Banco Cooperativo Español, S.A. and subsidiaries

Consolidated Annual Accounts
31 December 2014

Consolidated Directors' Report
2014

(With Auditor's Report Thereon)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores S.L.
Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Independent Auditor's Report on the Consolidated Annual Accounts

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Shareholders of
Banco Cooperativo Español, S.A.:

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of Banco Cooperativo Español, S.A. (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet at 31 December 2014 and the consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of total changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

Directors' Responsibility for the Consolidated Annual Accounts

The Directors of the Bank are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of Banco Cooperativo Español, S.A. and subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, specified in note 1 (b) to the accompanying consolidated annual accounts, and for such internal control that they determine is necessary to enable the preparation of annual accounts 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 annual accounts based on our audit. We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the consolidated annual accounts by the Bank's Directors 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 Bank'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 annual accounts taken as a whole.

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

Opinion

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of Banco Cooperativo Español, S.A. and subsidiaries at 31 December 2014 and of their consolidated financial performance and consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2014 contains such explanations as the Directors of the Bank consider relevant to the situation of the Group, its business performance and other matters, and is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2014. Our work as auditors is limited to the verification of the consolidated directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Banco Cooperativo Español, S.A. and subsidiaries.

KPMG Auditores, S.L.

(*Signed on original in Spanish*)

Julio Álvaro Esteban

6 April 2015

Consolidated balance sheets at 31 December 2014 and 2013 (Notes 1 to 4)

(in thousands of Euros)	NOTE		
ASSETS		**2014**	**2013(*)**
1.CASH AND BALANCES WITH CENTRAL BANKS	5	266,571	184,537
2. FINANCIAL ASSETS HELD FOR TRADING	6	3,656,104	4,932,951
2.1. Loans and advances to credit institutions		-	-
2.2. Loans and advances to other debtors		-	-
2.3. Debt securities		3,091,107	4,505,772
2.4. Equity instruments		297	281
2.5. Trading derivatives		564,700	426,898
Memorandum item: Loaned or pledged		1,574,286	2,916,327
3. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
3.1. Loans and advances to credit institutions		-	-
3.2. Loans and advances to other debtors		-	-
3.3. Debt securities		-	-
3.4. Equity instruments		-	-
Memorandum item: Loaned or pledged		-	-
4. AVAILABLE-FOR-SALE FINANCIAL ASSETS	7	3,910,290	1,968,219
4.1. Debt securities		3,883,969	1,955,398
4.2. Equity instruments		26,321	12,821
Memorandum item: Loaned or pledged		2,424,087	976,816
5. LOANS AND RECEIVABLES	8	12,021,158	16,753,279
5.1. Loans and advances to credit institutions		10,934,067	16,061,407
5.2. Loans and advances to other debtors		1,016,805	632,626
5.3. Debt securities		70,286	59,246
Memorandum item: Loaned or pledged		-	-
6. HELD-TO-MATURITY INVESTMENTS	9	143,988	369,832
Memorandum item: Loaned or pledged		57,374	277,078
7. CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		-	-
8. HEDGING DERIVATIVES	15	-	-
9. NON-CURRENT ASSETS HELD FOR SALE		-	-
10. EQUITY INVESTMENTS	10	-	8,709
10.1. Associates		-	8,709
10.2. Jointly controlled entities		-	-
11. INSURANCE CONTRACTS LINKED TO PENSIONS		-	-
12. TANGIBLE ASSETS, REINSURANCE ASSETS		-	-
13. TANGIBLE ASSETS	11	15,500	15,859
13.1. Tangible assets		15,500	15,859
13.1.1. For own use		15,500	15,859
13.1.2. Leased out under operating leases		-	-
13.1.3. Assigned to welfare projects (savings banks and credit cooperatives)		-	-
13.2. Investment property		-	-
Memorandum item: Acquired under a finance lease		-	-
14. INTANGIBLE ASSETS	12	1,572	1,185
14.1. Goodwill		-	-
14.2. Other intangible assets		1,572	1,185
15. TAX ASSETS	20	17,950	19,139
15.1. Current		4,386	5,641
15.2. Deferred		13,564	13,498
16. OTHER ASSETS	14	3,001	9,007
16.1. Inventories		-	-
16.2. Other		3,001	9,007
TOTAL ASSETS		**20,036,134**	**24,262,717**

	NOTE		
EQUITY AND LIABILITIES		**2014**	**2013(*)**
LIABILITIES			
1. FINANCIAL LIABILITIES HELD FOR TRADING	6	554,519	427,863
1.1. Deposits from central banks		-	-
1.2. Deposits from credit institutions		-	-
1.3. Deposits from other creditors		-	-
1.4. Debt certificates including bonds		-	-
1.5. Trading derivatives		553,017	427,863
1.6. Short positions		1,502	-
1.7. Other financial liabilities		-	-
2. OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	6	4,731	-
2.1. Deposits from central banks		-	-
2.2. Deposits from credit institutions		4,731	-
2.3. Deposits from other creditors		-	-
2.4. Debt certificates including bonds		-	-
2.5. Subordinated liabilities		-	-
2.6. Other financial liabilities		-	-
3. FINANCIAL LIABILITIES AT AMORTISED COST	13	18,993,349	23,439,012
3.1. Deposits from central banks		9,128,132	7,057,088
3.2. Deposits from credit institutions		8,705,413	9,869,811
3.3. Deposits from other creditors		744,807	3,690,718
3.4. Debt certificates including bonds		361,930	2,813,439
3.5. Subordinated liabilities		-	-
3.6. Other financial liabilities		53,067	7,956
4. CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		-	-
5. HEDGING DERIVATIVES	15	33,332	5,751
6. LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-	-
7. LIABILITIES UNDER INSURANCE CONTRACTS		-	-
8. PROVISIONS	16	221	552
8.1. Provision for pensions and similar obligations		-	-
8.2. Provisions for taxes and other legal contingencies		-	-
8.3. Provisions for contingent exposures and commitments		221	552
8.4. Other provisions		-	-
9. TAX LIABILITIES	20	11,585	8,847
9.1. Current		1,170	2,242
9.2. Deferred		10,415	6,605
10. WELFARE FUNDS		-	-
11. OTHER LIABILITIES	14	35,154	25,761
12. CAPITAL REFUNDABLE ON DEMAND		-	-
TOTAL LIABILITIES		**19,632,891**	**23,907,786**
EQUITY			
1. SHAREHOLDERS' EQUITY		384,139	349,819
1.1. Share capital or assigned capital	18	91,009	91,009
1.1.1. Registered		91,009	91,009
1.1.2. Less: Uncalled capital (-)		-	-
1.2. Share premium	18	85,972	85,972
1.3. Reserves	19	160,838	130,085
1.3.1. Accumulated reserves (losses)		160,838	129,657
1.3.2. Reserves (losses) of entities accounted for using the equity method		-	428
1.4. Other equity instruments		-	-
1.4.1. Equity component of compound financial instruments		-	-
1.4.2. Non-voting equity units and associated funds		-	-
1.4.3. Other equity instruments		-	-
1.5. Less: Treasury shares		-	-
1.6. Profit for the year attributable to the parent company	19	46,320	42,753
1.7. Less: Dividends and remuneration		-	-
2. VALUATION ADJUSTMENTS	17	18,945	4,955
2.1. Available-for-sale financial assets		18,945	4,955
2.2. Cash flow hedges		-	-
2.3. Hedges of net investments in foreign operations		-	-
2.4. Exchange gains/(losses)		-	-
2.5. Non-current assets held for sale		-	-
2.6. Entities accounted for using the equity method		-	-
2.7. Other valuation adjustments		-	-
3. MINORITY INTERESTS		159	157
3.1. Valuation adjustments		-	-
3.2. Other		159	157
TOTAL EQUITY		**403,243**	**354,931**
TOTAL EQUITY AND LIABILITIES		**20,036,134**	**24,262,717**
MEMORANDUM ITEM			
1. CONTINGENT EXPOSURES	21	97,921	83,901
2. CONTINGENT COMMITMENTS	21	178,982	919,634

Notes 1 to 37 and Appendices I to III to the accompanying consolidated annual accounts form an integral part of the consolidated balance sheet at 31 December 2014.
(*) Presented solely and exclusively for comparison purposes

Consolidated income statements for the years ended 31 December 2014 and 2013 (Notes 1 to 4)

(in thousands of Euros)	NOTE	2014	2013(*)
1. INTEREST AND SIMILAR INCOME	**24**	216,209	408,153
2. INTEREST EXPENSE AND SIMILAR CHARGES	**25**	145,852	329,967
3. EQUITY REFUNDABLE ON DEMAND		-	-
A) INTEREST MARGIN		70,357	78,186
4. DIVIDEND INCOME	**26**	1,073	135
5. SHARE OF PROFIT OR LOSS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	**27**	-	1,007
6. FEE AND COMMISSION INCOME	**28**	40,582	34,901
7. FEE AND COMMISSION EXPENSE	**29**	25,337	20,365
8. GAINS OR LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES (NET)	**30**	9,599	8,440
8.1. Trading portfolio		5,651	7,562
8.2. Other financial instruments at fair value through profit or loss		-	(208)
8.3. Financial instruments not carried at fair value through profit or loss		3,948	1,086
8.4. Other		-	-
9. EXCHANGE DIFFERENCES (NET)	**31**	290	284
10. OTHER OPERATING INCOME		2,309	2,303
10.1. Insurance and reinsurance income		-	-
10.2. Sales and income from the provision of non-financial services		2,198	2,225
10.3. Other operating income		111	78
11. OTHER OPERATING EXPENSES		227	679
11.1 Insurance and reinsurance expenses		-	-
11.2. Changes in inventories		-	-
11.3. Other operating expenses	**1(h)**	227	679
B) GROSS MARGIN		98,646	104,212
12. ADMINISTRATIVE EXPENSES		22,473	21,845
12.1. Personnel expenses	**31**	14,095	14,061
12.2. Other administrative expenses	**32**	8,378	7,784
13. AMORTISATION AND DEPRECIATION	**11, 12**	1,411	1,724
14. PROVISIONING EXPENSE (NET)	**16, 36**	(303)	(102)
15. IMPAIRMENT LOSSES ON FINANCIAL ASSETS (NET)	**36**	9,273	19,782
15.1. Loans and receivables		8,889	19,952
15.2. Other financial instruments not carried at fair value through profit or loss		384	(170)
C) PROFIT ON OPERATING ACTIVITIES		65,792	60,963
16. IMPAIRMENT LOSSES ON OTHER ASSETS (NET)		-	1,159
16.1. Goodwill and other intangible assets		-	-
16.2. Other assets		-	1,159
17. GAINS/(LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE		-	668
18. NEGATIVE DIFFERENCES ON BUSINESS COMBINATIONS		-	-
19. GAINS/(LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS		-	-
D) PROFIT BEFORE TAX		65,792	60,472
20. INCOME TAX	**20**	19,470	17,719
21. MANDATORY TRANSFER TO WELFARE FUNDS		-	-
E) PROFIT FROM CONTINUING OPERATIONS		46,322	42,753
22. PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS (NET)		-	-
F) CONSOLIDATED PROFIT FOR THE YEAR		46,322	42,753
F.1) Profit attributable to the Parent	**19**	46,320	42,753
F.2) Profit attributable to minority interests		2	-
EARNINGS PER SHARE (Euros)	**3**	30.59	28.23

Notes 1 to 37 and Appendices I to III to the accompanying consolidated annual accounts form an integral part of the consolidated income statement for 2014.
(*) Presented solely and exclusively for comparison purposes

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE for the years ended 31 December 2014 and 2013 (Notes 1 to 4)

(in thousands of Euros)	NOTE	2014	2013(*)
A) CONSOLIDATED PROFIT FOR THE YEAR	**19**	46,322	42,753
B) OTHER RECOGNISED INCOME AND EXPENSE		13,990	12,112
1. Available-for-sale financial assets	**17**	19,986	17,420
1.1. Revaluation gains/(losses)		16,892	16,915
1.2. Amounts transferred to the income statement		3,094	505
1.3. Other reclassifications		-	-
2. Cash flow hedges		-	-
2.1. Revaluation gains/(losses)		-	-
2.2. Amounts transferred to the income statement		-	-
2.3. Amounts transferred to the initial carrying amount of hedged items		-	-
2.4. Other reclassifications		-	-
3. Hedges of net investments in foreign operations		-	-
3.1. Revaluation gains/(losses)		-	-
3.2. Amounts transferred to the income statement		-	-
3.3. Other reclassifications		-	-
4. Exchange differences		-	-
4.1. Revaluation gains/(losses)		-	-
4.2. Amounts transferred to the income statement		-	-
4.3. Other reclassifications		-	-
5. Non-current assets held for sale		-	-
5.1. Revaluation gains/(losses)		-	-
5.2. Amounts transferred to the income statement		-	-
5.3. Other reclassifications		-	-
6. Actuarial gains/(losses) on pension plans		-	-
7. Entities accounted for using the equity method		-	(82)
7.1. Revaluation gains/(losses)		-	(82)
7.2. Amounts transferred to the income statement		-	-
7.3. Other reclassifications		-	-
8. Other recognised income and expense		-	-
9. Income tax	**17**	(5,996)	(5,226)
C) TOTAL RECOGNISED INCOME AND EXPENSE (A+B)		60,312	54,865
C 1) Attributable to the parent company		60,310	54,865
C 2) Attributable to minority interests		2	-

Notes 1 to 37 and Appendices I and III to the accompanying consolidated annual accounts form part of the consolidated statement of recognised income and expense at 31 December 2014.
(*) Presented solely and exclusively for comparison purposes

CONSOLIDATED STATEMENTS OF TOTAL CHANGES IN EQUITY for the years ended 31 December 2013 and 2012 (Notes 1 to 4)

	Capital	Share premium	Accumulated reserves (losses)	Reserves (losses) of entities accounted for using the equity method	Other equity instruments	Less: Treasury shares	Profit attributable to the Parent	Less: Dividends and remuneration	Total shareholders' equity	Valuation adjustments	TOTAL	Minority interests	TOTAL EQUITY
1. Closing balance at 31 December 2012	91,009	85,972	115,160	2,063	-	-	21,860	3,000	313,064	(7,157)	305,907	291	306,198
1.1 Adjustments due to changes in accounting policy	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Adjustments made to correct errors	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Adjusted opening balance	91,009	85,972	115,160	2,063	-	-	21,860	3,000	313,064	(7,157)	305,907	291	306,198
3. Total recognised income and expense	-	-	-	-	-	-	42,753	-	42,753	12,112	54,865	-	54,865
4. Other changes in equity	-	-	14,497	(1,635)	-	-	(21,860)	(3,000)	(6,000)	-	(6,000)	(134)	(6,134)
4.1 Increases in share capital/assigned capital (b)	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2 Capital decreases	-	-	-	-	-	-	-	-	-	-	-	-	-
4.3 Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4.4 Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.5 Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.6 Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-		-	-	-		-	-
4.7 Distribution of dividends/shareholder remuneration (c)	-	-	-	-	-	-	(6,000)	-	(6,000)	-	(6,000)	(134)	(6,134)
4.8 Operations with own equity instruments (net)	-	-	-	-	-	-	-	-	-	-	-	-	-
4.9 Transfers between equity items	-	-	14,495	(1,635)	-	-	(15,860)	(3,000)	-	-	-	-	-
4.10 Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-
4.11 Discretional contributions to welfare funds (savings banks and credit cooperatives only)	-	-	-	-	-	-	-	-	-	-	-	-	-
4.12 Equity-settled payments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.13 Other equity increases/(decreases)	-	-	2	-	-	-	-	-	2	-	2	-	2
5. Closing balance at 31 December 2013	91,009	85,972	129,657	428	-	-	42,753	-	349,819	4,955	354,774	157	354,931

Notes 1 to 38 and Appendices I to III to the accompanying consolidated annual accounts form part of the consolidated statement of total changes in equity at 31 December 2014.
(*) Presented solely and exclusively for comparison purposes

CONSOLIDATED STATEMENTS OF TOTAL CHANGES IN EQUITY for the years ended 31 December 2014 and 2013 (Notes 1 to 4)

	Capital	Share premium	Accumulated reserves (losses)	Reserves (losses) of entities accounted for using the equity method	Other equity instruments	Less: Treasury shares	Profit attributable to the Parent	Less: Dividends and remuneration	Total shareholders' equity	Valuation adjustments	TOTAL	Minority interests	TOTAL EQUITY
1. Closing balance at 31 December 2013	91,009	85,972	129,657	428	-	-	43,019	-	350,085	4,955	354,774	157	355,197
1.1 Adjustments due to changes in accounting policy	-	-	-	-	-	-	(266)	-	(266)	-	-	-	(266)
1.2 Adjustments made to correct errors	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Adjusted opening balance	91,009	85,972	129,657	428	-	-	42,753	-	349,819	4,955	354,774	157	354,931
3. Total recognised income and expense	-	-	-	-	-	-	46,320	-	46,320	13,990	60,310	2	60,312
4. Other changes in equity	-	-	31,181	(428)	-	-	(42,753)	-	(12,000)	-	(12,000)	-	(12,000)
4.1 Increases in share capital/assigned capital (b)	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2 Capital decreases	-	-	-	-	-	-	-	-	-	-	-	-	-
4.3 Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4.4 Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.5 Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.6 Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
4.7 Distribution of dividends/shareholder remuneration (c)	-	-	(12,000)	-	-	-	-	-	(12,000)	-	(12,000)	-	(12,000)
4.8 Operations with own equity instruments (net)	-	-	-	-	-	-	-	-	-	-	-	-	-
4.9 Transfers between equity items	-	-	43,181	(428)	-	-	(42,753)	-	-	-	-	-	-
4.10 Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-
4.11 Discretional contributions to welfare funds (savings banks and credit cooperatives only)	-	-	-	-	-	-	-	-	-	-	-	-	-
4.12 Equity-settled payments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.13 Other equity increases/(decreases)	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Closing balance at 31 December 2014	91,009	85,972	160,838	-	-	-	46,320	-	384,139	18,945	403,084	159	403,243

Notes 1 to 38 and Appendices I to III to the accompanying consolidated annual accounts form part of the consolidated statement of total changes in equity at 31 December 2014.
(*) Presented solely and exclusively for comparison purposes

CONSOLIDATED STATEMENTS OF CASH FLOWS for the years ended 31 December 2014 and 2013 (Notes 1 to 4)

(in thousands of Euros)	NOTE	2014	2013(*)
A). CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		(147,167)	(94,004)
1. Consolidated profit for the year	19	46,322	42,753
2. Adjustments to obtain cash flows from operating activities		30,843	41,545
2.1. Amortisation and depreciation	11,12	1,411	1,724
2.2. Other adjustments		29,432	39,821
3. Net increase/ decrease in operating assets		4,079,634	(2,909,838)
3.1. Financial assets held for trading	6	1,276,847	(2,611,697)
3.2. Other financial assets at fair value through profit or loss		-	-
3.3. Available-for-sale financial assets	7	(1,920,061)	(382,866)
3.4. Loans and receivables	8	4,722,848	84,725
3.5. Other operating assets		-	-
4. Net increase/(decrease) in operating liabilities		(4,286,695)	2,755,015
4.1. Financial assets held for trading	6	126,656	7,815
4.2. Other financial liabilities at fair value through profit or loss	6	4,731	(43,937)
4.3. Financial liabilities at amortised cost	13	(4,445,663)	2,793,561
4.4. Other operating liabilities		27,315	(2,424)
5. Income tax received/paid	20	(17,537)	(23,479)
B) CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		231,600	149,708
6. Payments		(1,440)	(1,707)
6.1. Tangible assets	11	(230)	(297)
6.2. Intangible assets	12	(1,210)	(811)
6.3. Equity investments	10	-	(599)
6.4. Other business units		-	-
6.5. Non-current assets and associated liabilities held for sale		-	-
6.6. Held-to-maturity investments	9	-	-
6.7. Other payments relating to investing activities		-	-
7. Collections		233,040	151,415
7.1. Tangible assets		-	-
7.2. Intangible assets		-	-
7.3. Equity investments	10	-	1,141
7.4. Other business units		-	-
7.5. Non-current assets and associated liabilities held for sale		-	-
7.6. Held-to-maturity investments	9	225,844	74,591
7.7. Other collections relating to investing activities		7,196	75,683
C) CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		(1,867)	(8,834)
8. Payments		(12,000)	(16,134)
8.1. Dividends	3,18	(12,000)	(6,134)
8.2. Subordinated liabilities		-	(10,000)
8.3. Redemption of own equity instruments		-	-
8.4. Acquisition of own equity instruments		-	-
8.5. Other payments relating to financing activities		-	-
9. Collections		10,133	7,300
9.1. Subordinated liabilities		-	-
9.2. Issuance of own equity instruments		-	-
9.3. Disposal of own equity instruments		-	-
9.4 Other collections relating to financing activities	13	10,133	7,300
D) EFFECT OF EXCHANGE RATE FLUCTUATIONS		-	-
E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		82,034	46,870
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		184,537	137,667
G) CASH AND CASH EQUIVALENTS AT END OF THE YEAR		266,571	184,537
MEMORANDUM ITEM			
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	5		
1.1. Cash		802	700
1.2. Cash equivalents at central banks		265,769	183,837
1.3. Other financial assets		-	-
1.4. Less: Bank overdrafts repayable on demand		-	-
Total cash and cash equivalents at end of the year		266,571	184,537

Notes 1 to 38 and Appendices I to III to the accompanying consolidated annual accounts form part of the consolidated statement of cash flows at 31 December 2014.
(*) Presented solely and exclusively for comparison purposes

1. Introduction, Basis of Presentation, Consolidation Principles and Other Information

a) Introduction

Banco Cooperativo Español, S.A. (hereinafter the Bank or the Entity) is a private-law entity subject to the rules and regulations applicable to banks operating in Spain.

The Bank was incorporated on 31 July 1990. The share capital of the Bank is held by 41 Spanish credit cooperatives and a German bank. The Bank operates from two offices in Madrid.

The Bank contributes to the Credit Institution Deposit Guarantee Fund regulated by Royal Decree-Law 16/2011 of 14 October 2011). It has also been entered in the Bank of Spain's Special Registry of Banks and Bankers with number 0198.

The Bank is the parent company of a group of financial institutions that engage in various business activities, which it controls directly or indirectly and with which it forms the Banco Cooperativo Español Group (hereinafter the Group). After harmonisation of accounting principles, adjustments and consolidation eliminations, the Bank represents 99.8% and 99,9% of the Group's total assets at 31 December 2014 and 2013, respectively. It is therefore obliged to prepare the Group's consolidated annual accounts, in addition to its own individual annual accounts.

The balance sheets of Banco Cooperativo Español, S.A at 31 December 2014 and 2013 and the corresponding income statements, statements of recognised income and expense, statements of changes in equity and statements of cash flows for the years then ended are presented in Appendix I.

b) Basis of presentation of the consolidated annual accounts

The consolidated annual accounts of the Bank and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (hereinafter EU-IFRS), taking into consideration Bank of Spain Circular 4/2004 of 22 December 2004 and subsequent amendments.

As permitted by IAS 1.81, the Group has opted to present separate statements, one displaying the components of consolidated profit or loss, entitled the "consolidated income statement", and another reflecting the components of other comprehensive income for the year, based on the consolidated profit or loss for the year, entitled the "consolidated statement of recognised income and expense", using the name given by Bank of Spain Circular 4/2004.

The Group's consolidated annual accounts have been prepared by the Bank's directors to present fairly the consolidated equity and consolidated financial position at 31 December 2014 as well as the results of its consolidated operations and consolidated cash flows for the year then ended.

These consolidated annual accounts have been prepared on the basis of the individual accounting records of the Entity and each of the subsidiaries which, together with the Entity, form the Group. The consolidated annual accounts include certain adjustments and reclassifications necessary to harmonise the accounting and presentation criteria used by the companies forming the Group with those used by the Entity. The directors of the Entity consider that the consolidated annual accounts for 2014 and the individual accounts of the Bank and the subsidiaries will be approved by the shareholders at their respective annual general meetings with no significant changes.

The consolidated annual accounts for 2013 were approved by the shareholders at the annual general meeting held on 28 May 2014.

c) Significant accounting principles

The generally accepted accounting principles and measurement criteria described in the note on "significant accounting principles were applied" in the preparation of the consolidated annual accounts. There are no mandatory accounting principles which have not been applied that would have a significant effect on preparation of the consolidated annual accounts.

The main standards or amendments to the IFRS adopted by the European Union that came into force for obligatory application in the annual period that commenced on 1 January 2014, the effects of which are significant for the Group and which have been included in the accompanying consolidated annual accounts where applicable, are as follows:

- IFRS 10 "Consolidated Financial Statements": This standard, which replaces SIC 12 "Consolidation–Special Purpose Entities" and certain sections of IAS 27 "Separate Financial Statements", defines the principle of control as a determining factor when assessing whether an entity should be included in the consolidated financial statements of the parent. The definition of control has been revised. The new definition of control comprises three conditions that must be met: power over the investee; exposure or rights to variable returns from involvement with the investee; and the ability to use that power over the investee to affect the amount of the investor's returns.

- IFRS 11 "Joint Arrangements": This standard, which replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities–Non-Monetary Contributions by Venturers", addresses reporting inconsistencies for joint arrangements and establishes a single method for accounting for investments or interests in jointly controlled companies and for equity-accounted investments, while eliminating the option of proportionate consolidation.

- IFRS 12 "Disclosure of Interests in Other Entities": This disclosure standard groups together all new and existing disclosure requirements for investments in other entities (subsidiaries, associates, joint ventures and other investments).

- Amendments to IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures". These amendments were issued concurrently with the new IFRS 10, IFRS 11 and IFRS 12.

- Amendment to IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”. Introduces clarifications regarding the disclosures to be made.

- IFRIC 21 “Levies”: According to this interpretation, a liability to pay a levy should be recognised when the constructive obligation to pay it arises. Thus, if the obligation arises at 31 December, no prepaid expense should be recognised at the interim close. Therefore, the liability should be recognised only when there is a present obligation to pay the levy.

- Amendment to IAS 32 “Financial Instruments: Presentation–Offsetting Financial Assets and Financial Liabilities”: It introduces a number of additional clarifications regarding the requirements for offsetting a financial asset and a financial liability in their presentation in the entity’s balance sheet. IAS 32 previously established that a financial asset and a financial liability may be offset only when the entity has a legally enforceable right to set off the recognised amounts at that time. The new amendment clarifies that the right of set-off must not be contingent on a future event and must be enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The main standards and interpretations issued by the IASB, the application of which was not mandatory when preparing these consolidated annual accounts, either because their effective application date is after 31 December 2014 or because they have not been adopted by the European Union, and which are significant for the Group, are as follows:

- IFRS 9 “Financial Instruments: Classification and measurement”: This standard will apply prospectively for periods beginning on or after 1 January 2018 and may be early applied. Pending adoption by the European Union. In the future, IFRS 9 will replace the section of IAS 39 that deals with classification and measurement. This standard contains significant differences with the current standard with regard to financial assets, including a new classification model based on two single categories –amortised cost and fair value–, and the elimination of the current classifications of held-to-maturity investments and available-for-sale financial assets. Furthermore, only assets recognised at amortised cost will be tested for impairment, and embedded derivatives will no longer be separated from financial host contracts.

- Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”: Effective for annual periods beginning on or after 1 February 2015. This amendment provides the option of recognising these contributions as a reduction in the service cost in the same period in which they are payable, if certain requirements are met.

- Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”: When the joint operation is a business, the amendment requires application of the acquisition method set out in IFRS 3, which had not been specifically addressed previously.

- Amendments to IAS 16 and IAS 38 “Clarification of acceptable methods of depreciation and amortisation”. These clarify the fact that revenue-based methods are not permitted, as they do not reflect the expected pattern of consumption of the future economic benefits embodied in the asset. Effective prospectively from 1 January 2016.

- IFRS 15 “Revenue from Contracts with Customers”: The new revenue standard will affect all industries and sectors. It will replace IAS 18 and IAS 11, as well as the current interpretations on revenue (IFRIC 13, 15 and 18 and SIC 31). The new IFRS 15 model is much more restrictive and ruled-based, so application of the new requirements could result in changes to the risk profile. Effective for annual periods beginning on or after 1 January 2017.

- Amendment to IFRS 7 “Financial Instruments: Disclosures”: This amendment will include new disclosures on first-time adoption of IFRS 9.

- Amendment to IAS 1 “Presentation of Financial Statements”: This standard will be effective for annual periods beginning on or after 1 January 2016, although earlier application is permitted. It introduces companies' professional judgement in determining what information to disclose in their financial statements regarding the grouping of certain items from the statement of financial position, income statement and statement of comprehensive income for the period, as well as the order of disclosures in the report.

- Annual Improvements to IFRSs 2010-12 cycle: Introduces minor amendments and clarifications to IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations”, IFRS 8 “Operating Segments”, IFRS 13 “Fair Value Measurement”, IAS 16 “Property, Plant and Equipment”, and IAS 24 “Related Party Disclosures”. These amendments will apply to annual periods beginning on or after 1 February 2015.

- Annual Improvements to IFRSs 2011-13 cycle: Introduces minor amendments and clarifications to IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IFRS 3 “Business Combinations”, IFRS 13 “Fair Value Measurement”, and IAS 40 “Investment Property”. These amendments will apply to annual periods beginning on or after 1 January 2015.

- Annual Improvements to IFRSs 2012-14 cycle: Introduces minor amendments and clarifications to IFRS 5 “Measurement and classification of reclassified non-current assets held for sale and distribution”, IFRS 7 “Disclosures on continuing involvement”, IAS 19 “On the discount rate and currency to use in the absence of high-quality corporate bonds”, IAS 34 “On the use of cross-references to management reports in the interim report”.

All obligatory accounting principles and measurement criteria with a significant effect on the consolidated annual accounts have been applied.

d) Judgements and estimates used

In the Group's consolidated annual accounts for 2014 senior management of the Group made estimates, which were later ratified by the directors, in order to quantify certain of the assets, liabilities, income, expenses and commitments reported herein. These estimates relate basically to the following:

- The impairment losses on certain assets (notes 7 and 9)
- The assumptions used in the actuarial calculation of post-employment benefit liabilities and commitments (note 2 n)
- The useful lives of tangible and intangible assets (notes 11 and 12)
- The fair value of certain financial assets not quoted on official markets (notes 6 and 7)
- Estimates used in the calculation of other provisions (note 16)
- Calculation of income tax and deferred tax assets and liabilities (note 20).

The above-mentioned estimates are based on the best information available at 31 December 2014 regarding the analysed events. However, events arising in the future could require these estimates to be significantly increased or decreased in coming years. Any required updates would be made prospectively in accordance with EU-IFRS, recognising the effect of the change in estimates in the consolidated income statement in the year in which they arose.

e) Consolidation principles

The following accounting principles and measurement criteria, which reflect those set out in EU-IFRS, have been used in the preparation of the consolidated annual accounts of the Group for 2014:

I. Subsidiaries

Subsidiaries are those entities over which the Bank has control. An entity controls an investee when the investor 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.

To be considered a subsidiary, the following must occur:

a. Power: An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns.

b. Returns: An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance. The investor's returns can be only positive, only negative or wholly positive and negative.

c. Link between power and returns: An investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee.

The annual accounts of the subsidiaries are fully consolidated with those of the Bank. Accordingly, all material balances and transactions between consolidated entities and between consolidated entities and the Bank are eliminated on consolidation.

On acquisition of a subsidiary, its assets, liabilities and contingent liabilities are recognised at fair value at the date of acquisition. Any positive differences between the acquisition cost and the fair values of the identifiable net assets acquired are recognised as goodwill. Negative differences are charged to the income statement on the date of acquisition.

Third-party interests in the Group's equity are presented under "Minority interests" in the consolidated balance sheet and their share of the profit for the year is presented under "Profit attributable to minority 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.

II. Interests in joint ventures

"Joint ventures" are deemed to be ventures that are not subsidiaries but which are jointly controlled by two or more unrelated entities. This is evidenced by contractual arrangements whereby two or more entities ("venturers") undertake a business activity which is subject to joint control so as to share the power to govern the financial and operating policies of an entity, or another business activity, in order to benefit from its operations. Therefore, any strategic financial or operating decision affecting the joint venture requires the unanimous consent of the venturers.

The financial statements of investees classified as joint ventures are proportionately consolidated with those of the Bank and, therefore, the aggregation of balances and subsequent eliminations are carried out only in proportion to the Group's ownership interest in the capital of these entities.

III. Associates

Associates are entities over which the Bank is in a position to exercise significant influence – but not control or joint control – usually because it holds 20% or more of the voting rights of the investee.

In the consolidated annual accounts, investments in associates are accounted for using the equity method, i.e. reflecting the Group's share of the investee's net assets, after taking into account the dividends received therefrom and other equity eliminations. In the case of transactions with an associate, the related profits or losses are eliminated to the extent of the Group's interest in the associate.

Relevant information on subsidiaries and associates is shown in Appendix II.

f) *Comparative information*

In accordance with prevailing Spanish legislation, these consolidated annual accounts for 2014 also include, for each individual caption in the consolidated balance sheet, consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of total changes in equity, consolidated statement of cash flows and the notes thereto, comparative figures for the previous year. The balances for the year ended 31 December 2013 presented in the accompanying consolidated annual accounts have been restated with respect to those disclosed in the consolidated annual accounts for that year due to the change in accounting criteria resulting from early application of IFRIC 21. Pursuant to IAS 1, the closing balances for 2013 have been restated to make the information as comparable as possible.

Commission Regulation (EU) No 634/2014 adopts the International Financial Reporting Interpretations Committee's interpretation 21 (IFRIC 21) on levies, for periods beginning on or after 17 June 2014 at the latest, with early application permitted.

The Bank has availed of this early application option, requiring it to change its accounting policies for the present year retrospectively. The retrospective application of a new accounting policy involves adjusting the amounts of the affected items in the opening balance sheet of the earliest period on which comparative information is published. It also entails adjusting the amounts of the items in the various financial statements and explanatory notes affected by the change that are published for comparison purposes, as if the new accounting policy had always been applied.

The most relevant impact of this change in accounting criteria has been with regard to the recognition of ordinary and extraordinary contributions to the Deposit Guarantee Fund (DGF):

a) Extraordinary contributions to the DGF: the adoption of IFRIC 21 has entailed the recognition of a liability for the present value of all outstanding payments (Euros 215 thousand). A balancing entry for the full amount of the contribution has been recognised in reserves on the consolidated opening balance sheet for 2014 (Euros 151 thousand net of the tax effect), since this impact corresponds to profit for 2013.

   The consolidated financial statements in question have therefore been adjusted for the purposes of comparison, as have the notes to the consolidated annual accounts.

b) Ordinary contributions to the DGF: in view of the adoption of IFRIC 21, the ordinary contribution for deposits at 31 December 2014 (Euros 200 thousand) has been recognised with a charge to consolidated profit for 2014. The amount recognised for the 2013 contribution, which was settled in 2014 (Euros 164 thousand), has been restated retrospectively so as to record the corresponding expense in 2013. Under the previous accounting treatment, this contribution would have been recognised in 2013.

The main effect, with respect to the consolidated annual accounts published in 2013, is the restatement of the following:

- In the consolidated income statement for 2013, this restatement affects “Other operating expenses” and, therefore, “Gross margin”, “Net margin”, “Results from operating activities”, “Profit before tax” and “Consolidated profit for the year”. As such, “Consolidated profit for the year” in 2013 amounts to Euros 42,753 thousand instead of Euros 43,019 thousand.

- In the consolidated balance sheet for 2013, this restatement has a slight impact on “Tax liabilities - current” “Other liabilities” and “Reserves”, and a substantial impact on “Total liabilities”, “Shareholders' equity” and “Total equity”.

g) Capital management objectives, policies and processes

Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms entered into force on 1 January 2014, together with European Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and their prudential supervision. These two texts transpose into European regulations the new capital adequacy standards known as BIS III, regulating solvency levels and the composition of the eligible capital that credit institutions must hold.

The new regulations impose more stringent capital adequacy requirements and, to prevent this reinforcement of solvency from having an excessively large impact on the real economy, the entry into force of certain aspects of the regulations will be phased in over several years. This transitory implementation phase mainly affects the definition of eligible capital, including any potential deductions, as well as the creation of capital buffers in excess of the minimum regulatory levels.

Banco de España Circulars 2/2014 of 31 January 2014 and 3/2014 of 30 July 2014 govern the deadlines for application of the different aspects of the regulations in Spain. In addition, certain aspects of these regulations are subject to further development by the European Banking Authority (EBA), whose main objective is to establish homogeneous criteria for implementation across the entire European Union. In 2014 the EBA published a large number of technical standards, guidelines and recommendations developing a range of aspects, but many are still in the consultation or review phase and will be addressed, approved and published during the coming years.

The capital management principle established by the Bank’s board of directors consists of operating at a level of solvency above that stipulated in the applicable regulations, and which is appropriate to the risks inherent in its business and the environment in which it operates. The objective is to maximise capital management efficiency so that capital consumption can be considered, alongside other return and risk variables, as a fundamental parameter in analyses associated with the Group’s investment decisions.

The Group has implemented a number of capital management policies and processes to meet this objective, with the following main characteristics:

- The board of directors and senior management take an active role in the strategies and policies that affect the Group’s capital management. The objective is to maintain robust solvency ratios of an appropriate quality that are consistent with the Group’s risk profile and business model.

- The Group has a comprehensive risk management unit that monitors and controls solvency ratios to guarantee compliance with applicable legislation and the consistency of decisions made by the different areas and units of the Bank with the objectives set, to ensure that minimum capital requirements are met. Contingency plans are in place to ensure compliance with the limits stipulated in the applicable legislation.

- The impact of these units on the Group's eligible capital base and the return-risk ratio are considered a key decision-making factor in the Group's strategic and commercial planning and in the analysis and monitoring of Group transactions.

- Pursuant to the provisions of the solvency regulations, the Group has a capital self-assessment process in place. This process comprises a set of solid, comprehensive strategies and procedures that enable the Group to continuously assess and maintain the amounts, types and allocation of capital to cover all the risks to which it is or may be exposed, according to their nature and level.

As part of its risk management, the Group continuously identifies, measures, monitors and mitigates the risks to which its activity is subject, incorporating the findings into the capital self-assessment process. This process entails estimating current and future eligible capital and capital requirements (under different scenarios) according to the risks inherent in its business, the economic environment in which it operates, risk governance, management and control systems, its strategic business plan, the quality or composition of available capital and actual opportunities for raising more capital, should it prove necessary. To that end, once the Group has calculated its capital requirements under Basel's Pillar 1, it reviews and assesses the other risks and factors not considered therein which should be taken into account due to their importance, and it estimates the capital needed to cover all the risks while maintaining an adequate buffer with respect to the legal minimum capital requirements under Pillar 1.

This process ensures an adequate relationship between the risk profile of the entities making up the Group and the capital they effectively hold, both in absolute terms and in terms of its composition and distribution among the various legally separate entities.

The minimum solvency ratio under the new regulations is calculated as the quotient of the eligible capital maintained by the Group and its risk-weighted assets. The definition of eligible capital has been made more stringent under the new regulations, essentially because new capital deductions have been added, and because certain instruments cease to be considered as capital since they do not meet the new criteria for absorbing losses.

Higher quality capital instruments are known as CET1 (Common Equity Tier 1) and essentially comprise capital and reserves, from which several items are deducted, including intangible assets and a specific amount from investments in financial sector entities as well as deferred tax assets contingent on future profits.

Ranking behind CET1, AT1 (Additional Tier 1 Capital) essentially comprises certain instruments with a high capacity for loss absorption as they are only ranked ahead of ordinary shareholders in the event of liquidation.

Last comes T2 (Tier 2 capital), whose elements consist of instruments that absorb losses, ranking behind those eligible as Tier 1 capital but subordinate to common creditors, as well as provision surpluses eligible as Tier 2 capital under Regulation (EU) No. 575/2013.

Greater details of the characteristics of these instruments, including their capacity for absorbing losses, availability, permanence and order of preference in the event of liquidation, are set out in the Information of Prudential Relevance report, which is available on the Bank's corporate website. This report also contains a reconciliation of book equity and eligible capital.

Risk-weighted assets are determined according to the Group's exposure to credit and dilution risk (based on the assets, commitments and other off-balance sheet items associated with these risks, and in line with their amounts, characteristics, counterparties, guarantees, etc.), counterparty, position and settlement risk relating to items held for trading, exchange rate and gold position risk (based on the global net position in foreign currency and the net position in gold) and operational risk.

In addition, the Regulation establishes limits for risk concentration and certain compulsory aspects relating to the Bank's corporate governance. It also includes two new ratios concerning the Bank's liquidity and a gearing ratio. The Liquidity Coverage Ratio (LCR) is intended for measuring the Bank's short-term liquidity and will be introduced in 2015, whilst the Net Stable Funding Ratio (NSFR), which measures its level of stable funding in the medium term, is still in the process of being calibrated. The gearing ratio is aimed at limiting excessive gearing and ensuring that institutions hold assets that are proportionate with their capital level to try to avoid traumatic deleveraging during recessions. This ratio is also at the calibration stage, although banks will be obliged to publish it from 2015 onwards.

Consolidated capital at 31 December 2014 and 2013 and the related capital ratios are shown in the following table:

	Thousands of Euros	
	2014	**2013**
Capital	91,009	91,009
Reserves	246,969	245,785
Deductions	(1,572)	(1,185)
Common Equity Tier 1 (CET1) capital	**336,406**	**335,609**
Additional CET1 elements	--	--
Tier 1 Capital	**336,406**	**335,609**
Collective provision	11,956	17,599
Other elements	--	4,432
Tier 2 Capital	**11,956**	**22,031**
Total eligible capital	**348,362**	**357,640**
For credit, counterparty, dilution and delivery risk	133,639	143,848
For price, currency and commodity position risk	19,385	21,991
Operational risk and other	14,422	10,440
Total minimum capital requirement	**167,446**	**176,279**
Surplus	**180,916**	**181,361**
Capital ratio (%)	**16.6**	**16.2**
Tier 1 capital (%)	**16.1**	**15.2**

Consequently, at 31 December 2014 and 2013, and during both years, the eligible capital of the Group and Group entities subject to this requirement, considered on an individual basis, exceeded the requirements of the aforementioned Circular.

h) Deposit Guarantee Fund

The Deposit Guarantee Fund was created under Royal Decree-Law 16/2011 of 14 October 2011, following the amalgamation of the three existing deposit guarantee funds into a single fund. The new fund has the same functions and characteristics as those it replaced. This Royal Decree-Law revises the statutory ceiling for annual contributions, bringing this to 3 per mil of contributions for guaranteed deposits, and stipulates an actual contribution of 2 per mil of guaranteed deposits. The Bank contributes to the DGF.

The fifth additional provision of Royal Decree-Law 21/2012 of 13 July 2012, introduced by article 2 of Royal Decree-Law 6/2013 of 22 March 2013, provided for an exceptional contribution of 3 per mil of the deposits of the fund's member banks at 31 December 2012. The first instalment, equal to two fifths of this contribution, was payable within the first 20 business days of 2014, net of any deductions agreed under the aforementioned legislation. The second instalment, equal to the three remaining fifths, was payable as of 1 January 2014, in accordance with the payment schedule stipulated by the DGF management committee, and within a maximum period of seven years. The member banks paid in the first instalment of the contribution on 22 January 2014, and made a part-payment of the second instalment, equal to one seventh thereof, on 30 September 2014. At its session held on 17 December 2014, the DGF management committee agreed that the remaining portion of the second instalment of the contribution could be paid in two equal parts, on 30 June 2015 and 30 June 2016.

In 2014, Euros 31 thousand was paid into the Deposit Guarantee Fund in respect of the exceptional contribution.

The contributions made to this fund in 2014 amounted to approximately Euros 200 thousand and have been recognised under “Other operating expenses” in the accompanying consolidated income statement (see note 1.f)).

i) Environmental impact

In view of the business activity carried out by the Group, it does not have any environmental liabilities, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or consolidated results. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated annual accounts.

j) Subsequent events

Notwithstanding the comments in these notes to the consolidated annual accounts, no significant events which should be included in the consolidated annual accounts in order to present fairly the consolidated equity, consolidated financial position and consolidated results of the Group occurred subsequent to 31 December 2014 and prior to the date on which the consolidated annual accounts were authorised for issue by the board of directors of the Bank.

2. Significant Accounting Principles

The accounting principles and measurement criteria applied in preparing the Group's consolidated annual accounts are as follows:

a) Definitions and classification of financial instruments

I. Definitions

A "financial instrument" is any contract that gives rise to a financial asset in one entity and to a financial liability or equity instrument in 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 the value of which fluctuates in response to changes in an observable market variable (such as an interest rate, foreign exchange rate, financial instrument price or market index), for which the 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 following transactions are not treated for accounting purposes as financial instruments:

- Investments in associates (see note 10)

- Rights and obligations under employee benefit plans (see note 2 n)

- Rights and obligations under insurance contracts

II. Recognition and classification of financial assets for measurement purposes

Financial assets are initially recognised at fair value, which is taken to be the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Subsequent to initial recognition, financial assets are included for measurement purposes in one of the following categories:

- Financial assets at fair value through profit and loss

    - Financial assets held for trading comprise financial assets acquired for the purpose of generating a profit in the short term from fluctuations in their prices, and financial derivatives that are not designated as hedging instruments.

    - Other financial assets at fair value through profit and loss comprise financial assets designated as such on initial recognition for which the fair value can be reliably estimated and which meet at least one of the following conditions:

        - When, in the case of hybrid financial instruments for which the embedded derivative must be separated from the host contract, it is not possible to reliably estimate the fair value of the embedded derivative or derivatives.

        - In the case of hybrid financial instruments for which the embedded derivative must be separated, the hybrid financial instrument as a whole has been classified in this category on initial recognition, provided they met the conditions specified in prevailing accounting standards whereby the embedded derivative significantly changes the cash flows that would have been associated with the host financial instrument had it been considered separately from the embedded derivative, and whereby the embedded derivative must be separated from the host financial instrument for accounting purposes.

        - When more relevant information is obtained through classification of a financial asset in this category, as such classification eliminates or significantly reduces recognition or measurement inconsistencies (also known as accounting mismatches) that would otherwise arise from using different criteria to measure assets and liabilities or recognise the gains and losses thereon.

        - When more relevant information is obtained through classification of a financial asset in this category, as a group of financial assets, financial liabilities or both 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.

- Held-to-maturity investments.

This category includes debt securities traded on organised markets with fixed maturity and fixed or determinable cash flows, which the Group has the positive intention and ability to hold to maturity.

- Loans and receivables.

This category consists of unquoted debt instruments, financing granted to third parties in connection with ordinary lending activities carried out by the consolidated entities, and receivables from purchasers of goods and users of services. This category also includes finance leases in which the consolidated entities act as lessors.

- Available-for-sale financial assets.

This category includes Group debt instruments not classified as held-to-maturity investments, loans and receivables, or at fair value through profit and loss, as well as Group equity instruments related to entities which are not subsidiaries, joint ventures or associates and which have not been classified at fair value through profit and loss.

III. Recognition and classification of financial liabilities for measurement purposes

Financial liabilities are initially recognised at fair value.

Subsequent to initial recognition, financial liabilities are classified for measurement purposes into one of the following categories:

- Financial liabilities at fair value through profit and loss
    - Financial liabilities held for trading comprise financial liabilities issued with the intention to repurchase them in the near future or which form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; short positions deriving from the sale of assets purchased under obligatory resale agreements or borrowed and derivatives not designated as hedging instruments, including separated hybrid financial instruments, pursuant to IAS 39.
    - Other financial liabilities at fair value through profit and loss comprise financial liabilities designated as such on initial recognition, the fair value of which can be reliably estimated, and which meet any of the following conditions:
        - When, in the case of hybrid financial instruments for which the embedded derivative must be separated from the host contract, it is not possible to reliably estimate the fair value of the embedded derivative or derivatives.

- In the case of hybrid financial instruments for which the embedded derivative must be separated, the hybrid financial instrument as a whole has been classified in this category on initial recognition, provided they met the conditions specified in prevailing accounting standards whereby the embedded derivative significantly changes the cash flows that would have been associated with the host financial instrument had it been considered separately from the embedded derivative, and whereby the embedded derivative must be separated from the host financial instrument for accounting purposes.

- When more relevant information is obtained through classification of a financial liability in this category, as such classification eliminates or significantly reduces recognition or measurement inconsistencies (also known as accounting mismatches), that would otherwise arise from using different criteria to measure assets or liabilities or recognise gains or losses thereon.

- When more relevant information is obtained through classification of a financial liability under this category, as a group of financial assets, financial liabilities or both 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 liabilities at amortised cost

Financial liabilities not included in any of the above categories which arise from the ordinary deposit-taking activities carried out by financial institutions, irrespective of their nature and maturity.

IV. Reclassifications between financial instrument portfolios

Financial instruments are only reclassified between portfolios in the following cases:

a) Items classified as financial instruments at fair value through profit or loss can only be reclassified into or out of this financial instrument category after they are acquired, issued or assumed in the event of the exceptional circumstances described in section d) of this note.

b) If a financial asset ceases to be classified as held to maturity due to a change in intention or financial ability, it is reclassified to "Available-for-sale financial assets". In this case, all financial assets classified as held to maturity are treated similarly, except where reclassification falls within one of the scenarios permitted by applicable legislation (sales close to maturity or when practically the entire principal of the financial asset has been collected, etc.).

In 2014 and 2013 no items have been reclassified as described in the preceding paragraph.

c) Financial assets (debt instruments) classified as available-for-sale financial assets can be reclassified to held to maturity due to a change in intention or financial ability of the Group, or upon expiry of the two-year penalty period established under prevailing legislation for the sale of financial assets held to maturity. In this case, the fair value of these instruments at the transfer date is considered as the new amortised cost and the difference between this amount and the recoverable amount is recognised in the consolidated income statement over the residual life of the instrument using the effective interest method.

d) As mentioned in preceding sections, financial assets that are not derivative financial instruments can be reclassified from held for trading if they are no longer held for the purpose of being sold or repurchased in the near term, provided that one of the following circumstances arise:

  - In rare and exceptional circumstances, except in the case of assets eligible for classification as loans and receivables. Rare and exceptional circumstances are those arising from a particular event which is unusual, and which is highly unlikely to reoccur in the foreseeable future.

  - When the entity has the intention and financial ability to hold the financial asset in the foreseeable future or to maturity, provided that it meets the definition of loans and receivables on initial recognition.

  Should these circumstances arise, the asset is reclassified at its fair value at the reclassification date, with no reversal of results, and this value is considered as the asset's amortised cost. Assets reclassified in this way may not be further reclassified as "held for trading".

b) Measurement and recognition of financial assets and liabilities

In general, financial instruments are initially recognised at fair value which, in the absence of evidence to the contrary, is deemed to be their acquisition cost, and are subsequently measured at each year end as follows:

I. <u>Measurement of financial assets</u>

Financial assets are measured at fair value, without deducting any transaction costs that may be incurred on their sale or other form of disposal, except for loans and receivables, held-to-maturity investments, equity instruments for which the fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those equity instruments as their underlying asset and are settled by delivery of those instruments.

The fair value of a financial instrument on a given date is taken to be the amount for which it could be exchanged on that date between two knowledgeable, willing parties in an arm's length transaction. 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 organised, transparent and deep market (quoted price or market price).

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, based on proven valuation techniques 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. However, the inherent limitations of the valuation techniques used and the possible inaccuracies of the assumptions made under these techniques may result in a fair value of a financial instrument which does not exactly reconcile with the price at which the instrument could be bought or sold at the measurement date.

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 (as reflected in the consolidated income statement) of the difference between the initial cost and the maturity amount. In the case of financial assets, amortised cost also includes any reductions for impairment. In the case of loans and receivables hedged in fair value hedges, the changes in the fair value of the assets related to the risk or risks being hedged are recognised.

The effective interest rate is the discount rate that exactly matches the initial amount of a financial instrument to its estimated cash flows during its estimated life, based on the contractual terms, without taking into account future losses on credit exposure. 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 that can be equated with a rate of interest, in light of their nature. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing until the date on which the reference interest rate will be revised.

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

II. Measurement of financial liabilities

In general, financial liabilities are measured at amortised cost, as defined above, except for those included under financial liabilities at fair value through profit or loss, which are measured at fair value.

III. Measurement techniques

General measurement bases

A summary of the various techniques used by the Group to measure the financial instruments included in the financial assets held for trading, available-for-sale financial assets, and financial liabilities held for trading categories at 31 December 2014 and 2013 is as follows:

	%			
	2014		**2013**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Quoted price in active markets	90.6	0.3	89.2	--
Internal measurement models	9.4	99.7	10.8	100.0
	100.0	**100.0**	**100.0**	**100.0**

The main techniques used in the internal measurement models are as follows:

- The present value method is used to measure financial instruments which enable static hedging (mainly forwards and swaps).
- The Black-Scholes model is applied to certain plain vanilla derivative products (calls, puts, caps/floors).
- The Monte Carlo simulation method is used for the remaining derivative financial instruments.
- Valuation adjustments for counterparty risk or default risk:

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

The CVA is calculated taking into account the potential exposure to each counterparty at each future maturity date. The CVA for a given counterparty is equal to the sum of the CVA at each maturity date.

The following inputs are used to calculate the CVA:

- Expected exposure: includes the present market value and potential future risk of each operation. Certain risk mitigating factors such as collateral and netting contracts are also taken into account, as is the time decay of derivatives with interim payments.
- Probability of default: if no market information is available (CDS spread curve, etc.) the Group uses probabilities estimated on the basis of the counterparties' ratings.

- Loss given default: percentage of final loss assumed by the bank in the event of default by the counterparty or a credit event.

- Discount curve.

The Debt Valuation Adjustment (DVA) is a valuation adjustment similar to the CVA, except that it results from the risk assumed by the counterparties of the OTC derivatives vis-a-vis the Group.

The Bank's directors consider that financial assets and financial liabilities in the balance sheet and gains and losses on these financial instruments are reasonable and reflect their market value (see note 23).

IV. Recognition of changes in fair value

As a general rule, changes in the fair value of financial instruments are recognised in the consolidated income statement, distinguishing those arising from the accrual of interest or dividends, which are recognised under “Interest and similar income”, “Interest expense and similar charges” and “Dividend income”, as appropriate, from those arising on impairment of an asset’s credit rating or for other reasons, which are recognised at their net amount under “Gains/losses on financial assets and liabilities” in the accompanying consolidated income statement.

Adjustments due to changes in fair value arising from available-for-sale financial assets are recognised temporarily under “Valuation adjustments” in consolidated equity, unless they relate to exchange differences on monetary financial assets, in which case they are recognised in the consolidated income statement. Items debited or credited to “Valuation adjustments” remain in the Group’s consolidated equity until the asset giving rise to them is removed from the consolidated balance sheet, or when it is considered that the asset is impaired, at which time they are recognised in the consolidated income statement.

V. Hedging transactions

The Group measures and recognises individual hedges (which are designated to hedge a specifically identified risk) depending on their classification, based on the following criteria:

- Fair value hedges: hedge of the exposure to changes in fair value. The gains or losses attributable to both the hedging instrument and the hedged item are recognised directly in the consolidated income statement.

- Cash flow hedges: hedge of the exposure to variations in cash flows that is attributable to a particular risk associated with an asset or liability or a forecast transaction. The gain or loss attributable to the portion of the hedging instrument that qualifies as an effective hedge is recognised temporarily under "Valuation adjustments" in consolidated equity at the lower of the cumulative gain or loss on the hedging instrument from the inception of the hedge and the cumulative change in the present value of expected future cash flows of the hedged item from the inception of the hedge.

  The cumulative gains or losses on each hedge are taken to the consolidated income statement in the periods in which the hedged items affect the income statement, unless the hedge relates to a forecast transaction that results in the recognition of a non-financial asset or liability, in which case the gains or losses are included in the cost of that asset or liability.

- Hedge of a net investment in a foreign operation: hedge of the foreign currency risk on an investment in subsidiaries, associates, joint ventures and branches of the Entity whose activities are based or conducted in a country or functional currency other than that of the reporting Entity. Gains or losses attributable to the portion of the hedging instrument that qualifies as an effective hedge are recognised directly in "Valuation adjustments" under consolidated equity until the instruments are disposed of or derecognised, at which time they are recognised in the consolidated income statement. The rest of the gain or loss is recognised directly in the consolidated income statement.

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.

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

c) 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:

I. When substantially all the risks and rewards are transferred to third parties, the transferred financial asset is derecognised and any right or obligation retained or created in the transfer is recognised separately.

II. When substantially all the rights and rewards associated with the transferred financial asset are retained, the transferred financial asset is not derecognised and continues to be measured by the same criteria used before the transfer. However:

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

    - The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability are recognised in the consolidated income statement.

III. When substantially all the risks and rewards associated with the transferred financial asset are neither transferred nor retained, the following distinction must be made:

    - If the transferor does not retain control, the transferred financial asset is derecognised and any right or obligation retained or created in the transfer is recognised separately.

    - If the transferor retains control, it continues to recognise the transferred financial asset 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.

d) Impairment of financial assets

I. Definition

The carrying amounts of financial assets are generally adjusted with a charge to the income statement when there is objective evidence that an impairment loss has occurred, i.e.:

- In the case of debt instruments, understood to be loans and debt securities, when, after their initial recognition, a single event or the combined effect of several events causes a negative impact on their future cash flows.

- In the case of equity instruments, when, as a result of an event or the combined effect of several events after initial recognition, their carrying amount will not be able to be recovered.

Write-downs of the carrying amount of financial instruments due to impairment are generally recognised with a charge to the income statement for the period in which the impairment arises, while reversals of any previously recognised impairment losses are accounted for in the income statement for the period in which the impairment loss is reversed or reduced. Impairment losses are eliminated from the balance sheet when the possibility of their recovery is considered remote, without prejudice to any initiatives of the Bank to recover such amounts before the collection right expires due to the collection period elapsing, pardoning of the receivable or for other reasons.

II. Debt instruments measured at amortised cost

In the case of debt instruments carried at amortised cost, the amount of the impairment loss is equal to the negative difference between its carrying amount and the present value of its estimated future cash flows. For quoted instruments, instead of the present value of future cash flows, market value may be used provided that it is sufficiently reliable to consider it as representative of the amount that would be recovered by the Bank.

The estimated future cash flows of a debt instrument are all the principal and interest amounts that the Bank considers will flow to it over the life of the instrument. This estimate takes into account all relevant information available on the date when the financial statements are prepared about the likelihood of collecting the contractual cash flows in the future. The future cash flows of a collateralised instrument are estimated by taking into account the flows that would result from foreclosure less costs for obtaining and subsequently selling the collateral, whether or not foreclosure is probable.

The discount rate used to calculate the present value of the estimated future cash flows is the instrument's original effective interest rate, if its contractual rate is fixed, or the effective interest rate at the reporting date determined under the contract, if it is variable.

Objective evidence of impairment is determined individually for all debt instruments that are individually significant, and individually or collectively for debt instruments that are not individually significant. When a specific instrument cannot be included in any group of assets with similar credit risk characteristics, it is analysed solely on an individual basis to determine whether it is impaired and, if so, to estimate impairment loss. Impairment is therefore broken down as follows, depending on how it is calculated:

1) Specific impairment allowances for financial assets, determined individually: the cumulative amount of allowances recorded to cover doubtful assets, estimated individually.

2) Specific impairment allowances for financial assets, determined collectively: the cumulative amount of collective impairment calculated for debt instruments of immaterial amounts classified as doubtful, for which impairment has been determined individually, and for which the Bank uses a statistical method; i.e. it calculates the specific allowance applying percentages for collective allowances based on the age of the past-due amounts.

3) Collective impairment allowances for losses incurred but not reported: the cumulative amount of collective impairment for debt instruments that have not been impaired individually.

Collective assessment of a group of financial assets to estimate impairment losses is carried out as follows:

- Debt instruments are included in groups with similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due, both principal and interest, according to the contractual terms. The credit risk characteristics to be taken into account for grouping assets are, among others: instrument type, debtor's industry, geographical location, type of guarantee or collateral, age of past-due amounts and any other factor relevant to the estimation of future cash flows.

- The future cash flows from each group of debt instruments are estimated for instruments with similar credit risk characteristics to those in the respective group, after making the necessary adjustments to adapt the historical data to current market conditions.

- The impairment loss of each group is the difference between the carrying amount of all the debt instruments in the group and the present value of the estimated future cash flows.

The Banco de España determines the parameters, methods and amounts to be used to cover the inherent impairment losses incurred but not reported on debt instruments and contingent exposures classified as standard.

The Bank applies the criteria set forth in Banco de España Circular 4/2004 when calculating impairment of its loan portfolio, and therefore complies with the criteria set forth in International Accounting Standard (IAS) 39 for financial instruments and in IAS 37 for financial guarantees and irrevocable loan commitments. The Bank has also performed an analysis to ensure that these requirements are appropriate for the actual circumstances, using internal data to confirm this.

The calculation method, as laid down in Annex IX to Banco de España Circular 4/2004, is divided into two stages.

In the first stage, balances are distributed amongst the six risk categories defined in the Circular. These are: negligible risk, low risk, medium-low risk, medium risk, medium-high risk and high risk. The impairment charge is the sum of:

- the products of the change during the period in the amount of each risk class and the related regulatory α parameter, plus

- the sum of the products of the total amount of the transactions included in each risk class at the end of the period and the related regulatory β parameter, less

- the amount of the overall net impairment charges for the relevant specific allowances or provisions made in the period.

The overall balance of the general allowance or provision must not exceed 125% of the sum of the products obtained by multiplying the amount of each risk class by its related regulatory α parameter.

The regulatory α and β parameters for each risk class are as follows:

	α	β
Negligible risk	0%	0%
Low risk	0.6%	0.11%
Medium-low risk	1.5%	0.44%
Medium risk	1.8%	0.65%
Medium-high risk	2.0%	1.10%
High risk	2.5%	1.64%

Interest accrual on the basis of the contractual terms ceases to be recognised in the income statement for all debt instruments individually classified as impaired and for all those for which impairment losses have been collectively calculated because of amounts more than three months past-due.

III. Debt or equity instruments classified as available for sale

Impairment losses on these instruments are the difference between the acquisition cost of the instruments (net of any principal repayment in the case of debt instruments) and their fair value less any impairment loss previously recognised in the income statement.

The Bank tests relevant instruments for impairment on an individual basis. However, the Bank's accounting policies stipulate that, in any case, a prolonged or significant decline in the fair value of the instrument below cost constitutes objective evidence of impairment, and impairment must therefore be recognised for the difference between the cost and the fair value of the instrument in question. Specifically, in the case of quoted equity instruments, the accounting policy considers that a decline is prolonged when the fair value of the instrument has been below cost for more than 18 months, and that the decline is significant when it represents more than 40% of the cost.

When there is objective evidence that the losses arising on measurement of these instruments are due to impairment, they are no longer recognised in equity under “Valuation adjustments – Available-for-sale financial assets” and are recorded in the income statement. If all or part of the impairment losses are subsequently reversed, the reversed amount would be recognised in the income statement for the year in which the reversal occurred (under “Valuation adjustments – Available-for-sale financial assets” in the balance sheet in the case of equity instruments).

IV. Equity instruments measured at cost

The impairment loss on equity instruments measured 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 income statement for the period in which they arise as a reduction in the cost of the instrument. These losses can only be reversed subsequently if the assets are sold.

e) Repurchase and resale agreements

Purchases of financial instruments with an obligatory resale commitment at a determined price are recognised as financing granted under "Loans and advances to credit institutions" or "Loans and advances to other debtors", as applicable. Sales of financial instruments with an obligatory repurchase commitment at a determined price are recognised as financing received under "Deposits from credit institutions" or "Deposits from other creditors", as applicable.

The difference between the purchase and sales price is recognised as interest over the life of the contract.

f) Tangible assets

Tangible assets for own use are measured at cost, revalued as permitted by specific legislation and the new accounting standards, less accumulated depreciation and any impairment losses.

Depreciation of tangible assets is provided on a straight-line basis over their estimated useful lives. The land on which the buildings and other structures stand is deemed to have an indefinite life and, therefore, is not depreciated.

Depreciation is recognised in the consolidated income statement and is calculated using the following rates (based on the average years of estimated useful life of the various assets):

	% annual	**Estimated useful life (years)**
Real estate	2	50
Furniture and fixtures	6-10	16.7-10
IT equipment	16-33	6.3-3

Depreciation methods and useful lives of each tangible asset are reviewed at least at the end of each financial year.

The cost of maintenance and repairs of tangible assets which do not improve the related assets or lengthen their useful lives are charged to the consolidated income statement when incurred.

g) Intangible assets

Goodwill

Goodwill represents the payment made by the Group in anticipation of the future economic benefits from assets of acquired entities that cannot be individually identified and separately recognised. Goodwill is only recognised if acquired in a business combination. Any negative goodwill is assigned to specific assets or liabilities and remaining amounts are recognised in the consolidated income statement in the year of acquisition.

Goodwill acquired subsequent to 1 January 2004 is measured at cost whereas goodwill acquired prior to this date is recognised at its carrying amount at 31 December 2003. In both cases, at each year end the Group tests goodwill for any impairment losses and reduces its recoverable value to an amount lower than the carrying amount when impairment losses are identified. In this case, the carrying amount is restated and the impairment loss is recognised under "Impairment of assets – Goodwill" in the consolidated income statement.

Impairment losses on goodwill are not reversed.

II. Other intangible assets

Intangible assets are identifiable non-monetary 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.

h) Leases

I. Finance leases

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

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

When the consolidated entities act as lessees, they recognise the cost of the leased assets in the consolidated balance sheet according to the nature of the asset that is the subject matter of the contract, 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 to be made to the lessor, plus the exercise price of the purchase option, where applicable). The depreciation policy for these assets is consistent with that for tangible assets for own use.

In both cases, the finance income and finance expense arising from these contracts is credited or debited, respectively, to the consolidated income statement so as to achieve a constant rate of return over the life of the lease contracts.

II. Operating leases

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

When the consolidated entities act as lessors, they recognise the acquisition cost of the leased assets under "Tangible assets" in the consolidated balance sheet. The depreciation policy for these assets is consistent with that for similar tangible assets for own use and income from operating leases is recognised in the consolidated income statement on a straight-line basis.

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

i) Financial guarantees and related provisions made

A contract is considered a financial guarantee if it requires an entity to pay specific amounts on behalf of a third party in the event that the latter is unable to do so, irrespective of the manner in which the obligation is instrumented: guarantee deposits, financial guarantee deposit, irrevocable documentary credit issued or confirmed by the entity, etc.

In accordance with EU-IFRS and as a general rule, the Group considers contracts for financial guarantees extended to third parties as financial instruments within the scope of IAS 39.

On initial recognition, the Group records financial guarantees extended as a liability at fair value plus directly attributable transaction costs, which is generally equivalent to the premium received plus the present value of any fees and commissions and returns to be received throughout the term of these contracts, with a balancing entry under assets equivalent to the amount of fees and commissions and similar income collected at the outset of operations and the present value of fees and commissions and similar income receivable. Subsequently, these contracts are recognised under liabilities at the higher of the following amounts:

- The amount determined in accordance with IAS 37, whereby financial guarantees, irrespective of the holder, arrangement or any other circumstances, are analysed periodically to determine the credit risk to which they are exposed and, where applicable, to estimate the provisions required. This amount is calculated applying criteria similar to those used to quantify impairment losses arising on debt instruments measured at amortised cost.

- The amount at which these instruments are initially recognised, less amortisation which, as established by IAS 18, is calculated on a straight-line basis over the term of these contracts.

Provisions made for these instruments, are recorded under "Provisions – Provisions for contingent exposures and commitments" in the consolidated balance sheet. Allowances and reversals of these provisions are recognised with a balancing entry under the income statement caption "Provisioning expense (net)".

In the event that provisions are required for these financial guarantees, based on the above, unaccrued commissions on these operations, which are recognised under "Financial liabilities at amortised cost – Other financial liabilities", are reclassified to the corresponding provision.

j) 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 as follows:

- Monetary assets and liabilities, at the average exchange rate prevailing on the Spanish spot foreign exchange market at year-end.

- Income and expenses, at the exchange rate on the transaction date.

III. Recognition of exchange differences

Exchange differences arising on the translation of foreign currency balances are recognised in the consolidated income statement (see notes 30 and 36).

k) Equity instruments

Instruments issued by the Bank are only considered as own equity when the following conditions are met:

- They do not include any type of obligation that requires the issuing entity to:

  - deliver cash or any other financial asset to a third party; or

  - exchange financial assets or financial liabilities with a third party under conditions that are potentially unfavourable to the Entity.

- If they may or will be settled in the issuing entity's own equity instruments:

  - in the case of a non-derivative financial instrument, the Entity is not obliged to deliver a variable number of its own equity instruments; or

  - in the case of a derivative, it must be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Entity's own equity instruments.

A financial instrument that will or may result in the future receipt or delivery of the issuer's own equity instruments, but does not meet the conditions described in the two preceding paragraphs, is not an equity instrument.

Business carried out with own equity instruments, including issuance and redemption, is recognised directly in equity of the Entity. No profit or loss on own equity instruments can be recognised. Costs of transactions with own equity instruments are deducted directly from equity, after deduction of any associated tax effect.

Changes in value of instruments classified as own equity are not recognised in the financial statements. Consideration received or conveyed in exchange for these instruments is added to or deducted directly from equity of the Entity.

l) Recognition of income and expense

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

<u>I. Interest income, interest expenses and similar items</u>

As a general rule, interest income, interest expenses and similar items are recognised on the basis of their period of accrual using the effective interest method. Dividends received from other companies are recognised as income when the consolidated entities' right to receive them arises.

<u>II. Commissions, fees and similar items</u>

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

- Those relating to financial assets and financial liabilities at fair value through profit or loss, which are recognised when collected.

- Those arising from transactions or services that are provided over a period of time, which are deferred over the life of these transactions or services.

- Those relating to the provision of a service in a single act, which are recognised when the single act is carried out.

III. Non-finance income and expenses

These items are recognised for accounting purposes on an accruals basis.

m) Assets under management

Assets owned by third parties and managed by the consolidated entities are not disclosed in the consolidated balance sheet. Management fees are included in "Fee and commission income" in the consolidated income statement (see note 28). The details of third-party assets managed by the Group at 31 December 2014 and 2013 are disclosed in note 22.

n) Post-employment benefits

The Group recognises the present value of defined benefit pension commitments, net of the fair value of the plan assets and the cost of past services, the recognition of which is deferred, in "Provisions - Provisions for pensions and similar obligations" under liabilities (or in "Other assets - Others" under assets, depending on whether the difference is positive or negative and provided that the recognition conditions set out in Bank of Spain Circular 4/2004 of 22 December 2004 and subsequent amendments are met), as explained below.

Plan assets are assets linked to a specific defined benefit commitment that will be used to directly settle these obligations. They have the following characteristics: they are not owned by the Group, but rather by a legally separate third party not related to the Group; they are only available to settle or finance post-employment benefits payable to employees; they can only be returned to the Group when the remaining assets in the plan are sufficient to meet all obligations of the plan or the Entity relating to current or former employee benefits or to reimburse employee benefits already settled by the Group.

If the Group is able to demand payment from an insurer of part or all of the disbursement required to settle the defined benefit obligation, and it is practically certain that the insurer will reimburse some or all of the disbursements required to settle the obligation, but the insurance policy does not meet the conditions to be considered a plan asset, the Group recognises this reimbursement right in "Insurance contracts linked to pensions", under assets in the balance sheet. This right is treated as a plan asset in all other respects.

The Group recognises any actuarial gains and losses arising on post-employment commitments with employees in the year in which they are generated or incurred, with a debit or credit to the income statement.

The cost of past services, incurred due to modifications to existing post-employment benefits or on the introduction of new benefits, is recognised in the income statement on a straight-line basis over the period between the date the new commitments arise and the date these benefits are vested.

Post-employment benefits are recognised in the income statement as follows:

- Current service costs, defined as the increase in the present value of the obligations resulting from employee service in the current period, are recorded under “Administrative expenses - Personnel expenses”.

- Interest costs, defined as the increase during the year in the present value of the obligations as a result of the passage of time, are recognised under “Interest expense and similar charges”. When the obligations are presented in liabilities net of the plan assets, the cost of the liabilities recognised in the income statement relates solely to the obligations recognised under liabilities.

- The expected return on plan assets and gains or losses on the value of the plan assets, less any plan administration costs and any applicable taxes, is recorded under “Interest and similar income”.

Under the collective labour agreement currently in force, the Bank has undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability, death of spouse or death of parent, and other benefits.

In accordance with Royal Decree 1588/1999, in 2000 the Bank externalised its pension commitments through an insurance contract with Seguros Generales Rural, S.A. de Seguros y Reaseguros.

Details of the present value of the Group’s post-employment benefit obligations at 31 December 2014 and 2013 are as follows:

	Thousands of Euros	
	2014	**2013**
Present value of obligations	1,152	913
Fair value of plan assets	1,378	984
Positive difference	**226**	**71**

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

1. *Valuation method:* Projected unit credit method, which considers each year 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**
Technical interest rate	1.70%	3.00%
Mortality tables	PERM/F 2000P	PERM/F 2000P
Cumulative annual CPI growth	1.50%	2%
Annual salary increase rate	2.5%	3%
Annual Social Security pension increase rate	1.5%	2%

In 2014 the Bank implemented a defined contribution supplementary benefits scheme through a pension plan arranged with the insurance firm Seguros Generales Rural, S.A. de Seguros y Reaseguros, as stipulated in article 36.7 of the 22nd collective bargaining agreement for the banking sector. This scheme is addressed to employees hired as of 8 March 1980 and who have accumulated at least two years' service. The minimum annual contribution is Euros 300, with profit-sharing rights in favour of the employee should he or she leave the Bank for reasons other than retirement.

o) Termination benefits

In accordance with prevailing legislation, the Group pays compensation to those employees whose services are discontinued without just cause. Indemnities are accounted for as a provision for pensions and similar obligations and as personnel expenses when the Entity has clearly undertaken a commitment to dismiss an employee or group of employees before their retirement date or to compensate an employee or group of employees to encourage their voluntary departure from the company.

p) Income tax

The current income tax expense is recognised in the consolidated income statement, except when it results from a transaction recognised directly in consolidated equity, in which case the related income tax charge is also recognised in consolidated equity.

The current income tax expense is calculated as the tax payable with respect to the taxable profit for the year, adjusted for the amount of the changes in the year arising from temporary and permanent differences and from tax credits and tax loss carryforwards.

Deferred tax assets and liabilities include the temporary differences, identified as the amounts expected to be paid or recovered for the differences between the carrying amount of the assets and liabilities and their related tax bases (tax value).

Deferred tax assets, tax credits and tax loss carryforwards are only recognised when it is probable that the consolidated entities will obtain sufficient future taxable profit against which they can be utilised.

Deferred tax assets and liabilities are quantified by applying the expected recovery or settlement tax rate to temporary differences or credits.

Deferred tax liabilities are always recognised, except when goodwill is recognised or when they arise in accounting for investments in subsidiaries, associates or joint ventures where the investor is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the future. Nevertheless, deferred tax assets and liabilities are not recognised if they arise from the initial recognition of an asset or liability other than a business combination that at the time of recognition affects neither accounting profit nor taxable profit.

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

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

q) Consolidated statement of cash flows

The Group reports its consolidated cash flows using the indirect method, using the following expressions and classification criteria:

- Cash flows: inflows and outflows of cash and cash equivalents, the latter being short-term, highly liquid investments subject to a low risk of changes in value.

- Operating activities: typical activities of credit institutions and other activities that cannot be classified as investing or financing.

- Investing activities: the acquisition, sale or other disposal of non-current assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of consolidated equity and of liabilities that do not form part of operating activities.

For the preparation of the consolidated statement of cash flows, “Cash and balances with central banks” have been considered as cash and cash equivalents.

r) *Consolidated statement of recognised income and expense*

This statement includes income and expenses generated or incurred by the Group during the year in the ordinary course of business, distinguishing between amounts recognised in the consolidated income statement for the year and those recognised directly in consolidated equity, in accordance with prevailing legislation.

This statement therefore comprises the following:

a) Consolidated profit for the year

b) Net income and expenses recognised temporarily as valuation adjustments in consolidated equity.

c) Net income and expenses recognised permanently in consolidated equity.

d) Accrued income tax payable in respect of the items mentioned in points b) and c) above, except on valuation adjustments arising from interests in associates or jointly controlled entities accounted for using the equity method, which are disclosed as net balances.

e) Total consolidated recognised income and expense calculated as the sum of the preceding points, presenting the amounts attributable to the Parent and to minority interests separately.

Any type of income and expenses attributable to entities accounted for using the equity method recognised directly in equity is disclosed in this statement under “Entities accounted for using the equity method”.

Changes in income and expenses recognised in consolidated equity during the year, such as valuation adjustments, are disclosed as follows:

a) Revaluation gains/(losses) reflect income, net of expenses incurred during the year, recognised directly in consolidated equity. Amounts recognised in this caption during the year continue to be carried at the initial value of other assets or liabilities, even when they are transferred to the consolidated income statement in the same year, or they are reclassified to another caption.

b) Amounts transferred to the income statement reflect revaluation gains or losses previously recognised in consolidated equity, even in the same year, which are accounted for in the consolidated income statement.

c) Amounts transferred to the initial carrying amount of hedged items comprise valuation gains or losses previously recognised in consolidated equity, even in the same year, which are accounted for in the initial value of assets or liabilities as a result of cash flow hedges.

d) Other reclassifications reflect transfers between valuation adjustments during the year in accordance with criteria established under prevailing legislation.

Amounts disclosed in these captions are gross and the associated tax effect is recognised in “Income tax”, except in the case of valuation adjustments of entities accounted for using the equity method, as mentioned previously.

s) Consolidated statement of total changes in equity

This consolidated statement of total changes in equity presents all changes, including those arising from changes in accounting principles and corrections of errors. This statement therefore shows a reconciliation of the opening and closing carrying amounts of all items comprising consolidated equity, grouping movements according to their nature, as follows:

a) Adjustments for changes in accounting principles and corrections of errors reflect changes in consolidated equity due to the retrospective restatement of balances in the financial statements as a result of changes in accounting principles or corrections of errors.

b) Consolidated income and expenses recognised during the year comprise the aggregate amount of the aforementioned items recognised in the consolidated statement of recognised income and expense.

c) Other changes in equity comprise the remaining items recognised in consolidated equity, such as increases or decreases in share capital, distribution of profit or application of losses, transactions with own equity instruments, equity-settled payments, transfers between consolidated equity items and any other increases or decreases in consolidated equity.

3. Distribution of Profit and Earnings per Share

Distribution of profit

The board of directors will propose for approval by the shareholders at the annual general meeting that the Bank's net profit for 2014 be distributed as follows:

	Thousands of Euros
Net profit for 2014	45,416
Reserves	
Legal	--
Voluntary	45,416

The distribution of the Bank's net profit for 2013, approved by the shareholders at their annual general meeting held on 28 May 2014, was as follows:

	Thousands of Euros
Net profit for 2013	42,472
Distribution:	
Reserves	
Legal	598
Voluntary	41,874

Distribution of dividends

At their annual general meeting held on 3 December 2014, the Bank's shareholders decided to distribute an extraordinary dividend of Euros 12,000 thousand with a charge to voluntary reserves.

Earnings per share

Earnings per share are calculated by dividing the net profit attributable to the Group by the number of ordinary shares of the Bank outstanding during the year.

	2014	2013
Net profit attributable to the Group (thousands of Euros)	46,320	43,019
Number of shares outstanding (note 18)	1,514,297	1,514,297
Earnings per share (Euros)	30.59	28.41

4. Information on Directors and Senior Management

Remuneration of directors

Details of gross remuneration received by members of the Bank's board of directors for allowances in 2014 and 2013 are as follows:

Thousands of Euros

Director	2014	2013	
D. José Luis García Palacios (Presidente)	30	32	
D. José Luis García-Lomas Hernández (Vicepresidente 1º)	10	10	
D. Pedro García Romera (Vicepresidente 2º)	10	9	
D. Ignacio Arrieta del Valle (1)	13	13	
D. Nicanor Bascuñana Sanchez	10	10	
D. Luis Esteban Chalmovsky	9	7	
D. Luis Díaz Zarco	-	1	Consejero hasta el 20/03/2013
D. Andrés Gómez Mora	-	4	Consejero hasta el 29/05/2013
D. Carlos Martínez Izquierdo	10	10	
D. Carlos de la Sierra Torrijos	10	10	
D. Jose Antonio Alayeto Aguarón	10	10	
D. Dimas Rodríguez Rute (2)	12	12	
D. Cipriano García Rodríguez (3)	11	12	
Dña. Dagmar Werner	9	10	
D. José María Quirós Rodriguez	11	11	
D. Fernando Berge Royo	10	5	Consejero desde el 29/05/2013
D. Jesús Méndez Alvarez-Cedrón (4)	12	6	Consejero desde el 29/05/2013
Totales	**177**	**172**	

(1) Amount received by Caja Rural de Navarra

(2) Amount received by Caja Rural de Granada

(3) Amount received by Caja Rural de Zamora

(4) Amount received by por Caixa Rural Galega

Loans

The Group has extended no loans to the Bank's directors at 31 December 2014 or 2013.

Conflicts of interest concerning the directors.

The directors of the Bank and their related parties have had no conflicts of interest requiring disclosure in accordance with articles 228 and 229 of the Revised Spanish Companies Act, amended by Law 31/2014 of 24 December 2014.

Remuneration of senior management

For the purposes of preparing the accompanying consolidated annual accounts, senior management comprises the 13 members of the Bank's steering committee in 2014 and 2013, considered to be key management personnel within the Group.

Details are as follows:

	Short-term remuneration					
	Thousands of Euros					
	Fixed		Variable		Total	
	2014	2013	2014	2013	2014	2013
Senior management	1,774	1,748	535	513	2,309	2,261

Gender distribution of the board of directors

At 31 December 2014 and 2013 the board of directors was formed by 14 male members and one female member.

5. Cash and Balances with Central Banks

Details are as follows:

	Thousands of Euros	
	2014	2013
Cash	802	700
Bank of Spain		
Current account	265,751	183,754
Valuation adjustments	18	83
Total	**266,571**	**184,537**

Amounts deposited in central banks at 31 December 2014 and 2013 earned interest at an average rate of 0.13% and 0.48%, respectively.

Details of residual maturity and the interest rate repricing matrix for the items recorded in this caption of the consolidated balance sheet are provided under Risk Management (see note 36).

6. Financial Assets and Financial Liabilities at Fair Value through Profit or Loss

Information on credit, liquidity and market risks assumed by the Bank in relation to financial assets included in this category is provided under Risk Management in note 36, and certain information on the fair value of these assets is provided in note 23.

6.1 Financial assets and financial liabilities held for trading

Details of financial assets and financial liabilities held for trading by counterparty and type of instrument are as follows:

	Thousands of Euros			
	Assets		Liabilities	
	2014	**2013**	**2014**	**2013**
Counterparty				
Credit institutions	485,465	4,194,829	481,783	397,086
Resident general government	2,849,115	475,520	--	--
Other resident sectors	317,279	262,016	72,736	30,777
Other non-resident sectors	4,245	586	--	--
Total	**3,656,104**	**4,932,951**	**554,519**	**427,863**
Instrument				
Debt securities	3,091,107	4,505,772	--	--
Other equity instruments	297	281	--	--
Trading derivatives	564,700	426,898	553,017	427,863
Short positions	--	--	1,502	--
Total	**3,656,104**	**4,932,951**	**554,519**	**427,863**

Loaned or pledged securities amount to Euros 1.574.286 thousand at 31 December 2014 (Euros 2.916.327 thousand at 31 December 2013).

Trading portfolio. Debt securities

Details are as follows:

	Thousands of Euros	
	2014	**2013**
Spanish government debt securities	2,849,115	4.027,661
Issued by credit institutions	210,471	475,520
Other Spanish fixed-income securities	27,573	2,287
Other non-resident fixed-income securities	3,948	304
Total	**3,091,107**	**4,505,772**

Debt securities held for trading earned interest at an average annual rate of 1.14% in 2014 (1.87% in 2013).

Trading portfolio. Other equity instruments

Details are as follows:

	Thousands of Euros	
	2014	**2013**
Shares in Spanish companies	--	--
Shares in foreign companies	297	281
Total	**297**	**281**

Trading portfolio. Trading derivatives

Details of the fair value of trading derivatives at 31 December 2014 and 2013, by type of instrument, are as follows:

	Thousands of Euros			
	Assets		**Liabilities**	
	2014	**2013**	**2014**	**2013**
Purchase of foreign currencies	6,826	1,846	3,590	1,826
Interest rate derivatives	540,646	405,900	514,525	406,736
Equity price risk derivatives	17,228	18,850	17,699	19,301
Other risk derivatives	--	302	17,203	--
Total	**564,700**	**426,898**	**553,017**	**427,863**

The notional values of derivatives held for trading at 31 December 2014 and 2013, by maturity date, are as follows:

	2014			
	Thousands of Euros			
	Up to 1 year	**1 to 5 years**	**Over 5 years**	**Total**
Purchase of foreign currencies	177,023	10,000	--	187,023
Interest rate derivatives	4,269,548	6,245,164	13,602,887	24,117,599
Equity price risk derivatives	1,062,286	1,809,192	180,550	3,052,028
Other risk derivatives	--	--	225,000	225,000
Total	**5,508,857**	**8,064,356**	**14,008,437**	**27,581,650**

	2013			
	Thousands of Euros			
	Up to 1 year	**1 to 5 years**	**Over 5 years**	**Total**
Purchase of foreign currencies	188,528	--	--	188,528
Interest rate derivatives	3,105,919	4,607,123	12,913,637	20,626,679
Equity price risk derivatives	1,120,654	1,917,906	104,426	3,142,986
Other risk derivatives	239,000	--	--	239,000
Total	**4,654,101**	**6,525,029**	**13.018,063**	**24,197,193**

6.2 Other financial liabilities at fair value through profit or loss

Details are as follows:

	Thousands of Euros	
	2014	**2013**
Counterparty		
Credit institutions	4,731	--
Total	**4,731**	**--**
Instrument		
Deposits from credit institutions	4,731	--
Total	**4,731**	**--**

7. Available-for-sale financial assets

Details of available-for-sale financial assets, based on the nature of the operations, are as follows:

	Thousands of Euros	
	2014	**2013**
Counterparty		
Credit institutions	208,140	350,912
Resident general government	3,587,427	1,574,933
Other resident sectors	104,998	39,042
Other non-resident sectors	10,508	3,613
Impairment losses	(783)	(281)
Total	**3,910,290**	**1,968,219**
Instrument		
Debt securities	3,883,969	1,955,398
Spanish government debt securities	3,587,427	1,574,933
Issued by credit institutions	205,236	349,004
Other Spanish fixed-income securities	86,180	28,207
Other non-resident fixed-income securities	5,909	3,535
Impairment losses	(783)	(281)
Other equity instruments	26,321	12,821
Shares in credit institutions	2,905	1,908
Shares in Spanish companies	18,818	5,171
Shares in foreign companies	99	78
Mutual fund units	4,499	5,664
Total	**3,910,290**	**1,968,219**

Available-for-sale debt securities earned interest at an average rate of 1.65% in 2014 (2.76% in 2013).

Loaned or pledged debt securities amounted to Euros 2,424,087 thousand at 31 December 2014 (Euros 976,816 thousand in 2013).

Information on credit, liquidity and market risks assumed by the Bank in relation to financial assets included in this category is provided under Risk Management in note 36, whereas certain information on the fair value of these assets is provided in note 23.

Available-for-sale financial assets. Past-due impaired assets

At 31 December 2014 and 2013 there were no individual available-for-sale financial assets which could have been considered impaired due to credit risk.

8. Loans and receivables

Details of loans and receivables by type of instrument are as follows:

	Thousands of Euros	
	2014	**2013**
Loans and advances to credit institutions	10,869,238	15,947,640
Loans and advances to other debtors	1,059,462	668,980
Debt securities	70,543	59,246
Subtotal	**11,999,243**	**16,675,866**
Valuation adjustments		
Impairment losses	(43,211)	(36,084)
Other valuation adjustments	65,126	113,497
Total	**12,021,158**	**16,753,279**

Information on credit, liquidity and market risks assumed by the Group in relation to financial assets included in this category is provided under Risk Management in note 36, whereas certain information on the fair value of these assets is provided in note 23.

Loans and receivables. Loans and advances to credit institutions

Details by instrument are as follows:

	Thousands of Euros	
	2014	**2013**
Instrument		
Time deposits	7,250,317	11,554,223
Reverse repos	3,278,909	4,113,628
Other accounts	340,012	279,789
Subtotal	**10,869,238**	**15,947,640**
Valuation adjustments	64,829	113,767
Total	**10,934,067**	**16,061,407**

Loans and advances to credit institutions earned interest at an average annual rate of 0.53% in 2014 (1.27% in 2013).

Loans and receivables. Loans and advances to other debtors

Details by instrument, status and borrower sector are as follows:

	Thousands of Euros	
	2014	**2013**
Instrument and status		
Commercial credit	22,292	39,384
Secured loans	122,594	122,574
Reverse repos	--	104,883
Other term loans	798,270	262,821
Finance leases	6,230	7,333
Receivable on demand and others	20,198	10,113
Other accounts	80,717	112,910
Doubtful assets	9,161	8,962
Subtotal	**1,059,462**	**668,980**
Impairment losses	(42,954)	(36,084)
Other valuation adjustments	297	(270)
Total	**1,016,805**	**632,626**
Counterparty		
Spanish general government	652,236	91,448
Other resident sectors	394,343	572,587
Other non-resident sectors	12,883	4,945
Subtotal	**1,059,462**	**668,980**
Impairment losses	(42,954)	(36,084)
Other valuation adjustments	297	(270)
Total	**1,016,805**	**632,626**

Loans and advances to other debtors earned interest at an average annual rate of 2.28% in 2014 and 2013.

Loans and receivables. Debt securities

Details by instrument are as follows:

	Thousands of Euros	
	2014	**2013**
Spanish general government	59,143	59,146
Other resident sectors	11,400	100
Impairment losses	(257)	--
Total	**70,286**	**59,246**

These financial instruments earned interest at an average annual rate of 3.28% in 2014 and 2013.

9. Held-to-maturity investments

Details of held-to-maturity investments, based on the nature of the operations, are as follows:

	Thousands of Euros	
	2014	**2013**
Instrument		
Debt securities:		
Spanish government debt securities	125,848	125,520
Issued by credit institutions	18,140	244,312
Impairment losses	--	--
Total	**143,988**	**369,832**

At 31 December 2014 and 2013 there were no individual assets in this portfolio which could have been considered impaired due to credit risk.

Loaned or pledged debt securities amount to Euros 57,374 thousand at 31 December 2014 (Euros 277,078 thousand in 2013).

Held-to-maturity investments earned interest at an average annual rate of 3.30% in 2014 (3.50% in 2013).

Information on credit, liquidity and market risks assumed by the Bank in relation to financial assets included in this category is provided under Risk Management in note 36, whereas certain information on the fair value of these assets is provided in note 23.

10. Equity Investments: Associates

Details of Investments in associates at 31 December 2013 are as follows:

	Thousands of Euros
	2013
Espiga Capital Inversión, S.C.R. de R.S., S.A.	8,404
Espiga Capital Inversión II, S.C.R. de R.S., S.A.	305
Mercavalor, S.V., S.A.	--
Total	**8,709**

Movement in 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	**2013**
Opening balance	**8,709**	**11,571**
Capital reduction by Espiga Capital Inversión, S.C.R., S.A.	(4,920)	--
Dividends received and share premium reimbursed	--	(1,101)
Acquisition of shares in Espiga Capital Inversión, S.C.R., S.A.	--	598
Effect of equity accounting	--	1,007
Write-down of investment in Espiga Capital Inversión II, S.C.R., S.A	--	(747)
Sale of investment in Mercavalor, S.V., S.A.	--	(2,619)
Reclassification of investments to assets available for sale	(3,789)	--
Closing balance	**--**	**8,709**

On 10 December 2013 the Bank sold all its shares in Mercavalor S.V., S.A. for Euros 1,141 thousand, a price similar to the carrying amount recognised by the Bank.

On 1 November 2014 the Bank reclassified its investments in Espiga Capital Inversión, S.C.R., S.A. and Espiga Capital Inversión II, S.C.R., S.A. to the portfolio of "Assets available for sale" as they are now managed by a management company other than Espiga Capital Gestión, S.G.E.C.R., S.A. As a result, those investments were measured at fair value and a gain of Euros 802 thousand was recognised in profit or loss.

11. Tangible assets

Movement in 2014 and 2013 is as follows:

	Thousands of Euros			
	Real estate	Furniture and fixtures	IT equipment	Total
Cost				
Balance at 31 December 2012	17,749	3,575	2,664	23,988
Additions	--	265	32	297
Disposals	--	--	--	--
Balance at 31 December 2013	17,749	3,840	2,696	24,285
Additions	--	61	168	229
Disposals	--	--	--	--
Balance at 31 December 2014	17,749	3,901	2,864	24,514
Accumulated depreciation				
Balance at 31 December 2012	(2,794)	(2,407)	(2,338)	(7,539)
Additions	(537)	(210)	(140)	(887)
Disposals	--	--	--	--
Balance at 31 December 2013	(3,331)	(2,617)	(2,478)	(8,426)
Additions	(228)	(228)	(132)	(588)
Disposals	--	--	--	--
Balance at 31 December 2014	(3,559)	(2,845)	(2,610)	(9,014)
Net tangible assets				
Balance at 31 December 2013	**14,418**	**1,223**	**218**	**15,859**
Balance at 31 December 2014	**14,190**	**1,056**	**254**	**15,500**

In accordance with EU-IFRS, the Group revalued its real estate in an amount of Euros 6,638 thousand. An appraisal at 1 January 2004, prepared by an independent surveyor, was used as the fair value for this revaluation. The resulting adjustments were recognised under “Accumulated reserves” (Euros 4,466 thousand) and “Tax liabilities” (Euros 2,172 thousand) (see note 19).

At 31 December 2014 and 2013 the cost of fully-depreciated tangible assets for own use in service amounts to Euros 3,756 thousand and Euros 3,498 thousand, respectively.

At 31 December 2014 and 2013, the Bank has no tangible assets on which there are any ownership restrictions or which are pledged as collateral. Neither does it have any commitments to acquire tangible assets from third parties. No compensation or indemnities for the impairment or decline in value of tangible assets for own use were received from third parties in those years, nor are they expected to be received.

12. Intangible Assets

Movement in 2014 and 2013 is as follows:

	Thousands of Euros
Cost	**Other intangible assets**
Balance at 31 December 2012	8,821
Additions	811
Disposals	--
Balance at 31 December 2013	9,632
Additions	1,210
Disposals	--
Balance at 31 December 2014	10,842
Accumulated amortisation	
Balance at 31 December 2012	(7,610)
Additions	(837)
Disposals	--
Balance at 31 December 2013	(8,447)
Additions	(823)
Disposals	--
Balance at 31 December 2014	(9,270)
Net intangible assets	
Balance at 31 December 2013	**1,185**
Balance at 31 December 2014	**1,572**

At 31 December 2014 and 2013 the cost of fully-amortised intangible assets for own use in service amounts to Euros 7,882 thousand and Euros 7,117 thousand, respectively.

13. Financial liabilities at amortised cost

Details by type of counterparty are as follows:

	Thousands of Euros	
	2014	**2013**
Deposits from central banks	9,128,132	7,057,088
Deposits from credit institutions	8,705,413	9,869,811
Deposits from other creditors	744,807	3,690,718
Debt certificates including bonds	361,930	2,813,439
Other financial liabilities	53,067	7,956
Total	**18,993,349**	**23,439,012**

Details of residual maturity and the interest rate repricing matrix for the items recorded in this caption of the consolidated balance sheet are provided under Risk Management (see note 36).

Note 23 includes information on the fair value of financial instruments included in this caption.

Deposits from central banks and from credit institutions

Details by nature are as follows:

	Thousands of Euros	
	2014	**2013**
Nature		
Time deposits	7,860,869	10,272,653
Repurchase agreements	4,202,101	2,032,563
Other accounts	5,659,784	4,475,642
Valuation adjustments	110,791	146,041
Total	**17,833,545**	**16,926,899**

At 31 December 2014 time deposits include Euros 113,698 thousand (Euros 181,990 thousand in 2013) for intermediary loans received from the Spanish Official Credit Institute.

These instruments accrued interest at an average rate of 0.46% in 2014 (1.02% in 2013).

Deposits from other creditors

Details by nature and currency are as follows:

	Thousands of Euros	
	2014	**2013**
Nature		
Demand deposits	515,391	500,765
Time deposits	16,956	14,137
Repurchase agreements	212,371	3,175,702
Valuation adjustments	89	114
Total	**744,807**	**3,690,718**

These instruments accrued interest at an average rate of 0.11% in 2014 (0.12% in 2013).

Debt certificates including bonds

Details are as follows:

	Thousands of Euros	
	2014	**2013**
Promissory notes and bills	--	1,181
Other non-convertible securities	351,687	3,330,312
Treasury shares	--	(519,406)
Valuation adjustments	10,243	1,352
Total	**361,930**	**2,813,439**

At 31 December 2013 promissory notes and bills reflected the balance in circulation of the second promissory notes issue programme, for a nominal amount totalling Euros 800 million, which was recorded at the Spanish National Securities Market Commission on 22 November 2011. These securities are listed on the AIAF (Spanish association of securities dealers) organised market.

The nominal amount of issued promissory notes that had yet to mature at 31 December 2013 stood at Euros 1,250 thousand and accrued average interest of 3.94%.

Pursuant to Ministry of Economy and Finance Order EHA/3364/2008, of 21 November 2008, which enacts article 1 of Royal Decree-Law 7/2008 of 13 October 2008 on urgent economic-financial measures regarding the agreed action plan for eurozone countries, on 2 December 2008 Banco Cooperativo Español, S.A., as the managing entity of a group of entities comprising the Bank and its shareholder rural savings banks, filed an application with the Spanish Public Treasury for a state guarantee for fixed-income issues amounting to Euros 2,797 million, relating to the total market share of the Bank and its shareholder rural savings banks.

As authorised by the shareholders at their general meeting held on 27 June 2007, the Bank’s board of directors, at its meeting held on 17 December 2008, approved the fixed-income security issue programme encompassing the issues guaranteed by the Spanish State under aforementioned Royal Decree-Law 7/2008.

The State guarantee was approved by Ministry of Economy and Finance Orders dated 29 December 2008, 30 September 2009 and 13 February 2012 and extended to the Bank for the issue of private fixed-income securities for Euros 2,797 million and Euros 1,795 million, respectively. The following issues were carried out under these programmes:

	Currency	Issue date	Maturity date	Interest rate	Thousands of Euros	
					2014	**2013**
Ordinary bonds. Third issue in 2009 under State guarantee	Eur	22/01/2010	22/01/2015	3.125%	351,687	899,712
Ordinary bonds. Fourth issue in 2008 under State guarantee	Eur	02/12/2011	02/06/2014	4.878%	--	930,600
Ordinary bonds. Fifth issue in 2012 under State guarantee	Eur	27/03/2012	27/03/2015	3-month Euribor +2%	--	610,000
Ordinary bonds. Sixth issue in 2012 under State guarantee	Eur	27/03/2012	27/03/2017	3-month Euribor +2.5%	--	890,000
Total					**351,687**	**3,330,312**

These bonds are listed on the AIAF (Spanish association of securities dealers) organised market.

The amounts recognised under “Own securities” reflect the amortised cost of different purchases of ordinary bonds from the third, fourth, fifth and sixth issues made in 2013 and 2012, for a nominal amount of Euros 22,650 thousand and Euros 496,850 thousand and an effective amount of Euros 23,086 thousand and Euros 510,042 thousand, respectively. The results of the aforementioned acquisitions were recognised under “Gains or losses on financial assets and financial liabilities (net)” in the accompanying income statement (see note 30).

On 28 February and 13 March 2014, pursuant to the Ministry of Economy and Competitiveness Order issued on 13 February 2012, whereby the General State Administration extended guarantees for certain financing transactions arranged by Banco Cooperativo Español, S.A., and as set out in the prospectuses, the fourth, fifth and sixth bond issues were repaid early in full. The redemption price was 100% of par plus accrued interest.

Similarly, on 17 March 2014 the Group made a public offer for the bonds from the third issue, offering a price equal to 100% plus accrued interest. Bondholders holding bonds totalling Euros 256,000 thousand accepted the offer. This amount and those shown for this issue under “Own securities” were redeemed early. As a result of the aforementioned transactions the Bank recognised gains totalling Euros 2,002 thousand under “Gains or losses on financial assets and financial liabilities (net)” in the accompanying income statement (see note 30).

Interest accrued on debt certificates including bonds totalled Euros 38,897 thousand in 2013 (Euros 119,394 thousand in 2013) (see note 25).

Other financial liabilities

Details are as follows:

	Thousands of Euros	
	2014	**2013**
Obligations payable	571	2.379
Collateral received	15	15
Tax collection accounts	2,257	954
Special accounts	49,203	4,423
Financial guarantees	256	174
Other	765	11
Total	**53,067**	**7,956**

Information on deferred payments to suppliers. Third Additional Provision of Law 15/2010 of 5 July 2010: "Reporting Obligation"

In accordance with Law 15/2010 of 5 July 2010, amending Law 3/2004 of 29 December 2004, which sets forth measures to combat late payment on commercial transactions and which is implemented through the ruling issued by the Spanish Institute of Accountants and Auditors (ICAC) on 29 December 2010, the following should be noted:

- In light of the activities in which the Entity is engaged (financial activities), it does not conduct direct trade operations that would have a relevant effect on individual figures. For the purposes of this note, therefore, debt deferrals have been considered to reflect primarily payments to service providers and sundry suppliers, rather than payments to depositors and holders of securities issued by the Group, which have been settled in strict compliance with the legal and contractual terms established in each case, for both on-demand and deferred payments.

- Pursuant to the reporting obligation stipulated in Law 15/2010 of 5 July 2010 in relation to the Bank's trade suppliers and service providers, and taking into account the second transitional provision of the ICAC ruling of 29 December 2010, no payables exceeded the maximum legal payment term at 31 December 2014 or 2013. Payments made by the Entity to suppliers and service providers amounted to Euros 8,265 thousand in 2013 (Euros 8,924 thousand in 2013).

14. Other Assets and Liabilities

Details are as follows:

	Thousands of Euros	
	Other assets	
	2014	2013
Prepayments and accrued income	1,837	2,142
Other	1,164	6,865
Total	**3,001**	**9,007**

	Other liabilities	
	2014	2013
Accrued expenses and deferred income: Accrued expenses	22,532	20,079
Other	12,622	5,682
Total	**35,154**	**25,761**

15. Hedging derivatives

The fair value of hedging derivatives is as follows:

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Fair value hedges:				
Hedging derivatives	--	33,332	--	5,751

The Bank hedges interest rate risk deriving from fixed-rate financial instruments. The purpose of this hedge is to maintain the fair value of hedged operations, which comprise fixed-income securities. At 31 December 2014 and 2013 the nominal amount of derivatives contracted to hedge interest rates amounted to Euros 372,083 and Euros 83,600 thousand, respectively.

Gains or losses on hedging instruments and the hedged item attributable to the hedged risk are not significant in 2014 and 2013 and are recognised under “Gains or losses on financial assets and liabilities (net) – Hedge accounting not included in interest” (see note 30).

16. **Provisions**

This item comprises provisions for contingent exposures and commitments. Movement during 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	**2013**
Opening balance	**552**	**687**
Net allowances charged to the income statement	(303)	(103)
Applications	(28)	(32)
Closing balance	**221**	**552**

17. **Valuation Adjustments (Equity)**

Valuation adjustments in the consolidated balance sheets include the amounts, net of the related tax effect, of adjustments to the assets and liabilities recorded temporarily in equity through the statement of total changes in equity until they are realised or extinguished, at which point they are transferred to shareholders' equity in the income statement. Amounts deriving from subsidiaries and associates are disclosed on a line-by-line basis according to their nature.

Movement during 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	**2013**
Opening balance	**4,955**	**(7,157)**
Net revaluation gains/(losses)	16,892	16,915
Amounts transferred to the income statement	3,094	505
Entities accounted for using the equity method	--	(82)
Income tax	(5,996)	(5,226)
Closing balance	**18,945**	**4,955**

18. Share Capital and Share Premium

18.1 Share Capital

At 31 December 2014 and 2013, the share capital of the Bank was represented by 1,514,297 registered shares of Euros 60.10 par value each, subscribed and fully paid.

Shareholders holding more than 10% of share capital at 31 December 2014 and 2013 are as follows:

	% ownership	
Entity	**2014**	**2013**
DZ Bank AG	12.02	12.02

The Bank held no treasury shares at 31 December 2014 or 31 December 2013.

18.2 Share premium

This item reflects the amount disbursed by the shareholders over the par value of the shares when subscribing the share capital. At 31 December 2014 and 2013 the share premium amounts to Euros 85,972 thousand

19. Reserves and Profit and Loss attributable to the Group

Definition

"Equity – Reserves – Accumulated reserves" in the consolidated balance sheets include the net amount of the accumulated profit and loss recognised in the consolidated income statement in previous years that was assigned to consolidated equity in the distribution of the profit. "Equity – Reserves of entities accounted for using the equity method" in the consolidated balance sheets include the net amount of the accumulated profit and loss generated in previous years by entities accounted for using the equity method and recognised in the consolidated income statement.

Breakdown

Details of these items at 31 December 2014 and 2013 are as follows:

	Thousands of Euros	
	2014	**2013**
Accumulated reserves		
Legal reserves	18,202	17,604
Other reserves	118,851	90,170
Revaluation reserves (note 11)	4,431	4,432
Consolidation reserves attributable to the Bank	292	22
Reserves in subsidiaries	19,062	17,429
Total	**160,838**	**129,657**
Reserves of entities accounted for using the equity method		
Associates	--	428
Total	**--**	**428**

Movement

Details of changes in this caption of consolidated equity in 2014 and 2013 are shown in the consolidated statement of total changes in equity.

Legal reserve

Under the Revised Spanish Companies Act, entities must transfer 10% of profit for each year to their legal reserve until such reserve reaches an amount equal to 20% of the share capital of the entity. The legal reserve can be used to increase share capital provided that the remaining reserve balance is at least equal to 10% of the nominal value of the total share capital after the increase.

Except for the aforementioned purpose, unless the legal reserve exceeds 20% of the share capital it may only be used to offset losses if no other reserves are available.

Reserves (losses) of fully-consolidated entities

Details are as follows:

	Thousands of Euros	
	2014	**2013**
Rural Informática, S.A.	5,836	5,289
Gescooperativo, S.A., S.G.I.I.C.	10,065	9,159
Espiga Capital Gestión, S.G.C.R., S.A.	147	684
Rural Inmobiliario, S.L.	1,959	1,312
BCE Formación, S.A.	538	514
Rural Renting, S.A.	517	471
Total	**19,062**	**17,429**

Reserves of entities accounted for using the equity method

Details are as follows:

	Thousands of Euros	
	2014	**2013**
Espiga Capital Inversión, S.C.R. de R.S., S.A and subsidiaries	--	428
Total	**--**	**428**

Profit and loss attributable to the Group

Details of profit and loss attributable to the Group, taking into account consolidation adjustments, are as follows:

	Thousands of Euros	
	2014	**2013**
Banco Cooperativo Español, S.A.	42,998	38,265
Rural Informática, S.A.	432	570
Rural Inmobiliario, S.L.	141	620
Gescooperativo, S.A., S.G.I.I.C.	2,603	2,406
BCE Formación, S.A.	119	103
Espiga Capital Gestión, S.G.C.R., S.A.	8	1
Rural Renting, S.A.	19	47
Espiga Capital Inversión, S.C.R. de R.S., S.A and subsidiaries (note 28)	--	1,007
Total	**46,320**	**43,019**

20. Taxation

Tax assets and liabilities

Details at 31 December 2014 and 2013 are as follows:

	Thousands of Euros			
	Current		Deferred	
	2014	2013	2014	2013
Tax assets				
Temporary differences	--	--	13,564	13,498
VAT	226	161	--	--
Other	4,160	5,480	--	--
Total	**4,386**	**5,641**	**13,564**	**13,498**
Tax liabilities				
Temporary differences (liabilities)	--	--	10,414	6,605
Income tax	229	465	--	--
VAT	449	461	--	--
Other	492	1,316	--	--
Total	**1,170**	**2,242**	**10,414**	**6,605**

Movement in deferred tax assets and liabilities in 2014 and 2013 is as follows:

	Thousands of Euros	
	Assets	Liabilities
Balance at 31 December 2012	**8,927**	**2,160**
Additions	6,266	5,450
Disposals	(1,695)	(1,005)
Balance at 31 December 2013	**13,498**	**6,605**
Additions	2,415	3,882
Disposals	(2,349)	(73)
Balance at 31 December 2014	**13,564**	**10,414**

Royal Decree 14/2013 on urgent measures to adapt Spanish law to European Union legislation on the supervision and solvency of financial institutions introduced certain measures aimed at allowing for certain deferred tax assets to continue to be classed as capital, in line with legislation in force in other European Union member states, including the amendment to the Revised Corporate Income Tax Law, approved by Royal Legislative Decree 4/2004 and Law 27/2014 (for 2015 and subsequent years), particularly in relation to the conversion of deferred tax assets into credits that give rise to a receivable from the taxation authorities. At 31 December 2014 the Bank estimates that the foregoing will give rise to Euros 9,548 thousand in recoverable taxes from the taxation authorities.

Additions to deferred tax assets are mainly non-deductible provisions for bad debts, pension obligations, impairment of investments, amortisation/depreciation not deductible for tax purposes and the tax effect of decreases in the value of assets at fair value through equity. Disposals comprise tax recoverable for the use of non-deductible bad debt allowances (general and substandard risk) and for income that is not eligible for tax purposes, deriving from prepaid fees and commissions (see note 2-p).

Additions to deferred tax liabilities mainly reflect the tax effect of increases in the value of liabilities at fair value through equity. Disposals are essentially the tax effect of decreases in the value of liabilities at fair value through equity (see note 2-p).

Independently of income tax recognised in the consolidated income statement, at 31 December 2014 and 2013 the Group has recognised taxes of Euros 1,310 thousand and Euros 3,498 thousand relating to valuation adjustments to available-for-sale financial assets directly in equity. These accounting entries will be maintained until the assets are sold.

Taxation

Profits, determined in accordance with tax legislation, are subject to tax at a rate of 30%, which may be reduced by certain credits.

A reconciliation of accounting profit for 2014 and 2013 with the taxable income that the Group expects to declare after approval of the consolidated annual accounts is as follows:

	Thousands of Euros	
	2014	**2013**
Accounting profit for the year before income tax	65,792	60,472
Increase for permanent differences	68	(333)
Taxable accounting income	65,860	60,139
Temporary differences		
Increases (net)	7,508	14,976
Other adjustments to the taxable base with no effect on the income tax expense	(1,999)	--
Taxable income	71,369	75,115
Tax at 30%	21,411	22,535
Withholdings and payments on account	(18,637)	(17,238)
Credits and deductions	(70)	(60)
Other deductions with no effect on the income tax expense	(4,628)	--
Effect of the Group’s share in net profit of associates	(240)	(282)
Income tax payable	**(2,164)**	**4,955**

The permanent differences in the tax base correspond to certain non-deductible expenses for donations.

Temporary differences primarily include tax adjustments to the general provision for pension obligations, non-deductible provisions for loan losses, the reversal of deferred fees and commissions on first-time application of Circular 4/2004, the non-deductibility of impairment losses on investments and the 70% limit on the tax deductibility of amortisation/depreciation. The reductions in income tax payable are due to deductions for double taxation, donations and R&D&I expenses.

Other adjustments to the taxable base and deductions with no effect on the income tax expense comprise the following:

- Negative adjustment to the taxable base due to the charge to reserves for a gross amount of Euros 379 thousand in respect of the Deposit Guarantee Fund (Euros 215 thousand for the 2013 contribution settled in 2014 and Euros 164 thousand for obligations to be settled pursuant to Royal Decree-Law 6/2013), as described in note 1.e). The tax effect of this charge to reserves (a Euros 114 thousand reduction in the income tax expense due to the negative adjustment to the taxable base) has been recognised as a credit in reserves and has no accounting impact on the income tax expense or on the recognition of temporary differences.

- Recognition of a Euros 1,620 thousand tax loss and deductions amounting to Euros 4,628 thousand due to the investment in an EIG, in view of application of the terms regulated by article 48 of Royal Legislative Decree 4/2004, which approved the Revised Income Tax Law. The economic impact of the investment has been considered as an investment for accounting purposes and has therefore been recognised as income under "Interest and similar income" in the income statement. This item forms part of the taxable base and is therefore included in the income tax expense.

The income tax expense for the year is calculated as follows:

	Thousands of Euros	
	2014	**2013**
Income tax expense for the year:		
Taxable accounting income at 30%	19,758	18,042
Credits and deductions	(70)	(60)
Effect of the Group's share in net profit of associates	(240)	(282)
Prior years' tax adjustments	15	12
Income tax expense	**19,463**	**17,712**
Foreign tax expense	7	6
Total	**19,470**	**17,718**

Prior years' tax adjustments reflect differences owing to adjustments between accounting balances recorded at 31 December of each year and the tax returns filed.

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of four years has elapsed. At 31 December 2014 the Group has open to inspection by the taxation authorities all the main applicable taxes since 2010. On 12 February 2015 the taxation authorities commenced verification and investigation proceedings of the Bank's income tax, value added tax and withholdings and payments on account of personal income tax for 2011 and 2012. The Bank's directors do not expect significant tax contingencies to arise from this inspection that would require amendment of the accompanying consolidated annual accounts.

The different tax benefits applied in the calculation of income tax payable for 2014 and 2013 are as follows:

	Thousands of Euros	
	2014	**2013**
Income tax payable:		
Deductions for double taxation	36	22
Deduction for R&D&I expenses	10	12
Deduction for donations and nursery school service	24	26
Total	**70**	**60**

The Bank made an extraordinary gain of Euros 32 thousand on the sale of computer software on 26 December 2011 and availed itself of tax relief for reinvestment in an amount of Euros 4 thousand, in accordance with article 42 of Royal Legislative Decree 4/2004 of 5 March 2004, which approved the Revised Income Tax Law. The proceeds from the sale amounted to Euros 73 thousand. In 2011 the Bank reinvested Euros 502 thousand in new computer software which was recognised under intangible assets.

At 31 December 2014 and 2013 the Group's balance sheet includes certain tangible assets for own use that have been revalued at Euros 216 thousand, in accordance with the First Transitional Provision of Bank of Spain Circular 4/2004 (see note 11). Pursuant to article 135 of the Revised Income Tax Law, this amount has not been included in the taxable income for 2014 and 2013.

21. Off-Balance Sheet Items

Off-balance sheet items comprise rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances necessary to reflect all transactions entered into by the consolidated entities, even where these do not impinge on their net assets.

a) Contingent liabilities

Contingent liabilities include all transactions under which the consolidated entities guarantee the obligations of a third party and which result from financial guarantees granted by the entities or from other types of contract. Contingent liabilities comprise the following items:

- Financial guarantees

Financial guarantees are the amounts that would be payable by the consolidated entities on behalf of third parties as a result of the commitments assumed by those entities in the course of their ordinary business, if the parties who are originally liable to pay fail to do so.

Details of contingent commitments at 31 December 2014 and 2013 are as follows:

	Thousands of Euros	
	2014	**2013**
Financial guarantees	40,999	31,410
Irrevocable documentary credits	16,125	19,529
Other bank guarantees and indemnities provided	40,797	32,962
Total	**97,921**	**83,901**

A significant part of these amounts will expire without generating any obligations for the consolidated companies, and therefore the total balance of these commitments cannot be considered a requirement for future financing or cash to be extended 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 (see note 28).

b) Contingent commitments

Contingent commitments include those irrevocable commitments that could give rise to the recognition of financial assets.

Details of contingent commitments at 31 December 2014 and 2013 are as follows:

	Thousands of Euros	
	2014	**2013**
Drawable by third parties	166,118	758,832
Regular way financial asset purchase contracts	10,599	160,664
Unpaid subscribed capital	2	138
Securities placement and subscription commitments	2,263	--
Total	**178,982**	**919,634**

22. Off-Balance Sheet Funds Under Management

Details of off-balance sheet funds managed by the Group at 31 December 2014 and 2013 are as follows:

	Thousands of Euros	
	2014	**2013**
Investment companies and mutual funds	3,022,562	2,344,531
Customer portfolios managed on a discretionary basis	886,644	617,094
Marketed but not managed by the Group	235,705	158,236
Total	**4,144,911**	**3,119,861**

23. Financial and Non-financial Assets and Liabilities Not Carried at Fair Value

a) Fair value of financial assets and financial liabilities

At 31 December 2014 and 2013 the fair value of the Group's financial instruments, by type of financial asset and financial liability and level, is as follows:

- Level 1: financial instruments with fair value based on their quoted price in active markets, without making any modifications to these assets.

- Level 2: Financial instruments with fair value estimated on the basis of their quoted price in organised markets for similar instruments or through other valuation techniques in which all significant inputs are based on directly or indirectly observable market data.
- Level 3: Instruments with fair value estimated through valuation techniques in which certain significant input is not based on observable market data.

Input is considered significant if it is important in determining the fair value as a whole.

2014

Financial assets	Financial assets held for trading		Available-for-sale financial assets		Held-to-maturity investments		Loans and receivables		Total	
	Thousands of Euros									
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Level 1:										
Debt securities	2,979,114	2,979,114	3,873,462	3,873,462	143,988	160,324	70,286	71,705	7,066,850	7,084,605
Equity instruments	--	--	14,831	14,831	--	--	--	--	14,831	14,831
Level 2:										
Debt securities	111,993	111,993	8,605	8,605	--	--	--	--	120,598	120,598
Deposits with credit institutions and central banks	--	--	--	--	--	--	10,934,067	10,940,517	10,934,067	10,940,517
Loans and advances to other debtors	--	--	--	--	--	--	1,016,805	1,122,848	1,016,805	1,122,848
Derivatives	546,037	546,037	--	--	--	--	--	--	546,037	546,037
Level 3:										
Debt securities	--	--	1,902	1,902	--	--	--	--	1,902	1,902
Equity instruments	297	297	11,490	11,490	--	--	--	--	11,787	11,787
Derivatives	18,663	18,663	--	--	--	--	--	--	18,663	18,663
Total	**3,656,104**	**3,656,104**	**3,910,290**	**3,910,290**	**143,988**	**160,324**	**12,021,158**	**12,135,070**	**19,731,540**	**19,861,788**

Thousands of Euros

Financial liabilities	Financial liabilities held for trading		Other liabilities at fair value through profit or loss		Financial liabilities at amortised cost		Hedging derivatives		Total	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Level 1:										
Short positions	1,502	1,502	--	--	--	--	--	--	1,502	1,502
Level 2:										
Deposits from central banks and credit institutions	--	--	4,731	4,731	17,833,545	17,823,357	--	--	17,838,276	17,828,088
Deposits from other creditors	--	--	--	--	744,807	744,496	--	--	744,807	744,496
Debt certificates including bonds					361,930	366,607	--	--	361,930	366,607
Subordinated liabilities	--	--	--	--	--	--	--	--	--	--
Derivatives	534,413	534,413					16,129	16,129	550,542	550,542
Other financial liabilities	--	--	--	--	53,067	52,802	--	--	53,067	52,802
Level 3:										
Derivatives	18,604	18,604	--	--	--	--	17,203	17,203	35,807	35,807
Total	**554,519**	**554,519**	**4,731**	**4,731**	**18,993,349**	**18,987,262**	**33,332**	**33,332**	**19,585,931**	**19,579,844**

2013

Financial assets	Financial assets held for trading		Available-for-sale financial assets		Held-to-maturity investments		Loans and receivables		Total	
	Thousands of Euros									
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Level 1:										
Debt securities	4,270,217	4,270,217	1,859,915	1,859,915	369,697	386,848	--	--	6,499,829	6,516,980
Equity instruments	281	281	8,098	8,098	--	--	--	--	8,379	8,379
Level 2:										
Debt securities	235,555	235,555	95,483	95,483	135	135	--	--	331,173	331,173
Deposits with credit institutions and central banks	--	--	--	--	--	--	16,061,407	16,355,171	16,061,407	16,355,171
Loans and advances to other debtors	--	--	--	--	--	--	632,626	673,263	632,626	673,263
Derivatives	426,898	426,898	--	--	--	--	--	--	426,898	426,898
Level 3:										
Debt securities	--	--	--	--	--	--	59,246	59,246	59,246	59,246
Equity instruments	--	--	4,723	4,723	--	--	--	--	4,723	4,723
Total	**4,932,951**	**4,932,951**	**1,968,219**	**1,968,219**	**369,832**	**386,983**	**16,753,279**	**17,087,680**	**24,024,281**	**24,375,833**

Financial liabilities	Financial liabilities held for trading		Other liabilities at fair value through profit or loss		Financial liabilities at amortised cost		Total	
	Thousands of Euros							
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Level 2:								
Deposits from central banks and credit institutions	--	--	--	--	16,926,899	17,070,261	16,926,899	17,070,261
Deposits from other creditors	--	--	--	--	3,690,718	3,690,304	3,690,718	3,690,304
Debt certificates including bonds	--	--	--	--	2,813,439	2,970,608	2,813,439	2,970,608
Subordinated liabilities	--	--	--	--	--	--		
Derivatives	427,863	427,863	--	--	--	--	427,863	427,863
Other financial liabilities	--	--	--	--	7,956	7,956	7,956	7,956
Total	**427,863**	**427,863**			**23,439,012**	**23,739,129**	**23,866,875**	**24,166,992**

b) Valuation adjustments for default risk

Credit Valuation Adjustments (hereinafter “CVA”) and Debit Valuation Adjustments (hereinafter “DVA”) are included in the measurement of both asset and liability derivative products to reflect the impact on fair value of counterparty credit risk and the Group's own risk, respectively.
The adjustments to be performed are calculated by estimating exposure at default, the probability of default and loss given default for all derivative products with any underlying, by legal entity (i.e. all counterparties under the same ISDA/CMOF contract) to which Banco Cooperativo Español is exposed.

In general, the CVA is calculated by multiplying expected positive exposure by the counterparty's probability of default. The DVA is calculated by multiplying the expected negative exposure by the probability of default, then multiplying the result by the Bank's loss given default. Both calculations encompass the entire duration of the potential exposure.

The information required to calculate the probability of default and the loss given default is obtained from credit markets (Credit Default Swaps or iTraxx indices), applying the Entity's own information if available. If information is not available, a process based on sector, rating and location is applied to assign both probabilities of insolvency and expected losses in the event of insolvency, calibrated directly to market or through the adjustment to market of the probabilities of insolvency and historical expected losses.

At 31 December 2014 and 2013 the Bank held positions in OTC derivatives, primarily interest rate swaps, equity options and securities swaps, mainly as a result of services provided to rural savings banks involving intermediation between the banks and market counterparties and asset securitisation funds (back to back operations). These instruments do not offer predetermined cash flows, but rather their cash flows depend upon the performance of certain market risk factors (interest rates, exchange rates, share prices, etc.) leading to changes in their fair value which could, at any time, fluctuate between a positive value (exposure to counterparty risk) or a negative value (exposure to own credit risk).

Based on the calculations performed by the Bank and confirmed by an independent expert, the valuation of credit risk derived from both asset (credit valuation adjustment (CVA)) and liability (debt valuation adjustment (DVA)) derivative positions was not significant at 31 December 2014 and 2013 and, therefore, no amount was recognised under “Gains or losses on financial assets and financial liabilities (net)” in the consolidated income statement.

c) Fair value of tangible assets

Tangible assets are carried at their appraisal value at 1 January 2004 (see note 11). The fair value is based on external appraisals and internal appraisals contrasted with market data and is not considered to differ significantly from the carrying amount at 31 December 2014 and 2013.

24. Interest and Similar Income

Interest and similar income comprises the interest accrued 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. Interest is recognised gross, without deducting any tax withheld at source.

Details of the main interest and similar income earned by the Group in 2014 and 2013 are as follows:

	Thousands of Euros	
	2014	**2013**
Balances with central banks	562	1,799
Loans and advances to credit institutions	88,498	238,086
Loans and advances to other debtors	27,426	37,390
Debt securities	99,363	128,955
Doubtful assets	7	23
Other interest	353	1,900
Total	**216,209**	**408,153**

25. Interest expense and similar charges

Interest expense and similar charges include the interest accrued during the year on all financial liabilities with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value.

Details of the main items of interest expense and similar charges accrued by the Group in 2014 and 2013 are as follows:

	Thousands of Euros	
	2014	**2013**
Deposits from central banks	13,239	43,433
Deposits from credit institutions	92,632	177,287
Deposits from other creditors	2,433	2.556
Debt certificates including bonds (note 13)	38,897	119,394
Subordinated liabilities (note 13)	--	307
Rectifications as a result of hedging transactions	(1,474)	(13,438)
Other interest	125	428
Total	**145,852**	**329,967**

26. Dividend Income

Dividend income includes the dividends and remuneration from equity instruments deriving from profits generated by investees after the acquisition of the equity interest.

Details of dividend income are as follows:

	Thousands of Euros	
	2014	**2013**
Available-for-sale financial assets	1,073	135
Total	**1,073**	**135**

27. Share of Profit and Loss of Entities Accounted for Using the Equity Method

This caption comprises the amount of profit or loss attributable to the Group generated during the year by associates and jointly controlled entities accounted for using the equity method.

Details are as follows:

	Thousands of Euros	
	2014	**2013**
Espiga Capital Inversión, S.C.R. de R.S., S.A. and subsidiaries (note 19)	-	1,007
Total	**-**	**1,007**

28. Fee and Commission Income

Fee and commission income comprises the amount of all fees and commissions accrued by the Group during the year, except those forming an integral part of the effective interest rate on financial instruments.

Details are as follows:

	Thousands of Euros	
	2014	**2013**
Contingent exposures (note 21)	1,116	686
Contingent commitments (note 21)	76	64
Foreign currency exchange	366	500
Collection and payment service	1,802	2,002
Transfers, giros and other payment orders	33,424	27,557
Sale of non-banking products	1,364	1,325
Other fees and commissions	2,434	2,767
Total	**40,582**	**34,901**

29. Fee and Commission Expense

Fee and commission expense comprises all fees and commissions paid or payable by the Group in the year, except those forming an integral part of the effective interest rate on financial instruments.

Details are as follows:

	Thousands of Euros	
	2014	**2013**
Fees and commissions assigned to other entities and correspondents	5,448	4,624
Fee and commission expenses on securities transactions	19,778	15,723
Other fees and commissions	111	18
Total	**25,337**	**20,365**

30. Gains or Losses on Financial Assets and Financial Liabilities and Exchange Differences (Net)

Gains or losses on financial assets and financial liabilities

Gains or losses on financial assets and financial liabilities include valuation adjustments to financial instruments, except those attributable to interest accrued as a result of applying the effective interest method and to impairment of assets recorded in the consolidated income statement, as well as gains or losses on the sale and purchase of financial instruments.

Details by type of instrument are as follows:

	Thousands of Euros	
	2014	2013
Financial assets held for trading	5,651	7,562
Other financial instruments at fair value through profit or loss	--	(208)
Available-for-sale financial assets	1,935	1,559
Loans and receivables	11	(64)
Held-to-maturity investments	2,002	(409)
Financial liabilities at amortised cost (note 13)	--	--
Total	**9,599**	**8,440**

"Hedge accounting not included in interest" reflects fair value hedges, distinguishing between hedging instruments and the hedged item. Gains and losses recognised in 2014 and 2013 are as follows:

	Thousands of Euros	
	2014	2013
Hedge accounting not included in interest	--	--
Hedging derivatives	(12,560)	(441)
Gains	15,450	(2,623)
Losses	(28,010)	2,181
Hedged items	12,560	441
Gains	31,577	(120)
Losses	(19,017)	561

Exchange differences (net)

Exchange differences include gains and losses on the purchase and sale of foreign currencies and differences arising from the conversion of the different monetary items in the consolidated balance sheet from foreign currency to Euros.

Total net exchange differences amount to Euros 290 thousand at 31 December 2014 (Euros 284 thousand at 31 December 2013) (see note 36-5).

31. Personnel Expenses

Personnel expenses comprise all remuneration of permanent and temporary personnel on the payroll, irrespective of their duties or activity, accrued during the year for all items, including the current service cost for pension plans.

Details are as follows:

	Thousands of Euros	
	2014	**2013**
Wages and salaries	11,356	11,419
Social Security	2,428	2,318
Charges to pension plans	91	33
Other personnel expenses	220	291
Total	**14,095**	**14,061**

The average number of employees in the Group, by professional category, is as follows:

	2014		2013	
	Male	**Female**	**Male**	**Female**
Management team	13	1	15	1
Directors	15	7	18	6
Department managers	12	10	13	9
Technical specialists	27	42	25	40
Administrative personnel	30	49	31	54
Total	**97**	**109**	**102**	**110**
By type of contract				
Indefinite	97	108	102	109
Temporary	--	1	--	1
Total	**97**	**109**	**102**	**110**

At 31 December 2014 and 2013, three Group employees were disabled.

32. Other Administrative Expenses

Other administrative expenses are as follows:

	Thousands of Euros	
	2014	**2013**
Property, fixtures and materials	684	731
Information technology	2.132	2.227
Communications	1.241	1.223
Advertising and publicity	159	192
Legal and lawyer expenses	140	100
Technical reports	1.137	796
Security and armoured cash transport services	228	226
Insurance premiums	278	264
Governing and control bodies	211	215
Entertainment and staff travel expenses	278	256
Association membership fees	307	295
Outsourced administrative services	625	695
Contributions and taxes	764	431
Other	194	133
Total	**8,378**	**7,784**

KPMG Auditores S.L., the auditors of the Group’s consolidated annual accounts, have invoiced fees and expenses for professional services during the years ended 31 December 2014 and 2013, as follows:

	Thousands of Euros			
	Bank		**Group**	
	2014	**2013**	**2014**	**2013**
Audit services	44	24	71	51
Other assurance services	21	44	21	44
Other services	9	27	9	27
Total	**74**	**95**	**101**	**122**

The amounts detailed in the above table include the total fees for services rendered in 2014 and 2013, irrespective of the date of invoice.

Other companies forming part of the KPMG Europe, LLP Group invoiced the Bank and the Group the following fees and expenses for professional services during the years ended 31 December 2014 and 2013:

	Thousands of Euros	
	2014	2013
Other services	12	--

33. Segment Reporting

Segmentation criteria

Segment reporting is based on the Group's different lines of business. Geographical distribution is not significant as almost all revenue is obtained in Spain. The following lines of business have been defined based on the Group's organisational structure, taking into account the nature of the products and services, as well as the clients.

The Group focused its activities on the following segments in 2014 and 2013:

- Commercial banking
- Asset management
- Markets
- Corporate activities

Bases and method of business segment reporting

Segment information is based on internal systems for calculating profitability by business area.

Interest income and revenue from lines of business are calculated by applying transfer prices in line with prevailing market rates to the corresponding assets and liabilities. Administrative expenses include direct expenses and certain allocated expenses of support service units.

	Thousands of Euros									
	Commercial banking		**Asset management**		**Markets**		**Corporate activities**		**Total Group**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Gross margin	17,702	20,343	9,825	9,455	60,461	70,547	10,659	2,244	98,647	102,589
Administrative expenses, amortisation and depreciation	4,599	4,313	2,574	3,880	3,908	4,421	12,804	8,952	23,885	21,566
Provisions and impairment losses on financial assets	8,970	19,680	--	--	--	--	--	1,159	8,970	20,839
Profit on operating activities	4,133	(3,650)	7,251	5,575	56,554	66,126	(2,146)	(7,867)	65,792	60,184
Other profit	--	--	--	--	--	--	--	667	--	667
Profit before income tax	4,133	(3,650)	7,251	5,575	56,554	66,126	(2,146)	(7,200)	65,792	60,851
Corporate income tax	1,223	(1,070)	2,146	1,634	16,736	19,378	(635)	(2,110)	19,470	17,832
Consolidated profit for the year	**2,910**	**(2,580)**	**5,105**	**3,941**	**39,818**	**46,748**	**(1,511)**	**(5,090)**	**46,322**	**43,019**

34. Related Parties

In addition to the information provided in note 4 on remuneration received, details of balances and transactions with related parties during 2014 and 2013 are as follows:

	Thousands of Euros					
	Associates		Senior management		Other related parties	
Assets	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Loans and advances to other debtors	--	--	781	1.432	542	--
Allowances and provisions for credit risk	--	--	(13)	(23)	(9)	--
Liabilities					--	
Deposits from other customers	--	18,642	407	660	5,466	2
Debt certificates including bonds	--	--	--	--	--	--
Other						
Contingent liabilities	--	2,582	25	33	43	--
Commitments	--	--	108	11	30	--
Profit and loss						
Interest and similar income	--	--	14	25	9	--
Interest expense and similar charges	--	11	2	4	6	--
Share of profit or loss of entities accounted for using the equity method	--	1,007	--	--	--	--

35. Customer Service Department

In accordance with Article 17 of Ministry of Economy Order ECO/734/2004 of 11 March 2004 on customer service departments and the financial institution ombudsman, the 2014 Annual Report presented by the head of the service to the board of directors at their meeting held on 26 february 2015 is summarised below:

In 2014, the customer service department received 5 claims and/or complaints, of which 6 have been resolved, all relating to individual customers (one pending resolution of 2013). In accordance with customer service regulations, all the complaints were accepted.

	Number	
Issue	**2014**	**2013**
Loans	1	1
Deposits	1	--
Other banking products	2	1
Collection and payment service	--	1
Pension funds and insurance:	1	--
Other	1	3
Total	**6**	**6**

The number of complaints resolved, by autonomous region, is as follows:

	2014	**2013**
Baleares	1	--
La Rioja	1	1
Madrid	4	5

36. Risk Management

The Banco Cooperativo Español Group's risk exposure mainly relates to the assets and liabilities of the Entity, whose total assets account for 99.80% and 99.90% of the Group's total assets at 31 December 2014 and 2013, respectively (see note 1).

36.1 Credit risk

Credit risk is the risk of one party to a contract that meets the definition of a financial instrument ceasing to comply with its obligations, resulting in a financial loss for the other party.

Credit risk therefore represents the risk of loss assumed by the Group in the event that a customer or any counterparty fails to comply with its contractual payment obligations. This risk is inherent in traditional products of banking entities (loans, credit facilities, financial guarantees extended, etc.), as well as in other types of financial assets (fixed-income securities of the Group, derivatives, etc.).

Credit risk affects financial assets carried at amortised cost and assets recognised at fair value in the consolidated financial statements. The Group applies the same credit risk control policies and procedures to these financial assets irrespective of the recognition criteria used.

The Group's credit risk control policies and objectives have been approved by the Bank's board of directors. The Risk Committee, together with the Assets and Liabilities Committee, is in charge of implementing the Group's risk policies that enable compliance with the objectives set by the board. The risk control unit (under the General Audit and Risks Department and, therefore, independent of the business units in charge of implementing policies defined by the Entity) is responsible for establishing the control procedures required to continuously monitor the levels of risk assumed by the Group as well as strict compliance with the objectives set by the Group with respect to credit risks. Together with the Internal Audit Department (under the Internal Audit Committee), the risk control unit also monitors compliance with the Group's risk control policies, methods and procedures, ensuring that these are sufficient, implemented effectively and reviewed regularly, and providing the information required by higher-level governing bodies to implement the necessary corrective measures, where applicable.

The control unit monitors, on an ongoing basis, risk concentration levels, the default rate and the different warning systems in place that enable it to keep an eye on credit risk trends at all times. Any deviations from the forecast performance of any of these parameters are analysed to determine the causes. Once the causes of these deviations are known, they are analysed by the control unit which submits the corresponding reports to the Group's management bodies so that the necessary corrective measures may be taken; for example, defining or correcting established control mechanisms which may not have functioned satisfactorily, or amending policies and limits agreed by the Group. In particular, a more exhaustive analysis will be performed of operations which, for different reasons, have resulted in payment delays or defaults, to determine the effectiveness of the hedges contracted by the entity, in order to take any necessary measures to improve the Group's acceptance policies and credit risk analysis mechanisms.

36.1.1 Maximum credit risk exposure level

The following table shows the maximum credit risk exposure level assumed by the Group at 31 December 2014 and 2013 for each type of financial instrument, without deducting collateral or any other guarantees received to ensure repayment by borrowers:

	2014				
	Thousands of Euros				
Type of instruments	**Trading portfolio**	**Available-for-sale financial assets**	**Loans and receivables**	**Held-to-maturity investments**	**Total**
Debt instruments					
Loans and advances to credit institutions	--	--	10,869,238	143,988	11,013,226
Marketable securities	3,091,107	3,883,969	70,543	--	7,045,619
Loans and advances to other debtors	--	--	1,059,462	--	1,059,462
Total debt instruments	**3,091,107**	**3,883,969**	**11,999,243**	**143,988**	**19,118,307**
Equity instruments	**297**	**26,321**	**--**	**--**	**26,618**
Contingent exposures					
Guarantee deposits	--	--	40,999	--	40,999
Other contingent exposures	--	--	56,922	--	56,922
Total contingent exposures	--	--	**97,921**	**--**	**97,921**
Other exposures					
Derivatives	564,700	--	--	--	564,700
Contingent commitments	--	--	178,982	--	178,982
Total other exposures	**564,700**	**--**	**178,982**	**--**	**743,682**
Maximum credit risk exposure level	**3,656,104**	**3,910,290**	**12,276,146**	**143,988**	**19,986,528**

	2013				
	Thousands of Euros				
Type of instruments	**Trading portfolio**	**Available-for-sale financial assets**	**Loans and receivables**	**Held-to-maturity investments**	**Total**
Debt instruments					
Loans and advances to credit institutions	--	--	15,947,640	--	15,947,640
Marketable securities	4,505,772	1,955,679	59,246	369,832	6,890,529
Loans and advances to other debtors	--	--	668,980	--	668,980
Total debt instruments	**4,505,772**	**1,955,679**	**16,675,866**	**369,832**	**23,507,149**
Equity instruments	**281**	**12,821**	**--**	**--**	**13,102**
Contingent exposures					
Guarantee deposits	--	--	31,410	--	31,410
Other contingent exposures	--	--	52,491	--	52,491
Total contingent exposures	**--**	**--**	**83,901**	**--**	**83,901**
Other exposures					
Derivatives	426,898	--	--	--	426,898
Contingent commitments	--	--	919,634	--	919,634
Total other exposures	**426,898**	**--**	**919,634**	**--**	**1,346,532**
Maximum credit risk exposure level	**4,932,951**	**1,968,500**	**17,679,401**	**369,832**	**24,950,684**

The following should be taken into consideration in relation to the information shown in the above tables:

- "Debt instruments" recognised under assets in the consolidated balance sheet are reflected at their carrying amount, excluding valuation adjustments (impairment losses, deferred interest, arrangement costs and similar commissions pending deferral, etc.).

- "Contingent commitments" comprise available balances bearing no conditions for debtors.

- Contingent exposures are stated at the maximum amount guaranteed by the Group. In general, most of these balances are estimated to reach maturity without requiring any actual financing by the Entity (see note 21).

- Information on other credit risk exposures, such as counterparty risk related to the contracting of derivative financial instruments, is stated at the carrying amount.

36.1.2 Credit rating of credit risk exposures

The Group uses advanced models to measure credit risk. The credit rating of public entities, financial institutions and corporate customers is measured through rating systems, while the credit rating of the retail banking portfolio (individual customers, small companies and freelance professionals) is measured using scoring systems.

The distribution of risk at 31 December 2014 and 2013, based on ratings (external or internal, in line with the credit rating models developed by the Group) is as follows:

	2014		2013	
Credit rating	**Thousands of Euros**	**%**	**Thousands of Euros**	**%**
AAA	11,000	0.1	32,657	0.2
AA+	10,409	0.1	--	0.0
AA	11,767	0.1	--	0.0
AA-	9,915	0.1	21,761	0.1
A+	39,866	0.2	933	0.0
A	163,893	1.0	141,979	0.7
A-	13,441,083	80.4	12,060,732	61.0
BBB+	724,037	4.3	107,075	0.5
BBB	599,731	3.6	2,804,033	14.3
BBB-	101,636	0.6	958,275	4.8
BB+	236,167	1.4	248,405	1.3
BB	121,578	0.7	132,016	0.7
Below BB	431,169	2.6	1,032,656	5.2
Not rated	810,373	4.8	2,220,153	11.2
Total	**16,712,624**	**100.0**	**19,760,675**	**100.0**

36.1.3 Loans and advances to other debtors Details by counterparty

The carrying amounts of the total financing classified by counterparty and details of the collateral pledged to secure transactions are as follows:

	2014							
	Thousands of Euros							
				Secured loans Loan to value				
	Total	**Of which: Real estate 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%**	**Loan to value More than 100%**
Spanish general government	**652,647**	--	--	--	--	--	--	--
Other financial institutions	**43,519**	--	--	--	--	--	--	--
Non-financial companies and individual entrepreneurs	**261,787**	**24,013**	**1,587**	**1,618**	**2,740**	**1,136**	**16,497**	**3,610**
Construction and real estate development	327	80	--	6	--	--	56	18
Civil works	23,003	106	--	106	--	--	--	--
Other	238,457	23,827	1,587	1,506	2,740	1,136	16,441	3,592
Large companies	78,882	19,569	--	--	--	--	15,977	3,592
SMEs and individual entrepreneurs	159,575	4,258	1,587	1,506	2,740	1,136	464	--
Other households and non-profit institutions serving households	**91,919**	**71,819**	**441**	**16,438**	**16,235**	**17,305**	**11,039**	**11,242**
Homes	67,068	65,351	--	13,842	13,896	16,645	10,512	10,456
Consumer	2,825	17	--	17	--	--	--	-
Other	22,026	6,451	441	2,579	2,339	660	527	786
SUBTOTAL	**1,049,872**	**95,832**	**2,028**	**18,056**	**18,975**	**18,441**	**27,536**	**14,852**
(-) Valuation adjustment for impairment of assets not allocated to specific operations.	(33,067)	--	--	--	--	--	--	--
TOTAL	**1,016,805**	--	--	--	--	--	--	--
MEMORANDUM ITEM								
Refinancing, refinanced and restructured transactions	43,591	21,414	--	6	565	1,136	15,977	3,730

2013
Thousands of Euros

	Total	Of which: Real estate collateral	Of which: Other collateral	Secured loans Loan to value: 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%	Loan to value More than 100%
Spanish general government	**91,460**	--	--	--	--	--	--	--
Other financial institutions	**241,076**	--	**104,934**	--	--	--	**104,934**	--
Non-financial companies and individual entrepreneurs	**236,898**	**24,248**	**1,553**	**19,508**	**3,818**	**175**	**1,441**	**859**
Construction and real estate development	432	113	--	--	--	44	56	13
Civil works	29,032	110	--	110	--	--	--	--
Other	207,434	24,025	1,553	19,398	3,818	131	1,385	846
Large companies	84,541	19,068	--	19,068	--	--	--	--
SMEs and individual entrepreneurs	122,893	4,957	1,553	330	3,818	131	1,385	846
Other households and non-profit institutions serving households	**89,628**	**71,109**	**14**	**13,589**	**15,133**	**16,292**	**10,360**	**15,749**
Homes	57,640	55,919	--	11,590	10,594	13,695	8,349	11,691
Consumer	2,230	21	--	21	--	--	--	--
Other	29,758	15,169	14	1,978	4,539	2,597	2,011	4,058
SUBTOTAL	**659,062**	**95,357**	**106,501**	**33,097**	**18,951**	**16,467**	**116,735**	**16,608**
(-) Valuation adjustment for impairment of assets not allocated to specific operations.	(22,416)	--	--	--	--	--	--	--
TOTAL	**636,646**	--	--	--	--	--	--	--
MEMORANDUM ITEM								
Refinancing, refinanced and restructured transactions	52,102	21,091	--	19,068	--	44	1,252	727

Refinancings

Refinancing is one of the management tools established to adapt the maturity structures of loan principals and interest to customers' new payment capacities.

The transaction refinancing policy includes:

- An individual up-to-date analysis of the financial position and payment capacity of the borrowers and guarantors.
- The status and effectiveness of guarantees provided.
- Experience with the borrower: sufficiently extensive repayment history or, in the absence thereof, a repayment on the loan principal of equal value.

- Interruption of arrears. Refinancing or restructuring of transactions in arrears does not interrupt those arrears or lead to their reclassification, unless there is reasonable certainty that the customer can meet its payment obligations or put up new, effective guarantees and, in both cases, at least the outstanding ordinary interest payments are collected.

The refinancing of transactions and the related accounting impairment is associated with a low rating in one of the following categories:

- Refinancing of performing loans. Those for which there is objective evidence that the recovery of all amounts owed is highly probable and, therefore, no provision is made. The following factors are taken into account:

    - Maximum grace period of 12 months.
    - Existence of a suitable repayment plan.
    - Incorporation of guarantors of unquestionable solvency or effective new guarantees.

- Refinancing of doubtful loans. Transactions for which there is evidence that the borrower's repayment capacity is weak. The minimum provision for this type of transaction is 25%. In this type of transaction, the following factors are to be considered:
    - The failure to produce effective new guarantees or settle all outstanding interest payable.
    - The granting of grace periods of over 30 months on repayments of principal.
    - The source of prior refinancing or restructuring.

  The above factors are to be considered unless there is evidence of the borrower's repayment capacity being sufficient to meet its commitments in the time and manner contractually stipulated.

- Refinancing of substandard loans. These are loans that are not included in the two previous categories. The minimum provision to be recognised is 15%.

Type of transaction: The Circular distinguishes between:

- Refinancing transaction: a transaction which, irrespective of the holder or guarantees, is granted or used for economic or legal reasons related to the holder's (holders') current or foreseeable financial difficulties to settle one or more transactions granted by the bank or other group entities to the holder (or holders), or to other group companies, or a transaction whereby outstanding amounts related to the aforementioned transactions are fully or partially paid up, to facilitate debt (principal or interest) repayment by holders of cancelled or refinanced transactions that are unable, or are expected to become unable, to meet their commitments in the agreed time and manner.

- Refinanced transaction: a transaction that is fully or partially paid up as a result of a refinancing transaction entered into by a bank or another group entity.

- Restructured transaction: a transaction in which the financial conditions are amended for economic or legal reasons related to the holder's (holders') current or foreseeable financial difficulties to facilitate debt (principal and interest) repayment when the holder cannot or is not expected to be able to meet its commitments in the agreed time and manner, even if this amendment was set out in the agreement. Transactions in which the debt is discharged or assets are received to reduce the debt, or the conditions are amended to extend their maturity, change the debt repayment schedule to reduce the amount of the instalments in the short term or diminish their frequency, or establish a grace period or lengthen an existing grace period for principal, interest or both, unless it can be shown that the conditions have been amended for reasons other than the holders' financial difficulties and they are equivalent to market conditions in force on the amendment date for loan transactions granted to customers with a similar risk profile, are considered restructured transactions.

- Novation transaction: a transaction entered into to replace another transaction previously granted by the bank in which a borrower does not have financial difficulties and is not expected to have them in future; thus, a transaction entered into for reasons other than refinancing.

- Renegotiated transaction: a transaction in which the financial conditions are amended although the borrower does not have financial difficulties and is not expected to have them in future; thus, a transaction in which conditions are amended for reasons other than restructuring.

At 31 December 2014 the outstanding refinanced balance totals Euros 52,711 thousand (Euros 61,712 thousand at 31 December 2013). This figure includes performing, substandard and doubtful loans, and it represents 5.0% of total loans and advances to other debtors.

Refinanced transactions are subject to special monitoring. Refinancing transactions do not result in the release of provisions, unless they comply with the criteria set out in Bank of Spain circulars (receipt of outstanding interest and new effective guarantees or reasonable certainty of the payment capacity of the customer).

Details by counterparty, risk classification and type of guarantee of the outstanding balances of restructuring and refinancing transactions carried out by the Bank are presented below:

2014

	Thousands of Euros												
	Normal						**Substandard**						
	Full mortgage loan		Other collateral		Unsecured		Full mortgage loan		Other collateral		Unsecured		
	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Specific provision
Spanish general government													
Other legal entities and individual entrepreneurs	3	17,446	3	3,784	13	15,408	1	55	2	1,124	13	6,615	(1,212)
Of which: Financing of construction and real estate development	--	--	--	--	--	--	1	55	1	11	1	20	(56)
Other individuals	1	232	1	130	1	9	--	--	--	--	--	--	--
Total	**4**	**17,678**	**4**	**3,914**	**14**	**15,417**	**1**	**55**	**2**	**1,124**	**13**	**6,615**	**(1,212)**

	Doubtful									
	Full mortgage loan		Other collateral		Unsecured			**Total**		
	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Specific provision	Number of transactions	Gross amount	Specific provision
Spanish general government										
Other legal entities and individual entrepreneurs	--	--	1	7,237	1	671	(7,908)	37	52,341	(9,120)
Of which: Financing of construction and real estate development	--	--	1	7,237	--	--	(7,237)	4	7,323	(7,293)
Other individuals	--	--	--	--	--	--	--	3	370	--
Total	**--**	**--**	**1**	**7,237**	**1**	**671**	**(7,908)**	**40**	**52,711**	**(9,120)**

	2013												
	Thousands of Euros												
	Normal						**Substandard**						
	Full mortgage loan		Other collateral		Unsecured		Full mortgage loan		Other collateral		Unsecured		
	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Specific provision
Spanish general government													
Other legal entities and individual entrepreneurs	--	--	6	2,746	9	3,582	2	7,292	2	181	14	3,211	5,698
Of which: Financing of construction and real estate development	--	--	--	--	--	--	2	7,292	2	181	--	--	5,377
Other individuals	--	--	--	--	1	1,112	--	--	--	--	--	--	--
Total			**6**	**2,746**	**10**	**4,694**	**2**	**7,292**	**2**	**181**	**14**	**3,211**	**5,698**

	Doubtful									
	Full mortgage loan		Other collateral		Unsecured			**Total**		
	Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Specific provision	Number of transactions	Gross amount	Specific provision
Spanish general government										
Other legal entities and individual entrepreneurs	--	--	1	7,237	1	500	7,487	54	60,334	9,055
Of which: Financing of construction and real estate development	--	--	1	7,237	--	--	7,237	4	7,477	7,292
Other individuals	--	--	--	--	1	1,109	555	3	1,378	555
Total	**--**	**--**	**1**	**7,237**	**2**	**1,609**	**8,042**	**57**	**61,712**	**9,610**

36.1.4 Credit risk on real estate development and construction

At 31 December 2014 financing provided for real estate development and construction amounted to Euros 7,410 thousand (Euros 7,724 thousand in 2013), of which Euros 7,237 thousand were classified as "Doubtful assets" (Euros 7,237 thousand in 2013) (consolidated Group data). Total specific provisions at that date amounted to Euros 7,293 thousand (Euros 7,292 thousand in 2013).

The figures above reflect financing extended for real estate development and construction. Consequently, following Bank of Spain instructions, the purpose of the transaction has been taken into account, rather than the debtor’s activity. Loans in this table are classified in line with their purpose and not in accordance with the National Classification of Economic Activities (CNAE). As a result, if the debtor is: (a) a real estate company but uses the financing for a purpose other than real estate development or construction, the loan will not be included in these tables, and (b) if the company’s principal activity is not real estate development or construction but it uses the loan to finance real estate development, it will be included in the tables.

Quantitative information on real estate credit risk at 31 December 2014 and 2013 is as follows:

	Thousands of Euros					
	Gross amount		**Excess over guaranteed amount**		**Specific provisions**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Loans recognised by Group credit institutions	7,410	7,724	4,001	4,010	(7,293)	(7,292)
Of which: Doubtful	7,237	7,237	3,904	3,904	(7,237)	(7,237)
Of which: Substandard	86	240	58	53	(56)	(55)
Defaulted assets	--	--	--	--	--	--

Details of loans and advances to other debtors excluding Spanish general government at 31 December 2014 and 2013 are as follows

	Thousands of Euros	
	2014	**2013**
Total loans and advances to other debtors excluding Spanish general government	283,441	323,322
Total consolidated assets	20,036,284	24,262,717
Impairment allowances and provisions for credit risk. Total collective allowances	(35,539)	(28,839)

Details of credit risk on real estate development and construction by type of related guarantee are as follows:

	Thousands of Euros	
	Loans: Gross amount	
	2014	2013
1. Not secured by collateral	62	376
2. Secured by collateral	7,348	7,348
2.1. Finished buildings	--	--
2.1.1. Homes	--	--
2.1.2. Other	--	--
2.2. Buildings under construction	7,237	7,237
2.2.1. Homes	--	--
2.2.2. Other	7,237	7,237
2.3. Land	111	111
2.3.1. Developed land	--	--
2.3.2. Other land	111	111
Total	**7,410**	**7,724**

Details of home purchase loans extended to individuals are as follows:

	Thousands of Euros			
	2014		2013	
	Gross amount	Of which: Doubtful	Gross amount	Of which: Doubtful
Home purchase loans	66,129	256	56,924	38
Not secured by collateral	1,593	--	1,592	--
Secured by collateral	64,536	256	55,332	38

The following table shows a breakdown of mortgage loans extended to acquire homes at 31 December 2014 by percentage of total risk on the latest available appraisal value (LTV):

	2014				
	LTV bracket				
	LTV < 40%	**40% < LTV < 60%**	**60% < LTV < 80%**	**80% < LTV < 100%**	**LTV > 100%**
Gross amount	13,224	13,743	16,602	10,512	10,455
Of which: Doubtful	35	--	221	--	--

	2013				
	LTV bracket				
	LTV < 40%	**40% < LTV < 60%**	**60% < LTV < 80%**	**80% < LTV < 100%**	**LTV > 100%**
Gross amount	10,749	10,894	13,772	8,226	11,691
Of which: Doubtful	18	--	--	20	--

The Group has not recognised any foreclosed assets at 31 December 2014 and 2013.

36.1.5 Assets impaired due to credit risk

Details at 31 December 2014 and 2013 are as follows:

	Thousands of Euros	
	2014	**2013**
Doubtful assets:		
Loans and receivables	9,161	8,962

An ageing analysis of receivables in arrears (past-due and defaults) classified on the basis of the guarantees put up for the transaction is presented in the following table:

	31.12.2014			
	Mortgage	Collateral	Other	Total
Up to 6 months	221	248	8	477
6 to 9 months	19	--	5	24
9 to 12 months	--	--	6	6
Over 12 months	51	665	29	745
Total	**291**	**913**	**48**	**1,252**

	31.12.2013			
	Mortgage	Collateral	Other	Total
Up to 6 months	--	--	7	7
6 to 9 months	20	--	4	24
9 to 12 months	--	--	14	14
Over 12 months	54	--	17	71
Total	**74**	**--**	**42**	**116**

An analysis of debt instruments for which impairment losses have been determined on an individual basis is as follows:

	2014	2013
General treatment		
Up to 6 months	--	1,609
Over 12 months	672	--
Transactions secured by real estate collateral		
Over 12 months	7,237	7,237
Total	**7,909**	**8,846**

Impaired assets are analysed periodically. The main factors considered when evaluating impairment on each asset are as follows:

- Analysis of the financial statements
- Analysis of the customer’s income statements and payment capacity
- Analysis of cash flow forecasts
- Movements in customer capitalisation
- Changes in debt
- History and analysis of cost structure
- Amounts of guarantees and variation therein
- Any present or future event that could affect the customer’s payment capacity

36.1.6. Movement in impairment losses

Movement in impairment losses recognised by the Group in 2014 and 2013 by type of financial asset is as follows:

	Thousands of Euros								
	Balance at 31 December 2012	Net allowances charged to the income statement	Amounts used	Adjustments for exchange differences and other	**Balance at 31 December 2013**	Net allowances charged to the income statement	Amounts used	Adjustments for exchange differences and other	**Balance at 31 December 2014**
Available-for-sale financial assets	**337**	**(56)**	**--**	**--**	**281**	**501**	**--**	**--**	**782**
Specific	--	--	--	--	--	--	--	--	--
General	337	(56)	--	--	281	501	--	--	782
Loans and receivables	**21,295**	**17,695**	**(2,904)**	**(2)**	**36,084**	**8,246**	**(1,124)**	**5**	**43,211**
Specific	5,770	5,212	(2,904)	--	8,078	1,726	(1,124)	(5)	8,675
General	15,525	12,483	--	(2)	28,006	6,520	--	10	34,536
Contingent exposures and commitments	**687**	**55**	**(190)**	**--**	**552**	**(331)**	**--**	**--**	**221**
Specific	185	--	(185)	--	--	5	--	--	5
General	502	55	(5)	--	552	(336)	--	--	216
Total	**22,319**	**17,694**	**(3,094)**	**(2)**	**36,917**	**8,416**	**(1,124)**	**5**	**44,214**

Details of specific and general provisions for credit risk, by counterparty and geographical location of risk, are as follows:

	Thousands of Euros			
	Specific		General	
	2014	**2013**	**2014**	**2013**
Counterparty				
Other resident private sectors	8,680	8,078	35,392	28,728
Other non-resident private sectors	--	--	147	111
Total	**8,680**	**8,078**	**35,539**	**28,839**
Geographical location of risk				
Spain	8,680	8,078	35,392	28,728
Europe	--	--	--	--
United States	--	--	147	111
Rest of world	--	--	--	--
Total	**8,680**	**8,078**	**35,539**	**28,839**

36.1.7. Impaired and derecognised financial assets

Movement in impaired financial assets not recognised in the consolidated balance sheet as their recovery is considered unlikely, although the Group continues its efforts to collect the amounts receivable, is as follows:

	Thousands of Euros	
	2014	**2013**
Opening balance	**7,304**	**2,080**
Additions		
Recognised in impairment allowances	15	2,882
Recognised in the income statement	1,079	2,257
Past-due income	138	85
Other	128	114
Disposals		
Cash recovery of principal	(431)	--
Cash recovery of past due and uncollected products	(30)	--
Pardoning of debt	(1,488)	--
Other reasons	(128)	(114)
Closing balance	**6,587**	**7,304**

36.2 Liquidity risk

Liquidity risk management consists of ensuring that the Group always has sufficient liquidity to meet its payment commitments associated with the settlement of its liabilities on their respective maturity dates without compromising its capacity to respond rapidly to strategic market opportunities. This function includes obtaining financing in wholesale markets at the lowest possible cost in the medium and long term, with a view to maintaining an optimum level of liquid assets in keeping with the Group's policy of prudence.

In this context, the key to resolving liquidity problems resides in anticipating them and implementing preventive management techniques. The Bank is aware of this and therefore considers both aspects its first line of defence against the potential adverse effects of liquidity shortages on its results, reputation and creditworthiness.

To enable early identification, the Group continually monitors its liquidity position in the short, medium and long term and the performance of the main monetary and capital markets in which it operates. To this end it relies on: (i) a wide range of quantitative and qualitative indicators, (ii) limits and alerts defined on the basis of maximum tolerance to liquidity risk and (iii) the human, technical and operational support required to properly incorporate these indicators as a strategic and risk management input.

With regard to preventive management, the Asset and Liability Committee (ALCO) focuses structural liquidity management on: (i) the balance between positive and negative cash flows over a long time horizon, (ii) the diversification of uses and sources of funding and (iii) the protection of the Bank's ability to finance its growth and meet its payment obligations on the date and in the manner established in the contract at a reasonable cost and without affecting its reputation.

Finally, in terms of anticipation, the Bank has a buffer of liquid assets free of encumbrances that enable it to comfortably cope with situations of severe stress. The quality, relative liquidity and suitability as collateral of the assets that make up the buffer are periodically verified and these assets are subjected to stress tests to determine their ability to cope with extreme situations.

The main metrics currently used to control liquidity and the results of applying them at 31 December 2014 are:

- *Daily liquidity controls*: the Bank continually monitors its intraday liquidity, the eligibility of securities to be pledged as collateral to obtain financing from Banco de España (credit facility) and the sufficiency of its headroom (buffer of available liquid assets) in dealing with short-term cash outflows, among other indicators. This analysis also envisages further stress tests on its portfolio of eligible assets (those pledged as collateral for the Banco de España credit facility and others), subjecting the securities to scenarios of a reduction in their market value, downgrades in rating and loss of eligibility.

- *Liquidity gap*: provides information on cash inflows and outflows in order to detect timing differences between collections and payments. Very conservative behavioural criteria and assumptions have been established for unknown contractual maturities.

	2014							
	Thousands of Euros							
	Demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undetermined maturity**	**Total**
Assets								
Cash and balances with central banks	266,571	--	--	--	--	--	--	266,571
Loans and advances to credit institutions	402,570	5,587,693	3,265,575	43,177	1,622,158	12,894	--	10,934,067
Loans and advances to other debtors	65,702	82,631	16,823	202,230	517,907	131,512	--	1,016,805
Fixed income portfolio	--	483,510	487,687	2,453,802	3,265,417	498,934	--	7,189,350
Other assets	--	22,334	33,502	55,836	162,910	290,116	64,643	629,341
Total assets	**734,843**	**6,176,168**	**3,803,587**	**2,755,045**	**5,568,392**	**933,456**	**64,643**	**20,036,134**
Liabilities								
Deposits from central banks and credit institutions	5,766,071	7,638,523	3,085,790	44,082	1,286,240	12,839	--	17,833,545
Debt certificates including bonds	--	361,930	--	--	--	--	--	361,930
Deposits from other creditors	511,758	193,056	27,432	11,259	1,302	--	--	744,807
Other liabilities	--	23,191	34,786	57,977	169,156	301,239	509,503	1,095,852
Total liabilities	**6,277,829**	**8,216,700**	**3,148,008**	**113,318**	**1,456,698**	**314,078**	**509,503**	**20,036,134**
Simple gap	(5,542,986)	(2,040,532)	655,579	2,641,727	4,111,694	619,378	(444,860)	(5,542,986)
Accumulated gap	(5,542,986)	(7,583,518)	(6,927,939)	(4,286,212)	(174,518)	444,860	--	(5,542,986)

	2013							
	Thousands of Euros							
	Demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undetermined maturity**	**Total**
Assets								
Cash and balances with central banks	184,537	--	--	--	--	--	--	184,537
Loans and advances to credit institutions	392,126	5,650,598	3,605,589	307,644	6,081,035	24,415	--	16,061,407
Loans and advances to other debtors	94,571	125,114	24,218	44,664	205,382	138,677	--	632,626
Fixed income portfolio	--	184,761	622,918	4,295,901	1,599,352	187,316	--	6,890,248
Other assets	--	16,344	24,517	40,861	115,699	229,477	67,001	493,899
Total assets	**671,234**	**5,976,817**	**4,277,242**	**4,689,070**	**8,001,468**	**579,885**	**67,001**	**24,262,717**
Liabilities								
Deposits from central banks and credit institutions	4,463,303	4,880,164	352,000	542,393	6,670,760	18,279	--	16,926,899
Debt certificates including bonds	--	707	474	725,600	2,086,658	--	--	2,813,439
Deposits from other creditors	506,779	3,175,838	2,705	5,023	243	130	--	3,690,718
Other liabilities	--	16,602	24,902	41,504	117,519	233,087	398,047	831,661
Total liabilities	**4,970,082**	**8,073,311**	**380,081**	**1,314,520**	**8,875,180**	**251,496**	**398,047**	**24,262,717**
Simple gap	(4,298,848)	(2,096,494)	3,897,161	3,374,550	(873,712)	328,389	(331,046)	--
Accumulated gap	(4,298,848)	(6,395,342)	(2,498,181)	876,369	2,657	331,046	--	--

Details of maturities of wholesale debt are as follows:

	2015	**2016**	**2017**	**2018**
Mortgage bonds	--	--	--	--
Public sector bonds	--	--	--	--
Senior debt	--	--	--	--
State-guaranteed issues	351,687	--	--	--
Subordinated, preference and convertible bonds	--	--	--	--
Other medium and long-term financial instruments	--	--	--	--
Securitisations sold to third parties	--	--	--	--
Commercial paper	--	--	--	--
Total maturities of wholesale issues	**351,687**	**--**	**--**	**--**

Liquid assets and issue capacity available at 31 December 2014 are as follows:

	Thousands of Euros
Liquid assets	
Eligible assets (nominal amount)	5,580,213
Eligible assets (market value and ECB cuts)	5,845,574
Of which: Receivables from central governments	5,341,884
Issue capacity	
Mortgage bonds	41,513
Public sector bonds	--
Total	**41,513**

• *Short-term liquidity coverage ratio (LCR):* under the stress scenario defined in Basel III, the 30-day liquidity ratio at 31 December 2014 stood at 121%, a level close to that normally seen and over twice the target rate (60%) established for the date of entry into force of this ratio (October 2015).

• *Net Stable Funding Ratio (NSFR):* the Bank maintains a balanced structure in its long-term financing that is adapted to its liquidity profile. At 31 December 2014, the net stable funding ratio was 105%, higher than the target set in Basel III.

Moreover, the Bank has activated a number of alerts and thresholds that are continually monitored, enabling it to foresee any potential liquidity stress and, where necessary, automatically convene the ALCO for an extraordinary or crisis meeting, depending on the situation. The latter initiative is considered in the liquidity risk contingency plan, the Bank's second line of action against potential adverse effects of liquidity shortages. Essentially, this is an action plan with a practical focus that enables the Bank to optimise the timing, cost and form of its response to high-exposure or critical situations and mitigate possible disturbances and impacts on business continuity during such episodes.

36.3 Interest rate exposure

To support management of interest rate risk, the Bank’s Assets and Liabilities Committee uses the repricing gap to analyse the overall time difference between maturity and repricing of assets and liabilities. The repricing gap is calculated by grouping assets and liabilities by their carrying amount based on interest rate repricing dates or by maturity considering the outstanding principal. In the case of callable liabilities for which there is no contractual maturity date, the repricing structure is in line with the historical stability of the balances. The maximum period for demand balances with returns under 0.5% is 2.5 years.

The repricing gaps at 31 December 2014 and 2013 are as follows:

	2014						
	Thousands of Euros						
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Total
Assets							
Cash and balances with central banks	266,571	--	--	--	--	--	266,571
Loans and advances to credit institutions	5,990,263	3,265,575	43,177	1,622,158	12,894	--	10,934,067
Loans and advances to other debtors	130,775	121,900	374,132	351,435	38,563	--	1,016,805
Fixed income portfolio	483,510	487,687	2,453,802	3,265,417	498,934	--	7,189,350
Other assets	22,334	33,502	55,836	162,910	290,116	64,643	629,341
Total assets	**6,893,453**	**3,908,664**	**2,926,947**	**5,401,920**	**840,507**	**64,643**	**20,036,134**
Liabilities							
Deposits from central banks and credit institutions	13,404,594	3,085,790	44,082	1,286,240	12,839	--	17,833,545
Debt certificates including bonds	361,930	--	--	--	--	--	361,930
Deposits from other creditors	522,943	168,886	40,428	12,550	--	--	744,807
Other liabilities	23,191	34,786	57,977	169,156	301,239	509,503	1,095,852
Total liabilities	**14,312,658**	**3,289,462**	**142,487**	**1,467,946**	**314,078**	**509,503**	**20,036,134**
Off-balance sheet operations	3,154,195	(64,031)	(706,395)	(2,289,552)	(94,216)	--	--
Simple gap	(4,265,010)	555,171	2,078,065	1,644,422	432,213	(444,860)	--
Accumulated gap	(4,265,010)	(3,709,839)	(1,631,774)	12,648	444,860	--	--

	2013						
	Thousands of Euros						
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undetermined maturity**	**Total**
Assets							
Cash and balances with central banks	184,537	--	--	--	--	--	184,537
Loans and advances to credit institutions	6,042,724	3,605,589	307,644	6,081,035	24,415	--	16,061,407
Loans and advances to other debtors	213,838	116,628	123,591	136,841	41,728	--	632,626
Fixed income portfolio	184,761	622,918	4,295,901	1,599,352	187,316	--	6,890,248
Other assets	16,344	24,517	40,861	115,699	229,477	67,001	493,899
Total assets	**6,642,205**	**4,369,651**	**4,767,997**	**7,932,927**	**482,936**	**67,001**	**24,262,717**
Liabilities							
Deposits from central banks and credit institutions	9,343,467	352,000	542,393	6,670,760	18,279	--	16,926,899
Debt certificates including bonds	707	474	725,600	2,086,658	--	--	2,813,439
Deposits from other creditors	3,584,673	62,314	33,013	10,718	--	--	3,690,718
Other liabilities	16,602	24,902	41,504	117,519	233,087	398,047	831,661
Total liabilities	**12,945,449**	**439,690**	**1,342,510**	**8,885,655**	**251,366**	**398,047**	**24,262,717**
Off-balance sheet operations	675,485	11,612	(133,140)	(553,956)	--	--	--
Simple gap	(5,627,759)	3,941,573	3,292,347	(1,506,684)	231,570	(331,046)	--
Accumulated gap	(5,627,759)	(1,686,187)	1,606,160	99,476	331,046	--	--

To measure interest rate risk, the risk control unit simulates the financial margin over a 12-month period under different interest rate scenarios, assuming certain historical conditions relating to growth, spreads, repricing periods, stability of receivables on demand, etc. At 31 December 2014 and 2013, the sensitivity of the financial margin to a 100-basis point parallel displacement of the interest rate curve over a 12-month period is as follows:

	%	
	2014	**2013**
Sensitivity of the financial margin		
+ 100 p.b.	16.63	(4.81)
- 100p.b.	1.2	0.03

The interest rate risk is also analysed considering the economic value of equity measured as the effect of changes in the interest rate on the net present value of future expected flows from balance sheet items. The sensitivity of the Bank’s economic value to a 100-basis point parallel displacement of the interest rate curve at 31 December 2014 and 2013 is as follows:

	%	
	2014	2013
Sensitivity of equity	(4.55)	(7.57)

36.4 Market risk

Market risk is managed through the value at risk methodology (VaR), which limits losses incurred as a result of adverse changes in market prices. Value at risk is calculated on a daily basis for the treasury and capital market area as a whole, irrespective of the nature of the portfolios.

The maximum and average VaR are as follows:

	Thousands of Euros	
	2014	2013
Average VaR	1,636	945
Maximum VaR	2,822	1,669

Interest rate variations are the Bank's primary risk factor. The distribution by risk factor at 31 December 2014 and 2013 is as follows:

	Distribution	
	2014	2013
Interest rate	80.4	60.1
Variable income	19.6	39.9

37.5 Currency risk

Details of the assets and liabilities recognised in the Bank's balance sheet in the most significant currencies at 31 December 2014 and 2013 are as follows:

	Thousands of Euros			
	2014		2013	
	Assets	Liabilities	Assets	Liabilities
US Dollar	23,497	52,408	28,962	64,301
Pound Sterling	11,217	9,846	4,201	5,979
Swiss Franc	1,288	1,232	1,517	1,383
Norwegian Krone	208	180	360	345
Swedish Krona	247	71	50	26
Canadian Dollar	432	400	656	659
Danish Krone	25	15	25	15
Japanese Yen	406	90	712	276
Other	972	504	1,426	372
Total	**38,292**	**64,746**	**37,909**	**73,356**

A breakdown of the main foreign currency balances, based on the nature of the items, is as follows:

	Thousands of Euros	
	2014	**2013**
Assets		
Loans and advances to credit institutions	32,766	32,097
Loans and advances to other debtors	5,395	5,662
Other assets	131	149
Total	**38,292**	**37,908**
Liabilities		
Loans and advances to credit institutions	62,474	71,384
Deposits from other creditors	2,205	1,919
Other liabilities	67	54
Total	**64,746**	**73,357**

36 .6 Risk concentration

Risk concentration is defined as a risk that could affect the Group's consolidated income statement and its consolidated equity as a result of holding financial instruments of similar characteristics, which could therefore be similarly affected by economic or other types of changes.

The Group has established policies to limit the Group's exposure to certain risks. These policies are defined in coordination with other risk management policies and as part of the Entity's strategic plan. Risk concentration is measured and limits established considering the different risks to which the Group is exposed, taking into account the nature and rating of the different financial instruments of the Group, analysed at different levels (Entity, Group, sector, country, etc.).
The carrying amount of the different financial instruments is used to measure risk concentration.

In addition to information provided in preceding notes to the accompanying annual accounts regarding concentration by foreign currency, type of counterparty and credit rating of financial assets exposed to credit risks (see section 1.3 of this note), details of the carrying amount of the most significant financial assets (deposits in credit institutions, loans and advances to other debtors, debt securities, equity instruments and trading derivatives) classified by geographical area, counterparty, purpose and segment of activity held by the Bank at 31 December 2014 and 2013 are as follows:

	2014				
	Thousands of Euros				
	Total	**Spain**	**Rest of the European Union**	**Americas**	**Rest of world**
Credit institutions	11,347,025	11,304,565	38,704	--	3,756
Spanish general government	7,306,309	7,306,309	--	--	--
Central government	7,241,837	7,241,837	--	--	--
Other	64,472	64,472	--	--	--
Other financial institutions	419,766	401,559	18,117	90	--
Non-financial companies and individual entrepreneurs	691,320	684,360	4,873	2,087	--
Construction and real estate development	327	327	--	--	--
Civil works	26,109	25,907	202	--	--
Other	664,884	658,126	4,671	2,087	--
Large companies	200,374	195,883	2,404	2,087	--
SMEs and individual entrepreneurs	464,510	462,243	2,267	--	--
Other households and non-profit institutions serving households	99,260	99,257	3	--	--
Homes	67,068	67,068	--	--	--
Consumer	2,825	2,825	--	--	--
Other	29,367	29,364	3	--	--
SUBTOTAL	**19,863,680**	**19,796,050**	**61,697**	**2,177**	**3,756**
Less: Impairment of assets not allocated to specific operations.	(34,219)	--	--	--	--
TOTAL	**19,829,461**	--	**--**	**--**	**--**

	2013				
	Thousands of Euros				
	Total	**Spain**	**Rest of the European Union**	**Americas**	**Rest of world**
Credit institutions	16,949,887	16,476,972	472,907	--	--
Spanish general government	5,878,781	5,878,781	--	--	--
Central government	5,856,388	5,856,388	--	--	--
Other	22,393	22,393	--	--	--
Other financial institutions	557,236	546,526	9,252	1,458	--
Non-financial companies and individual entrepreneurs	659,640	657,290	1,558	792	--
Construction and real estate development	432	432	--	--	--
Civil works	32,092	32,092	--	--	--
Other	627,116	624,766	1,558	792	--
Large companies	100,813	99,943	78	792	--
SMEs and individual entrepreneurs	526,303	524,823	1,480	--	--
Other households and non-profit institutions serving households	91,292	91,290	2	--	--
Homes	57,640	57,640	--	--	--
Consumer	2,231	2,231	--	--	--
Other	31,421	31,419	2	--	--
SUBTOTAL	**24,136,836**	**23,650,859**	**483,719**	**2,250**	**--**
Less: Impairment of assets not allocated to specific operations.	(26,462)	--	--	--	--
TOTAL	**24,110,374**	--	**--**	**--**	**--**

The classification by geographical area and business segment in Spain at 31 December 2014 is presented below:

RISK CONCENTRATION BY BUSINESS SEGMENT AND GEOGRAPHICAL AREA AT 31 DECEMBER 2014

	Thousands of Euros									
	Total	**Andalucía**	**Aragón**	**Asturias**	**Baleares**	**Canarias**	**Cantabria**	**Castilla La Mancha**	**Castilla y León**	**Cataluña**
Credit institutions	11,304.565	2,501,521	729,651	186,994	-	59,526	4,969	444,176	294,150	79,647
Spanish general government	7,306.309	-	-	-	-	-	-	-	-	-
Central government	7,241.837	-	-	-	-	-	-	-	-	-
Other	64,472	14,357	5,940	-	-	-	-	9,307	6,978	4
Other financial institutions	401,559	-	-	-	-	-	-	-	-	38
Non-financial companies and individual entrepreneurs	684,360	10,287	27	88	-	-	-	2,815	74	24,956
Construction and real estate development	327	-	-	-	-	-	-	-	-	-
Civil works	25,907	2,687	27	22	-	-	-	22	-	-
Other	658,126	7,600	-	66	-	-	-	2,793	74	24,956
Large companies	195,883	1,937	-	66	-	-	-	2,569	0	8,440
SMEs and individual entrepreneurs	462,243	5,663	-	-	-	-	-	224	74	16,516
Other household loans and non-profit institutions serving households	99,257	329	129	159	1	4,869	4	1,008	820	2,296
Homes	67,068	130	119	138	-	-	-	933	473	370
Consumer	2,825	25	9	11	1	5	4	65	43	29
Other	29,364	174	1	10	-	4,864	-	10	304	1,897
SUBTOTAL	**19,796,050**	**2,526,494**	**735,747**	**187,241**	**1**	**64,395**	**4,973**	**457,306**	**302,022**	**106,941**
Less: Impairment of assets not allocated to specific operations	34,219	--	--	--	--	--	--	--	--	--
TOTAL	**19,761,831**	--	--	--	--	--	--	--	--	--

	Thousands of Euros								
	Extremadura	**Galicia**	**Madrid**	**Murcia**	**Navarra**	**C. Valenciana**	**País Vasco**	**La Rioja**	**Ceuta y Melilla**
Credit institutions	345,026	18,042	4,879,192	412	1,309,213	370,396	81,650	-	-
Spanish general government	1,072	11,574	2,792	6,424	-	6,024	-	-	-
Central government	-	-	-	-	-	-	-	-	-
Other	1,072	11,574	2,792	6,424	-	6,024	-	-	-
Other financial institutions	-	-	400,142	-	-	-	1,379	-	-
Non-financial companies and individual entrepreneurs	23	4,777	629,309	5,493	-	2,694	3,817	-	-
Construction and real estate development	-	-	327	-	-	-	-	-	-
Civil works	-	-	23,052	-	-	96	1	-	-
Other	23	4,777	605,930	5,493	-	2,598	3,816	-	-
Large companies	-	3,242	174,509	4,641	-	7	472	-	-
SMEs and individual entrepreneurs	23	1,535	431,421	852	-	2,591	3,344	-	-
Other household loans and non-profit institutions serving households	3	120	88,619	64	-	466	-	370	-
Homes	-	73	64,593	61	-	178	-	-	-
Consumer	3	35	2,578	3	-	14	-	-	-
Other	-	12	21,448	-	-	274	-	370	-
SUBTOTAL	**346,124**	**34,513**	**6,000,054**	**12,393**	**1,309,213**	**379,580**	**86,846**	**370**	**-**

Sovereign debt risk

At 31 December 2014 and 2013 the Group's only sovereign debt risk related to the Spanish government.

37. Responsible lending

Banco Cooperativo Español, S.A. has adopted best practices for responsible lending to consumers, and it has the related policies and procedures in place, thereby complying with the provisions of Ministry of Economy and Finance Order EHA/2899/2011 of 28 October 2011 on transparency and protection of banking services customers and responsible lending. Specifically, the policies on commercial banking risk and the specific regulations derived therefrom stipulate the policies, methods and procedures for responsible granting of consumer loans and credit.

Pursuant to Banco de España Circular 3/2014 of 30 July 2014, a summary of the aforementioned policies adopted by Banco Cooperativo Español, S.A. on commercial banking risk is provided below:

- The need to tailor payment plans to revenue sources;
- Requirements for evaluating payment capacity;
- The need to take into account the borrower’s foreseeable level of income at retirement;
- The need to consider existing financial payment obligations;
- Where appropriate for commercial reasons or due to the type of rate/currency, offering to include hedging clauses or arrange interest and exchange rate hedges in transactions with borrowers;
- The need, when collateral is pledged, to establish a prudent relationship between the amount of the loan and potential extensions, and the value of the collateral pledged, without taking into account any revaluations of the latter;
- The need to exercise extreme prudence in the use of appraisal values for credit transactions in which real estate assets are pledged as collateral in addition to the borrower’s personal guarantee;
- The periodic review of the value of collateral pledged to secure the loans granted;
- Several management elements to ensure the appraisal company’s independence;
- The need to warn customers of the potential consequences of persistent non-payment in terms of late payment interest and other expenses;
- The criteria for debt renegotiation (refinancing and restructuring);
- The minimum documentation required in transactions for the granting thereof and during the period they are current.

Banco Cooperativo Español, S.A. has the following mechanisms in place to control the effective monitoring of the aforementioned policies:

- Computer validation and controls incorporated into the workflow for analysis, decision-making and arrangement of transactions for the purpose of embedding these management principles;
- Alignment of product catalogue specifications and responsible lending policies;
- Different penalties to ensure appropriate levels of contrasting of decisions in accordance with the complexity of the transaction;

- A reporting framework for monitoring the correct application of responsible lending policies.

Appendix I.a.

BANCO COOPERATIVO ESPAÑOL, S.A. – Balance sheets at 31 December 2014 and 2013

(in thousands of Euros)

ASSETS	2014	2013
1. CASH AND BALANCES WITH CENTRAL BANKS	266,571	184,537
2. FINANCIAL ASSETS HELD FOR TRADING	3,656,104	4,932,951
2.1. Loans and advances to credit institutions	-	-
2.2. Loans and advances to other debtors	-	-
2.3. Debt securities	3,091,107	4,505,772
2.4. Equity instruments	297	281
2.5. Trading derivatives	564,700	426,898
Memorandum item: Loaned or pledged	1,574,286	2,916,327
3. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-
3.1. Loans and advances to credit institutions	-	-
3.2. Loans and advances to other debtors	-	-
3.3. Debt securities	-	-
3.4. Equity instruments	-	-
Memorandum item: Loaned or pledged	-	-
4. AVAILABLE-FOR-SALE FINANCIAL ASSETS	3,889,224	1,952,683
4.1. Debt securities	3,866,428	1.943,040
4.2. Equity instruments	22,796	9,643
Memorandum item: Loaned or pledged	2,424,087	976,816
5. LOANS AND RECEIVABLES	12,018,684	16,751,440
5.1. Loans and advances to credit institutions	10,550,241	15,704,208
5.2. Loans and advances to other debtors	1,398,157	987,986
5.3. Debt securities	70,286	59,246
Memorandum item: Loaned or pledged	-	-
6. HELD-TO-MATURITY INVESTMENTS	143,988	369,832
Memorandum item: Loaned or pledged	57,374	277,078
7. CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-
8. HEDGING DERIVATIVES	-	-
9. NON-CURRENT ASSETS HELD FOR SALE	-	-
10. EQUITY INVESTMENTS	11,452	19,259
10.1. Associates	-	7,810
10.2. Jointly controlled entities	-	-
10.3. Group entities	11,452	11,449
11. INSURANCE CONTRACTS LINKED TO PENSIONS	-	-
13. TANGIBLE ASSETS	1,634	1,726
13.1. Tangible assets	1,634	1,726
13.1.1. For own use	1,634	1,726
13.1.2. Leased out under operating leases	-	-
13.1.3. Assigned to welfare projects (savings banks and credit cooperatives)	-	-
13.2. Investment property	-	-
Memorandum item: Acquired under a finance lease	-	-
14. INTANGIBLE ASSETS	1,562	1,181
14.1. Goodwill	-	-
14.2. Other intangible assets	1,562	1,181
15. TAX ASSETS	15,447	15,624
15.1. Current	1,886	2,128
15.2. Deferred	13,561	13,496
16. OTHER ASSETS	2,877	8,457
TOTAL ASSETS	**20,007,543**	**24,237,690**

LIABILITIES AND EQUITY	2014	2013
<u>LIABILITIES</u>		
1. FINANCIAL LIABILITIES HELD FOR TRADING	554,519	427,863
1.1. Deposits from central banks	-	-
1.2. Deposits from credit institutions	-	-
1.3. Deposits from other creditors	-	-
1.4. Debt certificates including bonds	-	-
1.5. Trading derivatives	553,017	427,863
1.6. Short positions	1,502	-
1.7. Other financial liabilities		
2. OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	4,731	-
2.1. Deposits from central banks	-	-
2.2. Deposits from credit institutions	4,731	-
2.3. Deposits from other creditors	-	-
2.4. Debt certificates including bonds	-	-
2.5. Subordinated liabilities	-	-
2.6. Other financial liabilities	-	-
3. FINANCIAL LIABILITIES AT AMORTISED COST	18,993,015	23,442,503
3.1. Deposits from central banks	9,128,132	7,057,088
3.2. Deposits from credit institutions	8,703,568	9,868,592
3.3. Deposits from other creditors	746,583	3,695,633
3.4. Debt certificates including bonds	361,930	2,813,439
3.5. Subordinated liabilities	-	-
3.6. Other financial liabilities	52,802	7,751
4. CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-
5. HEDGING DERIVATIVES	33,332	5,751
6. LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	-	-
8. PROVISIONS	221	552
8.1. Provisions for pensions and similar obligations	-	-
8.2. Provisions for taxes and other legal contingencies	-	-
8.3. Provisions for contingent exposures and commitments	221	552
8.4. Other provisions	-	-
9. TAX LIABILITIES	9,808	6,060
9.1. Current	439	645
9.2. Deferred	9,369	5,528
10. WELFARE FUNDS	-	-
11. OTHER LIABILITIES	33,761	24,284
12. CAPITAL REFUNDABLE ON DEMAND	-	-
TOTAL LIABILITIES	**19,629,387**	**23,907,013**
<u>EQUITY</u>		
1. SHAREHOLDERS' EQUITY	359,450	326,034
1.1. Share capital or assigned capital	91,009	91,009
1.1.1. Registered	91,009	91,009
1.1.2. Less: Uncalled capital (-)	-	-
1.2. Share premium	85,972	85,972
1.3. Reserves	137,053	106,847
1.4. Other equity instruments	-	-
1.4.1. Equity component of compound financial instruments	-	-
1.4.2. Non-voting equity units and associated funds (savings banks only)	-	-
1.4.3. Other equity instruments	-	-
1.5. Less: Treasury shares	-	-
1.6. Profit for the year	45,416	42,206
1.7. Less: Dividends and remuneration	-	-
2. VALUATION ADJUSTMENTS	18,706	4,643
2.1. Available-for-sale financial assets	18,706	4,643
2.2. Cash flow hedges	-	-
2.3. Hedges of net investments in foreign operations	-	-
2.4. Exchange differences	-	-
2.5. Non-current assets held for sale	-	-
2.7. Other valuation adjustments	-	-
TOTAL EQUITY	**378,156**	**330,677**
TOTAL LIABILITIES AND EQUITY	**20,007,543**	**24.237,690**
MEMORANDUM ITEM		
1. CONTINGENT EXPOSURES	**98,772**	**84,210**
2. CONTINGENT COMMITMENTS	**181,687**	**921,535**

Appendix I.b.

Banco Cooperativo Español, S.A.

Income statements for the years ended 31 December 2014 and 2013

(in thousands of Euros)	2014	2013
1. INTEREST AND SIMILAR INCOME	215,441	406,951
2. INTEREST EXPENSE AND SIMILAR CHARGES	145,859	329,977
3. EQUITY REFUNDABLE ON DEMAND	-	-
A) INTEREST MARGIN	69,582	76,974
4. DIVIDEND INCOME	3,402	4,209
6. FEE AND COMMISSION INCOME	16,619	15,108
7. FEE AND COMMISSION EXPENSE	7,097	6,327
8. GAINS OR LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES (NET)	9,612	8,410
8.1. Financial assets held for trading	5,651	7,562
8.2. Other financial instruments at fair value through profit or loss	-	(208)
8.3. Financial instruments not carried at fair value through profit or loss	3,961	1,056
8.4. Other	-	-
9. EXCHANGE DIFFERENCES (NET)	290	284
10. OTHER OPERATING INCOME	1,006	1,097
11. OTHER OPERATING EXPENSES	223	676
B) GROSS MARGIN	93,191	99,079
12. ADMINISTRATIVE EXPENSES	19,642	18,634
12.1. Personnel expenses	12,262	11,957
12.2. Other administrative expenses	7,380	6,677
13. DEPRECIATION AND AMORTISATION	1,103	1,101
14. PROVISIONING EXPENSE (NET)	(303)	(102)
15. IMPAIRMENT LOSSES ON FINANCIAL ASSETS (NET)	9,266	19,770
15.1. Loans and receivables	8,882	19,940
15.2. Other financial instruments not carried at fair value through profit or loss	384	(170)
C) PROFIT ON OPERATING ACTIVITIES	63,483	59,676
16. IMPAIRMENT LOSSES ON OTHER ASSETS (NET)	-	1,159
16.1. Goodwill and other intangible assets	-	-
16.2. Other assets	-	1,159
17. GAINS/(LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE	-	(5)
18. NEGATIVE DIFFERENCES ON BUSINESS COMBINATIONS	-	-
19. GAINS/(LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS	-	-
D) PROFIT BEFORE TAX	63,483	58,512
20. INCOME TAX	18,067	16,306
21. MANDATORY TRANSFER TO WELFARE FUNDS	-	-
E) PROFIT FROM CONTINUING OPERATIONS	45,416	42,206
22. PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS (NET)	-	-
F) PROFIT FOR THE YEAR	45,416	42,206
EARNINGS PER SHARE (Euros)	29.99	27.87

Appendix I.c.

STATEMENT OF RECOGNISED INCOME AND EXPENSE for the years ended 31 December 2014 and 2013

(in thousands of Euros)	2014	2013
A) PROFIT FOR THE YEAR	45,416	42.206
B) OTHER RECOGNISED INCOME AND EXPENSE	14,063	11.967
1. Available-for-sale financial assets	20,090	17,096
1.1. Revaluation gains/(losses)	16,996	16,591
1.2. Amounts transferred to the income statement	(3,094)	505
1.3. Other reclassifications	-	-
2. Cash flow hedges	-	-
2.1. Revaluation gains/(losses)	-	-
2.2. Amounts transferred to the income statement	-	-
2.3. Amounts transferred to the initial carrying amount of hedged items	-	-
2.4. Other reclassifications	-	-
3. Hedges of net investments in foreign operations	-	-
3.1. Revaluation gains/(losses)	-	-
3.2. Amounts transferred to the income statement	-	-
3.3. Other reclassifications	-	-
4. Exchange differences	-	-
4.1. Revaluation gains/(losses)	-	-
4.2. Amounts transferred to the income statement	-	-
4.3. Other reclassifications	-	-
5. Non-current assets held for sale	-	-
5.1. Revaluation gains/(losses)	-	-
5.2. Amounts transferred to the income statement	-	-
5.3. Other reclassifications	-	-
6. Actuarial gains/(losses) on pension plans	-	-
8. Other recognised income and expense	-	-
9. Income tax	(6,027)	(5,129)
C) TOTAL RECOGNISED INCOME AND EXPENSE (A+B)	59,479	54,173

Appendix I.c.

STATEMENT OF TOTAL CHANGES IN EQUITY for the years ended 31 December 2013 and 2012

(in thousands of Euros)	SHAREHOLDERS' EQUITY								VALUATION ADJUSTMENTS		TOTAL EQUITY
			RESERVES								
	Share capital or assigned capital	Share premium	Revaluation reserves	Other reserves /(losses)	Total reserves	Profit for the year	Less: dividends and remuneration	Total shareholders' equity	Available-for-sale financial assets	Other valuation adjustments	
1. Closing balance at 31 December 2012	91,009	85,972	163	95,140	95,303	20,544	(3,000)	289,828	(7,324)	(7,324)	282,504
1.1 Adjustments due to changes in accounting policy	-	-	-	-	-	-	-	-	-	-	-
1.2 Adjustments made to correct errors	-	-	-	-	-	-	-	-	-	-	-
2. Adjusted opening balance	91,009	85,972	163	95,140	95,303	20,544	(3,000)	289,828	(7,324)	(7,324)	282,504
3. Total recognised income and expense	-	-	-	-	-	42,472	-	42,472	11,967	11,967	54,439
4. Other changes in equity	-	-	(1)	11,545	11,544	(20,544)	3,000	(6,000)	-	-	(6,000)
4.1 Increases in share capital/assigned capital	-	-	-	-	-	-	-	-	-	-	-
4.2 Capital decreases	-	-	-	-	-	-	-	-	-	-	-
4.3 Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-
4.4 Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-	-
4.5 Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-
4.6 Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-
4.7 Distribution of dividends/shareholder remuneration	-	-	-	-	-	(6,000)	-	(6,000)	-	-	(6,000)
4.8 Operations with own equity instruments (net)	-	-	-	-	-	-	-	-	-	-	-
4.9 Transfers between equity items	-	-	(1)	11,545	11,544	(14,544)	3,000	-	-	-	-
4.10 Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-
4.11 Discretional contributions to welfare funds (savings banks and credit cooperatives only)	-	-	-	-	-	-	-	-	-	-	-
4.12 Equity-settled payments	-	-	-	-	-	-	-	-	-	-	-
4.13 Other equity increases/(decreases)	-	-	-	-	-	-	-	-	-	-	-
5. Closing balance at 31 December 2013	91,009	85,972	162	106,685	106,847	42,472	-	326,300	4,643	4,643	330,943

Appendix I.c.

STATEMENT OF TOTAL CHANGES IN EQUITY for the years ended 31 December 2014 and 2013

(in thousands of Euros)	SHAREHOLDERS' EQUITY								VALUATION ADJUSTMENTS		TOTAL EQUITY
			RESERVES								
	Share capital or assigned capital	Share premium	Revaluation reserves	Other reserves /(losses)	Total reserves	Profit for the year	Less: dividends and remuneration	Total shareholders' equity	Available-for-sale financial assets	Other valuation adjustments	
1. Closing balance at 31 December 2013	91,009	85,972	162	106,685	106,847	42,472	-	326,034	4,643	4,643	330,677
1.1 Adjustments due to changes in accounting policy	-	-	-	-	-	(266)	-	-	-	-	-
1.2 Adjustments made to correct errors	-	-	-	-	-	-	-	-	-	-	-
2. Adjusted opening balance	91,009	85,972	162	106,685	106,847	42,206	-	326,034	4,643	4,643	330,677
3. Total recognised income and expense	-	-	-	-	-	45,416	-	45,416	14,063	14,063	59,479
4. Other changes in equity	-	-	(1)	30,207	30,206	(42,206)	-	(12,000)	-	-	(12,000)
4.1 Increases in share capital/assigned capital	-	-	-	-	-	-	-	-	-	-	-
4.2 Capital decreases	-	-	-	-	-	-	-	-	-	-	-
4.3 Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-
4.4 Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-	-
4.5 Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-
4.6 Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-
4.7 Distribution of dividends/shareholder remuneration	-	-	-	(12,000)	(12,000)	-	-	(12,000)	-	-	(12,000)
4.8 Operations with own equity instruments (net)	-	-	-	-	-	-	-	-	-	-	-
4.9 Transfers between equity items	-	-	(1)	42,207	42,206	(42,206)	-	-	-	-	-
4.10 Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-
4.11 Discretional contributions to welfare funds (savings banks and credit cooperatives only)	-	-	-	-	-	-	-	-	-	-	-
4.12 Equity-settled payments	-	-	-	-	-	-	-	-	-	-	-
4.13 Other equity increases/(decreases)	-	-	-	-	-	-	-	-	-	-	-
5. Closing balance at 31 December 2014	91,009	85,972	161	136,892	137,053	45,416	-	359,450	18,706	18,706	378,156

Appendix I.d.

STATEMENTS OF CASH FLOWS for the years ended 31 December 2014 and 2013

(in thousands of Euros)	2014	2013
A). CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	(146,382)	(93,810)
1. Profit for the year	45,416	42,206
2. Adjustments to obtain cash flows from operating activities	28,787	38,341
2.1. Depreciation and amortisation	1,103	1,101
2.2. Other adjustments	27,684	37,240
3. Net increase in operating assets	4,085,318	(2,826,242)
3.1. Financial assets held for trading	1,276,847	(2,611,697)
3.2. Other financial assets at fair value through profit or loss	-	-
3.3. Available-for-sale financial assets	(1,915,019)	(378,537)
3.4. Loans and receivables	4,723,490	163,992
3.5. Other operating assets	-	-
4. Net increase in operating liabilities	(4,290,520)	2,672,538
4.1. Financial liabilities held for trading	126,656	7,815
4.2. Other financial liabilities at fair value through profit or loss	4,731	(43,937)
4.3. Financial liabilities at amortised cost	(4,449,488)	2,711,084
4.4. Other operating liabilities	27,315	(2,424)
5. Income tax paid	(15,117)	(20,653)
B) CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	230,206	150,943
6. Payments	(1,395)	(1,658)
6.1. Tangible assets	(193)	(292)
6.2. Intangible assets	(1,199)	(810)
6.3. Equity investments	(3)	(556)
6.4. Other business units	-	-
6.5. Non-current assets and associated liabilities held for sale	-	-
6.6. Held-to-maturity investments	-	-
6.7. Other payments relating to investing activities	-	-
7. Collections	231,601	152,601
7.1. Tangible assets	-	-
7.2. Intangible assets	-	-
7.3. Equity investments	-	1,141
7.4. Other business units	-	-
7.5. Non-current assets and associated liabilities held for sale	-	-
7.6. Held-to-maturity investments	225,844	74,591
7.7. Other payments relating to investing activities	5,757	76,869
C) CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	(1,790)	(10,262)
8. Payments	(12,000)	(16,000)
8.1. Dividends	(12,000)	(6,000)
8.2. Subordinated liabilities	-	(10,000)
8.3. Redemption of own equity instruments	-	-
8.4. Acquisition of own equity instruments	-	-
8.5. Other payments relating to financing activities	-	-
9. Collections	10,210	5,738
9.1. Subordinated liabilities	-	-
9.2. Issuance of own equity instruments	-	-
9.3. Disposal of own equity instruments	-	-
9.4 Other collections relating to financing activities	10,210	5,738
D) EFFECT OF EXCHANGE RATE FLUCTUATIONS	-	-
E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	82,034	46,871
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	184,537	137,666
G) CASH AND CASH EQUIVALENTS AT END OF THE YEAR	266,571	184,537
MEMORANDUM ITEM		
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
1.1. Cash	802	700
1.2. Cash equivalents at central banks	265,769	183,837
1.3. Other financial assets	-	-
1.4. Less: Bank overdrafts repayable on demand	-	-
Total cash and cash equivalents at end of the year	266,571	184,537

This Appendix forms an integral part of Note 1 to the consolidated annual accounts for 2014, in conjunction with which it should be read.

Appendix II

Fully consolidated subsidiaries

31.12.2014			% ownership			Thousands of Euros			
Company	**Registered offices**	**Activity**	**Direct**	**Indirect**	**Amount of interest**	**Capital and reserves**	**Total assets**	**Profit**	**Revenues**
Rural Informática, S.A.	Madrid	IT services	99.8	0.2	6,822	12,662	338,064	2,400	3,613
Gescooperativo, S.A., S.G.I.I.C.	Madrid	Collective investment management	--	100	1,893	9,958	16,793	2,603	5,211
Rural Inmobiliario, S.L.	Madrid	Real-estate holding	100	--	3,486	9,715	71,323	176	767
BCE Formación, S.A.	Madrid	Training services	100	--	60	518	798	119	570
Espiga Capital Gestión, S.G.E.C.R., SA.	Madrid	Venture capital management	80	--	481	784	828	10	947
Rural Renting, S.A.	Madrid	Financing services	100	--	600	1,117	3,534	19	112
Espiga Asesoramiento S. L.	Madrid	Other services	100	--	3	2	2	(2)	(1)

31.12.2013			% ownership			Thousands of Euros			
Company	**Registered offices**	**Activity**	**Direct**	**Indirect**	**Amount of interest**	**Capital and reserves**	**Total assets**	**Profit**	**Revenues**
Rural Informática, S.A.	Madrid	IT services	99.8	0.2	6,822	10,616	330,596	2,046	2,933
Gescooperativo, S.A., S.G.I.I.C.	Madrid	Collective investment management	--	100	1,893	9,552	16,575	2,406	5,015
Rural Inmobiliario, S.L.	Madrid	Real-estate holding	100	--	3,486	9,068	51,740	647	775
BCE Formación, S.A.	Madrid	Training services	100	--	60	494	636	103	378
Espiga Capital Gestión, S.G.E.C.R., SA.	Madrid	Venture capital management	80	--	481	784	1,079	1	1,223
Rural Renting, S.A.	Madrid	Financing services	100	--	600	1,070	3,050	47	131

Appendix II (cont.)

Associates

2013			% ownership		Thousands of Euros				
Company	**Registered offices**	**Activity**	**Direct**	**Indirect**	**Amount of interest**	**Capital and reserves**	**Total assets**	**Profit/(loss)**	**Revenues**
Espiga Capital Inversión, S.C.R. de R.S., S.A.	Madrid	Venture capital	11.36	0.89	7,505	62,871	66,181	5,618	2,105
Espiga Capital Inversión II, S.C.R. de R.S. S.A.	Madrid	Venture capital	6.37	--	305	3,367	4,049	664	125

This Appendix forms an integral part of Note 1 to the consolidated annual accounts for 2014, in conjunction with which it should be read.

Appendix III

Information on the Banco Cooperativo Español Group pursuant to Article 87 of Law 10/2014 of 26 June 2014

ANNUAL BANKING REPORT

This information has been prepared to fulfil the provisions of Article 87 and the twelfth transitional provision of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions published in the Official State Gazette ("BOE") on 27 June 2014, which transposes into Spanish Law Article 89 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC (CRD IV) and repealing Directives 2006/48/EC and 2006/49/EC.

In accordance with the aforementioned legislation, as from 1 July 2014 credit institutions are required to publish the following consolidated information for the last full reporting period, broken down by the countries in which they are established:

a) Name, nature and geographical location of the activity.
b) Volume of business.
c) Number of FTE employees.
d) Profit before tax.
e) Income tax.
f) Government grants and subsidies received.

Pursuant to the foregoing, the aforementioned required information is detailed below:

a) Name, nature and geographical location of the activity

Banco Cooperativo Español, S.A. was incorporated on 31 July 1990 in a public deed attested by Madrid notary public Mr. Francisco Lucas Fernández, recorded as entry 2656 in his notarial record book and filed at the Madrid Mercantile Registry on 7 September 1990.

The Bank has its registered office in Madrid, at calle Virgen de los Peligros, 4 and 6, where public information on the company is available for consultation. The by-laws may be viewed at the Madrid Mercantile Registry and at the offices of the Bank's legal counsel.

The by-laws stipulate the activities in which the Bank may engage; these comprise activities typical of credit institutions, specifically those that comply with the provisions of Law 26/1988 of 29 July 1988 on discipline and intervention in credit institutions.

In addition to the transactions it carries out directly, the Bank is the parent of a group of subsidiaries that engage in various activities (see Appendix II to the Group's consolidated annual accounts) and which, together with the parent, constitute the Banco Cooperativo Español Group. As a result, the Bank is required to prepare the consolidated annual accounts of the Group in addition to its own individual annual accounts.

The consolidated Group conducts its business in Spain.

b) Volume of business and number of FTE employees

Information on Banco Cooperativo Español Group's volume of business and FTE employees at the 2014 close is shown below, together with explanatory notes on the basis of presentation of this information.

- Volume of business: Euros 99 million
- FTE employees: 206

For purposes of this report, the volume of business is considered to be the gross margin, as defined and presented in the consolidated income statement that forms part of the Group's consolidated annual accounts.

c) Profit before tax and Income tax

The accompanying consolidated income statement of the Banco Cooperativo Español Group for the year ended 31 December 2014 shows profit before tax of Euros 65,792 thousand and an income tax expense of Euros 19,470 thousand.

d) Government grants and subsidies received

The Banco Cooperativo Español Group received no public aid in 2014 or previously.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Directors' Report

This directors' report summarises the activity carried out by the Banco Cooperativo Español Group from 1 January to 31 December 2014, the Bank's twenty-fourth year since its incorporation in July 1990.

1.Position of the Entity

1.1 Description

Banco Cooperativo Español is a financial group that performs the role of banking headquarters for its associated rural savings banks. As such, considering the particular characteristics of the business activity carried out and the varying requirements of its customers, the Group has adopted a segmented structure that facilitates business activities while increasing the quality of services and improving cost efficiency. The shareholder savings banks engage in traditional banking activities and, therefore, the main objective of Banco Cooperativo Español is to assist these savings banks in achieving a leading position in the market, taking advantage of synergies and the competitive advantage derived from their association.

At 31 December 2014 the Group had assets totalling Euros 20,036 million, shareholders' equity of Euros 384 million and 206 employees.

Within the Group's organisational structure, the board of directors has the greatest decision-making power and the most extensive authority in managing the Company, except in matters to be approved by the shareholders. Its main function is oversight of the Group and it delegates routine management tasks to the executive bodies and the management team.

The members of the board of directors do not have executive powers.

The Group primarily operates in Spain and its activities are structured into the following business areas:

- **Treasury and Capital Markets Area**:

    - The particular characteristics of the Bank as a provider of wholesale services mean that the Money Markets and Foreign Currency Area generates the greatest volume of business and is where the Bank makes its presence felt.

    - The Capital Markets Area is responsible for the design, structure and placement of fixed and variable income securities transactions both in Spain and abroad, flotations and privatisations, syndicated loans in Spain and abroad and balance sheet hedging operations of the rural savings banks.

- **Retail Banking**: provides financial services to individuals and businesses with the basic aim of meeting their requirements through a comprehensive offering of products and services, providing the possibility of arranging services and performing operations through various means (branch offices, internet banking, telephone banking, mobile banking, ATMs, etc.). As these products and financial services are the cornerstone of our savings banks' relationship with their customers, the Bank has focused the activity of the various units engaged in retail banking on developing, promoting and fostering these products in order to increase the volume and profitability of their business and of Banco Cooperativo Español itself through its two branch offices in Madrid.

- **Corporate Banking**: the Bank follows two basic lines of action in the provision of services to active companies and institutions: commercial support; arranging contracts with customers either individually or in conjunction with the savings banks; and acting as advisor or promoter for the development of new products, commercial undertakings or any initiatives to improve the commercial capacity of this customer segment.

- **Private Banking**: comprised of two distinct business lines:

  - Own business: this area renders services to the Bank's own private banking customers and engages in attracting new customers.

  - Savings bank business: the main aim is to provide support to the shareholder rural savings banks.

- **International Area**: facilitates access by the rural savings banks and the Bank itself to international payment systems and to cooperation and service provision agreements that enable access to the global economy.

The Group also has various support units such as Human Resources, Organisation and Technology, General Secretaries' Offices and Legal Advisory, Operations, Analysis Services, General Audit and Risks and Internal Audit.

1.2 Business model

The basic pillars of Banco Cooperativo's business model are as follows:

- Banco Cooperativo, as head of banking services for rural savings banks, aims to achieve sustained and profitable growth with the basic objectives of rendering quality services to its shareholder savings banks, strengthening its business and focusing its own activity on the wholesale and corporate banking areas.

- The global risk profile of the Banco Cooperativo Group is low. Most notably it has high capital ratios, estimated profit volatility at the lower end of available benchmarks, low risk exposure (derived mainly from its activity in capital markets) and a robust liquidity position.

- Commercial focus on shareholder savings banks and end customers, professional and speedy decision-making and extensive use of information technology.

- Active management of intellectual capital, training, motivation and development of employees. The employees of the Banco Cooperativo Group are a cornerstone of the business model.

The Group's activity is subject to the same risks as that of other financial institutions, which can give rise to adverse consequences. Activity is conditioned by other factors such as strong competition, market volatility, the cyclical nature of certain business activities, losses due to litigation and other factors that impact negatively on the Group's profitability and solvency.

A description of these and other specific risks related to banking activity, such as credit, liquidity, market risks, etc., is provided in note 35.

2. Business performance

	Thousands of Euros	
	2014	**2013**
Balance sheet		
Total assets	20,036,134	24,262,717
On-balance sheet customer funds	744,807	3,690,718
Other funds managed	4,144,911	3,119,861
Loans and advances to other debtors (net)	1,016,805	632,626
Shareholders' equity	384,139	350,085
Profit/(loss)		
Gross margin	98,646	104,212
Margin on operating activities	65,792	60,963
Profit before income tax	65,792	60,472
Attributable profit	46,322	42,753
Significant ratios (%)		
Overheads/gross margin	24.21	22.53
Net profit/average shareholders' equity (ROE)	11.86	12.18
Net profit/average total assets (ROA)	0.19	0.17
Solvency ratio	16.60	16.20

2.1 Economic environment

According to the International Monetary Fund (IMF), four key developments have shaped the global outlook since the release of the October 2014 WEO.

First, oil prices in U.S. Dollars have declined by about 55% since September. The decline is partly due to unexpected demand weakness in some major economies, in particular emerging market economies, also reflected in declines in industrial metal prices. But the much larger decline in oil prices suggests an important contribution of oil supply factors, including the decision of the Organization of the Petroleum Exporting Countries (OPEC) to maintain current production levels despite the steady rise in production from non-OPEC producers, especially the United States. Oil futures prices point to a partial recovery in oil prices in coming years, consistent with the expected negative impact of lower oil prices on investment and future capacity growth in the oil sector.

Second, while global growth increased broadly as expected to 3.75% in the third quarter of 2014, up from 3.25% in the second quarter, this masked marked growth divergences among major economies. Specifically, the recovery in the United States was stronger than expected, while economic performance in all other major economies, most notably Japan, fell short of expectations. The weaker-than-expected growth in these economies is largely seen as reflecting ongoing, protracted adjustment to diminished expectations regarding medium-term growth prospects, as noted in recent issues of the WEO.

Third, with more marked growth divergence across major economies, the U.S. Dollar has appreciated some 6% in real effective terms relative to the values used in the October 2014 WEO. In contrast, the Euro and the Yen have depreciated by about 2% and 8%, respectively, and many emerging market currencies have weakened, particularly those of commodity exporters.

Fourth, interest rates and risk spreads have risen in many emerging market economies, notably commodity exporters, and risk spreads on high-yield bonds and other products exposed to energy prices have also widened. Long-term government bond yields have declined further in major advanced economies, reflecting safe haven effects and weaker activity in some of these countries.

Developments since the release of the October WEO have conflicting implications for the growth forecasts. On the upside, the decline in oil prices driven by supply factors – which, as noted, are expected to reverse only gradually and partially – will boost global growth over the next two years or so by lifting purchasing power and private demand in oil importers. The impact is forecast to be stronger in advanced economy oil importers, where the pass-through to end-user prices is expected to be higher than in emerging market and developing oil importers. In the latter, more of the windfall gains from lower prices are assumed to accrue to governments (for example, in the form of lower energy subsidies), where they may be used to shore up public finances. However, the boost from lower oil prices is expected to be more than offset by an adjustment to lower medium-term growth in most major economies other than the United States. At 3.5% and 3.7%, respectively, global growth projections for 2015–16 have been marked down by 0.3% relative to the October 2014 WEO.

Among major advanced economies, growth in the United States rebounded ahead of expectations after the contraction in the first quarter of 2014, and unemployment declined further, while inflation pressure stayed more muted, also reflecting the Dollar appreciation and the decline in oil prices. Growth is projected to exceed 3% in 2015–16, with domestic demand supported by lower oil prices, more moderate fiscal adjustment, and continued support from an accommodative monetary policy stance, despite the projected gradual rise in interest rates. But the recent Dollar appreciation is projected to reduce net exports.

In the Eurozone, growth in the third quarter of 2014 was modestly weaker than expected, largely on account of weak investment, while inflation and inflation expectations continued to decline. Activity is projected to be supported by lower oil prices, further monetary policy easing (already broadly anticipated in financial markets and reflected in interest rates), a more neutral fiscal policy stance, and the recent Euro depreciation. But these factors will be offset by weaker investment prospects, partly reflecting the impact of weaker growth in emerging market economies on the export sector, and the recovery is projected to be somewhat slower than forecast in October, with annual growth projected at 1.2% in 2015 and 1.4% in 2016.

In Japan, the economy fell into technical recession in the third quarter of 2014. Private domestic demand did not accelerate as expected after the increase in the consumption tax rate in the previous quarter, despite a cushion from increased infrastructure spending. Policy responses – additional quantitative and qualitative monetary easing and the delay in the second consumption tax rate increase – are assumed to support a gradual rebound in activity and, together with the oil price boost and Yen depreciation, are expected to strengthen growth to above trend in 2015–16.

Three main factors explain the downshift:

1.- Lower growth in China and its implications for emerging Asia: Investment growth in China declined in the third quarter of 2014, and leading indicators point to a further slowdown. The authorities are now expected to put greater weight on reducing vulnerabilities from recent rapid credit and investment growth and hence the forecast assumes less of a policy response to the underlying moderation. Slower growth in China will also have important regional effects, which partly explains the downward revisions to growth in much of emerging Asia. In India, the growth forecast is broadly unchanged, however, as weaker external demand is offset by the boost to the terms of trade from lower oil prices and a pickup in industrial and investment activity after policy reforms.

2.- A much weaker outlook in Russia: The projection reflects the economic impact of sharply lower oil prices and increased geopolitical tensions, both through direct and confidence effects. Russia's sharp slowdown and Ruble depreciation have also severely weakened the outlook for other economies in the Commonwealth of Independent States (CIS) group.

3.- Downward revisions to potential growth in commodity exporters: In many emerging and developing commodity exporters, the projected rebound in growth is weaker or delayed compared with the October 2014 projections, as the impact of lower oil and other commodity prices on the terms of trade and real incomes is now projected to take a heavier toll on medium-term growth. For instance, the growth forecast for Latin America and the Caribbean has been reduced to 1.3% in 2015 and 2.3% in 2016. Although some oil exporters, notably members of the Cooperation Council for the Arab States of the Gulf, are expected to use fiscal buffers to avoid steep government spending cuts in 2015, the room for monetary or fiscal policy responses to shore up activity in many other exporters is limited. Lower oil and commodity prices also explain the weaker growth forecast for sub-Saharan Africa, including a more subdued outlook for Nigeria and South Africa.

2.2 Balance sheet

- Total assets decreased by 17.4% to Euros 20,036,134 thousand.

- At 31 December 2014 loans and advances to other debtors stood at Euros 1,016,805 thousand, up 60.7% compared to 31 December 2013.

- Deposits from other creditors fell by 79.8% to Euros 744,807 thousand.

- Deposits from credit institutions and central banks rose 5.4% to Euros 17,833,545 thousand.

- Debt certificates including bonds amounted to Euros 361,930 thousand (87.1% decrease) as a result of early redemptions.

- Shareholders' equity rose by 9.8% to Euros 384,139 thousand.

2.3 Income statement

- The interest margin was Euros 70,357 thousand, representing a decline of 10.0% on 2013.

- The gross margin slipped by 5.3% to Euros 98,646 thousand due to the performance of the various components of this margin: interest (as mentioned previously), net fees and commissions (up 4.9% to Euros 15,245 thousand), gains and losses on financial assets and financial liabilities and exchange differences (up 13.4% to stand at Euros 9,889 thousand). Other operating income net of other operating expenses rose by 3.9% to Euros 2,082 thousand.

- Administrative and personnel expenses grew by 2.9% to stand at Euros 22,473 thousand. Depreciation and amortisation totalled Euros 1,411 thousand, down 18.2% on 2013. The sum of provisions and impairment losses on assets decreased to Euros 8,970 thousand (down 54.4%). Consequently, results from operating activities stood at Euros 65,792 thousand, 7.3% up on 2013.

- Profit attributable to the Group amounted to Euros 46,322 thousand, 7.7% higher than in 2013.

2.4 Business units

The results of the different business segments comprising the Bank's activity and their performance in 2014 and 2013 are summarised below. Further information can be found in note 32.

	Thousands of Euros									
	Commercial banking		**Asset management**		**Markets**		**Corporate activities**		**Total Group**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Gross margin plus other operating income (net)	17,702	20,343	9,825	9,455	60,461	70,547	10,658	2,244	98,646	102,589
Results from operating activities	4,134	(3,650)	7,251	5,575	56,554	66,126	(2,146)	(7,867)	65,792	60,184
Profit/(loss) before income tax	4,134	(3,650)	7,251	5,575	56,554	66,126	(2,146)	(7,200)	65,792	60,851
Income tax	1,223	(1,070)	2,146	1,634	16,736	19,378	(635)	(2,110)	19,470	17,832
Consolidated profit/(loss) for the year	**2,910**	**(2,580)**	**5,105**	**3,941**	**39,818**	**46,748**	**(1,511)**	**(5,090)**	**46,322**	**43,019**

2.5 Environmental issues

Environmental preservation is a priority of the Bank when performing its activity and it seeks to promote initiatives to protect the environment and prevent and mitigate environmental damage. The Bank has a recycling protocol aimed at minimising the waste generated by activity, which is generally very limited; and it is especially concerned with financing projects for the protection and improvement of the environment.

2.6 Human resources

Banco Cooperativo's human resources management model is aimed at promoting professional growth and development within the organisation, prioritising promotion and internal rotation, in order to foster a workforce with breadth of knowledge and ensure equal conditions and opportunities.

Management practices are therefore characterised by close relationships and personalised treatment. Each employee is considered key and essential to achieving the Entity's objectives.

Our core values revolve around respect, integrity, commitment, team spirit and especially the quality of internal and external customer service.

	2014	**2013**
Average length of service (years)	11.4	11
Average age	40.7	40
Training:		
(%) University graduates	79	78
No. of hours of training	4,322	5,719
Hours of training/employee	21	27
Diversity (%)		
Female	47	52
Male	53	48
HR management (%)		
Internal promotion	10	13
Permanent contracts	99	99

3. Liquidity and capital

3.1 Liquidity

Liquidity risk management consists of ensuring that the Group always has sufficient liquidity to meet its payment commitments associated with the settlement of its liabilities on their respective maturity dates without compromising its capacity to respond rapidly to strategic market opportunities. This function includes obtaining financing in wholesale markets at the lowest possible cost in the medium and long term, with a view to maintaining an optimum level of liquid assets in keeping with the Group's policy of prudence.

In this context, the key to resolving liquidity problems resides in anticipating them and implementing preventive management techniques. The Bank is aware of this and therefore considers both aspects its first line of defence against the potential adverse effects of liquidity shortages on its results, reputation and creditworthiness.

To enable early identification, the Group continually monitors its liquidity position in the short, medium and long term and the performance of the main monetary and capital markets in which it operates. To this end it has: (i) a wide range of quantitative and qualitative indicators, (ii) limits and alerts defined based on the maximum tolerance to liquidity risk and (iii) the human, technical and operational support required to properly incorporate these indicators as a strategic and risk management input.

With regard to preventive management, the Asset and Liability Committee (ALCO) focuses structural liquidity management on: (i) the balance between positive and negative cash flows over a long time horizon, (ii) the diversification of uses and sources of funding and (iii) the protection of the Bank's ability to finance its growth and meet its payment obligations on the date and in the manner established in the contract at a reasonable cost and without affecting its reputation.

Finally, in terms of anticipation, the Entity has a buffer of liquid assets free of encumbrances that allow it to comfortably cope with situations of severe stress. The quality, relative liquidity and suitability as collateral of the assets that make up the buffer are periodically verified and these assets are subjected to stress tests to determine their ability to cope with extreme situations.

The main metrics currently used to control liquidity and the results thereof at 31 December 2014 are:

- ***Daily liquidity controls***: the Bank continually monitors its intraday liquidity, the eligibility of securities to be pledged as collateral to obtain financing from Banco de España (credit facility) and the sufficiency of its headroom (buffer of available liquid assets) in dealing with short-term cash outflows, among other indicators. This analysis also envisages further stress tests on its portfolio of eligible assets (those pledged as collateral for the Banco de España credit facility and others), subjecting the securities to scenarios of a reduction in their market value, downgrades in rating and loss of eligibility.

- ***Liquidity gap***: provides information on cash inflows and outflows in order to detect timing differences between collections and payments. Very conservative behavioural criteria and assumptions have been established for unknown contractual maturities.

- ***Short-term liquidity coverage ratio (LCR):*** under the stress scenario defined in Basel III, the 30-day liquidity ratio at 31 December 2014 stood at 121%, a level close to that normally seen and over twice the target rate (60%) established for the date of entry into force of this ratio (October 2015).

- ***Net Stable Funding Ratio (NSFR):*** the Bank maintains a balanced structure in its long-term financing that is adapted to its liquidity profile. At 31 December 2014, the net stable funding ratio was 105%, higher than the target set in Basel III.

Moreover, the Bank has activated a number of alerts and thresholds that are continually monitored, enabling it to foresee any potential liquidity stress and, where necessary, automatically convene the ALCO for an extraordinary or crisis meeting, depending on the situation. The latter initiative is considered in the liquidity risk contingency plan, the Bank's second line of action against potential adverse effects of liquidity shortages. Essentially, this is an action plan with a practical focus that enables the Bank to optimise the timing, cost and form of its response to high-exposure or critical situations and mitigate possible disturbances and impacts on business continuity during such episodes.

Further information on residual maturities and the Bank's financing structure can be found in note 36 to the consolidated annual accounts.

3.2 Capital

Capital management seeks to guarantee the solvency of the Entity and ensure compliance with internal capital targets and regulatory requirements, and is a fundamental decision-making tool.

The Entity's target capital is defined as the capital which the Entity considers it necessary to hold both now and in the future as per its capital planning and which is in keeping with the risks inherent in its activity, the economic environment in which it operates, the governance, management and risk control systems, the strategic business plan, the quality of available capital, regulatory requirements (current and future requirements insofar as the latter are known) and the real possibilities of obtaining more capital if so required.

	Thousands of Euros	
	2014	**2013**
Capital	91,009	91,009
Reserves	246,969	245,785
Deductions	(1,572)	(1,185)
Common Equity Tier 1 (CET1) capital	**336,406**	**335,609**
Additional CET1 elements	-	-
Tier 1 capital	**336,406**	**335,609**
General provision	11,956	17,599
Other elements	-	4,432
Tier 2 capital	**11,956**	**22,031**
Total eligible capital	**348,362**	**357,640**
For credit, counterparty, dilution and delivery risk	133,639	143,848
For price, currency and commodity position risk	19,385	21,991
Operational risk and other	14,422	10,440
Total minimum capital requirement	**167,446**	**176,279**
Surplus	**180,916**	**181,361**
Capital ratio (%)	**16.6**	**16.2**
Tier 1 capital (%)	**16.1**	**15.2**

Eligible capital amounts to Euros 348,362 thousand while capital requirements are Euros 167,446 thousand, giving rise to a surplus of Euros 180,916 thousand, i.e. 108.0% over the minimum requirement

The majority of this amount is Common Equity Tier 1 (CET1) capital, which stands at Euros 336,406 thousand and accounts for 96.6% of total eligible capital.

Tier II capital, comprised of the general provision, amounted to Euros 11,956 thousand at 31 December 2014 and represents 3.4% of the capital base.

The most significant figure in eligible capital corresponds to credit, counterparty, dilution and delivery risks, which stand at Euros 133,639 thousand and represent 79.8% of total capital requirements calculated in accordance with Banco de España regulations.

As a result, the solvency ratio was 16.6% and the Tier I capital ratio stood at 16.1%.

4. Risk

A summary of the principles governing risk management at Banco Cooperativo is as follows:

- A risk profile adapted to strategic objectives, which include a high level of solvency.
- Involvement of senior management.
- Segregation of duties, guaranteeing the independence of the control function and comprehensive management of risks by the areas giving rise to them.
- Clear focus on supporting the business, without prejudice to the foregoing principle and maintaining the quality of risk in line with the Group's risk profile.
- Power allocation policies and control mechanisms structured and adapted to the various phases of the risk circuit, thereby ensuring adequate risk management and a risk profile that is in keeping with the parameters defined by the board of directors and senior management.
- Use of appropriate systems for the identification, measurement, control and monitoring of risks.
- Policies and procedures to reduce risks through mitigation techniques.
- Allocation of capital that is adapted to the level of risk assumed and the economic environment in which the Entity operates.

These principles are reflected in internal policies related to the approval, monitoring and control of risks and are set forth in the corresponding manuals and monitored on an ongoing basis, as explained further on.

4.1 Credit risk

Credit risk is the risk of one party to a contract that meets the definition of a financial instrument ceasing to comply with its obligations, resulting in a financial loss for the other party.

Credit risk therefore represents the risk of loss assumed by the Bank in the event that a customer or any counterparty fails to comply with its contractual payment obligations. This risk is inherent in traditional products of banking entities (loans, credit facilities, financial guarantees extended, etc.), as well as in other types of financial assets (fixed-income securities of the Group, derivatives, etc.).

Credit risk affects financial assets carried at amortised cost and assets recognised at fair value in the consolidated financial statements. The Bank applies the same credit risk control policies and procedures to these financial assets irrespective of the recognition criteria used.

The Bank’s credit risk control policies and objectives have been approved by the board of directors. The Risk Committee, together with the Assets and Liabilities Committee, is in charge of implementing the Bank’s risk policies that enable compliance with the objectives set by the board. The risk control unit (under the General Audit and Risks Department and, therefore, independent of the business units in charge of implementing policies defined by the Entity) is responsible for establishing the control procedures required to continuously monitor the levels of risk assumed by the Entity as well as strict compliance with the objectives set by the Bank with respect to credit risks. Together with the Internal Audit Department (under the Internal Audit Committee), the risk control unit also monitors compliance with the Bank’s risk control policies, methods and procedures, ensuring that these are sufficient, implemented effectively and reviewed regularly, and providing the information required by higher-level governing bodies to implement the necessary corrective measures, where applicable.

The control unit monitors, on an ongoing basis, risk concentration levels, the default rate and the different warning systems in place that enable it to keep an eye on credit risk trends at all times. Any deviations from the forecast performance of any of these parameters are analysed to determine the causes. Once the causes of these deviations are known, they are analysed by the control unit which submits the corresponding reports to the Bank’s management bodies so that the necessary corrective measures may be taken; for example, defining or correcting established control mechanisms which may not have functioned satisfactorily, or amending policies and limits agreed by the Bank. In particular, a more exhaustive analysis will be performed of operations which, for different reasons, have resulted in late payment or default, to determine the effectiveness of the hedges arranged by the Entity, in order to take any necessary measures to improve the Bank’s acceptance policies and credit risk analysis mechanisms.

4.2 Market risk

Market risk management is carried out on a two-tier basis:

a) Positions derived from trading activity, which includes portfolios held to benefit from gains on short-term price variations

b) Balance sheet positions, namely financial instruments and portfolios which are generally used to manage the overall risk structure, as well as structural fixed-income positions which are accrued in the margin.

The basic functions of the risk analysis and control unit include measuring, controlling and monitoring market risks, evaluating exposure and adapting that exposure to the limits assigned, as well as contrasting, implementing and maintaining tools.

The market risk limit structure is based on the value at risk (VaR) calculation, stop-loss limits, comparative tests and stress-testing and limits on the size of positions.

Management of this risk is geared towards limiting losses on positions stemming from adverse changes in market prices. Potential losses are estimated using a value at risk model, which is the main control and measuring tool employed in trading operations.

VaR is calculated using the parametric model, with a 99% confidence level for a time period of one day. Value at risk is obtained using historical or Monte Carlo simulations for those portfolios or unusual products with special characteristics for which the covariations model cannot be used. VaR is calculated centrally on a daily basis for the treasury and capital market activity as a whole, irrespective of the nature of the portfolios.

The objectives of this risk valuation methodology are:

- To establish a benchmark for defining the structure of limits
- To provide the Group with a unique and standard multi-level measure of market risk, and to provide the regulator with a global measure of market risk assumed by the Entity.

In addition to monitoring market risk, the risk control tools are also complemented by warning systems called stop-loss orders. The reason behind establishing warning systems is to limit maximum trading strategy losses to the desired level by automatically closing positions where allowable losses have been exceeded.

The measurement and control of market risk are complemented by contrast tests which involve comparing the theoretical generation of daily profits and losses under the assumption that positions have remained unchanged, i.e. in the absence of daily trading and using the estimates created by the risk model. Back-testing is used to determine whether the number of times losses exceed estimated VaR is consistent with the expected results according to the 99% confidence level applied in the model. The application of this technique shows that risk measurements fall within generally accepted validation standards.

To further supplement market risk measurement and control, stress estimates are performed in order to quantify the maximum decline in value of a portfolio when faced with extreme risk factor movements. Stress-testing analysis includes the application of historical financial market crisis scenarios as well as extreme values of market variables.

The market risk limit structure is completed with specific limits to the size of positions on certain operations individually approved, analysed and monitored by the Bank's Assets and Liabilities Committee.

4.3 Interest rate risk

Interest rate risk on the overall balance sheet is measured using the gap calculation and the sensitivity of the financial margin and net worth to interest rate fluctuations.

- The interest rate gap is based on analyses of variations in the maturities or repricing profile of different bundles of assets and liabilities over various time intervals.

- Financial margin sensitivity is estimated by projecting the financial margin to twelve months using the expected interest rate scenario and certain behaviour of the balance sheet bundles.

- Net worth sensitivity provides an overview of the long-term interest rate risk assumed by the Entity. Through the concept of duration, the effect of interest rate fluctuations on the economic value of the Entity can be approximated.

To manage interest rate risk, the Assets and Liabilities Committee analyses the overall time difference between maturity and repricing of assets and liabilities. In the case of liabilities with no contractual maturity date, assumptions based on the historical stability of these balances are used.

Each month the financial margin over a 12-month period is simulated under certain scenarios, such as growth of each balance sheet item, spread renewal assumptions, repricing periods for each type of operation, as well as different interest rate scenarios.

Interest rate risk is also analysed considering the economic value, measured as the effect of changes in the interest rate on the present value of equity, discounting expected future flows.

4.4 Counterparty risk

Control of counterparty risk is carried out in real time using an integrated system which allows the line of credit available with any counterparty, in any product and period and for each market area, to be known at any given time.

Lines of credit are approved following established authorisation procedures, as are any instances when credit limits are surpassed.

Counterparty risk is measured using the present value of each position plus the estimated increase in market value until maturity. Future variations in market prices are based on a hypothetical worst-case scenario considering the term of the operation and the risk factors to which the operation is exposed.

With respect to counterparty risk of derivative positions, credit risk is offset on positions where the counterparty is a financial institution that is party to the financial operations framework agreement, which allows parties to offset positions with negative market values against positions with positive market values in the same entity. At 31 December 2014 offset agreements have been implemented with 47 entities (48 in 2013).

The risk analysis unit continuously monitors the level of credit risk concentration by country, sector or counterparty. The Bank's Assets and Liabilities Committee reviews the appropriate exposure limits in order to adequately manage the level of credit risk concentration.

Note 37 to the consolidated annual accounts contains detailed information on the risks to which the Group's activity is exposed, including credit risk, market risk, interest rate risk, refinancing risk, exchange rate risk and risk concentration.

5. Outlook

In 2015, the Bank will design and launch new areas of business, allowing it to enhance its market presence and that of the shareholder rural savings banks, reinforce control of the different activities and improve the quality of services rendered.

6. Research, development and innovation activities

The Group has continued to develop technological applications to save costs and increase the quality of the services rendered to our customers, and so as to address new requirements to update technological and functional areas. The main work carried out has allowed the Group to continue with its policy to make the most of resources, leading to improved efficiency and the streamlining of processes.

7. Acquisition and sale of own shares

No transactions were carried out with own shares in 2014.

8. Other relevant information

The rating agencies commissioned all highlighted the Bank's low risk profile due to its robust levels of capitalisation, estimated profit volatility at the lower end of the benchmarks applied and low estimated exposure to various risks as a result of its policies and practices.

At the date of this report, the ratings assigned to the Bank are as follows:

Moody's	Ba2
Fitch	BBB
DBRS	BBB high

Information required by article 116 bis of the Securities Market Law

a) Capital structure, including securities not traded on a European Community regulated market, indicating, where applicable, the various share classes and, for each class, the rights and obligations conferred and the percentage of share capital represented.

The share capital of the Bank is represented by 1,514,297 registered shares of Euros 60.10 par value each, subscribed and fully paid up and with the same rights and obligations. No minimum number of shares is required to attend and vote at the annual general meetings. The shareholder structure comprises 41 Spanish credit cooperatives and one German bank.

b) Restrictions on the transfer of securities.

In the event that all or part of a shareholder's shares are sold or disposed of, a preferential right will be extended, and the following criteria and restrictions will apply:

When the shareholder in question is an entity legally incorporated in Spain as a rural savings bank or credit cooperative, a special first preferential acquisition right is extended to the remaining shareholders which, when the procedure foreseen in this article commences, also meet the requirements to be considered a rural savings bank or credit cooperative. If none of the other rural savings banks or credit cooperatives exercise their preferential acquisition right or, having exercised some of these rights, there are surplus shares, these will be subject to a second preferential acquisition right for the remaining company shareholders and, finally, for the company itself.

The regulations for the exercise of preferential rights are explained in article 8 of the Bank's articles of association.

c) Significant direct and indirect equity investments.

Details of the Entity’s most significant shareholders at the 2014 year end are as follows:

Tax ID number (CIF)	**Shareholder name**	**% ownership**
	DZ Bank	12.022%
F-31021611	Caja Rural de Navarra	10.580%
F-99320848	Caja Rural de Aragón	10.580%
F-18009274	Caja Rural de Granada	10.126%
F-45755220	Caja Rural de Albacete, Ciudad Real y Cuenca	9.650%
F-91119065	Caja Rural del Sur	8.645%
F-33007337	Caja Rural de Asturias	6.129%

d) Details of restrictions on voting rights.

There are no restrictions on voting rights.

e) Shareholder agreements.

There are no shareholder agreements.

f) Regulations concerning the appointment and replacement of board members and amendments to the Bank’s articles of association.

Board members hold their positions for a period of four years, and may be re-elected indefinitely. Any board member whose appointment is related to a position held in a shareholder company (if this position has had a determining role in his appointment) should relinquish his place on the board of directors upon request from any shareholder when the aforementioned relationship ceases to exist.

When electing and re-electing board members, the holders of shares that are voluntarily pooled in accordance with article 243 of the Revised Spanish Companies Act (formerly article 137 of the Spanish Companies Act), and which represent share capital equal to or in excess of that obtained by dividing total share capital by the number of members of the board of directors, will be entitled to appoint members who, exceeding whole fractions, are deducted from the corresponding proportion. Shares grouped together in this manner will have no impact on the votes of the remaining board members.

At their ordinary or extraordinary general meeting, shareholders may validly agree to any amendment to the articles of association, provided that at the first session shareholders holding at least 50% of subscribed share capital with voting rights are present or represented. At the second call only 25% of the aforementioned capital is required.

When shareholders representing less than 50% of subscribed share capital with voting rights are present or represented, the agreements mentioned in the preceding section may only be validly adopted with the favourable vote of two-thirds of the share capital with voting rights present or represented at the general meeting.

g) Powers of the board members, in particular those concerning the issue or redemption of shares.

The board members have no such powers.

h) Significant company agreements that come into force or are altered or terminated in the event of a change in control of the company as a result of a public share offering, and details of the related impact, unless the disclosure of such information is seriously damaging for the company. This exception does not apply when the company is legally obliged to make this information public.

No significant agreements exist.

i) Agreements between the company and its directors, management or employees involving compensation for improper dismissal or when the employment relationship is terminated due to a public share offering.

The legal and conventional effects that may be derived from the termination of the service relationship that links Bank personnel with the entity are not standard, but logically vary depending on the personnel in question, the role or position held by the employee, the type of contract entered into with the entity, the regulations governing the working relationship and a number of other factors. However, the following general scenarios can be distinguished:

<u>Employees</u>: in the case of employees linked to the Bank through a common working relationship (practically all entity personnel), in general terms the employment contracts linking these employees to the entity do not contain any indemnity clause for termination of the working relationship. Consequently, employees will be entitled to the termination benefit stipulated by employment legislation for the particular cause for termination of the contract.

There are certain cases of employees with a common labour relationship whose employment contract recognises the right to severance pay in the event of termination of employment for certain specific causes, usually only for improper dismissal. The amount of the severance pay is normally based on the employee's gross annual fixed salary at the date of termination of the contract.

Senior management: in the case of personnel linked to the Bank via a special senior management employment relationship (special senior management contracts governed by Royal Decree 1382/1985), the right to severance pay upon termination of employment for certain specific reasons is recognised. The amount of the severance pay for senior management is based on professional circumstances and the relevance and responsibility of the position held within the entity.

ANNUAL CORPORATE GOVERNANCE REPORT OF ENTITIES OTHER THAN SAVINGS BANKS AND WHICH ISSUE SECURITIES TRADED ON OFFICIAL MARKETS

APPENDIX II

ISSUER IDENTIFICATION DATA

REFERENCE REPORTING DATE	31/12/2014

TAX ID NUMBER	A79496055

COMPANY
BANCO COOPERATIVO ESPAÑOL, S.A.

REGISTERED OFFICES
CL. VIRGEN DE LOS PELIGROS N.4, (MADRID)

A. OWNERSHIP STRUCTURE

A.1 Provide details of the entity’s most significant shareholders at year end::

Tax ID number	Shareholder name	% ownership
	DZ Bank	12.022%
F-31021611	Caja Rural de Navarra	10.580%
F-99320848	Caja Rural de Aragón	10.580%
F-18009274	Caja Rural de Granada	10.126%
F-45755220	Caja Rural de Albacete, Ciudad Real y Cuenca	9.650%
F-91119065	Caja Rural del Sur	8.645%
F-33007337	Caja Rural de Asturias	6.129%

A.2 Indicate, where applicable, relationships of a family, business, contractual or corporate nature with the significant shareholders, to the best of the entity's knowledge, unless they are irrelevant or derived from ordinary business activity.:

Tax ID number	Name	Type of relationship	Brief description

A.3 Indicate, where applicable, relationships of a business, contractual or corporate nature between the significant shareholders and the entity, unless they are irrelevant or derived from ordinary business activity:

Tax ID number	Name	Type of relationship	Brief description

A.4 If applicable, please specify any limitations on the exercise of voting rights, as well as any limitations on the acquisition or transfer of ownership of shares:

Yes ☐ No ☒

Description of restrictions

B. GENERAL MEETING OF THE SHAREHOLDERS OR EQUIVALENT BODY

B.1 List the quorum for the valid constitution of the general meeting of the shareholders or equivalent body, as established by the articles of association. Describe any differences between this quorum and the minimum stipulated in the Spanish Companies Act or any other applicable legislation.

Article 15 of the articles of association states:

"Both the ordinary and extraordinary general shareholders' meeting will be validly constituted at the first call when the shareholders present or represented hold at least fifty percent of subscribed share capital with voting rights. At the second call the meeting will be valid when the shareholders present or represented hold at least fifteen percent of share capital with voting rights.

In order for the shareholders at their ordinary or extraordinary general meeting to validly agree the issue of bonds, a share capital increase/decrease, the transformation, merger, spin-off or winding-up of the company or, in general, any amendment to the articles of association, the shareholders present or represented at the first call must hold at least fifty percent of subscribed capital with voting rights. At the second call only twenty-five percent of the aforementioned capital is required.

When shareholders representing less than 50% of subscribed share capital with voting rights are present or represented, the agreements mentioned in the preceding section may only be validly adopted with the favourable vote of two-thirds of the share capital with voting rights present or represented at the general meeting".

B.2 Explain the system for adopting corporate agreements. Describe any differences compared to the system foreseen in the Spanish Companies Act or any other applicable legislation.

Article 17 of the articles of association states:

"The position of Chairman and Secretary for the Annual General Meetings will be held by the individuals who occupy these positions within the Board of Directors. In the event of absence, the Chairman and Secretary will be elected by those in attendance at the meeting.

The Chairman will lead the deliberations, passing the floor (in order) to all those shareholders who have requested so in writing, followed by those who present verbal requests.

Each of the points on the agenda will be subject to a separate vote.

Each share confers its holder the right to one vote.

At the General Shareholders' Meeting agreements will be adopted by a majority vote from the shareholders present or represented. Nevertheless, agreements concerning the issue of bonds, share capital increases or decreases, the transformation, merger, spin-off or winding-up of the Company, and in general any amendment to the articles of association, will require the quorum stipulated in article 15, paragraph 2, of the aforementioned articles of association. Voting rights may not be exercised by shareholders who default on payment of unpaid shareholder contributions."

B.3 Briefly state the resolutions adopted by shareholders' meetings and like bodies during the financial year to which this report refers and the percentage of votes with which each resolution was adopted.

Two Shareholders' Meetings took place in 2014:

(i) The Ordinary Shareholders' Meeting held on 28 May 2014 - with 28 shareholders present in person (91.52% of the share capital) and 2 by proxy (0.32% of the share capital), 91.84% of the Bank's share capital thus being represented - at which the following resolutions were debated and adopted:

1 It was unanimously resolved to approve the 2013 individual and consolidated annual accounts, as well as the management of the Board of Directors in the above year, and the distribution of profits, appropriating €597,857.69 to the legal reserve and €41,874,042.27 to the voluntary reserve.

2 Renewal of auditors.

It was unanimously resolved to renew the appointment of KPMG AUDITORES, S.L. as the auditor of Banco Cooperativo Español, S.A. and its consolidated group, for one year, running from 1 January 2014 to 31 December 2014.

3 Any other business.

No further business was transacted.

4 Reading and approval of the Minutes, or appointment of scrutineers for such purpose.

It was unanimously resolved to appoint scrutineers for the approval of the Minutes.

(ii) The Special Shareholders' meeting held on 3 December 2014 - with 4 shareholders present in person (9.15% of the share capital) and 24 by proxy (88.11% of the share capital), 97.26% of the share capital thus being represented - at which the following resolutions were debated and adopted:

1 Capital increase with a charge to voluntary reserves. Unanimously rejected.

2 Offering of the acquisition on the part of the company of the rights of free allocation of shares under the capital increase. No resolution whatsoever was adopted since the capital increase was not approved.

3 Grant of powers to the Board to perform the capital increase. Again, no resolution whatsoever was adopted in this connection.

4 It was unanimously resolved to approve an extraordinary dividend distribution with a charge to voluntary reserves for the amount of €12,000,000.

5 Any other business.

No further business was transacted.

6 Reading and approval of the Minutes, or appointment of scrutineers for such purpose.

It was unanimously resolved to appoint scrutineers for the approval of the Minutes.

B.4 Indicate the address of the entity's website and how to access the corporate governance information.

The Bank’s website is: www.bancocooperativo.es The access route to the Corporate Governance Report is: • On the home page go to “Institutional information”. • Enter the section entitled “The Bank”. • The 2014 “Corporate Governance Report” is published in the “Regulatory Compliance” chapter of this section.

B.5 Indicate if meetings have been held with the various syndicates (if applicable) of holders of securities issued by the entity, the subject of the meetings held in the year referred to in this report and the main agreements adopted.

There are no syndicates of holders of securities issued by the Entity (ordinary fixed and variable rate treasury bonds under state guarantee).

C. ADMINISTRATIVE STRUCTURE OF THE ENTITY

C.1 Board of directors or governing body

C.1.1 Provide details of the maximum and minimum number of members of the board of directors or governing body according to the articles of association:

Maximum board/governing body members	20
Minimum board/governing body members	10

C.1.2 Complete the following table on the members of the board of directors or governing body, and their positions:

MEMBERS OF THE BOARD OF DIRECTORS/GOVERNING BODY

15 board members had been appointed at 31 December 2014, i.e. the number of directors stipulated by the shareholders at the annual general meeting on 29 May 2013.

Member tax ID number	Name of the board/governing body member	Representative	Date of latest appointment
29.255.590-G	Mr. José Luis García Palacios		29/05/2013
03.714.588-L	Mr. José Luis García-Lomas Hernández		29/05/2013
16.761.254-G	Mr. Pedro García Romera		29/05/2013
73.067.461-A	Mr. José Antonio Alayeto Aguarón		29/05/2013
16.221.514-M	Mr. Ignacio Arrieta del Valle		29/05/2013
21.870.038-M	Mr. Nicanor Bascuñana Sánchez		29/05/2013
18.902.361-H	Mr. Fernando Bergé Royo		29/05/2013
Y3.397.216-S	Mr. Luis Esteban Chalmovsky		29/05/2013
04.492.942-F	Mr. Carlos de la Sierra Torrijos		29/05/2013
11.716.359-K	Mr. Cipriano García Rodríguez		29/05/2013
72.868.002-T	Mr. Carlos Martínez Izquierdo		29/05/2013
33.310.790-M	Mr. Jesús Méndez Álvarez-Cedrón		29/05/2013
10.459.646-M	Mr. José María Quirós Rodríguez		29/05/2013
24.216.235-H	Mr. Dimas Rodríguez Rute		29/05/2013
	Mrs. Dagmar Werner		29/05/2013

C.1.3 Identify, where applicable, the members of the board of directors or governing body who also hold director or managerial positions in other group entities:

Member tax ID number	Name of the board/governing body member	Name of the group entity	Tax ID of the group entity	Position

C.1.4 Complete the following table on the number of female Directors on the Board of Directors and its Committees over the past four years:

	Number of female board members							
	2014		2013		2012		2011	
	Number	%	Number	%	Number	%	Number	%
Board of Directors	1	6.67%	1	6.67%	1	5.88%	1	5.00%
Appointments and Remuneration Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Audit Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%

C.1.5 Complete the following table on the aggregate compensation paid to directors or members of the managing body over the year:

Remuneration	Thousands of Euros	
	Individual	Group
Fixed remuneration	0	0
Variable remuneration	0	0
Allowances	177	0
Other remuneration	0	0
Total	177	0

C.1.6 Identify any members of senior management who are not executive members of the board of directors or governing body, and include details of total remuneration accrued during the year:

Tax ID number	Name	Position
5.227.458-H	Mr. Javier Petit Asumendi	General manager
50.300.773-A	Mr. Ignacio Benlloch Fernández Cuesta	Corporate banking director
10.595.270-K	Mr. José Gómez Díaz	Private banking director
11.727.816-R	Mr. Ignacio de Castro Sánchez	Risk director and financial controller
51.622.948-T	Mr. Joaquín Carrillo Sánchez	Organisation director
2.699.646-K	Mr. Javier Moreno Rumbao	Studies director
682.268-L	Mr. Juan Luis Coghen Alberdingk-Thijm	Commercial director
1.806.275-Q	Mr. Francisco de Pablos Gómez	Treasury director
7.512.778-N	Ms. Ana San José Martín	HR director
44.352.963-Q	Mr. Antonio Mudarra Esquina	International area director
36.066.124-P	Mr. Ramón Carballás Varela	Legal advisory director
52.126.627-W	Mr. Carlos Luengo Gómez	Head of asset management
50.280.431-Q	Mr. Ángel González Castrillejo	Transactions manager

Total senior management remuneration (thousands of Euros)	2,309

C.1.7 Indicate whether the articles of association or regulations governing the board specify a limit to the term of service for members of the board of directors or governing body:

Yes ☐ No ☒

Maximum term (in years)	

C.1.8 Indicate whether the individual or consolidated annual accounts presented for approval by the board of directors or governing body have been previously certified:

Yes ☐ No ☒

Indicate, where applicable, the person(s) who certified the entity's individual and consolidated annual accounts for authorisation by the board of directors or governing body:

N/A

C.1.9 Explain, where applicable, the mechanisms established by the board of directors or governing body to ensure that the individual and consolidated annual accounts authorised by the former are presented to the shareholders (or equivalent body) at their general meeting with an unqualified auditors' opinion.

The code of good governance stipulates that the board of directors will endeavour to prepare the annual accounts in such a way as to ensure that an unqualified auditors' opinion is issued. Nevertheless, when the board considers that it must uphold its criteria, it will publicly explain the content and scope of the discrepancy.

The following mechanisms are in place:

1. The Bank's internal services are to prepare the annual accounts in a clear manner, presenting fairly the company's equity, financial position and results, and correctly applying all the accounting principles applicable to banks to the financial and accounting information therein.
2. The Bank has an internal procedure in place for "Internal Control Over Financial Reporting" (ICFR).
3. An Audit Committee has been formed within the Board of Directors, the responsibilities of which include the following:
   - To propose the appointment of the auditor, the contracting conditions, the scope of the professional mandate and, where applicable, their revocation or non-renovation
   - To review the Bank's accounts, and monitor compliance with legal requirements and the correct application of generally accepted accounting principles;
   - To serve as a communication channel between the board of directors and the auditors, evaluating the results of each audit and management team responses to the auditors' recommendations, and mediating in the event of discrepancies with regard to the accounting principles and criteria applied in the preparation of the financial statements.
   - Supervision of compliance with the audit contract, ensuring that the opinion on the annual accounts and the key content of the audit report are prepared in a clear and precise manner.

     The committee may obtain any information or documentation deemed necessary to carry out its functions, as well as involving the auditors, advisors or any other independent or Bank professionals.

Since its incorporation the Bank has never been subject to a qualified audit opinion.

C.1.10 Is the secretary of the board of directors or governing body also a member of the board?

Yes ☐ No ☒

C.1.11 Specify any mechanisms in place to preserve the independence of the external auditor, financial analysts, investment banks and ratings agencies.

The functions entrusted to the Audit Committee include monitoring the independence of the auditors of the Bank's accounts and compliance with contracting conditions.

The board of directors' code of good governance stipulates that the board and the Audit Committee must supervise situations that may give rise to independence risks concerning external auditors, and that the board of directors should refrain from contracting audit firms whose total fees exceed 5% of their total income for the prior year.

The Audit Committee must also review financial, economic and management information on the Bank issued to third parties (Bank of Spain, the Spanish National Securities Market Commission, shareholders, investors, etc.), as well as any memo or report received from the aforementioned third parties.

The committee regulations stipulate that its members must apply criteria and actions that are independent from the rest of the organisation, perform their work with the maximum diligence and professional competency, and maintain strict confidentiality.

C.2 Committees of the board of directors or governing body

C.2.1 List the governing bodies:

Name of the body	No. of members	Functions
Audit Committee	4	See point C.2.3.
Appointments and Remuneration Committee	4	See point C.2.3.

C.2.2 Provide details of the committees of the board of directors or governing body, and the members thereof:

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position
Mr. José Luis García Palacios	Chairman
Mr. José Luis García-Lomas Hernández	Member
Mr. José María Quirós Rodríguez	Member
Mr. Ignacio Arrieta del Valle	Member

AUDIT COMMITTEE

Name	Position
Mr. José Luis García Palacios	Chairman
Mr. José Luis García-Lomas Hernández	Member
Mr. José María Quirós Rodríguez	Member
Mr. Ignacio Arrieta del Valle	Member

C.2.3 Describe the regulations concerning organisation and functions, as well as the responsibilities allocated to each of the committees of the board of directors or governing body. Where applicable, the powers of the managing director should also be described.

Appointments and Remuneration Committee

The Remuneration Committee was created on 30 November 2011 as an internal body within the Bank's Board of Directors, with executive functions and decision-making powers within its areas of activity. All members of the Remuneration Committee are directors.

On 26 June 2013, this Committee broadened its functions in order to enable the Bank to meet the new requirements provided for by Royal Decree 256/2013 of 12 April 2013, incorporating the European Banking Authority Guidelines of 22 November 2012 on the assessment of the suitability of members of the management body and key function holders into the legislation governing credit institutions.

Articles 31 and 26 of Credit Institution Regulation, Supervision and Solvency Law 10/2014 of 26 June 2014, respectively, provide for an obligation on the entity to set in place an Appointments Committee and a Remuneration Committee.

Pursuant to the provisions of section 2 of the above article 36, the Bank of Spain may authorise the creation of a Remuneration Committee in conjunction with an Appointments Committee, as is the case of Banco Cooperativo.

In its communication on 15 December 2014, the Bank of Spain authorised the Bank to set up a joint Remuneration and Compensation Committee.

The Committee's key **remuneration**-related functions are:

1) To approve the items and system for payment within the Entity's general remuneration framework.

2) To approve the remuneration policy and basic contractual conditions for senior executives.

3) To monitor the remuneration of employees receiving significant remuneration whose professional activities expose the Entity to significant risk, based on proportionality principles in line with the size, internal organisation, nature and scope of the Entity's activity.

4) To monitor remuneration of personnel in charge of risk, audit, internal control and legislative compliance functions.

5) To supervise evaluation of the remuneration policy applied, at least annually, so as to verify whether the remuneration guidelines and procedures adopted by the committee are followed.

6) To issue an annual report on the Director remuneration policy to be submitted to the Board of Directors, furnishing the Company Shareholders' Meeting with the report each year where such remuneration does not coincide exactly with the per diems for Board attendance and a distinction has been drawn based on the time devoted to the institution, not including mere attendance on the committees set up within the Board of Directors.

7) To ensure observance of the remuneration policy established at the Bank, transparency in remuneration and inclusion of necessary information in the corresponding reports (notes to the annual accounts, corporate governance report, information of prudential relevance document). To this end, it will annually review the principles on which such remuneration is based and analyse the targets and whether or not they are in line with national and international legislation, standards and principles.

8) To report to the Board on the implementation and correct application of the policy.

The Committee's key **appointments**-related functions are:

1) To assess the suitability of the Subject Parties referred to in Law 10/2014 and Royal Decree 256/2013 of 12 April 2013, incorporating the European Banking Authority Guidelines of 22 November 2012 on the assessment of the suitability of members of the management body and key function holders into the legislation governing credit institutions.

2) To carry out a periodic, annual assessment of the suitability of Subject Parties and, in particular, whenever any unanticipated circumstance that may affect their suitability for the position to which they were appointed comes to light.

3) To appoint any persons, aside from those expressly included in the institution's "Manual on the Procedure for Assessing the Suitability of Members of the Management Body and Key Personnel", who may be deemed Subject Parties in line with Royal Decree 256/2012.

4) To determine the requirements of any initial or periodic training to be received by all Subject Parties and, above all, the members of the Board of Directors.

5) To propose any amendments to these Regulations, as well as to the institution's "Manual on the Procedure for Assessing the Suitability of Members of the Management Body and Key Personnel" to the Board of Directors.

6) Any other such matters as may have been entrusted to it under these Regulation or attributed at the instance of the Board of Directors.

Audit Committee

The Audit Committee is an internal body created within the Bank's Board of Directors. It has the reporting, advisory and proposal-related powers falling within its areas of activity, but no executive functions.

The scope of the committee's work encompasses the following areas:

- The sufficiency, adequacy and correct functioning of the Bank's internal control and assessment system, and compliance with the legal requirements that may be adopted by the board of directors with regard to committee-related matters. Particular attention is paid to ensuring that the internal codes of ethics and conduct comply with regulatory requirements, and are suitable for the entity.
- Auditor activity
- The Bank's economic and financial information for third parties.

Notwithstanding any other capacities assigned by the board of directors, the Audit Committee has the following basic responsibilities:

1) To approve the orientation, plans and proposals relating to the internal audit department, ensuring that activity is mainly focused on risk that is relevant for the Bank.
2) To evaluate the compliance level of internal audit plans and the implementation of their recommendations, supervising the appointment and replacement of the person in charge of these plans.
3) To ensure that internal audit has the sufficient resources and professional qualifications required to successfully operate.
4) To supervise that relevant risks of any nature that affect the achievement of the Bank's corporate objectives are reasonably identified, measured and controlled.
5) To ensure compliance with legislation, internal regulations, the code of conduct and all other provisions that regulate the Bank's activity.
6) To maintain ethical standards within the organisation, investigate any incidents of irregular or unusual conduct and conflicts of interest among employees, and initiate the relevant investigations in the event of third-party claims against the Entity.
7) To examine projects related to codes of conduct and amendments thereto, and to issue an opinion prior to the approval of proposals by the Bank's corporate bodies.
8) To advise and propose to the Bank's board of directors the appointment or replacement of the auditors of the Bank's accounts, for approval by the shareholders.
9) To monitor the independence of the auditors and compliance with contracting conditions.
10) To review the content of audit reports and serve as a channel for communication between the board of directors and the Bank's auditors.
11) To evaluate the results of each audit and supervise management team responses to the auditors' recommendations.
12) To review financial, economic and management information relating to the Bank for third parties (Bank of Spain, Spanish National Securities Market Commission, shareholders, investors, etc.), as well as any communication or reports received from the aforementioned parties.
13) To supervise compliance with legal requirements and the correct application of generally accepted accounting principles with regard to the Bank's annual accounts and directors' report.
14) To evaluate any management proposals concerning changes to accounting practices and policies.

C.2.4 Indicate the number of audit committee meetings held during the year:

Number of meetings	4

C.2.5 If there is an appointments committee, indicate whether all its members are external board members or members of the governing body.

Yes [X] No [ ]

D. RELATED PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

D.1 Provide details of transactions between the entity or group entities and shareholders, cooperative members and holders of proprietary rights or equivalent.

D.2 Provide details of transactions between the entity or group entities and the directors, management or members of the governing body of the entity.

D.3 Provide details of intragroup transactions.

D.4 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company or its group, and its directors or members of the managing body or executives.

El Código de Buen Gobierno del Consejo de Administración establece en su artículo 26:

1) "Contracts signed or obligations assumed by the Bank (not included in the rendering of services pursuant to its statutory activity) relating to members of the board of directors, management or the relatives thereof to the second degree of consanguinity or affinity, will not be considered valid unless prior approval is granted by the shareholders at their general meeting. The individuals subject to the situation of conflict in question will not be permitted to take part in this vote. Shareholder authorisation will not be necessary when these relationships are inherent to the position of shareholder.

2) Agreements made by the board of directors or, if applicable, the delegate committee, concerning transactions or services for members of the board of directors, the delegate committee or general management, or the relations thereof within the limits stipulated in the preceding section, must be clearly included in the agenda for the meeting and approved by the favourable vote of the majority of board members present.

3) If the beneficiary of the transactions or services is a board member (or relative thereof as stipulated above), the board member will be considered as subject to a conflict of interests, and will not be allowed to participate in any deliberations or voting concerning this matter, making himself absent from the meeting for the time it takes to deal with this point on the agenda.

4) Following the vote and once the results have been announced, the minutes should include any reservations or discrepancies with regard to the agreement adopted.

5) The conditions laid out in the preceding paragraphs will also be applicable when incorporating, suspending, modifying, renewing or terminating the Bank's rights or obligations with entities in which the aforementioned individuals or their family members are employers, board members, directors, senior management, advisors or shareholders with a capital interest equal to or exceeding 5%.

6) The conditions laid out in paragraphs 2, 3 and 4 will also be applicable when considering the hiring of a person related to a Bank board member or director up to the second degree of consanguinity or affinity as a manager or employee on a temporary or permanent contract. In any event, candidates must be contracted considering their qualities and the characteristics of the position to be covered, with no special treatment being given due to the individual's relationship with a Bank board member or director."

E. RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Explain the scope of the entity's risk management system:

The activities carried out by Banco Cooperativo involve the assumption of certain risks, which should be controlled and managed so that the Bank constantly has the support of control systems that are adequate for the level of risk assumed. A set of basic principles has been defined as a guideline for the management and control of the risks assumed by the Bank as a result of its activity, including but not limited to the following: • Active participation in and supervision of the Company's governing bodies. The board of directors actively participates in the approval of general business strategies, and defines the policies for assuming and managing risk, ensuring that the appropriate risk policies, controls and monitoring systems are in place and that all lines of authority are clearly defined. • General internal control environment. This is manifested through a risk management culture which, driven by the board of directors, is diffused through all levels of the organisation, clearly defining the objectives that avoid risks being taken or unsuitable positions adopted due to a lack of suitable organisation, procedures or control systems. • Selection of adequate risk measurement methodologies. The Bank has adequate risk-management methodologies to enable the various risk factors to which it is exposed to be identified. • Evaluation, analysis and monitoring of the risks assumed. The identification, quantification, control and ongoing monitoring of risks allows a relationship to be established between the profitability obtained through the transactions carried out and the risks assumed.

E.2 Identify the bodies within the entity that are responsible for preparing and executing the risk management system.

The Board of Directors and the Risk Committee participate actively in the approval of business strategies and are responsible for defining risk assumption policies, ensuring that the appropriate policies, controls and systems exist. The main function of the Audit Committee is to support the Board of Directors in its duties of monitoring internal controls and the independence of the external auditor, through regular reviews of the process for preparing financial information.

E.3 Indicate the main risks which may prevent the entity from achieving its targets

The most significant risks affecting the Group's activity can be classified into the following categories:

- **Credit risk**
- **Market risk**
- **Interest rate risk**
- **Counterparty risk**
- **Liquidity risk**
- **Operational risk**

E.4 Indicate whether the company has a risk tolerance level.

The Board of Directors periodically reviews the risk policies, limit-setting systems and powers assigned for all significant risks to ensure that they are within established risk tolerance levels.

There are precise limits and metrics for each type of risk and organisational unit, which can be summarised as follows:

For credit risk, quantitative limits are assigned for the approval of risks depending on the organisational level, type and time frame of the operation.

For structural and market risks, specific metrics are used for each risk (level of exposure, value at risk (VaR), variation in financial margin, variation in economic value) and limits are established for each one.

Given the heterogeneous nature of the risks, in keeping with the principle of proportionality in management and considering the specific levels established by the directors for each case, to date it has not been considered necessary to establish an overall limit for acceptable risk at corporate level.

E.5 Indicate any risks arising during the year.

As noted in the preceding section, The activities carried out by Banco Cooperativo involve the assumption of certain risks, which should be controlled and managed so that the Bank constantly has the support of control systems that are adequate for the level of risk assumed.

Exposure to other risks is limited, control systems have functioned correctly and no special situations have arisen which, due to their magnitude, involved the assumption of risks exceeding the limits for the management and control thereof.

E.6 Explain the response and monitoring plans for the main risks the company is exposed to.

Credit risk

The most senior decision-making body with regard to credit risk is the board of directors, with delegated powers for this purpose, including:

- establishment of strategic risk policies, evaluation of performance and introduction of any corrective measures deemed necessary in each case; and
- sanctions relating to any considerations not encompassed by the powers of the remaining decision-making bodies.

The board has delegated part of its powers to the risk committee (up to a certain risk volume per borrower), which is formed by the general manager, the global risk management director, the credit risk director and the director of the area proposing acceptance of the transaction.

The Bank's credit risk management area forms part of the global risk management unit. The objective of this area is to design, implement and maintain credit risk measurement systems, as well as enforcing and focusing the use of these systems and ensuring that decisions taken with regard to these measurements consider their quality. As stipulated by the regulator, this area is independent from the risk-generating areas, thereby guaranteeing the objectivity of the measurement criteria and the absence of any distortion that may arise from commercial considerations.

In accordance with the requirements of the New Basel Capital Accord, credit risk measurement is based on the existence of internal rating and scoring models that predict the probability of non-compliance with the various areas of risk exposure that affect the loans and receivables portfolio, also allowing the credit rating of transactions and/or counterparties to be placed in order on a master risk scale.

Market risk

The Assets and Liabilities Committee is responsible for managing and controlling the risks incurred in the different areas of the Bank. This committee is currently formed by the general manager, the treasury director, the capital markets director, the risk director, the head of studies and the head of the market risk analysis and control unit (a unit that reports to risk management).

This committee is a flexible and specialised body, which oversees compliance with established policies and monitors the different areas of the market more frequently.

The committee's main duties and responsibilities are as follows:

- Approve risk policies and general risk management procedures
- Approve market, credit and liquidity risk measurement and analysis methodologies.
- Design the risk limit structure
- Monitor the level of compliance with risk management policies

- Review and recommend investment strategies

Market risk management is carried out on a two-tier basis:

- Positions derived from trading activity, which includes portfolios held to benefit from gains on short-term price variations
- Balance sheet positions, namely financial instruments and portfolios which are generally used to manage the overall risk structure, as well as structural fixed-income positions which are accrued in the margin

The basic functions of the market risk analysis and control unit include measuring, controlling and monitoring market risks, evaluating exposure and adapting that exposure to the limits assigned, as well as contrasting, implementing and maintaining tools.

The market risk limit structure is based on the value at risk (VaR) calculation, stop-loss limits, comparative tests and stress-testing and limits on the size of positions.

Management of this risk is geared towards limiting losses on positions stemming from adverse changes in market prices. Potential losses are estimated using a value at risk model, which is the main control and measuring tool employed in trading operations.

VaR is calculated using the parametric model, with a 99% confidence level for a time period of one day. Value at risk is obtained using historical or Monte Carlo simulation for those portfolios or unusual products with special characteristics for which the covariations model cannot be used.

VaR is calculated centrally on a daily basis for the treasury and capital market activity as a whole, irrespective of the nature of the portfolios.

The objectives of this risk valuation methodology are:

- To establish a benchmark for defining the structure of limits
- To provide the Group with a unique and standard multi-level measure of market risk, and to provide the regulator with a global measure of market risk assumed by the Entity.

In addition to monitoring market risk, the risk control tools are also complemented by warning systems called stop-loss orders. The reason behind establishing warning systems is to limit maximum trading strategy losses to the desired level by automatically closing positions where allowable losses have been exceeded.

The measurement and control of market risk are complemented by contrast tests which involve comparing the theoretical generation of daily profits and losses under the assumption that positions had remained unchanged, i.e. in the absence of daily trading and using the estimates created by the risk model. Back-testing is used to determine whether the number of times losses exceed estimated VaR is consistent with the expected results according to the 99% confidence level applied in the model. The application of this technique shows that risk measurements fall within generally accepted validation standards.

To further supplement market risk measurement and control, stress estimates are performed in order to quantify the maximum decline in value of a portfolio when faced with extreme risk factor movements. Stress-testing analysis includes the application of historical financial market crisis scenarios as well as extreme values of market variables.

The market risk limit structure is completed with specific limits to the size of positions on certain operations individually approved, analysed and monitored by the Assets and Liabilities Committee.

Interest rate risk

Interest rate risk on the overall balance sheet is measured using the gap calculation and the sensitivity of the financial margin and net worth to interest rate fluctuations.

- The interest rate gap is based on analyses of variations in the maturities or repricing profile of different bundles of assets and liabilities over various time intervals.
- Financial margin sensitivity is estimated by projecting the financial margin to twelve months using the expected interest rate scenario and certain behaviour of the balance sheet bundles.
- Net worth sensitivity provides an overview of the long-term interest rate risk assumed by the Entity. Through the concept of duration, the effect of interest rate fluctuations on the economic value of the Entity can be approximated.

To manage interest rate risk, the Assets and Liabilities Committee analyses the overall time difference between maturity and repricing of assets and liabilities. In the case of liabilities with no contractual maturity date, assumptions based on the historical stability of these balances are used.

Each month the financial margin over a 12-month period is simulated under certain scenarios, such as growth of each balance sheet item, spread renewal assumptions, repricing periods for each type of operation, as well as different interest rate scenarios.

Interest rate risk is also analysed considering the economic value, measured as the effect of changes in the interest rate on the present value of equity, discounting expected future flows.

Counterparty risk

Control of counterparty risk is carried out in real time using an integrated system which allows the line of credit available with any counterparty, in any product and period and for each market area, to be known at any given time.

Lines of credit are approved following established authorisation procedures, as are any instances when credit limits are surpassed.

Counterparty risk is measured using the present value of each position plus the estimated increase in market value until maturity. Future variations in market prices are based on a hypothetical worst-case scenario considering the term of the operation and the risk factors to which the operation is exposed.

The risk analysis unit continuously monitors the level of credit risk concentration by country, sector or counterparty. The Assets and Liabilities Committee reviews the appropriate exposure limits in order to adequately manage the level of credit risk concentration.

Liquidity risk

Liquidity risk management consists of ensuring that the Entity always has sufficient liquidity to meet its payment commitments associated with the settlement of its liabilities on their respective maturity dates without compromising its capacity to respond rapidly to strategic market opportunities. This function includes obtaining financing in wholesale markets at the lowest possible cost in the medium and long term, with a view to maintaining an optimum level of liquid assets in keeping with the Bank's policy of prudence.

In this context, the key to resolving liquidity problems resides in anticipating them and implementing preventive management techniques. The Bank is aware of this and therefore considers both aspects its first line of defence against the potential adverse effects of liquidity shortages on its results, reputation and creditworthiness.

To enable early identification, the Entity continually monitors its liquidity position in the short, medium and long term and the performance of the main monetary and capital markets in which it operates. To this end it has: (i) a wide range of quantitative and qualitative indicators, (ii) limits and alerts defined based on the maximum tolerance to liquidity risk and (iii) the human, technical and operational support required to properly incorporate these indicators as a strategic and risk management input.

With regard to preventive management, the Asset and Liability Committee (ALCO) focuses structural liquidity management on: (i) the balance between positive and negative cash flows over a long time horizon, (ii) the diversification of uses and sources of funding and (iii) the protection of the Bank's ability to finance its growth and meet its payment obligations on the date and in the manner established in the contract at a reasonable cost and without affecting its reputation.

Finally, in terms of anticipation, the Entity has a buffer of liquid assets free of encumbrances that allow it to comfortably cope with situations of severe stress. The quality, relative liquidity and suitability as collateral of the assets that make up the buffer is periodically verified and these assets are subjected to stress tests to determine their ability to cope with extreme situations.

The main metrics used to control liquidity and their results at 31 December 2014 are:

- ***Daily liquidity control***: the Bank continually monitors its intraday liquidity, the eligibility of securities to be pledged as collateral to obtain financing from Banco de España (credit facility) and the sufficiency of its headroom (buffer of available liquid assets) in dealing with short-term cash outflows, among other indicators. This analysis also envisages further stress tests on its portfolio of eligible assets (those pledged as collateral for the Banco de España credit facility and others), subjecting the securities to scenarios of a reduction in their market value, downgrades in rating and loss of eligibility.
- ***Liquidity gap***, providing information on cash flow movements with a view to detecting the existence of any timing differences between collections and payments. Highly conservative hypotheses and behavioural criteria have been established for any items with unknown contractual maturity dates.
- ***Short-term liquidity coverage ratio (LCR)****:* per the stress scenario defined in line with Basel III, the 30-day liquidity ratio at 31 December 2014 stood at 121%, around the usual rate and more than double the target (60%) set for the entry into force of this ratio (October 2015).
- ***Net stable funding ratio (NSFR)****:* the Bank maintains a balanced, long-term funding structure in line with its liquidity profile. At 31 December 2014, the stable funding ratio stood at 105%, above the target set in Basel III.

Moreover, the Bank has set in place a range of alerts and limits subject to ongoing monitoring enabling it to anticipate potential liquidity stress and activate, as and when required, the convening and holding of special or crisis meetings (as appropriate) of the ALCO. The latter contemplates a liquidity risk contingency plan, constituting a second line of action against any potential adverse effects deriving from a liquidity shortage. In essence, it is an action plan of practical nature enabling the bank to optimize its response in terms of time, cost and form when facing situations classified as high or critical exposure, as well as to mitigate any potential disturbances and impacts on the continuity of the business during such episodes.

Operational risk

The Bank is aware of the strategic importance of adequate operational risk management and control, and is in the process of implementing the techniques required to adopt the standard operational risk method, which will also allow foundations to be laid for the future implementation of advanced models (advanced measurement approach).

The Group's main operational risk objectives are as follows:

- To detect current and potential risks so that management decision-making can be prioritised.
- To continually improve control processes and systems so that any risks that may arise can be minimised.

- To raise awareness within the organisation concerning the level and nature of operational loss events.

Operational risk measurement procedures and systems

Work is currently underway to implement the following qualitative methodologies proposed by Basel:

- Operational risk inventory and description of existing controls.
- Self-assessment questionnaire to measure the Entity's exposure to the aforementioned risks and evaluate the associated controls.
- Creation of a database of losses arising from operational risk events.
- Identification and capture of the most significant Key Risk Indicators (KRI) which have the greatest correlation with the potential risk and the impact thereof.

F. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATED TO FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICOFR) risk control and management system at the entity.

F.1 Control environment at the entity

Indicate at least the following, specifying the main features thereof:

F.1.1. Which bodies and/or functions are responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

- The board of directors assumes ultimate responsibility for the existence and updating of a suitable, effective ICFR.
- The Audit Committee is responsible for supervising ICFR, including control over the preparation and presentation process, compliance with legislative requirements, sufficient definition of the consolidated group and correct application of accounting criteria. The Audit Committee will be supported by internal audit when supervising ICFR.
- The General Audit Department, which reports to General Management, is responsible for the design, implementation and operation of ICFR. The department identifies risks to be included in the financial information, draws up documentation describing the flows of activities and controls, and is responsible for implementing and carrying out ICFR.

The following is established in article 33 of the Code of Good Governance with respect to the Bank's board of directors:

Article 33 General public relations

1) The board of directors shall adopt the measures necessary to ensure that annual financial information, or six-monthly, quarterly or any other information that should be prudentially made available to the public, is prepared in line with the same professional principles, criteria and practices and is equally reliable as the annual accounts. To comply with the latter, information is reviewed by the Audit Committee.

2) The board of directors shall include information on the Bank's governance regulations and the degree of Compliance with Code of Good Governance in its annual public documentation.

As stipulated in article 6 of its Rules, the duties of the Audit Committee, within the board of directors, include:

Article 6 Duties relating to the preparation of financial and economic information

The principal duties of the committee are:

9) To review financial, economic and management information relating to the Bank for third parties (Bank of Spain, Spanish National Securities Market Commission, shareholders, investors, etc.), as well as any communication or reports received from the aforementioned parties.

10) To supervise compliance with legal requirements and the correct application of generally accepted accounting principles with regard to the Bank's annual accounts and directors' report.

F.1.2. Does the entity have in place the following components, especially in connection with the financial reporting process:

- Departments and/or mechanisms responsible for: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) ensuring that there are sufficient procedures in place to correctly disseminate them throughout the entity.

General management is responsible for reviewing the organisational structure, which is implemented through human resource management who, based on the needs of the Banco Cooperativo Español Group, analyse and adapt the structure of operating departments, offices and operational departments, as well as defining and assigning functions entrusted to the various members of each department and line of business.

Detailed descriptions have been prepared of the positions, including a diagram of the corporate structure with the positions, definitions of the functions, missions and corresponding professional behaviour and requirements.

Any relevant modifications of the organisational structure are approved by the General Manager and announced through internal communications via corporate electronic mail and on the intranet, accessible by all Banco Cooperativo Español Group professionals. The Group's intranet contains the latest version of the corporate structure diagram.

The majority of the Bank's activity and business areas also have operating procedure manuals for the corresponding tasks. These manuals are also available to all Group employees on the company intranet.

- 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.

All Banco Cooperativo Español Group employees are familiar with the code of conduct for management and employees, which provides action guidelines based on professional ethics and the obligation to know and strictly comply with the regulations applicable to the Bank.

Based on the aforementioned general code of conduct applicable to employees with functions and responsibilities pertaining to the preparation of the financial and accounting information of the Bank and the Group, their direct responsibilities are as follows:

- See that all operations and transactions performed by the Bank and the Group are recognised in the accounts in accordance with generally accepted accounting principles.
- Stay abreast of accounting regulations and the Group's policies and procedures and perform their functions accordingly. They are obliged to request professional advice internally where they deem it necessary.
- Be aware of possible violations of the financial and accounting policies of the Bank and the Group that may be detected when analysing the accounting information and report them immediately.
- Communicate and report economic and financial information with total transparency.
- Store any documents that support the accounting entries in accordance with the policies of the Bank and the Group.
- Immediately report any pressure exerted by management in an attempt to manipulate accounting estimates and/or measurements with a view to altering financial results.

The Audit Committee, through or at the request of the General Audit Department, Internal Audit Department and General Management, is in charge of investigating breaches and proposing corrective or disciplinary action.

- '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.

The Bank has a 'whistle-blowing' channel, which is a highly useful means of staying abreast of all conduct within the organisation that may constitute a crime, and therefore require investigation and the adoption of the corrective measures to avoid criminal charges being brought against the entities currently comprising the Banco Cooperativo Español Group and any others that may join this group in the future.

This 'whistle-blowing' channel also aims to strengthen the Bank's internal risk management and control systems related to financial reporting (ICOFR) and, in particular, facilitate reporting of any financial or accounting irregularities to the Audit Committee, in addition to possible breaches of the code of conduct and any irregular activities in the organisation.

Regarding the foregoing, the code of conduct for management and employees expressly allows for employees to report irregular or unethical acts, including those of a financial or accounting nature, while guaranteeing confidentiality:

> *“Reporting Unethical or Fraudulent Activities*
> *Where any employee becomes aware of any irregular or unethical activity on the part of Company personnel, he/she is duty-bound to notify the Company of such circumstance immediately.*
> *There are certain persons at the bank to whom such circumstance may be notified, in addition to the worker’s superior, who must be the first port of call. The Manager of the Area to which the worker belongs and the HR Manager are the most suitable persons to whom such concerns should be addressed.*
> *All such notifications will be investigated immediately, on a confidential basis.*
> *The Bank will not stand for any type of reprisals against any employees reporting such conduct.”*

The Audit Committee's duties relating to internal control systems and compliance with the code, as stipulated in article 4 of its Regulations, include:

> *(...)*
> *5) Seeking to ensure compliance with the laws, internal regulations, Code of Conduct and provisions governing the Bank’s activity.*
> *6) Upholding ethical conduct in the organisation, investigating cases of irregular or anomalous conduct and employee conflicts of interest and conducting the necessary investigations concerning third-party claims against the Entity.*

7) Examining draft Codes of Conduct and any modifications thereto and issuing a prior opinion on the proposals to be made to the Bank's corporate bodies.

The body ultimately in charge of the 'whistle-blowing' channel is the Audit Committee, although an Ethics and Conduct Committee has been created as an independent technical body that is in charge of managing the reported breaches of the codes of conduct and possible criminal acts, i.e. those that may not be evaluated and resolved directly by the internal audit department (any irregularity <material misstatement or fraud> committed when issuing Financial Information <ICOFR> and accounting information of the Entity).

The Ethics and Conduct Committee, which is subject to the regulations governing the 'whistle-blowing' channel of Banco Cooperativo Español, and, where applicable, the internal audit department under the terms established in the Regulations, ensures that all queries, reports and complaints are analysed in an independent and confidential manner and guarantee that the identity of both the person filing the complaint and the subject of the complaint remains confidential by informing only those people who are essential to the process.

- Training and knowledge update programmes for employees involved in the preparation and review of financial information and the evaluation of ICFR, which cover at least accounting standards, audits, internal control and risk management.

The Entity has a SAP-integrated professional development system which includes definitions of the duties and technical knowledge of each position. All Banco Cooperativo Español Group professionals are evaluated once a year and an action plan is drawn up which includes measures to improve areas in which weaknesses are detected, specifically training initiatives.

The training unit, which is part of human resources, has prepared a training plan which includes attendance and online courses, which are accessible by all Banco Cooperativo Español Group employees.

All units involved in preparing financial information have received financial reporting training and also receive ongoing refresher courses as changes to regulation are made, which cover first-time application in the year and approved or substantially enacted legislation which will affect future years.

To emphasise the importance of ICFR, human resources, together with the general audit department and internal audit, are expected to prepare an ad-hoc training plan, with regular updates from personnel involved in preparing and reviewing financial information and evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

The code of conduct for employees states:

Awareness of and Compliance with Prevailing Standards

All Bank employees are required to be familiar and comply with prevailing standards at all times.

F.2 Risk assessment in financial reporting

Report on at least:

F.2.1 What are the main features of the risk identification process, including the process of identifying the risks of error or fraud, with respect to:

- The process exists and is documented.

An operating and procedures manual currently exists that covers the objectives of control over the effectiveness of operations, the reliability of financial information and compliance with laws and other applicable regulations.

This manual aims to document all risks associated with relevant processes and activities in financial reporting. This analysis is carried out on the basis of quantitative materiality of the line items in the consolidated financial statements of the Banco Cooperativo Español Group. A qualitative analysis is also carried out considering matters such as whether processes are automated, whether transactions are standard, accounting complexity, the need for estimates, etc.

- 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.

The Entity uses a top-down approach when identifying risks in financial information, in keeping with the criteria of relative importance approved by the Board of Directors and which culminates in the identification of a risk map of financial information that includes group entities and critical processes and sub-processes of the Bank.

As part of its ICOFR undertakings, the Entity has analysed and identified various critical processes, relevant areas and risks associated with financial information, including misstatement or fraud, within the Bank and the Group.

This analysis is carried out on the basis of quantitative materiality of the line items in the individual and consolidated financial statements of the Banco Cooperativo Español Group. A qualitative analysis is also carried out considering matters such as possible risk of misstatement or fraud, whether processes are automated, whether transactions are standard, accounting complexity, the need for estimates, etc.

The General Audit Department is responsible for periodically checking that no significant changes are required to the financial information risk map, updating it if necessary and informing the Internal Audit Department. To this end, at least once a year, based on the latest available financial information and, together with the various areas of the Bank and the Group whose processes have a critical effect on the preparation and generation of financial information, the General Audit Department identifies the main risks that could affect its reliability and the control initiatives designed to mitigate these risks.

Nonetheless, if during the year any circumstances arise that have not been identified previously and could potentially give rise to misstatements in the financial information or substantial changes in the operations of the Entity or Group, the Bank's General Audit Department undertakes to identify any additional critical risks and/or processes.

All the critical business processes identified as significant when preparing the financial information are allocated to a particular area that is in charge of documenting the critical processes, identifying their inherent risks, evaluating existing controls and defining and implementing new controls if necessary.

The identification of financial reporting risks and the controls designed to monitor critical processes and relevant activities, take into account the following

- The risks associated with both routine transactions and less frequent and potentially more complex transactions, and the effect of other types of risk (financial, operating, technological, legal, reputational, environmental, etc.).
- The financial reporting objectives based on materiality and qualitative criteria, focusing on the areas and process with the greatest risk of fraud and/or misstatement, intentional or otherwise, on estimates, and taking into account the principles of occurrence, integrity, valuation, disclosure and comparability. Specifically, the following basic aims are established:
- Existence: All the assets (rights) and liabilities (obligations) recognised on the Bank's and the Group's balance sheet exist and the transactions recognised occurred in the period referred to.
- Completeness: Not only do they exist, but all the assets and liabilities at the reporting date and the transactions during the period have been recognised.
- Measurement: The amount at which assets and liabilities, and income and expenses have been recognised has been determined based on generally accepted principles.
- Presentation: The information is sufficient and adequate, it is correctly described and classified and is comparable with the prior period.

- A specific process is in place to define the consolidated group, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc

> The General Audit Department is in charge of defining the consolidation scope of the Banco Cooperativo Español Group.
>
> The criteria used to assess and analyse significant influence and/or the concept of control, which are fundamental to deciding the consolidation methods for the various subsidiaries, associates and special purpose vehicles, are those stipulated in local and international accounting regulations.
>
> The main accounting principles, including those related to defining the scope of the Group, are described in detail in the notes to the individual and consolidated annual accounts.
> It should nonetheless be noted that the corporate structure of the Banco Cooperativo Español Group is straightforward and comprises, in addition to the Bank, a small number of companies which together represent less than 1% of the Group's consolidated assets. There are currently no complex corporate structures or special purpose vehicles.

- The process addresses other types of risk (operational, technological, financial, legal, reputational, environment, etc.) insofar as they may affect the financial statements.

> The process addresses other types of risk (operational, technological, financial, legal, reputational, etc.) that have been included in the ICOFR process based on their materiality and relevance with respect to the financial statements.

- Which of the entity's governing bodies is responsible for overseeing the process.

> The functions and responsibilities of the Internal Audit Department include supervision of the risk identification and financial reporting process and the effectiveness of the controls in place to ensure that the financial information is correctly issued.
> It is ultimately the Board of Directors, through the Audit Committee, that is responsible for supervising the process with the support of the Internal Audit Department.

F.3 Control activities

Report , indicating the main characteristics, if the Bank and its Group have at least:

F.3.1 Procedures for reviewing and authorising financial information and the description of ICOFR to be published in the securities markets, indicating the persons responsible, and the documentation describing the flow of activities and controls (including those related to fraud risk) of the various transactions that could have a material impact on the financial statements, including the accounting close procedure and the specific review of the judgements, estimates, valuations and relevant projections.

Banco Cooperativo Español and its Group have processes in place for reviewing and authorising the financial information that is issued to the markets with the frequency stipulated in prevailing legislation applicable to the Entity and its Group.

In this regard, article 6 “Duties relating to the preparation of financial and economic information” of the Audit Committee Regulations stipulates that the functions of this Committee include:

> *1.- To review relevant financial, economic and management information relating to the Bank for third parties (Banco de España, Spanish National Securities Market Commission (CNMV), shareholders, investors, etc.), as well as any communication or reports received from the aforementioned parties.*
> *2.- To supervise compliance with legal requirements and the correct application of generally accepted accounting principles with regard to the Bank's annual accounts and directors’ report.*
> *3.- To evaluate any management proposals concerning changes to accounting practices and policies.*

Therefore, based on the foregoing, the Audit Committee is in charge of verifying the integrity and consistency of the quarterly and half-yearly financial statements of the Bank and the Group, as well as their individual and consolidated annual accounts, notes thereto and directors' report, prior to their approval or proposal by the Board of Directors and their publication, and supervises the Bank's policy regarding debt issue prospectuses and other types of publicly available information.

The generation, preparation and review of the financial information of the Bank and its Group is carried out by the General Audit Department, which secures from the other areas of the Entity the collaboration and documentation required to achieve an adequate level of detail in this information. It also executes the controls in place to ensure consistency between public information and the individual and consolidated financial statements of the Bank and the Banco Cooperativo Español Group, respectively.

The generation and review of financial information relies upon the adequate use of human and technical resources that enable the Entity to provide precise, reliable and comprehensible information in accordance with prevailing legislation. The following should be noted in this respect:

- As regards human resources, the professional profile of the persons participating in the review and authorisation of financial information is suitable and they have extensive knowledge and background in accounting, auditing and risk management matters.
- The technical equipment and information systems guarantee the reliability and integrity of the financial information by implementing control mechanisms.

In addition to the foregoing, and assuming that adequate human and technical resources are in place, the financial information is supervised by the different hierarchical levels of the General Audit Department (exercising the function of Finance Department) and, where appropriate, together with other areas of the Entity. To this end the Entity has devised different levels of control and supervisory mechanisms for financial information:

- A first level of control is performed by the various areas of the Entity that generate the financial information, with a view to guaranteeing the correct recognition of balances and transactions in the accounts.
- A second level of control is implemented by the Accounting Department, which reports to the General Audit Department. Its basic function is the accounting control of the business applications managed by the different areas of the Entity, to oversee the correct accounting functionality of the applications and ensure that they record entries in accordance with the defined accounting circuits, generally accepted accounting principles and applicable accounting standards.

  To this end, various monthly review and verification procedures are in place, such as account reconciliation, analysis of month-on-month variations, comparative analysis of actual and budgeted performance, and the development of indicators of business performance and financial position.

- Finally, a third level of control is performed by the Internal Control Area, which reports to the General Audit Department and assesses whether the practices and processes carried out by the Bank to prepare financial information guarantee its reliability and compliance with applicable legislation. Specifically, it assesses whether the financial information prepared by the various areas and Group entities complies with the following principles:
  - The transactions, acts and any other events included in the financial information effectively occurred and were recorded at the appropriate time (existence and occurrence).
  - The information reflects all transactions, acts and other events affecting the Entity (completeness).
  - Transactions, acts and any other events are recognised and measured in accordance with accounting regulations (measurement).
  - Transactions, acts and any other events are classified, presented and disclosed in the financial information pursuant to applicable legislation (presentation, disclosure and comparability).

- The financial information reflects, on the corresponding date, the rights and obligations arising from assets and liabilities in accordance with applicable legislation (rights and obligations).

In addition to the foregoing, the Internal Audit Department's annual audit plans include a review of financial information prior to its publication on the market. This financial information mainly corresponds to the individual and consolidated financial statements of the Bank and its Group.

The Audit Committee takes part in the final phase of this review and monitoring of the preparation of financial information and reports its conclusions on the financial information to the Board of Directors. Ultimately, it is the Board of Directors that approves the financial information the Entity must publish periodically, and this is formalised through the minutes to the various meetings of the Board and/or Committee.

Moreover, the individual and consolidated financial statements of the Bank and the Group are subject to audit. The external auditors issue their audit opinion and report directly to the Entity's Management and the Audit Committee on the review process and the conclusions drawn.

As part of the activities and specific controls on transactions that may materially affect the financial information, the Entity has identified specific material risks and areas, as well as relevant processes therein, keeping a descriptive record of each of the critical processes, flows of activities, risks, controls performed, their frequency and the persons responsible for implementing them.

The processes and activities which, due to their significance, could have an impact on the financial information, are as follows:

- Markets:

1.-Treasury.
2.-Capital markets.

- Retail banking:

3.- Loans and advances to other debtors.
4.- Deposits from other creditors.

- Asset management:

5.- Asset management.

- Support structure:

6.- Organisation and systems.
7.- Human resources.
8.- Tax and legal advisory.
9.- Accounting and internal control.

The documentation on these critical processes, which is periodically updated, lays down the procedures and controls that must be observed at all times, why they are executed (the risk they are intended to mitigate), who should execute them and how often, and/or the staff who are responsible for them. The descriptions cover controls related to appropriate recognition, measurement, presentation and disclosure for these areas.

The accounting processes of the Bank and its subsidiaries are almost entirely automated and are triggered automatically following recognition of each operation and/or transaction. For this reason, the ICOFR focuses particularly on manual accounting processes and the process for launching new products, operations or special and non-recurrent transactions.

Manual entry accounting is limited to users specialised in the area of operations and accounting. The entries are perfectly traceable as a record is kept of the user who made the entry together with a description of that entry.

Besides controls at the level of critical processes and activities, second-level controls are performed for the purpose of detecting material misstatements that could affect the financial information. Notable controls include:

- Reconciliation of inventories and accounting databases.
- Monitoring of inflow/outflow accounts and other.
- Monitoring of items pending application.
- Reconciliation of accounts and balances with other financial institutions.
- Reasonableness of the balances, returns and costs related to the movement in interest rates and activity.
- Deviations from the budget.
- Monitoring of large entries.
- Etc.

Regarding the accounting close and review of accounting judgements and estimates, evaluations and significant projections, the actions taken in this area are part of the process established by the General Audit Department, which is described in detail in the notes to the individual and consolidated statutory annual accounts of the Bank and the Group, respectively.

The process applied to judgements and estimates aims to validate and confirm the estimates that may have a significant impact on financial information, and that basically refer to:

- Impairment losses on certain assets.
- The assumptions used in the actuarial calculation of post-employment benefit liabilities and commitments.
- The useful lives of tangible and intangible assets.
- The measurement of goodwill arising on consolidation.
- The fair value of certain financial assets not quoted on official markets.

- Estimates used in the calculation of other provisions.
- Calculation of income tax and deferred tax assets and liabilities.

These judgements and estimates are formulated by the areas with expertise in each matter and which are therefore responsible for them in terms of the calculation method used, the estimates and final approval. These estimates are based on the best information available at the date of preparation of the financial statements using generally accepted methods and techniques and observable and verified information and assumptions.

Additionally, the General Audit Department of the Bank and/or the Finance and Accounting Department of each of its subsidiaries, where appropriate, analyses the estimates when preparing the financial information so as to verify their consistency and reasonableness, and they are ultimately approved by the Board of Directors.

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 systems department, which forms part of the organisation area, has put in place sufficient security protocols, including access control to each system.

The Banco Cooperativo Español Group's core banking computer applications were designed to comply with CMMI standards, allowing the IT systems developed to be operated as planned, thereby minimising errors when generating financial information.

As regards system operation, the Banco Cooperativo Español Group has drawn up a system operation plan which, inter alia, incorporates three IT support centres located elsewhere to replace the main centre in the event of a contingency:

- One technology centre is dedicated to core banking, SWIFT, treasury back office and private banking.
- An alternative work centre is specifically to provide support to treasury and capital market activities, so that market operators and the control and support areas of these activities can continue to function in the event of any contingencies in the building in which they currently work.
- Another centre is for alternative positions, with duplicate systems for remaining operations.

Furthermore, key personnel may work by accessing the Group's IT systems outside the office from any location with a secure internet connection.

The Banco Cooperativo Español Group has a daily back-up system, whereby one copy is saved on the Group's own host and another is saved at a separate IT centre. The entire back-up is regularly reviewed.

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.

The rural savings banks with shares in Banco Cooperativo have incorporated a number of companies (including the Bank) to improve efficiency and achieve certain economies of scale. One of these companies is the technology company Rural Servicios Informáticos, SC, which, like the Bank, renders IT management services to its and the Bank's shareholders. A common, centralised IT management and application platform is used to render these services, which includes software for accounting recording processes of operations and preparing financial information.

The Banco Cooperativo Español Group regularly reviews which activities relating to the preparation of financial information are outsourced and, if so required, the general audit department establishes control procedures to verify the reasonableness of the information received.

The Banco Cooperativo Español Group contracts independent third parties to obtain certain valuations, calculations and estimates, such as asset appraisals, actuarial calculations, etc., used to prepare the individual and consolidated financial statements disclosed to the markets.

The Group currently has monitoring and review procedures in place for outsourced activities and calculations and appraisals by independent experts which are relevant to generating financial information. These monitoring procedures are subject to review so as to expressly verify the degree of compliance with ICFR specifications and consistency with best market practices.

The procedures address the following aspects:

- Formal appointment of those in charge of carrying out various actions.
- Analysis of various proposals prior to outsourcing.
- Monitoring and review of the information generated or service provided.
    - In the case of outsourced activities, request of regular reports, involvement of internal audit in plans, any requirements to be audited by third parties, regular review of training and accreditation of the expert.
    - Controls are in place to review the validity of the information provided from appraisals by external experts, and the training and accreditation of the expert are regularly reviewed.

The Bank evaluates estimates internally. The competence, independence, validation of methods and reasonableness of the assumptions used are verified for all third parties with which the Group works on certain specific matters.

F.4 Information and communication

Report on whether the Bank has at least the following, indicating the main characteristics:

F.4.1 A specific area responsible for defining and updating accounting policies (accounting policies area or department) and resolving queries or disputes arising from their interpretation, maintaining fluid communications with those responsible for operations in the organisation, and an up-to-date accounting policies manual that is distributed to the units through which the entity operates.

The General Audit Department is responsible for defining and maintaining the accounting policies applicable to operations carried out by the parent company and subsidiaries of the Banco Cooperativo Español Group. New regulations are analysed by this department, which subsequently gives instructions as to their implementation in the IT systems.

With regard to manuals, the Bank has an Accounting Procedures Manual for the Bank and the Group, which is constantly updated and is available to all Group employees involved in the preparation and supervision of financial reporting.

The Group's accounting policies are based on the Banco de España Circulars (mainly Circular 4/2004 of 22 December 2004 to credit institutions on public and confidential financial reporting rules and formats, and subsequent amendments thereto). They indicate the specific choices made by the Bank, where appropriate, and cover all the types of operations and transactions undertaken by the Bank and the Group.
This manual also specifically includes certain criteria or accounting principles which, although they could not be left out of the Banco de España Circulars, in fact have their origin in the International Financial Reporting Standards as adopted by the European Union (hereinafter IFRS-EU), the ultimate source on which the current consolidated accounting standards of the Group are based.

The Audit Committee is also involved in determining the accounting standards and principles to be applied within the Group. As stipulated in article 6.3 of its regulations, the duties of the Audit Committee include:

> *"To evaluate any management proposals concerning changes to accounting practices and policies."*

Accounting guidelines and standards for Group subsidiaries are established by the General Audit Department, based on homogeneous criteria and formats that facilitate preparation of the Group's consolidated financial information.

F.4.2 Mechanisms to capture and prepare financial information in standard formats, applied and used in all units within the entity or group, which support the main financial statements and accompanying notes as well as disclosures concerning ICOFR.

The consolidation process and preparation of financial information are carried out centrally.

The Group's IT applications are grouped into a multi-layered management model which, in line with the IT system structure necessary for a bank, provides the following types of services:

- General IT systems, which provide information for heads of areas or units.
- Management systems, which facilitate information on the monitoring and control of the business.
- Operational systems, which cover the entire life cycle of products, contracts and customers.
- Structural systems, which support data common to all applications and services for their operation. All systems relating to accounting and economic data are included in the above.

One of the key objectives of this model is to provide the systems with the IT program infrastructure required to manage and subsequently record all operations performed in the accounting records, as well as provide the means necessary to access and consult supporting data.

Applications do not generate accounting entries; instead, information on transactions is sent to an accounting model template, which presents the entries and movements to be recorded for each operation. Entries and movements are designed, authorised and updated by the General Audit Department.

Certain applications that do not use the procedure described above instead contain their own accounting ledgers and directly transfer data to general accounting records through movements to the accounts. As a result, the accounting entries are defined within the applications.

This accounting infrastructure generates the processes necessary to prepare, report and store all regulatory and internal financial reporting, which is permanently under the supervision and control of the General Audit Department.

In view of its simplicity, the consolidation process is carried out once a month using an office application. However, certain information verification and control procedures have been implemented to ensure that intra-group items are identified and eliminated on consolidation. To guarantee the quality and integrity of the information, the consolidation tool is also configured to make the adjustments to eliminate investment-equity and intra-group transactions, which are generated automatically in accordance with the validations defined in the system.

F.5 Supervision of system operations

Indicate the main characteristics of at least:

F.5.1 ICOFR supervisory activities conducted by the Audit Committee and whether the entity has an internal audit department whose competencies include supporting the committee in its oversight of the internal control system, including ICOFR. Also report on the scope of the assessment of ICOFR in the year and the process by which the person responsible for conducting the evaluation reports the results, whether the entity has an action plan detailing any corrective measures, and whether the impact on financial reporting has been considered.

The Banco Cooperativo Español Group has an Internal Audit unit, which provides support to the Audit Committee in its monitoring of ICOFR. An annual plan has been drawn up to this effect, which describes the activities and tests to be carried out, based on the analysis of the reasonableness of the identification process of the relevant activities/processes in preparing financial information.

Internal Audit reports the results of its review and submits recommendations for improvement directly to the Audit Committee.

F.5.2 Whether a discussion process is in place whereby the auditor (in accordance with the provisions of the Technical Standards on Auditing), the Internal Audit Department and other experts may inform senior management and the Audit Committee or directors of the entity of significant internal control weaknesses identified during the review of the annual accounts or any other processes assigned to them. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Each year the auditor issues a report with recommendations and details of the internal control weaknesses detected during the review of the accounts to the Audit Committee. This report is passed on to the affected units/areas, which are responsible for proposing measures to improve the weaknesses observed.

The Audit Committee Regulations state:

Article 5 Functions relating to the Audit of Accounts

The principal duties of the Committee are:

1) *To advise and propose to the Bank’s Board of Directors the appointment or replacement of the auditors of the Bank's accounts, for approval by the shareholders.*

2) *To monitor the independence of the auditors and compliance with contracting conditions.*

3) *To review the content of audit reports and serve as a channel for communication between the Board of Directors and the Bank’s auditors.*

4) *To evaluate the results of each audit and supervise the management team's responses to the auditors' recommendations.*

Article 20 Relationship with the Auditor

1) *The Committee shall propose the Auditor to be appointed.*

2) *The Committee shall follow up on the recommendations proposed by the Auditor and may require its assistance when deemed necessary.*

F.6 Other relevant information

F.7 Auditor's report

Indicate:

F.7.1 Whether ICOFR information reported to the market has been reviewed by the external auditor, in which case the entity should include the corresponding report as an Appendix. Otherwise, explain the reasons for the absence of this review.

Only the annual information at 31 December has been reviewed by the external auditor.

G. OTHER INFORMATION OF INTEREST

Briefly explain any significant aspect of corporate governance in the entity or group companies that is not contained in the other sections of this report, but which should be included to provide more complete and reasoned information on the structure and governance practices of the entity or its group.

This section may also include any other information, clarification or details related to previous sections of the report insofar as they are relevant and not repeated.

Specifically, indicate whether the entity is subject to legislation other than Spanish law in the area of corporate governance and, where applicable, include any mandatory information that is not required in this report.

The entity may also indicate any voluntary adherence to other codes of ethics or principles or best practices, at an international, sector or other level. Where appropriate, the entity should identify the code in question and the date of adherence.

In March 2003 the Bank's Board of Directors approved a Code of Good Governance, which incorporated the Olivencia Committee and Aldama Commission recommendations. In March 2007 the aforementioned Code was amended, bringing it into line with the Unified Code of Good Governance approved by the Spanish National Securities Market Commission.

The aim of this Code of Good Governance is to provide honourable and professional guidelines for the Bank's directors, with the end purpose of complementing the legal and statutory regulations that govern the directors' activity, establishing standards for conduct and ethical principles to safeguard the interests of the Bank and its shareholders, customers and employees.

The Code aims to provide shareholders and stakeholders of the Bank with an overview of how the Board members are expected to act with regard to:

- Specific principles for action
- The mission of the Board of Directors
- The principles and obligations that inspire Board member actions
- Board member duties
- The relationship between the Board of Directors and the surrounding environment

The different sections of the Code of Good Governance regulate the following issues:

Principles of good governance

1. Strict separation between administration and management
2. Composition and appointment of Board members. (15 members at present).
3. Board committees.
   - At the present time, the only two committees that have been formed for this purpose are the Audit Committee and the Appointments and Remuneration Committee.
4. Frequency of Board meetings (monthly except August).

Board members' performance

Board members must carry out their roles with the diligence of an orderly businessperson and a loyal representative, as well as having the following obligations and duties:

1. Duty of diligence and the authority to report and examine
2. Confidentiality obligations
3. Ethical duties and standards of conduct
4. Obligations relating to non-competition and abstention and reporting in cases of conflict of interests

5. Obligation to refrain from using corporate assets or taking advantage of business opportunities **6.** Incompatibilities

This annual corporate governance report was unanimously approved by the Entity's Board of Directors on 25 March 2015.

Indicate the directors or members of the governing body who voted against or abstained with respect to the approval of this report.

This report was unanimously approved.

APPROVAL BY THE BOARD OF DIRECTORS OF THE GROUP'S CONSOLIDATED ANNUAL ACCOUNTS FOR 2014
BANCO COOPERATIVO ESPAÑOL, S.A.

In accordance with article 253 of the revised Spanish Companies Act, the members of the board of directors of Banco Cooperativo Español, S.A., whose names are provided below, subscribe to and countersign these annual accounts for the year ended 31 December 2014 of Banco Cooperativo Español, S.A and Subsidiaries, which were authorised for issue at the board of directors' meeting held on 25 March 2015 in Madrid and comprise the consolidated balance sheet, consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of total changes in equity, consolidated statement of cash flows, notes thereto comprising 52 sheets (pages 7 to 110) and three appendices (pages 111 to 120), as well as a consolidated directors' report of 8 sheets (pages 121 to 137), and an appendix incorporating the corporate governance report of 21 sheets (pages 138 to 179).

All pages have been initialled by the secretary and this page and the following page signed by the directors. Directors.

Madrid, 25 March 2015

Mr. José Luis García Palacios
- Chairman -

Mr. José Luis García-Lomas Hernández
- First Vice-chairman -

Mr. Pedro García Romera
- Second Vice-chairman -

Mr. José Antonio Alayeto Aguarón
- Director -

Mr. Ignacio Arrieta del Valle
- Director -

Mr. Nicanor Bascuñana Sánchez
- Director -

Mr. Fernando Bergé Royo
- Director -

Dr. Luis Esteban Chalmovsky
- Director -

Mr. Carlos de la Sierra Torrijos
- Director -

Mr. Cipriano García Rodríguez
- Director -

Mr. Carlos Martínez Izquierdo
- Director -

Mr. Jesús Méndez Álvarez-Cedrón
- Director -

Mr. José María Quirós Rodríguez
- Director-

Mr. Dimas Rodríguez Rute
- Director -

Ms. Dagmar Werner
- Director -