR 19,456 million over the minimum requirement (5.5%). This is also among the system's highest.

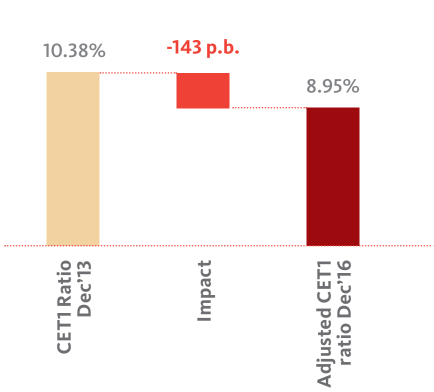
CET1 AQR ratio (%)



CET1 ST Baseline ratio (%)



CET1 ST Adverse ratio (%)

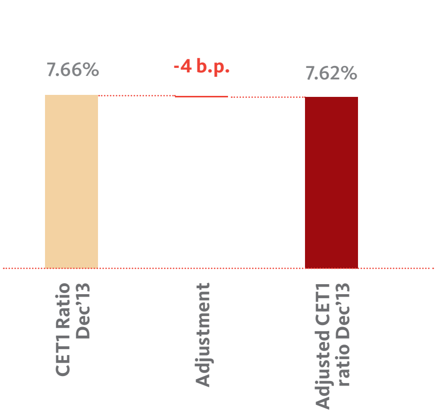


Considering the fully loaded version of the CET1 ratio, i.e., anticipating the Basel III impact, the results continue to be very satisfactory for the Group:

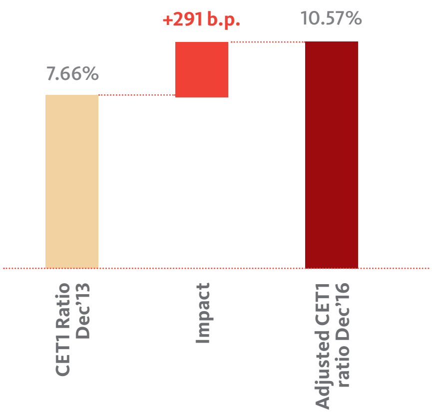
- In the baseline scenario, Santander is the second bank that generates the most capital over the period (+291 b.p.). Its CET1 ratio reaches 10.57% in 2016, which represents a surplus of around EUR 14,000 million over the minimum requirement in this scenario.

- In the adverse scenario, Santander is the bank with the least negative impact among the big European banks. Its CET1 ratio drops by only 33 b.p. to 7.33%, which represents a surplus of 183 b.p. or EUR 10,320 million over the minimum requirement (5.5%).

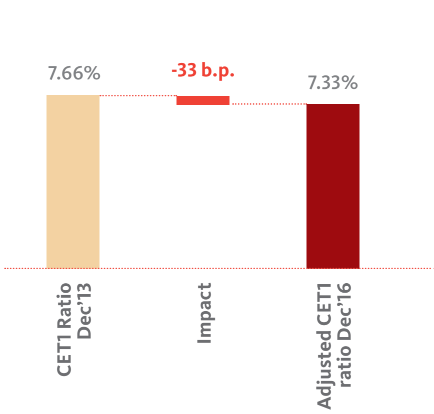
CET1 fully loaded ratio Asset Quality Review (%)



CET1 fully loaded baseline stress test (%)



CET1 fully loaded adverse stress test (%)



In short, the marginal adjustments from the AQR, the low impact in the scenarios envisaged in the stress tests and the capital surpluses make Grupo Santander stand out among its peers and confirm that it is operating with adequate levels of capital for its business model and medium-low risk profile.

The comprehensive assessment was the latest stress test to which Grupo Santander was submitted during the recent economic crisis. All of them showed that, largely thanks to its business model and geographic diversification, Banco Santander will continue to generate profits for its shareholders and comply with the most demanding regulatory requirements in the face of the severest macroeconomic scenarios.

In addition, the internal stress tests carried out by the Bank since 2008 within its self-assessment capital process (Pilar II) have also underscored Grupo Santander's capacity to meet the most difficult scenarios at both the global level as well as in the main countries where it operates. Also noteworthy is that in all cases and despite the severity of the latest crisis, the reality was not as harsh as the scenarios defined (for more details, see section 12.3).

2. Corporate principles of risk management and control

High quality management of risk is one of Grupo Santander's hallmarks and thus a priority in its activity. Throughout its more than 150 years, Santander has combined prudence in risk management with use of advanced risk management techniques, which have proven to be decisive in generating recurrent and balanced earnings and creating shareholder value.

Grupo Santander's risk policy focuses on maintaining a medium-low and predictable profile for all its risks. Its risk management model is a key factor for achieving the Group's strategic objectives.

The economic situation during the last few years has particularly tested the processes of identification, assessment, management and control of risks. In this context, management of the various risks has been positive when compared to the performance of the sector in these markets, which, combined with the high international diversification of the Group's businesses, enabled it to produce broadly satisfactory results. The experience resulting from confronting this adverse economic environment served to reaffirm the principles on which the Group's risk management model is based, as well as improve those aspects of the risk management systems which are necessary to ensure their adequate contribution to the Group's global results.

The activity of risks is governed by the following principles, which are aligned with Grupo Santander's strategy and business model and take into account the recommendations of the supervisory bodies, regulators and the market's best practices.

- A **culture of risks** integrated throughout the organisation. It embraces a series of attitudes, values, skills and ways of acting toward risks that are integrated into all processes, including taking decisions on change management and strategic and business planning. It is developed by **strongly involving senior management** in managing and taking decisions on risks, **remuneration frameworks aligned with the risk appetite**, training processes at all levels, robust control mechanisms and a complete and detailed framework of the policies and processes for managing and controlling risks.

- **Independence of the risk function,** covering all risks and providing an adequate separation between the risk generating units and those responsible for its control and supervision, and having the sufficient authority and direct access to the management and governance bodies which are responsible for setting and supervising the risk strategy and policies.

- **Comprehensive approach to all risks** as the objective for adequate management and control of them, including risks directly as well as indirectly originated (for example, from internal as well as external suppliers) but which can affect it. It is vital to have the capacity to draw up an all comprehensive view of the risks assumed, understand the relations between them and facilitate their overall assessment, without detriment to the differences of nature, degree of evolution and real possibilities of management and control of each type of risk, adapting the organisation, processes, reports and tools to the features of each one.

- **An organisational and governance model** that assigns to all risks those responsible for control and management, conserving the principle of independence and with clear and coherent reporting mechanisms both in each subsidiary of the Group as well as these with the corporation.

- Decision-taking is articulated by granting powers and attributions to each risk management unit, mainly via **collegiate bodies**, which are considered to be an effective instrument for facilitating adequate analysis and different perspectives to be taken into account in risk management, The decision-making process includes an ordered contrasting of opinions, proportionate to the potential impact of the decision and the complexity of factors affecting it.

- The Group promotes the use of **common management instruments among the different local units**, without detriment to their adjustment to regulations, the requirements of supervisors and the degree of progress of each unit.

- These instruments include formulating and monitoring the **risk appetite**, for which the Group determines the amount and type of risks considered reasonable to assume in the execution of its business strategy and its development in objective limits, contrastable and coherent with the risk appetite for each relevant risk; the use of **analysis of scenarios** and a vision that anticipates the risks in the management processes, using advanced **models and metrics** and establishing a **framework of control, reporting and grading** which enables risks to be identified and managed from different perspectives. In addition, the regular processes of identification and risk assessment and the contingency, business continuity and viability and resolution plans complete the essential management tools which, together with the rest of the instruments and principles, make up the components of group wide risk management.

The following sections develop the components common to all risks, leaving to the last ones to analysis of the components and the specific risk profile for each type of risk.

3. Corporate governance of the risk function

3.1. Structure of risk corporate governance

The board is responsible for approving the Bank's general policies and strategies and, in particular, the general policy of risks.

In addition to the executive committee, which pays particular attention to risks, the board is assisted by the committee of risk supervision, regulation and compliance.

The committee of risk supervision, regulation and compliance

The purpose of this committee is to assist the board in the sphere of risk supervision and control, define the Group's risk policies, relations with the supervisory authorities and matters of regulation and compliance.

By agreement of the 2014 general shareholders' meeting and at the proposal of the board, this committee was created in line with the European directive CRD IV and the market's best practices. It is made up of non-executive directors (mostly independent ones) and is chaired by an independent director.

The functions of the committee of risk supervision, regulation and compliance are:

- Support and advise the board in defining and assessing the risk policies that affect the Group and in determining the risk propensity and risk strategy. The Group's risk policies must include:
  - i. Identifying the various types of risk which the Group faces, including among the financial or economic ones contingent liabilities and other off-balance sheet risks
  - ii. Setting the risk appetite that the Group deems acceptable.
  - iii. The measures envisaged for mitigating the impact of the risks identified, in the event that they materialise.
  - iv. The information and internal control systems that will be used to control and manage these risks.
- Provide assistance to the board for overseeing implementation of the risk strategy.
- Systematically review the exposures with the main clients, economic sectors, geographic areas and types of risk.
- Know and assess the management tools, improvement measures, evolution of projects and any other relevant activity related to risk control, including the policy on internal models of risk and their internal validation.
- Support and advise the board as regards supervisors and regulators in the various countries where the Group operates.
- Supervise compliance with the general code of conduct, the anti-money laundering and terrorist financing manuals and procedures and, in general, the rules of governance and the Company's compliance programme and make the necessary proposals for its improvement. In particular, it is the committee's responsibility to receive information and, where necessary, issue reports on the disciplinary measures for senior management.
- Supervise the Group's policy and rules of governance and compliance and, in particular, adopt the actions and measures that results from the reports or the inspection measures of the administrative authorities of supervision and control.
- Monitor and assess the proposed regulations and regulatory developments that result from their implementation and the possible consequences for the Group.

1. The committee of risk supervision, regulation and compliance held its first meeting on July 23, 2014.

The executive risk committee (ERC)

This committee is a body with risk management powers delegated by the board and adopts decisions in the sphere of these powers to ensure that the Group's risk profile derived from the business strategy is aligned with the risk appetite limits and global policies approved by the board. Under these powers, the ERC approves risk operations, sets the risk policies and monitors the profile of global risks, ensuring that the Group has the structure, resources and necessary systems for managing and controlling risks adequately.

The ERC is chaired by an executive vice-chairman and four other of the Bank's directors also form part of it. The committee held 96 meetings in 2014, underscoring the importance that Grupo Santander pays to managing and controlling its risks adequately.

The committee's main responsibilities are:

- Resolve the operations that exceed the powers delegated to organs lower down the hierarchy, as well as the global limits of pre-classifications in favour of economic groups or in relation to exposures by classes of risk.
- Provide the committee of supervision of risks, regulation and compliance with the information needed to comply with the functions assigned to it by law, the By-laws and the board's regulations, without detriment to the obligation to keep the board regularly informed of its activities in the sphere of risk management.
- Monitor the general profile of the Group's risks consisting of all the risks set out in the risk map (see section 4.1 of this report).
- Manage exposures to different clients, economic sectors, geographic areas and types of risk.
- Authorise the management tools, improvement measures, evolution of projects and any other relevant activity related to risk control, including the policy on internal risk models and their internal validation.
- Follow, in the sphere of its activities, the indications formulated by the supervisory authorities in the exercise of its function.
- Ensure that the Group's actions are consistent with the risk appetite previously decided by the board, with the advice of the committee of risk supervision, regulations and compliance, and delegate in other committees lower down the hierarchy or in executives empowered to assume risks.

Basic committees in risk management

The ERC delegates some of its powers in corporate risk committees, structured by risk type and activity, which facilitates an adequate process for taking final decisions and continuous monitoring of the risk profile.

Each type of risk has its own framework of committees. Credit risk, for example, is governed by committees on the basis of the customer segment and market risk by the global committee of market risks. Actuarial and pension risks are governed by the committee of global business risks.

Management of operational risk was very important during 2014, promoting the participation of the first lines of defence and strengthening the figure of operational risk coordinator within the first lines of corporate defence. These coordinators participate actively in managing this risk and support managers in their tasks of management and control. The governance framework defined envisaged first line committees, which deal with the most relevant issues in relation to the management of the operational risk of each division, and a control committee (corporate committee of operational risk) that reviews the profile of this risk.

More information on the governance of liquidity and compliance risks can be found in the sections on liquidity risk and funding, and compliance, conduct and reputational risk in this report.

3.2. Model of responsibilities in the risk function

Lines of defence

Banco Santander's management and control model is based on three lines of defence.

The first line is constituted by the business units and the support areas (including those specialised in risk) which as part of their activity give rise to the Bank's risk exposure. These units are responsible for managing, monitoring and reporting adequately the risk generated, which must be adjusted to the risk appetite and the various limits of risk management. In order to tend to this function, the first line of defence must have the resources to identify, measure, manage and report the risks assumed.

The second line of defence is made up of teams of control and supervision of risks including the compliance function. This line vouches for effective control of the risks and ensures they are managed in accordance with the level of risk appetite defined.

Internal audit is the third line of defence and as the last layer of control in the Group regularly assesses the policies, methods and procedures to ensure they are adequate and are being implemented effectively.

The three lines of defence have a sufficient level of separation and independence to not compromise the effectiveness of the general framework. They operate in coordination with one another in order to maximise their efficiency and strengthen their effectiveness.

Over and above the defence lines, the board's committees and the executive risk committees, (see section 3.1 on the structure of committees) at both corporate level and in the units are responsible for adequate management and control of risks from the highest level of the organisation.

Structural organisation of the risk function

The chief risk officer (CRO) is responsible for the risk function and reports to the Bank's executive vice-chairman, who is a member of the board and chairman of the executive risk committee.

The CRO advises and challenges the executive line and reports independently in the risk, regulatory and compliance committee and to the board.

The risk management and control model is structured on the following pillars:

- Specialised management of risks, which enables the units to manage the risk they generate in accordance with the policies and limits established.
- Control of financial, non-financial and transversal risks (see the map of risks in section 4.1), verifying that management and exposure by type of risk is in line with what senior management establishes.
- Group wide risk management which involves an aggregated and comprehensive vision, assessing the global risk profile and supervising that it fits into the risk appetite and structure of limits established by the board and ensuring that the risk management and control systems are adequate and in line with the most demanding criteria and best practices observed in the industry and/or required by regulators.
- Develop in the sphere of risks regulations, methodologies and information infrastructure.
- Planning and internal governance.
- Internal validation of risk models in order to assess their suitability for management and regulatory purposes. Validation involves reviewing the model's theoretical foundations, the quality of the data used to build and calibrate it, the use to which it is put and the process of governance associated.
- Control and coordination of regulatory projects in order to supervise the design and implementation of the best regulatory risk management standards in the Group and comply with regulatory requirements in all countries consistently and effectively.

3.3. The Group's relationship with subsidiaries in risk management

Regarding the alignment of units with the corporation

The management and control model shares, in all the Group's units, basic principles via corporate frameworks.

Over and above these principles and basics, each unit adapts its risk management to its local reality, although they are based on corporate policies and structures, which enables a risk management model to be recognised in Grupo Santander.

One of the strengths of this model is the adoption of the best practices developed in each of the units and markets in which the Group operates. The corporate risk divisions act as centralisers and conveyors of these practices.

Regarding the structure of committees

The governance bodies of the Group's units are structured in accordance with the local regulatory and legal requirements and the dimension and complexity of each unit, being coherent with those of the Bank, as established in the internal governance framework, thereby facilitating communication, reporting and effective control.

The administration bodies of the subsidiaries, in accordance with the internal governance framework established in the Group, will define their own model of risk powers (quantitative and qualitative). These local models of assigning powers must follow the principles contained in the reference models and frameworks developed at the corporate level.

Given its capacity of comprehensive and aggregated vision of all risks, the Group will exercise a role of validation and questioning of the operations and management policies in the various units, insofar as they affect the Group's risk profile.

4. Management model and control of risks

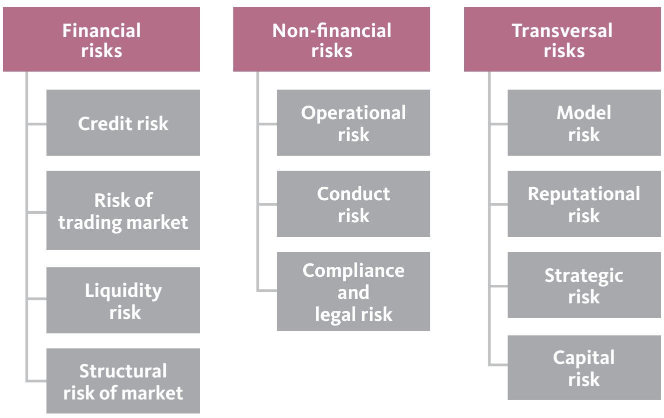
The model of managing and controlling risks ensures the risk profile is maintained within the levels set by the risk appetite and the other limits. It also incorporates the adoption of the necessary corrective and mitigation measures to maintain risk levels in line with the defined objectives.

The elements enabling adequate management and control of all these risks derived from Grupo Santander's activity arte set out below.

4.1. Map of risks

Identifying and evaluating all risks is a corner stone for controlling and managing risks. The risks map covers the main risk categories in which Grupo Santander has its most significant exposures, current and/or potential, facilitating this identification.

The first level includes the following risks:



Financial risks

- **Credit risk:** risk of loss derived from non-compliance with contractual obligations agreed in financial transactions.
- **Trading market risk:** risk that incurred as a result of the possibility of changes in market factors that affect the value of positions in trading portfolios.
- **Liquidity risk:** risk of not complying with payment obligations on time or doing so with an excessive cost.
- **Structural markets risks:** risk caused in managing different balance sheet items, including those related to the sufficiency of equity and those derived from insurance and pension activity.

Non-financial risks

- **Operational risk:** risk of losses due to the inadequacy or failure of procedures, people and internal systems, or external events.
- **Conduct risk:** risk caused by inadequate practices in the Bank's relationships with its customers, the treatment and products offered and their adequacy for each specific customer.
- **Compliance and legal risk:** risk due to not complying with the legal framework, the internal rules or the requirements of regulators and supervisors.

Transversal risks

- **Model risk:** risk of losses resulting from decisions mainly founded on the results of models, due to errors in the conception, application or use of these models.
- **Reputational risk:** risk of damage in the perception of the Bank by public opinion, its customers, investors or any other interested party.
- **Strategic risk:** risk that the results are significantly different from the strategy or the entity's business plan as a result of changes in the general business conditions and risks associated with strategic decisions. It includes the risk of badly implementing decisions or the lack of response capacity to changes in the business environment.

- **Capital risk:** risk that the Group or some of its companies do not have the amount and/or quality of sufficient equity to meet the minimum regulatory requirements set for operating as a bank; respond to the market's expectations as regards their credit solvency and support business growth and the strategic possibilities they present.

4.2. Group Wide Risk Management (GWRM)

The GWRM involves identifyinng, assessing, adequately managing and controlling all risks, with a comprehensive and integrated vision at all levels of the organisation. The implementation and coordinated management of all the elements that comprise it enables the Group's risk profile to be continuously assessed, as well as its global management, improving the capacities in risk management at all levels.

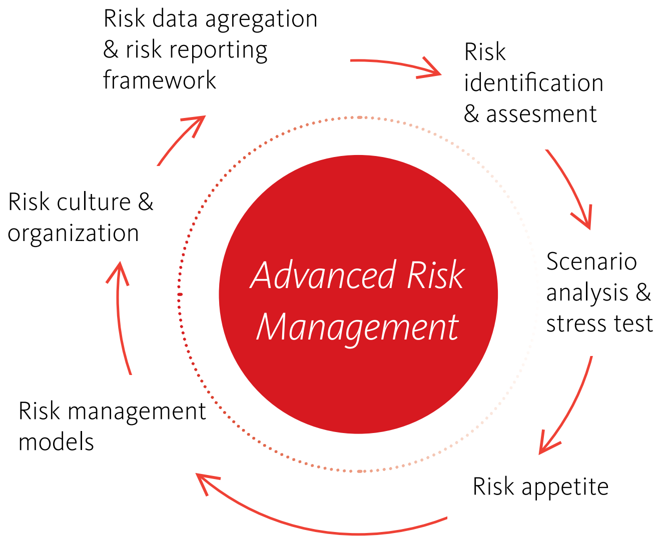
The Group launched the Santander Advanced Risk Management programme to accelerate the implementation of its strategic projects to improve risk management and control capacity, in order to position Grupo Santander as the best market practice in the current financial scenario.

The programme aims to attain excellence in risk management at both the corporate and local levels, always maintaining a vision focused on doing "more and better" business.

The programme is implemented in all the Group's units and ensures homogeneous management principles for the various regulatory and competitive environments.

With Advanced Risk Management Santander aims to be the best in class in risk management, efficiently aligning the strategic business objectives with a medium-low and stable risk profile.

The main development pillars of ARM are:



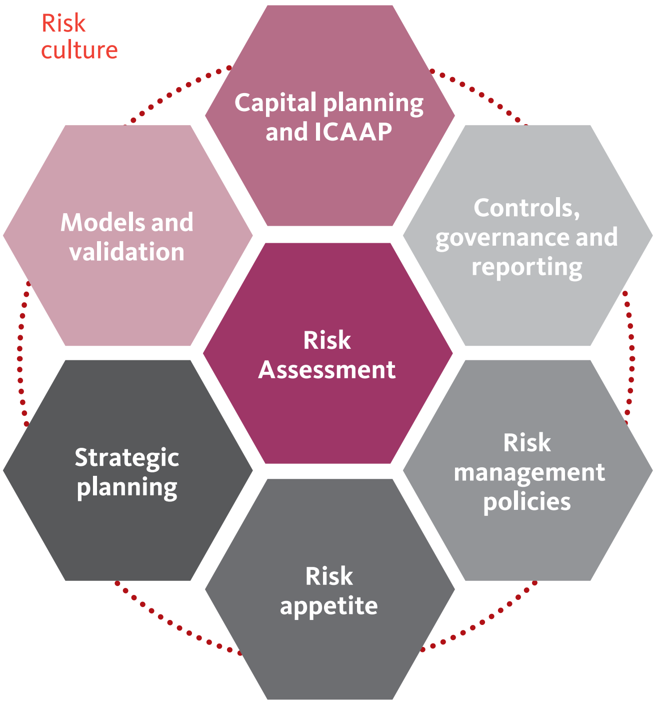
4.3. Risk Assessment

Banco Santander, as part of its routine management, identifies and assesses the financial and non-financial risks to which it is exposed in the countries in which it operates, and which are inherent in its activity.

In a process of continuous improvement, and in order to provide a more global vision and one consistent with this process, Banco Santander launched at the end of 2014 a corporate project to identify and assess risk. This project was created to increase robustness and standardisation in identifying and assessing the Group's risks and seeks to complement and add other initiatives being worked on until now in a parallel and independent way in the sphere of operational risk (self-assessment questionnaires of operational risk, see 9.2.2.), legal and compliance risk (regulatory risk assessment, see 10.3) and internal control.

The risk identification and assessment methodology enables the Group's residual risks to be identified and assessed by type of risk (in accordance with the risks described in section 4.1 of this report), business segment, unit and at the corporate level. These residual risks are assessed both in current conditions as well as in other potential ones, which involves a full analysis of the risk to which the Bank is submitted in the development of its activity.

The results of the exercise identify, as both the aggregate and granular levels, the Bank's main risks as well as weaknesses in the controls that mitigate them. These results are a base and an important source of information and basis for other key elements in risk management, as shown in the chart below:



4.4. Risk appetite and structure of limits

Santander defines risk appetite as the amount and type of risks considered reasonable to assume for implementing its business strategy, so that the Group can maintain its ordinary activity in the event of unexpected circumstances. Severe scenarios are taken into account that could have a negative impact on the levels of capital, liquidity, profitability and/or the share price.

The board is responsible for annually setting and updating the risk appetite, monitoring the Bank's risk profile and ensuring consistency between both of them. The risk appetite is set for the whole of the Group as well as for each of the main business units in accordance with a corporate methodology adapted to the circumstances of each unit/market. At the local level, the boards of the subsidiaries are responsible for approving the respective risk appetite proposals once they have been validated by the Group.

During 2014, implementing at the local level the risk appetite of the main units was extended to almost all the Group's units. Among other improvements, the capacity for analysis of scenarios was strengthened.

Banking business model and fundamentals of the risk appetite

The definition and establishment of the risk appetite in Grupo Santander is consistent with its risk culture and banking business model from the risk perspective. The main elements that define this business model and which are behind the risk appetite are:

- A general medium-low and predictable risk profile based on a diversified business model, focused on retail and commercial banking and with an internationally diversified presence and with important market shares, and a wholesale banking business model that gives priority to relations with clients in the Group's main markets.

- A stable and recurring policy to generate earnings and remunerate shareholders, on a strong capital and liquidity base and a strategy of diversification by sources and maturities.

- An organisational structure based on subsidiaries that are autonomous and self-sufficient in capital and liquidity, minimising the use of instrumental companies, and ensuring that no subsidiary has a risk profile that jeopardises the Group's solvency.

- An independent risk function with very active involvement of senior management that guarantees a strong risk culture focused on protecting and ensuring an adequate return on capital.

- A management model that ensures a global and inter-related view of all risks, through an environment of control and robust monitoring of risks, with global scope responsibilities: all risk, all businesses, all countries.

- Focus in the business model on those products that the Group knows sufficiently well and has the management capacity (systems, processes and resources).

- The development of its activity on the basis of a conduct model that oversees the interests of clients and shareholders.

- Adequate and sufficient availability of staff, systems and the tools that guarantee maintaining a risk profile compatible with the established risk appetite, both at the global and local levels.

- A remuneration policy that has the necessary incentives to ensure that the individual interests of employees and executives are aligned with the corporate framework of risk appetite and that these are consistent with the evolution of the Bank's long-term results.

Corporate principles of risk appetite

The following principles govern Grupo Santander's risk appetite in all its units:

- **Responsibility of the board and of senior management.** The board is the maximum body responsible for setting the risk appetite and supporting regulations, as well as supervising compliance.

- **Enterprise wide risk, contrasting and questioning of the risk profile.** The risk appetite must consider all significant risks to which the Bank is exposed, facilitating an aggregate vision of the risk profile through the use of quantitative metrics and qualitative indicators. This enables the board and senior management to question and assimilate the current risk profile and that envisaged in business and strategic plans and its coherence with the maximum risk limits.

- **Forward looking view.** The risk appetite must consider the desirable risk profile for the current moment as well as in the medium term, taking into account both the most probable circumstances as well as stress scenarios.

- **Linkage with strategic and business plans, and integration in management.** The risk appetite is a benchmark in strategic and business planning and is integrated into management through a bottom-up and top-down focus:

  - Top-down vision: the board must lead the setting of the risk appetite, vouching for the disaggregation, distribution and transfer of the aggregated limits to the management limits set at the portfolio level, unit or business line.

  - Bottom-up vision: the risk appetite must emanate from the board's effective interaction with senior management, the risk function and those responsible for the business lines and units. The risk profile contrasted with the risk appetite limits will be determined by aggregation of the measurements at the portfolio, unit and business line level.

- **Coherence in the risk appetite of the various units and common risk language throughout the organisation.** The risk appetite of each unit of the Group must be coherent with that defined in the remaining units and that defined for the Group as a whole.

- **Regular review, continuous contrasting and adapting to the best practices and regulatory requirements.** Assessing the risk profile and contrasting it with the limits set for the risk appetite must be an iterative process. Adequate mechanisms must be established for monitoring and control that ensure the risk profile is maintained within the levels set, as well as taking corrective and mitigating measures that are necessary in the event of non-compliance.

Structure of limits, monitoring and control

The risk appetite is formulated every year and includes a series of metrics and limits on these metric (statements) which express in quantitative and qualitative terms the maximum risk exposure that each unit of the Group or the Group as a whole is prepared to assume.

Fulfilling the risk appetite limits is continuously monitored. The specialised control functions report at least every quarter to the board and its risk committee on the adequacy of the risk profile with the risk appetite authorised.

The excesses and non-compliance with the risk appetite are reported by the risk control function to the relevant governance bodies. The presentation is accompanied by an analysis of the causes that provoke it, an estimation of the time they will remain this way as well as the proposed actions to correct the excess when the corresponding governance body deems it opportune.

Linkage of the risk appetite limits with the limits used to manage the business units and portfolios is a key element for making the risk appetite an effective risk management tool.

The management policies and structure of the limits used to manage the different types and categories of risk, which are described in greater detail in sections 6.5.2. planning and establishing limits, 7.2.3. and 7.3.3. systems of controlling limits in this report, have a direct and traceable relation with the principles and limits defined in the risk appetite.

In this way, the changes in the risk appetite are transferred to changes in the limits and controls used in Santander's risk management and each one of the business and risk areas is responsible for verifying that the limits and controls used in their daily management are set in such a way that they cannot fail to comply with the risk appetite limits. The risk control and supervision function will then validate this assessment, ensuring the adequacy of the management limits to the risk appetite.

Pillars of the risk appetite

The risk appetite is expressed via limits on quantitative metrics and qualitative indicators that measure the exposure or risk profile by type of risk, portfolio, segment and business line, both in current and stressed conditions. These metrics and risk appetite limits are articulated in five large areas that define the positioning that Santander's senior management wants to adopt or maintain in the development of its business model:

- The **volatility in the income statement** that the Group is prepared to assume.

- The **solvency** position that the Group wants to maintain.

- The minimum **liquidity** position that the Group wants to have.

- The maximum levels of **concentration** that the Group considers reasonable to assume.

- **Qualitative aspects** and supplementary **metrics**.

Pillars of Appetite and main metrics

Volatility Results	Solvency	Liquidity	Concentration	Supplementary aspects
• Maximum loss that the Group is prepared to assume in a harsh scenario. • Maximum losses from operational risk.	• Minimum capital position that the Group is prepared to assume in a harsh scenario.	• Minimum structural liquidity position. • Minimum position of liquidity horizons that the Group is prepared to assume in various harsh scenarios.	• Concentration by individual client (in absolute and relative terms). • Concentration by Top-N (in relative terms). • Concentration in non-investment grade counterparties. • Concentration by sectors. • Concentration in portfolios with high volatility profile.	• Qualitative indicators on non-financial risks. • Minimum assessment of the state of management of operational risk. • Indicator of compliance and reputational risk. • Qualitative restrictions.

Volatility of results
The volatility pillar determines the maximum level of potential losses that the Bank is prepared to assume in normal conditions and under stress scenarios, in order to be able to analyse the volatility of the income statement in environments of stressed and plausible management.

These stress scenarios mainly affect both the losses derived from the exposure to the credit risk of retail portfolios as well as wholesale ones (taking into account both the loss of direct credit as well as the reduction in spreads), and also the potential unfavourable impact derived from exposure to market risk. After applying these credit and market impacts to the budgeted results, in the context of risk appetite monitoring senior management assesses whether the resulting margin is sufficient to absorb the unexpected effects from operational, compliance, conduct and reputational risk, and establish a maximum ratio of net losses by operational risk on the gross margin (both for the Group as well as each unit). In line with the Basel specifications, the net losses figure includes that which could emanate from compliance risk.

The time frame for materialising the negative impacts for all risks considered is three years generally, and one year for market risk. Compliance with the risk appetite must thus be produced for each of the three following years.

Solvency
Santander operates with a comfortable capital base that enables it not only to meet the regulatory requirements but also have a reasonable capital surplus.

In addition, and with regard to the corresponding tension scenarios referred to in the previous section, Santander's risk appetite measures the unexpected impact of these scenarios on its solvency ratios (CET1).

This capital focus included in the risk appetite framework is supplementary and consistent with the Group's capital objective approved within the capital planning process implemented in the Group and which extends to a period of three years.

Liquidity position
Grupo Santander has developed a funding model based on autonomous subsidiaries that are responsible for covering their own liquidity needs. On this basis, liquidity management is conducted by each subsidiary within a corporate framework of management that develops its basic principles (decentralisation, equilibrium in the medium and long term of sources-applications, high weight of customer deposits, diversification of wholesale sources, reduced recourse to short-term funds, sufficient reserve of liquidity) and revolves around three main pillars (governance model, balance sheet analysis and measurement of liquidity risk, with management adapted to business needs). Section 7 on liquidity risk and funding has more information on the corporate framework of management, its principles and main pillars.

Santander's liquidity risk appetite establishes demanding objectives of position and time frames for systemic stress scenarios (local and global) and idiosyncratic. In addition, a limit is set on a structural funding ratio that relates customer deposits, equity and medium and long term issues to structural funding needs.

Concentration
Santander wants to maintain a widely diversified risk profile from the standpoint of its exposure to large risks, certain markets and specific products. In the first instance, this is achieved by virtue of Santander's retail and commercial banking focus with a high degree of international diversification.

Concentration risk: this is measured by the following metrics upon which risk appetite thresholds are established in terms of the proportion of equity or of lending (general character).

- Client (in proportion to equity): a) net individual maximum exposure to corporate clients (additionally, clients with internal ratings below investment grade and exceeding a certain exposure are also monitored); b) net maximum aggregate exposure with the Group's 20 largest corporate clients (Top 20); c) net maximum aggregate exposure of the exposures considered as large risks (corporate and financial clients); d) maximum impact on profit before tax of a simultaneous failure of the five largest corporate exposures (jump to default Top 5).

- Sector: maximum percentages of the exposure of the portfolio of companies in an economic sector, in relation to lending (at both the total level as well as for the segment of companies).

- Portfolios with high risk profile (defined as those retail portfolios with a percentage of risk premium that exceed an established threshold): maximum percentages of exposure to this type of portfolio in proportion to lending (at both the total and retail levels) and for different business units.

Qualitative aspects and other complementary metrics

This seeks to delimit risk exposures in a complementary way to the previous pillars.

Risk limits expressed both qualitatively (for example, the ban on operating with complex market products) as well as expressed in other quantitative metrics (for example, operational risk indicators) are studied so that relevant risks not considered in the other categories can be controlled. A qualitative indicator on the state of management is incorporated in operational risk, based on the results of indicators on other issues including governance and management, budgetary compliance, quality of the data bases of events, and corporate self-assessment questionnaires on the control environment. An indicator of compliance and reputational risk is also incorporated from an assessment matrix created for the purpose.

4.5. Analysis of scenarios

Banco Santander conducts advanced management of risks by analysing the impact that different scenarios could provoke on the environment in which the Bank operates. These scenarios are expressed both in terms of macroeconomic variables as well as other variables that affect management.

Analysis of scenarios is a very useful tool for senior management as it enables the Bank's resistance to stressed environments or scenarios to be tested, as well as put into effect measures to reduce the Bank's risk profile to these scenarios. The objective is to maximise the stability of the income statement and the levels of capital and liquidity.

This forward looking vision helped Santander to remain among the select group of international banks that throughout the crisis generated profits and maintained its dividend policy.

The robustness and consistency of the exercises of scenario analysis are based on three pillars:

- Developing mathematical models that estimate the future evolution of metrics (for example, credit losses), based on both historic information (internal of the Bank and external of the market), as well as simulation models.
- The inclusion of the expert judgement and know how of risk managers in the year's result, so that it questions and refines the result offered by the models of scenario analysis.
- Back testing the results of the models with the figures observed.

Uses of analysis of scenarios

- **Regulatory uses:** in those that conduct stress scenario exercises under guidelines set by the regulator. In this group of uses are to be found, for example, the resistance tests (comprehensive assessment and stress test) requested in 2014 by the European Central Bank under the methodology set by the European Banking Association (EBA). For more detail see section 1 on the comprehensive assessment of the European Central Bank.

- **Internal exercises** of self-assessment of capital (ICAAP) or liquidity (ILAAP) in which while the regulator can impose certain requirements, the Bank develops its own methodology to assess its capital and liquidity levels in the face of different stress scenarios. These tools enable capital and liquidity management to be planned.

- **Risk appetite** contains stressed metrics on which maximum levels of losses (or minimum of liquidity) are established that the Bank does not want to exceed. These exercises are related to those of the ICAAP and liquidity, although they have different frequencies and present different granularity levels. The Bank continues to work to improve the use of analysis of scenarios in risk appetite and ensure an adequate relation of these metrics with those used in daily risk management. For more detail see sections 4.4 risk appetite and structure of limits and 8 liquidity risk and funding.

- **Daily management of risks.** Analysis of scenarios is used in processes for budgeting provisions and other balance sheet items by type of risk, in the generation of commercial policies of risk admission, in the global analysis of risks by senior management or in specific analysis on the profile of activities or portfolios. More detail is provided in the section on credit risk (6.5.2. planning and establishing limits), market risk (7.2.1.6. and 7.2.2.3. analysis of scenarios) and liquidity (8.2.2. analysis of the balance sheet and measurement of risk).

Corporate project of analysis of scenarios

In order to respond to the growing regulatory pressure and the needs of advanced risk management so as to be a competitive bank, a project to develop a robust structure of analysis of scenarios at the corporate level began in 2014, which, during 2015, is expected to be extended to the Group's main units. This project has three fundamental pillars:

- **Tool for analysing scenarios:** installation of an advanced tool for estimating losses with greater soundness and computerisation of information handling, with the capacity to aggregate various types of risk and with an environment of multi user execution.

- **Governance:** review of the framework of governance of the exercises of scenario analysis in order to adjust to their growing importance, greater regulatory pressure and best market practices.

- **Stress methodologies:** preparing plans to develop mathematical models of advanced stress that enhance the capacity to predict risk, taking into account the organisation's calculation capacities.

4.6. Viability plans and living wills

Grupo Santander was the first international bank considered globally systemic by the Financial Stability Board to present (in 2010) to its consolidated supervisor (then the Bank of Spain) its corporate viability plan. Its most important part envisages the measures available to emerge on its own from a very severe crisis.

The fifth version of the corporate plan was prepared in 2014. As with the previous versions from 2010 to 2013, the Group presented the plan in July to the relevant authorities (in 2014 to the core supervisory college, unlike in other years when it was presented to the crisis management group).

This plan consists of the corporate plan (corresponding to Banco Santander) and the individual pans for the main local units (UK, Brazil, Mexico, US, Germany, Argentina, Chile, Poland and Portugal), thereby fulfilling the commitment made by the Bank with the authorities in 2010. It is important to mention the cases of the UK, Germany and Portugal where regardless of their obligation to form part of the corporate plan, its full development is equally due to local regulatory initiatives.

The Group's senior management is fully involved in preparing and regularly monitoring the content of the plans, through specific committees of a technical nature, as well as monitoring at the institutional level which guarantee that the content and structure of the documents are adapted to local and international regulations in crisis management matters, something in continuous development for the last five years.

The board is responsible for approving the corporate plan or, in the exercise of its delegated functions, the executive committee and the executive risk committee. The individual plans are approved by the local bodies and always in coordination with the Group, as these plans must form part of the corporate plan.

During 2015 the Group will continue to introduce improvements to the viability plans, seeking to adopt the evolutions in this sphere observed in the market (particularly in relation to defining scenarios, early warning indicators and in general the very structure of documents), as well as make the changes in the plans required by the local authorities in their case.

As regards the living wills, the authorities that form part of the Crisis Management Group (CMG) have adopted a common approach on the strategy to follow for the Group's living will that, given the legal and business structure with which Santander operates, corresponds to the so called multiple point of entry (MPE). They have signed the corresponding cooperation agreement and have developed the first living wills for the main countries (Spain, UK and Brazil), The Group continues to cooperate with the authorities in preparing the living wills, contributing all the information that the authorities, responsible for their preparation, require.

As an exception, preparing living wills in the US is the responsibility of the banks themselves. The Group has presented the second version of the local living wills (one for all of the Group's activities in the US, in line with the Federal Reserve's regulations, and the other only covering Santander Bank, as the deposit-taking institution subject to the regulations of the Federal Deposit Insurance Corporation (FDIC).

4.7. Independent reporting

One of the key elements of management is the framework of information on risks that sets standards which ensure a consolidated vision of all risks and enable the board and senior management to take the necessary decisions and actions.

This framework is in permanent evolution in order to reflect the best market practices. In this sense, Santander launched in 2014 a project to ensure that the information on risks for senior management incorporates the basic principles defined the risk data aggregation[2], which is summarised in the following principles:

- **Governance:** establish governance for the life cycle of data and reports, as well as a taxonomy of them.
- **Data base architecture:** guarantees the Bank's capacity to aggregate all the risk data in a reliable way, ensuring it is exact, integrated, complete, traceable, updated at the opportune moment, adaptable to the needs and flexible. It covers all risks on the basis of their materiality.
- **Draw up risk reports for senior management:** ensure that the reports take into account the following requirements:
  - **Exhaustive:** they cover all relevant aspects of the risk principles with the adequate weighting between them.
  - **Identification of emerging risks:** identify emerging risks and supply information in the context of limits and risk appetite.
  - **Focused on decision-taking:** recommend actions on risks when necessary.
  - **Usefulness:** with an adequate balance between data, analysis and qualitative comments. The greater the level of aggregation, the greater the degree of qualitative comments.
  - **Advanced metrics:** incorporate forward-looking measures and not just historic information.
  - **Frequency:** the board and senior management must determine the objectives of the risk reports as well as the frequency, which must increase when there is a crisis.

2. Basel Committee on Banking Supervision, "Principles for effective risk data aggregation and risk reporting".

4.8. Internal control framework

The risk management model has an environment of internal control that guarantees adequate control of all the risks, contributing a comprehensive vision of them. This control is carried out in all the Group's units and for each type of risk in order to ensure that the Group's exposures and global risk profile are within the mandates established by both the board as well as regulators.

The main functions that ensure effective risk control are:

1. **Supervision and aggregated consolidation of all risks.** The risk division, at corporate level as well as in each unit, supervises all risks in order to question or challenge independently the management and risk control mechanisms, contributing value judgements and elements for decision-taking by senior management, based on a series of reports that incorporate an aggregated assessment of all the risks. For more detail see 4.6. Independent reporting.

2. **Assessment of internal control mechanisms.** This consists of a systematic and regular review of all the necessary processes and procedures for control with a view to guaranteeing their effectiveness and validity. This assessment is done annually and is within the principles in the Sarbanes Oxley Law.

3. **Comprehensive control and internal validation of risks**
The **comprehensive control** function includes among its main activities the following:

    - Verify that the management and control systems of the various risks inherent in Grupo Santander's activity meet the most demanding criteria and the best practices observed in the industry and/or required by regulators.

    - Supervise appropriate compliance in time and form with the recommendations drawn up for risk management matters following inspections by internal audit and by the supervisors to whom Santander is subject.

    The function has global and corporate scope and covers all risks, all businesses and all countries. This function is backed by an internally developed methodology and a series of tools that support this function, in order to systemise its exercise, adjusting it to Santander's specific needs. This enables it to be formalised and make traceable and objectify the application of this methodology.

    The function of **internal validation** of risk models constitutes a fundamental support for the executive risk committee and the local and corporate risk committees in their responsibilities of authorising the use (management and regulatory) of the models and their regular review.

    A specialised unit of the Bank with full independence issues a technical opinion on the adequacy of the internal models for the purposes used, whether they be internal management and/or of a regulatory nature (calculation of the regulatory capital, levels of provisions, etc), and concludes on their robustness, usefulness and effectiveness.

    Santander's internal validation covers all models used in the risk function, be they credit risk, market, structural or operational risk models or capital, economic and regulatory models. The scope of validation includes not only the most theoretical or methodological aspects but also the technological systems and the quality of the data that enable and support their effective functioning and, in general, all relevant aspects in management (controls, reporting, uses, involvement of senior management, etc).

    The function is global and corporate, in order to ensure homogeneous application, and is conducted via five regional centres located in Madrid, London, Sao Paulo, New York and Wroclaw (Poland). These centres have full functional dependence on the corporate centre, which ensures uniformity in the development of activities. This facilitates implementation of a corporate methodology that is supported by a series of tools developed internally in Grupo Santander, which provide a robust corporate framework for all the Group's units, computerising certain verifications in order to ensure that the reviews are carried out efficiently.

    This corporate framework of internal validation is fully aligned with the criteria for internal validation of the advanced models issued by the various supervisors to whom the Group is subjected. In this respect, the criterion is maintained of separating functions between the units of internal validation and internal audit, which is the last layer of control in the Group charged with reviewing the methodology, tools and work conducted by internal validation and expressing its opinion on its degree of effective independence.

4. The control by the **compliance** function that the risks assumed are within the legal framework, the internal regulations and the requirements of regulators and supervisors. For more detail, see section 10 on compliance, conduct and reputational risk.

5. **Assessment by internal audit,** as the third line of defence, provides an independent review of the first two lines of defence, ensuring that the policies, methods and procedures are adequate and integrated in management.

    Internal audit is a corporate function, permanent and independent of any other function or unit of the Group, whose mission, in order to provide security on these aspects to the board and senior management, thereby contributing to protecting the Bank and its reputation, is to supervise:

    - The quality and effectiveness of the internal control processes and systems, of management of all risks and of governance.

    - Compliance with the applicable regulations.

    - The reliability and integrity of financial and operational information.

    - Balance sheet integrity.

4.9. Risk culture

The Group's risk culture is specified in the principles of responsibility, prudence and compliance, as all units and employees (regardless of the function they carry out) are responsible for ensuring that not only does the institution comply, but also it is prudent and responsible in what it does. This risk culture is also based on the principles of Santander's risk management model and is transmitted to all business and management units and is supported, among other things, by the following drivers:

- **Involvement of senior management in risk control and management,** which is shaped in the board's approval of the risk appetite (for more detail, see 4.4 on risk appetite and structure of limits), corporate frameworks that regulate the risk activity and the internal governance framework, and regular revision of the Group's risk profile, the main potential threats and the relevant events produced in the Group and in the banking industry. In 2014 and under the risk data aggregation and risk reporting framework (RDA&RRF), the series of reports that facilitate regular and systematic review by senior management of the profile and risk strategy, the emerging risks and events of low probability but strong impact were reviewed, among others.

  The high frequency with which the corporate bodies of validation and risk monitoring meet (twice a week in the case of the executive risk committee) guarantees intense participation by senior management in the daily management of risks and great agility in identifying alerts, taking decisions and resolving operations, facilitating the clear transfer of a risk culture from senior management, with specific examples of taking decisions. In addition, it enables the grading processes to be efficient and there is an incentive for this, as well as a quick transmission of information between the different functions affected. For more information see section 3, Corporate governance of the risk function.

- **Independence of the control functions (risks, compliance and internal audit),** with sufficient authority and direct access to the governance bodies. These control functions are not conditioned by the business lines, and actively participate in taking important risk decisions.

- Santander **appropriately documents** risk activity, through detailed frameworks, models and policies for risk management and control. Within the systematic review process and updating of risk regulations, the board approved the complete updating of the corporate frameworks that regulate credit, market, structural, liquidity and operational risks and information of risks, as well as the general framework of risks. These documents are considered by the board and senior management as an instrument for disseminating the strategy and risk management fundamentals in the Group, strengthening the Bank's risk culture. They have been agreed by consensus and approved by the boards of the Group's various institutions, thereby ensuring a common and shared model of action and developing an internal governance framework for risk activity.

- The Group has **specific policies for compliance, conduct and reputational risks**, among which is the general code of conduct and the code of conduct in the securities markets, as well as the corporate framework for marketing products and services and the corporate framework for anti-money laundering and terrorist financing. There are also whistleblowing channels and various committees where risks and irregularities are analysed and the corresponding mitigation measures taken.

  For more information see section 10 on compliance, conduct and reputational risk.

- The consistency and **alignment between risk appetite, risk management and the Group's business strategy** is ensured by the budgetary process, governance of approval of operations and quantitative limits in which the risk appetite principles are specified.

- **The main risks are not only analysed when they are originated** or when irregular situations arise in the ordinary recovery process, but also on a continuous basis for all clients. Santander's information and exposure aggregation systems enable daily monitoring of exposures, verifying systematic compliance with the limits approved, as well as adopting, where necessary, the pertinent corrective measures.

- The remuneration and incentives policy **includes performance variables that take into account the quality of the risk** and the Group's long-term results.

  The remuneration policy for executive directors and other members of the Bank's senior management is based on the principle that variable remunerations be congruent with rigorous risk management without bringing about an inadequate assumption of risks and are aligned with shareholders' interests, fostering the creation of long-term value.

  The Group identified in 2014 the collective subject to Capital Requirements Directive IV, in accordance with the criteria stated by the European Banking Authority, and increased significantly over 2013 the number of executives whose variable remuneration is the object of deferment and payment in shares. All the collective identified is subject to the maximum ratio of variable remuneration set out by this directive, ensuring that the fixed remuneration represents a significant percentage of the total remuneration.

  Furthermore, the methodology for determining the variable remuneration of the Group's executives takes into account, as well as quantitative metrics of results and capital management, factors that incorporate adequate risk management, the level of customer satisfaction with respect to that of rival banks and other relevant management factors.

  As well as the functions of the remuneration committee, the Group has a specific committee to assess the risks in remuneration, comprising senior executives of the main functions of control (risk, financial control, financial management, auditing, compliance and human resources), which takes into account the quality of financial results, the risks and regulatory compliance via metrics and other qualitative factors used to calculate the variable remuneration. This committee also analyses the adjustments ex-post, in relation to the clauses of deferment and the release in their case of the amounts of deferred variable remuneration.

For more information see the 2014 report of the Group's remuneration committee.

There are also specific risk development programmes for all the Group's executives and a strategy of risk training and auditing for these divisions through the corporate schools of risks and auditing, which have global and local programmes and disseminate the culture of prudence in risks and control throughout the Group.

Furthermore, the Group has a global strategy for managing talent and planning ahead in order to ensure that the Group has the necessary talent for key positions and accelerates the development of executives in line to take over these positions. This strategy covers the main executive levels, including the control functions.

- **Other procedures** supporting the dissemination of Santander's risk culture are the training activities in the corporate risk schools, strict compliance by employees with the general codes of conduct, monitoring of supervisors' reports and systematic and independent action by the internal audit services whose recommendations are regularly reviewed to ensure their compliance.

Thanks to the strategies and procedures implemented to develop and support the risk culture, Grupo Santander is totally committed to the risk culture indicators identified by the Financial Stability Board in its document *Guidance on supervisory interaction with financial institutions on risk culture* published in April 2014.

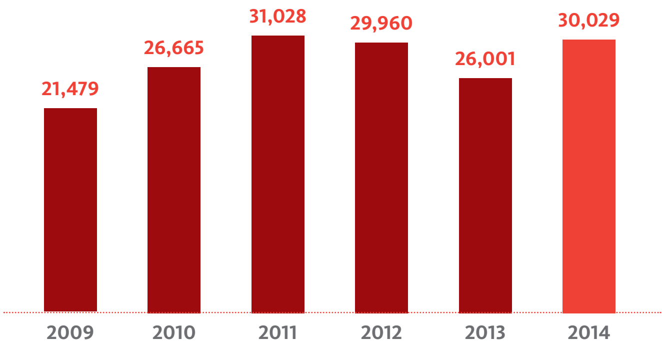
Risk training activities

Santander has risk schools whose objectives are to help to consolidate the risk management culture in the Bank, and guarantee the training and development of all risk professionals with the same criteria, as well participation in other schools to disseminate risk culture in their different practical aspects of application in businesses.

The corporate risk school, which gave a total of 30,029 hours of training to 9,254 employees in 2014 in 87 activities, is a key element for enhancing Santander's leadership in this sphere, continuously strengthening the skills of executives and employees.

The focus in 2014 was operational risk, with the development of a training programme for all employees which included training actions for different levels of the Bank. This explains the increase in the number of employees (from 3,778 in 2013 to 9,254 in 2014) who attended the corporate risk school.

Training hours



Furthermore, the risks corporate school trains professionals from other business areas, particularly retail banking, so as to align the demanding risk management criteria to business goals.

5. Risk environment

As a result of the environment in which Banco Santander operates, there are different potential risks that could threaten the development of business and meeting the Group's strategic objectives. The risk division identifies and assesses these risks and presents them regularly for analysis to senior management and the board, which take the opportune measures to mitigate and control them. The main focuses of risk are:

- **Macroeconomic environment:** at the end of 2014, the main sources of macroeconomic uncertainty were:

  - **Economic slowdown** in Europe.
  - The **adjustment** to the **Chinese economy**, which could impact emerging as well and developed markets.
  - **Change in the US interest rate scenario** and its possible impact on emerging markets (flight to quality).
  - **Evolution of commodity prices** and their possible impact on various economies.

  Banco Santander's business model, based on geographic diversification and a customer-focused bank, strengthens the stability of results in the face of macroeconomic uncertainty, ensuring a medium-low profile.

  The Group uses techniques of scenario analysis and stress tests to analyse the possible evolution of macroeconomic indicators and their impact on the income statement, capital and liquidity. These analyses are incorporated to risk management when planning capital (section 12.3), risk appetite (section 4.4) and risk management of the different types of risk (section 6.5.2 on credit, 7.2.1.6. on market and 8.2.2. on liquidity).

- **Competitive environment:** the financial industry has undergone in the last few years a process of restructuring and consolidation that could still continue in the coming years. These movements are changing the competitive environment, as a result of which senior management continuously monitors the competitive environment, reviewing the Bank's business and strategic plan. The risk division ensures that the changes in the plans are compatible with the risk appetite limits.

- **Regulatory environment:** a regulatory environment for the financial industry more demanding in capital and liquidity has been shaped in the last few years, as well as a greater supervisory focus on risk management and business processes.

  In this line the Single Supervisory Mechanism came into force in November 2014. Previously, during 2014, the European Central Bank, in coordination with the European Banking Authority, conducted a global evaluation to enhance the transparency, control and credibility of European banks (see more detail in section 1 of this chapter). This context will mark the regulatory environment of the coming months. Of note are the following aspects:

  - The entry into force of joint supervisory teams, formed from teams from the relevant national authorities and the European Central Bank.
  - The gradual harmonisation of criteria, concepts, authorisation procedures, etc, seeking an homogenisation that equals the regulation and supervision that affects European banks.
  - In the same line, supervision of all European banks under a common methodology: the Supervisory Review and Evaluation Process (SREP).
  - The importance of the relations established between the Single Supervisory Mechanism and the rest of supervisors in countries where the Group operates, through supervisory colleges and the signing of memories of understanding with them.

The Bank is attaching greater priority to these issues by permanently monitoring the changes in the regulatory environment, which enables it to rapidly adapt to the new requirements. The Group is strengthening teams in all spheres of its activity in order to comply with the supervisors' requirements.

The Group also has a coordination mechanism, fostered and backed by the board and senior management, among the different management areas and countries, in order to ensure a consistent response at Group level and implement the best practices in managing projects with regulatory impact.

Of note, among others, are the projects in order to adjust to:

- The requirements of the Basel capital regulations which have been transposed in most countries where the Group operates, particularly in Europe via the CRR/CRD IV.
- The international standards on risk data aggregation (RDA).
- The US Volcker rule that limits the own account operations that banks can carry out.
- The European investor protection rule (MIFID II) which strengthens the requirements related to the functioning of securities markets and marketing of financial products.

- **Non-financial and transversal risks** (operational, conduct, reputational, strategic, etc): these risks are assumin increasing importance because of the attention paid to them by regulators and supervisors, which see in them a reflection of the way banks behave toward their stakeholders (employees, clients, shareholders, investors and social agents). Of particular note in the financial industry are:

  - With operational risk, **cyber risk** or the risk of suffering attacks by third parties on the Bank's IT systems, which could alter the integrity of the information or normal development of operations. The Bank has been strengthening in the last few years its computer security system and continues to invest in this area in the face of potential threats (for more detail see section 9).

  - **Conduct risk:** in the last few years there has been a growing tightening of regulations regarding the treatment that banks must provide to their customers, These changes in regulations and their application could entail an impact for banks involving potential judicial demands or fines by supervisors as well as the necessary changes to processes and structure that must be carried out to comply with the new standards.

    Banco Santander is strengthening control of this risk and has launched a global plan to improve the marketing of investment products and analysis of the costs incurred (paid or provisioned) as a result of compensation to clients and sanctions.

  - In line with the regulatory recommendations in the corporate governance sphere, the board agreed to appoint an executive vice-chairman to whom the compliance function reports.

    More information is available in the section on compliance, conduct and reputational risk in this report.

6. Credit risk

6.0. Organization of the section

After an **introduction** to the concept of credit risk and the segmentation that the Group uses for its treatment, the **main magnitudes** of 2014 and their evolution are presented (pages 194-202).

This is followed by a look at the **main countries**, setting out the main features from the credit risk standpoint (pages 203-210).

The qualitative and quantitative aspects of **other credit risk matters** are then presented, including information on financial markets, risk concentration, country risk, sovereign risk and environmental risk (pages 210-217).

Lastly, there is a description of the Group's **credit risk cycle**, with a detailed explanation of the various stages that form part of the phases of pre-sale, and post-sale, as well as the main credit risk metrics (pages 218-222).

6.1. Introduction to the treatment of credit risk

Credit risk arises from the possibility of losses stemming from the failure of clients or counterparties to meet their financial obligations with the Group.

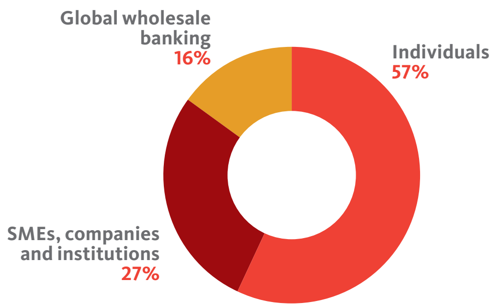
The Group's risks function is organised on the basis of three types of customers:

- The segment of **individuals** includes all physical persons, except those with a business activity. This segment, in turn, is divided into sub segments by income levels, which enables risk management adjusted to the type of client.

- The segment of **SMEs, companies and institutions** includes companies and physical persons with business activity. It also includes public sector activities in general and non-profit making private sector entities.

- The segment of **global wholesale banking** consists of corporate clients, financial institutions and sovereigns, who comprise a closed list revised annually. This list is determined on the basis of a full analysis of the company (business, countries where it operates, types of product used, volume of revenues it represents for the bank, length of relation with the client, etc).

The following chart shows the distribution of credit risk on the basis of the management model.



The Group's risk profile is mainly retail, accounting for 84% of total risk generated by the retail banking business.

6.2. Main magnitudes and evolution

6.2.1. Global map of credit risk, 2014

The table below sets out the global credit risk exposure in nominal amounts (except for derivatives and repos exposure which is expressed in equivalent credit) at December 31, 2014.

Grupo Santander - Gross exposure to credit risk classified in accordance with legal company criteria

Million euros. Data at 31 December 2014

	Credit to customers		Credit to entities[2]		Fixed income[3]		Derivatives and repos	
	Outstanding[1]	Commitments	Outstanding	Commitments	Sovereign	Private	REC[4]	Total
Continental Europe	**308,089**	**65,637**	**19,892**	**2,353**	**48,726**	**12,183**	**23,671**	**480,551**
Spain	198,175	53,326	14,506	2,219	37,256	7,713	20,032	**333,227**
Germany	30,896	592	1,191	-	-	233	18	**32,929**
Portugal	26,411	4,377	862	104	5,637	3,616	2,748	**43,754**
Others	52,608	7,342	3,333	30	5,833	622	873	**70,641**
United Kingdom	**250,921**	**42,153**	**28,633**	**-**	**6,078**	**6,883**	**14,501**	**349,169**
Latin America	**156,587**	**43,986**	**21,397**	**19**	**25,283**	**6,152**	**11,035**	**264,459**
Brazil	86,892	30,594	12,344	18	17,892	4,940	7,851	**160,532**
Chile	33,291	7,460	1,360	0	1,396	844	1,733	**46,084**
Mexico	27,198	5,685	4,395	-	4,621	341	1,399	**43,639**
Others	9,206	248	3,298	-	1,374	27	52	**14,204**
United States	**73,664**	**28,709**	**7,319**	**69**	**5,159**	**8,038**	**800**	**123,758**
Rest of world	**351**	**30**	**68**	**-**	**-**	**2**	**-**	**450**
Total Group	**789,613**	**180,515**	**77,308**	**2,440**	**85,246**	**33,258**	**50,007**	**1,218,387**
% of total	64.8%	14.8%	6.3%	0.2%	7.0%	2.7%	4.1%	**100.0%**
% change/Dec 13	10.9%	16.7%	-17.9%	28.5%	46.3%	9.8%	-14.4%	**9.8%**

Evolution of gross exposure to credit risk

Million euros

	2014	2013	2012	Var.s/13	Var.s/12
Continental Europe	**480,551**	**473,267**	**540,435**	**1.5%**	**-11.1%**
Spain	333,227	327,900	396,474	1.6%	-16.0%
Germany	32,929	33,481	40,659	-1.6%	-19.0%
Portugal	43,754	41,013	39,243	6.7%	11.5%
Others	70,641	70,872	64,059	-0.3%	10.3%
United Kingdom	**349,169**	**320,571**	**344,413**	**8.9%**	**1.4%**
Latin America	**264,459**	**241,592**	**266,304**	**9.5%**	**-0.7%**
Brazil	160,532	141,119	163,915	13.8%	-2.1%
Chile	46,084	44,147	46,722	4.4%	-1.4%
Mexico	43,639	39,066	37,836	11.7%	15.3%
Others	14,204	17,260	17,832	-17.7%	-20.3%
United States	**123,758**	**73,945**	**79,707**	**67.4%**	**55.3%**
Rest of world	**450**	**265**	**539**	**69.9%**	**-16.4%**
Total Group	**1,218,387**	**1,109,640**	**1,231,398**	**9.8%**	**-1.1%**

1. Balances with customers include contingent risks (see the auditor's report and annual consolidates statements, note 35) and exclude Repos (1,639 million euros) and other customer financial assets (12,832 million euros).
2. Balances with credit entities and central banks include contingent risks and exclude repos, the trading portfolio and other financial assets.
3. Total fixed income excludes the trading portfolio.
4. ECR (equivalent credit risk: net value of replacement plus the maximum potential value. Includes mitigants).

The gross credit exposure (customer loans, entities, fixed income, derivatives and repos) in 2014 was EUR 1,218,387 million, most of it with customers and credit entities (86% of the total).

Risk is diversified among the main regions where the Group operates: Continental Europe (39%), UK (29%), Latin America (22%) and the US (10%).

Credit risk exposure rose 9.8% in 2014, largely due to the combined impact of the increase in lending in UK, Brazil, the US and Spain.

Excluding the exchange-rate impact of the main currencies against the euro, the exposure increased 5% in 2014.

There were various **changes in** 2014 **in the Group's perimeter** of gross credit exposure. Of note was the incorporation of SCUSA, as well as the acquisitions of the portfolio of GE Nordics and Financiera El Corte Inglés (FECI) in the sphere of Santander Consumer Finance, The SCUSA portfolio was integrated globally into the Group, with a coverage ratio of 296%. The main line of business in SCUSA is auto finance, distinguishing between core auto (loans generated via intermediaries) and Chrysler Capital (operations granted via Chrysler dealers and financing of commercial fleets). The acquisition of GE Nordics consolidated the commitment to growth in the business of direct consumer finance in the northern part of Europe, incorporating a portfolio that at the end of 2014 had a coverage ratio of 82%. The agreement with FECI increases the customer base with growth potential (coverage ratio of 109%).

6.2.2. Performance of magnitudes in 2014

The table below sets out the main items related to credit risk derived from our activity with customers.

Grupo Santander -risk, NPLs, coverage, provisions and cost of credit*
Data at 31 December

	Credit risk with customers[2] (million euros)			Non-performing loans (million euros)			NPL ratio (%)		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Continental Europe	**308,205**	**312,167**	**332,261**	**27,514**	**28,496**	**20,904**	**8.93**	**9.13**	**6.29**
Spain	182,974	189,783	210,536	13,512	14,223	8,093	7.38	7.49	3.84
Santander Consumer Finance[1]	63,654	58,628	59,387	3,067	2,351	2,315	4.82	4.01	3.90
Portugal	25,588	26,810	28,188	2,275	2,177	1,849	8.89	8.12	6.56
Poland	18,920	18,101	10,601	1,405	1,419	500	7.42	7.84	4.72
United Kingdom	**256,337**	**235,627**	**254,066**	**4,590**	**4,663**	**5,202**	**1.79**	**1.98**	**2.05**
Latin America	**167,065**	**146,956**	**155,846**	**7,767**	**7,342**	**8,369**	**4.65**	**5.00**	**5.37**
Brazil	90,572	79,216	89,142	4,572	4,469	6,113	5.05	5.64	6.86
Mexico	27,893	24,024	22,038	1,071	878	428	3.84	3.66	1.94
Chile	33,514	31,645	32,697	1,999	1,872	1,691	5.97	5.91	5.17
Argentina	5,703	5,283	5,378	92	75	92	1.61	1.42	1.71
United States	**72,477**	**44,372**	**49,245**	**1,838**	**1,151**	**1,351**	**2.54**	**2.60**	**2.74**
Puerto Rico	3,871	4,023	4,567	288	253	326	7.45	6.29	7.14
Santander Bank	45,825	40,349	44,678	647	898	1,025	1.41	2.23	2.29
SC USA	22,782	—	—	903	—	—	3.97	—	—
Total Group	**804,084**	**738,558**	**793,448**	**41,709**	**41,652**	**36,061**	**5.19**	**5.64**	**4.54**

	Coverage ratio (%)			Spec. provs. net of recovered write-offs[3] (million euros)			Credit cost (% of risk)[4]		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Continental Europe	**57.2**	**57.3**	**73.0**	**2,880**	**3,603**	**4,104**	**1.02**	**1.23**	**3.16**
Spain	45.5	44.0	50.0	1,745	2,411	2,473	1.06	1.38	1.34
Santander Consumer Finance[1]	100.1	105.3	109.5	544	565	753	0.90	0.96	1.27
Portugal	51.8	50.0	53.1	124	192	393	0.50	0.73	1.40
Poland	60.3	61.8	68.0	186	167	112	1.04	1.01	1.00
United Kingdom	**41.9**	**41.6**	**44.1**	**332**	**580**	**806**	**0.14**	**0.24**	**0.30**
Latin America	**84.7**	**85.4**	**87.5**	**5,119**	**6,435**	**7,300**	**3.56**	**4.43**	**4.93**
Brazil	95.4	95.1	90.2	3,682	4,894	6,124	4.84	6.34	7.38
Mexico	86.1	97.5	157.3	756	801	466	2.98	3.47	2.23
Chile	52.4	51.1	57.7	521	597	573	1.75	1.92	1.90
Argentina	143.3	140.4	143.3	121	119	108	2.54	2.12	2.05
United States	**192.8**	**86.6**	**95.3**	**2,233**	**43**	**345**	**3.45**	**0.00**	**0.72**
Puerto Rico	55.6	61.6	62.0	55	48	81	1.43	1.13	1.80
Santander Bank	109.4	93.6	105.9	26	(5)	265	0.06	(0.01)	0.61
SC USA	296.2	—	—	2,152	—	—	10.76	—	—
Total Group	**67.2**	**61.7**	**72.4**	**10,562**	**10,863**	**12,640**	**1.43**	**1.53**	**2.38**

* 2013 excludes SCUSA.

1. SCF includes GE Nordics in the 2014 figures.
2. Includes gross loans to customers, guarantees and documentary credits.
3. Bad debts recovered (EUR 1,336 million).
4. Cost of credit= loan-loss provisions 12 months/average lending.

At the end of 2014, credit risk with customers was 9% higher. This growth occurred in all countries except for Spain (although taking into account just customer loans, there was slight growth), Portugal and Puerto Rico. These levels of lending, together with non-performing loans (NPLs) of EUR 41,709 million (-1.4%) reduced the Group's NPL ratio to 5.19% (-45 b.p.).

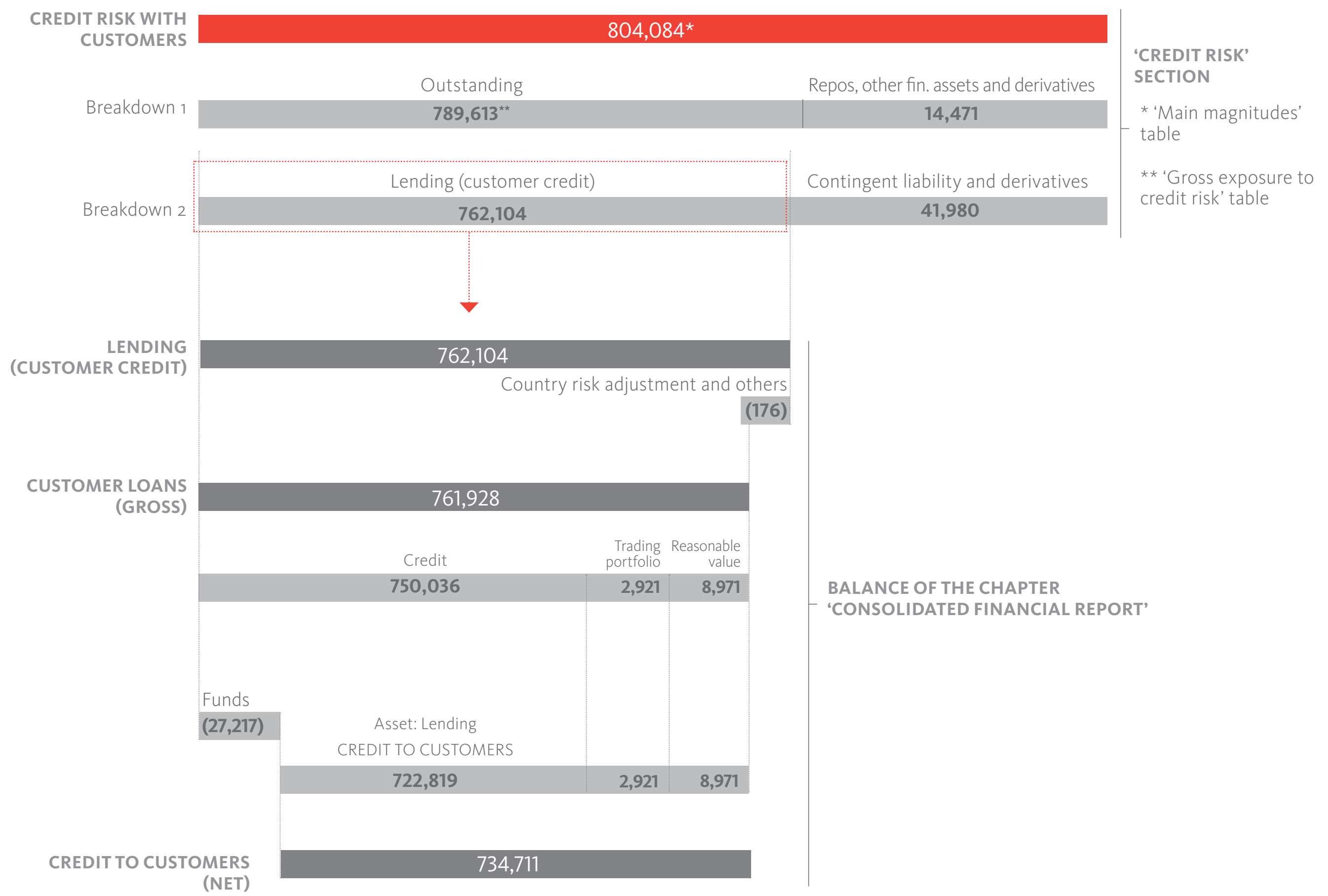
For coverage of these NPLs, the Group recorded net credit losses of EUR 10,562 million (-3%), after deducting write-off recoveries. This decline is materialised in a fall in the cost of credit to 1.43% (10 b.p. less than in 2013).

Total loan-loss provisions were EUR 28,046 million, bringing the Group's coverage ratio to 67%. It is important to bear in mind that this ratio is affected downwards by the weight of mortgage portfolios (particularly in the UK and Spain), which require fewer provisions as they have collateral.

Conciliation of the main magnitudes

The consolidated financial report details the portfolio of customer loans, both gross and net of funds. The following chart shows the relation between the concepts that comprise these magnitudes.

Figures in million euros

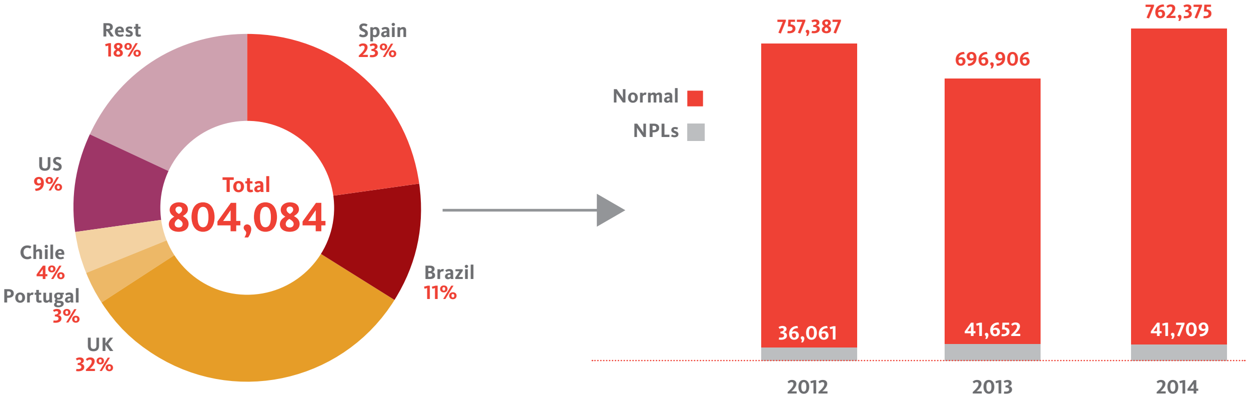


Geographic distribution and segmentation

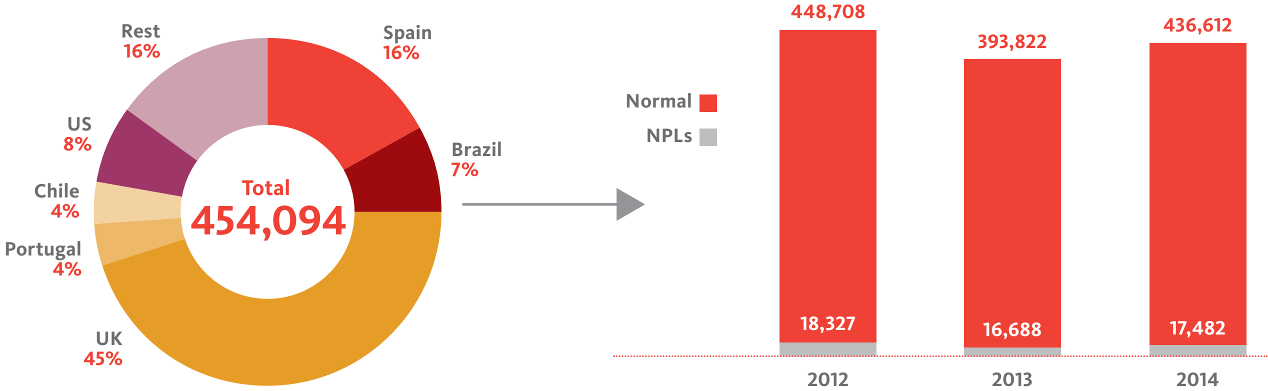
On the basis of the aforementioned segmentation, the geographic distribution and situation of the portfolio is shown in the following charts. The distribution is as follows:

Million euros

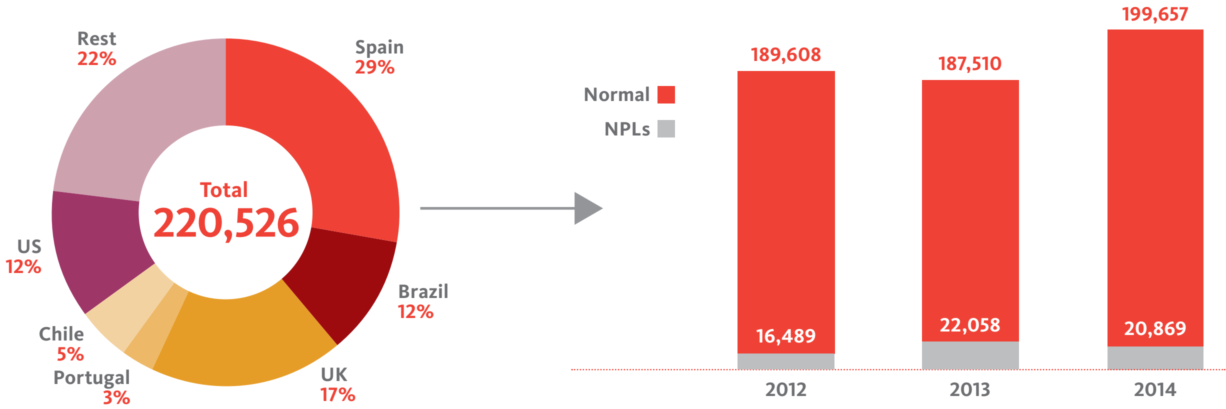
Total



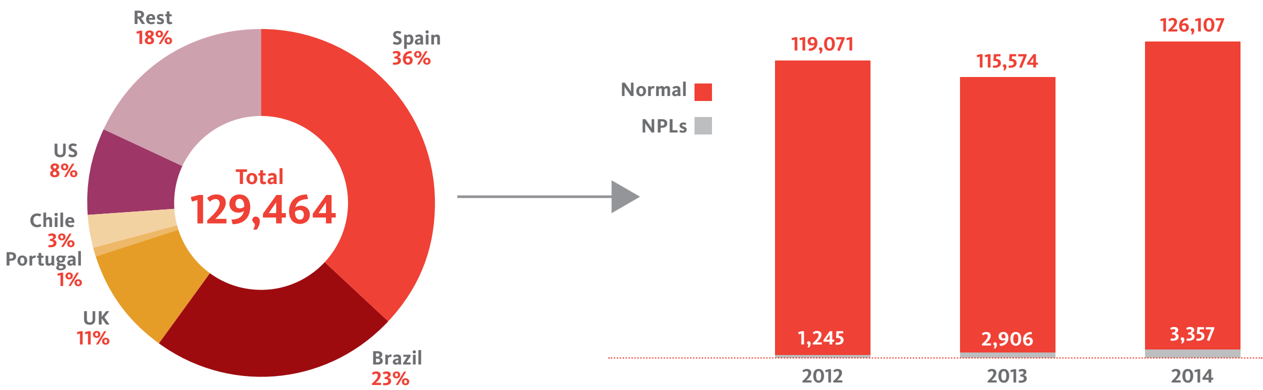
Individuals



SME+Comp+Inst



Global wholesale



The structure of the main magnitudes by geographic area :

- **Continental Europe**
  - **Spain's** NPL ratio[3] was 7.38%, (11 b.p. lower than in 2013), despite the reduction in the denominator and due to the favourable evolution of NPLs, mainly at companies. The coverage ratio increased to 46%.
  - **Portugal** ended the year with a higher NPL ratio (8.89%). The ratio was partly affected by the decline in lending, in line with the financial system's deleveraging process. The coverage ratio rose by 2 p.p. to 52%.
  - **Poland's** NPL ratio fell to 7.42% (42 b.p. less than in 2013), and is on a path of normalisation after the rise in 2013 following the integration of Kredyt Bank.The coverage ratio was 60%.
  - **Santander Consumer's** NPL ratio, after the increase in the perimeter, was 4.82%, with a good general performance of portfolios in all countries. The coverage ratio was 100%.
- The **UK**[4] reduced its NPL ratio to 1.79% (-19 b.p.), due to the good performance in all segments, particularly retail and especially the mortgage portfolio. The coverage ratio increased to 42% (0.3 p.p. more than 2013).
- **Brazil's** NPL ratio[5] fell to 5.05% (-59b.p.), with a positive performance in most portfolios. The coverage ratio was 95%.
- **Chile** increased its NPL ratio to 5.97% (+ 6 b.p.), although the portfolio's risk premium came down. The coverage ratio was 52%. (+ 1.3 p.p.) Lending grew 6%.
- **Mexico's** NPL ratio increased to 3.84% (+ 18 b.p.), mainly affected by the greater regulatory requirements in the country's financial system and a macroeconomic environment less favourable than envisaged. The coverage ratio dropped to 86% (-11 p.p.).
- The **United States'** NPL ratio declined to 2.54% (-6 b.p.) and the coverage ratio rose to 193% (+106 p.p.).
  - The NPL ratio at Santander Bank was 1.41% (-82 b.p.), as a result of the good performance of the retail and company portfolios, while the coverage ratio was higher at 109%.
  - SCUSA's cost of credit was 10.76%. The high rotation of the portfolio and the unit's active credit management brought the NPL ratio to 3.97% and the coverage ratio increased to 296%.
  - Puerto Rico's NPL ratio increased to 7.45% and the coverage ratio dropped to 56%.

Portfolio in normal situation: matured amounts pending collection

The amounts matured pending collection of three months or less represented 0.42% of total credit risk with customers. The following table shows the structure at December 31 2014, classified on the basis of the maturity of the first maturity:

Matured amounts pending

Million euros. Data at 31 December 2014

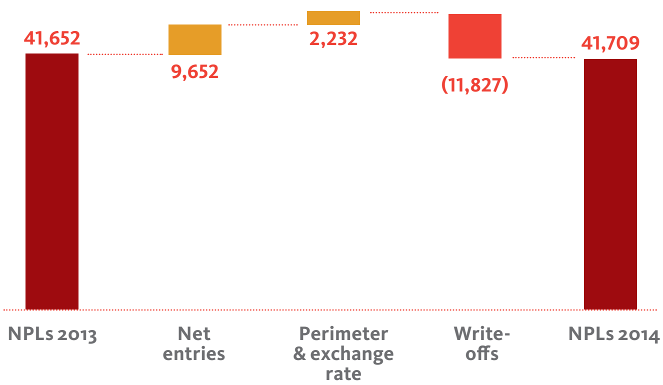
	Less than 1 month	1-2 months	2-3 months
Deposits in credit entities	5	-	3
Customer loans	**2,222**	**710**	**406**
Public administrations	8	0	0
Other private sectors	2,215	710	406
Securities representing debt	-	-	-
Total	**2,228**	**710**	**409**

Doubtful loans and provisions: performance and structure

The table below shows the performance of doubtful balances by the concepts that comprise them:

Evolution of non-performing loans by the concepts that comprise them

Million euros



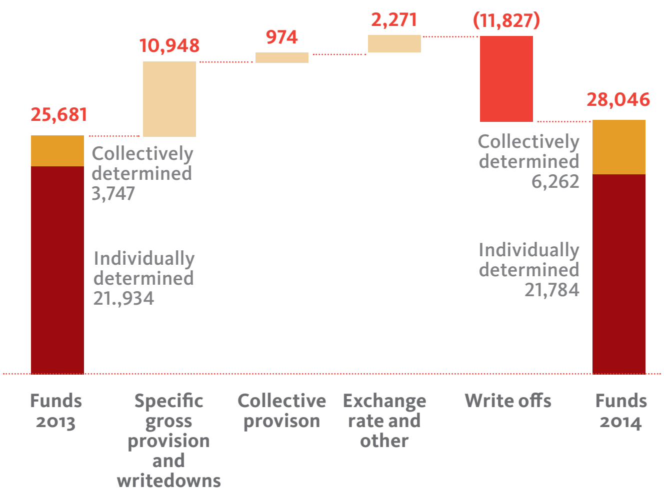
2012-2014 Evolution

	2012	2013	2014
NPLs (start of he period)	**32,006**	**36,061**	**41,652**
Entries	16,538	17,596	9,652
Perimeter	(628)	743	497
Exchange rate and other	(491)	(2,122)	1,734
Write-offs	(11,364)	(10,626)	(11,827)
NPLs (end of period)	**36,061**	**41,652**	**41,709**

3. Excluding run-off real estate activity. More detail at 6.3.2. Spain.
4. More detail at 6.3.1. United Kingdom
5. More detail at 6.3.3. Brazil

Evolution of funds by the concepts that comprise them

Million euros. Data at 31 December 2014



Performance 2012-2014

	2012	2013	2014
Funds (start of period)	**19,531**	**26,111**	**25,681**
Collectively determined	4,058	4,319	3,747
Individually determined	15,474	21,793	21,934
Gross allocation determined individually and writedowns	**19,508**	**12,335**	**10,948**
Allocation	13,869	12,140	10,948
Writedowns	5,639	195	—
Capital gains	**358**	**(212)**	**974**
Exchange rate and other	**(1,939)**	**(1,928)**	**2,271**
Write-offs	**(11,347)**	**(10,626)**	**(11,827)**
Funds (end of period)	**26,111**	**25,681**	**28,046**

Forbearance portfolio

The term forbearance portfolio refers for the purposes of the Group's risk management to operations which the client has presented, or financial difficulties are envisaged for meeting payment obligations in the prevailing contractual terms and, for this reason, steps were taken to modify, cancel or even formalise a new transaction.

Grupo Santander has a detailed corporate policy for forbearance which acts as a reference in the various local transpositions of all the financial institutions that form part of the Group, and share the general principles established in Bank of Spain circular 6/2012 and the technical criteria published in 2014 by the European Banking Authority, developing them in a more granular way on the basis of the level of deterioration of clients.

This corporate policy sets rigorous criteria of prudence for assessing these risks:

- There must be restrictive use of restructurings, avoiding actions that delay recognising deterioration.
- The main aim must be to recover all the amounts owed, which entails recognising as soon as possible the amounts that it is estimated cannot be recovered.
- The restructuring must always envisage maintaining the existing guarantees and, if possible, improving them. Effective guarantees not only serve to mitigate the severity, but also can reduce the probability of default.
- This practice must not involve granting additional financing to the client, serve to refinance the debt of other banks, or be used as an instrument of cross-selling.
- It is necessary to assess all the forbearance alternatives and their effects, ensuring that the results would be better than those likely to be achieved in the event of not doing it.
- Severer criteria are applied for the classification of forbearance operations which prudently ensure the re-establishment of the client's payment capacity, from the moment of forbearance and for an adequate period of time.
- In addition, in the case of clients assigned a risk analyst, individualised analysis of each case is particularly important, both for their correct identification as well as subsequent classification, monitoring and adequate provisions.

The policy also establishes various criteria related to determining the perimeter of operations considered as forbearance, through defining a detailed series of objective indicators that enable situations of financial difficulty to be identified.

In this way, operations not classified as doubtful at the date of forbearance are generally considered as being in financial difficulties if at this date non-payment exceeds a month. If there is no non-payment or if this does not exceed the month of maturity, other indicators are taken into account including:

- Operations of clients who already have problems with other transactions.
- When the modification is made necessary prematurely, without there yet existing a previous and satisfactory experience with the client.
- In the event that the necessary modifications involve granting special conditions such as the need to have to establish a temporary grace period in the payment or, when these new conditions are regarded as more favourable for the client than those granted in an ordinary admission.
- Request for successive modifications over an unreasonable period of time.

- In any case, once the modification is made, if any irregularity arises in the payment during an established period of observation, even if there are no other symptoms, the operation will be considered within the perimeter of forbearance (backtesting).

As soon as it is determined that the reasons giving rise to the modification are due to financial difficulties, two types of forbearance are distinguished for management purposes on the basis of the management situation of these operations in origin: ex ante forbearance when the original operation is considered a doubtful risk and ex post forbearance when arising from a doubtful situation.

In addition, within ex post forbearance treatments applicable for cases of advanced deterioration are distinguished, whose requirements and classification criteria are even more severe than for the rest of forbearance.

Once the forbearance is done, those operations that remain classified as doubtful risk for not meeting at the time of forbearance the requirements for their reclassification to another category, must fulfil a schedule of prudent payments in order to ensure with reasonable certainty that the client has recovered his payment capacity.

If there is any irregularity (non-technical) in payments during this period, the observation period is begun again.

Once this period is over, conditioned by the customer's situation and by the operation's features (maturity and guarantees granted), the operation is no longer considered doubtful, although it remains subject to a test period with special monitoring.

This tracking is maintained as long as a series of requirements are not met, including: a minimum period of observation, amortisation of a substantial percentage of the amounts pending and having met the unpaid amounts at the time of forbearance.

The forbearance of a doubtful operation, regardless of whether, as a result of it, the transaction remains current in payment, does not modify the date of non-payment considered for determining the provisions. At the same time, the forbearance of a doubtful operation does not give rise to any release of the corresponding provisions.

The total volume of forbearance stood at EUR 56,703 million at the end of 2014 (7% of the Group's total customer loans), with the following structure [6]:

Million euros

	Non-doubtful	Doubtful	Risk Total	
	Amount	Amount	Amount	% spec. cov.
Total	**33,135**	**23,568**	**56,703**	**21%**

On a like-for-like basis with 2013, the Group's level of forbearance declined 6% (-EUR 3,229 million), continuing the reduction of the previous year.

As regards loan classification, 58% is non-doubtful. Of note is the high level of guarantees (75% with real guarantees) and adequate coverage through specific provisions (21% of the total forbearance portfolio and 45% of the doubtful portfolio).

Management metrics[7]
Credit risk management uses other metrics to those already commented on, particularly management of non-performing loans variation plus net write-offs (known in Spanish as VMG) and expected loss. Both enable risk managers to form a complete idea of the portfolio's evolution and future prospects.

Unlike non-performing loans, the **VMG** refers to the total portfolio deteriorated over a period of time, regardless of the situation in which it finds itself (doubtful loans and write-offs). This makes the metric a main driver when it comes to establishing measures to manage the portfolio.

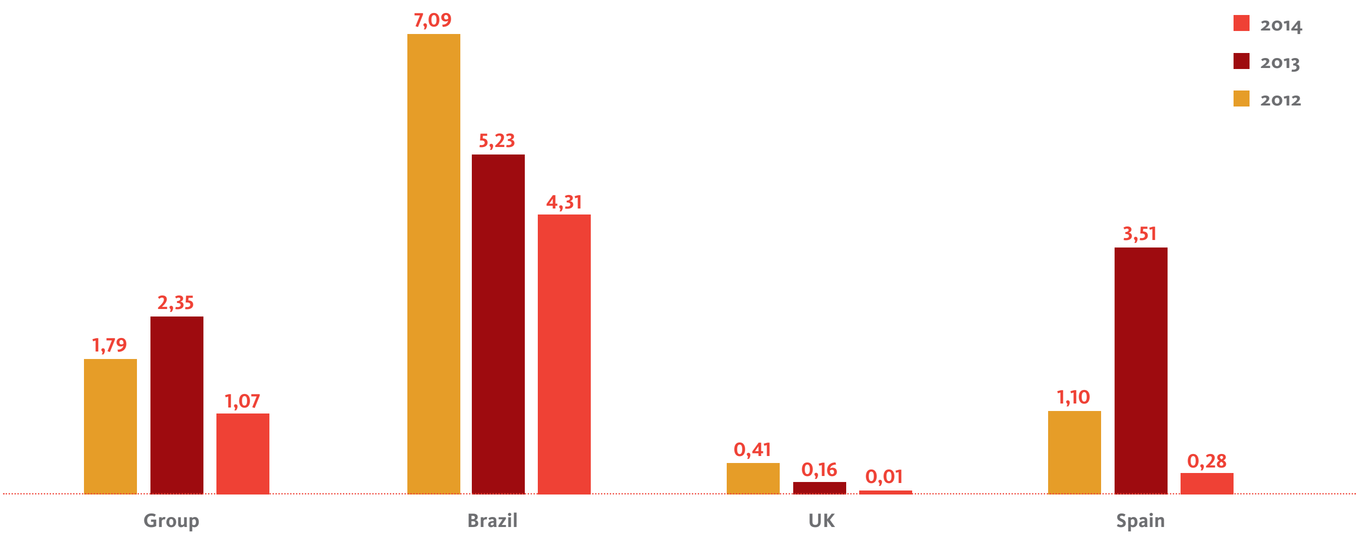
6. The figures of the non-doubtful portfolio include the portfolio in normal and substandard classification of Bank of Spain circular 4/04. For more detail, see note 54 of the auditor's report and annual financial statements.

7. For more detail on these metrics see 6.5.5. measurement and control, in this section.

The VMG is frequently considered in relation to the average loan that generated them, giving rise to what is known as the **risk premium**, whose evolution can be seen below.

Risk premium (Change in doubtful loans plus net write-offs over average balances)

%. Figures at constant exchange rates



The Group's risk premium dropped sharply, in a context of growth in lending.

Unlike the loss incurred, used by the Group to estimate loan-loss provisions, **the expected loss** is the estimate of the economic loss which will occur during the following year in the existing portfolio at a given moment. Its forward-looking component complements the view provided by the VMG when analysing the portfolio and its evolution.

The expected loss reflects the portfolio's features as regards the exposure at default (EaD), the probability of default (PD) and the severity or recovery once the default occurs (loss given default, LGD).

The table below sets out the distribution by segments in terms of EaD, PD and LGD. For example, it can be seen how the consideration of the LGD in the metrics makes the portfolios with mortgage guarantee generally produce a lower expected loss, fruit of the recovery that occurs in the event of a default via the mortgaged property.

The expected loss with clients of the portfolio in normal situation is 1.01% (down from 1.20% in 2013) and 0.82% for the whole of the Group's credit exposure (0.98% in 2013), which underscores the medium-low risk profile assumed.

Segmentation of the credit risk exposure

Segment	EAD[1]	%	Average PD	Average LGD	Expected loss
Sovereign debt	150,890	14.3%	0.02%	46.90%	0.01%
Banks and other fin. instit.	64,271	6.1%	0.32%	51.81%	0.17%
Public sector	21,150	2.0%	1.87%	8.29%	0.16%
Corporate	149,339	14.2%	0.61%	32.48%	0.20%
SMEs	156,424	14.8%	3.15%	38.60%	1.22%
Individual mortgages	325,181	30.8%	2.60%	8.46%	0.22%
Consumer credit (individuals)	125,580	11.9%	6.59%	52.61%	3.47%
Credit cards (individuals)	42,499	4.0%	3.49%	63.58%	2.22%
Other assets	19,849	1.9%	3.05%	50.08%	1.52%
Memorandum item[2]	*820,173*	*77.7%*	*2.98%*	*33.73%*	*1.01%*
Total	**1,055,182**	**100.0%**	**2.40%**	**34.28%**	**0.82%**

Data at December 2014.

1. Excludes doubtful loans.

2. Excludes sovereign debt, banks and other financial institutions and other assets.

6.3. Detail of the main countries

The portfolios with the largest concentration of risk are set out below, based on the figures in 6.2.2. Performance of magnitudes in 2014.

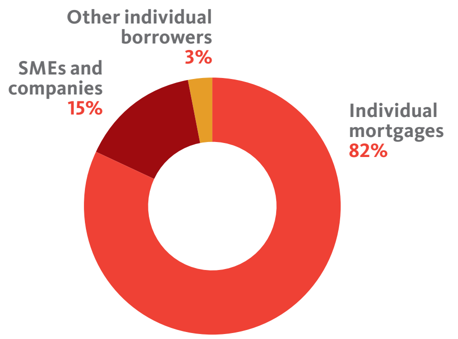
6.3.1. United Kingdom

6.3.1.1. General view of the portfolio

Santander UK's total outstanding was EUR 256,337 million at the end of 2014 (32% of the Group's total), with the following distribution by segments:

Segmentation of the portfolio

%



6.3.1.2. Mortgage portfolio

Because of its importance not just for Santander UK but for all of the Group's outstanding, it is worth highlighting the mortgages' portfolio, which stood at EUR 193,048 million at the end of 2014.

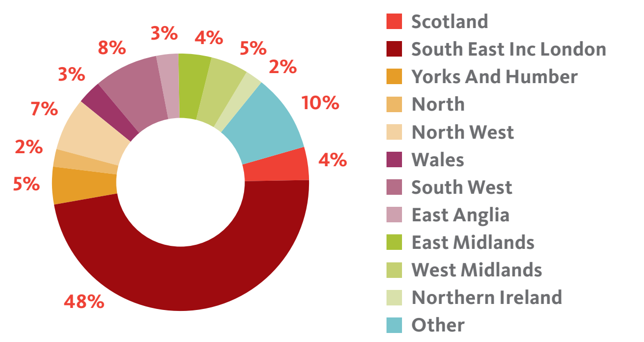
This portfolio consists of mortgages for acquisition or reforming homes, granted to new as well as existing clients and always constituting the first mortgage. There are no operations that entail second or successive charges on mortgaged properties.

The mortgaged property must always be located within UK territory, regardless of the destiny of the financing except in the case of some one-off operations in the Isle of Man. Mortgages can be granted for properties outside the UK, but the collateral for such mortgages must consists of a property in the UK.

Most of the credit exposure is in the south east of the UK, and particularly in the metropolitan area of London, where housing prices are more stable even during periods of economic slowdown.

Geographic concentration

%



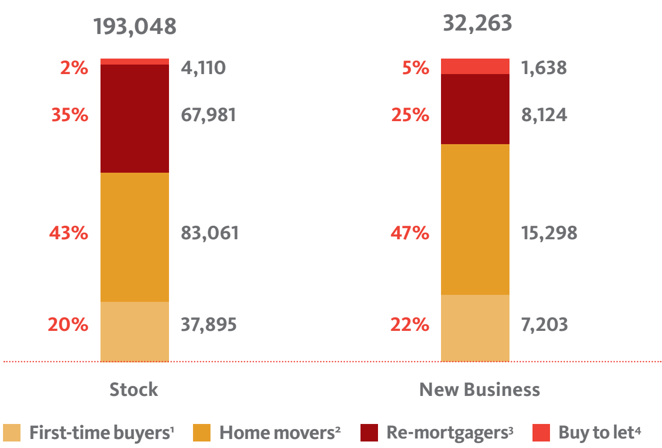
All the properties are valued independently before each new operation is approved, in accordance with the Group's risk management principles.

Mortgages that have already been granted are subject to a quarterly updating of the value of the property in guarantee, by an independent agency, using an automatic valuation system in accordance with the market's usual practices and in compliance with prevailing legislation.

The distribution of the portfolio by type of borrowers is shown in the chart below:

Typology of loans of the mortgage portfolio

Million euros



1. *First time buyer*: clients who acquire a home for the first time.
2. *Home mover*: clients who change home, with or without changing the bank that granted the loan.
3. *Remortgage*: clients who transfer the mortgage from another bank.
4. *Buy to let*: Homes acquired with the purpose of renting them out.

There are varies types of products with different risk profiles, all of them subject to the limits inherent in the policies of a prime lender such as Santander UK. The features of some of them (in brackets the percentage of the portfolio of UK mortgages they represent):

- Interest only loans (41.1%)*: The customer pays every month the interest and amortises the capital at maturity. An appropriate repayment vehicle such as a pension plan, mutual funds, etc is needed. This is a regular product in the UK market for which

* Percentage calculated on the total or some component of interest only.

Santander UK applies restrictive policies in order to mitigate the risks inherent in it. For example, maximum LTV of 50%, higher cut-off in the admission score or the evaluation of the payment capacity simulating the amortization of capital and interest payments instead of just interest.

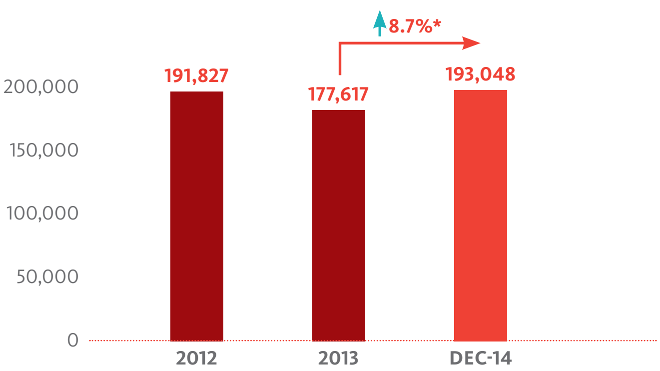
- Flexible loans (14.2%): This type of loan contractually enables the customer to modify the monthly payments or make additional provision of funds up to a pre-established limit, as well as having disbursements from previously paid amounts above that limit.

- Buy to Let (2.2%): Buy to let mortgages (purchase of a property to then rent it out) account for a small percentage of the total portfolio. Admission was halted between 2009 and 2013 when it was reactivated following the improvement in market conditions and approval with strict rick policies. In 2014, these mortgages represented around 5% of the total monthly admission.

The evolution of the mortgage portfolio over the last three years is shown below:

Evolution of the mortgage portfolio

Million euros

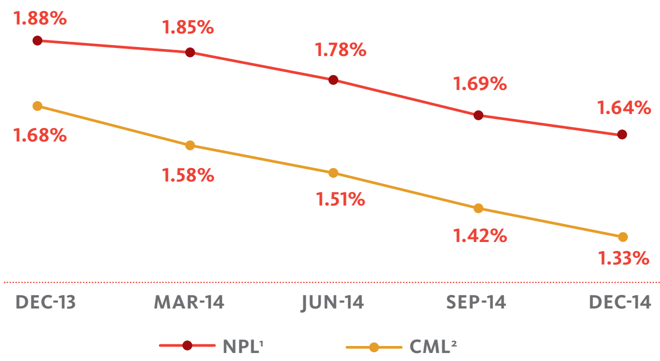


* Real growth, discounting the exchange rate impact, was 1.3%

There was slight growth of 1.3% (discounting the exchange rate impact) in 2014, accompanied by a favourable environment partly sustained by the UK government's help to buy scheme. This programme enables first residency buyers, as well as those who are already property owners, under a series of conditions, to acquire a home by contributing a minimum of 5% of its value and obtaining financing for the rest, The government guarantees lenders if the value of the property falls by up to 15%.

In 2014, as can be seen in the chart below, the NPL ratio of this portfolio dropped from 1.88% in 2013 to 1.64%, slightly above that of the UK banking industry as a whole, according to the Council of Mortgage Lenders (CML).

Evolution of the NPL ratio of the mortgage portfolio



1. Figures of Santander UK in accordance with the amount of the cases.
2. CML figures in accordance with the volume of cases.

The decline in the NPL ratio was sustained by the evolution of non-performing loans, which improved significantly thanks to a more favourable economic environment, as well as the increased NPL exits due to the improvements in the efficiency of the recovery teams. NPLs fell 11.9% to EUR 3,162 million (growth of 1.1% in 2013).

It is also necessary to point out the more conservative focus adopted in Santander UK's definition of a NPL, in line with the criteria set by the Bank of Spain and Grupo Santander, with regard to the standard applied in the UK market. This focus includes the classification as doubtful of the following operations:

- Clients with payment delays of between 30 and 90 days and who have been declared publically insolvent (via bankruptcy process) in the previous two years.

- Operations in which once the maturity date is reached there is still capital of the loan pending payment with a maturity of more than 90 days, although the client remains up to date with the monthly payments.

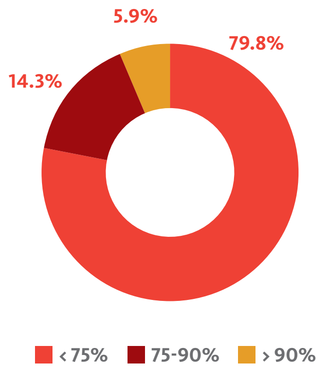
- Forbearance operations which, in accordance with the corporate policy, are considered as "payment agreements" and thus classified as doubtful.

Excluding these concepts, which are not included for calculating the NPL ratio in the UK market, and under which EUR 419 million were classified as NPLs at the end of 2014, the ratio of the mortgage portfolio was 1.42%, well below the aforementioned 1.64% and close to that published by the Council of Mortgage Lenders.

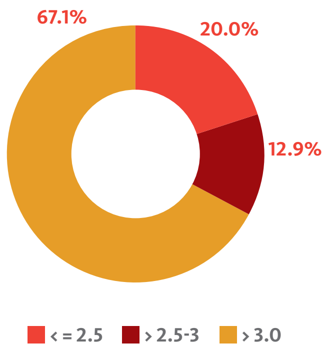
The strict credit policies limit the maximum loan-to-value (LTV) to 90% for those loans that amortize interest payments and capital, and to 50% for those that amortize interest regularly and the capital at maturity. Applying these policies enabled the simple arithmetic average LTV of the portfolio to be 47.2% and the average weighted LTV 42.8%. The proportion of the portfolio with a LTV of more than 100% was reduced to 2.4% from 4.4% in 2013.

The following charts show the LTV structure for the stock of residential mortgages and the distribution in terms of the income multiple of new loans in 2014:

Loan-to-Value
(average 47,2%)[1]



Income multiple
(average 2.9%)[2]



1. *Loan to value*: Relation between the amount of the loan and the appraised value of the property. Based on indices.
2. *Income multiple*: Relation between the total original amount of the mortgage and the customer's annual gross income declared in the loan request.

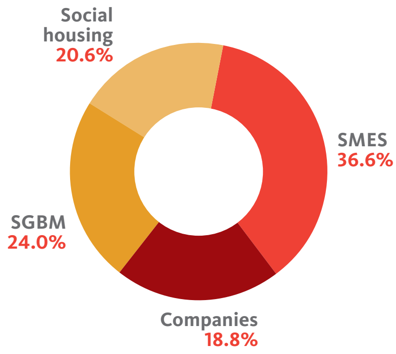
The credit risk policies explicitly forbid loans regarded as high risk (subprime mortgages) and establish demanding requirements for credit quality, both for operations and for clients. For example, as of 2009 mortgages with a loan-to-value of more than 100% have not been allowed.

An additional indicator of the portfolio's good performance is the reduced volume of foreclosed properties, which in 2014 amounted to EUR 75 million, less than 0.1% of the total mortgage exposure. Efficient management of these cases and the existence of a dynamic market for this type of housing enables sales to take place in a short period of time (around 18 weeks on average), contributing to the good results.

6.3.1.3. SMEs and companiess
As shown in the chart on the segmentation of the portfolio at the beginning of this section, lending to SMEs and companies (EUR 47,674 million) represented 15.4% of the total at Santander UK.

The following sub-segments are included in these portfolios:

SMEs and company portfolio segments



SMEs: This segment includes those small firms which, from the risk management standpoint, are in the standardised model. Specifically, those belonging to the business lines of small business banking and regional business centres. Total outstanding at the end of 2014 was EUR 17,427 million, with a NPL ratio of 4.4% (5.9% at the start of the year).

Companies: This includes companies who have a risk analyst assigned. Also included are portfolios considered as not strategic (legacy and non-core). Outstanding at the end of 2014 was EUR 8,978 million, with a NPL ratio of 3.1% (3.6% at the start of the year).

SGBM: This includes companies under the risk management model of Global Wholesale Banking. Outstanding was EUR 11,457 million at the end of 2014 (NPL ratio of 0.03%).

Social housing: This includes lending to companies that build, sell and rent social housing. This segment is supported by local governments and the central government and has no NPLs. Outstanding stood at EUR 9,810 million at the end of 2014.

In line with the objective of becoming the reference bank for SMEs and companies, the most representative portfolios of this segment grew by around 6% in 2014 in net terms.

6.3.2. Spain

6.3.2.1. General view of the portfolio
The total credit risk (including guarantees and documentary credits) in Spain (excluding the run-off real estate unit, commented on later) amounted to EUR 182,974 million at the end of 2014 (23% of the Group), with an adequate level of diversification by both product and customer segment.

The year 2014 was a turning point in the downward trend in total credit risk. Although in annual terms it still fell 4%, it rose moderately in the second part of the year, reflecting the economic situation and the various strategies implemented.

Million euros

	2014	2013	2012**	Var 14/13	Var 13/12
Total credit risk*	**182,974**	**189,783**	**210,536**	**-4%**	**-10%**
Home mortgages	49,894	52,016	52,834	-4%	-2%
Rest of loans to individuals	17,072	17,445	20,042	-2%	-13%
Companies	96,884	106,042	119,808	-9%	-11%
Public administrations	19,124	13,996	17,852	37%	-22%

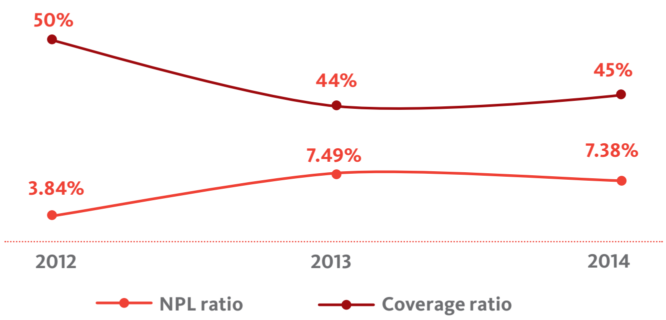
* Including guarantees and documentary credits.

** In order to facilitate like-for-like comparisons with prior years the figures for 2012 have been restated.

The NPL ratio for the total portfolio was 7.38%, 11 b.p less than in 2013. The fall in lending (which increased the NPL ratio by 26 b.p.) was offset by the better NPL figure (which reduced the ratio by 37 b.p.). This was largely due to the lower NPL entries (-40% on average below 2013 in all portfolios), and to the clean-up period of part of the substandard operations reclassified in June 2013 in the mortgage portfolio.

The coverage ratio increased by one p.p. to 45%, after the decline in 2013 as a result of the reclassification of substandard operations.

NPL ratio and coverage ratio



Below are the main portfolios.

6.3.2.2 Home mortgages

Lending to households to acquire a home in Spain amounted to EUR 50,388 million at the end of 2014 (27% of total credit), of which 99% has a mortgage guarantee.

Lending to households to acquire homes*

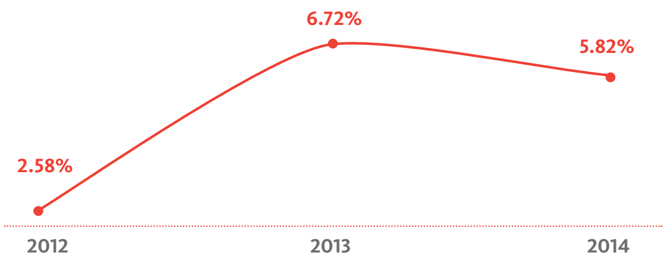
Million euros

	2014	2013
Gross amount	**50,388**	**52,879**
Without mortgage guarantee	493	863
With mortgage guarantee	49,894	52,016
Of which doubtful	**2,964**	**3,956**
Without mortgage guarantee	61	461
With mortgage guarantee	2,903	3,495

* Excluding the mortgage portfolio of Santander Consumer Spain (EUR 2,555 million in 2014), with doubtful loans of EUR 95 million.

The NPL ratio of mortgages to households to acquire a home was 5.82%, 90 b.p.less than in 2013, supported by gross NPL entries that were 50% lower and the clean-up period of part of the operations classified in June 2013 as doubtful for subjective reasons.

NPL ratio of mortgages for homes in Spain



The portfolio of mortgages for homes in Spain kept its medium-low profile and with limited expectations of a further deterioration:

- All mortgages pay principle right from the start.
- Early amortization is usual and so the average life of the operation is well below that in the contract.
- The borrower responds with all his assets and not just the home.
- High quality of collateral concentrated almost exclusively in financing the first home.
- Average affordability rate of close to 29%.
- Some 73% of the portfolio has a loan-to-value of less than 80% (total risk/latest available valuation of the home). In 2014, an appraisal took place which covered almost all the mortgage portfolio, in line with the supervisor's requirements.

Ranges of total LTV*

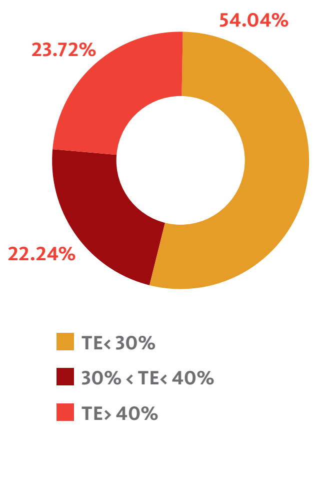
Million euros

	2014	2013
Gross amount with mortgage guarantee	**49,894**	**52,016**
LTV < 40%	4,773	12,339
LTV between 40% and 60%	9,566	16,105
LTV between 60% and 80%	22,036	17,364
LTV between 80% and 100%	10,985	5,392
LTV > 100%	2,535	815
of which doubtful	**2,903**	**3,496**
LTV < 40%	85	273
LTV between 40% and 60%	223	634
LTV between 60% and 80%	671	1,335
LTV between 80% and 100%	681	931
LTV > 100%	1,242	323

* Excluding Santander Consumer Spain.

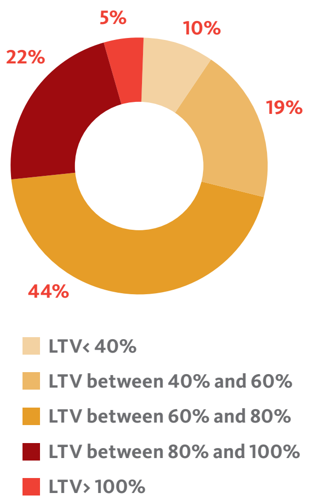
Affordability rate

Average: 29.41%



Loan to value

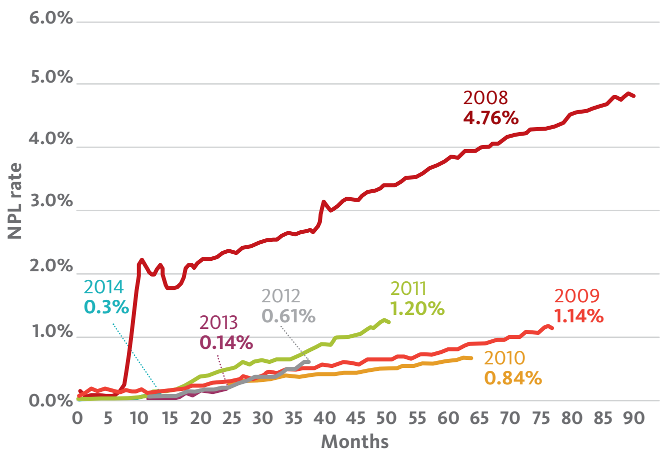
%



Loan-to-value: Percentage total risk/amount of the latest valuation appraisal.
Affordability rate: relation between the annual quotas and the customer's net income.

Despite the economic situation and the gradual deterioration over the last few years, the loan admission measures implemented in admission since 2008 and a change in demand toward better profiles produced a good evolution of vintages as of then.

Maturity of mortgage vintages. Santander Branch Network Spain



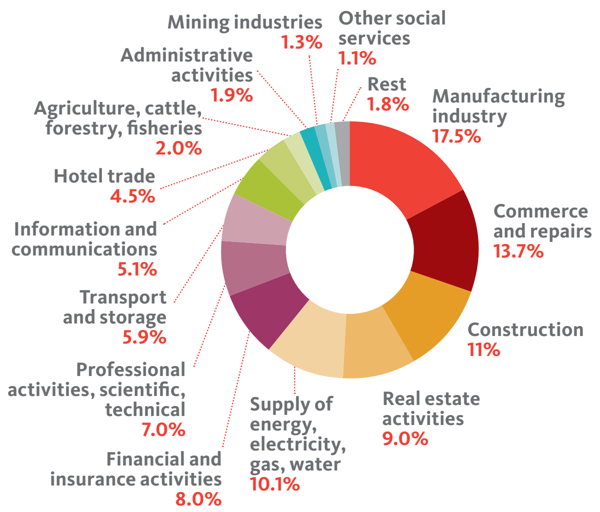
6.3.2.3 Companies' portfolio

Credit risk assumed directly with SMEs and companies (EUR 96,884 million) is the main segment in lending in Spain (53% of the total).

Most of the portfolio (94%) corresponds to clients who have been assigned a analyst who monitors the borrower continuously throughout the risk cycle. In 2014, as part of the Santander Advance project, the criteria of clients with an individual analyst was changed and the number of clients with continuous monitoring increased.

The portfolio is well diversified, with more than 192,000 active clients and no significant concentrations by sector.

Distribution of the companies' portfolio without real estate purpose



The NPL ratio of this portfolio was 8.91% at the end of 2014, mainly affected by the fall in lending.

6.3.2.4. Run-off real estate activity in Spain

The Group manages in a separate unit run-off real estate activity in Spain[8], which includes loans to clients mainly for real estate promotion, and has a specialised management model, stakes in Sareb[9] and foreclosed assets.

The Group's strategy in the last few years has been to reduce the volume of these loans which at the end of 2014 stood at EUR 8,114 million in net terms (around 3% of loans in Spain and less than 1% of the Group's loans). The portfolio's composition is as follows:

- Net loans of EUR 3,787 million, EUR 1,948 million less than in 2013 and with a coverage of 54%.
- Net foreclosed assets ended 2014 at EUR 3,533 million, with coverage of 55%.
- The value of the stake in Sareb was EUR 794 million.

8. For more detail on the real estate portfolio see note 54 of the auditor's report and the annual financial statements.
9. As of the end of 2014, the stake in Metrocavesa was consolidated by global integration.

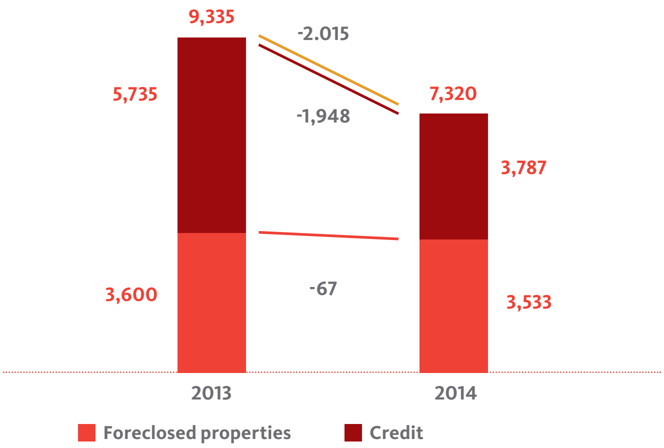
The gross exposure in loans and foreclosures continued the downward trend of previous years and fell 53.3% between 2008 and 2014.

The following table shows the evolution and classification of the lending and foreclosed portfolio:

	2014			2013		
	Gross balance	% coverage	Net balance	Gross balance	% coverage	Net balance
1. Credit	8,276	54%	3,787	11,355	49%	5,735
a. Normal	102	0%	102	424	0%	424
b. Sub-standard	1,209	35%	784	2,815	36%	1,797
c. Doubtful	6,965	58%	2,901	8,116	57%	3,514
2. Foreclosed	7,904	55%	3,533	7,990	55%	3,600
TOTAL 1+2	**16,180**	**55%**	**7,320**	**19,345**	**52%**	**9,335**

Millone euros

Under the perimeter of management of the real estate unit, net exposure was reduced by 22% in 2014.



By type of real estate that guarantees the loans and foreclosed assets, the coverage levels are as follows:

	Real estate loans		Foreclosed assets		Total	
	Exposure	Coverage	Exposure	Coverage	Exposure	Coverage
Completed buildings	3,577	38%	2,269	43%	5,846	40%
Promotions under construction	130	49%	716	46%	846	47%
Land	3,393	69%	4,864	62%	8,257	65%
Other guarantees	1,176	61%	55	64%	1,231	61%
TOTAL	**8,276**	**54%**	**7,904**	**55%**	**16,180**	**55%**

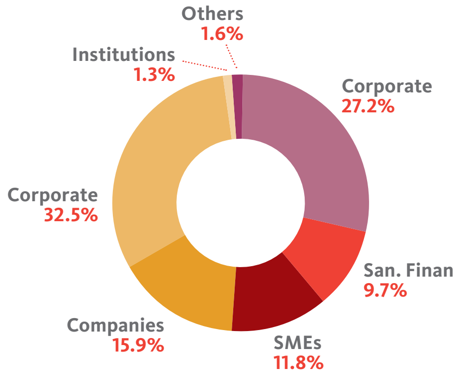
Million euros

6.3.3. Brazil

Brazil's credit risk is EUR 90,572 million (11.2% of the Group's total). It is adequately diversified and with a mainly retail profile (51% to individuals, consumer finance and SMEs).

Portfolio mix

%



* Santander Financiamentos: unit specialised in consumer finance (mainly auto finance).

Loans grew 13% (at constant exchange rate) in 2014 compared to 7.1% in 2013. This growth was in line with the average of Brazil's private sector banks.

Below are the levels of lending and growth of the main segments.

Lending: segmentation
Million euros. Constant exchange rates, 2014

	2014	2013	2012	14 / 13	13 / 12	12 / 11
Individuals	**24,635**	**23,230**	**21,734**	**6%**	**7%**	**11%**
Mortgages	6,919	5,060	3,860	37%	31%	24%
Consumer	10,506	11,676	11,947	-10%	-2%	8%
Cards	5,711	5,286	4,965	8%	6%	14%
Others	1,499	1,207	962	24%	25%	-2%
Santander Financiamentos	**8,742**	**8,976**	**9,302**	**-3%**	**-4%**	**-3%**
SMEs and large companies	**54,547**	**45,057**	**41,164**	**21%**	**9%**	**13%**
SMEs	10,679	11,137	11,477	-4%	-3%	20%
Companies	14,415	11,940	10,496	21%	14%	4%
Corporate	29,453	21,981	19,190	34%	15%	13%

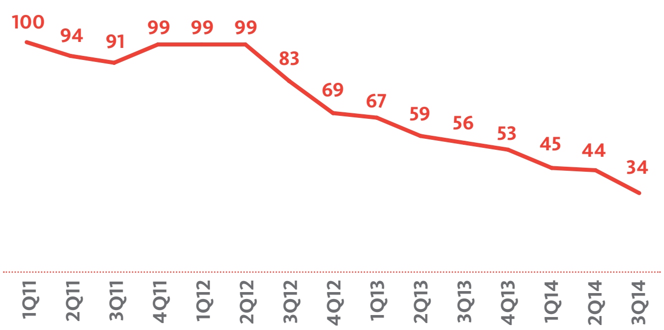
Growth was stronger in the segments with a more conservative risk profile, in line with the Bank's policy of giving greater weight in the portfolio's composition to segments with a better credit profile.

Of note in the segment of individuals was growth in mortgages (28% of total lending as against 22% in 2013), and the stronger rise to companies and corporations.

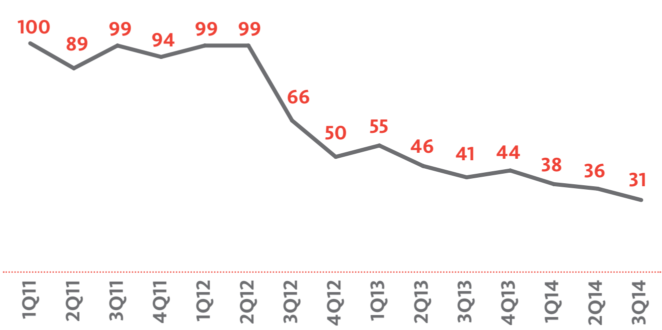
The Bank also continued during 2014 the measures started two years ago to strengthen the quality of loan admission, which has led to a sustained improvement in the leading indicators on the credit profile of new loans (vintages). The following charts show these indicators for the portfolios of loans to individuals and SMEs, which accounted for 62% of NPLs and 76% of provisions.

Vintages. Evolution of the over30 ratio at three months of the admission of each vintage
Q1/2011=100

Individuals



SMEs

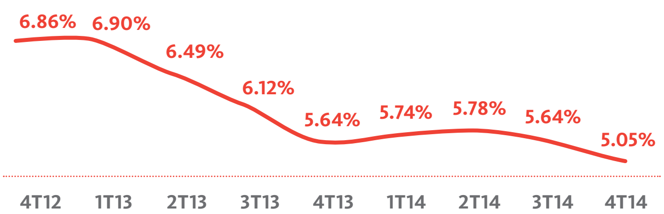


* Ratio calculated as the total amount of operations that are more than 30 days overdue on the total amount of the vintage.

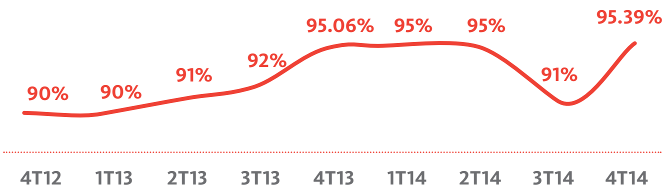
As a result of these improvement policies in loan admission and the change of mix, the NPL ratio fell by 59 b.p. in 2014 to 5.05%.

The coverage ratio was 95% at the end of 2014, a rise of 33 b.p. This improvement was due to the better performance of the portfolio, which reduced the level of NPLs.

NPL ratio



Coverage ratio



6.4. Other credit risk optics

6.4.1. Credit risk by activity in the financial markets

This section covers credit risk generated in treasury activities with clients, mainly with credit institutions. This is developed through financing products in the money market with different financial institutions, as well as derivatives to provide service to Group clients.

According to chapter six of the CRR (EU regulation 575/2013), the credit risk of the counterparty is the risk that the client in an operation could enter into non-payment before the definitive settlement of the cash flows of this operation. It includes the following types of operations: derivative instruments, operations with repurchase commitment, stock lending commodities, operations with deferred settlement and financing of guarantees.

There are two methodologies for measuring the exposure, one is with MtM methodology (replacement value of derivatives or amount available in committed credit lines) and the other, introduced in the middle of 2014 for some countries and products, which incorporates the calculation of the exposure by Monte Carlo simulation. The capital at risk or unexpected loss is also calculated, i.e. the loss which, once the expected loss has been subtracted, constitutes the economic capital, net of guarantees and recovery.

After markets close, exposures are re-calculated by adjusting all operations to their new time frame, adjusting the potential future exposure and applying mitigation measures (netting, collateral, etc), so that the exposures can be controlled directly against the limits approved by senior management. Risk control is done through an integrated system and in real time, enabling the exposure limit available with any counterparty, product and maturity and in any Group unit to be known at each moment.

Exposures in counterparty risk

The total exposure at the end of 2014 on the basis of management criteria in terms of positive market value after applying netting agreements and collateral by counterparty risk activities was EUR 17,260 million (net exposure of EUR 50,006 million) and was concentrated in high credit quality counterparties (75.2% of risk with counterparties has a rating equal to or more than A-).

In addition, at the end of 2014 credit valuation adjustments of EUR 785.6 million were registered (-16.8%[10] due mainly to the general fall in credit spreads during 2014) and debt valuation adjustments of EUR 227.5 million (-2.7%)[11].

Around 93% of the counterparty risk operations in nominal terms was with financial institutions and central counterparty institutions (CCP in English) with whom we operate almost entirely under netting and collateral agreements. The rest of operations with customers who are not financial institutions are, in general, operations whose purpose is hedging. Occasionally, operations are conducted for purposes other than hedging, always with specialised clients.

Distribution of counterparty risk by client rating (in nominal terms)*

AAA	1.39%
AA	2.30%
A	71.52%
BBB	20.84%
BB	3.91%
B	0.03%
RESTO	0.02%

* Ratings based on equivalences between internal ratings and ratings of agencies.

10. 2013 figures recalculated for those counterparties without listed CDS for which, as of 2014, market proxies are used, calculated by CDS on the basis of the rating/sector/country of the counterparty (the figure published in 2013 for these counterparties uses the internal PD).

11. The definition and methodology for calculating the CVA and DVA are set out in 7.2.2.6.

Counterparty risk: distribution by nominal risk and market value *

Million euros

	2014			2013			2012		
		Market value			Market value			Market value	
	Nominal	Positive	Negative	Nominal	Positive	Negative	Nominal	Positive	Negative
CDS protection acquired**	38,094	60	769	45,968	86	887	52,332	476	680
CDS protection sold	31,565	658	48	38,675	763	89	42,697	453	333
Total credit derivatives	**69,659**	**717**	**817**	**84,642**	**849**	**976**	**95,030**	**930**	**1,013**
Equity forwards	1,055	117	17	2,125	76	20	4,630	338	132
Equity options	36,616	1,403	2,192	58,964	1,686	2,420	60,689	1,376	1,438
Equity spot	19,947	421	-	10,041	1,103	0	6,616	999	0
Equity swaps	472	-	701	685	-	265	88	0	266
Total equity derivatives	**58,089**	**1,941**	**2,910**	**71,814**	**2,865**	**2,705**	**72,022**	**2,713**	**1,835**
Fixed-income forwards	3,905	3	124	3,089	1	0	4,855	5	4
Fixed-income options	423	4	0	-	0	0	0	0	0
Fixed-income spot	5,055	-	-	1,906	-	0	1,693	0	0
Total fixed income derivatives	**9,383**	**8**	**124**	**4,995**	**1**	**0**	**6,548**	**5**	**4**
Forward and spot rates	151,172	3,633	2,828	101,216	2,594	1,504	105,089	1,380	1,342
Exchange-rate options	44,105	530	790	46,290	604	345	70,298	232	496
Other exchange rate derivatives	354	3	6	125	2	1	41	1	0
Exchange-rate swaps	458,555	14,771	15,549	411,603	9,738	8,530	418,930	9,617	9,550
Total exchange rate derivatives	**654,187**	**18,936**	**19,173**	**559,233**	**12,940**	**10,380**	**594,358**	**11,231**	**11,388**
Asset swaps	22,617	999	1,749	22,594	901	1,634	22,322	870	1,623
Call money swaps	264,723	1,228	1,150	235,981	698	608	215,404	673	1,011
Interest rate structures	23,491	2,215	2,940	37,398	1,997	2,553	6,640	2,180	2,339
Forward interest rates- FRAs	171,207	13	63	117,011	16	18	304,041	41	49
IRS	2,899,760	95,654	94,624	2,711,552	58,164	54,774	2,038,235	81,091	77,005
Other interest-rate derivatives	218,167	4,357	3,728	230,735	3,870	3,456	251,526	4,255	3,726
Total interest-rate derivatives	**3,599,966**	**104,466**	**104,253**	**3,355,272**	**65,648**	**63,043**	**2,838,168**	**89,109**	**85,752**
Commodities	1,020	243	112	1,363	265	78	1,871	308	104
Total commodity derivatives	**1,020**	**243**	**112**	**1,363**	**265**	**78**	**1,871**	**308**	**104**
Total gross derivatives	**4,392,304**	**126,312**	**127,389**	**4,077,320**	**82,568**	**77,183**	**3,607,996**	**104,295**	**100,097**
Repos	166,047	3,871	5,524	152,105	9,933	7,439	123,784	2,453	3,315
Stock lending	27,963	3,432	628	19,170	2,919	672	18,857	3,476	774
Total counterparty risk	**4,586,314**	**133,615**	**133,541**	**4,248,595**	**95,419**	**85,294**	**3,750,638**	**110,223**	**104,186**

* Figures with management criteria. Excluding organised markets.

**Credit derivatives acquired including hedging of loans.

Counterparty risk: exposure in terms of market value and equivalent credit risk including mitigation effect[1]

Million euros

	2014	2013	2012
Market value netting effect[2]	28,544	27,587	28,192
Collateral received	11,284	9,451	11,454
Exposure by market value[3]	17,260	18,136	16,738
Net ECR[4]	50,006	58,425	56,088

1. Data with management criteria. Excluding organised markets.
2. Market value used to include the effects of mitigant agreements to calculate the exposure by counterparty risk.
3 Taking into account the mitigation of netting agreements and after discounting the collateral received.
4 ERC (equivalent credit risk: net replacement value plus the maximum potential value less the collateral received).

Counterparty risk: Notional OTC derivative products by maturity*

Million euros

	1 year**	1-5 years	5-10 years	Over 10 years	TOTAL
CDS protection acquired***	37,852	72	0	170	38,094
CDS protection sold	31,565	0	0	0	31,565
Total credit derivatives	**69,417**	**72**	**0**	**170**	**69,659**
Equity forwards	1,055	0	0	0	1,055
Equity options	34,302	1,529	557	228	36,616
Equity spot	19,842	105	0	0	19,947
Equity swaps	472	0	0	0	472
Total equity derivatives	**55,670**	**1,634**	**557**	**228**	**58,089**
Fixed-income forwards	3,283	622	0	0	3,905
Fixed-income options	423	0	0	0	423
Fixed-income spot	4,514	318	207	17	5,055
Total fixed-income derivatives	**8,219**	**940**	**207**	**17**	**9,383**
Forward and spot rates	147,542	3,574	56	1	151,172
Exchange-rate options	41,082	3,024	0	0	44,105
Other exchange rate derivatives	345	9	0	0	354
Exchange-rate swaps	427,937	17,900	9,422	3,296	458,555
Total exchange rate derivatives	**616,905**	**24,507**	**9,478**	**3,298**	**654,187**
Asset swaps	21,310	315	777	215	22,617
Call money swaps	262,828	1,650	175	69	264,723
Interest rate structures	20,747	405	848	1,492	23,491
Forward interest rates - FRAs	171,207	0	0	0	171,207
IRS	2,739,575	85,442	42,082	32,662	2,899,760
Other interest-rate derivatives	202,853	8,346	6,578	390	218,167
Total interest-rate derivatives	**3,418,520**	**96,158**	**50,459**	**34,829**	**3,599,966**
Commodities	823	197	0	0	1,020
Total commodity derivatives	**823**	**197**	**0**	**0**	**1,020**
Total derivatives	**4,169,554**	**123,508**	**60,701**	**38,541**	**4,392,304**
Repos	165,947	100	0	0	166,047
Stock lending	27,509	301	131	22	27,963
Total counterparty risk	**4,363,010**	**123,909**	**60,831**	**38,563**	**4,586,314**

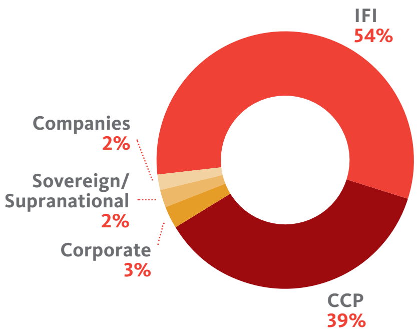
* Figures on the basis of management criteria. Excluding organised markets.

** In operations under collateral agreement the period of the collateral replacement is considered as maturity.

*** Credit derivatives acquired including hedging of loans.

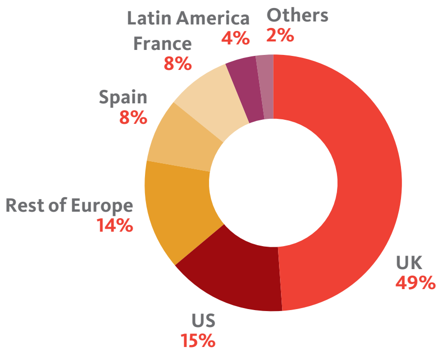
The distribution of risk in notional derivatives by type of counterparty was 54% with financial institutions and 39% with clearing houses.

Counterparty risk by type of client



As regards the geographic distribution, 49% of notional derivatives are with UK counterparties (whose weight within the total is due to the increasing use of clearing houses), 15% with North American counterparties, 8% with Spanish ones. 8% with French ones and of note among the rest is 14% with other European countries and 4% with Latin America.

Counterparty risk by geographic areas



Counterparty risk, organised markets and clearing houses
The Group's policies seek to anticipate wherever possible the implementation of measures resulting from new regulations regarding operations of OTC derivatives, repos and stock lending, both if settled by clearing house or if remaining bilateral. In recent years, there has been a gradual standardisation of OTC operations in order to conduct clearing and settlement via houses of all new trading operations required by the new rules, as well as foster internal use of the electronic execution systems.

As regards the operations of organised markets, within counterparty risk management credit risk for this type of operation is not considered, as this risk is eliminated by the organised markets acting as counterparty in the operations, given that they have mechanisms that enable them to protect their financial position via systems of deposits and improved guarantees and processes that ensure the liquidity and transparency of transactions. As of 2014, with the entry into force of the new CRD IV (Capital Requirements Directive) and the CRR (Capital Requirements Regulations), which transfer the Basel III principles, credit risk is considered for this type of operation as regards calculating capital.

The following table show the relative share in total derivatives of new operations settled by clearing house at the end of 2014 and the significant evolution of operations settled by clearing house since 2012.

Distribution of counterparty risk on the basis of the channel of clearing and type of derivative*

Nominal in million euros

	Bilateral		CCP**		
	Nominal	%	Nominal	%	Total
Derivatives	67,895	97%	1,764	2.5%	69,659
Equity derivatives	58,019	100%	70	0.1%	58,089
Fixed-income derivatives	9,368	99.8%	15	0.2%	9,383
Exchange rate derivatives	653,702	99.9%	484	0.1%	654,187
Interest rate derivatives	1,860,694	51.7%	1,739,272	48.3%	3,599,966
Commodities derivatives	1,020	100.0%	-	0.0%	1,020
Repos	108,153	65.1%	57,894	34.9%	166,047
Stock lending	27,963	100.0%	-	0.0%	27,963
Total	**2,786,814**	**60.8%**	**1,799,499**	**39.2%**	**4,586,314**

* Figures based on management criteria. Excluding organised markets.
** Central counterparty institutions (CCPs)

Risk distribution on the basis of settlement in CCPs and by type of derivative and evolution*

Gross exposure. Nominal in million euros

	2014	2013	2012
Credit derivatives	1,764	949	-
Equity derivatives	70	111	138
Fixed-income derivatives	15	1	33
Exchange rate derivatives	484	616	988
Interest rate derivatives	1,739,272	1,290,496	669,750
Commodities derivatives	-	-	-
Repos	57,894	55,435	63,875
Stock lending	-	46	34
Total	**1,799,499**	**1,347,653**	**734,817**

* Data on the basis of management criteria. Excluding organised markets.

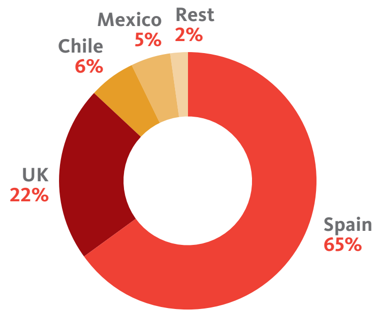
The Group actively manages operations not settled by clearing house and seeks to optimise their volume, given the requirements of spreads and capital that the new regulations impose on them.

In general, the operations with financial institutions are done under netting and collateral agreements, and a continued effort is being made to ensure that the rest of operations are covered under this type of agreement. Generally, the collateral agreements that the Group signs are bilateral ones with some exceptions mainly with multilateral institutions and securitisation funds.

The collateral received under the different types of collateral (CSA, OSLA, ISMA, GMRA, etc) signed by the Group amounted to EUR 11,284 million (of which EUR 9,643 million corresponded to collateral received by derivatives), mostly effective (92.9%), and the rest of the collateral types are subject to strict policies of quality as regards the type of issuer and its rating, debt seniority and haircuts applied.

The chart below shows the geographic distribution:

Geographic distribution of collateral received



Off-balance sheet credit risk

The off-balance sheet risk corresponding to funding and guarantee commitments with wholesale clients was EUR 80,980 million and with the following distribution by products:

Off-balance sheet exposure

In million euros

	Maturity				
Product	< 1 YEAR	1-3 YEARS	3-5 YEARS	> 5 YEARS	TOTAL
Funding*	10,103	10,310	29,673	2,434	52,520
Technical guarantees	4,568	8,013	1,677	4,081	18,339
Financial and commercial guarantees	3,281	4,356	1,105	663	9,406
Foreign trade**	0	217	0	499	716
Total	**17,952**	**22,896**	**32,455**	**7,677**	**80,980**

* Mainly including credit lines committed bilaterally and syndicated.

** Mainly including stand-by letters of credit.

Activity in credit derivatives

Grupo Santander uses credit derivatives to cover loans, customer business in financial markets and within trading operations. The volume of this activity is small compared to that of our peers and, moreover, is subject to a solid environment of internal controls and minimising operational risk.

The risk of these activities is controlled via a broad series of limits such as VaR[12], nominal by rating, sensitivity to the spread by rating and name, sensitivity to the rate of recovery and to correlation. Jump-to-default limits are also set by individual name, geographic area, sector and liquidity.

In notional terms, the CDS position incorporates EUR 35,646 million of acquired protection[13] and EUR 31,556 million of sold protection.

At December 31, 2014, the sensitivity of lending to increases in spreads of one basis point was minus EUR 1.5 million, higher than 2013, and the average VaR was EUR 2.9 million, above 2013 and 2012 (average VaR of EUR 2.1 million and EUR 2.9 million, respectively).

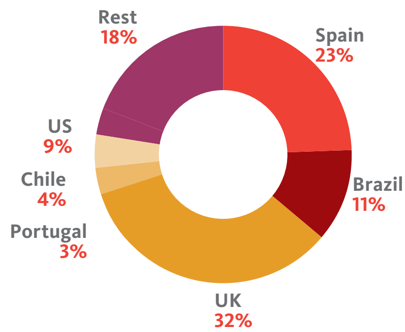
6.4.2. Risk of concentration

Control of risk concentration is a vital part of management. The Group continuously tracks the degree of concentration of its credit risk portfolios using various criteria: geographic areas and countries, economic sectors, products and groups of clients.

The board, via the risk appetite, determines the maximum levels of concentration, as detailed in section 4.4. on risk appetite and structure of limits. In line with the risk appetite, the executive risk committee establishes the risk policies and reviews the exposure levels appropriate for adequate management of the degree of concentration of the credit risk portfolios.

In **geographic terms** the credit risk with clients is diversified in the main markets in which the Group operates, as shown in the chart below.

Credit risk with customer

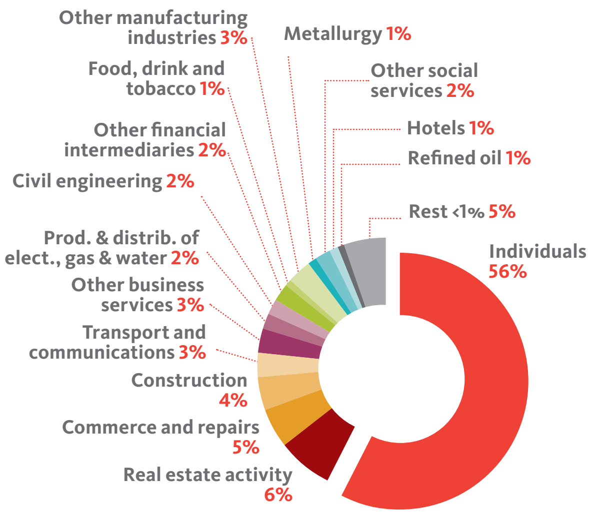


Some 56% of the Group's credit risk corresponds to individual customers, who, due to their inherent nature, are highly diversified. In addition, the portfolio is also well distributed by **sectors**, with no significant concentrations in specific sectors. The following chart shows the distribution at the end of the year.

12. The definition and methodology of the VaR calculation is in 7.2.2.1.

13. This figures excludes around EUR 1,760 million nominal of CDS which cover loans that for accounting purposes are recorded as financial guarantees instead of credit derivatives as their change in value has no impact on results or reserves in order to avoid accounting asymmetry.

Risk diversification by economic sector



The Group is subject to the regulation on large risks contained in the fourth part of the CRR (EU regulations 575/2013), according to which the exposure contracted by an entity with a client or group of clients linked among themselves will be considered a "large exposure" when its value is equal to or more than 10% of the eligible capital. In addition, in order to limit the large exposures no entity can assume with a client or group of linked clients an exposure whose value exceeds 25% of its eligible capital, after taking into account the impact of the reduction of credit risk contained in the regulation.

At the end of 2014, after applying risk mitigation techniques and regulations applicable to large risks, all the declared groups were below 4.7% of eligible equity except for a central EU counterparty entity which was 7.3%.

The regulatory credit exposure with the 20 largest groups within the sphere of large risks represented 5.5% of outstanding credit risk with clients (lending plus balance sheet risks). As for regulatory credit exposure with financial institutions, the top 10 represented EUR 18,378 million.

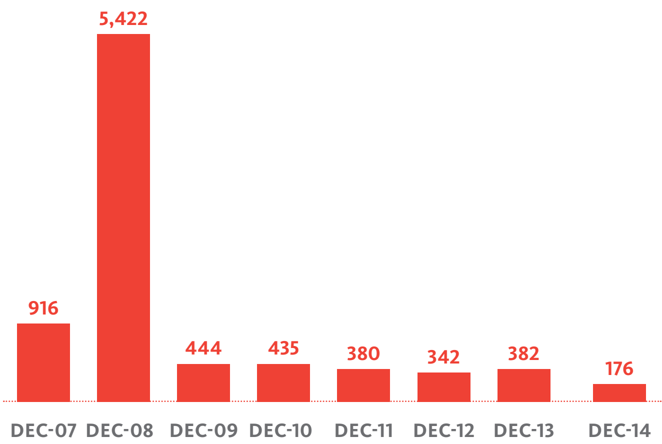
The Group's risks division works closely with the financial division to actively manage credit portfolios. Its activities include reducing the concentration of exposures through various techniques such as using credit derivatives and securitisation to optimise the risk-return relation of the whole portfolio

6.4.3. Country risk

Country risk is a component of credit risk in all cross-border credit operations for circumstances different to the usual commercial risk. Its main elements are sovereign risk, the risk of transfer and other risks that could affect international financial activity (wars, natural disasters, balance of payments crisis, etc).

The exposure susceptible to country-risk provisions at the end of 2014 was EUR 176 million (EUR 382 million in 2013). Total provisions stood at EUR 22 million compared with EUR 47 million in 2013. Of note in 2014 was Colombia which changed its classification, in accordance with Bank of Spain criteria, from Group 2 to Group 3[14].

Evolution of country-risk subject to provisions
Million euros



The exposure is moderate and has been on a downward path in recent years, particularly in 2014 due to the maturities of operations. The only exception was in 2008 when there was a significant increase due to the incorporation of transactions with Brazilian clients resulting from the purchase of ABN/Banco Real. This increase was reduced in 2009, with the reclassification of Brazil to Group 2.

The total exposure to country risk, regardless of whether it requires provisions or not, is also moderate. Except for Group 1 countries (considered by the Bank of Spain as those of less risk[15]), the individual exposure by country does not exceed in any cases 1% of Grupo Santander's total assets.

The principles of country risk management continued to follow criteria of maximum prudence; country risk is assumed very selectively in operations that are clearly profitable for the bank, and which enhance the global relationship with customers.

6.4.4. Sovereign risk and vis-á-vis the rest of public administrations

As a general criterion, sovereign risk is that contracted in transactions with a central bank (including the regulatory cash reserve requirement), the issuer risk of the Treasury or similar entity (portfolio of public debt) and that arising from operations with public institutions with the following features: their funds only come from the state's budgeted income and the activities are of a non-commercial nature.

14. The typology of countries for each risk group is defined in Bank of Spain circular 4/2004 .
15. This group includes operations with final debtor resident in the European Union, Norway, Switzerland, Iceland, the US, Canada, Japan, Australia and New Zealand.

This criterion, historically used by Grupo Santander, has some differences with that of the European Banking Authority (EBA) used for its regular stress exercises. The main ones are that the EBA's criterion does not include risk with central banks, exposures with insurance companies, indirect exposures via guarantees and other instruments. On the other hand, it includes public administrations in general (including regional and local ones) and not only the state sector.

Exposure to sovereign risk (according to the criteria applied in the Group) mainly emanates from the obligations to which our subsidiary banks are subject regarding the establishment of certain deposits in central banks, the establishment of deposits with the excess of liquidity and of fixed-income portfolios maintained within the risk management strategy for structural interest of the balance sheet and in trading books in treasuries. The great majority of these exposures are in local currency and are funded on the basis of customer deposits captured locally, and also in local currency.

The exposures in the local sovereign but in currencies different to the official one of the country of issuance is not very significant (EUR 8,633 million, 4.5% of the total sovereign risk), and less so the exposure in non-local sovereign issuers, which means cross-border risk[16] (EUR 3,257 million, 1.68% of the total sovereign risk).

In general, the total exposure to sovereign risk has remained at adequate levels to support the regulatory and strategic motives of this portfolio.

The investment strategy for sovereign risk also takes into account the credit quality of each country when setting the maximum exposure limits. The following table shows the percentage of exposure by rating levels[17].

Exposure by level of rating

%

	2014	2013	2012	2011
AAA	29%	36%	34%	29%
AA	4%	6%	3%	26%
A	28%	27%	29%	6%
BBB	32%	26%	31%	38%
Under BBB	7%	5%	4%	1%

The sovereign risk distribution by rating level was affected in the last few years by many rating revisions of the sovereign issuers of the countries where the Group operates (Spain, Portugal, US, Chile, etc.).

On the basis of the EBA criteria already mentioned, the exposure to public administrations at the end of each of the last three years was as follows (figures in million euros)[18]:

The exposure increased 40% in 2014, mainly due to the acquisition of fixed-income portfolios available for sale in Brazil, Spain and Portugal. The sovereign risk exposure of Spain (where the Group has its headquarters) is not high in terms of total assets (3.4% at the end of 2014), compared to its peers.

The sovereign exposure in Latin America is almost all in local currency, recorded in local books and concentrated in short-term maturities of lower interest rate risk and greater liquidity.

Exposure to sovereign risk (EBA criteria)

Million euros

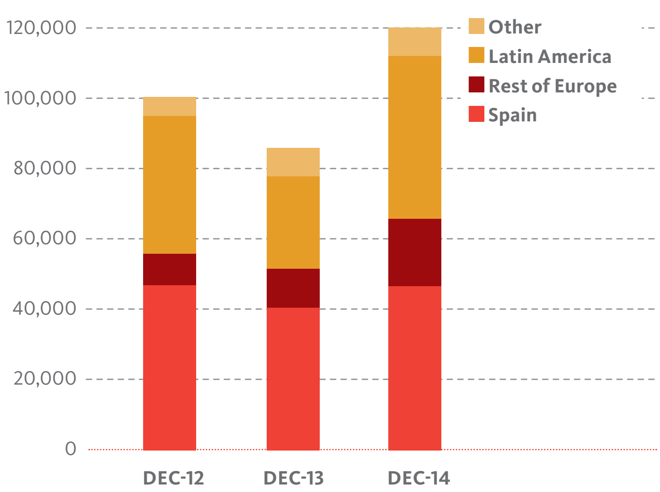
DEC. 31, 2014	Portfolio			
	Trading & others to VR	Available for sale	Lending	Net total direct exposure
Spain	5,778	23,893	15,098	**44,769**
Portugal	104	7,811	589	**8,504**
Italy	1,725	0	0	**1,725**
Greece	0	0	0	**0**
Ireland	0	0	0	**0**
Rest of euro zone	(1,070)	3	1	**(1,066)**
UK	(613)	6,669	144	**6,200**
Poland	5	5,831	30	**5,866**
Rest of Europe	1,165	444	46	**1,655**
US	88	2,897	664	**3,649**
Brazil	11,144	17,685	783	**29,612**
Mexico	2,344	2,467	3,464	**8,275**
Chile	593	1,340	248	**2,181**
Rest of Latam	181	1,248	520	**1,949**
Rest of world	4,840	906	618	**6,364**
Total	**26,284**	**71,194**	**22,205**	**119,683**

DEC. 31, 2013	Portfolio			
	Trading & others to VR	Available for sale	Lending	Net total direct exposure
Spain	4,359	21,144	12,864	**38,367**
Portugal	149	2,076	583	**2,807**
Italy	1,310	77	0	**1,386**
Greece	0	0	0	**0**
Ireland	0	0	0	**0**
Rest of euro zone	(1,229)	67	0	**(1,161)**
UK	(1,375)	3,777	0	**2,402**
Poland	216	4,770	43	**5,030**
Rest of Europe	5	117	0	**122**
US	519	2,089	63	**2,671**
Brazil	8,618	8,901	223	**17,743**
Mexico	3,188	2,362	2,145	**7,695**
Chile	(485)	1,037	534	**1,086**
Rest of Latam	268	619	663	**1,550**
Rest of world	5,219	596	148	**5,964**
Total	**20,762**	**47,632**	**17,268**	**85,661**

16. Countries classified as low risk by the Bank of Spain (Group 1 according to its terminology) are not considered.
17. Internal ratings used.
18. In addition at December 31, 2014, the Group maintained direct net exposures in derivatives whose reasonable value was EUR 1,028 million, as well as indirect net exposures in derivatives whose reasonable value was EUR 5 million. Grupo Santander has no exposure to portfolios at maturity.

Sovereign risk and compared to other public administrations: direct net exposure (EBA criteria)

Million euros



6.4.5. Environmental risk

Analysis of the environmental risk of credit operations is one of the main aspects of the strategic plan of corporate social responsibility. It revolves around the following two large points:

- Equator principles: this is an initiative of the World Bank's International Financial Corporation. It is an international standard for analysing the social and environmental impact of project finance operations and corporate loans with known destiny (bridging loans with forebearance envisaged via project finance and corporate financing to construct or increase a specific project). The assumption of these principles represents a commitment to assess and take into account the social and environmental risks, and thus to finance only those projects that can accredit adequate management of the social and environmental impacts. The methodology used is set out below.

  - For project finance operations with an amount equal to or more than $10 million, corporate loans with known destiny for a project with an amount equal to more than $100 million, with Santander's share equal to or more than $50 million, an initial questionnaire is filled out, of a generic nature, designed to establish the project's risk in the socio-environmental sphere (according to categories A, B and C, from greater to lower risk, respectively) and the operation's degree of compliance with the Equator Principles.

  - For those projects classified within the categories of greater risk (categories A and B), a more detailed questionnaire has to be filled out, adapted according to the sector of activity.

  - According to the category and location of the projects a social and environmental audit is carried out (by independent external auditors). The Bank also gives training courses in social and environmental matters to risk teams as well as to those responsible for business of all the areas involved. An online course was launched in 2014 for more than 2,500 Group employees in all countries.

  In 2014, 79 projects were analysed under the Equator principles for a total amount of EUR 35.911 million.

- VIDA tool: used since 2004, its main purpose is to assess the environmental risk of corporate clients, both current and potential, through a system that classifies in seven categories each of the companies on the basis of the environmental risk contracted. In 2014, 45.384 clients were assessed by this tool in Spain (total risk of EUR 86,356 million).

DEC. 31, 2012	Portfolio			
	Trading & others to VR	Available for sale	Lending	Net total direct exposure
Spain	4,403	24,654	16,528	**45,586**
Portugal	0	1,684	616	**2,299**
Italy	(71)	76	0	**4**
Greece	0	0	0	**0**
Ireland	0	0	0	**0**
Rest of euro zone	943	789	0	**1,731**
UK	(2,628)	4,419	0	**1,792**
Poland	669	2,898	26	**3,592**
Rest of Europe	10	0	0	**10**
US	(101)	1,783	30	**1,712**
Brazil	14,067	11,745	351	**26,163**
Mexico	4,510	2,444	2,381	**9,335**
Chile	(293)	1,667	521	**1,895**
Rest of Latam	214	916	771	**1,900**
Rest of world	1,757	645	234	**2,636**
Total	**23,480**	**53,718**	**21,457**	**98,655**

Environmental risk classification

Million euros

Note: VIDA assessment in the retail banking network in Spain
VL: very low; L: low; M: medium and A: high.

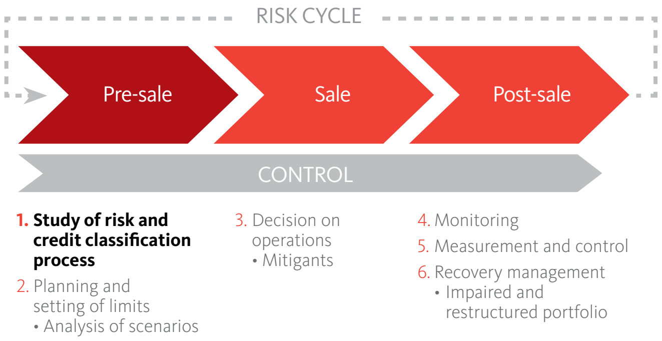
Low or very low environmental risk represents 66% of total risk, lower than in 2013 due to the incorporation of the perimeter of global wholesale banking.

6.5. Credit risk cycle

The process of credit risk management consists of identifying, analysing, controlling and deciding on the risks incurred by the Group's operations. The business areas, senior management and the risk areas are all involved.

The board and the executive committee participate in the process, as well as the executive risk committee, which sets the risk policies and procedures, the limits and delegation of powers, and approves and supervises the framework of the risk function.

The risk cycle has three phases: pre-sale, sale and post-sale. The process is constantly revised, incorporating the results and conclusions of the after-sale phase to the study of risk and pre-sale planning.



6.5.1. Study of risk and credit rating process

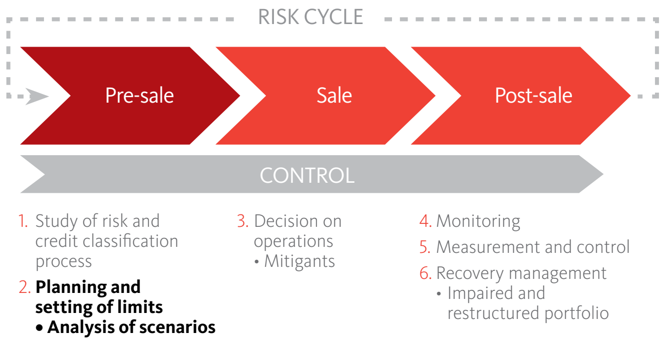
Risk study consists of analysing a customer's capacity to meet his contractual commitments with the bank. This entails analysing the customer's credit quality, risk operations, solvency and profitability to be obtained on the basis of the risk assumed.

With this objective, the Group has used since 1993 models for assigning solvency ratings. These mechanisms are used in all individualised management segments, both wholesale (sovereign, financial institutions and corporate banking), as well as the rest of companies and institutions in this category.

The rating is the result of a quantitative model based on balance sheet ratios or macroeconomic variables, which is supplemented by the expert advice of the analyst.

The ratings given to customers are regularly reviewed, incorporating the latest available financial information and experience in the development of banking relations. The regularity of the reviews increases in the case of customers who reach certain levels in the automatic warning systems and in those classified as special watch. The rating tools are also revised in order to adjust the accuracy of the rating granted.

While ratings are used for companies under individualised management, scoring techniques are used for the standardised segment, which automatically assign a score to operations, as set out in the section "decisions on operations."



6.5.2. Planning and setting limits

The purpose of this phase is to limit efficiently and comprehensively the risk levels assumed by the Group.

The credit risk planning process serves to set the budgets and limits at portfolio or customer level on the basis of the segment.

The planning and setting of limits is conducted via documents agreed between the business and risk areas and approved by the executive risk committee or committees delegated by it, and in which the expected results of business, in terms of risk and return are set out, as well as the limits to which this activity is subject and management of the associated risks.

Planning is articulated via the strategic commercial plan, ensuring the conjunction of the business plan, the credit policy on the basis of the risk appetite and of the necessary resources to achieve it. It acts as a reference for all retail and commercial banking businesses. The maximum executive committee of each unit is responsible for approving and monitoring the plan.

At the same time, in the wholesale sphere and the rest of companies and institutions analysis is conducted at the client level. When certain circumstances concur, the client is assigned an individual limit (pre-classification).

In this way, a pre-classification model based on a system for measuring and monitoring economic capital is used for large corporate groups. The result of pre-classification is the maximum risk level that a client or group can assume in terms of amount of maturity. A more streamlined version of pre-classifications is used for those companies which meet certain requirements (high knowledge, rating, etc).

Analysis of scenarios

In line with what is described in section 4.5. of this report, analysis of credit risk scenarios enables senior management to better understand the portfolio's evolution in the face of market conditions and changes in the environment. It is a key tool for assessing the sufficiency of the provisions made and the capital to stress scenarios.

These exercises are carried out for all the Group's relevant portfolios and are articulated as follows:

- Definition of reference scenarios (at both the global level as well as for each of the Group's units).
- Determining the value of the risk parameters and metrics (probability of default, loss at default, NPLs, etc) to different scenarios.
- Estimating the expected loss associated with each of the scenarios raised and contrasted with the levels of provisions.
- Analysis of the evolution of the credit risk profile at the portfolio, segment, unit and Group levels in the face of different scenarios and compared to previous years.

The simulation models employed by the Group use data from a complete economic cycle in order to calibrate the performance of risk factors in the face of changes in macroeconomic variables. These models are submitted to backtesting processes and regular fine tuning in order to guarantee they reflect correctly the relationship between macroeconomic variables and risk parameters.

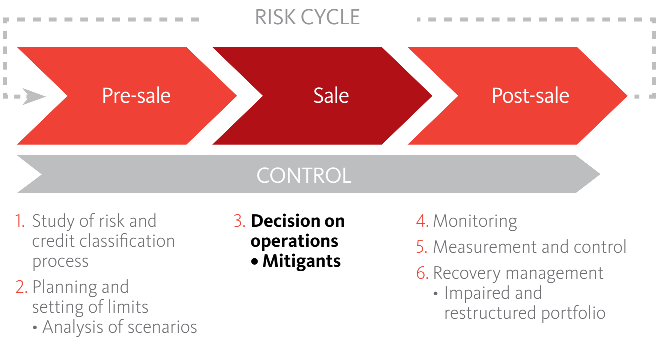
The projections of the risk and loss parameters, normally with a time frame of three years, are executed under various economic scenarios which include the main macroeconomic variables (GDP, unemployment rate, house prices, inflation, etc).

The economic scenarios defined are backed by different levels of stress, from the baseline scenario or the most probable one to stress scenarios which, although unlikely, are possible.

These scenarios are defined by Grupo Santander's research department in coordination with the counterparts of each unit and using as a reference the figures published by the main international institutions.

A global stress scenario is defined describing a world crisis situation and the way it would affect each of the countries in which the Group operates. In addition, a local stress scenario is defined which affects in an isolated way some of the main units and with a greater degree of stress than the global stress scenario.

In the executive risk committee the Group's senior management takes note, proposes the changes it deems necessary and formally approves the set of definitive scenarios to be used in the execution of the Group's stress test.



6.5.3. Decisions on operations

The sales phase consists of the decision-taking process which analyses and resolves operations. Approval by the risks area is a prior requirement before contracting any risk operation. This process must take into account the policies defined for approving operations and take into consideration both the risk appetite as well as those elements of the operation that are relevant in the search for the right balance between risk and profitability.

In the sphere of **individual clients, businesses and SMEs with low turnover**, the administration of large volumes of credit operations with the use of automatic decision models is facilitated for classifying the client/operation binomial. Lending is classified into homogeneous risk groups, on the basis of the information on the features of the operation and of its owner. These models are used in banking with individuals, businesses and standardised SMEs.

As already indicated, the prior phase of setting limits can follow two different paths, giving rise to different types of decision in the sphere of **companies**:

- Automatic and verifying if there is capacity for the proposed operation (in amount, product, maturity and other conditions) within the limits authorised under the framework of pre-classification. This process is generally applied to corporate pre-classifications.
- Always requiring the authorisation of the analyst although the operation meets the amount, maturity and other conditions set in the pre-classified limit. This process applies to the pre-classification of companies under individualised management of retail banking.

Credit risk mitigation techniques

Grupo Santander applies various forms of credit risk reduction on the basis, among other factors, of the type of client and product. As we will later see, some are inherent in specific operations (for example, real estate guarantees) while others apply to a series of operations (for example, netting and collateral).

The various mitigation techniques can be grouped into the following categories:

Determination of a net balance by counterparty

The concept of netting is the possibility of determining a net balance between operations of the same type, under the umbrella of a framework agreement such as ISDA or similar.

It consists of aggregating the positive and negative market values of derivative transactions that Santander has with a certain counterparty, so that in the event of default it owes (or Santander owes, if the net is negative) a single net figure and not a series of positive or negative values corresponding to each operation closed with the counterparty.

An important aspect of the contracts framework is that they represent a single legal obligation that covers all operations. This is fundamental when it comes to being able to net the risks of all operations covered by the contract with a same counterparty.

Real guarantees
These are those goods that are subject to compliance with the guaranteed obligation and which can be provided not only by the client but also by a third party. The real goods or rights that are the object of the guarantee can be:

- Financial: cash, deposit of securities, gold, etc.
- Non-financial: real estate (both properties as well as commercial premises, etc), other property goods.

From the standpoint of risk admission, the highest level of real guarantees is required. In order to calculate the regulatory capital, only those guarantees that meet the minimum qualitative requirements set out in the Basel agreements are taken into consideration.

A very important example of a real financial guarantee is **collateral**. This is a series of instruments with a certain economic value and high liquidity that are deposited/transferred by a counterparty in favour of another in order to guarantee/reduce the credit risk of the counterparty that could result from portfolios of transactions of derivatives with risk existing between them.

The nature of these agreements is diverse, but whatever the specific form of collateralisation, the final purpose, as in the netting technique, is to reduce the counterparty risk.

The operations subject to the collateral agreement are regularly valued (normally day to day) and, on the net balance resulting from this valuation, the parameters defined in the contract are applied so that a collateral amount is obtained (normally cash or securities), which is to be paid to or received from the counterparty.

As regards **real estate guarantees**, there are regular re-appraisal processes, based on real market values for the different types of property, which meet all the requirements set by the regulator.

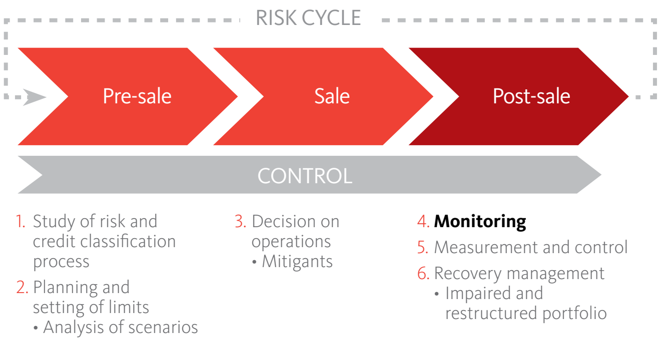
Implementation of the mitigation techniques follows the minimum requirements established in the manual of credit risk management policies, and consists of ensuring:

- Legal certainty. The possibility of legally requiring the settlement of guarantees must be examined and ensured at all times.
- The non-existence of substantial positive correlation between the counterparty and the value of the collateral.
- The correct documentation of all guarantees.
- The availability of documentation of the methodologies used for each mitigation technique.
- Adequate monitoring and regular control.

Personal guarantees and credit derivatives
This typology of guarantees corresponds to those that place a third party in a position of having to respond to obligations acquired by another to the Group. It includes, for example, sureties, guarantees, stand-by letters of credit, etc. The only ones that can be recognised, for the purposes of calculating capital, are those provided by third parties that meet the minimum requirements set by the supervisor.

Credit derivatives are financial instruments whose main objective is to cover the credit risk by acquiring protection from a third party, through which the bank transfers the issuer risk of the underlying asset. Credit derivatives are over the counter (OTC) instruments that are traded in non-organised markets. The coverage with credit derivatives, mainly through credit default swaps, is contracted with front line banks.

The information on mitigation techniques is in “Credit risk reduction techniques of the Prudential Relevance Report (Pillar III)”. There is also more information on credit derivatives in the section “Activity in credit derivatives” in item “6.4.1. Credit risk by activities in financial markets” of this report.



6.5.4. Monitoring

Monitoring is a continuous process of constant observation, which allows changes that could affect the credit quality of clients to be detected early on, in order to take measures to correct the deviations that impact negatively.

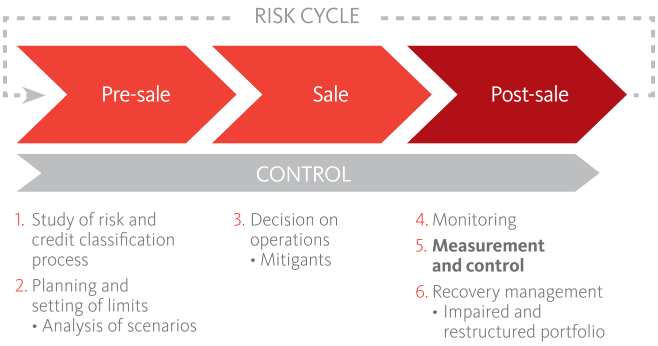
Monitoring is based on segmentation of customers, and is carried out by local and global risk dedicated teams, supplemented by internal audit.

The function consists, among other things, of identifying and tracking clients under special watch, reviewing ratings and continuous monitoring of indicators of standardised clients.

The system called **companies in special watch** (FEVE) identifies four levels on the basis of the degree of concern arising from the circumstances observed (extinguish, secure, reduce, monitor). The inclusion of a company in FEVE does not mean there have been defaults, but rather the advisability of adopting a specific policy toward that company and establishing the person and time frame for it. Clients in FEVE are reviewed at least every six months, and every quarter for the most serious cases. A company can end up in special watch as a result of monitoring, a review conducted by internal audit, a decision of the person responsible for the company or the entry into functioning of the system established for automatic warnings.

Ratings are reviewed at least every year, but if weaknesses are detected, or on the basis of the rating, it is done more regularly.

As regards the risks of individual clients, businesses and SMEs with a low turnover, the main indicators are monitored in order to detect shifts in the performance of the loan portfolio with respect to the forecasts made in the credit management programmes.



6.5.5. Measurement and control

As well as monitoring clients' credit quality, Grupo Santander establishes the control procedures needed to analyse the current credit risk profile and its evolution, through different credit risk phases.

The function is developed by assessing the risks from various perspectives that complement one another, establishing as the main elements control by countries, business areas, management models, products, etc, facilitating early detection of points of specific attention, as well as preparing action plans to correct any deteriorations.

Each element of control admits two types of analysis:

1. Quantitative and qualitative analysis of the portfolio.
Analysis of the portfolio controls, permanently and systematically, the evolution of risk with respect to budgets, limits and standards of reference, assessing the impacts of future situations, exogenous as well as those resulting from strategic decisions, in order to establish measures that put the profile and volume of the risks portfolio within the parameters set by the Group.

The credit risk control phase uses, among others and in addition to traditional metrics, the following metrics:

- **Management of non-performing loans variation plus net write-offs (VMG)**

The VMG measures how NPLs change during a period, discounting write-offs and taking loan loss recoveries into account.

It is an aggregate measure at portfolio level that allows a response to deteriorations observed in the evolution of NPLs.

It is the result of the final balance less the initial balance of non-performing loans of the period under consideration, plus the write-offs in this period less loan loss recoveries in the same period.

The VMG and its components play a key role as variables of monitoring.

- **Expected loss (EL) and capital**

Expected loss is the estimate of the economic loss that would occur during the next year of the portfolio existing at a given moment.

It is one more cost of activity, and must impact on the price of operations. Its calculation is mainly based on three parameters:

- Exposure at default (EaD): maximum amount that could be lost as a result of a default.
- Probability of default (PD): the probability of a client's default during the year.
- Loss Given Default (LGD): this reflects the percentage of exposure that could not be recovered in the event of a default. It is calculated by discounting at the time of the default the amounts recovered during the whole recovery process and this figure is then compared in percentage terms with the amount owed by the client at that moment.

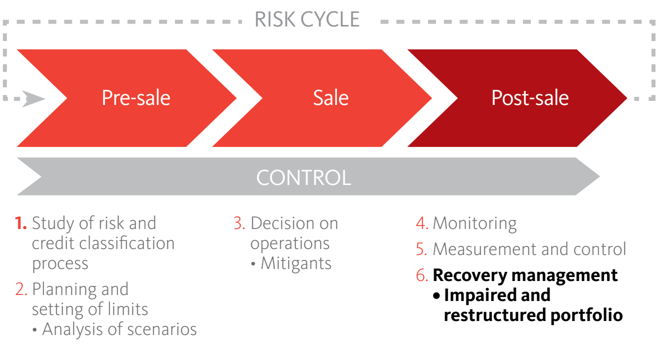
Other relevant aspects regarding the risk of operations are covered, such as quantification of off-balance sheet exposures or the expected percentage of recoveries, related to the guarantees associated with the operation, as well as other issues such as the type of product, maturity, etc.

The risk parameters also enable economic and regulatory capital to be calculated. The integration in management of the metrics of capital is vital for rationalising its use. More detail is available in chapter 12 on capital management and control of capital risk.

2. Evaluation of the control processes
Evaluation of the control processes includes systematic and regular revision of the procedures and methodology, developed throughout the credit risk cycle, in order to guarantees their effectiveness and validity.

In 2006, within the corporate framework established in the Group for compliance with the Sarbanes Oxley law, a corporate tool was established in the Group's intranet to document and certificate all the sub processes, operational risks and controls that mitigate them. The risks division assesses every year the efficiency of internal control of its activities.

The function of comprehensive control and internal validation of risks, as part of its mission of supervising the quality of the Group's risk management, guarantees that the management and control systems of the different risks inherent in its activity fulfil the most demanding requirements and the best practices observed in industry and/or required by regulators. In addition, internal audit is responsible for ensuring that the policies, methods and procedures are adequate, effectively implemented and regularly reviewed.



6.5.6. Recovery management

Recovery activity is a significant element in the Bank's risk management. This function is developed by the area of recoveries and cleaning up of assets, which was created in July 2013 in order to obtain greater efficiencies in the process of asset recovery, while developing a global strategy and a focus of recovery management.

The Group has a corporate management model which sets the guidelines and general lines of action to be applied in the various countries, always taking into account the local particularities that the recovery activity requires (economic environment, business model or a mixture of both). The recovery areas are business areas that directly manage clients; the corporate model thus has a business focus, whose creation of value on a sustained basis is based on effective and efficient collection management, whether by regularisation of balances pending payment or by total recovery.

The recovery management model requires adequate co-ordination of all the management areas (business of recoveries, commercial, technology and operations, human resources and risks). It is subject to constant review and continuous improvement in the processes and management methodology that sustain it, through applying the best practices developed in the various countries.

In order to conduct recovery management adequately, it is done in four phases: irregularity or early non-payment, recovery of non-performing loans, recovery of write-offs and management of foreclosed assets. Indeed, the recovery function begins before the first non-payment when the client shows signs of deterioration and ends when the debt has been paid or regularised. The function aims to anticipate non-compliance and is focused on preventative management.

The current macroeconomic environment directly impacts the non-payment index and customers' bad loans. The quality of portfolios is thus fundamental for the development and growth of our businesses in different countries. Debt reimbursement and recovery functions are given a special and continuous focus, in order to ensure that this quality always remains within the expected levels.

The diverse features of our clients makes segmentation necessary in order to manage recoveries adequately. Massive management of large collectives of clients with similar profiles and products is conducted through processes with a high technological component, while personalised management focuses on customers that, because of their profile, require a specific manager and more individualised management.

Recovery activity has been aligned with the socio-economic reality of various countries and different risk management mechanisms, with adequate criteria of prudence, have been used on the basis of their age, guarantees and conditions, always ensuring, as a minimum, the required classification and provisions.

Particular emphasis in the recovery function is placed on management of the aforementioned mechanisms for early management, in line with corporate policies, taking account of the various local realities and closely tracking vintages, stocks and performance. These policies are renewed and regularly adopted in order to reflect both the better management practices as well as the regulatory changes applied.

As well as measures focused on adapting operations to the client's payment capacity, also noteworthy is recovery management seeking solutions other than judicial ones for advance payment of debts.

One of the ways to recover debt from clients, who have suffered a severe deterioration in their repayment capacity, is repossession (judicial or in lieu of payment) of the real estate assets that serve as guarantees of the loans. In countries with a high exposure to real estate risk, such as Spain, there are very efficient sales management instruments which enable the capital to be returned to the bank and reduce the stock in the balance sheet at a much faster speed than the rest of banks.

7. Trading market risk and structural risks

7.0. Organisation of this section

We will first describe the activities subject to market risk, setting out the different types and risk factors.

Then we will look at each one of the market risks on the basis of the finality of the risk, distinguishing the risk of market trading and structural risks, and, within the latter, structural risks of the balance sheet and pension, actuarial and fiduciary risks.

The most relevant aspects to take into account such as the principal magnitudes and their evolution in 2014 are set out for each type of risk, the methodologies and metrics employed in Santander and the limits used for their control.

7.1. Activities subject to market risk and types of market risk

The **perimeter** of activities subject to market risk covers those operations where capital risk is assumed as a result of changes in market factors, including both trading risks as well as structural risks that are also affected by movements in markets.

This risk comes from the change in **risk factors** - interest rates, inflation rates, exchange rates, share prices, the spread on loans, commodity prices and the volatility of each of these elements - as well as from the liquidity risk of the various products and markets in which the Group operates.

- The **Interest rate risk** is the possibility that changes in interest rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects, among others, loans, deposits, debt securities, most assets and liabilities of trading portfolios as well as derivatives.

- The **inflation rate risk** is the possibility that changes in inflation rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects, among others, loans, debt securities and derivatives, whose yield is linked to inflation or to a real rate of variation.

- The **exchange rate risk** is the sensitivity of the value of a position in a currency different to the base currency to a potential movement in exchange rates. A long position or one bought in a foreign currency would produce a loss in the event that the currency depreciated against the base currency. Among the positions affected by this risk are non-euro investments in subsidiaries, as well as loans, securities and derivatives denominated in foreign currencies.

- The **equity risk** is the sensitivity of the value of positions opened in equities to adverse movements in the market prices or in expectations of future dividends. Among other instruments, this affects positions in shares, stock market indices, convertible bonds and derivatives using shares as the underlying asset (put, call, and equity swaps).

- The **credit spread risk** is the risk or sensitivity of the value of positions opened in fixed income securities or in credit derivatives to movements in credit spread curves or in recovery rates associated with issuers and specific types of debt. The spread is a differential between financial instruments that trade with a spread over other reference instruments, mainly the yield on government securities and interbank rates.

- The **commodities price risk** is the risk derived from the effect of potential changes in prices. The Group's exposure to this risk is not significant and is concentrated in derivative operations on commodities with clients.

- The **volatility risk** is the risk or sensitivity of the value of a portfolio to changes in the volatility of risk factors: interest rates, exchange rates, shares, credit spreads and commodities. This risk is incurred by financial instruments which have volatility as a variable in their valuation model. The most significant case is portfolios of financial options.

All these market risks can be partly or fully mitigated by using options, futures, forwards and swaps.

There are **other types of market risk**, whose coverage is more complex. They are the following:

- **Correlation risk** is the sensitivity of the value of a portfolio to changes in the relation between risk factors, be they of the same type (for example, between two exchange rates) or of a different nature (for example, between an interest rate and the price of a commodity).

- **Market liquidity risk** is that of a Group entity or the Group as whole finding itself unable to get out of or close a position in time without impacting on the market price or on the cost of the transaction. This risk can be caused by a fall in the number of market makers or institutional investors, the execution of large volumes of operations and market instability, increasing with the concentration existing in certain products and currencies.

- **Risk of prepayment or cancellation.** When in certain operations the contract allows, explicitly or implicitly, cancellation before the maturity without negotiation there is a risk that the cash flows have to be reinvested at a potentially lower interest rate. This mainly affects loans or mortgage securities.

- **Underwriting risk.** This occurs as a result of an entity's participation in underwriting a placement of securities or another type of debt, assuming the risk of partially owning the issue or the loan due to non-placement of all of it among potential buyers.

Pension, actuarial and fiduciary risks, which are described later on, also depend on movements in market factors.

On the basis of the finality of the risk, activities are segmented in the following way:

a) **Trading:** financial services to customers and purchase-sale and positioning mainly in fixed-income, equity and currency products. The Global Banking and Markets (GBM) division is mainly responsible for managing it.

b) **Structural risks:** we distinguish between balance sheet risks and pension and actuarial risks:

b1) Structural balance sheet risks: market risks inherent in the balance sheet excluding the trading portfolio. Management decisions on these risks are taken by the ALCO committees of each country in coordination with the Group's ALCO committee and are executed by the financial management division. This management seeks to inject stability and recurrence into the financial margin of commercial activity and to the Group's economic value, maintaining adequate levels of liquidity and solvency. The risks are:

- **Structural interest rate risk.** This arises from mismatches in the maturities and repricing of all assets and liabilities.

- **Structural exchange rate risk/hedging** of results. Exchange rate risk occurs when the currency in which the investment is made is different from the euro in companies that consolidate and those that do not (structural exchange rate). In addition, the positions of exchange rate hedging of future results generated in currencies other than the euro (hedging of results) are also included.

- **Structural equity risk.** This involves investments via stakes in financial or non-financial companies that are not consolidated, as well as portfolios available for sale formed by equity positions.

b2) Pension and actuarial risk

- **Pension risk:** the risk assumed by the Bank in relation to the pension commitments with its employees. The risk lies in the possibility that the fund does not cover these commitments in the period of accrual of the provision and the profitability obtained by the portfolio is not sufficient and obliges the Group to increase the level of contributions.

- **Actuarial risk:** unexpected losses produced as a result of an increase in the commitments with the insurance takers, as well as losses from an unforeseen rise in costs.

7.2. Trading market risks

7.2.1. Main magnitudes and evolution

Grupo Santander's trading risk profile remained low in 2014, in line with previous years, due to the fact that most of the activity involves providing services to its clients, as well as geographic diversification and by risk factor.

7.2.1.1. VaR analysis[19]

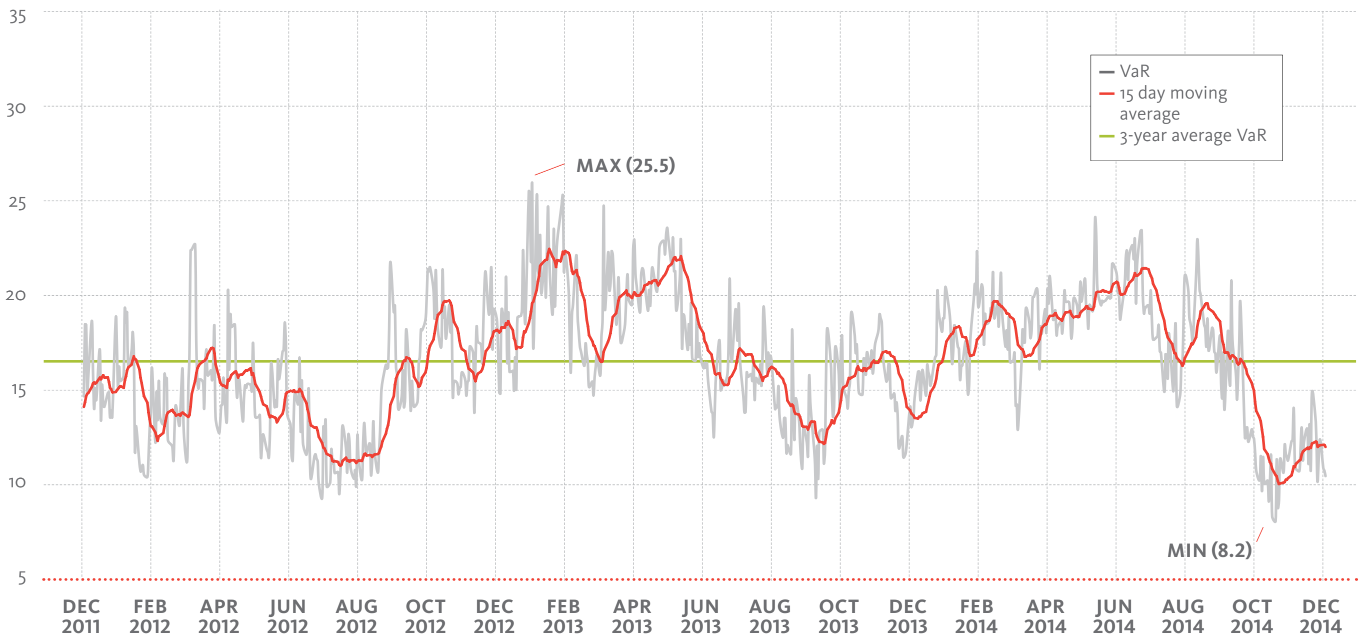
Grupo Santander maintained its strategy of concentrating its trading activity on customer business, minimising where possible exposures of directional risk opened in net terms. This was reflected in the VaR evolution of the trading portfolio of global wholesale banking, which was around the average of the last three years and ended 2014 at EUR 10.5 million[20].

19. The definition and methodology for calculating VaR is in section 7.2.2.1.

20. Relative to the trading activity of global wholesale banking (GWB) in financial markets. As well as the trading activity of GWB, there are other positions catalogued for accounting purposes. The total VaR of trading of this accounting perimeter was EUR 11.3 million.

Evolution of VaR 2012- 2014

Million euros. VaR at 99%, with a time frame of one day



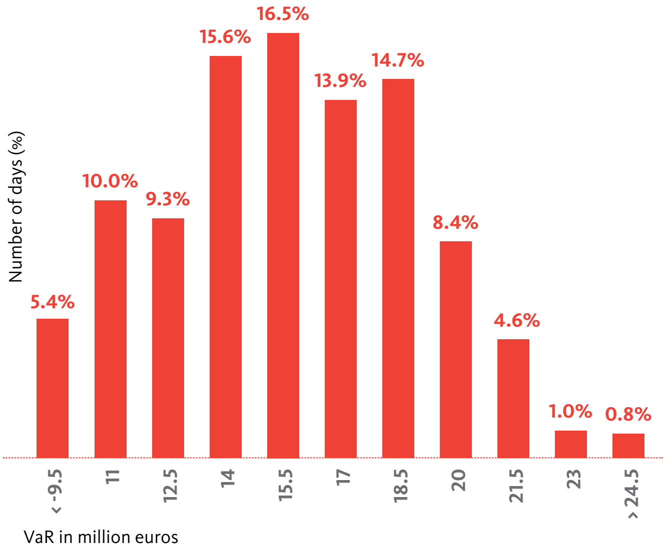
VaR during 2014 fluctuated between EUR 8.2 million and EUR 23.8 million. The main increases were linked to the Brazilian Treasury's changes in exposure to exchange rates and Spain's Treasury to interest rates and credit spreads.

The average VaR in 2014 was EUR 16.9 million, very similar to the two previous years (EUR 17.4 million in 2013 and EUR 14.9 million in 2012) for the reason already mentioned of the concentration of activity in customers.

The histogram below shows the distribution of average risk in terms of VaR between 2012 and 2014 where the accumulation of days with levels between EUR 9.5 million and EUR 21.5 million can be seen (93%). The higher values of EUR 21.5 million (2%) were concentrated in periods mainly affected by one-off rises of volatility in the Brazilian currency and by the euro zone's sovereign debt crisis.

VaR risk histogram

Var at 99% with a time frame of one day.
Number of days (%) in each range



Risk by factor

The average and year-end values in VaR terms at 99% for the last three years, as well as their minimum and maximum values and the expected shortfall (ES) at 97.5%[21] in 2014, were as follows:

VaR statistics by risk factor[22, 23]

Million euros. VaR at 99% and ES at 97.5%, with a time frame of one day

		2014					2013		2012	
		VaR (99%)				ES (97.5%)	VaR		VaR	
		Minimum	Average	Maximum	Year-end	Year-end	Average	Year-end	Average	Year-end
Total trading	**Total**	**8.2**	**16.9**	**23.8**	**10.5**	**11.4**	**17.4**	**13.1**	**14.9**	**18.5**
	Diversification effect	**(5.2)**	**(13.0)**	**(27.9)**	**(9.3)**	**(9.9)**	**(16.2)**	**(12.3)**	**(15.2)**	**(13.5)**
	Interest rate VaR	8.1	14.2	22.2	10.5	11.7	12.7	8.5	11.8	12.0
	Equity VaR	1.1	2.7	8.9	1.8	1.3	5.6	4.7	7.0	7.1
	FX VaR	1.3	3.5	10.2	2.9	2.8	5.4	4.7	5.0	3.5
	Credit spread VaR	4.2	9.3	15.9	4.6	5.3	9.6	7.2	6.1	9.1
	Commodities VaR	0.1	0.3	0.5	0.1	0.2	0.3	0.3	0.4	0.3
Europe	**Total**	**5.9**	**12.2**	**18.0**	**7.3**	**7.3**	**13.9**	**9.9**	**11.0**	**16.4**
	Diversification effect	**(1.9)**	**(9.2)**	**(22.8)**	**(5.5)**	**(5.8)**	**(14.1)**	**(9.0)**	**(12.9)**	**(9.9)**
	Interest rate VaR	4.6	8.9	13.0	6.2	6.3	9.3	6.6	7.9	6.8
	Equity VaR	0.8	1.7	8.1	1.0	0.8	4.3	2.6	6.2	6.3
	FX VaR	0.7	2.9	9.8	1.5	1.8	5.2	3.7	4.1	4.0
	Credit spread VaR	2.7	7.6	14.1	3.9	4.1	9.0	5.8	5.4	8.9
	Commodities VaR	0.1	0.3	0.5	0.1	0.2	0.3	0.3	0.4	0.3
Latin America	**Total**	**6.3**	**12.3**	**26.7**	**9.8**	**10.1**	**11.1**	**6.9**	**10.1**	**8.9**
	Diversification effect	**0.4**	**(3.5)**	**(12.2)**	**(12.2)**	**(3.7)**	**(5.3)**	**(6.7)**	**(6.4)**	**(3.8)**
	Interest rate VaR	5.2	11.8	24.2	9.8	10.6	9.6	5.9	8.8	8.8
	Equity VaR	0.7	2.1	5.0	3.0	1.4	3.2	2.9	3.1	1.6
	FX VaR	0.7	2.0	9.2	9.2	1.9	3.5	4.7	3.1	1.3
US and Asia	**Total**	**0.4**	**0.7**	**1.6**	**0.7**	**0.9**	**0.8**	**0.5**	**0.9**	**0.8**
	Diversification effect	**(0.1)**	**(0.3)**	**(1.0)**	**(0.2)**	**(0.7)**	**(0.4)**	**(0.2)**	**(0.5)**	**(0.3)**
	Interest rateVaR	0.3	0.7	1.6	0.7	0.7	0.7	0.5	0.7	0.6
	Equity VaR	0.0	0.1	0.5	0.0	0.0	0.1	0.0	0.2	0.1
	FX VaR	0.1	0.3	0.6	0.2	0.9	0.4	0.2	0.6	0.4
Global activities	**Total**	**1.6**	**2.3**	**9.0**	**1.9**	**2.2**	**1.5**	**2.0**	**2.7**	**1.2**
	Diversification effect	**0.0**	**(0.6)**	**(3.4)**	**(0.6)**	**(0.5)**	**(0.3)**	**(0.5)**	**(0.6)**	**(0.3)**
	Interest rate VaR	0.2	0.6	3.0	0.4	0.4	0.3	0.4	0.3	0.2
	Credit spread VaR	1.4	2.2	9.3	1.9	2.1	1.5	2.1	2.6	1.3
	FX VaR	0.0	0.0	0.2	0.2	0.2	0.1	0.0	0.4	0.1

21. Item 7.2.2.2. sets out the definition of this metric. Following the recommendation of the Basel Committee in its "Fundamental review of the trading book: A revised market risk framework" (October 2013), the confidence level of 97.5% means approximately a risk level similar to that which the VaR captures with a 99% confidence level.
22. The VaR of global activities includes operations that are not assigned to any particular country.
23. In Latin America, United States and Asia, the VaR levels of the credit spread and commodity factors are not shown separately because of their scant or zero materiality.

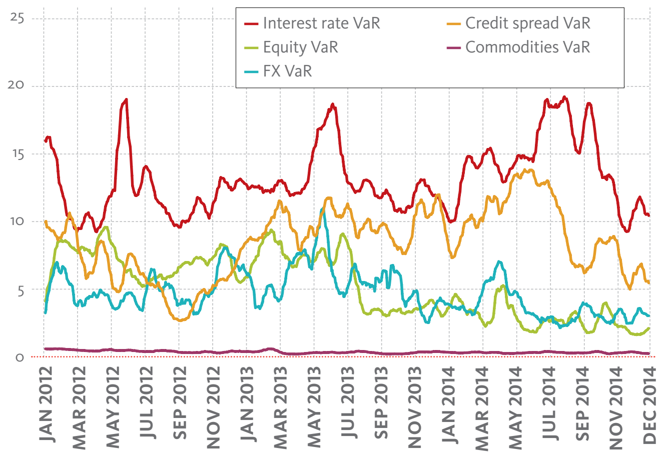
The proximity of the expected shortfall to VaR shows that the risk of high losses of low probability (tail risk) is not high, at least bearing in mind the historic window of the last two years.

The average VaR dropped a little in 2014 by EUR 0.4 million, and by EUR 2.5 million if compared with the year-end figures. By risk factor, the average VaR increased in interest rates and dropped in exchange rates, equities and credit spread. By geographic zones, it rose in Latin America and Global Activities and declined in Europe, United States and Asia.

The Var evolution by risk factor in general was stable in the last few years. The transitory rises in VaR of various factors is explained more by transitory increases in the volatility of market prices than by significant changes in positions.

VaR by risk factor

Million euros. VaR at 99% with a time frame of one day (15 day moving average)



Lastly, the table below compares the VaR figures with stressed VaR figures[24] for trading activity in Spain and Brazil, whose treasuries were those that experienced the Group's largest average VaR in 2014.

Stressed VaR statistics vs, VaR in 2014: treasuries in Spain and Brazil

Million euros. Stressed VaR and VaR at 99% with time frame of one day

		2014				2013	
		Min	Avg.	Max	Year-end	Avg.	Year-end
Spain	VaR (99%)	3.2	7.1	12.9	4.1	10.7	2.3
	Stressed VaR (99%)	7.9	15.3	24.8	21.4	12.2	5.7
Brazil	VaR (99%)	4.9	10.4	23.7	8.5	9.1	4.8
	Stressed VaR (99%)	6.0	14.2	35.3	25.6	17.2	11.4

7.2.1.2. Gauging and contrasting measures

The real losses can differ from the forecasts by the VaR for various reasons related to the limitations of this metric, which is set out in detail later in the section on the methodologies. The Group regularly analyses and contrasts the accuracy of the VaR calculation model in order to confirm its reliability.

The most important test consists of backtesting exercises, analysed at the local and global levels and in all cases with the same methodology. Backtesting consists of comparing the forecast VaR measurements, with a certain level of confidence and time frame, with the real results of losses obtained in a same time frame. This enables anomalies in the VaR model of the portfolio in question to be detected (for example, shortcomings in the parameterisation of the valuation models of certain instruments, not very adequate proxies, etc).

Santander calculates and evaluates three types of backtesting:

- "Clean" backtesting: the daily VaR is compared with the results obtained without taking into account the intraday results or the changes in the portfolio's positions. This method contrasts the effectiveness of the individual models used to assess and measure the risks of the different positions.
- Backtesting on complete results: the daily VaR is compared with the day's net results, including the results of the intraday operations and those generated by commissions.
- Backtesting on complete results without mark-ups or commissions: the daily VaR is compared with the day's net results from intraday operations but excluding those generated by mark-ups and commissions. This method aims to give an idea of the intraday risk assumed by the Group's treasuries.

For the first case and the total portfolio, there was one exception in 2014 of Value at Earnings (VaE)[25] at 99% (days when the daily loss was higher than the VaR) on June 6, mainly due to Mexico because of the drop in sovereign yield curves and swaps (nominal and indexed to inflation UDI), following the Bank of Mexico's cut of 50 b.p. to 3% in the benchmark interest rate, which was not discounted by the market.

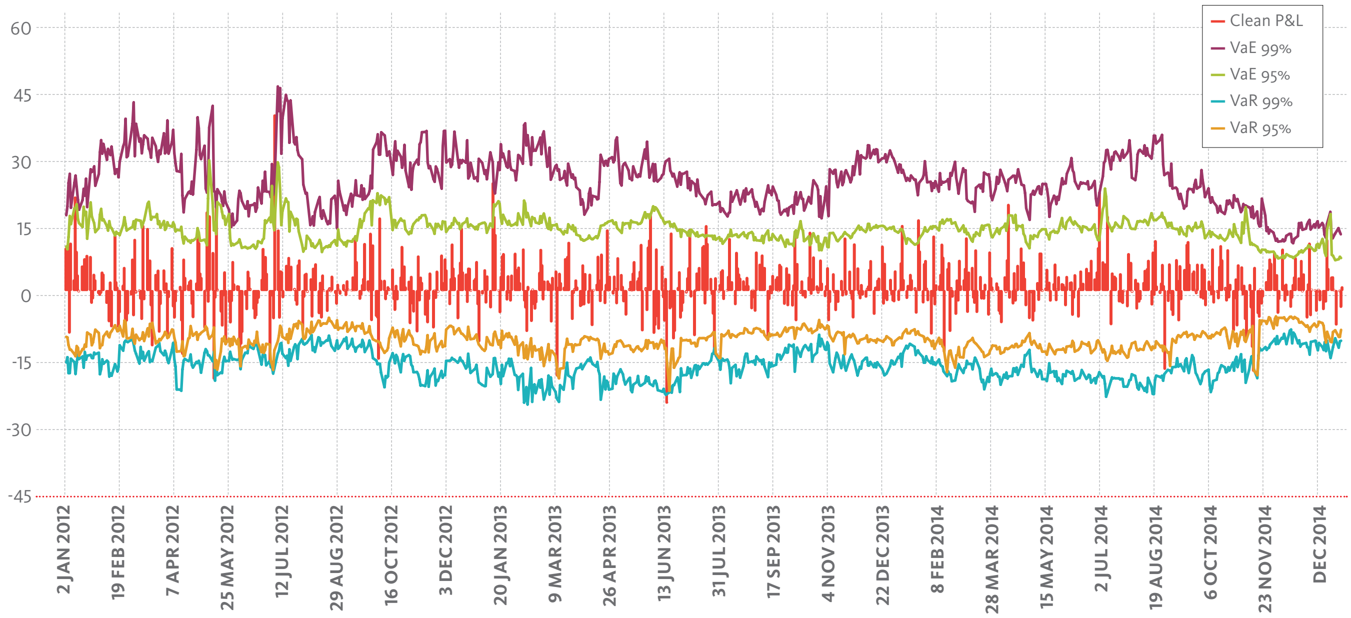
There was also an exception of VaR at 99% (days when the daily loss was higher than the VaR) on October 16, mainly due to Spain, because of the rise in credit spreads in Europe and the decline in stock market indexes.

The number of exceptions responded to the expected performance of the VaR calculation model, which works with a confidence level of 99% and an analysis period of one year (over a longer period of time, an average of two or three exceptions a year is expected).

24. Description in 7.2.2.2.

25. The definition and methodology of the VaE calculation is contained in 7.2.2.1.

Backtesting of business portfolios: daily results versus previous day's value at risk
Million euros



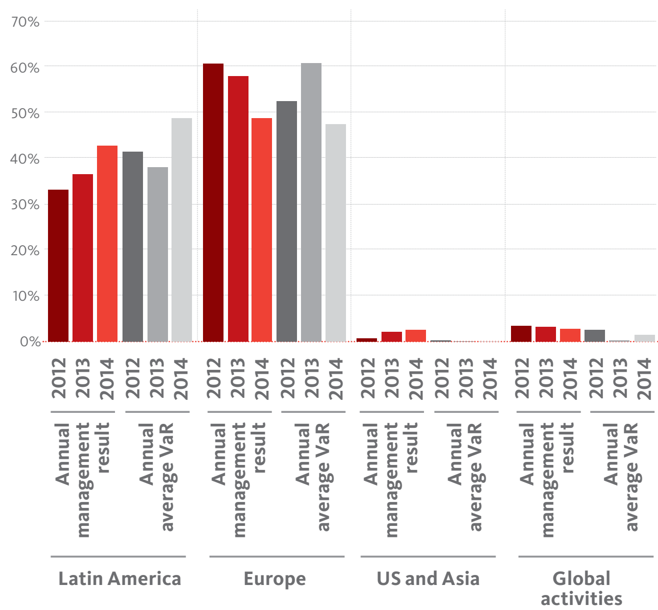
7.2.1.3. Distribution of risks and management results[26]

7.2.1.3.1. Geographic distribution

In trading activity, the average contribution of Latin America to the Group's total VaR in 2014 was 49.4% compared with a contribution of 44.7% in economic results. Europe, with 48.6% of global risk, contributed 49.1% of results. In relation to prior years, there was a gradual homogenisation in the profile of activity in the Group's different units, focused generally on providing service to professional and institutional clients.

Below is the geographic contribution (by percentage) to the Group total, both in risks, measured in VaR terms, as well as in results, measured in economic terms.

VaR binomial-management results: geographic distribution
Average VaR (at 99% with a time frame of one day) and annual accumulated management result (million euros) % of annual totals



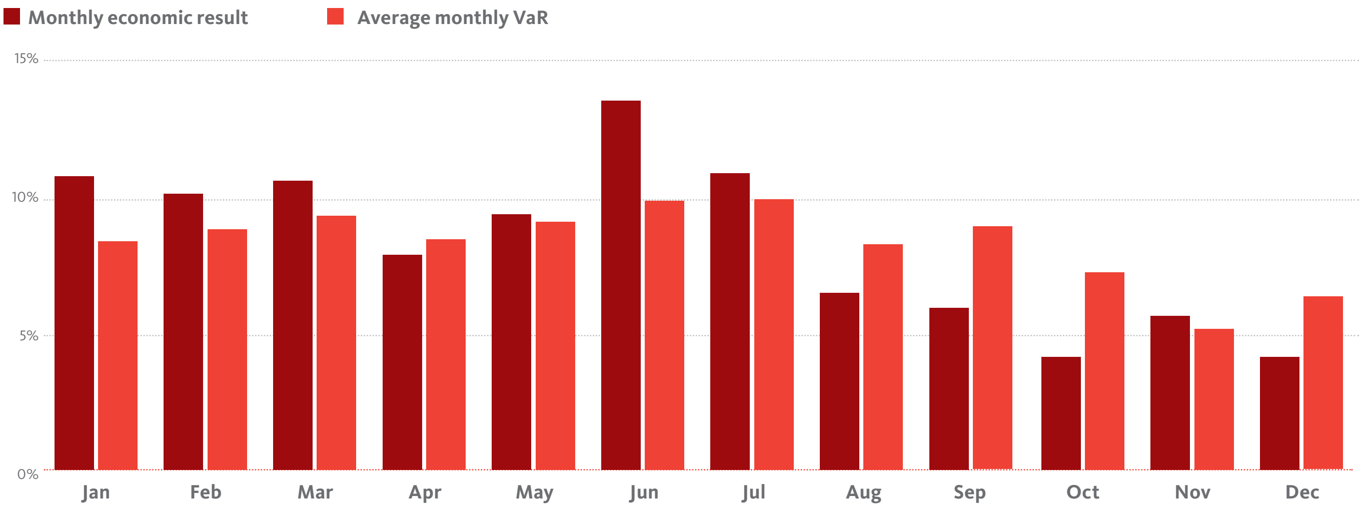
7.2.1.3.2. Distribution of risk by time

The next chart shows the risk assumption profile, in terms of VaR, compared to results in 2014. The average VaR remained relatively stable, although on a downward path to some extent in the second half of the year, while results evolved in a more irregular way during the year. January and June were positive months and from August less positive.

26. Results in terms that can be likened to the gross margin (excluding operating expenses, the only cost is financial).

Distribution of risk by time and results in 2014: percentages of annual totals

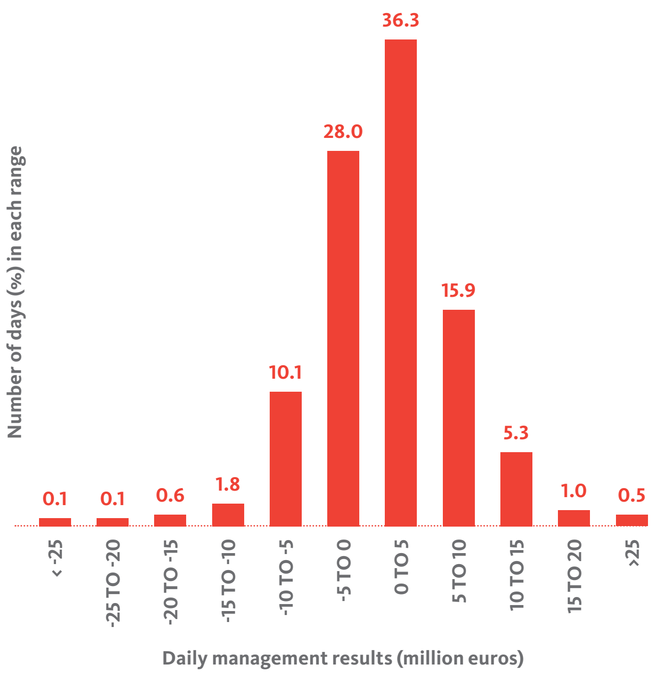
VaR (at 99% with a time frame of one day) and annual accumulated management result (million euros). % of annual totals



The following histogram of frequencies shows the distribution of daily economic results on the basis of their size between 2012 and 2014. The daily yield[27] was between -EUR 15 and +EUR 15 million on more than 97% of days when the market was open.

Histogram of the frequency of daily results (MtM)

Daily results of management "clean" of commissions and intraday operations (million euros). Number of days (%) in each range



7.2.1.4. Risk management of derivatives

Derivatives activity is mainly focused on marketing investment products and hedging risks for clients. Management is focused on ensuring that the net risk opened is the lowest possible.

These transactions include options on equities, fixed-income and exchange rates. The units where this activity mainly takes place are: Spain, Santander UK, and, to a lesser extent, Brazil and Mexico.

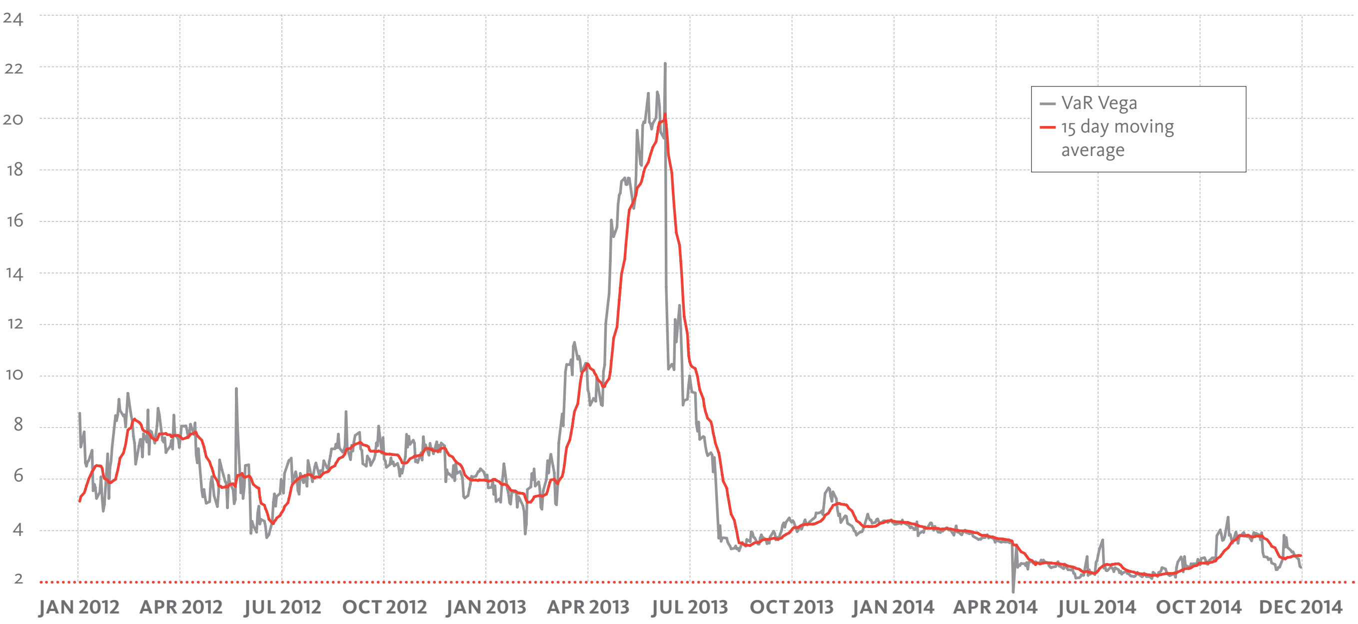
The chart below shows the VaR Vega[28] performance of structured derivatives business over the last three years. It fluctuated at around an average of EUR 6 million. In general, the periods with higher VaR levels related to episodes of significant rises in volatility in the markets. The evolution of VaR Vega in the second quarter of 2013 was the result of the increased volatility of euro and US dollar interest rate curves, coinciding with a strategy of hedging client operations of significant amounts. The VaR Vega during 2014 gradually declined due to greater market tranquillity.

27. Yields "clean" of commissions and results of intraday derivative operations.

28. Vega, a Greek term, means here the sensitivity of the value of a portfolio to changes in the price of market volatility.

Evolution of risk (VaR) of the business of financial derivatives

Million euros. VaR at 99% with a time frame of one day



As regards the VaR by risk factor, on average, the exposure was concentrated, in this order, in interest rates, equities, exchange rates and commodities. This is shown in the table below:

Financial derivatives. Risk (VaR) by risk factor

Million euros. VaR at 99% with a time frame of one day

	2014				2013		2012	
	Minimum	Average	Maximum	Year-end	Average	Year-end	Average	Year-end
Total VaR Vega	**1.7**	**3.3**	**4.7**	**2.7**	**8.0**	**4.5**	**6.8**	**6.5**
Diversification impact	0.1	(2.1)	(8.4)	(2.6)	(3.8)	(2.7)	(3.0)	(3.4)
Interest rate VaR	1.2	2.4	4.3	1.7	6.6	4.1	2.3	2.8
Equity VaR	0.5	1.8	3.6	2.0	3.4	1.8	6.5	5.5
FX VaR	0.0	1.2	7.2	1.6	1.7	1.3	0.7	1.3
Commodities VaR	0.0	0.0	0.1	0.1	0.1	0.1	0.3	0.2

As regards the distribution by business unit, the exposure is concentrated, in this order, in Spain, Santander UK, Mexico and Brazil.

Financial derivatives. Risk (VaR) by unit

Million euros. VaR at 99% with a time frame of one day

	2014				2013		2012	
	Minimum	Average	Maximum	Year-end	Average	Year-end	Average	Year-end
Total VaR Vega	**1.7**	**3.3**	**4.7**	**2.7**	**8.0**	**4.5**	**6.8**	**6.5**
Spain	1.3	2.4	3.9	1.5	7.0	3.8	5.9	5.4
Santander UK	0.9	1.4	1.9	0.9	2.2	1.6	2.8	2.0
Brazil	0.3	0.8	7.2	0.7	1.2	0.9	1.0	2.8
Mexico	0.6	0.9	1.7	1.3	1.2	1.2	0.7	0.6

The average risk in 2014 (EUR 3.3 million) is low compared to the last three years, for the previously explained reasons.

Grupo Santander continues to have a very limited exposure to instruments or complex structured vehicles, reflecting a management culture one of whose hallmarks is prudence in risk management. At the end of 2014, the Group had:

- CDOs and CLOs: the position continues to be not very significant (EUR 99 million).

- Hedge funds: the total exposure is not significant (EUR 192 million at the end of 2014) and most of it is via the financing of these funds (EUR 20 million), with the rest direct participation in portfolio or via counterparty by derivatives to hedge funds. This exposure has low loan-to-value levels of around 31% (collateral of EUR 620 million at the end of 2014). The risk with this type of counterparty is analysed case by case, establishing percentages of collateralisation on the basis of the features and assets of each fund.

- Conduits: no exposure.

- Monolines: Santander's exposure to bond insurance companies (monolines) was EUR 137 million[29] at the end of 2014, mainly indirect exposure, and EUR 136 million by virtue of the guarantee provided by this type of entity to various financing or traditional securitisation operations. The exposure in this case is to double default, as the primary underlying assets are of high credit quality. The small remaining amount is direct exposure (for example, via purchase of protection from the risk of non-payment by any of these insurance companies through a credit default swap). The exposure was 2% lower than in 2013.

In short, the exposure to this type of instrument, as the result of the Group's usual operations, continued to decline in 2014. This was mainly due to the integration of positions of institutions acquired by the Group, as Sovereign in 2009. All these positions were known at the time of purchase, having been duly provisioned. These positions, since their integration in the Group, have been notably reduced, with the ultimate goal of eliminating them from the balance sheet.

Santander's policy for approving new transactions related to these products remains very prudent and conservative. It is subject to strict supervision by the Group's senior management. Before approving a new transaction, product or underlying asset, the risks division verifies:

- The existence of an appropriate valuation model to monitor the value of each exposure: Mark-to-Market, Mark-to-Model or Mark-to-Liquidity.

- The availability in the market of observable data (inputs) needed to be able to apply this valuation model.

And provided these two points are always met:

- The availability of appropriate systems, duly adapted to calculate and monitor every day the results, positions and risks of new operations.

- The degree of liquidity of the product or underlying asset, in order to make possible their coverage when deemed opportune.

7.2.1.5. Issuer risk in trading portfolios
Trading activity in credit risk is mainly conducted in the Treasury Units in Spain. It is done by taking positions in bonds and credit default swaps (CDS) at different maturities on corporate and financial references, as well as indexes (Itraxx, CDX).

The table below shows the largest positions at the end of the year, distinguishing between long positions (bond purchase or protection sale via CDS) and short positions (bond sale or purchase protection via CDS):

Million euros. Data at 31 December 2014

	Largest "long" positions (protection sale)		Largest "short" positions (protection purchase)	
	Exposure at default (EaD)	**% of total EaD**	**Exposure at default (EaD)**	**% of total EaD**
1st reference	213	5.5%	(48)	6.2%
2nd reference	129	3.3%	(27)	3.4%
3rd reference	128	3.3%	(26)	3.4%
4th reference	97	2.5%	(24)	3.1%
5th reference	85	2.2%	(19)	2.5%
Top 5 sub-total	**651**	**16.9%**	**(144)**	**18.5%**
Total	**3,848**	**100.0%**	**-775**	**100.0%**

Note: zero recoveries are supposed (LCR=0) in the EaD calculation

29. Guarantees provided by monolines for bonds issued by US states (municipal bonds) are not considered as exposure. They amounted to EUR 744 million at the end of 2014.

7.2.1.6. Analysis of scenarios

Various stress scenarios were calculated and analysed regularly in 2014 (at least monthly) at the local and global levels for all the trading portfolios and using the same assumptions by risk factor.

Maximum volatility scenario (worst case)

This scenario is given particular attention as it combines historic movements of risk factors with an ad-hoc analysis in order to reject very unlikely combinations of variations (for example, sharp falls in stock markets together with a decline in volatility). As regards the variations, an historic volatility equivalent to six standard deviations is applied. The scenario is defined by taking for each risk factor the movement which represents the greatest potential loss in the portfolio, rejecting the most unlikely combinations in economic-financial terms. For year-end, that scenario implied, for the global portfolio, interest rate rises, falls in stock markets, depreciation of all currencies against the euro, rise in credit spreads and mixed volatility movements. The following table shows the results of this scenario at the end of 2014.

Maximum volatility stress scenario (worst case)

Million euros. Dec-31-14

	Interest rates	Equities	Exchange rates	Credit Spread	Commodities	Total
Total trading	**(33.6)**	**(10.0)**	**(10.5)**	**(26.7)**	**(0.2)**	**(81.0)**
Europe	(3.4)	(0.7)	(3.3)	(23.7)	(0.2)	(31.4)
Latin America	(27.9)	(9.3)	(4.6)	0.0	0.0	(41.8)
US	(1.3)	0.0	(2.1)	0.0	0.0	(3.5)
Global activities	(0.8)	0.0	(0.5)	(3.0)	0.0	(4.3)
Asia	(0.1)	0.0	(0.5)	0.0	0.0	(0.1)

The stress test shows that the economic loss suffered by the Group in its trading portfolios, in terms of the mark to market (MtM) result would be, if the stress movements defined in the scenario materialized in the market, EUR 81.0 million, a loss that would be concentrated in Latin America (in this order, interest rates, equities and exchange rates) and Europe (basically concentrated in credit spreads).

Other global stress test scenarios

Various global scenarios (similar for all the Group's units) are established:

Abrupt crisis: ad hoc scenario with very sudden movements in markets. Rise in interest rate curves, sharp falls in stock markets, large appreciation of the dollar against the rest of currencies, rise in volatility and in credit spreads.

11S Crisis: historic scenario of the 11 September 2001 attacks with a significant impact on the US and global markets. It is sub-divided into two scenarios: 1) maximum accumulated loss until the worst moment of the crisis and 2) maximum loss in a day. In both cases, there are drops in stock markets and in interest rates in core markets and rises in emerging markets, and the dollar appreciates against the rest of currencies.

Subprime crisis: Historic scenario of the US mortgage crisis. The objective of the analysis is to capture the impact on results of the reduction in liquidity in the markets. The scenarios have two time frames (one day and 10 days): in both cases there are falls in stock markets and in interest rates in core markets and rises in emerging markets, and the dollar appreciates against the rest of currencies.

Sovereign crisis: the severest historic scenario for banks carried out by the Committee of European Banking Supervisors (CEBS) to measure the market's shock capacity between April 15 and September 1, 2010. Given the Group's international sphere, four geographic zones are distinguished (US, Europe, Latin America and Asia), interest rate rises, falls in stock markets and volatilities are established, rises in credit spreads and depreciation of the euro and Latin American currencies and appreciation of Asian currencies against the dollar.

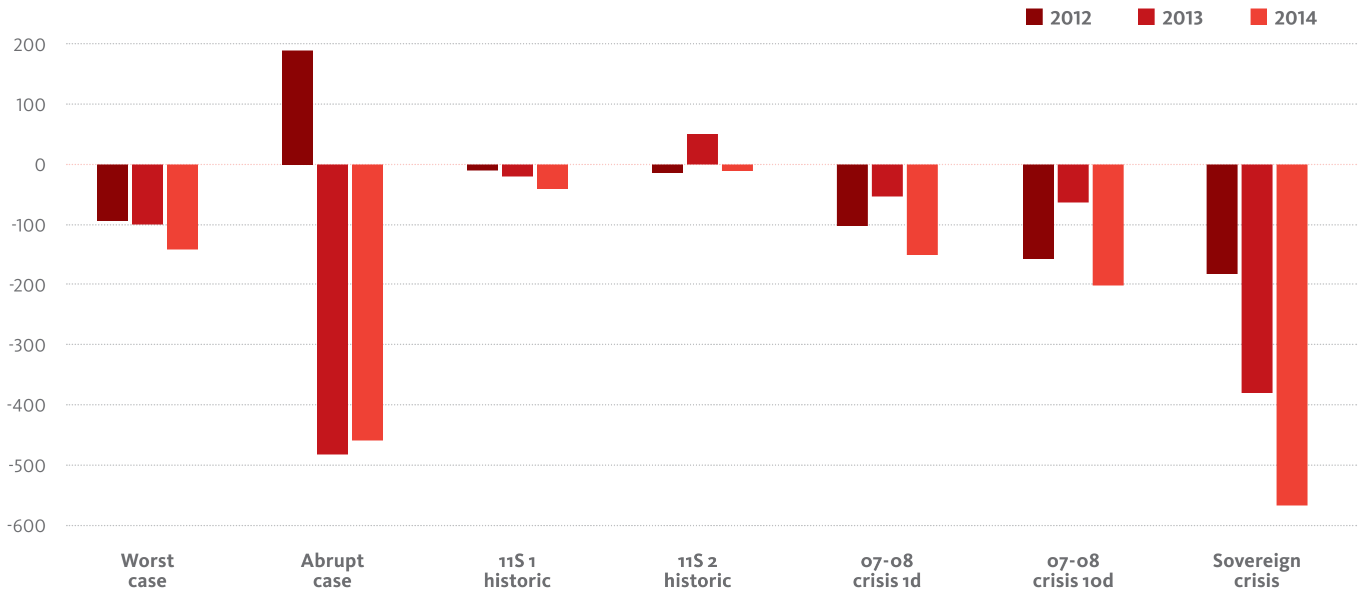
As of November 2014, this latter scenario has been replaced by the adverse scenario proposed by the EBA in April in its stress test exercise ("The EBA 2014 EU-Wide Stress Test"), obtaining a result of EUR 223.9 million at December 31, 2014.

Every month a consolidated stress test report is drawn up, supervised by the global committee of market risks, with explanations of the main changes in results for the various scenarios and units. An early warning mechanism has also been established so that when the loss of a scenario is high in historic terms and/or the capital consumed by the portfolio in question, the relevant business executive is informed.

Here we show the results of the global scenarios for the last three years.

Stress test results: comparison of the 2012-2014 scenarios (annual averages)

Million euros



7.2.1.7. Linkage with balance sheet items. Other alternative risk measures

Below are the balance sheet items of the Group's consolidated position that are subject to market risk, distinguishing the positions whose main risk metric is the VaR from those where monitoring is carried out with other metrics. The items subject to the risk of market trading are set out.

Relation of risk metrics with balances of group's consolidated position

Million euros. dec-31-14

		Main market risk metrics		
	Balance	VaR	Others	Main risk factor for balance in "·others"
Assets subject to market risk	**1,266,296**	**196,351**	**1,069,945**	
Cash and deposits in central banks	69,428	-	69,428	Interest rate
Trading portfolios	148,888	147,012	1,876	Interest rate, credit spread
Other financial assets at reasonable value	42,673	41,993	680	Interest rate, credit spread
Financial assets available for sale	115,250	-	115,250	Interest rate, equities
Equity stakes	3,471	-	3,471	Equities
Hedging derivatives	7,346	7,346	-	Interest rate
Lending	781,635	-	781,635	Interest rate
Other financial assets [1]	35,798	-	35,798	Interest rate
Other no-financial assets [2]	61,807	-	61,807	
Liabilities subject to market risk	**1,266,296**	**178,805**	**1,087,491**	
Trading portfolio	109,792	109,249	543	Interest rate, credit spread
Other financial liabilities at reasonable value	62,317	62,301	16	Interest rate, credit spread
Hedging derivatives	7,255	7,255	-	
Financial liabilities at amortised cost [3]	961,083	-	961,083	Interest rate
Provisions	15,376	-	15,376	Interest rate
Other financial liabilities	10,113	-	10,113	Interest rate
Equity	89,714	-	89,714	
Other non-financial liabilities	10,646	-	10,646	

1. Includes adjustments to macro hedging, non-current assets on sale, assets for reinsurance, and insurance contracts linked to pensions and fiscal assets.
2. Includes intangible assets, material assets and other assets.
3. Adjusted for macro hedging.

For activity managed with metrics different to the VaR, alternative measures are used, mainly: sensitivity to different risk factors (interest rate, credit spread, etc).

In the case of the trading portfolio, the securitisations and "level III" exposures (those in which not observable market data constitute significant inputs in their corresponding internal models of valuation) are excluded from VaR measurement.

Securitisations are mainly treated as if they were credit risk portfolio (in terms of default, rate of recovery, etc). For "level III" exposures, which are not very significant in Grupo Santander (basically derivatives linked to the home price index (HPI) in market activity in Santander UK, and the not very significant portfolio of illiquid CDOs in the parent bank's market activity), as well as in general for inputs that cannot be observed in the market (correlation, dividends, etc), a very conservative policy is followed, reflected in valuation adjustments as well as sensitivity.

7.2.2. Methodologies

7.2.2.1. Value at Risk (VaR)

The standard methodology that Grupo Santander applied to trading activities during 2014 was Value at Risk (VaR), which measures the maximum expected loss with a certain confidence level and time frame. The standard for historic simulation is a confidence level of 99% and a time frame of one day. Statistical adjustments are applied enabling the most recent developments that condition the levels of risk assumed to be efficiently and quickly incorporated. A time frame of two years or at least 520 days from the reference date of the VaR calculation is used, obtained from the reference date of calculating the VaR. Two figures are calculated every day, one applying an exponential decline factor which accords less weight to the observations furthest away in time and another with the same weight for all observations. The reported VaR is the higher of the two.

The Value at Earnings (VaE) is also calculated, which measures the maximum potential gain with a certain level of confidence and time frame, applying the same methodology as for the VaR.

The VaR by historic simulation has many advantages as a risk metric (it sums up in a single number the market risk of a portfolio, is based on market movements that really occurred without the need to make assumptions of formal functions nor of correlations between market factors, etc), but also has limitations.

Some limitations are intrinsic to the VaR metrics, regardless of the methodology used for its calculation, including:

- The VaR calculation is calibrated at a certain level of confidence which does not indicate the levels of possible losses beyond it.
- There are some products in the portfolio with a liquidity horizon greater than that specified in the VaR model.
- The VaR is a static analysis of the risk of the portfolio, and the situation could change significantly during the following day, although the likelihood of this occurring is very low.

Other limitations come from using the historic simulation methodology:

- High sensitivity to the historic window used.
- Incapacity to capture plausible events of big impact if they do not occur in the historic window used.
- The existence of parameters of valuation with no market input (such as correlations, dividend and recovery rate).
- Slow adjustment to the new volatilities and correlations, if the most recent data receives the same weight as the oldest data.

Part of these limitations are corrected by using the stressed VaR and expected shortfall, the calculation of a VaR with exponential decline and applying conservative valuation adjustments. Furthermore, as previously stated, the Group regularly conducts analysis and backtesting of the accuracy of the VaR calculation model.

7.2.2.2. Stressed VaR (sVaR) and Expected Shortfall (ES)

As well as the usual VaR, Santander calculates every day a stressed VaR for the main portfolios. The methodology for calculation is the same as that used for the VaR, with the following two exceptions:

- Historic period of observation of factors: the stressed VaR uses a window of 250 days, instead of one of 520 for the VaR. Furthermore, it is not just the latest data that is used but a continuous period of stress relevant for the portfolio in question. As regards determining the period of observation, for each relevant portfolio, the methodology area has analysed the history of a subseries of market risk factors that were chosen on the basis of expert criteria and the most relevant positions of the books.
- In order to obtain the stressed VaR, unlike when calculating the VaR, the maximum between the percentile uniformly weighted and the one exponentially weighted is not applied. Instead, the percentile uniformly weighted is used directly.

Meanwhile, the expected shortfall (ES) is also calculated in order to estimate the expected value of the potential loss when this is higher than the level set by the VaR. The ES, unlike the VaR, has the advantage of capturing better the tail risk and of being a sub-additive metric[30]. With regard to the near future, the Basel Committee recommends replacing VaR with the expected shortfall as the reference metric for calculating the regulatory capital of the trading portfolios.[31] The committee believes that the confidence level of 97.5% is a risk level similar to that which VaR captures with a confidence level of 99%.

30. The sub-additive metric is one of the desirable properties which, according to financial literature, should present a coherent risk metric. This property establishes that f (a+b) be lower or equal to f(a)+f(b). Intuitively, it supposes that the more instruments or risk factors there are, the less risky a portfolio due to the benefits of diversification. VaR does not meet this property for certain distributions, while the ES always does.

31. "Fundamental review of the trading book: a revised market risk framework" (consultative documents of the Basel Committee on banking supervision, October 2013).

7.2.2.3. Analysis of scenarios

As well as VaR, the Group uses other measures that enable it to have greater control of the risks in all the markets in which it operates. These measures include analysis of scenarios, which consists of defining alternatives to the performance of different financial variables and obtaining the impact on results of applying them on activities. These scenarios can replicate events that occurred in the past (such as a crisis) or determine plausible alternatives that do not correspond to past events.

The potential impact on results of applying different stress scenarios on all the trading portfolios and considering the same assumptions by risk factor is calculated and analysed regularly. As a minimum three types of scenarios are defined: plausible, severe and extreme, obtaining with the VaR a fuller spectrum of the risk profile.

In addition, levels of warning (triggers) are set for global scenarios, on the basis of the historic results of these scenarios and of the capital associated with the portfolio in question. In the event of surpassing these levels, those responsible for management of the portfolio are informed so they can take the necessary measures. At the same time, the results of the stress exercises at the global level, as well as the possible breaching of the levels set, are regularly reviewed and communicated to senior management if deemed pertinent.

7.2.2.4. Analysis of positions, sensitivities and results

The positions are used to quantify the net volume of market securities of the transactions in portfolio, grouped by main risk factor, considering the delta value of the futures and options that could exist. All the risk positions can be expressed in the base currency of the unit and in the currency for homogenising information. The changes in positions are controlled every day, in order to detect possible incidents that might occur and correct immediately.

The market risk sensitivity measures are those that estimate the variation (sensitivity) of the market value of an instrument or portfolio to changes in each of the risk factors. The sensitivity of value of an instrument to changes in market factors can be obtained through analytical approximations by partial derivatives or by the complete revaluation of the portfolio.

The daily drawing up of the income statement is an excellent indicator of risks, as it enables the impact of changes in financial variables on portfolios to be identified.

7.2.2.5. Derivative activities and credit management

Also noteworthy is the control of derivative activities and credit management which, because of its atypical nature, is conducted daily with specific measures. First, the sensitivities to price movements of the underlying asset (delta and gamma), volatility (vega) and time (theta) are controlled. Second, measures such as the sensitivity to the spread, jump-to-default, concentrations of positions by level of rating, etc, are reviewed systematically.

As regards the credit risk inherent in the trading portfolios, and in line with the recommendations of the Basel Committee on Banking Supervision and prevailing regulations, an additional metric, the incremental risk charge (IRC), is calculated in order to cover the risk of non-compliance and of migration of rating that is not adequately captured in the VaR, via the variation of the corresponding credit spreads. The products controlled are basically fixed-income bonds, both public and private, derivatives on bonds (forwards, options, etc) and credit derivatives (credit default swaps, asset backed securities, etc). The method for calculating the IRC is based on direct measurements on the tails of the distribution of losses to the appropriate percentile (99.9%), with a time frame of one year. Monte Carlo methodology is used, applying one million simulations.

7.2.2.6. Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA)

Grupo Santander incorporates credit valuation adjustment (CVA) and debt valuation adjustment (DVA) when calculating the results of trading portfolios. The CVA is a valuation adjustment of over-the-counter (OTC) derivatives, as a result of the risk associated with the credit exposure assumed by each counterparty.

The CVA is calculated by taking into account the potential exposure with each counterparty in each future maturity. The CVA for a certain counterparty would be equal to the sum of the CVA for all maturities. It is calculated on the basis of the following inputs:

- Expected exposure: including, for each operation the current market value (MtM) as well as the potential future risk (add-on) to each maturity. Mitigants such as collateral and netting contracts are taken into account, as well as a factor of temporary decay for those derivatives with intermediate payments.

- Severity: the percentage of final loss assumed in case of credit/non-payment of the counterparty.

- Probability of default: for cases where there is no market information (spread curve traded via CDS, etc) general proxies generated on the basis of companies with listed CDS of the same sector and external rating as the counterparty are used.

- Discount factors curve.

The DVA is a valuation adjustment similar to the CVA, but in this case as a result of Grupo Santander's risk that counterparties assume in the OTC derivatives.

7.2.3. System for controlling limits

Setting market risk and liquidity limits is designed as a dynamic process which responds to the Group's risk appetite level (described in section 4.4 of this report). This process is part of the annual limits plan, which is drawn up by the Group's senior management in a way that involves all the Group's institutions.

The market risk limits used in Grupo Santander are established on different metrics and try to cover all activity subject to market risk from many perspectives, applying a conservative criterion. The main ones are:

- VaR limits.

- Limits of equivalent positions and/or nominal.

- Sensitivity limits to interest rates.

- Vega limits.
- Risk limits of delivery by short positions in securities (fixed income and equities).
- Limits aimed at reducing the volume of effective losses or protecting results generated during the period:
  - Loss trigger.
  - Stop loss.
- Credit limits:
  - Limit on the total exposure.
  - Limit to the jump to default by issuer.
  - Others.
- Limits for origination operations.

These general limits are complemented by sub-limits. In this way, the market risk area has a structure of limits sufficiently granular to conduct an effective control of the various types of market risk factors on which an exposure is maintained. Positions are tracked daily, both of each unit as well as globally. An exhaustive control is made of the changes in the portfolios, in order to detect possible incidents for their immediate correction. Meanwhile, the daily drawing up of the income statement by the market risks area is an excellent indicator of risks, as it allows the impact that changes in financial variables have had on portfolios to be identified.

Three categories of limits are established on the basis of its sphere of approval and control: limits of approval and global controls, limits of global approval and local controls and limits of approval and local controls. The limits are requested by the business executive of each country/institution, tending to the particular nature of the business and achieving the budget established, seeking consistency between the limits and the risk/return ratio, and approved by the corresponding risk bodies.

The business units must at all times comply with the limits approved. In the event of a limit being exceeded, the local business executives have to explain, in writing and on the day, the reasons for the excess and the action plan to correct the situation, which in general can consist of reducing the position until it reaches the prevailing limits or set out the strategy that justifies an increase in the limits.

If the business unit fails to respond to the situation of excess within three days, the global business executives will be asked to set out the measures to be taken in order to make the adjustment to the existing limits. If this situation lasts for 10 days as of the first excess, senior risk management will be informed so that a decision can be taken, and the risk takers could be made to reduce the levels of risk assumed.

7.3. Structural balance sheet risks[32]

7.3.1. Main magnitudes and evolution

The market risk profile inherent in Grupo Santander's balance sheet, in relation to the volume of assets and shareholders' funds, as well as the financial margin budgeted, remained at low levels in 2014 and in line with previous years.

7.3.1.1. Structural interest rate risk

7.3.1.1. Europe and the United States

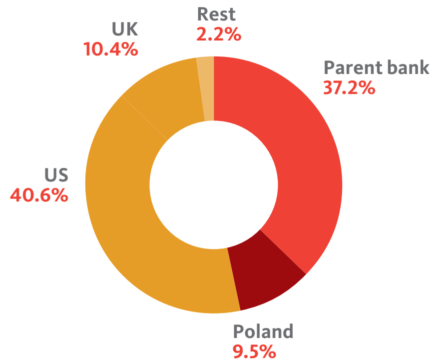
The main balances in Europe (parent bank and UK) show positive economic value sensitivities to interest rate rises, given the expectations of long-term rates on the basis of economic indicators, while short-term rates maintains a very low net interest margin (NIM) exposure. The US balance sheet has a positive sensitivity to short and well as long-term interest rate rises.

In any case, the level of exposure in all countries is moderate in relation to the annual budget and the amount of equity.

At the end of 2014, the risk of the NIM at one year, measured as its sensitivity to parallel changes of ±100 basis points, was concentrated in the US dollar yield curve with EUR 67 million in risk to interest rate cuts (very low probability scenario in the current environment). Of note also was the risk to interest rate cuts in the Polish zloty curve (EUR 21 million).

NIM sensitivity by countries to 100 b.p.[33]

% of the total



Other: SCF and Portugal.

At the same date, the main risk of economic value, measured as its sensitivity to parallel changes in the yield curve of ±100 basis points was in the euro interest rate curve (EUR 2,149 million in risk to interest rate cuts). As regards the dollar and sterling curves, the amounts were EUR 865 million and EUR 343 million, respectively, also in risk to interest rate cuts.

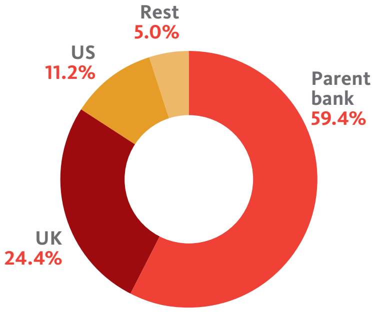
As previously stated, these scenarios a very unlikely.

32. Includes the entire balance sheet except for the trading portfolios.

33. Sensitivity for the worst scenario between +100 and -100 b.p.

MVE sensitivity by countries to 100 b.p.[34]

% of the total



Other: Portugal, SCF and Poland.

The tables below give the structure by maturity of the balance sheet's interest rate risk at the parent bank and Santander UK at the end of 2014.

Santander parent bank: interest rate repricing gap[35]

Million euros. 31 december 2014

	Total	3 months	1 year	3 years	5 years	> 5 years	Not sensitive
Assets	394,976	148,766	70,591	25,194	15,919	19,812	114,693
Liabilities	431,401	166,111	63,114	59,981	30,499	40,457	71,238
Off-balance sheet	36,425	21,971	(1,040)	13,849	2,087	(441)	0
Net gap	**0**	**4,626**	**6,437**	**(20,939)**	**(12,494)**	**(21,086)**	**43,455**

Santander UK: interest rate repricing gap[36]

Million euros. 31 december 2014

	Total	3 months	1 year	1-3 years	3-5 years	> 5 years	Not sensitive
Assets	324,674	193,356	30,189	49,580	23,806	7,192	20,551
Liabilities	324,342	210,648	25,153	26,559	11,494	14,779	35,710
Off-balance sheet	(332)	10,815	3,246	(512)	(7,603)	(6,280)	1
Net gap	**0**	**(6,477)**	**8,282**	**22,509**	**4,710**	**(13,867)**	**(15,158)**

In general, the gaps by maturities remained at very low levels in relation to the size of the balance sheet, in order to minimise the interest rate risk.

7.3.1.1.2. Latin America

The long-term balances are positioned to interest rate cuts due to the slower economic growth. The situation in the short term is very similar, except in the case of Mexico, as it invests in the short term its liquidity excess in local currency.

A moderate level of exposure was maintained during 2014 in all countries in relation to the annual budget and the amount of equity.

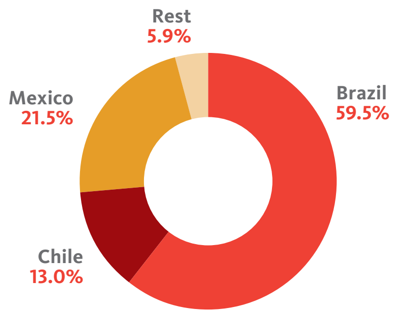
34. Sensitivity for the worst scenario between +100 and -100 b.p.

35. Aggregate gap of all foreign currencies in the balance sheet of Santander parent bank, expressed in euros.

36. Aggregate gap of all foreign currencies in the balance sheet of Santander UK, expressed in euros.

At the end of 2014, the financial margin risk measured in sensitivity to ±100 b.p., was concentrated in three countries, Brazil (EUR 152 million), Mexico (EUR 55 million) and Chile (EUR 33 million), as shown in the chart below:

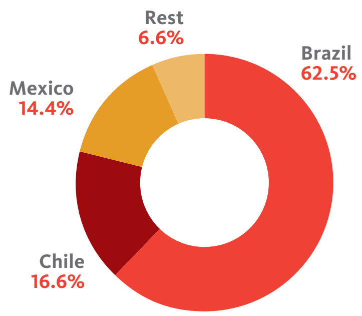
NIM sensitivity by countries to 100 b.p.[37]
% of the total



Other: Argentina, Panama, Peru, Puerto Rico, Santander Overseas and Uruguay.

Equity value risk, measured by its sensitivity to parallel changes of +/- 100 b.p., is also concentrated in Brazil (EUR 572 million), Chile (EUR 152 million) and Mexico (EUR 132 million).

MVE sensitivity by countries to 100 b.p[38]
% of the total



Other countries: Argentina, Panama, Peru, Puerto Rico, Santander Overseas and Uruguay.

The gap tables show the structure by maturity of risk of the balance sheet in Brazil in December 2014.

Brazil: interest rate frepricing gap[39]
Million euros. 31 december 2014

	Total	3 months	1 year	3 years	5 years	> 5 years	Not sensitive
Assets	191,635	79,913	30,171	27,540	9,676	14,086	30,250
Liabilities	191,635	119,076	10,640	12,014	7,288	6,603	36,015
Off-balance sheet	0	(14,156)	12,975	(973)	1,517	637	1
Net neto	**0**	**(53,319)**	**32,505**	**14,553**	**3,905**	**8,120**	**(5,764)**

7.3.1.1.3. balance sheet structural interest rate risk (var)
As well as sensitivity to interest rate movements (not just movements of +/-100 b.p, but also those of +/- 25, +/- 50, +/-75, in order to better characterise the risk in countries with very low interest rates), Santander uses other methods to monitor the structural interest rate risk of the balance sheet including analysis of scenarios and calculation of the VaR, using methodology similar to that used for the trading portfolios.

37. Sensitivity for the worst scenario between +100 and -100 b.p..
38. Sensitivity for the worst scenario between +100 and -100 b.p.
39. Aggregate gap of all currencies in the balance sheet of the Brazil unit, expressed in euros.

The table below shows the average, minimum, maximum and year-end values of the VaR of structural interest rate risk over the last three years.

Balance sheet structural interest rate risk (var)

Million euros. VaR at 99% with a time frame of one day

	2014			
	Minimum	**Average**	**Maximum**	**Year-end**
Structural interest rate risk (VaR)*	**411.3**	**539.0**	**698.0**	**493.6**
Diversification impact	(109.2)	(160.4)	(236.2)	(148.7)
Europe and US	412.9	523.0	704.9	412.9
Latin America	107.6	176.4	229.4	229.4

* Includes VaR by credit spread in the ALCO portfolios.

	2013			
	Minimum	**Average**	**Maximum**	**Year-end**
Structural interest rate risk (VaR)*	**580.6**	**782.5**	**931.0**	**681.0**
Diversification impact	(142.3)	(164.7)	(182.0)	(150.3)
Europe and US	607.7	792.5	922.0	670.0
Latin America	115.2	154.6	191.0	161.3

* Incluye VaR por *spread* crediticio en las carteras ALCO.

	2012			
	Minimum	**Average**	**Maximum**	**Year-end**
Structural interest rate risk (VaR)*	**361.7**	**446.4**	**525.7**	**517.5**
Diversification impact	(78.1)	(124.4)	(168.1)	(144.9)
Europe and US	334.4	451.4	560.8	552.0
Latin America	105.5	119.5	133.0	110.3

* Incluye VaR por *spread* crediticio en las carteras ALCO.

The structural interest rate risk, measured in VaR terms at one day and at 99%, was an average of EUR 539 million in 2014. The contribution to it of the balances of Europe and the US was significantly higher than that of Latin America. Of note was the high diversification between both areas and the decline in VaR in Europe and US, due to the narrowing of bond spreads, particularly in Spain and Portugal.

7.3.1.2. Structural exchange-rate risk/hedging of results

Structural exchange rate risk arises from Group operations in currencies, mainly related to permanent financial investments, and the results and the hedging of these investments.

This management is dynamic and seeks to limit the impact on the core capital ratio of movements in exchange rates.

At the end of 2014, the largest exposures of permanent investments (with their potential impact on equity) were in Brazilian reales, followed by sterling, US dollars, Mexican pesos, Chilean pesos and Polish zlotys. The Group covers part of these positions of a permanent nature with exchange-rate derivatives.

In addition, financial management at the consolidated level is responsible for exchange-rate management of the Group's expected results and dividends in those units whose currency is not the euro.

7.3.1.3. Structural equity risk

Santander maintains equity positions in its banking book in addition to those of the trading portfolio. These positions are maintained as portfolios available for sale (capital instruments) or as equity stakes, depending on their envisaged time in the portfolio.

The equity portfolio of the banking book at the end of 2014 was diversified in securities in various countries, mainly Spain, Brazil, US, Netherlands and China. Most of the portfolio is invested in the financial and insurance sectors; other sectors, to a lesser extent, are professional, scientific and technical activities, public administrations (stake in Sareb), energy supply and the hotel and restaurant trade.

The structural equity positions are exposed to market risk. VaR calculations are made for these positions, using market price series for listed shares and proxies for those that do not. At the end of 2014, the VaR at 99% with a one day time frame was EUR 208.5 million (EUR 235.3 million and EUR 281.4 million at the end of 2013 and 2012, respectively).

7.3.1.4. Structural VaR

In short, with a homogeneous metric such as the VaR, the total market risk of the balance sheet can be monitored excluding the trading activity of global wholesale banking (the VaR evolution of this activity is reflected in section 6.2.1.1., distinguishing between fixed income (both interest rate as well the credit spread for the ALCO portfolios), exchange rates and equities.

In general, the structural VaR is not high in terms of the Group's volume of assets or equity.

VaR of the balance sheet excluding trading activity

Million euros. VaR at 99% with a time frame of one day

	2014				2013		2012	
	Minimum	Average	Maximum	Year-end	Average	Year-end	Average	Year-end
Non-trading VaR	**597.3**	**718.6**	**814.2**	**809.8**	**857.6**	**733.9**	**593.1**	**659.0**
Diversification effect	(241.5)	(364.1)	(693.5)	(426.1)	(448.3)	(380.2)	(390.7)	(347.1)
Interest rate VaR*	411.3	539.0	698.0	493.6	782.5	681.0	446.4	517.5
Exchange rate VaR	256.9	315.3	533.8	533.8	254.5	197.8	237.0	207.3
Equity VaR	170.6	228.4	275.8	208.5	269.0	235.3	300.4	281.4

* Includes VaR by credit spread in the ALCO portfolios.

7.3.2. Methodologies

7.3.2.1. Structural interest rate risk

The Group analyses the sensitivity of net interest margin and of equity value to changes in interest rates. This sensitivity arises from gaps in maturity dates and the review of interest rates in the different asset and liability items.

On the basis of the positioning of balance sheet interest rates, as well as the situation and outlook for the market, the financial measures are agreed to adjust the positioning to that desired by the bank. These measures range from taking positions in markets to defining the interest rate features of commercial products.

The metrics used by the Group to control interest rate risk in these activities are the interest rate gap, the sensitivity of net interest margin and of equity value to changes in interest rate levels, the duration of equity and Value at Risk (VaR), for the purposes of calculating economic capital.

7.3.2.1.1. 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. It provides a basic representation of the balance sheet structure and allows for the detection of interest rate risk by concentration of risk in maturities. It is also a useful tool for estimating the impact of eventual interest rate movements on net interest margin or the Bank's equity value.

All on- and off-balance sheet items must be disaggregated by their flows and looked at in terms of repricing/maturity. In the case of those items that do not have a contractual maturity, an internal model of analysis is used and estimates made of the duration and sensitivity of them.

7.3.2.1.2. Net interest margin sensitivity (NIM)

The sensitivity of net interest margin measures the change in the short/medium term in the accruals expected over a particular period (12 months), in response to a shift in the yield curve.

It is calculated by simulating the net interest margin, both for a scenario of a shift in the yield curve as well as for the current situation. The sensitivity is the difference between the two margins calculated.

7.3.2.1.3. Market value of equity sensitivity (MVE)

The sensitivity of equity value is an additional measure to the sensitivity of the net interest margin.

It measures the interest risk implicit in net worth (equity) on the basis of the impact of a change in interest rates on the current values of financial assets and liabilities.

7.3.2.1.4. Treatment of liabilities without defined maturity

In the corporate model, the total volume of the balances of accounts without maturity is divided between stable and unstable balances. This separation between the stable and unstable balances is obtained from a model that is based on the relation between balances and their own moving averages.

From this simplified model the monthly cash flows are obtained and used to calculate the NIM and MVE sensitivities.

The model requires a variety of inputs:

- Parameters inherent in the product.
- Performance parameters of the client (in this case analysis of historic data is combined with the expert business view).
- Market data.
- Historic data of the portfolio.

7.3.2.1.5. Pre-payment treatment for certain assets

The pre-payment issue mainly affects fixed-rate mortgages in units where the relevant interest rate curves for the balance sheet (specifically for the portfolio of investment in fixed rate mortgages) are at low levels. In these units the risk is modelised and some changes can also be made to assets without defined maturity (credit card businesses and similar).

The usual techniques used to value options cannot be applied directly because of the complexity of the factors that determine the pre-payment of borrowers. As a result, the models for assessing options must be combined with empirical statistical models that seek to capture the pre-payment performance. Some of the factors conditioning this performance are:

- Interest rate: the differential between the fixed rate of the mortgage and the market rate at which it could be refinanced, net of cancellation and opening costs.
- Seasoning: pre-payment trend downward at the start of the instrument's life cycle (signing of the contract) and upward and stabilising as time passes.

- Seasonality: the amortisations or early cancellations tend to take place at specific dates.

- Burnout: decreasing trend in the speed of pre-payment as the instrument's maturity approaches, which includes:

a) Age: defines low rates of pre-payment .

b) Cash pooling: defines as more stable those loans that have already overcome various waves of interest rate falls. In other words, when a portfolio of loans has passed one or more cycles of downward rates and thus high levels of pre-payment, the "surviving" loans have a significantly lower pre-payment probability.

c) Others: geographic mobility, demographic, social, available income factors, etc.

The series of econometric relations that seek to capture the impact of all these factors is the probability of pre-payment of a loan or pool of loans and is denominated the pre-payment model.

7.3.2.1.6. Value at Risk (VaR)
The Value at Risk for balance sheet activity and investment portfolios is calculated with the same standard as for trading: maximum expected loss under historic simulation with a confidence level of 99% and a time frame of one day. As for the trading portfolios, a time frame of two years, or 520 daily figures, is used, obtained from the reference date of the VaR calculation back in time.

7.3.2.2. Structural exchange rate risk/hedging of results
These activities are monitored via position measurements, VaR and results, on a daily basis.

7.3.2.3. Structural equity risk
These activities are monitored via position measurements, VaR and results, on a monthly basis.

7.3.3. System of control of limits
As already stated for the market risk of trading, under the framework of the annual limits plan limits are set for balance sheet structural risks, responding to Grupo Santander's risk appetite level.

The main ones are:

- Balance sheet structural interest rate risk:
  - Limit on the sensitivity of the net interest margin to 1 year.
  - Limit of the sensitivity of equity value.
- Structural exchange rate risk:
  - Net position in each currency (for hedging positions of results).

In the event of exceeding one of these limits or their sub limits, the relevant risk management executives must explain the reasons why and facilitate the measures to correct it.

7.4. Pension, actuarial and fiduciary risks

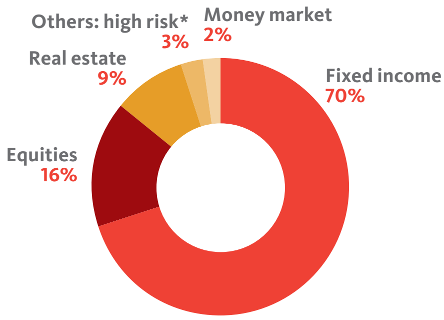
7.4.1. Pension risks
When managing the pension fund risks of employees (defined benefit), the Group assumes the financial, market, credit and liquidity risks in which it incurs for the asset and investment of the fund, as well as the actuarial risks derived from the liability, and the responsibilities for pensions to its employees.

The Group's objective in the sphere of controlling and managing pension risk focuses on identifying, measuring/assessing, monitoring, controlling, mitigating and communicating this risk. The Group's priority is thus to identify and eliminate all the focuses of risk, regardless of whether they have produced losses or not.

This is why the methodology used by Grupo Santander estimates every year the combined losses in assets and liabilities in a defined stress scenario from changes in interest rates and discount rates, inflation, stocks markets and properties, as well as the credit and operational risk.

Main magnitudes
The main magnitudes regarding the pension funds of employees of defined contribution are set out in note 25 of the Group's auditor's report and annual consolidated financial statements, which report the details and movements of provisions for pensions, as well as the main hypotheses used to calculate the actuarial risk and the risk of the fund, including changes in the value of assets and liabilities and details on the investment portfolios assigned to them.

The investor profile of the aggregated portfolio of employees' pension funds is low risk, as around 70% of the total portfolio is invested in fixed-income assets, as set out in the chart below.



* Includes positions in hedge funds, private equity and derivatives.

7.4.2. Actuarial risk
Actuarial risk is produced by biometric changes in the life expectancy of those with life assurance, from the unexpected increase in the indemnity envisaged in non-life insurance and, in any case, from unexpected changes in the performance of insurance takers in the exercise of the options envisaged in contracts.

The following are actuarial risks:

Risk of life liability: the risk of loss in the value of the liabilities of life assurance caused by fluctuations in risk factors that affect these liabilities.

i. Mortality/longevity risk: risk of loss from movements in the value of the liabilities derived from changes in estimating the probability of death/survival of those insured.

ii. Morbidity risk: risk of the loss from movements in the value of the liability derived from changes in estimating the probability of disability/incapacity of those insured.

iii. Rescue/fall risk: the risk of loss from movements in the value of the liability as a result of the early cancellation of the contract, of changes in the exercise of the right of rescue by the insurance holders, as well as options of extraordinary contribution and/or suspending contributions.

iv. Risk of costs: risk of the loss from changes in the value of the liability derived from negative variances in envisaged costs.

v. Catastrophe risk: losses caused by catastrophic events that increase the life liability of the institution.

Risk of non-life liability: risk of loss from the change in the value of the liability of non-life insurance caused by fluctuations in risk factors that affect these liabilities:

i. Premium risk: loss derived from the insufficiency of premiums to meet the disasters that might occur.

ii. Reserve risk: loss derived from the insufficiency of reserves for disasters, already incurred but not settled, including costs from management of these disasters.

iii. Catastrophe risk: losses caused by catastrophic events that increase the non-life liability of the institution.

Main magnitudes

In the case of Grupo Santander, actuarial risk embraces the activity of the Group's fully-owned subsidiaries which are subject not only to a risk of actuarial nature, but also their activity is impacted by the rest of financial, non-financial and transversal risks, defined by the Group.

The volume of assets managed by the companies in Spain and Portugal that belong 100% to Grupo Santander amounted to EUR 25,576 million, of which EUR 23,276 million are directly related to commitments with insurance holders, as follows:

- EUR 14,479 million are commitments guaranteed (wholly or partly) by the companies themselves.
- EUR 8,797 million are commitments where the risks are assumed by the insurance holders:

7.4.3. Fiduciary risk

Fiduciary risk comes from the management and/or administration by clients of products and assets, as well as when acting as trustee for third parties. It is mostly associated with activities related to investment and protection products linked to asset management and insurance activities.

It is the risk incurred when acting as trustee for third parties or managing assets for the benefit of third parties, where mismanagement of assets could result in losses for the client and the fiduciary could be responsible for these losses, with the consequent economic and/or reputational impact.

The fiduciary risk can also be defined as the potential loss that could occur due to significant fluctuations in the value of the portfolios managed by the fiduciary for third parties (settler/beneficiaries) and the image and reputation of the trust.

In this sense, there is a relation between fiduciary risks and the risk of conduct, which is the risk caused by inadequate practices in the Bank's relationship with its clients, the treatment and products offered to the client and their adequacy for each specific client, as well as the compliance and reputational risks.

The main factor of all activities and/or businesses that involve a fiduciary risk is the duty to act in the client's best interest ("Look after the money of clients as if it was your own"). This principle obliges one to always act in the client's interest, in accordance with the mandate, instructions or orders.

This principle is backed by basic pillars for managing fiduciary risk and defending clients' interests.

- **Knowledge of the client:** risk management should be orientated by adequate knowledge, within the organisation, of the reality and needs of clients. This knowledge embraces the adequacy of the product offered to clients in asset management and insurance, ensuring that it fits into the marketing policy in accordance with the client profile.
- **Mandate compliance:** the process of risk management requires analysis and control of the mandates through regular assessment of compliance with them. The risk associated with clients' positions will be cared for by applying the same general principles as those applied in the analysis and control of the Group's own risks.
- **Transparency:** all the relevant information on management of positions, the risks entailed in them and the evolution and results generated by these positions must be transmitted to the client.
- **Management of conflicts of interest:** potential or actual conflicts of interest can be derived from the interrelation between the activity of management and that of other business units or Group areas. In order to avoid these circumstances the criteria established by the Group will be followed in all cases, safeguarding in all of them the interests of clients, participants, partners or those insured.
- **Monitoring and adapting to regulations:** both of products as well as fund management companies so as to always provide the highest quality service and foresee regulatory risk.

The largest component of fiduciary risk is associated with asset management by third parties: discretional management of vehicles and portfolios by fund management and insurance companies in which the Group has a stake and/or with whom distribution agreements are maintained, as well as activity carried out by the Group's private banking units which provide advisory services and discretional management of client portfolios.

The regulations impose on fund management companies as well as companies that provide investment services the obligation to always safeguard the interests of clients.

This obligation is specified in the management contract or fiduciary mandate, which determines the conditions of how the fiduciary operates and its relation with clients. In order to guarantee compliance with the mandate granted by clients, risk is managed from the different vectors that could affect the portfolios and which are explained later on.

In order for the fiduciary to be able to carry out these services, there must be at the local level a legal structure subject to the requirements of its local supervisor. It is also necessary to have adequate technical and human resources, and conduct the control and monitoring of risks in a risk and compliance unit that is independent of business.

The three fundamental vectors of fiduciary risk control are:

- The financial, market, credit and liquidity risks which are incurred by investing the wealth of clients in financial products and instruments.
- The regulatory risk of complying with the limits established by regulations and the strictly fiduciary risk, complying with the investment mandates, as well the security of the investor circuit.
- The importance of monitoring the final result of the investments both with regard to the fiduciary relations with the client who expects the best result as well as with regard to competitors. Always with the objective of offering a product of the highest possible quality and without losing the Group's risk principles.

Management and control model
Grupo Santander's business and asset management activities were changed during the course of 2014, following the corporate restructuring at Santander Asset Management (SAM), a vehicle that integrates asset management activity and which, under the marketing agreement made, offers a wide range of savings and investment products that cover the various needs of clients and which are distributed by the Group's commercial networks and by external distribution channels.

Asset management activity can vary as regards the assets managed:

- Management of mutual funds and companies, discretional management portfolios and pension funds, currently developed by SAM and by countries' private banking teams and vehicles.
- Private equity management, specialised in managing venture capital vehicles.
- Real estate management, specialised in managing property products.

Grupo Santander markets and manages these assets in accordance with the rules and recommendations of local supervisors, following minimum standards that ensure the best interests of its clients.

The mission and objectives of Grupo Santander's department of fiduciary risks are synthesised in the admission and monitoring of the risks assumed with clients and businesses, participating in the decision-making processes on the admission of new products and the mandates of defined management; and, subsequently, monitoring all the fiduciary risks.

In order to comply with this mission, the fiduciary risk team has the following functions:

- Define the risk profile of the new products/portfolios/mandates and underlying assets, participating in the approval process, as well as approving the companies that manage and administer them.
- Identify, know, control, analyse and monitor the fiduciary risks globally in the business of private banking, asset management and insurance.
- Cooperate in designing and defining the fiduciary risk policies: products, underlying assets and management policies.
- Disseminate, implement, cooperate in applying and overseeing compliance in the local units and in each of the business units of the risk policies, procedures and any other rule applicable in the fiduciary risk sphere.
- Design the control and monitoring policies of fiduciary risk on products, portfolios, mandates and underlying assets, guaranteeing both the vision of control as well as that of management.
- Supervise the result of the control processes conducted, make improvement proposals and recommendations for fiduciary risk.
- Design and implement mitigating measures for the risks detected.

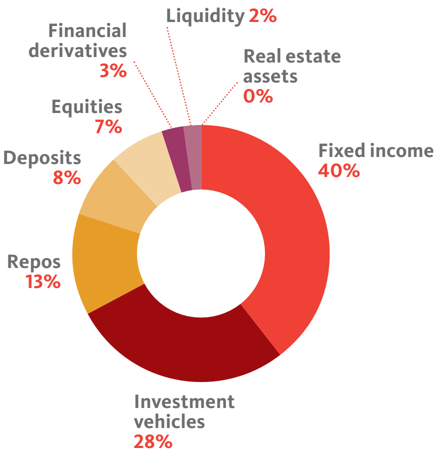
Implementing these functions is structured in the corporate and local spheres in the following way:

In the corporate sphere, the area of fiduciary risks is in charge of designing and defining the financial risk policies and procedures, compliance and performance at the global level; disseminating and cooperating in their implementation in the local units; supervising the result of the control processes carried out locally and implementing, when necessary, the mitigating measures for the risks detected.

In the local sphere, the areas of local risks must have the structure and necessary means to conduct its activity as hitherto described, as they are in charge of executing the various controls established, assuming the responsibility of reporting the results to the interlocutors at the local level (business, risk supervision, regulators and supervisors, etc), as well as to their interlocutors at the corporate level.

Main metrics
At the end of 2014, Grupo Santander clients had in their portfolios EUR 122,026 million of mutual funds and EUR 19,127 million in pension funds, all managed by Santander Asset Management, the holding company participated by the Group.

The risk profile of the total mutual and pension funds is influenced by the type of assets incorporated in the different products, as shown below.



8. Liquidity risk and funding

8.0. Structure of this section

Following an **introduction** to the liquidity risk and funding concept in Grupo Santander (page 245), we present the **liquidity management framework** set by the Group, including monitoring and control of liquidity risk (pages 246-250).

We then look at the **funding strategy developed by the Group and its subsidiaries** over the last few years (pages 250-253), with particular attention to the **liquidity evolution** in 2014. The evolution of the liquidity management ratios in 2014 and business and market trends that gave rise to it (pages 253-258).

The section ends with a qualitative description of the **prospects** for funding in 2015 for the Group and its main countries (page 258).

8.1. Introduction to the treatment of liquidity risk and funding

- Santander has developed a funding model based on autonomous subsidiaries responsible for covering their own liquidity needs.
- This structure makes it possible for Santander to take advantage of its solid retail banking business model in order to maintain comfortable liquidity positions at Group level and in its main units, even during stress in the markets.
- In the last few years, as a result of the tensions arising from the global economic and financial crisis, it has been necessary to adapt the funding strategies to the new commercial business trends, the markets' conditions and the new regulatory requirements.
- In 2014, and in a better market environment, Santander continued to improve in specific aspects such as a very comfortable liquidity position at Group level and in subsidiaries. All of this enables us to face 2015 from a good starting point, without growth restrictions.

Liquidity management and funding have always been basic elements in Banco Santander's business strategy and a fundamental pillar, together with capital, in supporting its balance sheet strength.

Liquidity has gained importance in managing banks in the last few years because of the tensions in financial markets against the backdrop of a global economic crisis. This scenario has enhanced the importance for banks of having appropriate funding structures and strategies to ensure their intermediation activity.

During this period of stress, Santander has enjoyed an appropriate liquidity position, higher than that of its peers, which has given it a competitive advantage to develop and expand its activity in an increasingly demanding environment.

Today, in a more favourable liquidity environment, the Group continues to benefit from the advantage of financial soundness in the face of the new challenge of optimising in cost terms the demanding liquidity standards required by regulators, while pushing growth in countries which were deleveraging.

This better position for the whole Group has been supported by a decentralised funding model consisting of autonomous subsidiaries self-sufficient in liquidity. Each subsidiary is responsible for covering the liquidity needs of its current and future activity, either through deposits captured from its customers in its area of influence or through recourse to the wholesale markets in which it operates, within a framework of management and supervision coordinated at the Group level.

The funding structure is one that shows its greatest effectiveness in situations of high levels of market stress, as it prevents the difficulties of one area from affecting the funding capacity of other areas and thus of the Group as a whole, as could happen in the case of a centralized funding model.

Moreover, at Grupo Santander this funding structure benefits from the advantages of a solid retail banking model with a significant presence in 10 high potential markets and focused on retail clients and high efficiency. All of this gives our subsidiaries a big capacity to attract stable deposits, as well as a strong issuance capacity in the wholesale markets of these countries, generally in their own currency, and backed by the strength of their franchise and belonging to a leading group.

8.2. Liquidity management framework - monitoring and control of liquidity risk

Management of structural liquidity aims to fund the Group's recurring activity in optimum conditions of maturity and cost, avoiding the assumption of undesired liquidity risks.

Santander's **liquidity management** is based on the following **principles:**

- **Decentralized liquidity model**.
- **Needs derived from medium and long term activity must be financed by medium and long term instruments**.
- **High contribution from customer deposits**, derived from the retail nature of the balance sheet.
- **Diversification of wholesale funding sources** by instruments/ investors, markets/currencies and terms.
- **Limited recourse to wholesale short-term funding**.
- **Availability of sufficient liquidity reserve**, which includes the discount capacity in central banks to be used in adverse situations.
- **Compliance with regulatory requirements** of liquidity required at Group level and subsidiaries, as a new **management conditionality**.

The effective application of these principles by all the institutions that comprise the Group required development of a unique **management framework** built around three essential pillars:

- A solid organizational and governance model that ensures the involvement of the senior management of subsidiaries in decision-taking and its integration into the Group's global strategy.
- Deep balance sheet analysis and measurement of liquidity risk, which supports decision-taking and its control.
- Management adapted in practice to the liquidity needs of each business.

8.2.1. Organisational model and governance

The decision-taking process regarding structural risks, including liquidity risk, is carried out by local asset and liability committees (ALCO) in coordination with the global ALCO.

The global ALCO is the body empowered by Banco Santander's board to coordinate asset and liability management (ALM) throughout the Group, including liquidity and funding management, which is conducted via the local ALCos and in accordance with the ALM corporate framework.

This body is headed by the Bank's executive chairman and comprises an executive vice-chairman (who is, in turn, chairman of the executive risk committee), the chief executive officer, the chief financial officer, the executive vice president for risk and others senior executives responsible for the business and analysis units who provide advice.

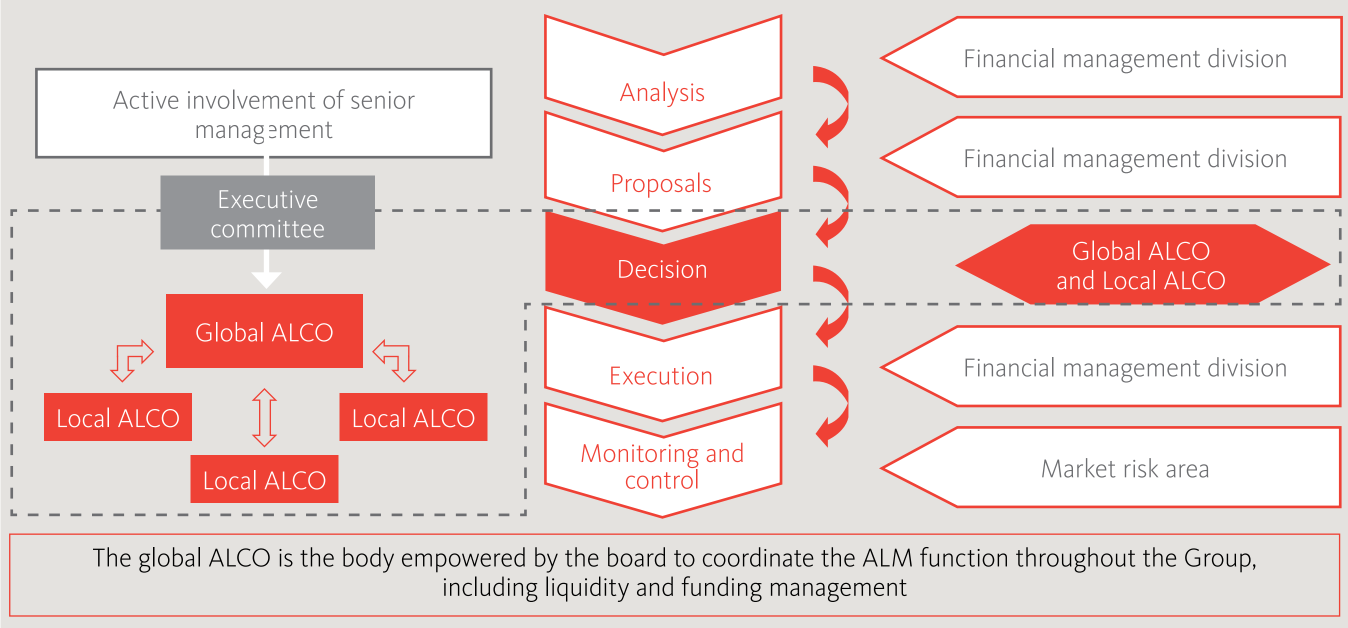
In line with these principles and the ALM corporate framework, the function of liquidity and funding management is backed by:

- The board as the maximum organ responsible for management of the Group.
- The local ALCO committees, which define at each moment the objective positioning of liquidity and the strategies that ensure and/or anticipate the funding needs derived from their business, always within the risk appetite set by the board and the regulatory requirements.
- The global ALCO, which conducts the parent bank's ALM management, as well as coordinating and monitoring the function in the Group's other units.
- The Financial Management area, which manages on a day to day basis, conducting analysis, proposing strategies and carrying out the measures adopted within the positioning defined by the ALCOs.
- The Market Risk area, responsible for monitoring and permanently controlling compliance with the limits established. This independent control function is completed a posteriori by regular reviews conducted by Internal audit.
- All of this supported by an area of independent operations that guarantees the integrity and quality of the information used for managing and controlling liquidity.

This clear division of functions traditionally established in the Group, between executing liquidity management (the responsibility of the Financial Management area) and monitoring and control (the responsibility of the Market Risk area), has put Santander among the function's best governance practices.

Grupo Santander governance: liquidity risk and funding

Structure of decision-taking and functions



This governance model has been strengthened in the last few years by being integrated within a more global view of the Group's risks (Santander's risk appetite framework), which responds to the demand of regulators and market players emanating from the financial crisis to strengthen banks' risk management and control systems.

The liquidity risk profile and appetite aims to reflect the Group's strategy for developing its businesses, which consists of structuring the balance sheet in the most resistant way possible to potential liquidity tension scenarios. Liquidity appetite metrics have been articulated which reflect the application at the individual level of the principles of the Group's liquidity management model, with specific levels for the ratio of structural funding and minimum liquidity horizons under various tension scenarios, as indicated in the following sections.

Over the next few years, the metrics used in the liquidity risk appetite framework will be increased with the incorporation of those monitored and controlled by the financial management area at Group level and of the main units, be they regulatory metrics or another type.

8.2.2. Balance sheet analysis and measurement of liquidity risk

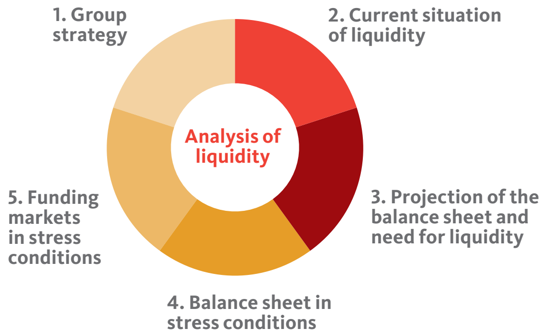
Decision-making on funding and liquidity is based on a deep understanding of the Group's current situation (environment, strategy, balance sheet and state of liquidity), of the future liquidity needs of the various units and businesses (projection of liquidity), as well as access to and the situation of funding sources in the wholesale markets.

The objective is to ensure the Group maintains optimum levels of liquidity to cover its short and long-term needs with stable funding sources, optimising the impact of its cost on the income statement.

This requires monitoring of the structure of balance sheets, forecasting short and medium-term liquidity and establishing the basic metrics.

At the same time, various analyses of scenarios are conducted which take into account the additional needs that could arise from various extreme, unlikely but possible, events. These could affect the various items of the balance sheet and/funding sources differently (degree of renewal of wholesale funding, deposit outflows, deterioration in the value of liquid assets, etc), whether for global market reasons or specific ones of the Group.

Analysis of the balance sheet and measurement of liquidity risk



The inputs for drawing up the Group's various contingency plans are obtained from the results of the analysis of balance sheets, forecasts and scenarios, which, in turn, enable a whole spectrum of potential adverse circumstances to be anticipated.

All these actions are in line with the practices being fostered by the Basel Committee and the various regulators in the European Union and the European Banking Authority to strengthen the liquidity of banks. Their objective is to define a framework of principles and metrics that, in some cases, are close to being implemented and, in others, still being developed.

Greater detail on the measures, metrics and analysis used by the Group and its subsidiaries to manage and control liquidity risk is set out below:

Methodology for monitoring and controlling liquidity risk
The Group's liquidity risk metrics aim to:

- **Achieve greater efficiency** in measuring and controlling liquidity risk.
- **Support financial management**, with measures adapted to the form of managing the Group's liquidity.
- **Alignment with the regulatory requirements** derived from the transposition of Basel III in the European Union (basically CRDIV in EU and others), in order to avoid conflicts between limits and facilitate management.
- **Serve as an early warning system**, anticipating potential risk situations by monitoring certain indicators.
- **Attain the involvement of countries**. The metrics are developed on the basis of common and homogeneous concepts that affect liquidity, but they require analysis and adaptation by each unit.

There are two types of basic metrics used to control liquidity risk: short term and structural. The first category basically includes the liquidity gap and the second one the balance sheet's net structural position. As an additional element, the Group develops various stress scenarios. These three metrics are as follows:

a) Liquidity gap
The liquidity gap provides information on the potential cash inflows and outflows for a certain period of time, both contractual and estimated. They are drawn up for each of the currencies in which the Group operates.

The gap provides information on the sources and uses of funds expected in specific time periods, in relation to the total on- and off-balance sheet items. This analysis tool is obtained from the net of the structure of maturities and flows for each period established. The liquidity available is contrasted with the needs arising from maturities.

In practice, and given the different performances of a same item in the Group's subsidiaries, there are common standards and methodologies to homogenize the building of liquidity risk profiles for each unit, so they can be presented in a comparable way to the Bank's senior management.

As a result, and given that this analysis must be conducted at the individual level of each subsidiary for its autonomous management, a consolidated view of the liquidity gaps is of very limited use for managing and understanding liquidity risk.

Of note in the various analysis made using the liquidity gap is that for **wholesale funding**. On the basis of this analysis a **metric** has been defined whose objective is to guarantee that sufficient liquid assets are maintained in order to attain a minimum **liquidity horizon**, under the assumption of not renewing wholesale funding at maturity.

The minimum liquidity horizons are determined in a corporate and homogeneous way for all units/countries, which must calculate their wholesale liquidity metric in the main currencies in which they operate.

Bearing in mind the market tensions in the last few years of global crisis, this wholesale liquidity gap is closely monitored in the parent bank and in the euro zone units.

At the end of 2014, all units were in a comfortable position in the horizons established for this scenario.

b) Net structural position
The objective of this metric is to determine the reasonability of the funding structure of the balance sheet. The Group's criterion is to ensure that the structural needs (lending, fixed assets, etc) are covered by an adequate combination of wholesale sources and a stable base of retail deposits, to which is added the capital and the rest of permanent liabilities.

Each unit draws up its liquidity balance sheet in accordance with the features of their businesses and compares them with the various funding sources they have. The main factors taken into account when determining this metric are the recurrence of the businesses to be financed, the stability of funding sources and the capacity of assets to become liquid.

In practice, each subsidiary draws up its liquidity balance sheet (different from the accounting one), classifying the various asset and liability items and off-balance sheet ones on the basis of their type for the purposes of liquidity. This determines the funding structure that must be met at all times with a key premise: basic businesses must be financed with stable funds and medium- and long-term funding. All of this guarantees the Bank's sound financial structure and the sustainability of business plans.

At the end of 2014, the Group had a structural liquidity surplus of around EUR 153,000 million (15% of net liabilities as against 16% in 2013). This surplus is almost five times higher than that at the start of the crisis (EUR 33,000 million and 4% of net liabilities in December 2008), thanks to the efforts made during these years.

c) Analysis of scenarios
As an additional element to the metrics, the Group develops various stress scenarios. The main objective is to identify the critical aspects of potential crisis and define the most appropriate management measures to tackle each of these situations.

Generally speaking the units take into account three scenarios in their liquidity analysis: idiosyncratic, local systemic and global systemic. These scenarios represent the minimum standard analysis established for all the Group's units and which are provided to senior management. Each of the units also develops ad hoc scenarios that replicate significant historic crises or specific liquidity risks of their environment.

The main features of the three basic scenarios are:

- An idiosyncratic crisis only affects the Bank but not its environment. This is basically reflected in wholesale funds and in retail deposits, with various percentages of outflows depending on the severity defined.

  Within this category a specific crisis scenario that a local unit could suffer as a result of a crisis in the parent bank (Banco Santander) is studied. This scenario was particularly relevant in 2012 because of strong tensions registered by markets on Spain and the rest of countries on the periphery of the euro zone, a situation amply overcome since then.

- A local systemic crisis is an attack by the international financial markets on the country where the unit is located. Each unit would be affected to varying degrees, depending on its relative position in the local market and the image of soundness it transmits. Among other factors which would be affected in this scenario are, for example, the wholesale funding lines from the closure of markets or the liquid assets linked to the country that would be significantly reduced.

- Global systemic crisis. In this scenario some of the factors mentioned in the scenarios above are stressed. Particular attention is paid to the most sensitive aspects from the standpoint of the unit's liquidity risk.

Defining scenarios and calculating the metrics under each of them are directly linked to the process by the financial management area of drawing up and executing the contingency plan, which is the responsibility of the financial management area.

At the end of 2014, and in a scenario of a potential systemic crisis affecting the wholesale funding of units in Spain (following the previously mentioned 2012 scenario), Grupo Santander maintained an adequate liquidity position. The wholesale liquidity metric horizon in Spain (included within the liquidity gap measures) showed levels higher than the minimums established, during which the liquidity reserve would cover all the maturities of wholesale funding, in the event of not being renewed.

As well as these three metrics a series of internal and market variables was defined as **early warning indicators of possible crises**, which can also state their nature and severity. Their integration into daily liquidity management enables situations that could affect the Group's liquidity risk to be anticipated. Although these alerts vary from country to country and from bank to bank on the basis of specific determinants, some of the parameters used are common in the Group, such as Banco Santander's CDS level, the evolution of deposits from customers and the official interest rate trend of central banks.

8.2.3. Management adapted to business needs

As already pointed out, Grupo Santander's liquidity management is carried out at the level of subsidiaries and/or business units in order to finance their recurring activities in appropriate maturities and prices. The main balance sheet items related to business and funding the Group's largest business units are as follows:

Main units and balance sheet items

Billion euros. December 2014

	Total assets	Net loans *	Deposits**	M/LT funding***
Spain	314.9	157.0	178.7	64.4
Portugal	41.6	23.2	24.0	2.7
SCF	71.5	60.4	30.8	13.3
Poland	27.8	17.0	20.1	0.6
UK	354.2	251.2	202.3	67.4
Brazil	156.3	74.4	68.5	21.5
Mexico	53.7	25.9	28.6	1.7
Chile	42.8	30.6	23.4	6.9
Argentina	9.3	5.5	6.8	0.1
US	96.9	67.2	46.6	24.3
GROUP TOTAL	**1,266.3**	**734.7**	**647.9**	**202.8**

* Customer loans excluding loan-loss provisions.

** Including retail commercial paper in Spain.

*** M/LT issues in markets, securitisations and other collateralised funding in the market and funds taken from FHLB lines. All in their nominal value.

In practice, and in line with the financing principles set out, liquidity management in these units consists of:

- Drawing up every year a liquidity plan based on the funding needs derived from the budgets of each business and the methodology already described. On the basis of these liquidity needs and taking into account prudent limits of recourse to short-term markets, the Financial Management area establishes an issuance and securitisation plan for the year for each subsidiary/global business.

- Monitor during the year the evolution of the balance sheet and of the funding needs of the subsidiaries/businesses, which gives rise to updating the plan.

- Monitor and manage compliance with the regulatory ratios by units, as well as oversee the level of asset encumbrance in each unit's funding, from both the structural standpoint as well as its component with the shortest maturity.

- Maintain an active presence in a large number of wholesale funding markets that enables an appropriate structure of issues to be sustained, diversified by products and with an average conservative maturity.

The effectiveness of this management at Group level is based on implementation in all subsidiaries. Each subsidiary budgets the liquidity needs based on their activity of intermediation and assesses its capacity of recourse to wholesale markets in order to establish an issuance and securitisation plan, in coordination with the Group.

Traditionally, the Group's main subsidiaries have been self-sufficient as regards their structural financing. The exception is Santander Consumer Finance (SCF) which needs the support of other Group units, particularly that of the parent bank, given its nature as a consumer finance specialist operating mainly via dealers.

This support, always at the market price on the basis of the maturity and internal rating of the borrowing unit, has been on a sustained downward trend on a like-for-like basis (from EUR 15,000 million in 2009 to less than EUR 3,000 million in 2014 including hybrid positions in capital). This has made it necessary for SCF to develop internal structures for capturing retail and wholesale funds and opening new securitisation markets. This constitutes a good example of the subsidiaries managing and developing autonomous sources of liquidity.

The incorporation of new portfolios and business units in 2015 (GE Money in Nordic countries; joint ventures with Banque PSA in 11 European countries), will require in the short term greater financial support from the rest of the Group's units. In the medium term, the greater wholesale funding capacity of SCF and access to European Central Bank long-term funding (TLTROs) will enable the unit to return to the path of reduction set in the last few years.

8.3. Funding strategy and evolution of liquidity in 2014

8.3.1. Funding strategy

Santander's activity over the last few years has achieved its objective of adequately funding the Group's recurring activity in a more demanding environment. Its peak, during the global economic and financial crisis, required managing sharp rises in risk that led to scant levels of liquidity in certain maturities and at very high costs. These market conditions relaxed significantly during 2013 and, particularly, in 2014 following the interventions by the main central banks.

Santander's good performance was supported by extending the management model to all the Group's subsidiaries, including the new incorporations, and, above all, adapting the subsidiaries' strategy to the increasing requirements of both the markets as well as regulators. These requirements have not been the same for all markets and reached much higher levels of difficulty and pressure in some areas, such as on the periphery of Europe.

It is possible, however, to extract a series of **general trends** implemented by Santander's subsidiaries in their funding and liquidity management strategies since **the beginning of the crisis**. They are the following:

- **Strong liquidity generation from commercial business due to lower growth in lending and greater emphasis on capturing funds from customers.**
  The evolution in the last few years of the Group's lending is the result of combining sharp falls in the units in Spain and Portugal, due to the strong deleveraging of these economies, with growth in other countries, either through the expansion of units and businesses under development (United States, Germany, Poland, UK companies), or through sustained growth in emerging countries (Latin America). Overall, the Group's net lending increased by EUR 108,000 million since December 2008 (+17%).

  At the same time, the focus on liquidity during the crisis together with the Group's capacity to attract retail deposits via branches, made possible a rise in customer deposits of EUR 227,000 million, 54% higher than the December 2008 balance, and more than double the rise in net lending balances during this period.

  All the commercial units boosted their deposits, both the units in countries undergoing deleveraging as well as those in growth areas where they matched their evolution to that of loans.

  This liquidity generation was particularly intense in Spain (close to EUR 100,000 million since December 2008). This was as a result of the reflection in the credit volumes of private sector indebtedness during the crisis and the strong capturing of deposits in an environment of savers seeking security. The combination resulted in turning a surplus of loans over deposits in 2008 into the current surplus of deposits.

  These trends on loans and deposits changed in 2014 at Group level. Lower deleveraging and recovery of new lending in the countries most affected by the crisis, on the one hand and, on the other, the focus on reducing the cost of funds in mature markets with interest rates at historic lows explain why the spread between the balances of credits and of deposits has stopped falling and even increased moderately during the year.

- **Maintaining adequate and stable levels of medium and long term wholesale funding at the Group level.** This funding represented 21% of the balance of liquidity at the end of 2014, similar to that of the last two years (21% average in 2010-2013), but well below the 28% at the end of 2008, when wholesale liquidity, more abundant and of lower cost, had still not suffered the tensions of the crisis.

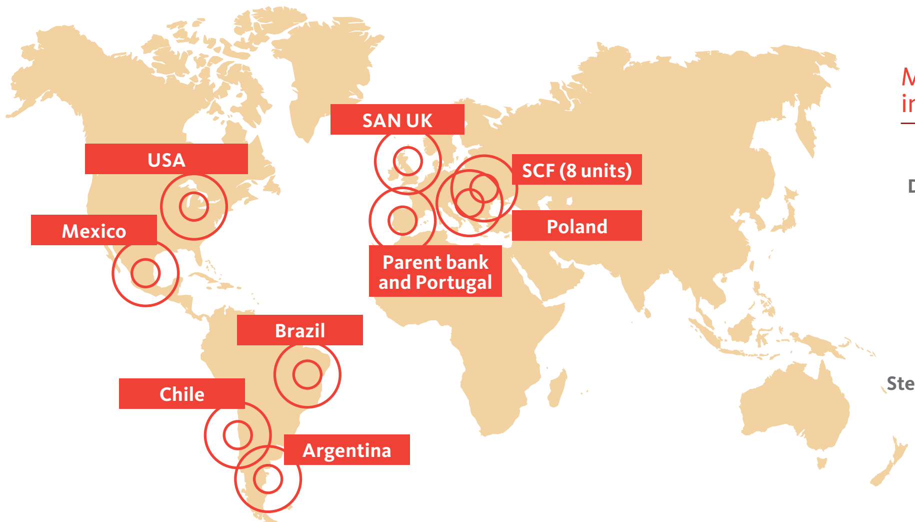
  Following the tightening of conditions in wholesale markets, the Group's decentralised model of subsidiaries, with its own programmes of issues and ratings, helped to maintain Santander's strong participation in developed wholesale markets even in periods of maximum requirements such as 2011-2012.

  Of note in this period was the United Kingdom's issuance capacity, the re-launch of the activity of large Latin American countries and the incorporation of new units to the pool of the Group's important issues, both in the United States (issues from its holding and securitisations of the specialised consumer unit) as well as in Europe. In this continent, Santander Consumer Finance extended its activity of issues and securitisations to new markets such as the Nordic countries, converting its units into pioneers of auto finance securitisation and laying the foundations to advance in their self-funding.

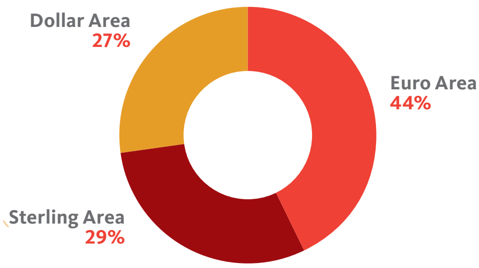
  In general, this wholesale activity has been modulated in each unit on the basis of the requirements of regulation, the generation of internal funds of business and decisions to ensure sufficient liquidity reserves, A good example is Spain where, despite the strong generation of liquidity from the aforementioned business and the capacity of recourse to the European Central Bank, the Group has implemented a conservative issuance policy. Over the last four years, with two years of maximum tension and two of softening, Santander has issued close to EUR 50,000 million of medium and long term debt, backed by the strength of the brand and Santander's credit quality.

Comfortable access to wholesale markets through autonomous subsidiaries, with own issuance programmes and ratings

Main issuing units



M/L Term funding captured in the market in 2014*



*Including issues, securitisations and structured financing.

- **Ensure a sufficient volume of assets that can be discounted in central banks** as part of the liquidity reserve (as defined on page 256 of this section) to cater for stress situations in wholesale markets.

  The Group has significantly increased its total discounting capacity in the last few years from EUR 85,000 million at the end of 2008 to close to EUR 170,000 million. This volume at the end of 2014 almost doubled the commercial gap (i.e. the difference between net loans and deposits), following the reduction in the gap due to the aforementioned business dynamics.

  The growth in the volume that can be discounted is due to a strategy coordinated at the Group level during the crisis and conducted by subsidiaries to generate assets that can be discounted and which offset the reduction in the value of guarantees, as a result of the downgrading of ratings, particularly of sovereign debt and related assets. A large part of this total discounting capacity is concentrated in units in the euro zone following the extraordinary measures implemented by the European Central Bank (ECB) in 2011 and 2012 (basically, increased collateral and three-year liquidity auctions) to ensure the area's liquidity buffer.

  During 2012, and faced with the tensions in the euro markets, Santander pursued a prudent strategy of depositing in the central banks of the Eurosystem most of the funds raised in the three-year auctions, as an immediate liquidity reserve, while maintaining a very limited global net borrowing position. The reduction in tensions enabled the Group in 2013 to return to the ECB all the funds borrowed from Spain in the three-year auctions. Net recourse at the end of the year was at a five-year low, mainly concentrated in Portugal.

  In the fourth quarter of 2014, and within the ECB's strategy of promoting credit and contributing to a sustained recovery in the euro zone, the Group's units in the area (parent bank, Portugal and SCF) took part in the auctions of TLTROs, taking the maximum volume of funds available (EUR 8,200 million, overall). These funds and those to be obtained in successive quarterly auctions during 2015 and 2016 will facilitate the financing of household consumption and lending to business activities.

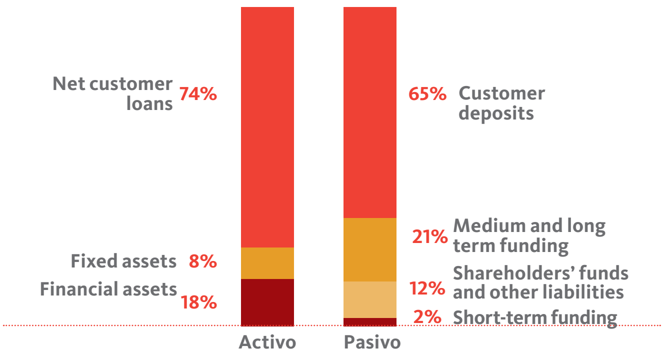
All these development of businesses and markets, made on the foundations of a solid liquidity management model, enabled Santander to enjoy today a very robust **funding structure**. The **basic features** of this structure are:

- **High relative share of customer deposits in an essentially retail banking balance sheet.**
  Customer deposits are the main source of the Group's funding. They represent around two-thirds of the Group's net funding (i.e. of the balance of liquidity) and 88% of net loans at the end of 2014.

  They are also very stable funds given their origin of mainly business with retail customers (84% of the Group's deposits come from retail and private banks and the remaining 16% from large corporate and institutional clients).

Grupo Santander liquidity balance sheet*

% 2014 year-end



* Balance sheet for the purposes of liquidity management: total balance sheet net of trading derivatives and interbank balances.

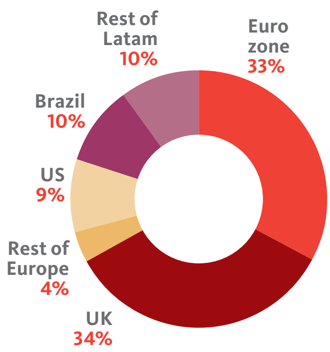
- **Diversified wholesale funding focused on the medium and long term and with a very small relative share of short term.** Medium and long term wholesale funding accounts for 21% of the Group's net funding and comfortably covers the rest of lending not financed by customer deposits (commercial gap).

  This funding is well balanced by instruments (approximately 1/3 senior debt, 1/3 securitisations and structured with guarantees, 1/4 covered bonds and the rest preferred shares and subordinated debt) and also by markets so that those with the highest weight in issues are those where investor activity is the stronger.

The charts showing the geographic distribution of customer loans and of medium and long term funding are set out below so that their similarity can be appreciated.

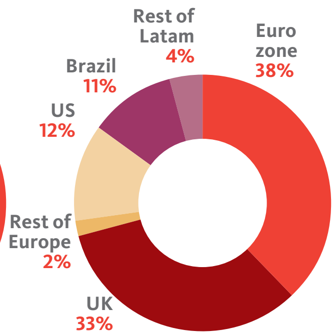
Net customer loans

December 2014



M/LT wholesale funding

December 2014



The bulk of medium and long term wholesale funding consists of debt issues. Their outstanding balance at the end of 2014 was EUR 140,000 million nominal, with an adequate profile of maturities (average maturity of 3.5 years).

Its recent evolution reflects, on the one hand, the impact of the euro's depreciation against the main currencies and, on the other, the greater recourse to markets in 2014 with the capturing of funds higher than the year's maturities and amortisations. The distribution by instruments, the evolution over the last three years and their maturity profile was as follows.

Medium and long term debt issues, Grupo Santander

Million euros

	Evolution of outstanding balances in nominal value		
	December 2014	December 2013	December 2012
Preferred shares	7,340	4,376	4,765
Subordinated debt	8,360	10,030	11,004
Senior debt	68,457	60,195	69,916
Covered bonds	56,189	58,188	67,468
Total*	**140,346**	**132,789**	**153,152**

Distribution by maturity. December 2014*

	0-1 month	1-3 months	3-6 months	6-9 months	9-12 months	12-24 months	2-5 years	Over 5 years	Total
Preferred shares	0	0	0	0	0	0	0	7,340	7,340
Subordinated debt	0	0	0	0	152	1,682	3,352	3,173	8,360
Senior debt	1,470	4,066	7,092	2,931	6,313	16,808	21,386	8,392	68,457
Covered bonds	2,842	5,549	2,250	894	2,389	9,303	15,478	17,484	56,189
Total*	**4,312**	**9,615**	**9,342**	**3,825**	**8,854**	**27,793**	**40,216**	**36,388**	**140,346**

* In the case of issues with put option in favour of the holder, the maturity of the put option will be considered instead of the contractual maturity.

Note: the entire senior debt issued by the Group's subsidiaries does not have additional guarantees.

As well as debt issues, the medium and long term wholesale funding is completed by lines from the Federal Home Loan Banks in the US (around EUR 8,000 million) and by funds obtained from securitisation activities. The latter includes securitisation bonds placed in the market, collateralised financing and other special ones for a total amount of close to EUR 55,000 million and an average maturity of more than two years.

The wholesale funding of short-term issuance programmes is a marginal part of the structure as it accounts for less than 2% of net funding, which is related to treasury activities and is well covered by liquid financial assets.

The outstanding balance at the end of 2014 was EUR 21,400 million, mainly captured by the UK unit and the parent bank through existing issuance programmes: various programmes of CDs and commercial paper of the UK (49%); European commercial paper and US commercial paper and domestic programmes of the parent bank (22%), and from other units (29%).

In short, Santander enjoys a very solid and robust financing structure based on an essentially retail banking balance sheet that enables the Grupo Santander to cover comfortably its structural liquidity needs (loans and fixed assets) with permanent structural funds (deposits, medium and long term funding and equity), which generates a large surplus of structural liquidity.

8.3.2. Evolution of liquidity in 2014

The key aspects of liquidity in 2014 were:

- **Comfortable liquidity ratios**, backed by a balanced commercial activity at constant perimeter and a greater capturing of medium and long term wholesale funds (+44% more than 2013), which absorb credit growth.
- **Compliance ahead of schedule with regulatory ratios**: at the end of 2014, LCR levels of more than 100%, both at the level of the Group and its subsidiaries, compared to a minimum requirement of 60% as of October 2015.
- **High liquidity reserve**, stronger than 2013 in quantity (EUR 227,000 million) and quality (45% of the total are high quality liquid assets).
- **Reduced weight of encumbered assets** in structural medium and long term funding operations, around 13% of the Group's extended balance sheet (European Banking Authority criteria, EBA) at the end of 2014.

From the funding standpoint, 2014 saw a further improvement in markets compared to previous years. The advances mainly occurred in the first half of the year when, in an environment of recovery, particularly in mature economies, the global perception of risk decreased notably, stock market indices rose and the risk premiums of public and private debt fell substantially. This produced an even more fluid access to markets, both for banks as well as large companies, and a lower competitive pressure for retail deposits.

This performance, mainly due to central banks' very accommodating monetary policies with ample liquidity and interest rates at historic lows (even negative in the euro zone for the European Central Bank's deposit facility), led to the consequent search for profitability. Another important determinant was the progress made in European banking union and the idea that the most extreme risks were over.

In the second half of the year, there was a correction and a greater differentiation of risk according to the nature of assets and each economy's prospects, all conditioned by the downgrading of global growth forecasts, the end of the asset buying programme in the United States and the sharp fall in commodity prices (particularly, oil). The markets continued to offer high maturities and good spreads to the best risks.

In this context Santander maintained its **comfortable liquidity position in 2014**, reflected in four **basic aspects:**

i. Basic liquidity ratios at comfortable levels
The table shows the evolution in the last few years of the basic metrics for monitoring liquidity at the Group level:

Grupo Santander monitoring metrics

	2008	2012	2013	2014
Net loans/net assets*	79%	75%	74%	74%
Net loan-to-deposit ratio (LTD ratio)	150%	113%	112%	113%
Customer deposits and medium and long term funding/net loans	104%	117%	118%	116%
Short term wholesale funding/ net liabilities*	7%	2%	2%	2%
Structural liquidity surplus (% /net liabilities*)	4%	16%	16%	15%

*Balance sheet for liquidity management purposes.

Note: in 2012 and 2013 customer deposits include retail commercial paper in Spain (excluding short term wholesale funding). The 2012 and 2013 ratios include SCUSA by global integration, the same as in 2014.

At the end of 2014, and compared to 2013, Grupo Santander registered:

- A stable ratio of net loans/net assets (total assets less trading derivatives and interbank balances) at 74%, as a result of the improvement in credit, following the end of deleveraging in mature markets and the increased perimeter. Its high level in comparison with European competitors reflects the retail nature of Grupo Santander's balance sheet.
- Slight rise in the net loan-to-deposit ratio (LTD ratio) to 113% (112% in 2013), which remains at very comfortable levels (below 120%). This evolution shows the recovery of credit in mature markets, both organic as well as inorganic (incorporation of consumer businesses in Europe) and the greater focus on optimising the cost of retail deposits in countries with low interest rates.

- Slight decline in the ratio of customer deposits and medium- and long-term financing/lending, and for similar reasons to the LTD case, given that the rise in the Group's capturing of wholesale funds was also lower than that in lending. The ratio was 116% (118% in 2013), well above the average of the last few years (2008-13: 112%).

- The reduced recourse in the Group to short term wholesale funding was maintained. The ratio was around 2%, in line with previous years.

- Lastly, the Group's structural surplus (i.e., the excess of structural funding resources - deposits, medium- and long-term funding and capital - over structural liquidity needs - fixed assets and loans) continued to rise in 2014 to an average balance of EUR 158,000 million, 8% more than in 2013.

  This structural surplus at the end of 2014 stood at EUR 153,000 million on a consolidated basis and consists of fixed-income assets (EUR 151,000 million), equities (EUR 14,000 million) and net interbank deposits (EUR 9,000 million) in other credit institutions and central banks, partly offset by short-term wholesale funding (EUR 21,000 million). In relative terms, the total volume represented 15.4% of the Group's net liabilities, a similar level to that at the end of 2013.

In short, Grupo Santander had a comfortable liquidity position at the end of 2014, as a result of the evolution in the subsidiaries. Only one of the units, SCF, increased its LTD considerably over 2013, due to integration of businesses. However, its greater effort in issues and securitisations enabled the ratio of customer deposits and medium- and long-term financing/net lending to remain stable.

The rest of units remained stable or improved their liquidity positions. Of note among those that improved the most was Portugal which, together with a deleveraging process in its final phases, took advantage of the flight to quality to capture retail deposits and access markets ahead of its competitors.

The table below sets out the most frequently used liquidity ratios for Santander's main units at the end of 2014:

Liquidity ratios for the main units

%. December 2014

	Net loan-to-deposit ratio	Deposits+M & LT funding/net loans
Spain	88%	155%
Portugal	97%	115%
Santander Consumer Finance	196%	73%
Poland	84%	122%
UK	124%	107%
Brazil	109%	121%
Mexico	90%	117%
Chile	131%	99%
Argentina	81%	125%
US	144%	106%
Total Group	**113%**	**116%**

Note: in Spain, including retail commercial paper in deposits.

Generally speaking, there were **two drivers in 2014 behind the evolution** of the Group's liquidity and that of its subsidiaries:

1. Arise in the commercial gap, after several years of declines, due to the perimeter and reduced deleveraging in mature markets.

2. More intense issuance activity, particularly by the European units, in a more favourable situation of wholesale markets.

As regards the first driver, **the Group increased its gap between net credits and deposits** by EUR 13,500 million. The greater differential was largely due to three large units: UK, US and Santander Consumer Finance.

The first two, liquidity generators in the years before the deleveraging of their economies, registered growth in lending in 2014 in environments of strong recovery. SCF also reflects the consumer recovery in Europe, although it is still weak, and, above all, the incorporations to its business perimeter in Spain and in Nordic countries.

The rest of mature European units, such as Spain and Portugal, still show the impact of deleveraging on lending although at a much slower pace (in Spain it is even increasing if repos are excluded).

Meanwhile, growth in deposits in mature markets continued although at a slower pace, as a result of a greater focus on reducing the cost of deposits, as the main driver for recovering net interest income in environments of interest rates at minimums. This management led to rises in demand deposits and shifts of expensive deposits to mutual funds, strategies favoured by the improvement in markets and reduced competition for retail savings in an environment of high wholesale liquidity.

In Latin American units, the balanced growth of loans and deposits hides slight differences by countries: rises in the commercial gap in Mexico and Chile, well covered by the good starting position and the growing access to markets, compared to liquidity generation in Brazil and Argentina, in lower growth environments.

The second driver is the **greater recourse to medium and long term funding**. Following the decline in 2013 due to the surplus liquidity generated by commercial businesses, in 2014 the Group's subsidiaries, particularly the European ones, took advantage of the easing of markets and central banks' liquidity injections to increase this volume. The Group captured EUR 52,000 million in medium and long-term wholesale markets, 44% more than in 2013.

Medium and long-term fixed-income issues (senior debt, covered bonds, subordinated debt and preferred shares) were the ones that increased the most (+70% to more than EUR 38,000 million), with a greater weight of senior debt than covered bonds (two-thirds of the total). Spain was the largest issuer, followed by UK and Santander Consumer Finance's units (the three accounted for 79% of that issued).

The remaining EUR 13,400 million of medium and long-term funding corresponded to activities related to securitisations and funding with guarantees, and remained stable. The specialised consumer credit units in US and Europe represented 90% of the total.

All units operating in mature markets increased their wholesale fund capturing in line with the aforementioned trends. Latin American countries, on the other hand, reduced their capturing in an environment of markets very influenced by the end of the Federal Reserve's asset purchase programme.

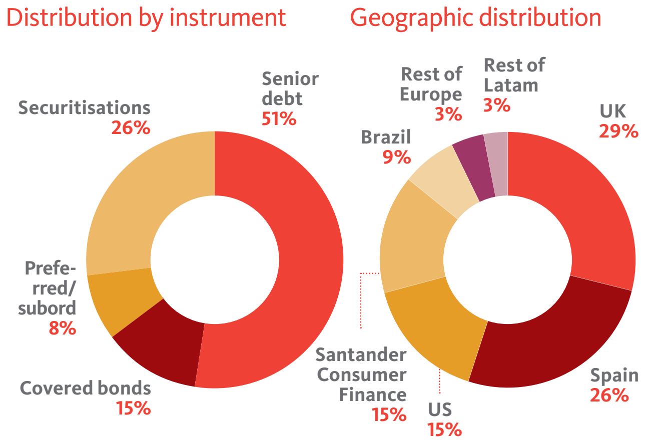
United Kingdom and Spain registered the strongest growth. In the first case, due to the return to lending growth and the improvement in the regulatory ratios which more than doubled the long-term senior debt issues (average life of 5 years). In the case of the parent bank, due to three Additional Tier 1 issues to reinforce and optimise the Group's capital ratios, and the issue of very long term covered bonds (10 and 20 years), the first made at these maturities since the onset of the crisis in a favourable market environment.

In United States, SCUSA continued to increase its securitisation activity and its recourse to warehouse lines to fund the strong growth in new lending and portfolio. Santander Consumer Finance notched up a new record, capturing more than EUR 7,600 million (+24%), with a greater weight of senior debt than securitisations and funding with guarantees. These funds represented 30% of the year's total capturing.

These four units accounted for 85% of the medium and long-term finding obtained in 2014. The chart below sets out in greater detail their distribution by instruments and geographic areas:

Medium and long term issues and securitisations placed in the market

January-December 2014



In short, Grupo Santander maintained comfortable access to the various markets in which it operates, strengthened by the incorporation of new issuance units. It made issues and securitisations in 2014 in 13 currencies, in which 18 issuers from 15 countries participated and with an average maturity of around 3.8 years, slightly higher than in 2013.

ii. Compliance ahead of schedule with regulatory coefficients

Under its liquidity management model, Grupo Santander has been managing in the last few years the launch, monitoring and compliance ahead of schedule of the new liquidity requirements established by international financial regulations.

Liquidity coverage ratio (LCR)

In 2014, and after approval by the Basel Committee of the final definition of the liquidity coverage ratio (LCR), the delegated act of the European Commission was adopted which, in the CRDIV sphere, defined the criteria for calculating and implementing this metric in the European Union. In a new development, implementation was delayed until October 2015, although the initial compliance level of 60% was maintained. This percentage will be gradually increased to 100% in 2018.

The good starting position of short-term liquidity combined with autonomous management of the ratio in all the big units enabled compliance levels of more than 100% to be maintained throughout the year, at both the consolidated as well as individual levels in all of them.

Net stable funding ratio (NSFR)

The final definition of the net stable funding ratio was approved by the Basel Committee in October 2014, and is pending transposition to local regulations. This ratio will come into force as of January 1, 2018.

As regards the ratio, Santander benefits from a high weight of customer deposits, which are more stable, permanent liquidity needs derived from the commercial activity funded by medium and long-term instruments and limited recourse to short-term funds. All of this enables it to maintain a balanced liquidity structure, which is reflected in NSFR ratio levels that, at Group level as well as for most of the subsidiaries, were above 100% at the end of 2014.

In short, management and the liquidity level enable the Group and the main subsidiaries to meet ahead of schedule both regulatory metrics by the.

iii. Strengthened position with a high liquidity reserve
This is the third main aspect reflecting the Group's comfortable liquidity position during 2014.

The liquidity reserve is the total of the highly liquid assets of the Group and its subsidiaries. It serves as a last resort recourse at times of maximum stress in markets, when it is impossible to obtain funding with adequate maturities and prices.

As a result, this reserve includes deposits in central banks and cash, unencumbered sovereign debt, the discounting capacity in central banks, as well as those assets eligible as collateral and undrawn credit lines in official institutions (Federal Home Loans Banks in US). All of this reinforces the solid liquidity position that Santander's business model (diversified, retail banking focus, autonomous subsidiaries) confers on the Group and its subsidiaries.

At the end of 2014, Grupo Santander's liquidity reserve amounted to EUR 230,000 million, 15% higher than in 2013 and 4% above the year's average. This volume represents 26% of the total Group's external funding in net terms and more than 100% of the total wholesale funds captured (short, medium and long term). The structure of this volume by type of asset according to the effective value (net of haircuts) was as follows:

Liquidity reserve at 31/12/2014

Effective value (net of haircuts) in million euros

	31/12/2014	Average 2014	31/12/2013
Cash and holdings at central banks	47,654	46,584	45,091
Unencumbered sovereign debt	52,884	50,056	36,382
Undrawn credit lines granted by central banks	115,105	111,215	107,520
Assets eligible as collateral and undrawn credit lines	14,314	13,060	10,757
Liquidity reserve	**229,957**	**220,915**	**199,750**

Note: the reserve excludes other assets of high liquidity such as listed fixed income and equity portfolios.

This increase was accompanied by a qualitative rise in the Group's liquidity reserve, derived from the differentiated evolution by its assets. The first two categories (cash and deposits in central banks+ unencumbered sovereign debt), the most liquid (or high quality liquidity assets in Basel's terminology, as first line of liquidity) increased more than the average. They rose by EUR 19,000 million, lifting their share of total reserves at the end of the year to 44% (41% in 2013).

Also noteworthy was the increased discounting capacity in central banks during 2014, in line with the strategy developed by the Group and its subsidiaries in the last few years. After reaching its maximum in September, it declined in the fourth quarter as a result of the use of TLTROs by the euro zone units (parent bank, Portugal, SCF), a trend which will continue in 2015.

All the main subsidiaries and management units increased their liquidity reserve volumes in absolute and relative terms, ensuring adequate reserve levels. Of note were the rises in volumes by SCF, Portugal and Poland, with the first two ending the year at levels that almost doubled the averages of 2013.

As regards its potential application, the main units covered with their liquidity reserve at least 75% of the wholesale funding captured at the end of 2014, with four units well over 100% (UK, Mexico, Poland and Portugal). Only two, SCF and Chile, had lower coverage levels although comfortable (34% and 62%, respectively), which continued to increase during the year.

Within the autonomy conferred by the funding model, each subsidiary maintains a composition of assets of its liquidity reserve adequate for its business and market conditions (for example, capacity to mobilise their assets, recourse to additional discounting lines such as in the US). Most of the assets are denominated in the currency of the country, and so there are no restrictions on their use.

iv. Asset encumbrance
Lastly, it is worth pointing out Grupo Santander's moderate use of assets as a guarantee in the balance sheet's structural funding sources.

In line with the guidelines established by the European Banking Authority (EBA) in 2014, the concept of asset encumbrance includes both assets on the balance sheet contributed as guarantee in operations to obtain liquidity as well as those off-balance sheet ones received and re-used with a similar purpose, as well as other assets associated with liabilities for different funding reasons.

The table below sets out Grupo Santander's information as required by the EBA at the end of:

Grupo Santander
Assets

Billion euros	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	**296.0**		**970.3**	
Loans and loans on demand	186.3		692.1	
Equity instruments	7.4	7.4	11.4	11.4
Debt securities	84.2	84.2	92.2	92.2
Other assets	18.1		174.7	

Grupo Santander
Collateral received

Billion euros	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	**57.5**	**37.4**
Loans and loans on demand	1.6	0.3
Equity instruments	1.8	0.6
Debt securities	54.2	31.4
Other collateral received	0.0	5.3
Own debt securities issued other than own covered bonds or ABSs	0.0	0.0

Grupo Santander
Encumbered assets and collateral received and associated liabilities

Billion euros	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Total sources of encoumbrance	291.7	353.5

On balance sheet asset encumbrance amounted to EUR 296.0 billion, close to two-thirds of which are loans (mortgages, corporate). Off-balance sheet asset encumbrance was EUR 57.5 billion and mainly relates to debt securities received in guarantees in operations to acquire assets and which were re-used. The total for the two categories was EUR 353.5 billion, which gave rise to a volume of associated liabilities of EUR 291.7 billion.

At the end of 2014, total asset encumbrance in financing operations represented 26% of the Group's extended balance sheet under EBA criteria (total assets plus guarantees received: EUR 1,361 billion).

It is necessary to distinguish within them the different nature of the sources of encumbrance as well as their role in funding the Group:

- 50% of the total of asset encumbrance corresponds to guarantees contributed in medium and long-term funding operations (with an average maturity of more than two years) to finance the balance sheet's commercial activity. This puts the level of asset encumbrance understood as "structural" at 13% of the extended balance sheet using EBA criteria.
- The other 50% corresponds to short-term market operations (with an average maturity of less than three months) or guarantees contributed in operations with derivatives and whose purpose is not to finance the ordinary activity of businesses but efficient management of short-term liquidity.

Lastly, and in relation to 2013, it should be noted that total asset encumbrance increased significantly due to methodological and perimeter changes. Specifically, the widening of the definition of encumbrance applied by the EBA and the consolidation by global integration of Santander Consumer USA (unit specialised in consumer finance and almost entirely funded by securitisations and guaranteed credit lines) explain more than three-quarters of the change. To this must be added the greater recourse to the European Central Bank's conditioned long-term funding (TLTROs).

Of note is that the volume of asset encumbrance in medium and long term funding operations ("structural") remained stable on a like-for-like basis.

8.4. Funding outlook for 2015

Grupo Santander began 2015 with a comfortable liquidity position in an environment of more favourable markets due to recovery expectations and stability, although not free of risks, and due to the large liquidity injections started by the European Central Bank, via auctions and public debt purchases, which will last until the middle of 2016.

With maturities which can be assumed in the coming quarters, due to the reduced weight of short term and a dynamic of medium and long term issues similar to that of a year ago, the Group will manage these needs in each country together with the specific ones of each business, including the envisaged incorporation of new portfolios and businesses, particularly consumer business in Europe.

The envisaged scenario of stronger growth with low interest rates will generate liquidity needs in many units in both mature and emerging countries, in some cases from the recovery in lending and in others from profit-making of liability positions.

In order to cover these greater commercial needs, the units ended 2014 with surplus positions in most cases. They also have ample access to wholesale markets, which are currently offering higher maturities and lower spreads than in previous years, particularly in Europe due to the European Central Bank's quantitative easing. All of this will enable the Group's subsidiaries to maintain appropriate liquidity structures for their balance sheets.

Spain fits this description. With a surplus of deposits over loans, a moderate recovery in lending is envisaged after a long period of deleveraging, while continuing to focus on optimising the cost of the funds. This could require the use of part of the existing surplus of the ECB's long-term conditioned liquidity (TLTROs) and, if the market conditions in maturities and interest rates remain favourable, greater recourse to wholesale funding.

A similar description can be applied to the unit in Portugal, although with some mismatch regarding the evolution in Spain derived from the less intensive economic recovery and the high existing needs of deleveraging.

Of note in the rest of European units will be the increasing activity Santander Consumer Finance's issues and securitisations, backed by the strength of its business and the quality of its assets. In 2015, as already commented on, the consolidation of new portfolios will require a greater dependence of the rest of the Group on short term funds. On the other hand, Poland, without maturities of wholesale issues in the market and with a surplus of deposits over loans, will concentrate on maintaining this comfortable situation while improving the profitability of its deposits.

In the UK, the good performance of commercial activity and the capturing of clients will strengthen the deposit base as the basic source of credit growth. The favourable situation of wholesale markets will make it possible to optimise the unit's wide borrowing positions in the medium and long term. The United States, also with balanced growth in loans and deposits, will focus its activity on diversifying its wholesale funding sources, both in Santander Bank as well as SCUSA, which will contribute to reducing its degree of leveraging with respect to the funds guaranteed.

In Latin America, as in 2013, the emphasis will remain on deposits for funding business activities while strengthening issuance in wholesale markets opened to the Group's big units.

In addition, and at Group level, Santander maintains its long-term plan to issue funds eligible as capital. Begun in 2014 in order to strengthen regulatory ratios efficiently as well as increase its total capacity to absorb losses, this issuance plan could mean new requirements for the market in 2015 if adequate conditions concur.

Under this general framework, the Group's various units took advantage of the good conditions in the markets at the beginning of 2015 to make issues and securitisations at very tight spreads, capturing more than EUR 4,000 million in January. To this is added the liquidity from the Group's capital increase in the same month, lifting total liquidity captured in the market to more than EUR 11,500 million.

9. Operational Risk

9.1. Definition and objectives

Grupo Santander defines operational risk (OR) as the risk of losses from defects or failures in its internal processes, employees or systems, or those arising from unforeseen circumstances.

Operational risk is inherent to all products, activities, processes and systems and is generated in all business and support areas. For this reason, all employees are responsible for managing and controlling the operational risks generated in their sphere of action.

The Group's objective in control and management of operational risk is to identify, measure/valuate, control/mitigate, monitor and communicate this risk.

The Group's priority is to identify and eliminate risk focuses, regardless of whether they produce losses or not. Measurement also helps to establish priorities in management of operational risk.

Grupo Santander has been using the standard method envisaged in BIS II rules for calculating regulatory capital by operational risk. During 2014, however, the Group started a project to evolve toward a focus of advanced models (AMAs), for which it already has met most of the regulatory requirements. It is important to note that the priority in operational risk management continues to centre on its mitigation.

The report on Prudential Significance/Pillar III in section 5 includes information on calculating the equity requirements by operational risk.

9.2. Management model and control of operational risk

9.2.1. Management cycle of operational risk

The Group's operational risk management incorporates the following elements:

The various phases of the operational risk management and control model are:

- Identify the operational risk inherent in all the Group's activities, products, processes and systems.
- Define the target profile of operational risk, specifying the strategies by unit and time frame, the OR appetite and tolerance and monitoring.
- Promote the involvement of all employees in the operational risk culture, through adequate training at all spheres and levels.
- Measure and assess the operational risk objectively, continuously and coherent with the regulatory standards (Basel, Bank of Spain) and the sector.
- Continuously monitor the exposure of operational risk, implement control procedures, improve internal knowledge and mitigate losses.

- Establish mitigation measures that eliminate or minimise operational risk.
- Produce regular reports on the exposure to operational risk and the level of control for senior management and the Group's areas/units, as well as inform the market and regulatory bodies.
- Define and implement the methodology needed to calculate the capital in terms of expected and unexpected loss.

For each of the aforementioned processes, the following are needed:

- Define and implement systems that enable operational risk exposure, integrated into the Group's daily management, to be monitored and controlled, taking advantage of the existing technology and achieving the maximum computerisation of applications.
- Define and document the policies for managing and controlling operational risk, and install management tools for this risk in accordance with the rules and best practices.

Grupo Santander's operational risk management model contributes the following advantages:

- Promotes development of an operational risk culture.
- Allows comprehensive and effective management of operational risk (identification, measurement/assessment, control/mitigation and information).
- Improves knowledge of existing and potential operational risks and assigns responsibility for them to the business and support lines.
- Operational risk information helps to improve the processes and controls, reduce losses and the volatility of revenues.
- Facilitates the establishment of operational risk appetite limits.

9.2.2. Model of identification, measurement and risk assessment

A series of quantitative and qualitative corporate techniques/tools has been defined to measure and assess technological and operational risk, which are combined to make a diagnosis (on the basis of the risks identified) and obtain an assessment (through measurement/evaluation) of the area/unit.

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

- An internal database of events, whose objective is to capture all the Group's losses from operational risk. The capturing of events related to operational risk is not restricted by setting thresholds (i.e. there are no exclusions for reasons of amount) and there are both events with accounting impact (including positive effects) as well as non-accounting ones.

  There are accounting conciliation processes to guarantee the quality of the information gathered in the databases. The main events of the Group and of each operational risk unit are particularly documented and reviewed.

- An external database of events, as the Grupo Santander participates in international consortiums, such as the Operational Risk Exchange (ORX). The use of external data bases was strengthened in 2014, which provide quantitative and qualitative information, enabling a more detailed and structured analysis of the events produced in the sector.
- Analysis of OR scenarios. An expert opinion is obtained from the business lines and from the risk and control managers whose purpose is to identify potential events with a very low probability of occurring, but which could mean a very high loss for an institution. Their possible effect is assessed and extra controls and mitigating measures identified that reduce the eventuality of a high economic impact.

  Meanwhile and as a relevant part of the process of the evolution toward advanced models (AMA), a corporate methodology of scenarios was developed during 2014, which was implemented in Spain and Brazil. The UK is already developing operational risk scenarios. The Group also continued to participate in the exercise led by the ORX consortium.

- Capital calculation by the standard method (see the corresponding section in the report on Prudential Relevance Report/Pillar III).

The tools defined for qualitative analysis seek to assess aspects (coverage/exposure) linked to risk profile, enabling the existing environment of control to be captured.

These tools are mainly:

- Map of processes and risks and self-assessment questions. An adequate evaluation of the risks, on the basis of the expert criterion of the managers, enables a qualitative view of the Group's main focuses of risk to be obtained, regardless of having materialised before.

  The Group's units continued to make progress in exercises of risk self-evaluation. This tool bases its methodology on estimating inherent and residual loss and qualitative VaR according to the map of processes and risks. Specifically, the experts of the various business and support areas assess the risks associated with the processes and activities, estimating the average frequency of occurrence in the materialisation of risks, as well as the average severity. The exercise also incorporates evaluating the greatest loss, assessing the environment of control and linkage to reputational and regulatory risk. The information obtained is analysed locally and corporately and integrated within the strategy of reducing operational risk through measures to mitigate the main risks.

  The corporate areas participated during 2014 in a pilot exercise, based on a methodology of workshops with the participation of risk managers and OR co-ordinators, in order to improve the Bank's active participation. The result, in terms of inherent and residual loss for the area's main risks, produced an improvement in the perception of risk of the first lines of defence at all levels (executive and management).

- Corporate system of operational risk indicators, in continuous evolution and in coordination with the internal control area. They are various types of statistics or parameters that provide information on an institution's exposure to risk. These indicators are regularly reviewed in order to alert them to changes that could reveal problems with risk.

- Auditing recommendations. Relevant information is provided on inherent risk due to internal and external factors which enables weaknesses in the controls to be identified.

- Other specific instruments that enable a more detailed analysis of the technology risk such as, for example, control of critical incidents in systems and cyber-security events.

9.2.3. Implementation of the model and initiatives

Almost all the Group's units are incorporated to the model and with a high degree of uniformity. However, due to the different pace of implementation, phases, schedules and the historical depth of the respective databases, the degree of progress varies from country to country.

As indicated in section 9.1., the Group started a transformation project toward an AMA focus. During 2014, the state of the pillars of the OR model was analysed, both at the corporate level as well as in the relevant units, and a series of actions was planned in order to cover the management and regulatory expectations in the management and control of OR.

The main functions, activities and global initiatives adopted seek to ensure effective management of operational risk are:

- Define and implement the operational risk framework.

- Designate OR coordinators and create operational risk departments in the local units.

- Training and interchange of experiences: continuation of best practices within the Group.

- Foster mitigation plans: ensure control of implementation of corrective measures as well as ongoing projects.

- Define policies and structures to minimise the impact on the Group of big disasters.

- Maintain adequate control of activities carried out by third parties in order to meet potential critical situations.

- Supply adequate information on this type of risk.

- Develop a methodology to calculate the capital based on VaR models with a confidence interval of 99.9%.

The corporate function enhances management of technological risk, strengthening the following aspects among others:

- Protection against and prevention of cyber attacks and in general aspects related to the security of information systems.

- Foster contingency and business continuity plans.

- Management of risk associated with the use of technologies (development and maintenance of applications, design, implementation and maintenance of technology platforms, output of computer processes, etc).

Following the approval in 2013 of the corporate framework for agreements with third parties and control of suppliers, applied to all the institutions where Grupo Santander has affective control, in 2014 work was begun on drawing up a model developing this framework and formulating the policies of homologation of suppliers, identifying the detail of the principles that will govern relations of the Group's entities with suppliers, from the beginning to their termination, and paying particular attention to:

- The decision to outsource new activities and services.

- The selection of the supplier.

- Establishing the rights and obligations of each of the parties.

- Control of service and regular review of agreements made with suppliers.

- The ending of agreements established.

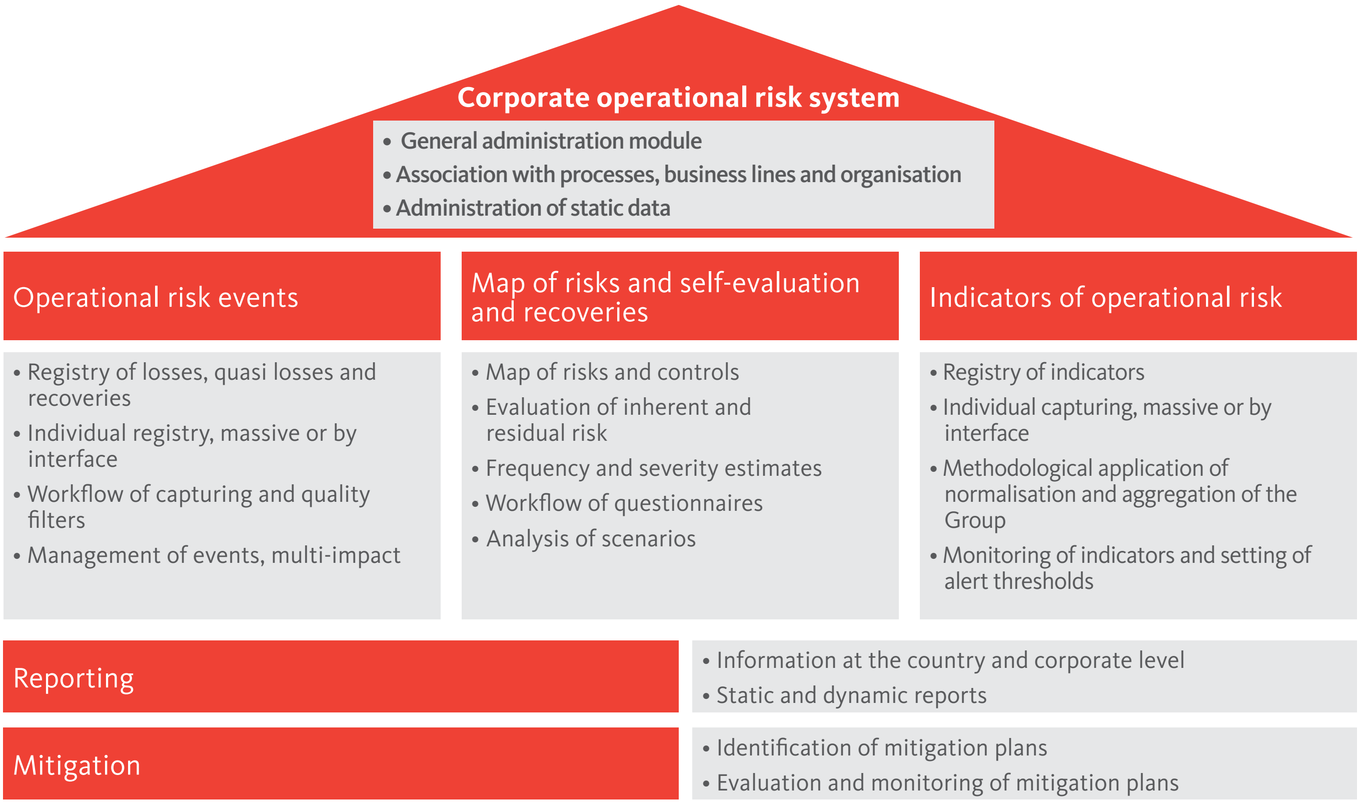
The Group is in the process of implementing the model, analysing the current processes of the institutions in matters of control of suppliers, standardising certain controls and verifying compliance with the aspects defined in the model.

9.2.4. System of operational risk information

The Group has a corporate information system that supports the operational risk management tools and facilitates information and reporting functions and needs at both the local and corporate levels.

This system has modules to register events, risks and assessment map, indicators, mitigation and reporting systems, and is applied to all the Group's units.

The various areas that the platform covers are shown below:



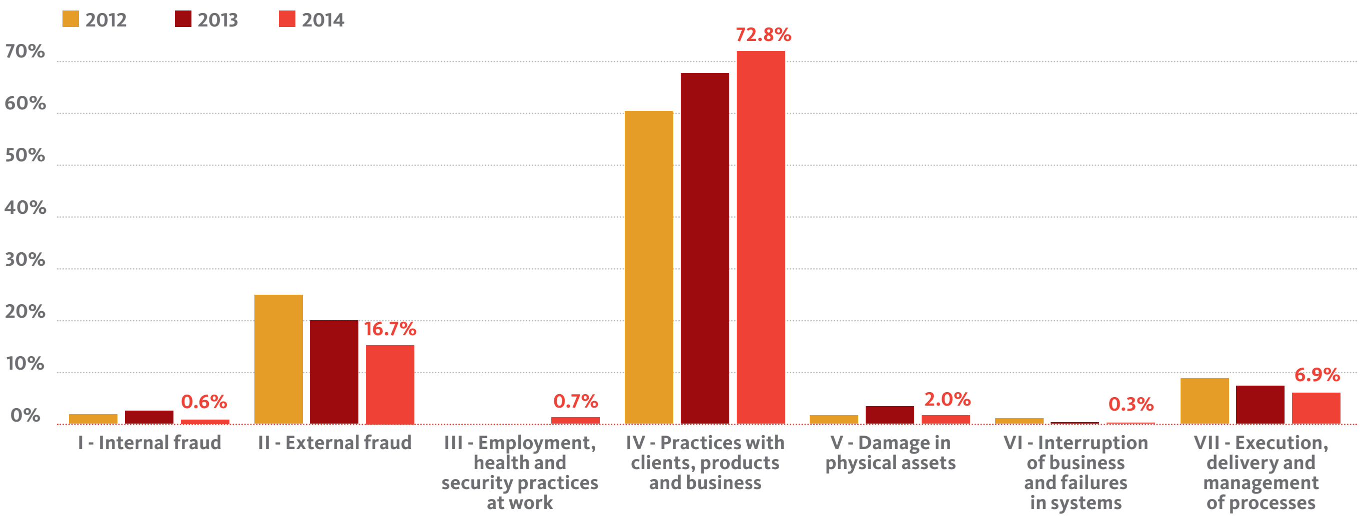
As part of the establishment of advanced models, and taking into account the synergies that will be produced in the control sphere, the Group is in the process of installing a governance, risk and compliance tool (GRC) that supports comprehensively not only operational risk management and control, but also the internal control and compliance functions.

9.3. Evolution of the main metrics

As regards the databases of events, and after consolidating the information received, the evolution of net losses by Basel risk category in the last three years is set out in the chart below:

Distribution of net losses by operational risk category[40]

% of total



The evolution of losses by category shows a reduction in relative terms of external fraud and execution, delivery and management of processes, thanks to the measures taken for their mitigation.

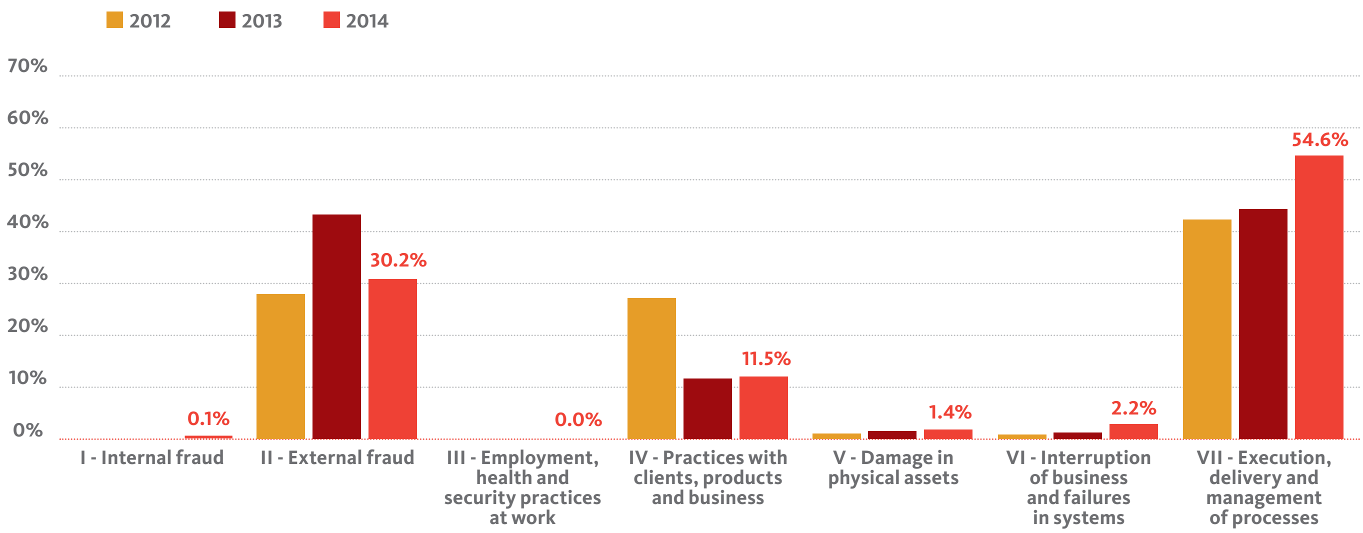
The category of practices with clients, products and business – which includes customer complaints on erroneous marketing, incomplete information and inexact products – increased in relation to the rest of categories. However, despite the increase in the relative share of this category, the net losses were lower than in 2013. Of note among the main elements was the increase in judicial cases in Brazil, as well as compensation for clients in the UK (payment protection insurance). In the latter case, the complaints presented to the Group relate to a general problem in the UK banking sector, and the volume of complaints against the bank is considered proportionate to its market share. Although these events were sufficiently provisioned in 2011 by the Group, the settlements for these clients was maintained in 2014, in accordance with the planning by the unit.

In addition and, as a result of a judicial ruling that means a change in the interpretation of legislation, Santander Consumer Germany began to return to its clients management commissions linked to consumer credits. This event affected all the German banking sector.

40. In accordance with local practice, employee compensation in Brazil is managed as part of the personnel cost without detriment to its treatment according to the categorisation applicable in the Basel operational risk framework, as a result of which it is not included.

The chart below sets out the evolution of the number of operational risk events by Basel category over the last three years:

Distribution of number of events by operational risk category[41]
% of total

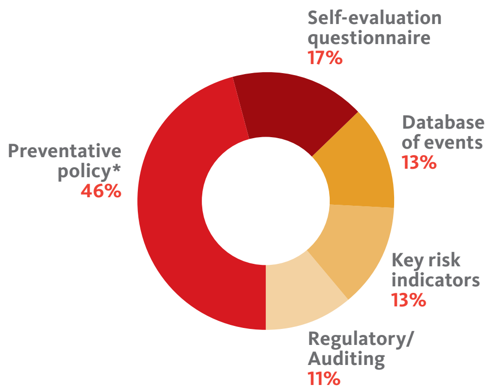


9.4. Mitigation measures

The Group has a stock of mitigation measures (500 active ones), established in response to the main risk sources, which have been identified by analysing the tools used to manage operational risk, as well as the organisational and development model and by implementing preventative policies and procedures for managing and controlling technology and operational risk.

The percentage of measures on the basis of the source and management tool, which identified the risk necessary to mitigate, was as follows:

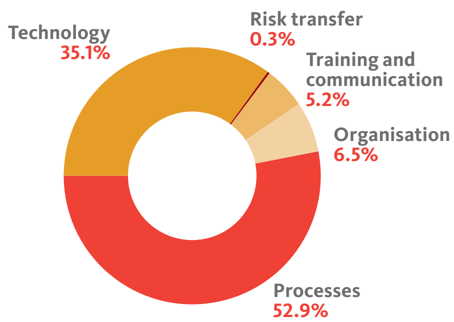
2014 mitigation – sources of origin
%



*The preventative policy concept includes measures from the corporate and local committees, the business continuation plan, training for employees and continuous improvement in the controls established.

These measures are turned into action plans which are then distributed in the following spheres:

2014 mitigation – type of measure
%



The main mitigation measures centred on improving the security of customers in their usual operations, as well as continued improvements in processes and technology and in management for a sale of products and providing adequate services.

Regarding the reduction of fraud, the main specific measures were:

- Electronic fraud:
  - Updating the corporate anti-fraud reference model in order to incorporate specific protection measures to mitigate the new patterns of fraud, as well as strengthen the measures already implemented.

41. In accordance with local practice, employee compensation in Brazil is managed as part of the personnel cost without detriment to its treatment according to the categorisation applicable in the Basel operational risk framework, as a result of which it is not included.

- Deploy protection measures in the new channels/applications, such as the robust authentication mechanism in mobile banking, so that operations via these devices have a level of security analogous to that of online banking.

- Fraud in the use of cards:

  - Continue to use chip cards (standard EMV), in line with the schedule established by the means of payment industry for each country, and issuing new cards based on encrypted algorithms that offer better protection against the current cloning techniques.

  - Application of more robust protocols to validate cards when used for purchases in shops.

  - As regards online shopping, we continued to install 3DSecure and mechanisms that enable authentication of transactions to be adapted according to a specific risk analysis.

  - Improved security in ATMs, including anti-skimming devices).

As regards measures relating to practices with clients, products and business, Grupo Santander establishes corporate policies for the marketing of products and services, as described in 10.4 Compliance and reputation risk management model.

Of particular note is the *Trabalhar Bem* (Work Well) project being developed in Brazil in order to provide a better service to the Bank's clients and, with it, reduce the volume of incidents and complaints. This project incorporates various lines of action to improve marketing and customer protection practices: influence in the design decisions of products and services, analysis and solution of the incident that is the root of clients' complaints, development of a single management and monitoring framework, and improvement in the protection networks in the points of contact.

Anti-cyber risk measures

The upward trend in the number and impact of incidents related to cyber security in 2014 was confirmed, affecting all types of companies and institutions including banks. This situation, which generates concern among entities and regulators, spurred preventative measures to be taken in order to be prepared for such attacks.

The Group developed an internal cyber security reference model, inspired in international standards (among others, the US NIST framework –National Institute of Standards and Technology). Implementing the cyber security strategy in the Group's units resulted in various initiatives and lines of action, such as:

- Assessment of the situation of each unit with regard to the reference internal model in order to identify improvement possibilities and prioritise points of action on cyber risks.

- Strengthen the technological solutions and services to detect and prevent cyber attacks and information leaks, as well as the registry, correlation and management of security events.

- Improve the security monitoring services (security operations centre) and widen the scope.

- Participation in cyber exercises promoted by the National Institute of Cybersecurity to assess companies' response to this type of incident.

- Cooperation with international forums in order to identify the best practices and share information on threats.

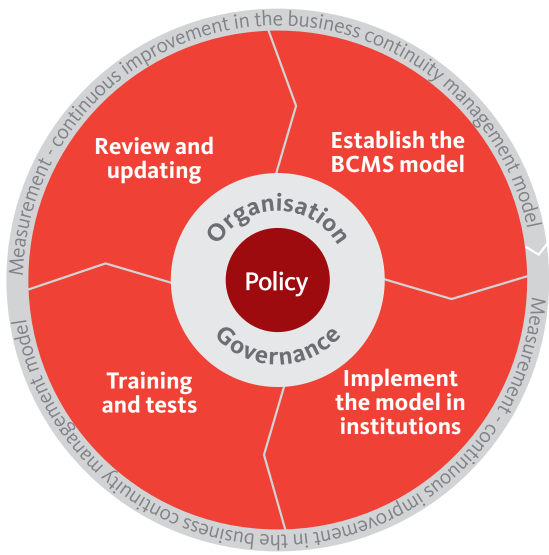
Measures also began to be taken to update the training programmes in this sphere for the Group's employees, which will lead to a new course in the e-learning platform in 2015. This course will give precise steps, as well as examples of the main patterns of cyber attacks and electronic fraud currently occurring.

In addition, observation and study of the events in the sector and in other industries, from an analytical standpoint, enables us to update and adapt our models to the emerging threats.

Lastly, we have prepared a global programme of insurance for cyber risk that covers the Group's units against such events.

9.5. Business continuity plan

The Group has a business continuity management system (BCMS), which ensures that the business processes of our institutions continue to operate in the event of a disaster or serious incident.



The basic objective is to:

- Minimise the possible damage from an interruption in normal business operations on people and financial and adverse business impacts for the Group.

- Reduce the operational effects of a disaster, supplying a series of predefined and flexible guides and procedures to be used to re-launch and recover processes.

- Renew business operations and associated support functions that are time sensitive, in order to achieve business continuity, stable profits and planned growth.

- Re-establish technology operations and support for business operations that are time sensitive, in the event of existing technologies not working.

- Protect the public image of and confidence in Grupo Santander.

- Meet the Group's obligations to its employees, customers, shareholders and other interested third parties.

The Group continued to advance during 2014 in implementing and continuously improving its business continuity management system, placing particular emphasis on strengthening controls for monitoring the continuity plans of suppliers who provide services regarded as essential for the Bank.

9.6. Other aspects of control and monitoring of operational risk

Analysis and monitoring of controls in market operations

Due to the specific nature and complexity of financial markets, the Group considers it necessary to strengthen continuously operational control procedures of this activity. In 2014, it continued to improve the control model of this business, attaching particular importance to the following points:

- Analyse the individual operations of each Treasury operator in order to detect possible anomalous behaviour.

- Implementation of a new tool that enables compliance with the new requirements in recording and control of listening in to operations.

- Strengthen controls on cancelling and modifying operations.

- Strengthen controls on the contributions of prices to market indexes.

- Develop extra controls to detect and prevent irregular operations.

- Develop extra controls on access to systems registering front office operations (for example, with the purpose of detecting shared users).

The business is also undergoing a global transformation that involves modernising the technology platforms and operational processes which incorporate a robust control model, enabling the operational risk associated with business to be reduced.

Corporate information

The function of operational risk control has an operational risk management information system that provides data on the Group's main elements of risk. The information available for each country/unit is the operational risk sphere is consolidated in such a way as to obtain a global vision with the following features:

- Two levels of information: corporate with consolidated information and the other individualized for each country/unit.

- Dissemination of the best practices between Grupo Santander's countries/units, obtained through a combined study of the results of qualitative and quantitative analysis of operational risk.

Information on the following aspects is drawn up:

- Grupo Santander's operational risk management model and in the Group's main units and countries.

- Perimeter of operational risk management.

- Monitoring of appetite metrics.

- Analysis of the internal database of incidents and relevant external incidents.

- Analysis of the main risks, detected via various sources of information, such as self-evaluation exercises of operational and technology risks.

- Assessment and analysis of risk indicators.

- Mitigating/active management measures

- Business continuity and contingency plans.

This information is the basis for complying with the reporting needs to the executive risk committee, senior management, regulators, rating agencies, etc.

Insurance in the management of operational risk

Grupo Santander regards insurance as a key element in management of operational risk. Common guidelines of co-ordination were established in 2014 among the various functions involved in the insurance management cycle which mitigate operational risk, mainly the areas of insurance itself and control of operational risk, but also the different areas of first line risk management.

These guidelines incorporate the following activities:

- Identification of all those risks in the Group which can be the object of insurance coverage, including identification of new coverages of insurance on risks already identified in the market.

- Establishment and implementation of criteria to quantify the risk to be insured, backed by analysis of losses and scenarios of losses that enable the Group's level of exposure to each risk to be determined.

- Analysis of coverage available in the insurance market, as well as preliminary design of the conditions that best adjust to previously identified and assessed needs.
- Technical assessment of the protection level provided by the policy, costs and levels of retention that the Group will assume (franchises and other elements at the responsibility of the insured) in order to decide on their contracting.
- Negotiating with suppliers and awarding of contracts in accordance with the procedures established by the Group.
- Monitoring of incidents declared in the policies, as well as of those not declared or not recovered by an incorrect declaration.
- Analysis of the adequacy of the Group's policies to risks covered, taking the opportune corrective measures for the shortcomings detected.
- Close cooperation between local operational risk executives and local coordinators of insurance to strengthen mitigation of operational risk.
- Regular meetings on specific activities, states of situation and projects in both areas.
- Active participation of both areas in the unit for global sourcing of insurance, the Group's maximum technical body for defining coverage strategies and contracting insurance.

10. Compliance, conduct and reputational risk

10.1. Definitions and objective

The compliance risk is the risk of receiving economic or other sanctions, or other types of disciplinary measures imposed by supervisory bodies for not complying with laws, regulations, rules, standards of self-regulation or codes of conduct applicable to the activity developed.

Conduct risk is that caused by inadequate practices in the Bank's relations with its clients, the treatment and products offered to clients and the suitability and appropiateness of them to each specific client.

Reputational risk is the risk of damage in the perception of the Bank by public opinion, its clients, investors or any other interested party.

The Group's objective in the sphere of managing compliance and conduct risks is: (i) to minimise the probability that irregularities occur; and (ii) that the irregularities that could eventually occur are identified, reported and those that could eventually occur are identified, reported and quickly resolved. As for reputational risk, bearing in mind the diversity of sources from which it can arise, the objective of management is to identify them and ensure that they are duly tended to so that their probability is reduced and the eventual impact is mitigated.

10.2. Corporate governance and the organisational model

In the exercise of its general function of supervision, the Bank's board is responsible for approving the general policy of risks. In the sphere of compliance, conduct and reputational risk, the board is holder of the Group's General Code of Conduct, the global policy for the prevention of money laundering and the financing of terrorism and the marketing policy for products and services.

Reporting on the compliance function to the board will de done as follows: (i) in a permanent way and directly via an executive vice-chairman of the board who supervises Grupo Santander's compliance function; and (ii) via the report presented monthly to the risk supervision, regulation and compliance committee. This committee supports and advises the board regarding the Group's relationship with the supervisors and regulators of the countries in which the Group operates, as well as on the supervision of the codes and rules of an internal nature.

At its meeting on January 16, 2015, the board agreed to appoint an executive vice-chairman of the board to whom the compliance function reports, in accordance with the regulatory recommendations on corporate governance.

In addition and in order to strengthen the importance of the compliance function, the executive committee, at its meeting on February 2, 2015, agreed to appoint an executive vice-president as chief compliance officer.

As collegiate bodies with basic powers in this sphere, there are the corporate committees of regulatory compliance, analysis and resolution and marketing (the latter two, specialised in their respective spheres: anti-money laundering and marketing of products and services), with a global reach (all countries/all businesses) and replicated at the local level.

The risk division supervises the control framework applied in the compliance sphere, from both the area of comprehensive control and internal validation of risks, in the exercise of its functions of supporting the executive risk committee, as well as from the non-financial risk control area created in 2013.

The organisational model revolves around the corporate area of compliance and reputational risk, which is responsible for managing the Group's compliance, conduct and reputational risks. Within the area is the corporate office of risk management of regulatory compliance, the corporate office of conduct risk management and the corporate unit of financial intelligence (CUFI), with anti-money laundering and terrorist financing powers. This structure is replicated in all local units and also in global businesses, having established the opportune functional reports for the corporate area.

10.3. Risk appetite model and exercise of regulatory risk assessment

The Group's risk appetite model applicable to compliance and conduct risks is characterised by the following three elements:

- It stems from a zero appetite declaration for the sphere of compliance and conduct risk.
- The Group's objective is to minimise compliance and conduct risk incidents. Systematic monitoring is carried out via the compliance and conduct risk indicator resulting from assessment matrices prepared for each country.
- Quarterly monitoring of the risk level is conducted country by country.

The assessment matrix is fed with data from the communications received every month from the various supervisors. Each one of these communications is assigned a score on the basis of the risk they represent as regards: (i) costs from fines; (ii) costs of reorganising processes; and (iii) the impact on the brand and reputational risk. These assessments are supplemented by ratings of internal audit in the compliance sphere. Each local unit is assigned a weighting depending on its attributable profit and volume of assets, with which a complete score for the Group is obtained.

The corporate area of compliance assessed regulatory risk (risk assessment) in 2014, focusing on the Group's main countries. This exercise, which stems from identifying regulatory obligations that affect the Group's units, was based on the risk assessment of each obligation, conducted in two phases: the first, of the so called inherent risk, which comes from the very activity of business, and the second, residual risk, once the impact of controls is taken into account.

This regulatory risk assessment exercise will complement the risk appetite model, contributing new metrics.

10.4. Risk management model

The main responsibility of compliance and reputational risk management is shared between the function of compliance and reputational risk and the different business and support units that conduct the activities that give rise to risk. The responsibility for developing corporate policies throughout the Group, establishing controls and monitoring and verifying their application, as well as reporting incidents, lies with the compliance function and reputational risk, which is also responsible for advising senior management in this sphere and for fostering a compliance culture, all of this in the framework of an annual programme whose effectiveness is regularly assessed.

The function directly manages the basic components of these risks (money-laundering, codes of conduct, marketing of products, etc) and ensures that the rest is duly tended to by the corresponding unit of the Group (responsible financing, data protection, customers' complaints, etc), having established the opportune control and verification systems.

The correct execution of the risk management model is supervised by the comprehensive control and internal validation of risk area. At the same time, within its functions, internal audit carries out the tests and reviews required to ensure that the rules and procedures established in the Group are being fulfilled.

The general code of conduct is the central element of the Group's compliance programme. This code, which enshrines the ethical principles and rules of conduct that must govern the actions of all Grupo Santander's employees, is complemented in certain matters by the rules that are in codes and sector manuals[42].

The code also establishes: i) the functions and responsibilities in matters of compliance of the governance organs and of the Group's management areas affected; ii) the rules that regulate the consequences of non-compliance; and iii) a whistle blowing channel for formulating and handling communications for presumably illicit activity.

42. The following form part of the codes and manuals of sectors: the Manual for Anti-Money Laundering and Terrorist Financing, the Code of Conduct in Securities Market, the Manual of Procedures for the Sale of Financial Products, the Code of Conduct for Analysis Activity, the Research Policy Manual, the Manual of Conduct in the Use of Information and Communication Technologies (ICT), the Manual of Conduct in the Management of Real Estate, the Manual of Conduct in Suppliers Relationship, etc, as well as the notes and circulars that develop specific points of these codes and manuals, particularly the corporate circular on the corporate programme to prevent corruption.

The corporate office of regulatory compliance, under the supervision of the committee of risk supervision, regulations and compliance and of the committee of regulatory compliance, is responsible for the effective implementation and monitoring of the general code of conduct.

The committee of regulatory compliance has powers in all matters inherent in the compliance function, without detriment to those assigned to the two specialised bodies in the area (corporate committee of marketing as regards the commercialisation of products and services and the committee of analysis and resolution in the sphere of anti-money laundering and terrorist financing). It is made up of representatives of the general secretariat, risks, human resources, organisation and costs, technology and operations, internal audit, financial management and public policy.

The committee held four meetings in 2014.

The Group's compliance management has the following functions as regards management of compliance, conduct and reputational risks:

1. Implement the Group's general code of conduct and other codes and sector manuals.

2. Supervise the training activity of the compliance programme conducted by the human resources area.

3. Direct investigations into the possible committing of acts of non-compliance, being able to request help from internal audit and propose to the irregularities' committee the sanctions that might be applicable in each case.

4. Cooperate with internal audit in the regular reviews of compliance with the general code and with the codes and sector manuals, without detriment to the regular reviews which, on matters of regulatory compliance, are conducted by compliance management directly.

5. Receive and handle the accusations made by employees or third parties via the whistle blowing channel.

6. Advise on resolving doubts that arise from implementing codes and manuals.

7. Draw up an annual report on implementing the compliance programme to be submitted to the committee of supervision of risks, regulations and compliance.

8. Regularly inform the general secretary, the committee of supervision of risks, regulations and compliance and the board on the implementation of the compliance policy and compliance programme.

9. Assess every year the changes that need to be introduced into the compliance programme, particularly in the event of detecting unregulated business areas and procedures susceptible to improvement, and propose the changes to the committee of supervision of risks, regulations and compliance.

As regards the codes and manuals of the sectors, the focus of the compliance programme is on the following operational spheres, among others:

- Anti-money laundering and terrorist financing.
- Marketing of products and services.
- Conduct in the securities markets.
- Corporate defence.
- Relationships with regulators and supervisors.
- Drawing up and disseminating the Group's institutional information.

Anti-money laundering and terrorist financing

Policies

As a socially responsible institution, it is a strategic objective for Grupo Santander to have an advanced and efficient anti-money laundering and terrorist financing system, constantly adapted to the latest international regulations and with the capacity to confront the appearance of new techniques of criminal organisations.

The function of anti-money laundering and terrorist financing revolves around policies that set minimum standards that Grupo Santander's units must observe. It is formulated in accordance with the principles contained in the 40 recommendations of the Financial Action Task Force (FATF) and the obligations in Directive 2005/60/EC of the European Parliament and of the Council of 26 October, 2005, on anti-money laundering and terrorist financing.

The corporate policy and rules that develop it have to be fulfilled by all the Group's units in the world. By units we mean all those banks, subsidiaries, departments or branches of Banco Santander, both in Spain and abroad, which, in accordance with their legal statute, must submit to the regulations on anti-money laundering and terrorist financing.

Governance and organization

The organisation of the function of anti-money laundering and terrorist financing. (AML/TF) in Grupo Santander rests on the following figures: (i) The board, (ii) The analysis and resolution committee (ARC), (iii) The corporate unit of financial intelligence (CUFI), (iv) Local ARCs, (v) AML/TF local units and (vi) the AML executives at various levels.

The board approves the internal governance framework for anti-money laundering and terrorist financing.

Grupo Santander's CAR is a collegiate body of corporate scope. It comprises representatives from the divisions of risk, internal audit, retail banking, global wholesale banking, human resources, organisation and costs, technology and operations, financial accounting and control, consumer finance and the general secretariat, which defines the general policies and objectives and formulate the rules of the Group's various bodies and entities in the sphere of AML and coordination.

Due to the separation of the local sphere of Spain from the corporate level, a local ARC for Spain was created in 2014 (previously integrated into the corporate ARC) and totally differentiated from the corporate ARC, which assumes the functions of an internal organ of AML/TF control with powers at the local level.

The corporate unit of financial intelligence (CUFI) manages, supervises and coordinates the systems for the prevention of money laundering and financing of terrorism of Grupo Santander's subsidiaries, branches and business areas, requiring the adoption of programmes, measures and necessary improvements.

The local ARCs are internal control organs designed for the prevention of money laundering and financing of terrorism with powers at the local level and comprise representatives of the most directly involved departments.

The local UPBCs are technical units responsible for managing and coordinating the systems and procedures for anti-money laundering and terrorist financing in the countries where the Group operates, as well as the investigation and treatment of communications of suspicious operations and of the information requirements of the corresponding authorities.

There are also executives for the prevention of money laundering and the financing of terrorism at four different levels: area, unit, branch and account. In each case their mission is to support the CUFI and the local UPBCs from a position of proximity to clients and operations.

At the consolidated level, a total of 954 people (83% of them full time) work in prevention activities and tend to 149 units in 35 countries.

Grupo Santander has established in all its units and business areas corporate systems based on decentralised IT applications. These enable operations and customers who, because of their risk, need to be analysed to be presented to the branches of the account or customer relationship managers. These tools are complemented by others of centralised use which are operated by teams of analysts from AML/TF units who, on the basis of certain risk profiles and changes in certain patterns of customer behaviour, enable operations susceptible of being linked to money laundering and/or the financing of terrorism to be analysed, identified early on and monitored.

Banco Santander is a founder member of the Wolfsberg Group, and forms part of it along with 10 other large international banks. The Group's objective is to establish international standards that increase the effectiveness of programmes to combat money laundering and the financing of terrorism in the financial community. Various initiatives have been developed which have treated issues such the prevention of money laundering in private banking, correspondent banking and the financing of terrorism, among others. Regulatory authorities and experts in this area believe that the principles and guidelines set by the Wolfsberg Group represent an important step in the fight against money laundering, corruption, terrorism and other serious crimes.

Main actions

The Group analysed a total of 22.9 million operations in 2014 (27.6 million in 2013) both by the commercial networks as well as by money laundering prevention teams, of which more than one million were by the units in Spain.

The CUFI and the local AML/TF departments conduct annual reviews of all the Group's units in the world.

In 2014, 123 units were reviewed (146 in 2013), 11 of them in Spain and the rest abroad, and reports were issued in all cases stating the measures to be taken (recommendations) to improve and strengthen systems. In 2014, 229 measures to be adopted were established (201 in 2013), which are being monitored until their full and effective implementation.

Training courses were given in 2014 for the prevention of money-laundering to a total of 129,233 employees (108,592 in 2013).

Lastly, many units are submitted to regular reviews by external auditors.

Main indicators of activity

2014	Subsidiaries reviewed *	Cases investigated	Communications to authorities	Employees trained
TOTAL	**123**	**79,978**	**23,844**	**129,233**

* Subsidiaries supervised by the financial intelligence corporate unit and local money laundering prevention units.

Marketing of products and services

Policies

At Grupo Santander management of the risk that could arise from an inadequate sale of products or from an incorrect provision of services by the Group is conducted in accordance with the corporate policies of marketing of products and services.

The corporate framework aims to establish a homogeneous system to market Grupo Santander's products and services, in order to minimise the Group's exposure to risks stemming from marketing, covering all its phases (admission, pre-sale, sale and monitoring).

In order to adapt the framework to Banco Santander and the Group's subsidiaries, these adopt the framework at their corresponding board meetings, adhere to it and make the necessary changes to ensure compliance with the local regulatory requirements.

Governance and organisation
The organisational structure in the risk management sphere that could arise from an inadequate marketing of products or services is based, at both the corporate and local levels, on marketing committees, monitoring committees and conduct risk management offices.

The corporate committee of marketing (CCM) is the maximum decision-making body for approving products and services. It comprises representatives from the divisions of risks, financial management technology and operations, general secretariat, financial accounting and control, internal audit, retail banking and global wholesale banking.

The CCM attaches particular importance to adjusting products and services to the framework where they are going to be marketed, paying special attention to ensuring that:

- Each product or service is sold by suitable staff.
- Customers are provided with the necessary and adequate information.
- The product or service fits the customer's risk profile.
- Each product of service is assigned to the right market, not only for legal or tax reasons, but also to meet the market's financial culture of them.
- The products and services fulfil the requirements of the corporate marketing policies and, in general, the applicable internal and external rules.

At the local level, local marketing committees (LCM) approve new products and channel to the LCM proposals for their validation.

The marketing committees, in the respective approval processes, take a risk-focused approach from the double perspective of bank/client.

The corporate monitoring committee (CMC) is the Group's decision-making body for monitoring products and services. It comprises representatives from the divisions of internal audit, general secretariat, risks and the business areas affected (with permanent representation of commercial banking). It meets every week to raise and resolve specific issues related to the marketing of products and services in all the Group's units.

The corporate office of conduct risk management (COCRM) provides the governance bodies with the information needed for: (i) adequate analysis of risk when validating the product, from a double focus: impact on the Bank and on the client; and (ii) monitoring of products throughout their life cycle.

At the local level there are reputational risk management offices, which are responsible for promoting the risk culture and ensuring that approval and monitoring of products is developed in their respective local sphere in line with the corporate framework.

Main actions
The CCM met 12 times in 2014 (12 in 2013 and 14 in 2012) and analysed 103 new products/services. Moreover, 31 products/services were presented to the corporate office of reputational risk, considered not new for approval and resolved 135 consultations from several areas and countries.

Monitoring of products and services approved is done locally (local committee of monitoring of products or equivalent local body, such as the LCM). The conclusions are set out in reports every four months for the COCRM.

The CMC held 41 meetings in 2014 (41 in 2013 and 44 in 2012) at which incidents were resolved and information analysed on the monitoring of products and services of the Group's units abroad.

Code of Conduct in Securities Markets (CCSM)

Policy
This is set by the code of conduct in securities markets (CCSM), complemented, among others, by the code of conduct for analysis activity, the research policy manual and the procedure for detecting, analysing and communicating operations suspected of market abuse.

Governance and organisation
The organisation revolves around the corporate office of compliance together with local compliance management and that of subsidiaries.

The functions of compliance management with regard to the code of conduct in securities markets are as follows:

1. Register and control sensitive information known and/or generated by the Group.
2. Maintain the lists of securities affected and related personnel, and watch the transactions conducted with these securities.
3. Monitor transactions with restricted securities according to the type of activity, portfolios or collectives to whom the restriction is applicable.
4. Receive and deal with communications and requests to carry out own account trading.
5. Control own account trading of the relevant personnel.
6. Manage failures to comply of the CCSM.
7. Resolve doubts on the CCSM.
8. Register and resolve conflicts of interest and situations that could give rise to them.
9. Assess and manage conflicts arising from the analysis activity.
10. Keep the necessary records to control compliance with the obligations envisaged in the CCSM.
11. Develop ordinary contact with the regulators.

12. Organise the training and, in general, conduct the actions needed to apply the code.

13. Analyse activities suspicious of constituting market abuse and, where appropriate, report them to the supervisory authorities.

Main actions

The compliance corporate office, together with local compliance executives and of the subsidiaries, ensure that the obligations contained in the CCSM are observed by around 12,000 Group employees throughout the world.

The market abuse investigation unit continued to review many transactions that gave rise to opportune communications to the National Securities Market Commission. Moreover, a new unit of market compliance was created in 2014, focusing on controlling operations in the capital markets.

Corporate defence

The Group's compliance management is also responsible for managing the corporate defence management model, created after the entry into force of Organic Law 5/2010, which introduced the penal responsibility of companies for crimes committed on account of and for the benefit of them by administrators or representatives and by employees as a result of the lack of control.

The system of managing risks for the prevention of penal crimes, a key element of which is the whistle blowing channel, obtained the AENOR certification in 2014.

The Group has established 26 such channels, and in 2014 received denunciations in six of them (Germany, Brazil, US, UK, Poland and Spain).

In 2014, more than 400 denunciations were received by any channel. They were handled in accordance with the Group's internal procedures. The most common reasons for the denunciations were failure to comply with the internal rules for employees, either because of inadequate behaviour or for not observing the Group's policies or procedures.

Relationships with the supervisory authorities and dissemination of information to the markets

Compliance management is responsible for tending to the information requirements of the regulatory and supervisory bodies, both those in Spain as well as in other countries where the Group operates, monitoring implementation of the measures resulting from the reports or inspections of these bodies and supervising the way in which the Group disseminates institutional information in the markets transparently and in accordance with the regulators' requirements. The committee of supervision of risks, regulations and compliance (before its creation in June 2014 the audit committee) is informed of the main issues at each of its meetings.

Banco Santander made public 90 relevant facts in 2014, which are available on the Group's web site and that of the National Securities Market Commission (CNMV).

Other actions

Compliance management continued to carry out other activities in 2014 inherent to its sphere (reviewing the bank's internal rules before their publication, ensuring treasury stock operations are in line with internal and external rules, maintaining the section on regulatory information on the corporate website, reviewing the vote recommendation reports for shareholders' meetings drawn up by the leading consultancies in this area, sending periodic regulatory information to the supervisory bodies, etc). It also co-operated in new corporate projects such as the Group's adjustment to the US Volker Rule, the listing of the Santander share on the stock markets of Sao Paulo (via BDRs) and Warsaw and implementing corporate data protection models and prevention of penal risks, among others.

The losses incurred by the Group from compliance, conduct and reputational risks are included in the data base of events which the Group's corporate area of operational risk (CAOR) manages.

11. Model risk

The use of risk management models entails the appearance of model risk, understood as the losses that come from decisions mainly founded on the results of models, due to errors in the definition, application or use of the models.

The risk is manifested in both operational risk (that associated with errors in the data, in the construction, implementation and use), as well as implicitly in the risk associated with the activity it is supporting (be it credit, market or another risk, due to data, construction or inadequate use of the model).

Extending the use of the models to a wide series of activities makes it necessary to establish a series of actions and controls throughout the life cycle of these models in order to know and minimise the risks associated.

Model risk management is structured around three lines of defence that are specified in the following way:

- First line of defence, consisting of owners and developers as well as generators of exposure to this risk.
- Second line of defence, made up of teams specialised in controlling and supervising risks and charged with complementing the control functions of the first line of defence, questioning whether its approaches are opportune and issuing an opinion on this.
- Third line of defence, constituted by Internal audit.

The model risk can be mitigated through an environment of control and management, i.e. a series of controls on the model's life cycle. The cycle covers the very definition of the standards to be used in its development through to regular monitoring and its final completion.

Of particular importance is the **planning phase**, where the priorities of development and management of the models are determined. By drawing up the plans, the needs to be covered are identified and the materiality of the risk involved assessed.

Extracting and validating the information as well as the very **development** of the model are also two fundamental phases. In the case of the development, points of control must be established that enable aspects such as verifying whether the data used is adequate, that the objectives are in accord with what is requested, that the construction has been done following the established lines and that the implementation is viable before the model is put into operation, which will take place once formally approved.

A process of **validation** conducted by a function independent of the developer of the model must exist in order to control the risk associated with the development of models. The scope of the validation will depend on the type of the model, the materiality and the type of development applied.

Lastly, all developments of a new model or changes to the one already existing, or a new use of a model must be reviewed and approved, in accordance with its materiality, by the government established. This process represents the recognition by those involved that they know and are aware of all the risks associated with use of the model, as well as the different assumptions made in its construction and the limitations existing, according to the model's envisaged uses.

Once installed, the models will be supervised regularly to ensure they are used for the purposes for which they were approved and continue to function as expected.

12. Capital management and capital risk control

The Group manages capital in a comprehensive way, seeking to guarantee its solvency and maximise profitability and determined by the strategic objectives and the risk appetite set by the board. A series of practices are defined that shape the focus that the Group wants to give to management of capital:

- Establish adequate planning of capital that enables current needs to be covered and provides the necessary equity to cover the needs of business plans and the short and medium term risks, while maintaining the risk profile approved by the board.
- Ensure that under stress scenarios the Group and its companies maintain sufficient capital to cover the needs arising from the increase in risks resulting from the deterioration of macroeconomic conditions.
- Optimise the use of capital by adequately assigning it among the businesses, based on the relative return on regulatory and economic capital, taking into account the risk appetite, its growth and the strategic objectives.

Santander defines capital risk as the risk that the Group or its companies have an insufficient amount and/or quality of capital to tend to the expectations of its stakeholders, and in accordance with its strategic planning. Of note are the following objectives:

- Comply with the internal objectives for capital and solvency.
- Meet the regulatory requirements.
- Align the Bank's strategic plan with the capital expectations of external agents (rating agencies, shareholders and investors, customers, supervisors, etc).
- Support business growth and the strategic possibilities that arise.

Solvency position

Grupo Santander maintains a very solid solvency position, significantly above the minimum levels required by regulations. In 2014, the Group strengthened its main capital ratios in response to the difficult economic and financial environment and the new regulatory requirements.

The stress tests conducted by the ECB on Europe's financial industry underscored the quality of Banco Santander's portfolios, the correct valuation of its assets and adequate provisions, as well as the strength of its business model for adverse macroeconomic scenarios. For more detail see item 1 of this chapter.

The Bank completed on January 9, 2015 its EUR 7,500 million capital increase. As a result, it meets the main objective of being able to sustain the organic growth of business, increasing loans and market share in its main markets, accompanying its clients in a new stage of economic growth.

After the capital increase, the Common Equity Tier 1 (CET1 fully loaded) ratio, which represents coverage of risks with the maximum quality capital, increased to 9.7% from 8.3%, in line with Santander's peers. Furthermore, if we take into account the Group's business model, characterised by its high geographic diversification, recurrent results and resilience to adverse environments, as manifested in the recent European stress exercise, the Group's capital standards are among the best in the sector.

The Group's objective is to increase the CET1 fully loaded ratio even more to around 10%-11% in 2017.

The table below shows risk-weighted assets (RWAs) in the main geographic areas and type of risk.

Million euros

Grupo Santander
Total RWAs: 585,829

Continental Europe Total: 241,186	UK Total: 102,379	Latin America Total: 170,825	US Total: 71,203	Rest Total: 236
Credit: 83%	Credit: 83%	Credit: 78%	Credit: 87%	Credit: 100%
Operational: 9%	Operational: 9%	Operational: 18%	Operational: 12%	Operational: 0%
Market: 8%	Market: 8%	Market: 4%	Market: 1%	Market: 0%

As regards credit risk, Grupo Santander continued its plan to implement Basel's advanced internal rating-based (AIRB) approach for almost all the Group's banks (up to covering more than 90% of net exposure of the credit portfolio under these models). Meeting this objective in the short term will also be conditioned by the acquisition of new entities, as well as by the need for coordination between supervisors of the validation processes of internal models.

The Group operates in countries where the legal framework among supervisors is the same, as is the case in Europe via the Capital Directive. However, in other jurisdictions, the same process is subject to the cooperation framework between the supervisor in the home country and that in the host country with different legislations. This means, in practice, adapting to different criteria and calendars in order to attain authorisation for the use of advanced models on a consolidated basis.

With this objective in mind, Santander continued during 2014 to gradually install the necessary technology platforms and methodological developments that will make it possible to progressively apply advanced internal models for calculating regulatory capital in the rest of the Group's units.

At the moment, Grupo Santander has the supervisory authorisation to use advanced focuses for calculating the regulatory capital requirements by credit risk for the parent bank and the main subsidiaries in Spain, UK, Portugal, and certain portfolios in Mexico, Brazil, Chile, Santander Consumer Finance Spain and the US. The strategy of implementing Basel in the Group is focused on achieving use of advanced models in the main institutions in the Americas and Europe. The calculation of minimum regulatory capital requirements during 2014 of the following portfolios, with a total EAD of around EUR 25,000 million, moved from standard focus to advanced IRB focus: consumer credit portfolios of SC Germany; companies and cards of SC Spain; state governments and promoters of Santander Mexico.

In operational risk, Grupo Santander uses the standard focus for calculating regulatory capital. The Group's project to evolve toward a focus of advanced management models (AMA) is in an advanced phase, gathering sufficient information on the basis of its own management model.

As regards the rest of risks explicitly envisaged in Pillar 1 of Basel, in market risk we have authorisation to use its internal model for the trading activity of treasuries in Spain, Chile, Portugal and Mexico, thereby continuing the plan of gradual implementation for the rest of units presented to the Bank of Spain.

Leverage ratio requirements

The new CRD IV introduces a new leverage ratio that is not sensitive to the risk profile of entities. It is calculated as the ratio between Tier 1 divided by the exposure.

This exposure is calculated as the sum of total assets plus off-balance sheet items (guarantees, unused credit limits granted, documentary credits, mainly). Some technical corrections are made on this sum, such as replacing the value in the asset of derivatives and financing operations of securities by the EaD considered for calculating risk-weighted assets and eliminating the value of assets considered as deductions in Tier 1. In addition, the regulators have incorporated some reduction in the value for off-balance operations related to commerce.

At the moment this ratio does not have to be fulfilled. It must be published as of 2015. The supervisors have made public the intention to make it obligatory to meet a minimum ratio as of 2018, indicating 3% as the minimum reference.

At the end of 2014, the leverage ratio phase-in was 4.5% and the fully-loaded ratio 3.7%. Including the January 2015 capital increase and reflecting the change in the EU Regulation 575/2013 published in January 17, 2015, the ratio would increase by close to one percentage point.

More information on this ratio can be found in the 2014 prudential relevance report (Pillar III).

12.1. New regulatory framework

The regulations known as Basel III came into force in 2014, setting new global standards for banks' capital and liquidity.

From the standpoint of capital, Basel III redefines what is considered as available capital in financial institutions (including new deductions and raising the requirements of eligible capital instruments), increases the minimum capital required, demands that institutions operate permanently with capital buffers and adds new requirements in the risks considered.

Grupo Santander shares the ultimate objective that the regulator pursues with this new framework, which is to make the international financial system more stable and solid. In this sense, for years we have participated in the studies promoted by the Basel Committee and the European Banking Authority (EBA), and coordinated at the local level by the Bank of Spain to calibrate the new regulations.

In Europe, the new regulations have been implemented via EU directive 2013/36, known as CRD IV, and its regulations 575/2013 (CRR), which is directly, applied in all EU countries (single rule book). In addition, these rules are subject to legal developments entrusted to the EBA, some of which will be produced in the coming months/years.

This regulation entered into force on January 1, 2014, with many of the rules subject to different schedules of implementation. This phase of implementation mainly affected the definition of funds that are eligible as capital and will be completed at the end of 2017, except for the deduction of deferred tax credits (DTAs) whose schedule lasts until 2023.

Subsequent to the European legal transposition, the Basel Committee continued to publish additional regulations, some of them as public consultation, which will entail a future modification of the CRD IV directive and of its regulations. Grupo Santander will continue to support regulators, with its opinions and participation in impact studies.

12.2. Economic capital

Economic capital is the capital needed, in accordance with an internally developed model, to support all the risks of business with a certain level of solvency. In the case of Santander, the solvency level is determined by the long term rating objective of AA-/A+, which means a confidence level of 99.95% (above the regulatory 99.90%) to calculate the necessary capital.

Complementing the regulatory focus, Santander's economic capital model includes in its measurement all the significant risks incurred by the Group in its operations (risk of concentration, structural interest, business, pensions and others beyond the sphere of Pillar 1 regulatory capital). Moreover, economic capital incorporates the diversification impact, which in the case of Grupo Santander is vital, because of its multinational nature and many businesses, in order to determine the global risk profile and solvency.

Economic capital is a key tool for the internal management and development of the Group's strategy, both from the standpoint of assessing solvency, as well as risk management of portfolios and businesses.

From the solvency standpoint, the Group uses, in the context of Basel Pillar II, its economic model for the capital self-assessment process (ICAAP). For this, the business evolution and capital needs are planned under a central scenario and alternative stress scenarios. The Group is assured in this planning of maintaining its solvency objectives even in adverse scenarios.

The economic capital metrics also enable risk-return objectives to be assessed, setting the prices of operations on the basis of risk, evaluating the economic viability of projects, units and lines of business, with the overriding objective of maximising the generation of shareholder value.

As a homogeneous measurement of risk, economic capital can be used to explain the risk distribution throughout the Group, putting in a metric comparable activities and different types of risk.

The economic capital requirement at the end of 2014 was EUR 66,457 million, EUR 21,524 million above the EUR 87,980 million available economic capital.

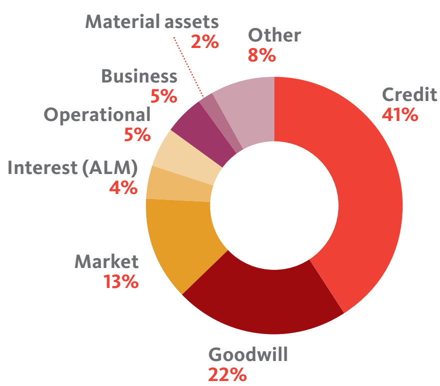
The table below sets out the available economic capital:

Million euros	
Net capital and issue premium	44,851
Reserves	46,227
Retained earnings and valuation adjustments	(9,980)
Minority interests	6,663
Net capital gains of the AFS* portfolio	1,983
Pension deduction	(2,175)
Available economic capital	**87,569**

* Available for sale.

The main difference with the regulatory CET1 comes from the treatment of goodwill and other intangibles, which we consider as one more requirement of capital instead of as a deduction from the available capital.

The distribution of economic capital needs by type of risk at the end of 2014 is shown in the folllowing chart:



The table below sets out Grupo Santander's distribution by types of risk and geographic area at the end of 2014:

Thousand euros

Grupo Santander
Total requirements: 66,785

Continental Europe	United Kingdom	Latin America	United States	Corporate centre
Total risks: 16,898	**Total risks: 7,645**	**Total risks: 13,498**	**Total risks: 6,059**	**Total risks: 22,685**
Credit: 64%	Credit: 60%	Credit: 61%	Credit: 61%	Goodwill: 65%
Operational: 8%	Structural (pensions): 18%	Structural (interest): 9%	Operational: 9%	Estructural (FX): 15%
Market: 10%	Structural (interest): 4%	Operational: 6%	Market: 5%	Structural (interest): 3%
Other: 18%	Operational: 9%	Market: 4%	Structural (interest): 5%	Market: 12%
	Other: 9%	Other: 20%	Other: 20%	Other: 5%

The distribution of economic capital among the main business areas reflects the diversified nature of the Group's business and risk. Continental Europe represents 25% of the capital, Latin America including Brazil 20%, the UK 11% and the US 9%.

Outside the operating areas, the corporate centre assumes, principally, the risk from goodwill and the risk derived from the exposure to structural exchange rate risk (risk derived from maintaining stakes in subsidiaries abroad denominated in currencies other than the euro).

The benefit of diversification contemplated in the economic capital model, including both the intra-risk diversification (equivalent to geographic) as well as inter-risks amounted to approximately 30%.

Return on risk adjusted capital (RORAC) and creation of value

Grupo Santander has been using RORAC methodology in its credit risk management since 1993 in order to:

- Calculate the consumption of economic capital and the return on it of the Group's business units, as well as segments, portfolios and customers, in order to facilitate optimum assigning of economic capital.
- Budget the capital consumption and RORAC of the Group's business units.
- Analyse and set prices in the decision-taking process for operations (admission) and clients (monitoring).

RORAC methodology enables one to compare, on a like-for-like basis, the return on operations, customers, portfolios and businesses, identifying those that obtain a risk- adjusted return higher than the cost of the Group's capital, aligning risk and business management with the intention of maximising the creation of value, the ultimate aim of the Group's senior management.

The Group regularly assesses the level and evolution of value creation (VC) and the risk-adjusted return (RORAC) of its main business units. The VC is the profit generated above the cost of the economic capital (EC) employed, and is calculated as follows:

Value creation =profit – (average EC x cost of capital)

The profit used is obtained by making the necessary adjustments to the accounting profit so as to extract just the recurrent profit that each unit generates in the year of its activity.

The minimum return on capital that an operation must attain is determined by the cost of capital, which is the minimum required by shareholders. It is calculated objectively by adding to the free return of risk the premium that shareholders demand to invest in our Group. This premium depends essentially on the degree of volatility in the price of the Banco Santander share in relation to the market's performance. The cost of capital in 2014 applied to the Group's various units was 11.59%. As well as reviewing every year the cost of the Group's capital, in a parallel way and for the purposes of internal management, the cost of capital for each business unit is also estimated, taking into account the specific features of each market, under the philosophy of subsidiaries autonomous in capital and liquidity, in order to assess if each business is capable of generating value individually.

A positive return from an operation or portfolio means it is contributing to the Group's profits, but it is only creating shareholder value when that return exceeds the cost of capital.

The performance of the business units in 2014 in value creation varied. The Group's results, and thus the RORAC figures and value creation, are conditioned by the different evolution of the economic cycle in the Group's units.

The creation of value and the RORAC for the Group's main business areas are shown below:

Main segments	RORAC	Value creation
Continental Europe	13.6%	358
UK	20.4%	634
Latin America	29.7%	2,401
US	19.5%	412
Total business units	**20.4%**	**3,805**

12.3 Planning of capital and stress exercises

Stress exercises on capital have assumed particular importance as a dynamic evaluation tool of the risks and solvency of banks. A new model of evaluation, based on a forward-looking approach, is becoming a key element for analysing the solvency of banks.

It is a forward-looking assessment, based on macroeconomic as well as idiosyncratic scenarios of little probability but plausible. It is necessary to have for it robust planning models, capable of transferring the impact defined in projected scenarios to the different elements that influence a bank's solvency.

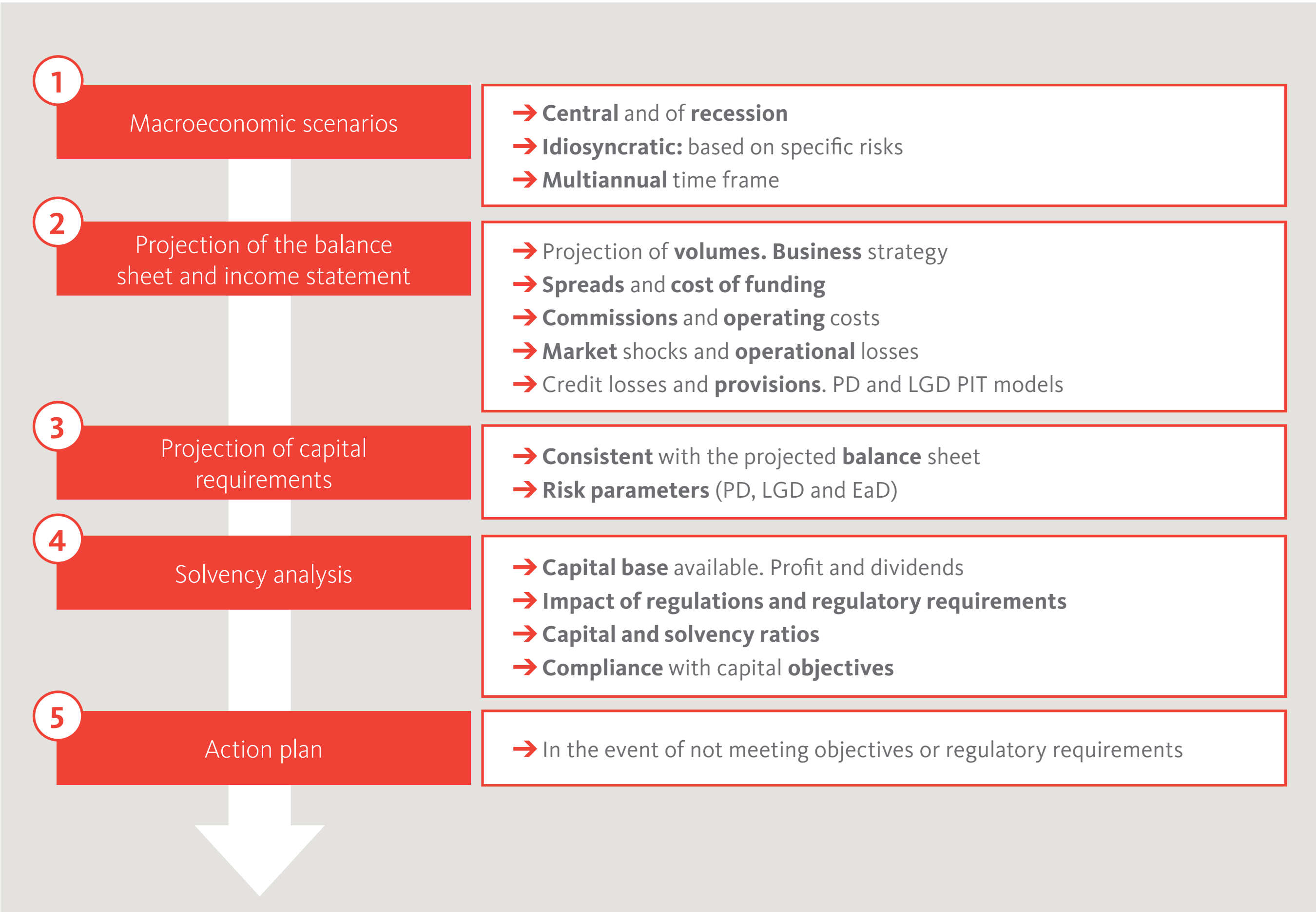
The ultimate objective of the stress exercises is to carry out a full assessment of the risks and solvency of banks, which enables possible capital requirements to be calculated in the event that they are needed because of banks' failure to meet the capital objectives set, both regulatory and internal.

Internally, Grupo Santander has defined a process of stress and capital planning not only to respond to the various regulatory exercises, but also as a key tool integrated in the Bank's management and strategy.

The goal of the internal process of stress and capital planning is to ensure sufficient current and future capital, including for adverse though plausible economic scenarios. Starting from the Group's initial situation (defined by its financial statements, capital base, risk parameters and regulatory ratios), the envisaged results are estimated for different business environments (including severe recessions as well as "normal" macroeconomic situations), and the Group's solvency ratios are obtained for a period usually of three years.

This process provides a comprehensive view of the Group for the time frame analysed and in each of the scenarios defined. It incorporates the metrics of regulatory capital, economic capital and available capital.

The structure of the process is shown below:



The recently presented structure facilitates achieving the ultimate objective which is capital planning, by turning it into an element of strategic importance for the Group which:

- Ensures the solvency of current and future capital, including in adverse economic scenarios.
- Enables comprehensive management of capital and incorporates an analysis of the specific impacts, facilitating their integration into the Group's strategic planning.
- Enables a more efficient use of capital.
- Supports the design of the Group's capital management strategy.
- Facilitates communication with the market and supervisors.

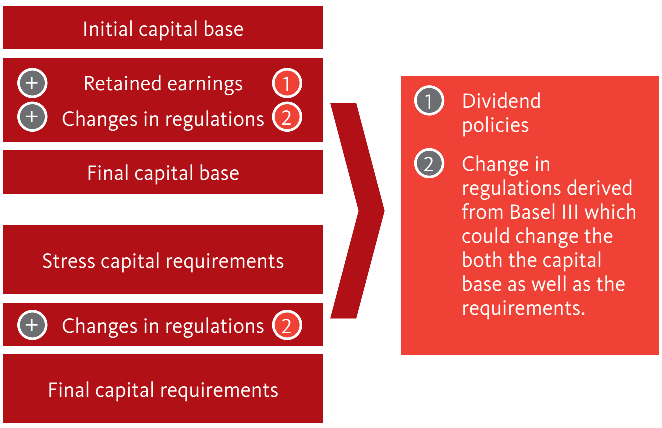
In addition, the whole process is developed with the maximum involvement of senior management and its close supervision, as well as under a framework that ensures that the governance is the suitable one and that all elements that configure it are subject to adequate levels of challenge, review and analysis.

One of the key elements in capital planning and stress analysis exercises, due to its particular importance in forecasting the income statement under defined stress scenarios, consists of calculating the provisions needed under these scenarios, mainly those to cover losses in the credit portfolio. Grupo Santander uses a methodology that ensures that at all times there is a level of provisions that covers all the projected credit losses for its internal models of expected loss, based on the parameters of exposure at default (EaD), probability of default (PD) and loss given default (LGD).

This methodology is widely accepted and it similar to that used in previous stress exercises (for example, the EBA stress exercises in 2011 and 2014 or the health check on the Spanish banking sector in 2012).

Lastly, the capital planning and stress analysis process culminates with analysis of solvency under the various scenarios designed and over a defined time frame, in order to assess the sufficiency of capital and ensure the Group fulfils both the capital objectives defined internally as well as all the regulatory requirements.

Quantification of the sufficiency of capital



In the event of not meeting the capital objectives set, an action plan will be prepared which envisages the measures needed to be able to attain the desired minimum capital. These measures are analysed and quantified as part of the internal exercises, although it is not necessary to put them into force as Santander exceeds the minimum capital thresholds.

This internal process of stress and capital planning is conducted in a transversal way throughout Grupo Santander, not only at the consolidated level, but also locally in the Group's units as they use the process of stress and capital planning as an internal management tool and to respond to their local regulatory requirements.

Throughout the recent economic crisis, Grupo Santander was submitted to five stress tests which demonstrated its strength and solvency in the most extreme and severe macroeconomic scenarios. All of them, thanks mainly to the business model and geographic diversification in the Group, showed that Banco Santander will continue to generate profits for its shareholders and comply with the most demanding regulatory requirements.

In the first one (CEBS 2010), the Group was the entity with a low impact on its solvency ratio, except for those banks that benefited from not distributing a dividend, In the second one, carried out by the EBA in 2011, Santander was not only among the small group of banks that improved its solvency in the stress scenario, but also the one with the highest level of profits.

In the stress exercises conducted by Oliver Wyman on Spanish banks in 2012 (top-down and then bottom-up), Banco Santander again showed its strength to gave with full solvency the most extreme economic scenarios. It was the only bank that improved its core capital ratio, with a surplus of more than EUR 25,000 million over the minimum requirement.

Lastly, in the recent stress test carried out in 2014 by the European Central Bank, in conjunction with the European Banking Authority, as previously commented on, Grupo Santander was the bank with the smallest impact from the adverse scenario among its international peers (EUR 20,000 million capital surplus above the minimum requirement). These results show, once again, that Grupo Santander's business model enables it to face with greater robustness the most severe international crises.

As already mentioned, as well as the regulatory exercises of stress, Grupo Santander annually conducts since 2008 internal exercises of resilience within its self-assessment process of capital (Pillar II). All of them showed, in the same way, Grupo Santander's capacity to meet the most difficult scenarios, both globally as well as in the main countries in which it operates.

13. Appendix: EDTF transparency

Banco Santander has traditionally maintained a clear commitment to transparency, by virtue of which it has participated actively in the Enchanced Disclosure Task Force (EDTF) promoted by the Financial Stability Board (FSB) in order to improve the quality and comparability of the risk information that banks provide to the market, Several studies have analysed the degree of adoption of the 32 recommendations formulated by the EDTF in October 2012, in which Santander stands out as one of the banks that is leading globally the practical application of this initiative.

The table below sets out where the EDTF recommendations can be found in the information published by Grupo Santander.

		EDTF recommendations	Annual report*
General	1	Index with risk information	Executive summary
	2	Terminology and risk measures	4.1; 6.5; 7.1-7.4; 8.2
	3	Top and emerging risk	5
	4	New regulatory ratios and compliance plans	1; 8.3; 12
Risk governance and risk management and bussines model	5	Organisation of risk management, processes and functions	3; 4.2;4.8; 8.2
	6	Risk culture and internal measures	2;4.9
	7	Business model risks, risk management and appetite	4; 12
	8	Stress test uses and process	1; 4.4-4.5; 6.5; 7.2-7.3; 8.2; 12.3
Capital adequacy and risk-weighted assets	9	Minimum capital requirements (Pillar 1)	12; Pillar III - 5.5
	10	Composition of regulatory capital and conciliation with the balance sheet	Pillar III - 3.2; 5.5
	11	Flow statement of movements in regulatory capital	Pillar III - 5.5
	12	Capital planning	12.3; Pillar III - 5.6
	13	Business activities and RWAs	12; Pillar III - 5.5
	14	Capital requirements by method of calculation and portfolio	Pillar III - 5.5
	15	Credit risk by Basel portfolios	Pillar III - 5.5; 7.2-7.4
	16	RWA flow statement by type of risk	Pillar III - 5.5
	17	Backtesting of models (Pillar III)	Pillar III - 7.7; 7.9; 9.2
Liquidity	18	Liquidity needs, management and liquidity reserve	8.2; 8.3
Funding	19	Encumbered and unencumbered assets	8.3
	20	Contractual maturities of assets, liabilities and off-balance sheet balances	8.3
	21	Funding plan	8.3; 8.4
Market risk	22	Balance sheet conciliation with trading and non-trading positions	7.2
	23	Significant market risk factors	7.1-7.3
	24	Market risk measurement model limitations	4.8; 7.2
	25	Management techniques for measuring and assessing the risk of loss	7.2
Credit risk	26	Credit risk profile and conciliation with balance sheet items	6.2
	27	Policies for impaired or non-performing loans and forbearance portfolio	6.2
	28	Conciliation of non-performing loans and provisions	6.2
	29	Counterparty risk resulting from derivative transactions	6.4
	30	Credit risk mitigation	6.5
Other risks	31	Other risks	9; 10; 11
	32	Discussion of risk events in the public domain	9; 10

* The location refers to chapters or sections of this Annual report. In the case of capital recommendations and risk-weighted assets, they also refer to sections of the information of prudential relevance (Pillar III).
In addition, the navigation map has the cross-references of the information published by the Group (Annual report, Pillar III, Auditor's report and annual consolidated accounts).

Annex

Historical data. 2004 - 2014

Balance sheet	US$ Mill.	2014 EUR Mill.	2013 EUR Mill.	2012 EUR Mill.	2011 EUR Mill.	2010 EUR Mill.
Total assets	1,537,410	1,266,296	1,134,128	1,282,880	1,251,008	1,217,501
Net customer loans	892,012	734,711	684,690	731,572	748,541	724,154
Customer deposits	786,285	647,628	607,836	626,639	632,533	616,376
Customer funds under management	1,242,555	1,023,437	946,210	990,096	984,353	985,269
Stockholders' equity	98,106	80,806	70,327	71,797	74,459	75,018
Total managed funds	1,733,836	1,428,083	1,270,042	1,412,617	1,382,464	1,362,289
Income statement						
Net interest income	39,185	29,548	28,419	31,914	28,883	27,728
Gross income	56,510	42,612	41,920	44,989	42,466	40,586
Net operating income	29,937	22,574	21,762	24,753	23,055	22,682
Profit before taxes	14,162	10,679	7,378	3,565	7,858	12,052
Attributable profit to the Group	7,713	5,816	4,175	2,283	5,330	8,181

Per share data (1)	US$	2014 Euros	2013 Euros	2012 Euros	2011 Euros	2010 Euros
Attributable profit to the Group	0.64	0.48	0.39	0.23	0.60	0.94
Dividend	0.73	0.60	0.60	0.60	0.60	0.60
Share price	8.494	6.996	6.506	6.100	5.870	7.928
Market capitalisation (million)	106,890	88,041	73,735	62,959	50,290	66,033

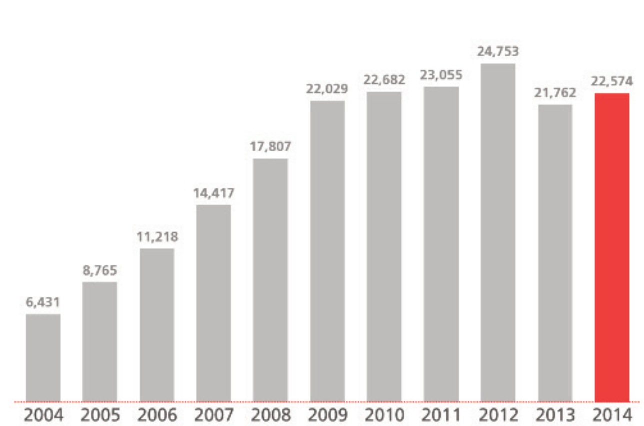
Euro / US$ = 1.214 (balance sheet) and 1.326 (income statement)

(1) Figures adjusted to capital increase in 2008

(2) Compound Annual Growth Rate

Customer loans and total managed funds
EUR Billion

Pre-provision profit (net operating income)
EUR Million



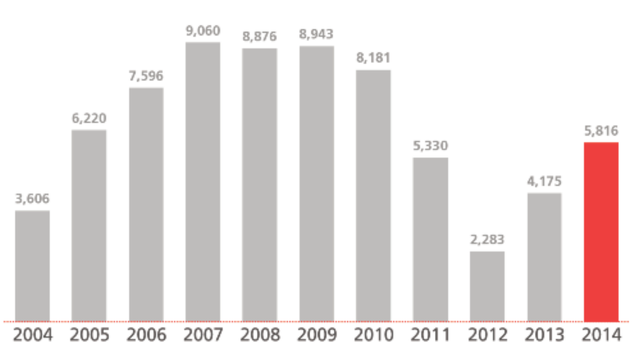
Historical data. 2004 - 2014

2009	2008	2007	2006	2005	2004	CAGR(2)
EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.	(%)
1,110,529	1,049,632	912,915	833,873	809,107	664,486	6.7
682,551	626,888	571,099	523,346	435,829	369,350	7.1
506,976	420,229	355,407	331,223	305,765	283,212	8.6
900,057	826,567	784,872	739,223	651,360	595,380	5.6
69,678	57,587	55,200	44,852	39,778	34,415	8.9
1,245,420	1,168,355	1,063,892	1,000,996	961,953	793,001	6.1

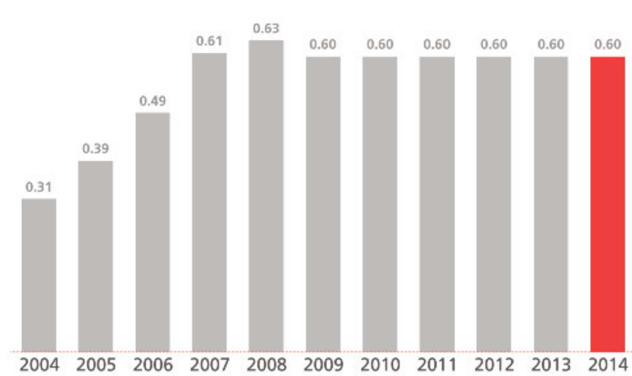
25,140	20,019	14,443	12,480	10,659	7,562	14.6
38,238	32,624	26,441	22,333	19,076	13,999	11.8
22,029	17,807	14,417	11,218	8,765	6,431	13.4
10,588	10,849	10,970	8,995	7,661	4,387	9.3
8,943	8,876	9,060	7,596	6,220	3,606	4.9

2009	2008	2007	2006	2005	2004	CAGR(2)
Euros	Euros	Euros	Euros	Euros	Euros	(%)
1.05	1.22	1.33	1.13	0.93	0.68	(3.4)
0.60	0.63	0.61	0.49	0.39	0.31	6.9
11.550	6.750	13.790	13.183	10.396	8.512	(1.9)
95,043	53,960	92,501	88,436	69,735	57,102	4.4

Attributable profit to the Group
EUR Million



Remuneration per share*
Euros



(*) Figures adjusted to capital increase in 2008

General information

Banco Santander, S.A.

The parent group of Grupo Santander was established on 21 March 1857 and incorporated in its present form by a public deed executed in Santander, Spain, on 14 January 1875, recorded in the Mercantile Registry of the Finance Section of the Government of the Province of Santander, on folio 157 and following, entry number 859. The Bank's By-laws were amended to conform with current legislation regarding limited liability companies. The amendment was registered on 8 June 1992 and entered into the Mercantile Registry of Santander (volume 448, general section, folio 1, page 1,960, first inscription of adaptation).

The Bank is also recorded in the Special Registry of Banks and Bankers 0049, and its fiscal identification number is A-39000013. It is a member of the Bank Deposit Guarantee Fund.

Registered office

The Corporate By-laws and additional public information regarding the Company may be inspected at its registered office at Paseo de la Pereda, numbers 9 to 12, Santander.

Operational headquarters

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Ombudsman

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This report was printed on ecologically friendly paper and has been produced using environmentally friendly processes.

Photographs:
Miguel Sánchez Moñita, Lucía M. Diz, Javier Vázquez

Production:
MRM Worldwide

Printing:
Alborada

Legal deposit:

At Banco Santander, we take advantage of new communications technologies and the social networks to improve dialogue with our stakeholders.