

**Banco Español de Crédito,
S.A. and Companies
composing the Banco
Español de Crédito Group
(Banesto Group)**

Consolidated Financial Statements and
Directors' Report for the year ended 31
December 2011, together with Auditors'
Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 51). In the event of a discrepancy, the Spanish-language version prevails.

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 51). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Banco Español de Crédito, S.A.:

We have audited the consolidated financial statements of Banco Español de Crédito, S.A. ("the Bank") and Subsidiaries composing, together with the Bank, the Banco Español de Crédito Group ("the Group" - see Notes 1 and 3), which comprise the consolidated balance sheet at 31 December 2011 and the related consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in total equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended. As indicated in Note 1-b to the accompanying consolidated financial statements, the Bank's directors are responsible for the preparation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

In our opinion, the accompanying consolidated financial statements for 2011 present fairly, in all material respects, the consolidated equity and consolidated financial position of the Banco Español de Crédito Group at 31 December 2011, and the consolidated results of its operations and its consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

The accompanying consolidated directors' report for 2011 contains the explanations which the Bank's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the consolidated financial statements for 2011. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Banco Español de Crédito, S.A. and Subsidiaries.

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

Juan José Pérez Sáez
26 January 2012

Responsibility for the information

The Board of Directors of Banco Español de Crédito, S.A. expressly undertakes the general function of supervision of the Group's operations and discharges its duties in this respect directly and on a non-delegation basis.

Its Audit and Compliance Committee is entrusted, *inter alia*, with the following duties in the areas of information, accounting control and assessment of the compliance system:

1. To report, through its Chairman or Secretary, to the Annual General Meeting on any matters raised thereat by the shareholders on which the Committee has authority.
2. To propose the appointment of the auditors, the terms of their engagement, the scope of their services and, if appropriate, their revocation or non-renewal.
3. To revise the Bank's financial statements and the Group's consolidated financial statements, monitoring compliance with legal requirements and the proper application of generally accepted accounting principles.
4. To serve as a communication channel between the Board of Directors and the auditors, and assess the findings of each audit and the replies of the management team to the auditors' recommendations.
5. To be familiar with and monitor the financial reporting process and the internal control systems.
6. To monitor any situations which might jeopardise the independence of the auditors and, specifically, to check the percentage that the fees paid to them in all connections represents with respect to the auditors' total revenues. The fees paid must be disclosed publicly.
7. To review, before public disclosure, the periodic financial information furnished by the Bank and the Group to the markets and to their supervisory bodies, making sure that this information is prepared in accordance with the same principles and practices as the financial statements.
8. To examine compliance with the Group's Code of Conduct relating to the securities markets, with the anti-money laundering manuals and procedures and, in general, with the Bank's rules of governance, and to make the required proposals for improvement.

For these purposes, the Audit and Compliance Committee meets whenever it deems it appropriate with the persons in charge of the Group's business areas and with those in charge of the support and risk management areas, in particular with the Controller and with the Group's Internal Audit Division, and with the external auditors to analyse their reports and recommendations.

Our external auditors, Deloitte, examine each year the financial statements of substantially all the companies composing the Group to issue their professional opinion thereon. The external auditors are regularly informed of our controls and procedures; they define and perform their audit tests with full freedom and have free access to the Bank's Chairman, Deputy Chairman and CEO, to set forth their conclusions and discuss their recommendations for improving the efficiency of the internal control systems.

The Audit and Compliance Committee meets periodically with the external auditors to ensure the effectiveness of their audit and to analyse any situations which might jeopardise their independence. In this connection, following the most advanced practices in shareholder information transparency (as described in

Note 43 to the consolidated financial statements), it is hereby reported that in 2011 the fees paid for the financial audits performed by the Deloitte worldwide organisation amounted to EUR 1,438 thousand, those paid for other reports required by the supervisory bodies amounted to EUR 169 thousand and those paid for other work amounted to EUR 203 thousand.

To facilitate analysis of the situations which might jeopardise the independence of our auditors from a quantitative and qualitative standpoint, we set forth below significant information relating to the criteria established by the O'Malley Panel and in other relevant international documents for the purpose of evaluating the effectiveness of the external audit function:

1. In 2011 the ratio of the amount billed by our main auditor for non-attest work to the fees for financial audits and for other reports required by the supervisory bodies was 12.63%.

The services commissioned from our auditors meet the independence requirements stipulated by Law 44/2002, of 22 November, on Financial System Reform Measures and by the Regulations governing the Bank's Board of Directors.

2. The relative importance of the fees generated by a given customer with respect to the total fees of the audit firm:

The Group has adopted the policy of not engaging audit firms if the estimated fees for all services exceed 2% of their total revenues.

In the case of Deloitte and the Deloitte worldwide organisation, this ratio was 0.4% and 0.007% of their total revenues.

Based on the foregoing, the Audit and Compliance Committee considers that there are no objective reasons to question the independence of our auditors.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 51).
In the event of a discrepancy, the Spanish-language version prevails.

BANCO ESPAÑOL DE CRÉDITO GROUP
CONSOLIDATED BALANCE SHEETS
AT 31 DECEMBER 2011 AND 2010 (NOTES 1 TO 4)
(Thousands of Euros)

ASSETS	Note	2011	2010 (*)	LIABILITIES AND EQUITY	Note	2011	2010 (*)
CASH AND BALANCES WITH CENTRAL BANKS	6	4,633,798	1,578,855	LIABILITIES			
FINANCIAL ASSETS HELD FOR TRADING:		7,611,103	6,588,982	FINANCIAL LIABILITIES HELD FOR TRADING:	10	5,631,779	4,556,294
<i>Debt instruments</i>	8	304,157	334,808	<i>Trading derivatives</i>		5,609,165	4,554,149
<i>Equity instruments</i>	9	1,290,142	1,818,344	<i>Short positions</i>		22,614	2,145
<i>Trading derivatives</i>	10	6,016,804	4,435,830	OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS			-
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS:		937,351	1,491,687	FINANCIAL LIABILITIES AT AMORTISED COST:		91,213,397	102,367,945
<i>Loans and advances to credit institutions</i>	7	836,380	1,144,540	<i>Deposits from central banks</i>	19	5,005,842	1,537,587
<i>Debt instruments</i>	8	31,147	210,927	<i>Deposits from credit institutions</i>	19	7,130,530	6,013,047
<i>Equity instruments</i>	9	69,824	136,220	<i>Customer deposits</i>	20	51,246,144	60,076,180
AVAILABLE-FOR-SALE FINANCIAL ASSETS:		7,326,363	8,041,491	<i>Marketable debt securities</i>	21	24,022,730	29,214,182
<i>Debt instruments</i>	8	6,648,310	7,754,470	<i>Subordinated liabilities</i>	22	1,365,819	2,504,426
<i>Equity instruments</i>	9	678,053	287,021	<i>Other financial liabilities</i>	23	2,442,332	3,022,523
LOANS AND RECEIVABLES:		77,862,364	92,239,225	CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	32	875,993	810,376
<i>Loans and advances to credit institutions</i>	7	8,591,987	16,110,980	HEDGING DERIVATIVES	12	575,190	492,540
<i>Loans and advances to customers</i>	11	69,198,400	75,749,057	LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE			-
<i>Debt instruments</i>	8	71,977	379,188	LIABILITIES UNDER INSURANCE CONTRACTS	14	2,507,061	3,919,029
HELD-TO-MATURITY INVESTMENTS	8	3,402,807	3,431,173	PROVISIONS:	24	2,035,324	2,238,989
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	32	185,341	91,213	<i>Provisions for pensions and similar obligations</i>		1,947,103	2,024,299
HEDGING DERIVATIVES	12	1,493,038	1,534,464	<i>Provisions for contingent liabilities and commitments</i>		30,846	82,609
NON-CURRENT ASSETS HELD FOR SALE	16	2,349,130	2,328,170	<i>Other provisions</i>		57,375	132,081
INVESTMENTS	13	29,943	30,048	TAX LIABILITIES:	25	138,975	282,403
INSURANCE CONTRACTS LINKED TO PENSIONS	24	190,613	202,458	<i>Current</i>		73,998	221,668
REINSURANCE ASSETS	14	44,165	71,974	<i>Deferred</i>		64,977	60,735
TANGIBLE ASSETS:	15	1,175,010	1,215,079	OTHER LIABILITIES	18	428,051	475,345
<i>Property, plant and equipment</i>				TOTAL LIABILITIES		103,405,770	115,142,921
<i>For own use</i>		1,010,694	1,064,579	SHAREHOLDERS' EQUITY:		5,424,176	5,466,646
<i>Investment property</i>		164,316	150,500	<i>Share capital</i>			
INTANGIBLE ASSETS:	17	73,663	75,896	<i>Registered</i>	28	543,036	543,036
<i>Other intangible assets</i>		73,663	75,896	<i>Reserves</i>	29	4,903,607	4,689,328
TAX ASSETS:	25	1,072,216	1,158,509	<i>Accumulated reserves</i>		4,899,600	4,682,760
<i>Current</i>		52,296	107,751	<i>Reserves of entities accounted for using the equity method</i>		4,007	6,568
<i>Deferred</i>		1,019,920	1,050,758	<i>Other equity instruments</i>		4,075	2,343
OTHER ASSETS:	18	461,167	541,028	<i>Less: Treasury shares</i>	30	(27,954)	(41,164)
<i>Inventories</i>		294,066	344,548	<i>Profit for the year attributable to the Parent</i>		125,141	460,072
<i>Other</i>		167,101	196,480	<i>Dividends and remuneration</i>		(123,729)	(186,969)
TOTAL ASSETS		108,848,072	120,620,252	VALUATION ADJUSTMENTS:	27	(17,890)	(27,830)
Memorandum items:				<i>Available-for-sale financial assets</i>		(43,446)	(112,409)
Contingent liabilities	31	8,491,769	9,131,524	<i>Cash flow hedges</i>		25,482	83,599
Contingent commitments	31	11,026,669	19,408,590	<i>Other valuation adjustments</i>		74	980
				NON-CONTROLLING INTERESTS:	26	36,016	38,515
				<i>Other</i>		36,016	38,515
				TOTAL EQUITY		5,442,302	5,477,331
				TOTAL LIABILITIES AND EQUITY		108,848,072	120,620,252

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 51 and Appendices I to V are an integral part of the consolidated balance sheet at 31 December 2011.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 51). In the event of a discrepancy, the Spanish-language version prevails.

BANCO ESPAÑOL DE CRÉDITO GROUP
CONSOLIDATED INCOME STATEMENTS FOR
THE YEARS ENDED 31 DECEMBER 2011 AND 2010 (NOTES 1 TO 4)
(Thousands of Euros)

	Note	Income /(Expenses)	
		2011	2010 (*)
INTEREST AND SIMILAR INCOME	34	3,071,009	3,041,218
INTEREST EXPENSE AND SIMILAR CHARGES	35	(1,554,697)	(1,317,817)
NET INTEREST INCOME		1,516,312	1,723,401
INCOME FROM EQUITY INSTRUMENTS	36	32,570	42,894
SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	37	(1,518)	240
FEE AND COMMISSION INCOME	38	665,932	667,037
FEE AND COMMISSION EXPENSE	39	(124,449)	(122,780)
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES (net)	40	99,535	153,628
<i>Held for trading</i>		40,683	58,470
<i>Financial instruments not measured at fair value through profit or loss</i>		57,084	95,501
<i>Hedge accounting transactions not included in interest</i>	32	1,768	(343)
<i>Other</i>		-	-
EXCHANGE DIFFERENCES (net)		52,664	42,242
OTHER OPERATING INCOME	41	1,343,493	1,045,137
<i>Income from insurance and reinsurance contracts issued</i>		1,285,892	986,788
<i>Sales and income from the provision of non-financial services</i>		26,691	29,362
<i>Other</i>		30,910	28,987
OTHER OPERATING EXPENSES	41	(1,290,269)	(991,898)
<i>Expenses of insurance and reinsurance contracts</i>		(1,211,756)	(912,705)
<i>Changes in inventories</i>		(659)	(4,921)
<i>Other</i>		(77,854)	(74,272)
GROSS INCOME		2,294,270	2,559,901
ADMINISTRATIVE EXPENSES		(882,368)	(912,056)
<i>Staff costs</i>	42	(611,030)	(645,861)
<i>Other general administrative expenses</i>	43	(271,338)	(266,195)
DEPRECIATION AND AMORTISATION CHARGE	15, 17	(108,911)	(105,532)
PROVISIONS (net)	24	(15,114)	52,967
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (net)		(661,017)	(845,053)
<i>Loans and receivables</i>	11	(660,651)	(811,093)
<i>Other financial instruments not measured at fair value through profit or loss</i>	9	(366)	(33,960)
PROFIT FROM OPERATIONS		626,860	750,227
IMPAIRMENT LOSSES ON OTHER ASSETS (net):		(33,474)	(53,182)
<i>Goodwill and other intangible assets</i>	17	664	(634)
<i>Other assets</i>	15, 18	(34,118)	(52,548)
GAINS/(LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE	44	167,750	108,224
GAINS ON BARGAIN PURCHASES ARISING ON BUSINESS COMBINATIONS		-	-
GAINS/(LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS	16	(633,260)	(196,971)
PROFIT BEFORE TAX		127,876	608,298
INCOME TAX	25	(5,249)	(150,876)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		122,627	457,422
PROFIT FROM DISCONTINUED OPERATIONS (net)		-	-
CONSOLIDATED PROFIT FOR THE YEAR		122,627	457,422
PROFIT ATTRIBUTABLE TO THE PARENT		125,141	460,072
LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		(2,514)	(2,650)
EARNINGS PER SHARE:			
<i>Basic earnings per share (euros)</i>	4	0.18	0.67
<i>Diluted earnings per share (euros)</i>	4	0.18	0.67

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 51 and Appendices I to V are an integral part of the consolidated income statement for 2011.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 51). In the event of a discrepancy, the Spanish-language version prevails.

BANCO ESPAÑOL DE CRÉDITO GROUP
CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR
THE YEARS ENDED 31 DECEMBER 2011 AND 2010 (NOTES 1 TO 4)

(Thousands of Euros)

	2011	2010 (*)
A) CONSOLIDATED PROFIT FOR THE YEAR	122,627	457,422
B) OTHER RECOGNISED INCOME AND EXPENSE	9,940	(159,839)
Available-for-sale financial assets	98,518	(190,360)
Revaluation gains (losses)	83,199	(116,987)
Amounts transferred to income statement	15,319	(73,373)
Cash flow hedges	(83,024)	(39,401)
Revaluation gains (losses)	(39,392)	(22,122)
Amounts transferred to income statement	(43,632)	(17,279)
Hedges of net investments in foreign operations	-	-
Exchange differences	111	6
Revaluation gains (losses)	111	6
Non-current assets held for sale		-
Actuarial gains (losses) on pension plans		-
Entities accounted for using the equity method	(984)	990
Revaluation gains (losses)	3	990
Amounts transferred to income statement	(987)	-
Other recognised income and expense	-	-
Income tax	(4,681)	68,926
TOTAL RECOGNISED INCOME AND EXPENSE (A + B)	132,567	297,583
C 1) Attributable to the Parent	135,081	300,233
C 2) Attributable to non-controlling interests	(2,514)	(2,650)

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 51 and Appendices I to V are an integral part of the consolidated statement of recognised income and expense for 2011.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 51). In the event of a discrepancy, the Spanish-language version prevails.

BANCO ESPAÑOL DE CRÉDITO GROUP

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011 (NOTES 1 TO 4)

(Thousands of Euros)

	EQUITY ATTRIBUTABLE TO THE PARENT										Non-Controlling Interests	Total	
	SHAREHOLDERS' EQUITY												
	Share Capital	Share Premium	Accumulated Reserves	Reserves 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			
Balance at 01/01/11	543,036	-	4,682,760	6,568	2,343	(41,164)	460,072	(186,969)	5,466,646	(27,830)	38,515	5,438,816	5,477,331
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	543,036	-	4,682,760	6,568	2,343	(41,164)	460,072	(186,969)	5,466,646	(27,830)	38,515	5,438,816	5,477,331
Total recognised income/(expense)	-	-	-	-	-	-	125,141	-	125,141	9,940	(2,514)	135,081	132,567
Other changes in equity	-	-	216,840	(2,561)	1,732	13,210	(460,072)	63,240	(167,611)	-	-	(167,611)	(167,596)
Distribution of dividends	-	-	-	-	-	-	-	(177,345)	(177,345)	-	-	(177,345)	(177,345)
Transactions involving own equity instruments (net) (Note 30)	-	-	(5,208)	-	-	13,210	-	-	8,002	-	-	8,002	8,002
Transfers between equity items	-	-	222,048	(2,561)	-	-	(460,072)	240,585	-	-	-	-	-
Equity-instrument-based payments	-	-	-	-	1,732	-	-	-	1,732	-	-	1,732	1,732
Other increases/(decreases) in equity	-	-	-	-	-	-	-	-	-	-	15	-	15
Balance at 31/12/11	543,036	-	4,899,600	4,007	4,075	(27,954)	125,141	(123,729)	5,424,176	(17,890)	36,016	5,406,286	5,442,302

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 51). In the event of a discrepancy, the Spanish-language version prevails.

BANCO ESPAÑOL DE CRÉDITO GROUP

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010 (NOTES 1 TO 4)

(Thousands of Euros)

	EQUITY ATTRIBUTABLE TO THE PARENT										Non-Controlling Interests	Total	Equity
	SHAREHOLDERS' EQUITY												
	Share Capital	Share Premium	Accumulated Reserves	Reserves of Entities Accounted for Using the Equity Method	Other Equity Instruments	Less: Treasury Shares	Profit Attributable to the Parent	Less: Dividends and Renumeration	Total Shareholders' Equity	Valuation Adjustments			
Balance at 01/01/10	543,036	-	4,444,247	5,204	-	(29,527)	559,803	(223,401)	5,299,362	132,009	41,165	5,431,371	5,472,536
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	543,036	-	4,444,247	5,204	-	(29,527)	559,803	(223,401)	5,299,362	132,009	41,165	5,431,371	5,472,536
Total recognised income/(expense)	-	-	-	-	-	-	460,072	-	460,072	(159,839)	(2,650)	300,233	297,583
Other changes in equity	-	-	238,513	1,364	2,343	(11,637)	(559,803)	36,432	(292,788)	-	-	-	(292,788)
Distribution of dividends	-	-	-	-	-	-	-	(279,766)	(279,766)	-	-	(279,766)	(279,766)
Transactions involving own equity instruments (net)	-	-	(3,728)	-	-	(11,637)	-	-	(15,365)	-	-	(15,365)	(15,365)
(Note 30)	-	-	-	-	-	-	(559,803)	316,198	-	-	-	-	-
Transfers between equity items	-	-	242,241	1,364	-	-	-	-	2,343	-	-	2,343	-
Equity-instrument-based payments	-	-	-	-	2,343	-	-	-	-	-	-	-	2,343
Balance at 31/12/10	543,036	-	4,682,760	6,568	2,343	(41,164)	460,072	(186,969)	5,466,646	(27,830)	38,515	5,438,816	5,477,331

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 51 and Appendices I to V are an integral part of the consolidated statement of changes in total equity for 2011.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 51). In the event of a discrepancy, the Spanish-language version prevails.

BANCO ESPAÑOL DE CRÉDITO GROUP
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR
THE YEARS ENDED 31 DECEMBER 2011 AND 2010 (NOTES 1 TO 4)

(Thousands of Euros)

	2011	2010 (*)
1. CASH FLOWS FROM OPERATING ACTIVITIES	3,524,752	2,011,734
Consolidated profit for the year	122,627	457,422
Adjustments made to obtain the cash flows from operating activities:		
Depreciation and amortisation charge	108,911	105,532
Other adjustments	1,119,555	740,289
Net increase/decrease in operating assets:		
Financial assets held for trading	1,022,121	(248,016)
Other financial assets at fair value through profit or loss	(554,336)	(780,626)
Available-for-sale financial assets	(813,281)	648,288
Loans and receivables	(13,393,793)	(6,285,339)
Other operating assets	493,840	219,766
Net increase/decrease in operating liabilities:		
Financial liabilities held for trading	1,075,485	(22,510)
Financial liabilities at amortised cost	(10,445,630)	(4,874,299)
Other operating liabilities	(1,714,903)	(830,893)
Income tax recovered/paid	13,258	(9,734)
2. CASH FLOWS FROM INVESTING ACTIVITIES	(1,137)	(1,326,586)
Payments		
Tangible assets	(106,356)	(158,001)
Intangible assets	(42,743)	(29,672)
Investments	(11,200)	(10,884)
Held-to-maturity investments	-	(1,354,846)
Proceeds		
Tangible assets	110,888	226,817
Intangible assets	-	-
Held-to-maturity investments	28,367	-
Investments	19,907	-
3. CASH FLOWS FROM FINANCING ACTIVITIES	(784,033)	(326,359)
Payments		
Dividends	(144,351)	(293,514)
Subordinated liabilities	(551,450)	-
Acquisition of own equity instruments	-	(11,637)
Other payments related to financing activities	(101,442)	(21,208)
Proceeds		
Subordinated liabilities	-	-
Disposal of equity instruments	13,210	-
Other proceeds related to financing activities	-	-

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1 and 51). In the event of a discrepancy, the Spanish-language version prevails.

BANCO ESPAÑOL DE CRÉDITO GROUP
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR
THE YEARS ENDED 31 DECEMBER 2011 AND 2010 (NOTES 1 TO 4)

(Thousands of Euros)

	2011	2010 (*)
4. EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(7,056)	(6,883)
5. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (1+2+3+4)	2,732,526	351,906
6. CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,914,639	2,562,733
7. CASH AND CASH EQUIVALENTS AT END OF YEAR	5,647,165	2,914,639
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	253,822	235,540
Cash equivalents at central banks	4,379,976	1,343,315
Other financial assets	1,013,367	1,335,784
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	5,647,165	2,914,639

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 51 and Appendices I to V are an integral part of the consolidated statement of cash flows for 2011.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 1 and 51). In the event of a discrepancy, the Spanish-language version prevails.

Banco Español de Crédito Group

Notes to the consolidated financial statements for the year ended 31 December 2011

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

a) Introduction

Banco Español de Crédito, S.A. ("the Bank" or "Banesto") is a private-law entity subject to the rules and regulations applicable to banks operating in Spain. The bylaws and other public information on the Bank can be consulted on the website of the Group (www.banesto.es) and at its registered office at Gran Vía de Hortaleza, 3, Madrid.

In addition to the operations carried on directly by it, the Bank is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, the Banco Español de Crédito Group ("the Group" or "the Banesto Group"). Therefore, the Bank is obliged to prepare, in addition to its own separate financial statements, the Group's consolidated financial statements.

b) Basis of presentation of the consolidated financial statements

The Group's consolidated financial statements for 2011 were prepared by the Bank's directors, at the Board meeting on 25 January 2012, in accordance with the regulatory framework applicable to the Group, which is that established in the Spanish Commercial Code and other Spanish corporate and commercial law and in the International Financial Reporting Standards adopted by the European Union, taking into account Bank of Spain Circular 4/2004, of 22 December. Accordingly, they present fairly the Group's equity and financial position at 31 December 2011, and the consolidated results of its operations and its consolidated cash flows in the year then ended. These consolidated financial statements for 2011 have not yet been approved by the shareholders at the Annual General Meeting. However, the Bank's Board of Directors considers that the aforementioned consolidated financial statements will be approved without any changes.

In accordance with the options established in IAS 1.81, the Group opted to present separately a statement displaying components of consolidated profit or loss ("consolidated income statement") and a second statement beginning with consolidated profit or loss and displaying components of other comprehensive income for the year (called "consolidated statement of recognised income and expense" in these consolidated financial statements, using the nomenclature in Bank of Spain Circular 4/2004).

All the figures relating to 2010 included in these notes to the consolidated financial statements are presented for comparison purposes only.

The following standards and interpretations adopted by the European Union and by the Group came into force in 2011, without having a material effect on the consolidated financial statements:

- *Amendment to IAS 32, Financial Instruments: Presentation - Classification of Rights Issues:* This amendment relates to the classification of foreign currency denominated rights issues (rights, options or warrants). Pursuant to this amendment, when these rights are offered to all owners and are to acquire a fixed number of shares in exchange for a fixed amount, they are equity instruments, irrespective of the currency in which that fixed amount is denominated and provided that other specific requirements of the standard are fulfilled.
- *Revised IAS 24, Related Party Disclosures:* The revised IAS 24 provides a partial exemption from certain disclosure requirements when the transactions are between government-related entities (or entities related to an equivalent government institution) and revises the scope applicable to the disclosure requirements through the inclusion in the definition of “related party” of certain relationships between joint ventures and associates of the same entity which were not explicit in the previous version of the standard.
- *Improvements to IFRSs (issued in May 2010):* Amendments to various standards.
- *Amendment to IFRIC 14, Prepayments of a Minimum Funding Requirement:* This amendment introduces the possibility that prepayments for minimum funding contributions may give rise to an asset.
- *IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments:* This interpretation addresses the accounting by a debtor when all or part of a financial liability is extinguished through the issue of equity instruments to the creditor. The interpretation does not apply to transactions in situations where the counterparties in question are shareholders or related parties, acting in their capacity as such, or where extinguishing the financial liability by issuing equity shares is in accordance with the original terms of the financial liability. In all cases, the equity instruments issued are measured at fair value at the date the liability is extinguished and any difference between this value and the carrying amount of the liability is recognised in profit or loss.

Following is a detail of the new standards, amendments and interpretations mandatorily applicable in years subsequent to the calendar year that began on 1 January 2011 (applicable from 2012 onwards):

- *Amendment to IFRS 7, Financial Instruments: Disclosures - Transfers of Financial Assets:* This amendment extends and enhances the disclosure requirements applicable to transfers of financial assets, including both those in which the assets are not derecognised and, principally, those in which the assets qualify for derecognition.

At the date of preparation of these consolidated financial statements, the most significant standards and interpretations that had been published by the IASB but which had not yet come into force, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union, were as follows:

- *IFRS 9, Financial Instruments: Classification and Measurement:* IFRS 9 will in the future replace the current part of IAS 39 relating to classification and measurement. There are very significant differences with respect to the current standard, in relation to financial assets, including the approval of a new classification model based on only two categories, namely instruments measured at amortised cost and those measured at fair value, the disappearance of the current “held-to-maturity investments” and “available-for-sale financial assets” categories, impairment analyses only for assets measured at amortised cost and the non-separation of embedded derivatives in financial asset contracts.

In relation to financial liabilities, the classification categories proposed by IFRS 9 are similar to those currently contained in IAS 39.

- *Amendments to IAS 12, Income Taxes- Deferred Taxes Arising from Investment Property:* Amends the treatment of the measurement of deferred taxes arising from investment property using the fair value model of IAS 40.
- *IFRS 10, Consolidated Financial Statements:* Will modify the current definition of control. The new definition of control sets out the following three elements of control: power over the investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect the amount of the investor's returns.
- *IFRS 11, Joint Arrangements:* supersedes IAS 31. The fundamental change with respect to the current standard is the elimination of the option of proportionate consolidation for jointly controlled entities, which will begin to be accounted for using the equity method.
- *IFRS 12, Disclosures of Interests in Other Entities:* Is a single standard presenting the disclosure requirements for interests in other entities (whether they be subsidiaries, associates, joint arrangements or other interests) and includes new disclosure requirements.
- *IFRS 13, Fair Value Measurement:* The purpose of this IFRS is to set out in a single standard a framework for measuring the fair value of assets or liabilities when other standards require that the fair value measurement model be used. It changes the current definition of fair value, introduces new matters for consideration and extends the requirements regarding disclosures:
- *IAS 27 (Revised) Separate Financial Statements and IAS 28 (Revised), Investments in Associates and Joint Ventures:* These IAS are revised in conjunction with the issue of the aforementioned new IFRSs (IFRS 10, 11 and 12).
- *Amendments to IAS 1, Presentation of Items of Other Comprehensive Income:* minor amendments relating to the presentation of items of other comprehensive income.
- *Amendments to IAS 19, Employee Benefits:* The main changes introduced by these amendments will affect the accounting treatment of defined benefit plans since the "corridor" is eliminated under which companies are currently permitted to opt for deferred recognition of a given portion of actuarial gains and losses. When the amendments come into effect, all actuarial gains and losses must be recognised immediately. The amendments also include significant changes in the presentation of cost components in the statement of comprehensive income, which will be aggregated and presented in a different way.
- *Amendments to IFRS 9 and IFRS 7, Mandatory Effective Date of IFRS 9 and Transition Disclosures:* deferral of the mandatory effective date of IFRS 9 and amends transition requirements and disclosures.
- *Amendments to IAS 32 and IFRS 7, Offsetting Financial Assets and Liabilities:* Additional clarifications to the rules for offsetting financial assets and liabilities included in IAS 32 and introduction of the related new disclosures in IFRS 7.

The impact of the application of these standards has not yet been assessed.

c) Use of estimates

The consolidated results and the determination of consolidated equity are sensitive to the accounting policies, measurement bases and estimates used by the directors of the Bank in preparing the consolidated financial statements. The main accounting policies and measurement bases are set forth in Note 2.

In the Group's consolidated financial statements for 2011 estimates were occasionally made by the senior executives of the Group and of the consolidated entities, later ratified by the directors, in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The impairment losses on certain assets (see Notes 7, 8, 9, 11, 13, 15, 16 and 18);
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and obligations (see Notes 2-u and 2-v); and
- The useful life of the tangible and intangible assets (see Notes 15 and 17).

Although these estimates were made on the basis of the best information available at 2011 year-end, future events might make it necessary to change these estimates in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of any change in estimates in the related consolidated income statement of the affected years.

d) Basis of consolidation

i. Subsidiaries

"Subsidiaries" are defined as entities over which the Bank has the capacity to exercise management control; control is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when, for example, there are agreements with other shareholders of the investee that give the Bank control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements 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 acquisition date. Any positive differences between the acquisition cost and the fair values of the identifiable net assets acquired are recognised as goodwill. Negative differences are recognised in profit or loss on the acquisition date.

Additionally, the share of third parties of the Group's equity is presented under "Non-Controlling Interests" in the consolidated balance sheet (see Note 26). Their share of the consolidated profit for the year is presented under "Loss Attributable to Non-Controlling Interests" in the consolidated income statement.

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

ii. Interests in joint ventures (jointly controlled entities)

“Joint ventures” are deemed to be ventures that are not subsidiaries but which are jointly controlled by two or more unrelated entities. This is evidenced by contractual arrangements whereby two or more entities (“venturers”) 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 made 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. Significant influence generally exists when the Bank holds 20% or more of the voting power of the investee.

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

iv. Acquisitions and disposals

Appendices I, II and III contain salient information on the subsidiaries, jointly controlled entities and associates, respectively. Note 3-b provides information on the most significant acquisitions and disposals in 2011 and 2010.

e) Challenges of corporate resolutions

In 1996, the former directors of the Bank who had been replaced by decision of the Bank of Spain's Executive Council on 28 December 1993 filed claims challenging certain corporate resolutions adopted by the shareholders at the Annual General Meeting held on 15 January 1995, which approved, inter alia, the 1994 financial statements of the Bank and the Group. The claim filed against the approval of the 1994 financial statements was dismissed in 2000 by the Court of First Instance and this decision was subsequently appealed against by the plaintiffs. In 2003 the Provincial Appellate Court dismissed in full the appeal and the notice given by the appellants of their intention to file a cassation appeal. The appellants subsequently filed an appeal for reconsideration, which was again rejected by the Provincial Appellate Court, and, consequently, they filed an appeal against the denial of leave to appeal before the Supreme Court. The Bank's directors and its legal advisers consider that this claim will not have any effect.

f) Equity

Bank of Spain Circular 3/2008, of 22 May, amended by Bank of Spain Circular 9/2010, of 22 December, on the calculation and control of minimum capital requirements, regulates the minimum capital requirements for Spanish credit institutions -both as stand-alone entities and as consolidated groups- and how to calculate them, as well as the various internal capital adequacy assessment processes they should have in place and the information they should disclose to the market.

In addition, on 18 February 2011, the Spanish Cabinet approved Royal Decree-Law 2/2011 on Strengthening the Financial System, which establishes that credit institutions and their groups that can take refundable funds from the public must have principal capital of 8% or more of their total risk-weighted exposure calculated in accordance with Law 13/1985, of 25 May.

Pursuant to Transitional Provision One of this Royal Decree-Law, the date of entry into force of the aforementioned minimum core capital requirements was 10 March 2011, using as the basis for the calculation the risk-weighted assets at 31 December 2010.

At 31 December 2011 and 2010, the eligible capital of the Group and of the Group entities subject to this requirement, taken individually, exceeded the minimum principal capital required under the regulations then in force.

Lastly, the Group is subject to compliance with the risk concentration limits established in Bank of Spain Circular 3/2008 and with the requirements concerning internal corporate governance, internal capital adequacy assessment, measurement of interest rate risk and information to be disclosed to the market also set forth therein. With a view to guaranteeing compliance with the aforementioned objectives, the Group performs integrated management of these risks, in accordance with its internal policies (see Note 49).

g) Deposit Guarantee Fund

The Deposit Guarantee Fund for Credit Institutions was created pursuant to Royal Decree-Law 16/2011, of 14 October, following the unification of the three previously existing deposit guarantee funds in a single deposit guarantee fund for Credit Institutions, and maintains the functions and characteristics of the three funds which it replaces. This Royal Decree-Law revises the legally stipulated maximum annual contribution that entities must make to this fund from 2 to 3 per mil to guarantee the maximum operating capability of the fund. It also repeals the Ministerial Orders which, pursuant to legislation then in force, granted powers to reduce contributions by 0.6, 0.8 and 1 per mil, respectively, depending on the type of entity. The result of these changes is the establishment of a ceiling on the contributions of 3 per mil of guaranteed deposits and the establishment of a real contribution of 2 per mil instead of the aforementioned figures.

In addition Bank of Spain Circular 3/2011, of 30 June 2011, stipulated the rules permitting the application of the amendments introduced by Royal Decree 771/2011, of 3 June, amending Royal Decree-Law 216/2008, of 15 February, for guaranteed deposits the remuneration on which exceeds any of the following limits:

- a. Time deposits and similar instruments or instruments which perform the same economic function: that the agreed annual interest exceeds average 3-month Euribor by more than 150 basis points on deposits made for three months or more, exceeds average 6-month Euribor by more than 150 basis points on deposits made for between three months and one year or exceeds average one-year Euribor by more than 100 basis points on deposits made for more than one year.
- b. Demand deposits: that the annual interest payments on the account exceed average one-month Euribor by more than 100 basis points.

The treatment of contributions to the Fund is amended so that, for the purposes of calculating the contributions to be made by member entities, a weighting of 500% is applied to the amounts of deposits the agreed remuneration on which exceeds the limits stipulated in points a) and b) above. Any amount of this contribution in excess of the amount that would be applicable if none of the above circumstances are present will be taken to the Fund's account on a quarterly basis.

The Bank participates in the Deposit Guarantee Fund. The contributions made to this Fund amounted to EUR 22,464 thousand in 2011 (2010: EUR 18,606 thousand) and the related expense is recognised under "Other Operating Expenses" in the consolidated income statement for 2011 (see Note 41).

The estimated contribution for 2012 arising from the increase in the percentage contribution is approximately EUR 42 million.

h) Environmental impact

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

i) Customer Care Service Annual Report

As required by Article 17 of Ministry of Economy Order ECO/734/2004, of 11 March, on Customer Care Departments and Services and the Customer Ombudsmen of Financial Institutions, the Annual Report presented by the Head of the Service to the Board meeting held on 25 January 2012 is summarised in the Directors' Report.

j) Events after the reporting period

From 1 January 2012 to the date on which these consolidated financial statements were authorised for issue no events took place having a material effect on the consolidated financial statements that have not been described in the other notes to the financial statements.

2. Accounting policies and measurement bases

The accounting policies and measurement bases applied in preparing these consolidated financial statements were as follows:

a) Definitions and classification of financial instruments

i. Definitions

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

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

A "financial derivative" is a financial instrument whose value changes in response to the change in a specified variable, sometimes called the underlying (such as an interest rate, financial instrument price, commodity price, foreign exchange rate, credit rating or the related index), whose initial investment is much smaller than would be required for 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 13).
- Rights and obligations under employee benefit plans (see Notes 2-u and 2-v).
- Rights and obligations under insurance contracts (see Note 14).
- Contracts and obligations relating to transactions involving payments based on own equity instruments (see Note 5 and 42).

ii. Classification of financial assets for measurement purposes

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

- Financial assets held for trading (at fair value through profit or loss): this category includes the financial assets acquired for the purpose of generating a profit in the near term from fluctuations in their prices and financial derivatives that do not meet the definition of a financial guarantee contract and have not been designated as hedging instruments.
- Other financial assets at fair value through profit or loss: this category includes hybrid financial instruments containing one or more embedded derivatives that do not significantly modify the cash flows that otherwise would be generated by the instrument and whose separation is not permitted. These instruments must be assigned to this category from their initial recognition, and can only be assigned thereto if this reduces accounting mismatches or if they are part of a group of financial instruments whose performance is evaluated in accordance with a documented risk management or investment strategy.

Financial instruments classified in this category are permanently subject to an integrated and consistent system of measuring, managing and controlling risks and profit or loss that enables all the financial instruments involved to be monitored and identified and allows the effective reduction of risk to be checked. Financial assets may only be included in this category on the date they are acquired or originated.

- Held-to-maturity investments: this category includes debt instruments traded in an active market, with fixed maturity and fixed or determinable cash flows, for which the Group has, from inception and at any subsequent date, both the intention and proven financial ability to hold to maturity.
- Available-for-sale financial assets: this category includes debt instruments not classified as “held-to-maturity investments” or as “at fair value through profit or loss”, and equity instruments issued by entities other than subsidiaries, associates and jointly controlled entities, provided that such instruments have not been classified as “financial assets at fair value through profit or loss”.

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

iii. Classification of financial liabilities for measurement purposes

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

- Financial liabilities held for trading (at fair value through profit or loss): includes financial liabilities issued with the intention to repurchase them in the near future, assumed for the purpose of generating a profit in the near term from fluctuations in their prices, financial derivatives that do not meet the definition of a financial guarantee contract and have not been designated as hedging instruments, and financial liabilities arising from the outright sale of financial assets purchased under resale agreements (reverse repos) or borrowed ("short positions").

An embedded derivative included in a hybrid financial instrument is separated from the host contract and accounted for separately if, and only if:

- a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the non-derivative host contract and, therefore, the changes in value of the host contract are not linked to the changes in value attributable to the embedded derivative.
- b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative under current accounting regulations.
- c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

The amount relating to the separated embedded derivative is recognised as a derivative on the asset or liability side of the balance sheet, as appropriate, and the amount of the host contract is recognised under the appropriate line item based on its category and type of instrument.

In circumstances other than those described above, certain hybrid financial instruments are designated on initial recognition as financial assets at fair value through profit or loss and, therefore, the derivatives are not separated from the host contract.

Financial liabilities at amortised cost: financial liabilities not included in any of the above categories which arise from the ordinary borrowing activities carried on by financial institutions, irrespective of their instrumentation and maturity.

b) *Measurement of financial assets and liabilities and recognition of fair value changes*

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. Financial assets and liabilities are subsequently measured at each year-end as follows:

i. Measurement of financial assets

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

The "fair value" of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable, willing parties in an arm's length transaction acting prudently. 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, of valuation techniques commonly used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it. 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 coincide with the price at which the instrument could be bought or sold at the date of measurement.

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

The fair value of these derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close"). They are measured using methods recognised by the financial markets: "net present value" and option pricing models among others.

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

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, but disregarding future credit losses. 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, because of their nature, can be equated with a rate of interest. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing in all connections until the next benchmark interest reset date.

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

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

ii. Measurement of financial liabilities

In general, financial liabilities are measured at amortised cost, as defined above, except for those included under "Financial Liabilities Held for Trading" and financial liabilities designated as hedged items (or hedging instruments) in fair value hedges, which are measured at fair value.

iii. Valuation techniques

Following is a summary of the various valuation techniques used by the Group to measure the financial instruments recognised at fair value at 31 December 2011 and 2010:

Market Value Based on	Percentage			
	2011		2010	
	Assets	Liabilities	Assets	Liabilities
Public price quotations in active markets	61%	6%	68%	9%
Internal valuation models with observable market data	39%	93%	32%	91%
Internal valuation models with non-market data	-	1%	-	-
	100%	100%	100%	100%

The main techniques employed in the "internal valuation models" are as follows:

- In the valuation of financial instruments permitting static hedging (basically, forwards and swaps) the "present value" method is used.
- In the valuation of financial instruments requiring dynamic hedging, the Black-Scholes model is mainly used.
- In the valuation of financial instruments exposed to interest rate risk, the Heath-Jarrow-Morton model is used to analyse the correlation by currency.
- Credit risk is measured with dynamic models similar to those used in the measurement of interest rate risk.

The fair value of the financial instruments arising from the aforementioned internal models takes into account, inter alia, the contract terms and observable market data, which include interest rates, credit risk, exchange rates, the quoted market price of raw materials and shares, volatility and prepayments. The valuation models are not significantly subjective, since these methodologies can be adjusted and gauged, as appropriate, through the internal calculation of fair value and the subsequent comparison with the related traded price.

The use of observable data assumes that the markets in which the Group operates are functioning efficiently and, therefore, that these data are representative. The main assumptions used in the measurement of the financial instruments that were valued by means of internal models employing unobservable market data are as follows:

- Correlation: the assumptions relating to the correlation between the value of quoted and unquoted assets are based on historical correlations between the impact of adverse changes in market variables and the corresponding valuation of the associated unquoted assets.
- Dividends: the estimates of dividends used as inputs in the internal models are based on the expected dividend payments of the issuers. Since the dividend expectations can change or vary depending on the source of the price and the companies' dividend policies can vary, the valuation is adjusted to the best estimate of the fair value of the dividends expected in more or less conservative scenarios.
- Liquidity: the assumptions include estimates in response to market liquidity. For example, they take market liquidity into consideration when very long-term estimates of exchange rates or interest rates are used, or when the instrument is part of a new or developing market where, due to the absence of market prices that reflect a reasonable price for these products, the standard valuation methods and the estimates available might give rise to less precise results in the measurement of these instruments at that time.

The measurements obtained using the internal models might have been different had other methods or assumptions been used with respect to interest rate risk, credit risk spreads, market risk, or to their related correlations and volatilities. However, the Bank's directors consider that the financial assets and liabilities recognised in the consolidated balance sheet and the gains and losses arising from these financial instruments are reasonable and reflect their market value.

The ownership interest in Metrovacesa was measured at the net asset value of the company rather than using internal valuation methods. Metrovacesa notified the Spanish National Securities Market Commission (CNMV) of this net asset value since it is observable public information which, therefore, is available to the whole market.

The detail of the financial instruments, by valuation method, at 31 December 2011 is as follows:

	Thousands of Euros			
	2011			
	Public Price Quotations in Active Markets	Internal Models		Total
Market Inputs		Non-Market Inputs		
Financial assets held for trading	1,637,373	5,890,275	83,455	7,611,103
Available-for-sale financial assets	6,942,970	383,393	-	7,326,363
Hedging derivatives (assets)	-	1,493,038	-	1,493,038
Held-to-maturity investments	3,402,807	-	-	3,402,807
Financial liabilities held for trading	354,977	5,213,071	63,731	5,631,779
Hedging derivatives (liabilities)	-	575,190	-	575,190

iv. Recognition of fair value changes

As a general rule, changes in the fair value of financial instruments are recognised in the consolidated income statement. A distinction is made between the changes resulting from the accrual of interest or dividends, which are recognised under "Interest and Similar Income", "Interest Expense and Similar Charges" and "Income from Equity Instruments", as appropriate; those arising from the impairment of asset quality; and those arising for other reasons, which are recognised at their net amount under "Gains/Losses on Financial Assets and Liabilities (Net)" in the consolidated income statement.

Exceptionally, adjustments due to changes in fair value arising from "Available-for-Sale Financial Assets" are recognised temporarily in consolidated equity under "Valuation Adjustments", unless they relate to exchange differences on monetary financial assets, in which case they are recognised in the consolidated income statement. Items charged or credited to "Valuation Adjustments" remain in the Group's consolidated equity until the asset giving rise to them is derecognised, at which time they are recognised in the consolidated income statement.

v. Hedging transactions

The consolidated entities use financial derivatives for the purpose of trading with customers who request these instruments in order to manage their own market and credit risks and for their structured financial transactions; for the purpose of managing the risks of the Group entities' own positions and assets and liabilities ("hedging derivatives"); or for the purpose of obtaining gains from changes in the prices of these derivatives.

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

1. The derivative hedges one of the following three types of exposure:
 - a. Changes in the fair value of assets and liabilities due to fluctuations, among others, in the interest rate and/or exchange rate to which the position or balance to be hedged is subject ("fair value hedge");
 - b. Changes in the estimated cash flows arising from financial assets and liabilities, commitments and highly probable forecast transactions ("cash flow hedge");
 - c. The net investment in a foreign operation ("hedge of a net investment in a foreign operation").

2. It is effective in offsetting exposure inherent in the hedged item or position throughout the expected term of the hedge, which means that:
 - a. At the date of arrangement the hedge is expected, under normal conditions, to be highly effective (“prospective effectiveness”).
 - b. There is sufficient evidence that the hedge was actually effective during the whole life of the hedged item or position (“retrospective effectiveness”).

The consolidated entities ascertain the prospective and retrospective effectiveness of their hedges as follows:

- In fair value hedges, the ratio of the change in the fair value of the hedged item during the measurement period to the change in the fair value of the hedging instrument during the same period is calculated retrospectively. The hedge is deemed to be effective if this ratio is within a range of 80% to 125%. Prospective effectiveness is calculated by comparing the sensitivity of the hedged item (to changes in the yield curve) with the sensitivity of the hedging instrument. The hedge is deemed to be effective if this comparison shows that the two sensitivities offset each other.

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

- In cash flow hedges, retrospective effectiveness is assessed by calculating the ratio of the interest cash flows generated by the hedged item during the measurement period to the interest cash flows generated by the hedging instrument during the same period. The hedge is deemed to be effective if this ratio is within a range of 80% to 125%. Prospective effectiveness is calculated by comparing the future interest cash flows (obtained from the related market yield curve) of the hedged item and the hedging instrument. The hedge is deemed to be effective if the related cash flows offset each other.

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

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

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

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

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

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

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

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

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.

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

In 2011 financial instruments totalling approximately EUR 2,731 million were transferred in relation to securitisations but not derecognised (2010: approximately EUR 1,600 million –see Note 11).

d) *Offsetting of financial instruments*

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

For these purposes, the presentation in accordance with current regulations in these consolidated financial statements of the financial assets subject to impairment losses or valuation adjustments, net of these concepts, is not considered offsetting.

e) Impairment of financial assets

i. Debt instruments carried at amortised cost

The amount of an impairment loss incurred on a debt instrument carried at amortised cost is equal to the difference between its carrying amount and the present value of its estimated future cash flows, and is presented as a reduction of the balance of the asset adjusted.

Impairment losses on these assets are assessed as follows:

- Individually, for all significant debt instruments.
- Collectively: the Group classifies transactions on the basis of the nature of the obligors, the conditions of the countries in which they reside, transaction status, type of collateral or guarantee, age of past-due amounts, etc. For each risk group, it establishes the impairment losses that are to be allocated to specific transactions. In addition, the Group identifies any homogenous groups of debt instruments and contingent liabilities which, although not classifiable as impaired, evidence weaknesses that may give rise to losses higher than those for the categories described above, since they belong to a group that is experiencing difficulties. In this case, the impairment losses are determined as the difference between the amount recognised in assets for these instruments and the present value of the cash flows expected to be received, discounted at the average contractual interest rate.

The total allowances recognised at any given time are the sum of the allowances for losses on specific transactions, for losses on transactions of homogenous groups of debt instruments evidencing weaknesses, and for inherent impairment losses (losses incurred at the date of the financial statements, calculated using statistical methods), and the allowance for the risk exposure of groups experiencing difficulties.

Interest accrual is suspended for all debt instruments individually classified as impaired and for the instruments for which impairment losses have been assessed collectively because they have payments more than three months past due.

ii. Debt or equity instruments classified as available for sale

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

When there is objective evidence that the losses arising on measurement of these assets are due to impairment, they are removed from the equity item "Valuation Adjustments - Available-for-Sale Financial Assets" and are recognised in the consolidated income statement. If all or part of the impairment losses on debt instruments are subsequently reversed, the reversed amount is recognised in the consolidated income statement for the year in which the reversal occurs (with a balancing entry under "Valuation Adjustments - Available-for-Sale Financial Assets" in the consolidated balance sheet). If all or part of the impairment losses on equity instruments are subsequently reversed, the reversed amount is recognised directly in consolidated equity under the related "Valuation Adjustments" item.

iii. Equity instruments carried at cost

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

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

f) *Repurchase agreements and reverse repurchase agreements*

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

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

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

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

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

The assets acquired from certain borrowers to settle their debts are initially recognised at fair value (equal to the appraised value at the acquisition date) less the required costs to sell. Foreclosed assets, except those intended for continuing use, are initially recognised at the carrying amount of the financial assets given up. Under no circumstances are impairment losses on loans thus settled reversed with a credit to profit or loss.

Non-current assets held for sale are generally measured at the lower of fair value less costs to sell, adjusted on the basis of the time they have remained in assets, and their carrying amount at the date of classification in this category. Non-current assets held for sale are not depreciated as long as they remain in this category.

The gains and losses arising on the disposal of assets and liabilities classified as held for sale, as well any related impairment losses recognised or reversed, are recorded under "Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations". All other income and expenses relating to these assets and liabilities are scanty material and were recognised in the corresponding income statement items based on their nature. The fair value of these assets and liabilities does not differ significantly from its carrying amount.

h) *Reinsurance assets and Liabilities under insurance contracts*

"Reinsurance Assets" in the consolidated balance sheet includes the amounts that the consolidated entities are entitled to receive for reinsurance contracts with third parties and, specifically, the reinsurer's share of the technical provisions recorded by the consolidated insurance entities. In the event of impairment of these assets, the related loss is recognised directly in the consolidated income statement against these assets.

“Liabilities under Insurance Contracts” in the consolidated balance sheet includes the technical provisions recorded by the consolidated insurance entities to cover obligations arising from insurance contracts in force at year-end.

In accordance with standard accounting practice in the insurance industry, the consolidated insurance entities credit to the income statement the amounts of the premiums written and charge to income the cost of the claims incurred on final settlement thereof. Insurance entities are therefore required to accrue at period-end the unearned revenues credited to their income statements and the accrued costs not charged to income.

At each reporting date the Group assesses whether the insurance contract liabilities recognised in the consolidated balance sheet are adequately measured. For this purpose, it calculates the difference between the following amounts:

- Current estimates of future cash flows under the insurance contracts of the consolidated entities. These estimates include all contractual cash flows and any related cash flows, such as claims handling costs; and
- The value recognised in the consolidated balance sheet for insurance liabilities (see Note 14), net of any related deferred acquisition costs or intangible assets, such as the amount paid to acquire, in the event of purchase by the entity, the economic rights held by a broker deriving from policies in the entity's portfolio.

If the calculation results in a positive amount, this amount is charged to the consolidated income statement.

i) Tangible assets

“Tangible Assets” includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the consolidated entities or acquired under finance leases. Tangible assets are classified by use as follows:

i. Property, plant and equipment for own use

Property, plant and equipment for own use are presented at acquisition cost revalued, where appropriate, pursuant to the applicable legislation, less the related accumulated depreciation and any impairment losses (carrying amount higher than recoverable amount).

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The period tangible asset depreciation charge is recognised in the consolidated income statement and is calculated using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual Rate
Buildings for own use	2.0%
Furniture	7.7%
Fixtures	6.0%
Office and IT equipment	25.0%
Leasehold improvements	7.0%

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

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

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

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognised as an expense in the period in which they are incurred.

ii. Investment property

“Investment Property” in the consolidated balance sheet reflects, at acquisition cost, the net values of the land, buildings and other structures held either to earn rentals or for capital appreciation. The fair value of the investment property does not differ significantly from its carrying amount.

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

In most cases the fair value of these assets was calculated using appraisals conducted by an independent expert.

j) Accounting for leases

i. Finance leases

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

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

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

In both cases, the finance income and finance charge arising under finance lease agreements are credited and 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 thereto remain with the lessor.

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

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

Where transactions involve the sale to a third party of a Group asset that is simultaneously leased back, the terms and conditions of the lease agreement are analysed to determine whether it should be considered a finance or an operating lease. If it is determined to be a finance lease, the gain arising on the sale is not recognised immediately, but deferred and recognised in the consolidated income statement over the lease term. However, if the leaseback is an operating lease and the sale price is the fair value of the property, any profit or loss on the sale is recognised in the consolidated income statement.

k) Intangible assets

The costs of internally developed computer software are recognised as an intangible asset if, among other requisites (basically the capacity to be used or sold), the software can be identified and its ability to generate future economic benefits can be demonstrated. These assets are amortised over three years.

l) Tax assets

“Tax Assets” in the consolidated balance sheet includes the amount of all tax assets, distinguishing between: “Current” (amounts of tax to be recovered within the next twelve months) and “Deferred” (amounts of tax to be recovered in future years, including those arising from tax loss and tax credit carryforwards).

m) Other assets and Other liabilities

“Other Assets” in the consolidated balance sheet includes the amount of assets not recorded in other items, which relate basically to the following:

- Inventories: this item includes the amount of assets, other than financial instruments, that are held for sale in the ordinary course of business, that are in the process of production, construction or development for such purpose, or that are to be consumed in the production process or in the provision of services. Inventories are measured at the lower of cost and net realisable value at year-end, which is the estimated selling price of the inventories in the ordinary course of business, less the estimated costs of completion and the estimated costs required to make the sale. Any impairment losses are recognised as adjustments for the year in which the impairment or loss occurs. Subsequent reversals are recognised in the consolidated income statement for the year in which they occur.

The estimated net realisable value of these assets is calculated using appraisals by independent experts, most of which were performed within the last 12 months and none of which are more than 24 months old, taking into account losses from sales recognised in 2011 and the outlook for the real estate industry.

- Prepayments and accrued income, excluding accrued interest, which is recognised in the same item as the financial instruments giving rise to it.
- Other: the amount of guarantees provided mainly as a result of operations in organised markets and the amount of other assets not included in other items.

“Other Liabilities” includes the payment obligations having the substance of financial liabilities not included in any other category and accrued expenses and deferred income.

n) Provisions and contingent liabilities

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

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

o) Litigation and/or claims in process

In addition to the disclosures made in Note 1, at the end of 2011 certain litigation and claims were in process against the consolidated entities arising from the ordinary course of their operations. The Group's legal advisers and directors consider that the ultimate economic loss, if any, that may derive from litigation and claims will not have a material effect on the consolidated financial statements (see Note 23).

p) 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".

The equivalent euro value of the total foreign currency assets and liabilities held by the Group at 31 December 2011 amounted to EUR 3,351,922 thousand and EUR 3,968,323 thousand, respectively (31 December 2010: EUR 3,236,487 thousand and EUR 3,827,953 thousand, respectively). Approximately 89.3% of these amounts relate to US dollars and the remainder mostly to currencies quoted in the Spanish market.

ii. Translation of foreign currency balances

- Monetary items in foreign currency are translated to the functional currency using the closing rate.
- Non-monetary items measured at historical cost are translated to the functional currency at the exchange rate at the date of acquisition.
- Non-monetary items measured at fair value are translated at the exchange rate at the date when the fair value was determined.
- Income and expenses are translated at the exchange rate on the transaction date or using the average exchange rate for the period for all the transactions performed during the year.
- The balances arising from non-hedging forward foreign currency/foreign currency and foreign currency/euro purchase and sale transactions are translated at the closing rates prevailing in the forward foreign currency market for the related maturity.

iii Recognition of exchange differences

The exchange differences arising on the translation of foreign currency balances to the functional currency are generally recognised at their net amount under "Exchange Differences (Net)" in the consolidated income statement.

The exchange differences arising on the translation to euros of the financial statements in functional currencies other than the euro are recognised under "Valuation Adjustments - Exchange Differences" in the consolidated balance sheet until the related item is derecognised, at which time they are recognised in profit or loss.

q) Own equity instruments

Own equity instruments are those meeting both of the following conditions:

- The instruments do not include any contractual obligation for the issuer: (i) to deliver cash or another financial asset to a third party; or (ii) to exchange financial assets or financial liabilities with a third party under conditions that are potentially unfavourable to the issuer.

- The instruments will or may be settled in the issuer's own equity instruments and are: (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or (ii) a derivative that will be settled by the issuer through the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Transactions involving own equity instruments, including their issuance and cancellation, are deducted directly from equity.

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

r) Recognition of income and expenses

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

i. Interest income, interest expenses and similar items

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

ii. Commissions, fees and similar items

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

- Fee and commission income and expenses relating to financial assets and liabilities measured at fair value through profit or loss are recognised when collected.
- Those arising from transactions or services that are performed over a period of time are recognised over the life of these transactions or services.
- Those relating to services provided in a single act are recognised when the single act is carried out.

iii. Non-finance income and expenses

These are recognised for accounting purposes on an accrual basis.

iv. Deferred collections and payments

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

s) Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make payments to reimburse the creditor for the loss incurred when a specific debtor fails to meet its payment obligations in accordance with the original or modified terms and conditions of a debt instrument, irrespective of the legal form it may have (guarantee, insurance contract or credit derivative).

The Group recognises these financial guarantees -other than contracts issued by insurance entities- when they are issued on the liability side of the balance sheet at their fair value, which on initial recognition is the premium received, plus, where appropriate, the present value of the cash flows to be received (fees and commissions), using an interest rate similar to that of the financial assets granted by the Group with a similar term and risk. Simultaneously, the Group recognises as a balance receivable on the asset side of the consolidated balance sheet the present value of the future cash flows receivable using the aforementioned interest rate.

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

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

t) Assets under management

Assets owned by third parties and managed by the consolidated entities are not presented on the face of the consolidated balance sheet. Management fees are included in "Fee and Commission Income" in the consolidated income statement. Information on third-party assets managed by the Group at 31 December 2011 is disclosed in Note 33.

u) Post-employment benefits

Under the collective 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.

i. Defined benefit plans

The Group recognises under "Provisions - Provisions for Pensions and Similar Obligations" on the liability side of the consolidated balance sheet the present value of its defined benefit pension obligations, net of the fair value of the plan assets and of the unrecognised cumulative actuarial gains or losses, using a corridor approach.

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

“Actuarial Gains and Losses” are defined as those arising from differences between the previous actuarial assumptions and what has actually occurred and from the effect of changes in the actuarial assumptions. The Group uses, on a plan-by-plan basis, the corridor approach and recognises, either directly in reserves through the consolidated statement of recognised income and expense or in the consolidated income statement, the amount resulting from deferring over five years the net amount of the cumulative unrecognised actuarial gains and/or losses at the beginning of the year which exceeded the greater of 10% of the present value of the obligations or 10% of the fair value of the plan assets at the beginning of the year.

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

- Current service cost, i.e. the increase in the present value of the obligations resulting from employee service in the current period, under “Administrative Expenses – Staff Costs”.
- Interest cost, i.e. the increase during the year in the present value of the obligations as a result of the passage of time, under “Interest Expense and Similar Charges”.
- The expected return on plan assets and the gains or losses on the value of the plan assets, less any plan administration costs and less any applicable taxes, under “Interest and Similar Income”.
- The actuarial gains and losses recognised in the period, in accordance with the corridor approach, under “Provisions (Net)”, unless the Entity opts to recognise them directly in equity.

ii. Defined contribution plans

The ordinary and extraordinary contributions made in this connection in each year are recognised under “Staff Costs” and “Provisions (Net)”, respectively, in the consolidated income statement. The amounts not yet contributed at each year-end are recognised, at their present value, under “Provisions - Provisions for Pensions and Similar Obligations” on the liability side of the consolidated balance sheet.

In 2011 the Group contributed EUR 6,773 thousand to defined contribution plans (see Note 42). In 2010 the Group contributed EUR 6,645 thousand to defined contribution plans, which were recognised under “Staff Costs” in the consolidated income statement.

v) Other long-term employee benefits

Obligations to pre-retirees -defined as those who have ceased to render services at the entity but who, without being legally retired, continue to have economic rights vis-à-vis the entity until they acquire the legal status of retiree-, long-service bonuses, obligations for death of spouse or disability before retirement that depend on the employee's length of service at the entity and other similar items are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that all past service costs and actuarial gains and losses are recognised immediately in the consolidated income statement.

w) Transactions involving equity-instrument-based payments

Equity instruments delivered to employees in consideration for their services, if the instruments are delivered once the specific period of service has ended, are recognised as an expense for services (with the corresponding increase in equity) in the period the services are rendered by employees. At the grant date the services received (and the related increase in equity) are measured at the fair value of the equity instruments granted.

When the requirements stipulated in the remuneration agreement include external market conditions (such as equity instruments reaching a certain quoted price), the amount ultimately to be recognised in equity will depend on the other conditions being satisfied by the employees, irrespective of whether the market conditions are satisfied. If the conditions of the agreement are met but the external market conditions are not satisfied, the amounts previously recognised in equity are not reversed, even if the employees do not exercise their right to receive the equity instruments.

x) Termination benefits

Under current legislation, the Spanish entities are required to pay termination benefits to employees terminated without just cause. There are no redundancy plans making it necessary to record a provision in this connection.

y) Income tax

The current income tax expense is recognised in the consolidated income statement, except when it results from a transaction recognised directly in equity, in which case the related tax effect is also recognised in equity, or from a business combination in which the related deferred tax is recognised as one of its assets or liabilities.

The current income tax expense is calculated as the tax payable with respect to the taxable profit for the year, after considering the amount of the changes in the year arising from temporary differences, tax credits and other tax benefits and prior years' tax loss carryforwards effectively offset in the current year.

Deferred tax assets and liabilities include the temporary differences arising from the different bases used for accounting and tax purposes to measure the assets, liabilities and certain of the entity's own equity instruments, insofar as they have an impact on the future tax charge.

Temporary differences are classified as: taxable temporary differences, which will give rise to larger amounts of tax to be paid or smaller amounts of tax to be refunded in future years; and deductible temporary differences, which will give rise to smaller amounts of tax to be paid or larger amounts of tax to be refunded in future tax years.

Deferred tax assets (deductible temporary differences, tax loss carryforwards, unused tax credits and other unused tax benefits) are only recognised to the extent that it is probable that the Group will have future taxable profits available against which these assets can be utilised.

Deferred tax liabilities are always recognised except when accounting for goodwill. However, deferred tax assets and liabilities are not recognised if they arise from the initial recognition of an asset or liability (other than in a business combination) that at the time of recognition affects neither accounting profit nor taxable profit.

Recognised and previously unrecognised deferred tax assets and liabilities are reassessed at each reporting date, either in order to ascertain whether they still exist, in which case the appropriate adjustments are made on the basis of the findings of the analyses performed (see Note 24), or in order to recognise any deferred tax asset not previously recognised, provided that it is probable that the Group will have sufficient future taxable profit against which the deferred tax asset can be utilised.

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

z) Consolidated statements of cash flows

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

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.
- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

In preparing the consolidated statement of cash flows, short-term highly liquid investments that are subject to an insignificant risk of changes in value were treated as "cash and cash equivalents". Accordingly, the Group classifies as cash and cash equivalents the balances recognised under "Cash and Balances with Central Banks" in the consolidated balance sheet and the demand deposits recognised under "Loans and Advances to Credit Institutions".

3. Banesto Group

a) Banco Español de Crédito, S.A.

Banesto is the parent of the Banesto Group. At 31 December 2011, the Bank's assets represented substantially all the Group's consolidated assets; the Bank's equity represented 92.65% of the Group's equity, and the Bank's net profit for 2011 represented 114.6% of the consolidated net profit for the year attributable to the Group (31 December 2010: 92.5% and 95.25%, respectively).

At 31 December 2011 and 2010, the Bank conducted its business in Spain through 1,713 and 1,761 branch offices, respectively, located throughout the country and had 122 agents to which Bank of Spain Circular 5/1995 was applicable (the detail is shown in Appendix V). As additional support for its international activities, the Bank also has one branch abroad and controls certain financial institutions which operate exclusively outside Spain.

The Bank's condensed balance sheets, income statements, statements of recognised income and expense, statements of changes in total equity and statements of cash flows for 2011 and 2010 are as follows:

BANCO ESPAÑOL DE CREDITO, S.A.

CONDENSED BALANCE SHEETS AT 31 DECEMBER 2011 AND 2010

(Thousands of Euros)

ASSETS	2011	2010	LIABILITIES AND EQUITY	2011	2010
CASH AND BALANCES WITH CENTRAL BANKS	4,633,792	1,578,846	LIABILITIES		
FINANCIAL ASSETS HELD FOR TRADING	8,016,714	7,069,988	FINANCIAL LIABILITIES HELD FOR TRADING	6,054,621	5,045,805
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	FINANCIAL LIABILITIES AT AMORTISED COST	95,324,073	108,391,457
AVAILABLE-FOR-SALE FINANCIAL ASSETS	8,417,414	9,920,646	CHANGES IN THE FAIR VALUE OF HEDGED ITEMS		
LOANS AND RECEIVABLES	79,303,756	93,844,417	IN PORTFOLIO HEDGES OF INTEREST RATE RISK	875,993	810,376
HELD-TO-MATURITY INVESTMENTS	3,402,807	3,431,173	HEDGING DERIVATIVES	575,190	492,540
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS			PROVISIONS	2,386,870	2,438,706
IN PORTFOLIO HEDGES OF INTEREST RATE RISK	185,341	91,213	TAX LIABILITIES	112,253	203,944
HEDGING DERIVATIVES	1,493,038	1,534,464	OTHER LIABILITIES	408,067	440,912
NON-CURRENT ASSETS HELD FOR SALE	1,240,295	986,869	TOTAL LIABILITIES	105,737,066	117,823,740
INVESTMENTS	425,482	698,304			
INSURANCE CONTRACTS LINKED TO PENSIONS	1,395,328	1,423,964	EQUITY		
TANGIBLE ASSETS	976,650	1,016,710	SHAREHOLDERS' EQUITY	5,025,646	5,058,277
INTANGIBLE ASSETS	62,632	65,223	VALUATION ADJUSTMENTS	(16,101)	(30,866)
TAX ASSETS	1,009,509	1,032,198	TOTAL EQUITY	5,009,545	5,027,411
OTHER ASSETS	183,853	157,136	TOTAL LIABILITIES AND EQUITY	110,746,611	122,851,151
TOTAL ASSETS	110,746,611	122,851,151			
Memorandum items:					
Contingent liabilities	8,532,745	9,165,419			
Contingent commitments	11,435,199	19,866,238			

BANCO ESPAÑOL DE CREDITO, S.A.

CONDENSED INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

(Thousands of Euros)

	Income/(Expenses)	
	2011	2010
INTEREST AND SIMILAR INCOME	3,210,413	3,146,671
INTEREST EXPENSE AND SIMILAR CHARGES	(1,736,948)	(1,502,686)
NET INTEREST INCOME	1,473,465	1,643,985
INCOME FROM EQUITY INSTRUMENTS	71,701	43,965
FEE AND COMMISSION INCOME	700,665	701,004
FEE AND COMMISSION EXPENSE	(108,962)	(112,006)
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES (net)	81,094	141,356
EXCHANGE DIFFERENCES (net)	52,484	41,312
OTHER OPERATING INCOME	17,775	22,449
OTHER OPERATING EXPENSES	(67,722)	(66,122)
GROSS INCOME	2,220,500	2,415,943
ADMINISTRATIVE EXPENSES	(833,417)	(867,268)
DEPRECIATION AND AMORTISATION CHARGE	(103,955)	(101,753)
PROVISIONS (net)	(111,183)	76,544
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (net)	(680,297)	(841,492)
PROFIT FROM OPERATIONS	491,648	681,974
IMPAIRMENT LOSSES ON OTHER ASSETS (net)	(243,007)	(157,379)
GAINS/(LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE	273,948	108,388
GAINS/(LOSSES) ON DISPOSAL OF NON-CURRENT ASSETS HELD-FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS	(390,473)	(92,420)
PROFIT BEFORE TAX	132,116	540,563
INCOME TAX	11,248	(104,833)
PROFIT FROM ORDINARY ACTIVITIES	143,364	435,730
PROFIT FOR THE YEAR	143,364	435,730

BANCO ESPAÑOL DE CREDITO, S.A.

CONDENSED STATEMENTS OF RECOGNISED INCOME AND EXPENSE
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

(Thousands of Euros)

	2011	2010
PROFIT FOR THE YEAR	143,364	435,730
OTHER RECOGNISED INCOME AND EXPENSE	14,765	(159,192)
Available-for-sale financial assets	104,117	(188,015)
Cash flow hedges	(83,024)	(39,401)
Income tax	(6,328)	68,224
TOTAL INCOME AND EXPENSE FOR THE YEAR	158,129	276,538

BANCO ESPAÑOL DE CREDITO, S.A.

CONDENSED STATEMENTS OF CHANGES IN TOTAL EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

(Thousands of Euros)

	SHAREHOLDERS' EQUITY							Total Shareholders' Equity	Valuation Adjustments	Total Equity
	Share Capital	Share Premium	Reserves	Other Equity Instruments	Less: Treasury Shares	Profit for the Year	Less: Dividends and Remuneration			
Balance at 01/01/10	543,036	-	4,075,970	-	-	504,382	(223,401)	4,899,987	128,326	5,028,313
Total recognised income/(expense)	-	-	-	-	-	435,730	-	435,730	(159,192)	276,538
Other changes in equity	-	-	188,167	2,343	-	(504,382)	36,432	(277,440)	-	(277,440)
Balance at 31/12/10	543,036	-	4,264,137	2,343	-	435,730	(186,969)	5,058,277	(30,866)	5,027,411
Total recognised income/(expense)	-	-	-	-	-	143,364	-	143,364	14,765	158,129
Other changes in equity	-	-	194,764	1,732	-	(435,730)	63,239	(175,995)	-	(175,995)
Balance at 31/12/11	543,036	-	4,458,901	4,075	-	143,364	(123,730)	5,025,646	(16,101)	5,009,545

BANCO ESPAÑOL DE CREDITO, S.A.

CONDENSED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

(Thousands of Euros)

	2011	2010
A. CASH FLOWS FROM OPERATING ACTIVITIES	3,103,985	2,026,349
Profit for the year	143,364	435,730
Adjustments made to obtain the cash flows from operating activities:		
Depreciation and amortisation charge	103,955	101,753
Other adjustments	1,141,550	1,013,535
Net increase/decrease in operating assets:		
Financial assets held for trading	946,726	(310,930)
Other financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets-	(1,501,813)	368,941
Loans and receivables-	(13,805,273)	(6,073,235)
Other operating assets	361,172	533,647
Net increase/decrease in operating liabilities:		
Financial liabilities held for trading	1,008,816	(79,659)
Financial liabilities at amortised cost-	(12,990,519)	(4,436,158)
Other operating liabilities-	(315,271)	(480,701)
Income tax recovered/paid	12,902	(9,728)
B. CASH FLOWS FROM INVESTING ACTIVITIES	141,113	(1,419,934)
Payments		
Tangible assets	(82,688)	(81,009)
Intangible assets	(42,714)	(20,656)
Held-to- maturity investments	-	(1,354,846)
Investments	(9,823)	(164,366)
Proceeds		
Tangible assets	188,631	199,591
Intangible assets	40,402	1,155
Held-to-maturity investments	28,367	-
Investments	18,938	197
Other proceeds related to investing activities	-	-
C. CASH FLOWS FROM FINANCING ACTIVITIES	(240,966)	(316,215)
Payments		
Dividends	(197,967)	(293,514)
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Other payments related to financing activities	(42,999)	(22,701)
Proceeds		
Subordinated liabilities	-	-
D. EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(4,264)	(1,003)
E. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	2,999,508	289,197
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,795,621	2,506,424
G. CASH AND CASH EQUIVALENTS AT END OF YEAR	5,795,129	2,795,621
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	253,816	235,531
Cash equivalents at central banks	4,379,976	1,343,315
Other financial assets	1,161,337	1,216,775
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	5,795,129	2,795,621

b) Changes in Group structure

The salient changes and events at the Group in relation to its scope of consolidation in 2011 were as follows:

1. On 13 December 2011, the Bank's Executive Committee approved the sale of 20% of the Bank's shareholding in Santander Asset Management, S.A., S.G.I.I.C. to Santander AM Holding, S.L. (member of the Santander Group) for EUR 57,000 thousand, giving rise to a gain of EUR 30,889 thousand, which was recognised under "Gains/(Losses) on Disposal of Assets Not Classified as Non-Current Assets Held For Sale" in the consolidated income statement for the year ended 31 December 2011 (see Note 44).
2. On 13 December 2011, the Bank's Executive Committee approved the sale of 20% of Santander Pensiones E.G.F.P., S.A. to Santander AM Holding, S.L. (a member of the Santander Group) by way of an agreement signed on 29 December 2011, for EUR 27,414 thousand, giving rise to a gain for the Bank of EUR 11,559 thousand, which was recognised under "Gains/(Losses) on Disposal of Assets Not Classified as Non-Current Assets Held For Sale" in the consolidated income statement for the year ended 31 December 2011 (see Note 44).
3. On 13 December 2011, the Bank's Executive Committee approved the sale of 13% of the Bank's shareholding in Santander Seguros y Reaseguros, Cía. Aseguradora for EUR 173,849 thousand, giving rise to a gain of EUR 73,979 thousand, which was recognised under "Gains/(Losses) on Disposal of Assets Not Classified as Non-Current Assets Held For Sale" in the consolidated income statement for the year ended 31 December 2011 (see Note 44).

The prices of the aforementioned transactions were validated by the report of an independent appraiser.

Pursuant to the terms and conditions of the three aforementioned purchase and sale agreements, a price adjustment clause has been established in the event that, within a period of 36 months from the transaction dates, the buyer transfers the shares to a third party for an amount which is a maximum of 15% higher or lower than the transaction price.

These ownership interests were proportionately consolidated and the sale reduced assets and liabilities by EUR 2,410 million and EUR 2,290 million, respectively.

4. Sale to non-Group third parties of 100% of the shareholding in Banco Alicantino de Comercio, S.A. in March 2011 with a gross gain of EUR 6 million.
5. Sale to non-Group third parties of the 32.7% shareholding in Compañía Concesionaria del Túnel del Soller, S.A. in September 2011. This sale did not have a material impact on profit or loss.
6. Dissolution and liquidation of Espais Promocat, S.L. in October 2011. This sale did not have a material impact on profit or loss.

The most significant changes at the Group in relation to its scope of consolidation in 2010 are detailed in the consolidated financial statements for the year ended 31 December 2010. These changes were as follows:

1. Merger of Intursa, S.A.U., Efearvi, S.A.U. and Programa Hogar Montigalá, S.A.U. into Mesena Servicios de Gestión Inmobiliaria, S.A.
2. Capital increase at Mesena Servicios de Gestión Inmobiliaria, S.A.
3. Liquidation of Inmobiliaria Sitio de Baldeazores, S.A.

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

a) Distribution of the Bank's profit

The distribution of the Bank's net profit for 2011 that the Board of Directors will propose for approval by the shareholders at the Annual General Meeting is as follows:

	Thousands of Euros
Dividends	123,730
To voluntary reserves	19,634
Net profit for the year	143,364

At its meetings on 14 June, 24 October and 21 December 2011, the Board of Directors of the Bank resolved to distribute three interim dividends out of 2011 profit for a total of EUR 123,730 thousand. The dividend declared at the Board of Directors Meeting on 21 December 2011 will be paid on 2 February 2012 and, accordingly, it is recognised under "Financial Liabilities at Amortised Cost – Other Financial Liabilities" on the liability side of the accompanying consolidated balance sheet (see Note 22).

The provisional accounting statements prepared on each of the dates indicated below by the Board of Directors of Banco Español de Crédito, S.A., pursuant to Article 277 of the Consolidated Spanish Limited Liability Companies Law, evidencing the existence of sufficient liquidity for the payment of the interim dividends are as follows:

	Thousands of Euros		
	30/06/11	30/09/11	30/11/11
Profit before tax at 30 June, 30 September and 30 November 2011 (*)	335,412	445,531	470,926
Less:			
Estimated income tax	(68,282)	(81,471)	(77,711)
Dividends paid	-	(54,991)	(89,630)
Liquidity	267,130	309,069	303,585
Interim dividend to be distributed	54,991	34,369	34,369
Gross dividend per share (euros)	0.08	0.05	0.05
Date of payment	01/08/11	01/11/11	02/02/12

(*) The latest balance sheet at the date of each Board of Directors Meeting.

The Bank's Board of Directors, at its meeting on 25 January 2012, resolved to submit for approval by the shareholders at the Annual General Meeting a proposal not to distribute a final dividend additional to those already paid.

b) Earnings per share

i. Basic earnings per share

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

Accordingly:

	2011	2010
Net profit for the year attributable to the Parent (in thousands of euros)	125,141	460,072
Net profit from ordinary activities (thousands of euros)	125,141	460,072
Weighted average number of shares outstanding	682,804,693	683,089,166
Basic earnings per share (euros)		
<i>Of net profit for the year</i>	0.18	0.67
<i>Of net profit from ordinary activities</i>	0.18	0.67

ii. Diluted earnings per share

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

At 31 December 2011 and 2010, the Group did not have any issues outstanding of debt instruments convertible into Bank shares or conferring privileges or rights which might, due to any contingency, make them convertible into shares and, accordingly, there was no dilutive effect. At 31 December 2011, the Bank's share-based incentive plans outstanding (see Note 42) had a dilutive effect on earnings per share equal to an increase of 2,403,378 shares (31 December 2010: an increase of 2,114,263 shares).

Accordingly, 2011 and 2010 diluted earnings per share were calculated as follows:

	2011	2010
Net profit for the year attributable to the Parent (in thousands of euros)	125,141	460,072
Dilutive effect of changes in profit for the year arising from potential conversion of ordinary shares	-	-
	125,141	460,072
Weighted average number of shares outstanding	682,804,693	683,089,166
Dilutive effect of:		
Share options	2,408,378	2,114,263
Adjusted average number of shares for the calculation	685,208,071	685,203,429
Diluted earnings per share (euros)	0.18	0.67

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

a) Remuneration and other benefits of directors

Following is an individualised detail of the remuneration earned in 2011 by the Bank's directors, in their capacity as such, in respect of the by-law-stipulated share of profits and attendance fees corresponding to them for the collective supervisory and decision-making functions discharged as members of the Board of Directors, in accordance with Article 39.1 of the bylaws:

Directors	Euros									
	2011									2010
	Bylaw-Stipulated Directors' Emoluments				Attendance Fees		Total Approved by the AGM	Reduction Due to Bylaw Stipulated Limits (1)	Total	Total
	Board	Executive Committee	Audit and Compliance Committee	Risk Committee	Board	Other Attendance Fees				
Antonio Basagoiti García-Tuñón	266,650	233,350	-	-	-	-	500,000	(125,000)	375,000	83,333
José Antonio García Cantera	59,400	26,100	-	-	13,500	-	99,000	(24,375)	74,625	100,500
José María Nus Badía	2,970	1,305	-	-	1,500	1,500	7,275	-	7,275	126,600
Juan Delibes Liniers	59,400	26,100	-	26,100	15,000	36,750	163,350	(42,150)	121,200	126,600
Rafael del Pino y Calvo-Sotelo	59,400	-	-	-	9,000	-	68,400	(17,850)	50,550	69,900
Francisco Daurella Franco	2,970	-	-	-	1,500	-	4,470	-	4,470	71,400
José Luis López Combarros	59,400	26,100	26,100	-	15,000	15,000	141,600	(36,150)	105,450	142,350
Carlos Sabanza Teruel	59,400	26,100	-	26,100	15,000	31,500	158,100	(39,900)	118,200	126,600
Carlos Pérez de Bricio Olariaga	59,400	-	-	-	12,000	-	71,400	(17,850)	53,550	72,900
Belén Romana García	59,400	-	52,200	26,100	13,500	51,000	202,200	(50,925)	151,275	153,375
David Arce Torres	2,970	-	1,305	-	1,500	-	5,775	-	5,775	109,500
Rosa María García García	59,400	-	-	-	13,500	3,750	76,650	(18,600)	58,050	74,400
José Corral Lope	56,430	24,795	-	206,248	13,500	35,250	336,223	(87,188)	249,035	-
Alfonso Libano Daurella	56,430	-	-	-	10,500	-	66,930	(17,850)	49,080	-
Total 2011	863,620	363,850	79,605	284,548	135,000	174,750	1,901,373	(477,838)	1,423,535	
Total 2010	697,842	169,391	98,100	97,875	150,000	44,250				1,257,458

(1) Reduction to limit the directors' remuneration to 1% of the Bank's profit pursuant to Article 39 of the bylaws.

The foregoing table shows the amounts received in 2011 by Francisco Daurella Franco, David Arce Torres and Jose María Nus Badía, who at 31 December 2011 were not members of the Board, but who earned attendance fees for the meetings that they attended as well as the other remuneration to which they are entitled in proportion to the amount of time they served as members of the Board.

The foregoing table also shows the amounts received in 2011 by José Corral Lope and Alfonso Libano Daurella, who were appointed members of the Board by cooptation and, in the case of the former, member of the Executive Committee and chairman of the Risk Committee by resolution of the Board of 19 January 2011. It also shows the amounts received by Antonio Basagoiti García-Tuñón since his appointment as Chairman of the Board and of the Executive Committee by resolution of the Board meeting held on 3 November 2010.

The other members of the Bank's Board of Directors, who are proprietary directors and are not included in the foregoing table, did not receive any remuneration in their capacity as directors of the Bank.

At the Extraordinary General Meeting on 27 June 2007, the shareholders approved the first cycle (2007-2008) and the second cycle (2007-2009) of the Target-Based Share Plan and the first cycle (2008-2010) of the

Obligatory Investment Share Plan of Banco Santander, S.A., which entail the delivery, if the terms of the plans are met, of the following number of shares of Banco Santander, S.A. to Ana Patricia Botín-Sanz de Sautuola y O'Shea, who ceased to discharge her duties as director prior to 31 December 2010:

	Price (Euros per Share)	Number of Shares	Delivery Deadline
First cycle of Target-Based Share Plan	13.46 (*)	27,929	31 July 2009
Second cycle of Target-Based Share Plan	13.46 (*)	41,835	31 July 2010
First cycle of Obligatory Investment Share Plan	(**)	13,610	1 April 2011

(*) Average market price of the shares of Banco Santander, S.A. weighted by daily volume in the 15 trading days prior to 7 May 2007.

(**) The obligatory investment was made at an average price of EUR 11.80 per share.

As the terms of the second cycle (2007-2009) of the Target-Based Share Plan were met, 37,982 shares of Banco Santander, S.A. were delivered to Ana Patricia Botín-Sanz de Sautuola y O'Shea in 2010.

On 24 February 2010, the Bank's Annual General Meeting approved an Incentive Plan which entails the delivery, if the terms of the related schemes are met, of shares of Banco Español de Crédito, S.A. to certain executives, including the executive directors and senior executives (see Note 39).

The maximum number of shares of Banco Español de Crédito, S.A. to be delivered to each of the executive directors who are beneficiaries of the Plan, for each of the first three schemes composing it, is as follows:

	Maximum Number of Shares			
	First Scheme	Second Scheme	Third Scheme	Total
Medium-/long-term Incentive Plan:				
Ana Patricia Botín-Sanz de Sautuola y O'Shea (*)	10,786	21,572	32,358	64,716
José Antonio García Cantera	23,078	46,156	69,234	138,468
Juan Delibes Liniers	17,680	35,360	53,040	106,080
José María Nus Badía (*)	14,975	29,951	44,926	89,852
	66,519	133,039	199,558	399,116

(*) Ana Patricia Botín-Sanz de Sautuola y O'Shea and José María Nus Badía ceased to discharge their duties as directors in 2010 and 2011, respectively. However, as they continue to provide services at an entity belonging to the Santander Group, they are still beneficiaries of the long-term incentive plan approved by the shareholders at the Annual General Meeting on 24 February 2010.

At 31 December 2010, the TSR targets established in the Plan regulations had been met, since Banesto ranked third when compared to the benchmark banks. The shares corresponding to each of the beneficiaries were delivered on 6 July 2011. The shares of the second scheme corresponding to each of the beneficiaries will be delivered in July 2012.

Additionally, at the aforementioned Annual General Meeting on 24 February 2010, the shareholders approved the third cycle (2009-2011) and the fourth cycle (2010-2012) of the Target-Based Share Plan and the second cycle (2009-2011) and third cycle (2010-2012) of the Obligatory Investment Share Plan of Banco Santander,

S.A., which entail the delivery, if the terms of the plans are met, of the following number of shares of Banco Santander, S.A. to Ana Patricia Botín-Sanz de Sautuola y O'Shea:

	Price (Euros per Share)	Number of Shares	Delivery Deadline
Third cycle of Target-Based Share Plan	13.46 (*)	46,855	31 July 2011
Fourth cycle of Target-Based Share Plan		56,447	31 July 2012
Second cycle of Obligatory Investment Share Plan		16,956	1 April 2012
Third cycle of Obligatory Investment Share Plan		39,885	1 April 2013

(*) Average market price of the shares of Banco Santander, S.A. weighted by daily volume in the 15 trading days prior to 7 May 2007.

Ana Patricia Botín-Sanz de Sautuola y O'Shea ceased to discharge her duties as director prior to 31 December 2010.

b) Remuneration of executive directors and senior executives

The detail of the remuneration of the Bank's executive directors and senior executives in 2011 and 2010, including the fixed remuneration in 2011 and 2010 and the variable remuneration allocable to profit or loss for those years, is as follows:

	Number of Executive Directors and Senior Executives in Year	Thousands of Euros				
		Salary			Other Remuneration	Total
		Fixed	Variable	Total		
2010	17	6,236	7,437	13,673	433	14,106
2011	15	4,785	8,377(*)	13,162	938	14,100

(*) Variable remuneration available: EUR 4,883 thousand, variable remuneration deferred for 3 years: EUR 3,494 thousand.

"Other Remuneration" includes the delivery of shares of Banesto relating to the first long-term incentive plan, to both Ana Patricia Botín-Sanz de Sautuola y O'Shea, who ceased to discharge her duties as director on 3 November 2010, and José María Nus Badía who ceased to discharge his duties as director in the first half of 2011. It also includes the remuneration received by Rami Aboukhair Hurtado, a senior executive who ceased to be employed by the Bank on 23 February 2011.

The figures in the foregoing table include the amounts, for each item described above, corresponding to José Antonio García Cantera, Juan Delibes Liniers and José María Nus Badía for the provision of services other than those of directors, pursuant to the last paragraph of Article 39 of the bylaws. Bank of Spain Circular 4/2004 requires that the remuneration received by the executive directors in their capacity as such be indicated only in aggregate form, together with the remuneration of the other senior executives, as shown in the foregoing table. However, set forth below are the individualised amounts corresponding to the executive

directors at 31 December 2011 and 2010 for the provision of services other than the collective supervisory and decision-making functions discharged by them in their capacity as directors:

	Thousands of Euros									
	2011					2010				
	Salary			Other Remuneration	Total 2011	Salary			Economic Value of 3-Year Long-Term Incentives	Total 2010
	Fixed	Available Variable	Variable, Deferred for 3 Years			Available	Deferred	Total		
Ana Patricia Botín-Sanz de Sautuola y O'Shea	-	-	-	62	62	2,957	560	3,517	-	3,517
José Antonio García Cantera	1,200	906	905	204	3,215	1,786	240	2,026	611	2,637
Juan Delibes Liniers	596	788	526	154	2,064	1,314	133	1,447	468	1,915
José María Nus Badía	-	-	-	86	86	919	31	950	-	950
Total 2011	1,796	1,694	1,431	506	5,427					
Total 2010						6,976	944	7,940	-	9,019

The foregoing table includes the main changes affecting the remuneration policy in 2011. Specifically, for executive directors has the economic value of the long-term incentive plan approved by the shareholders at the Annual General Meeting held on 24 February 2010 been included in annual variable remuneration. This economic value compensates the future long-term incentive plans eliminated, and the aforementioned current plan will remain in force. Accordingly, the column that contains the economic value of three – year long – term incentive has been incorporated only for comparison purposes between 2010 and 2011 salary.

The other remuneration in the preceding tables includes, inter alia, the delivery of Banesto shares under the first long-term incentive plan approved by the shareholders at the Annual General Meeting held on 24 February 2010, and the amounts of remuneration in kind.

At the Annual General Meeting held on 23 February 2011, the shareholders approved a resolution to defer by three years a percentage of Annual variable remuneration earned by the executive directors in 2010 that exceeds EUR 300 thousand, which will be settled by the delivery of shares of Banesto. In addition, the accrual of the deferred remuneration in shares is conditional not only upon the beneficiary remaining in the employ of the Banesto Group or other Santander Group companies, but also that in the opinion of the Board of Directors based on a report from the Nomination and Remuneration Committee, none of the circumstances included in this agreement arise. The Board of Directors' estimates of the maximum amount of the overall 2010 variable remuneration of executive directors to be deferred as shares is as follows:

	2011	2012	2013	Total
Ana Patricia Botín-Sanz de Sautuola y O'Shea	30,395	30,396	30,396	91,187
José Antonio García Cantera	13,023	13,023	13,023	39,069
Juan Delibes Liniers	7,260	7,260	7,261	21,781
José María Nus Badía	1,682	1,682	1,682	5,046
Total	52,360	52,361	52,362	157,083

(*) Amount estimated at EUR 6,143, the average market price of Banesto shares weighted by daily volume in the 15 trading days prior to 19 January 2011, the date on which the Board of Directors approved the executive directors' variable remuneration for 2010.

The shares will be delivered in the first four months of each year. In this case it should be noted that the deferral years for Ana Patricia Botín are 2012, 2013 and 2014.

Following is an explanatory detail of the changes in the overall remuneration of executive directors in relation to the Bank's profit and share price (Article 25.2 of the Regulations governing the Bank's Board of Directors):

	Thousands of Euros	
	2011	2010
Overall remuneration of executive directors for the collective supervisory and decision-making functions discharged by them	203	354
Overall remuneration of executive directors for functions discharged by them other than those discharged in their capacity as directors	5,427	7,940
Total remuneration of executive directors	5,630	8,294
Profit attributable to the Group	125,141	460,072
Change in share price	(39.9%)	(27.6%)

c) Pension, insurance and other obligations

The actuarial liability recognised in respect of post-employment benefits earned by the Bank's current and retired senior executives and directors totalled approximately EUR 23,250 thousand at 2011 year-end (31 December 2010: EUR 49,483 thousand). Approximately EUR 1,697 thousand were charged to profit or loss in this connection in 2011 (2010: EUR 2,913 thousand), EUR 946 thousand of which related to executive directors.

The following table details the defined benefit pension obligations to executive directors in 2011:

	Euros
	Vested Obligations
José Antonio García Cantera	6,090,398
Juan Delibes Liniers	9,843,345

The capital guaranteed by life insurance policies for executive directors amounted to EUR 3,592 thousand at 31 December 2011 (31 December 2010: EUR 4,301 thousand).

d) Loans

At 31 December 2011, the direct risk exposure to directors of the Bank amounted to EUR 549 thousand (31 December 2010: EUR 167 thousand).

e) Termination benefits

The executive directors have indefinite-term employment contracts. However, executive directors whose contracts are terminated voluntarily or due to breach of duties are not entitled to receive any economic compensation. If the contracts are terminated for reasons attributable to the Bank or due to objective circumstances (such as those affecting the executive directors' functional and organic statute), the directors will be entitled, at the date of termination of their employment relationships with the Bank, to the following:

- 1) In the case of José Antonio García Cantera, to receive a termination benefit of three years' annual fixed salary payments, as established in the related contract.
- 2) In the case of Juan Delibes Liniers, to receive a termination benefit equal to half of 80% of the annual fixed salary multiplied by the number of years of recognised service in the banking industry, as established in the related contract.

In all cases these amounts are incompatible with the receipt of any other pension supplement.

In 2011 no circumstances arose which required the entity to pay termination benefits to members of the Board.

Additionally, other senior executives of the Bank have contracts which entitle them to receive benefits in the event of termination for reasons other than voluntary redundancy, retirement, disability or serious breach of duties. These benefits are recognised as staff costs only when the employment relationship between the Bank and its executives is terminated before the normal retirement date.

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

Pursuant to Articles 229 and 230 of the Spanish Limited Liability Companies Law, in order to reinforce the transparency of listed companies, set forth below are the ownership interests held by the members of the Board of the Directors in entities whose company object is to engage in: (i) banking, financing or lending; (ii) insurance; (iii) management of collective investment undertakings; or (iv) securities brokerage; and the management or executive functions, if any, that the directors discharge thereat:

Director	Corporate Name	Line of Business	% of Ownership	Functions
Antonio Basagoiti García-Tuñón	Banco Santander, S.A.	Banking	0.009%	Director
José Luis López Combarros	Bankinter, S.A. Mapfre, S.A.	Banking Insurance	0.005% 0.002%	-
Belen Romana García	Ageas SA NV	Insurance	-	Director
Juan Delibes Liniers	Santander Seguros	Insurance	-	Director
José Corral Lope	Banco Santander, S.A.	Banking	0.002%	-
Matías Rodríguez Inciarte	Banco Santander, S.A.	Banking	0.014%	Deputy chairman
Rafael del Pino Calvo-Sotelo	The Blackstone Group Internacional LTD	Investments	-	Member of the external advisory board
Carlos Sabanza Teruel	Banco Santander, S.A.	Banking	0.006%	-
José María Fuster Van Bendegem	Banco Santander, S.A. Santander UK, PLC Alliance & Leicester Sistemas 4B, S.A. Open Bank Santander Consumer, S.A. Santander Consumer Bank Germany	Banking Banking Banking Means of payment Banking Banking	0.001% - - - - -	General manager - Director Director Director Director Director
Rosa María García García	Bolsas y Mercados Españoles Sociedad Holding de Mercados y Sistemas Financieros, S.A.	Stock market	-	Director
José Antonio García Cantera	Banco Santander, S.A.	Banking	-	Member of the Management Committee
Juan Guitard Marín	Banco Santander, S.A.	Banking	0.001%	General Manager

Certain members of the Board of Directors hold ownership interests of less than 0.001% in the following listed companies: BBVA, Banco Santander, Caixabank, S.A. and Banco Popular.

As required by Article 114.2 of the Securities Market Law, it is hereby stated that in 2011 and 2010 the Bank's directors did not perform, either on their own behalf or through an intermediary, any transaction with the Bank or with other Group companies other than those conducted in the ordinary course of operations or on an arm's length basis. Additionally, in accordance with Article 229 of the Spanish Limited Liability Companies Law, the conflicts of interest involving members of the Board of Directors in 2011 are disclosed below:

(i) Alfonso Líbano Daurella Description of the conflict of interest:

He abstained from participating in the discussion and vote on the proposals made by the Board of Directors at its meeting on 19 January 2011 to the shareholders at the Annual General Meeting on 23 February 2011 regarding his appointment as a director.

(ii) Antonio Basagoiti García - Tuñón. Description of the conflict of interest:

1. He abstained from participating in the discussion and vote on the resolution of the Board meeting on 19 January 2011 proposing his appointment as director of the Bank to the shareholders at the Annual General Meeting on 23 February 2011.

2. He abstained from participating in the discussion and vote on the resolutions adopted by the Board of Directors at its meeting on 23 February 2011 regarding his appointment as a member and chairman of the Bank's Executive Committee.

(iii) José Antonio García Cantera. Description of the conflict of interest:

1. He abstained from participating in the discussion and vote on the resolution of the Board meeting on 19 January 2011 proposing his reappointment as director of the Bank to the shareholders at the Annual General Meeting on 23 February 2011.

2. He abstained from participating in the discussion and vote on the resolutions adopted by the Board of Directors at its meeting on 19 January 2011 relating to the approval of the remuneration policy and the basic terms and conditions of the contracts of senior executives, including executive directors, and to the proposal for variable remuneration charged to profit for 2010 and a review of fixed remuneration for 2011.

3. He abstained from participating in the discussion and vote on the proposals put forth by the Board of Directors at its meeting on 23 February 2011 regarding his reappointment as member of the Executive Committee and CEO of the Bank.

(iv) José Corral Lope. Description of the conflict of interest:

1. He abstained from participating in the discussion and vote on the proposals made by the Board of Directors at its meeting on 19 January 2011 to the shareholders at the Annual General Meeting on 23 February 2011 regarding his appointment as a director.

2. He abstained from participating in the discussion and vote on the resolutions adopted by the Board of Directors at its meeting on 23 February 2011 regarding his appointment as a member of the Bank's Executive Committee and as member and chairman of the Risk Committee.

(v) Juan Delibes Liniers. Description of the conflict of interest:

1. He abstained from participating in the discussion and vote on the proposals made by the Board of Directors at its meeting on 19 January 2011 to the shareholders at the Annual General Meeting on 23 February 2011 regarding his reappointment as a director.

2. He abstained from participating in the discussion and vote on the resolutions adopted by the Board of Directors at its meeting on 19 January 2011 relating to the approval of the remuneration policy and the basic terms and conditions of the contracts of senior executives, including executive directors, and to the proposal for variable remuneration charged to profit for 2010 and a review of fixed remuneration for 2011.

3. He abstained from participating in the discussion and vote on the resolutions adopted by the Board of Directors at its meeting on 23 February 2011 regarding his reappointment as member of the Executive Committee and the Risk Committee.

(vi) Juan Guitard Marín. Description of the conflict of interest:

1. He abstained from participating in the discussion and vote on the proposals made by the Board of Directors at its meeting on 19 January 2011 to the shareholders at the Annual General Meeting on 23 February 2011 regarding his appointment as a director.

6. Cash and balances with central banks

The detail of "Cash and Balances with Central Banks" in the consolidated balance sheets at 31 December 2011 and 2010 is as follows:

	Thousands of Euros	
	2011	2010
Cash	253,822	235,540
Balances with central banks	4,373,687	1,323,758
Balances with other central banks	5,884	18,684
Add - Valuation adjustments		
<i>Accrued interest</i>	405	873
	4,633,798	1,578,855

7. Loans and advances to credit institutions

The detail, by classification, type and currency of the transaction, of "Loans and Advances to Credit Institutions" on the asset side of the consolidated balance sheets is as follows:

	Thousands of Euros	
	2011	2010
Classification:		
Other financial assets at fair value through profit or loss	836,380	1,144,540
Loans and receivables	8,591,987	16,110,980
	9,428,367	17,255,520
Type:		
Reciprocal accounts	136	213
Time deposits	7,044,929	13,528,852
Reverse repurchase agreements	979,842	1,123,494
Other accounts	1,185,964	2,113,596
	9,210,871	16,766,155
Add- Valuation adjustments	217,496	489,365
<i>Of which:</i>		
<i>Accrued interest</i>	224,105	495,777
<i>Impairment losses</i>	(6,415)	(6,401)
<i>Other adjustments</i>	(194)	(11)
	9,428,367	17,255,520
Currency:		
Euro	8,287,407	16,238,599
Foreign currencies	1,140,960	1,016,921
	9,428,367	17,255,520

The impairment losses on financial assets classified as loans and receivables are disclosed in Note 11.

Note 45 contains a detail of the terms to maturity of these assets at 2011 and 2010 year-end and of the related average interest rates in 2011 and 2010.

8. Debt instruments

The detail, by classification, type and currency, of "Debt Instruments" on the asset side of the accompanying consolidated balance sheets is as follows:

	Thousands of Euros	
	2011	2010
Classification:		
Financial assets held for trading	304,157	334,808
Other financial assets at fair value through profit or loss	31,147	210,927
Available-for-sale financial assets	6,648,310	7,754,470
Loans and receivables	71,977	379,188
Held-to- maturity investments	3,402,807	3,431,173
	10,458,398	12,110,566
Type:		
Spanish government debt securities-		
Treasury bills	2,927,522	2,747,260
Government bonds	1,557,263	2,743,424
Other book-entry debt securities	3,402,807	3,431,173
Accrued interest	130,852	132,111
Foreign government debt securities	103,430	208,476
Issued by financial institutions	1,140,860	1,466,778
Other fixed-income securities	1,197,033	1,382,345
	10,459,767	12,111,567
Valuation adjustments	(1,369)	(1,001)
<i>Of which:</i>		
<i>Impairment losses</i>	(1,369)	(1,001)
	10,458,398	12,110,566
Currency:		
Euro	10,443,636	12,100,073
Foreign currencies	14,762	10,493
	10,458,398	12,110,566

The breakdown by country of foreign government debt securities at 31 December 2011 is as follows:

	Miles de Euros	
	2011	2010
Country:		
France	40,255	63,357
Germany	26,555	51,218
Italy	35,779	90,676
Other	841	3,225
	103,430	208,476

At 31 December 2011, the nominal amount of debt instruments assigned to certain Group or third-party commitments amounted to approximately EUR 685 thousand (31 December 2010: EUR 27,080 thousand).

The impairment losses on available-for-sale financial assets are disclosed in Note 9-d.

Note 45 contains a detail of the terms to maturity of these assets at 2011 and 2010 year-end and of the average interest rates in 2011 and 2010.

9. Other equity instruments

a) Breakdown

The detail, by currency, classification and type, of "Other Equity Instruments" in the accompanying consolidated balance sheets is as follows:

	Thousands of Euros	
	2011	2010
Currency:		
Euro	1,942,930	2,157,213
Foreign currencies	95,089	84,372
	2,038,019	2,241,585
Classification:		
Financial assets held for trading	1,290,142	1,818,344
Other financial assets at fair value through profit or loss	69,824	136,220
Available-for-sale financial assets	678,053	287,021
	2,038,019	2,241,585
Type:		
Shares of Spanish companies	1,582,066	1,863,941
Shares of foreign companies	285,894	365,252
Investment fund units and shares	284,807	62,617
Other securities	69,824	136,220
	2,222,591	2,428,030
Less- Impairment losses	(184,572)	(186,445)
	2,038,019	2,241,585

b) Acquisitions and disposals

As a result of the partial debt restructuring, on 20 February 2009 certain Cresa-Sacresa Group companies executed in a public deed a private dation in payment agreement with certain creditors whereby the Bank received 6,356,191 shares of Metrovacesa, S.A. representing 9.56% of its share capital. The exchange value for the repayment of the debt was set at EUR 57 per share. The debt repaid amounted to EUR 326 million of principal plus accrued interest.

On 28 June 2011, the shareholders of Metrovacesa, S.A. at their Annual General Meeting approved, among other resolutions, a capital increase with a nominal value of EUR 1,949,903,763 through the issuance of 1,299,935,842 new ordinary shares of the Company with a par value of EUR 1.5 each, comprising:

1. An initial 15 day pre-emptive subscription period in which the shareholders of Metrovacesa (not those of Banco Español de Crédito S.A. or other financial institutions which partook only in the second phase of the capital increase described in the following paragraph) and acquirers of pre-emption rights may execute them and subscribe new shares of Metrovacesa.
2. The creditor entities, including the Bank, subscribed shares of Metrovacesa which had not been subscribed and paid for in the pre-emptive subscription period, through the conversion of certain loans to Metrovacesa, S.A. into equity.

As the end of the pre-emptive subscription period, the number of new shares subscribed amounted to 12,853,846 and, therefore, the Board of Directors of Metrovacesa assigned 905,653,361 shares to convert into equity the loans from various creditor entities including the Bank, which was assigned 114,857,040 shares of EUR 1.5 par value each.

Taking into account the initial shareholding acquired on 20 February 2009 as result of the partial restructuring of the debt through which the Bank received 6,356,191 shares of Metrovacesa, S.A., representing 9.56% of the company's share capital, at 31 December 2011, the Bank had a shareholding of 12.27% of Metrovacesa, S.A.

At 31 December 2011, these shares were valued at EUR 2.9 per share using the net asset value (NAV) as a reference since the quoted price on the stock market was not deemed representative due to the scant trading volume.

In the first half of 2011, the Bank acquired 215,096 units of the Santander Banif Inmobiliario, FII investment fund for EUR 260,491 thousand. Following these acquisitions the Bank's share in this fund rose to 10.54%.

The other acquisitions and disposals effected in 2011 and 2010 related to changes in financial assets held for trading and purchases and sales of investment fund units and shares.

c) Notifications of acquisitions of investments

The notifications made by the Bank, in compliance with Article 148 of the Spanish Limited Liability Companies Law and Article 53 of Securities Market Law 24/1988, of the acquisition and sale of holdings in investees are listed in Appendix IV.

d) Impairment losses

Following is a summary of the changes in the impairment losses in the foregoing table and those on debt instruments classified as available-for-sale (see Note 7) in 2011 and 2010:

	Thousands of Euros	
	2011	2010
Balance at beginning of year	187,446	160,112
Net impairment losses charged to income	366	33,960
Other changes	(1,871)	(6,626)
Balance at end of year	185,941	187,446

10. Trading derivatives (assets and liabilities)

The detail, by type of inherent risk, of the fair value of the trading derivatives arranged by the Group at 31 December 2011 and 2010 is as follows:

	Thousands of Euros			
	2011		2010	
	Balance Receivable	Balance Payable	Balance Receivable	Balance Payable
Interest rate risk	4,948,211	4,639,981	3,604,649	3,392,839
Currency risk	313,448	502,700	213,225	509,328
Price risk	747,613	456,950	574,435	644,477
Credit risk	7,499	9,501	865	7,504
Other risks	33	33	42,656	1
	6,016,804	5,609,165	4,435,830	4,554,149

11. Loans and advances to customers

The detail, by loan type and status, borrower sector, geographical area of residence and interest rate formula, of "Loans and Advances to Customers" on the asset side of the accompanying consolidated balance sheets is as follows:

	Thousands of Euros	
	2011	2010
By loan type and status:		
Commercial credit	4,396,445	4,750,872
Secured loans	34,893,267	38,162,725
Reverse repurchase agreements	4,552,309	4,960,453
Personal loans	7,138,488	7,503,044
Credit accounts	11,721,054	13,438,413
Other term loans	1,577,994	1,771,160
Finance leases	883,118	1,190,764
Receivable on demand and other	805,608	841,846
Impaired assets	3,819,129	3,463,505
Other	1,436,467	1,517,566
	71,223,879	77,600,348
Less: Valuation adjustments	(2,025,479)	(1,851,291)
<i>Of which:</i>		
<i>Prepayments and accrued income and other adjustments</i>	24,363	(21,230)
<i>Impairment losses</i>	(2,049,842)	(1,830,061)
	69,198,400	75,749,057
By borrower sector:		
Public sector - Spain	2,624,640	2,816,949
Other resident sectors	63,843,335	69,968,497
Non-residents	2,730,425	2,963,611
	69,198,400	75,749,057
By geographical area:		
Spain	68,475,724	74,617,380
European Union (excluding Spain)	1,207,257	1,528,601
United States and Puerto Rico	328,180	384,937
Other OECD countries	393,038	454,002
Latin America	710,955	356,663
Rest of the world	108,725	258,765
	71,223,879	77,600,348
By interest rate formula:		
Fixed interest rate	20,349,549	22,655,382
Floating interest rate	50,874,330	54,944,966
	71,223,879	77,600,348

Note 45 contains a detail of the terms to maturity of these assets at 2011 and 2010 year-end and of the average interest rates in 2011 and 2010.

At 31 December 2011 and 2010, there were no loans and advances to customers for material amounts without fixed maturity dates.

Finance leases

The reconciliation of the total gross investment in finance leases to the present value of the minimum finance lease payments receivable at 31 December 2011 and 2010 is as follows:

	Thousands of Euros	
	2011	2010
Minimum finance lease payments receivable	825,945	1,131,066
Unguaranteed residual values	97,534	98,590
Gross investment in finance leases(*)	923,479	1,229,656

(*) Includes impaired assets

At 31 December 2011, the impairment losses covering bad debts relating to the minimum finance lease payments receivable amounted to EUR 28,933 thousand (31 December 2010: EUR 27,172 thousand).

At 31 December 2011, unearned finance income amounted to EUR 10,466 thousand (31 December 2010: EUR 7,122 thousand).

Securitisation

In 2011 and 2010 the Group securitised loans, the type and amount of which are as follows:

Origin of collection rights	Millions of Euros	
	2011	2010
Commercial loans	2,731	1,600
<i>Of which:</i>		
<i>Loans with mortgage guarantee</i>	227	467
<i>Loans with other collateral</i>	2,504	1,133

All the securities issued were subscribed by securitisation vehicles set up by Santander de Titulización, Sociedad Gestora de Fondos de Titulización, S.A. This securitisation did not give rise to the derecognition of the loans from the balance sheet since, as a result of the terms and conditions agreed upon for the transfer of the assets, the Group retained the substantial risks and rewards inherent thereto (mainly the credit risk of the transferred transactions) and, accordingly, the Group's exposure to changes in the present value of the future net cash flows of these financial assets did not change substantially (see Note 2-c).

At 31 December 2011, the total carrying amount of the transferred assets amounted to EUR 5,313 million (31 December 2010: EUR 6,459 million), none of which had been derecognised in 2011 (2010: EUR 3 million was derecognised).

At 31 December 2011, the carrying amount of the liabilities associated with financial assets that were not derecognised was EUR 348 million (31 December 2010: EUR 587 million) and this amount is recognised under "Marketable Debt Securities" in the consolidated balance sheets at those dates. The remaining bonds issued in securitisation transactions were subscribed in full by the Group.

Other information

At 31 December 2011, the Group had recognised loans amounting to EUR 25,040 thousand (31 December 2010: EUR 26,218 thousand) relating to financing granted to its employees to acquire shares of the Bank and of Banco Santander, S.A.

In addition, the Group has in certain cases financed acquisitions of its own shares by third parties, and has granted loans to third parties secured by shares of the Bank or of Banco Santander, S.A. At 31 December 2011, these financing and guarantee arrangements amounted to EUR 1,478 thousand (31 December 2010: EUR 1,480 thousand) net of the related impairment losses, and as required by Articles 146, 148, 149 and 150 of the Consolidated Spanish Limited Liability Companies Law, a restricted reserve was recorded for the carrying amount of these arrangements net, where appropriate, of the related impairment losses (see Note 27).

Impairment losses

The changes in 2011 and 2010 in the balance of the impairment losses in the foregoing table and of those on "Loans and Receivables - Loans and Advances to Credit Institutions" (see Note 6) were as follows:

	Thousands of Euros	
	2011	2010
Balances at beginning of year	1,836,462	1,515,859
Impairment losses charged to income for the year:		
Individually assessed	918,061	1,413,929
Collectively assessed		-
Impairment losses reversed with a credit to income	(217,400)	(566,455)
Net impairment losses for the year	700,661	847,474
Net write-off of impaired balances and other changes (*)	(480,867)	(526,871)
Balances at end of year	2,056,256	1,836,462
<i>By method of assessment:</i>		
<i>Individually</i>	<i>1,991,388</i>	<i>1,702,848</i>
<i>Collectively</i>	<i>64,868</i>	<i>133,614</i>

(*) Of these amounts, EUR 71,227 thousand and EUR 162,088 thousand relate to transfers to impairment losses on non-current assets held for sale in 2011 and 2010, respectively (see Note 16).

The following table details impairment losses on the basis of the factors employed in calculating them:

	Thousands of Euros							
	Due to Arrears		For Reasons Other than Arrears		Collectively Assessed		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Less than 3 months	36,343	37,596	467,618	672,540	-	-	503,961	710,136
3 to 6 months	47,266	10,611	115,671	26,513	-	-	162,937	37,124
6 to 9 months	63,024	68,698	8,125	31,596	-	-	71,149	100,294
9 to 12 months	73,194	30,460	161,612	79,110	-	-	234,806	109,570
More than 12 months	1,016,136	158,841	2,399	586,843	-	-	1,018,535	745,684
Without arrears	-	-	-	-	64,868	133,614	64,868	133,614
	1,235,963	306,206	755,425	1,396,642	64,868	133,614	2,056,256	1,836,462

Written-off loans recovered in 2011 amounted to EUR 40,010 thousand (2010: EUR 36,381 thousand), and this amount is presented as a reduction of "Impairment Losses on Financial Assets (Net) - Loans and Receivables" in the consolidated income statement.

Past-due assets

Financial assets classified as "Loans and Receivables - Loans and Advances to Customers" that were past due but not impaired at 31 December 2011 amounted to EUR 304,379 thousand (31 December 2010: EUR 275,684 thousand).

Impaired assets

Following is a detail of the financial assets classified as "Loans and Receivables – Loans and Advances to Customers" and considered to be impaired due to credit risk at 31 December 2011 and 2010, classified by age of the oldest past-due amount at those dates, and of those assets which, although not past due, are considered to be impaired due to other factors:

	Thousands of Euros				Total
	Less than 6 Months	6 to 9 Months	9 to 12 Months	More than 12 Months	
2010	1,877,269	259,397	205,343	1,121,496	3,463,505
2011	1,216,028	254,894	887,615	1,460,592	3,819,129

Of this amount, at 31 December 2011 approximately 99.8% related to Spanish residents (31 December 2010: approximately 99.9%).

12. Hedging derivatives

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

	Thousands of Euros			
	2011		2010	
	Assets	Liabilities	Assets	Liabilities
Fair value hedges				
Micro-hedges	7	2,343	7	31,044
Macro-hedges	1,492,114	555,884	1,503,281	460,953
Cash flow hedges	917	16,963	31,176	543
<i>Of which:</i>				
<i>Recognised in equity (Note 26)</i>	-	25,482	-	83,599
	1,493,038	575,190	1,534,464	492,540

Cash flow hedges are used to reduce the variability of the cash flows (attributable to the interest rate) generated by the hedged items (loans and receivables tied to a floating interest rate). These hedges use interest rate derivatives to convert the floating interest rate on the loans and receivables to a fixed interest rate.

The Group has two fair value hedges of the interest rate risk of a portfolio of financial instruments and of the issues that it guarantees. The purpose of these hedges is to maintain the economic value of the hedged assets, which are fixed-interest loans and marketable debt securities, hedged mainly by IRSs (see Note 32).

As a result of the discontinuation of certain cash flow hedges, the balance of "Valuation Adjustments – Cash Flow Hedges" at 31 December 2011 included EUR 36,543 million (31 December 2010: EUR 62,638 million) relating to the value of the hedging derivatives at the date they were discontinued. Pursuant to current legislation, this amount will be recognised in the consolidated income statement symmetrically to the recognition of the cash flows generated by the hedged items.

13. Investments

"Investments" includes the equity instruments issued by associates owned by the Bank.

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

Appendix III contains a detail of the investments in associates, indicating the percentage of direct and indirect ownership and other relevant information.

The changes in 2011 and 2010 in "Investments" in the consolidated balance sheets were as follows:

	Thousands of Euros	
	2011	2010
Balance at beginning of year	30,048	18,623
Purchases and capital increases	12,565	10,884
Disposals and capital reductions	(4,733)	-
Exchange differences and other	(7,937)	5411
Balance at end of year	29,943	30,048

14. Liabilities under insurance contracts and Reinsurance assets

The detail of "Liabilities under Insurance Contracts" in the consolidated balance sheets at 31 December 2011 and 2010 is as follows:

Technical Provisions for:	Thousands of Euros					
	2011			2010		
	Direct Insurance	Inward Reinsurance	Total	Direct Insurance	Inward Reinsurance	Total
Unearned premiums and unexpired risks	40,444	19,827	60,271	59,501	41,174	100,675
Life insurance:						
Unearned premiums and risks	21,832	3,236	25,068	36,908	5,382	42,290
Mathematical provisions	1,085,743	-	1,085,743	1,742,477	-	1,742,477
Claims outstanding	78,929	13,464	92,393	121,641	18,374	140,015
Bonuses and rebates	4,195	-	4,195	7,064	-	7,064
Life insurance policies where the investment risk is borne by the policyholders	1,213,039	-	1,213,039	1,853,908	-	1,853,908
Other technical provisions	18,714	7,638	26,352	25,556	7,044	32,600
	2,462,896	44,165	2,507,061	3,847,055	71,974	3,919,029

At 31 December 2011, the consolidated insurance entity had balances receivable from reinsurance companies amounting to EUR 44,165 thousand (31 December 2010: EUR 71,974 thousand), which are recognised under "Reinsurance Assets" in the consolidated balance sheets.

The consolidated insurance entity does not operate in lines of insurance giving rise to significant concentrations of insurance risk and it applies controls and procedures which enable it to limit and control any such concentration which, in addition, is mitigated by reinsurance contracts.

Risk management

The consolidated insurance entity analyses the various risk categories related to its activities. In order to obtain an accurate diagnosis of the efficiency of the internal control environment, it has a system of pre-controls (through the definition of exposure limits), ongoing controls (to ensure the proper monitoring of the efficiency of the control map) and post-controls (to validate the efficiency of the control environment through a subsequent analysis of the Company's activities).

15. Tangible assets

a) Changes

The changes in 2011 and 2010 in "Tangible Assets" in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros		
	Property, Plant and Equipment for Own Use	Investment Property	Total
Cost:			
Balances at 1 January 2010	1,704,293	139,708	1,844,001
Additions	95,970	62,031	158,001
Disposals	(166,690)	(13,016)	(179,706)
Exchange differences (net)	75	-	75
Transfers and other	1	-	1
Balances at 31 December 2010	1,633,649	188,723	1,822,372
Additions	69,784	36,572	106,356
Disposals	(104,912)	(2,483)	(107,395)
Exchange differences (net)	23	-	23
Transfers and other	210	-	210
Balances at 31 December 2011	1,598,754	222,812	1,821,566
Accumulated depreciation:			
Balances at 1 January 2010	(570,905)	(5,568)	(576,473)
Disposals	60,886	227	61,113
Charge for the year	(60,004)	(713)	(60,717)
Exchange differences, transfers and other	953	(956)	(3)
Balances at 31 December 2010	(569,070)	(7,010)	(576,080)
Disposals	42,084	-	42,084
Charge for the year	(61,549)	(1,679)	(63,228)
Exchange differences	475	(357)	118
Balances at 31 December 2011	(588,060)	(9,046)	(597,106)
Impairment losses:			
Balances at 1 January 2010	-	(8,805)	(8,805)
Charge for the year	(15,757)	(22,362)	(38,119)
Amounts used and other net changes	15,757	(46)	15,711
Balances at 31 December 2010	-	(31,213)	(31,213)
Charge for the year	-	(18,238)	(18,238)
Amounts used and other net changes	-	1	1
Balances at 31 December 2011	-	(49,450)	(49,450)
Tangible assets, net:			
Balances at 31 December 2010	1,064,579	150,500	1,215,079
Balances at 31 December 2011	1,010,694	164,316	1,175,010

b) Property, plant and equipment for own use

The detail, by type of asset, of the items composing "Property, Plant and Equipment for Own Use" in the consolidated balance sheets at 31 December 2011 and 2010 is as follows:

	Thousands of Euros		
	Cost	Accumulated Depreciation	Carrying Amount
Buildings	791,778	(156,859)	634,919
Furniture	99,195	(71,617)	27,578
Fixtures	486,259	(222,121)	264,138
Office and IT equipment	145,497	(87,393)	58,104
Other	110,920	(31,080)	79,840
Balances at 31 December 2010	1,633,649	(569,070)	1,064,579
Land and buildings	769,713	(156,087)	613,626
Furniture	82,934	(57,920)	25,014
Fixtures	521,828	(248,709)	273,119
Office and IT equipment	154,252	(98,572)	55,680
Other	70,027	(26,772)	43,255
Balances at 31 December 2011	1,598,754	(588,060)	1,010,694

At 31 December 2011, the Group had rights on assets used under finance leases amounting to EUR 23,810 thousand (31 December 2010: EUR 21,174 thousand).

In 2011 the Group completed the sale of 35 offices (2010: 24) to non-Group third parties for EUR 90,551 thousand (2010: EUR 124,885 thousand). These transactions gave rise to a gain of EUR 44,955 thousand (2010: EUR 83,862 thousand) which is recognised under "Gains/(Losses) on Disposal of Assets Not Classified as Non-Current Assets Held for Sale" in the accompanying consolidated income statement for 2011. At the same time, the Group entered into operating lease agreements for these offices with the buyers (with maintenance, insurance and taxes payable by the Group). The agreements have an initial compulsory term for both parties of fifteen years, during which the rent will be reviewed annually on the date of completion of each year of the lease term, based on the percentage variation in the Spanish CPI.

The agreements are renewable for a maximum of four additional five-year periods each, up to a maximum limit of 35 years. Renewal is obligatory on the part of the lessor, whereas the Group is not obliged in this respect, nor does it have any commitment to ensure that the renewals come into force. If the Group were to exercise its right to renew the contract, upon commencement of the first and third renewal periods, the rent would be adjusted to market value on the basis of a report by independent property experts.

Certain contracts include a free purchase option, exercisable by the Group at any time after the fifteenth year from execution of the agreement, for the market value of the properties at that date, which will be determined, where appropriate, by independent experts.

The most noteworthy feature of the other agreed terms and conditions, all of which are customary market conditions for operating lease agreements, is that none of the aforementioned lease agreements provides for the transfer of ownership of the properties to the Group on expiry thereof. Furthermore, the Group has not granted any guarantee to the buyers for any losses that might arise from the early termination of the agreements or for possible fluctuations in the residual value of the aforementioned properties.

The Group was advised in the above-mentioned transactions by independent experts, who estimated the remaining useful lives of the transferred properties at the transaction date, which were between 42 and 75 years (2010: between 26 and 74 years). These experts also analysed both the selling prices of the properties and the agreed subsequent rental payments and, on the basis of this analysis, the Group concluded that they had been set at fair market values at that date.

The rental expense recognised by the Group in 2011 in connection with these agreements amounted to EUR 7,794 thousand (2010: 5,945 thousand). At 31 December 2011, the present value of the minimum future payments that the Group will incur during the compulsory term (since it is considered that the agreements will not be renewed and the existing purchase options will not be exercised) amounted to EUR 12,506 thousand (31 December 2010: EUR 6,100 thousand) payable within one year, EUR 48,129 thousand (31 December 2010: EUR 26,900 thousand) payable at between one and five years and EUR 95,243 thousand (31 December 2010: EUR 59,400 thousand) payable at more than five years.

Also, the Group sold other properties, giving rise to a gain of 433 thousand (2010: EUR 24,362 thousand) which is recognised under "Gains/(Losses) on Disposal of Assets Not Classified as Non-Current Assets Held for Sale" in the accompanying consolidated income statement for 2011.

c) Investment property

In 2011 the rental income earned from investment property owned by the consolidated entities amounted to approximately EUR 5,236 thousand (31 December 2010: approximately EUR 3,240 thousand) (see Note 41) and the operating expenses of all kinds related to such investment property amounted to approximately EUR 1,985 thousand (2010: approximately EUR 2,332 thousand).

16. Non-current assets held for sale

The detail of "Non-Current Assets Held for Sale" at 31 December 2011 and 2010 is as follows:

	Thousands of Euros	
	2011	2010
Investment property	1,019,696	1,218,117
Foreclosed assets	1,309,311	1,086,808
Assets recovered from finance leases	2,387	5,509
Other	17,736	17,736
	2,349,130	2,328,170

At 31 December 2011 and 2010, substantially all the assets classified as non-current assets held for sale related to residential property assets at various stages of development: from plots earmarked for construction to completed housing units.

In 2011 the Bank and other Group companies acquired assets amounting to EUR 153 million (2010: EUR 485 million) in settlement of certain loan transactions.

Impairment losses of EUR 1,293,177 thousand had been deducted from the balance of "Non-Current Assets Held for Sale" at 31 December 2011 (31 December 2010: EUR 678,228 thousand). The changes in these impairment losses in 2011 and 2010 were as follows:

	Thousands of Euros	
	2011	2010
Balance at beginning of year	678,228	281,699
Impairment losses charged to income for the year	527,072	128,517
Transfer of impairment losses from "Loans and Advances to Customers" (Note 11)	71,227	162,088
Transfer from "Provisions – Other Provisions"	30,715	189,805
Other net changes	(14,065)	(83,881)
Balance at end of year	1,293,177	678,228

The net impairment losses for 2011 are recognised under "Gains/(Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations".

In 2011 assets with a carrying amount of EUR 381,940 thousand were sold (2010: EUR 375,654 thousand). The net loss arising from the sale of these assets (EUR 106,188 thousand and EUR 68,454 thousand in 2011 and 2010, respectively) is recognised under "Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations" in the consolidated income statements.

The fair value of substantially all the non-current assets held for sale was estimated by means of an appraisal by a valuer authorised by the Bank of Spain and this, together with the Bank's experience in asset sales and the current situation in the property market, was deemed to be the value obtained from this appraisal conducted pursuant to Ministerial Order 805/2003.

The detail of the carrying amount and fair value of non-current assets held for sale at 31 December 2011 and 2010 is as follows:

	Thousands of Euros				Age of Appraisal (%)					
	Carrying Amount		Appraisal Value		Less than 12 Months		12 to 24 Months		More than 24 Months	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Investment property	1,608,879	1,574,931	1,394,361	1,364,164	88.6%	93.0%	10.9%	7.0%	0.6%	-
Foreclosed assets	2,013,305	1,408,222	2,263,759	1,559,483	39.3%	43.7%	27.6%	31.0%	33.1%	25.8%
TOTAL	3,622,184	2,983,153	3,658,120	2,923,647	58.1%	69.6%	21.2%	18.4%	20.7%	12.0%

The policy for selling assets of this type or disposing of them by other means consists of defining a complete sale plan that aims to optimise both the deadlines and the values of the sales and which considers:

- the preparation of assets for their sale, including the maturation process or supplementary investments which, within reasonable limits of amount and duration, favour the sale,
- a comprehensive commercial plan,

The expected timeframe for selling or otherwise disposing of non-current assets held-for sale is the shortest possible one, but it will depend on the performance of the Spanish real estate market,

In 2011 and 2010 the Group sold various non-current assets held for sale and disposal groups in relation to which it provided financing to the buyer for the agreed selling price, This financing was granted independently of the sales transaction and at all times with the Group's general lending policy and the creditworthiness requirements for any borrower, As a result, there are no unrecognised gains in this connection,

17. Intangible assets- Other intangible assets

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

	Estimated Useful Life	Thousands of Euros	
		2011	2010
With finite useful life:			
IT developments	3 years	178,327	178,768
Concessions and other	3 to 50 years	12,313	12,288
		190,640	191,056
Less-			
Accumulated amortisation		(116,835)	(114,374)
Impairment losses		(142)	(786)
Total, net		73,663	75,896

Changes

The changes in “Intangible Assets – Other Intangible Assets” in the consolidated balance sheets in 2011 and 2010 were as follows:

	Thousands of Euros	
	2011	2010
Cost:		
Balance at beginning of year	191,056	161,384
Net additions/(disposals)	(416)	29,672
Balance at end of year	190,640	191,056
Accumulated amortisation:		
Balances at beginning of year	(114,374)	(92,032)
Net charges	(45,683)	(44,815)
Disposals and other changes	43,222	22,473
Balance at end of year	(116,835)	(114,374)
Impairment losses		
Balances at beginning of year	(786)	(152)
Net impairment losses (recognised) /reversed	644	(634)
Balance at end of year	(142)	(786)
Net balance at end of year	73,663	75,896

18. Other assets and Other liabilities

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

	Thousands of Euros			
	Assets		Liabilities	
	2011	2010	2011	2010
Inventories	294,066	344,548	-	-
Guarantees on futures transactions and other	4	-	773	150
Unmatured accrued income/expenses	133,236	150,502	196,672	205,069
Prepayments	6,222	6,783	-	-
Accrued expenses	-	-	216,271	241,153
Other	27,639	39,195	14,335	55,524
	461,167	541,028	428,051	475,345

Inventories

The detail of "Inventories" at 31 December 2011 and 2010 is as follows:

	Thousands of Euros	
	2011	2010
Developments in progress	36,011	38,557
Raw materials	63,088	61,502
Finished goods	230,600	278,574
Less-		
Impairment losses	(35,633)	(34,085)
	294,066	344,548

In 2011 impairment losses amounting to EUR 7,252 thousand (2010: EUR 14,429 thousand) were recognised under "Impairment Losses on Other Assets (Net) – Other Assets",

The impairment losses on the developments in progress were determined based on valuations performed by independent experts,

19. Deposits from central banks and Deposits from credit institutions

The detail, by classification, counterparty, type and currency, of "Deposits from Central Banks" and "Deposits from Credit Institutions" on the liability side of the consolidated balance sheets is as follows:

	Thousands of Euros	
	2011	2010
Classification:		
Financial liabilities at amortised cost	12,136,372	7,550,634
Counterparty:		
Central banks	5,005,842	1,537,587
Credit institutions	7,130,530	6,013,047
	12,136,372	7,550,634
Type:		
Reciprocal accounts	784	2,061
Term deposits	7,153,593	4,581,786
Hybrid financial liabilities	350	1,400
Repurchase agreements	4,006,175	2,043,977
Other accounts	965,437	912,725
	12,126,339	7,541,949
Add- Valuation adjustments	10,033	8,685
<i>Of which:</i>		
<i>Accrued interest</i>	10,033	8,685
<i>Other adjustments</i>	-	-
	12,136,372	7,550,634
Currency:		
Euro	10,813,147	6,388,760
Foreign currencies	1,323,225	1,161,874
	12,136,372	7,550,634

At 31 December 2011, the limit established by the Bank of Spain for the Group for the system of loans guaranteed by public-sector debt securities and other assets amounted to EUR 6,032,982 thousand (31 December 2010: EUR 6,017,512 thousand). The amount drawn down at those dates corresponds to that recognised under "Central Banks" in the foregoing table,

Note 45 contains a detail of the terms to maturity of these liabilities at 2011 and 2010 year-end and of the average interest rates in 2011 and 2010,

20, Customer deposits

The detail, by classification, type and currency, of “Customer Deposits” in the consolidated balance sheets is as follows:

	Thousands of Euros	
	2011	2010
Classification: Financial liabilities at amortised cost	51,246,144	60,076,180
Type: On demand-		
Current accounts	14,454,646	15,016,568
Savings accounts	6,985,503	7,049,874
Other demand deposits	190,718	175,230
Term deposits-		
Fixed-term deposits	16,275,795	22,003,243
Home-purchase savings accounts	34,144	46,069
Discount deposits	240	240
Hybrid financial liabilities	2,290,583	2,485,664
Other term deposits	26,066	7,200
Repurchase agreements	10,766,068	13,004,965
Add- Valuation adjustments	51,023,763	59,789,053
Of which:	222,381	287,127
Accrued interest	229,062	296,722
Other adjustments	(6,681)	(9,595)
	51,246,144	60,076,180
Currency:		
Euros	48,890,285	57,693,163
Foreign currencies	2,355,859	2,383,017
	51,246,144	60,076,180

Note 45 contains a detail of the terms to maturity of these liabilities at 2011 and 2010 year-end and the average interest rates in 2011 and 2010,

21, Marketable debt securities

a) Breakdown

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

	Thousands of Euros	
	2011	2010
Classification:		
Financial liabilities at amortised cost	24,022,730	29,214,182
Type:		
Bonds and debentures outstanding	3,715,729	7,116,913
Hybrid securities	2,434,086	2,571,818
Mortgage-backed bonds	16,014,836	17,733,282
Promissory notes	1,222,719	780,487
Other securities associated with transferred financial assets (Note 11)	-	389,922
Mortgage bonds (Note 11)	239,576	172,816
	23,626,946	28,765,238
Add- Valuation adjustments	395,784	448,944
<i>Of which:</i>		
<i>Accrued interest and other</i>	<i>474,937</i>	<i>496,140</i>
<i>Adjustments due to hedges</i>	<i>(79,153)</i>	<i>(47,196)</i>
	24,022,730	29,214,182

Note 45 contains a detail of the terms to maturity of these liabilities at 2011 and 2010 year-end and of the average interest rates in 2011 and 2010,

b) Bonds and debentures outstanding

The detail, by issue currency and interest rate, of “Bonds and Debentures Outstanding” in the foregoing table is as follows:

Currency of Issue	Thousands of Euros		Annual Interest Rate	Maturity Date
	2011	2010		
Euro:				
Fixed rate				
Territorial bonds	-	250,000	2,307%	October 2011
Territorial bonds	-	250,000	2,304%	October 2011
Territorial bonds	500,000	-	4,250%	October 2016
Non-convertible debentures	488,500	-	4,080%	March 2016
Territorial bonds	100,000	-	3,350%	July 2020
Floating rate				
Non-convertible bonds issued by Banesto Financial Products	3,021,683	6,616,913	3-month Euribor+0,05%	Until April 2037
Banesto non-mortgage securitisation bonds	105,546	-	-	-
Balance at end of year	4,215,729	7,116,913		

The foregoing detail includes bonds repurchased for EUR 500,000 thousand which offset the above balances, and were recognised under "Financial Liabilities at Amortised Cost - Marketable Debt Securities" in the consolidated balance sheet at 31 December 2011,

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

Mortgage-backed bonds (cédulas hipotecarias) are securities, the principal and interest of which are secured by mortgage without prejudice to the Bank's unlimited liability and, where appropriate, by the replacement assets and by the cash flows generated by the derivative financial instruments associated with each issue,

The mortgage-backed bonds include the holder's financial claim on the Bank, secured as indicated in the preceding paragraph, and may be enforced to claim payment from the issuer after maturity, The holders of these securities have the status of special preferential creditors vis-à-vis all other creditors (established in Article 1923,3 of the Spanish Civil Code) in relation to all the mortgage loans and credits registered in the issuer's favour and, where appropriate, in relation to the replacement assets and the cash flows generated by the derivative financial instruments associated with the issues,

In the event of insolvency, the holders of these bonds will enjoy the special privilege established in Article 90,1,1 of Insolvency Law 22/2003, of 9 July, Without prejudice to the foregoing, in accordance with Article 84,2,7 of the Insolvency Law, during the insolvency proceedings, the payments relating to the repayment of the principal and interest of the bonds issued and outstanding at the date of the insolvency filing will be settled up to the amount of the income received by the insolvent party from the mortgage loans and credits and, where appropriate, from the replacement assets backing the bonds and from the cash flows generated by the financial instruments associated with the issues,

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

In the event that the measure indicated in Article 155,3 of the Insolvency Law were to be adopted, the payments to all holders of the mortgage-backed bonds issued would be made on a pro-rata basis, irrespective of the issue dates of the bonds,

The members of the Board of Directors state that the Bank has specific policies and procedures in place to cover all activities relating to the mortgage-market issues launched by it, which guarantee strict compliance with the mortgage market regulations applicable to these activities as provided for in Royal Decree 716/2009, of 24 April, implementing certain provisions of Mortgage Market Law 2/1981, of 25 March, and, by application thereof, in Bank of Spain Circular 7/2010, of 30 November, and other financial and mortgage system regulations. Also, financial management defines the Bank's funding strategy,

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

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

With regard to the verification of customer information and solvency, the Bank has specialised document comparison procedures and tools that are subject to strict quality controls and internal and external audits which ensure the reliability of the checks,

The Bank's procedures stipulate that each mortgage originated in the mortgage market must be individually valued by an appraisal company not related to Banesto,

Mortgage Market Law 41/2007, Article 5, establishes that any appraisal company approved by the Bank of Spain may issue valid appraisal reports. However, as permitted by this same article, Banesto performs a series of checks and selects, from among these companies, a small Group with which it enters into cooperation agreements with special conditions and automated control mechanisms. The Bank's internal regulations specify, in detail, each of the internally approved companies, as well as the approval requirements and procedures and the controls established to uphold them,

In this connection, the regulations establish the functions of an appraisal company committee on which the various areas of the Bank related to these companies are represented. The aim of the committee is to regulate and adapt the internal regulations and the activities of the appraisal companies to the current market and business situation,

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

Nominal value and other disclosures relating to the issues of mortgage-backed bonds

The nominal value of the mortgage-backed bonds issued by the Bank, by date of issue, is as follows:

Issue Date	Thousands of Euros		Annual Interest Rate (%)	Maturity Date
	2011	2010		
Public mortgage-backed bonds	17,817,236	17,733,282		
March 2002 issue	1,057,752	969,528	5,75	March 2017
February 2004 issue	-	1,943,391	3,75	February 2011
September 2004 issue	1,789,400	1,781,600	4,25	September 2014
January 2005 issue	2,190,120	2,165,180	3,50	January 2015
September 2005 issue	1,993,916	1,990,874	2,75	September 2012
January 2006 issue	1,196,490	2,043,735	3,50	January 2016
July 2006 issue	992,928	975,192	4,25	July 2013
February 2007 issue	1,880,908	1,690,738	4,25	February 2014
February 2008 issue	50,000	49,844	6-month Euribor + 0,25%	February 2013
December 2008 issue	-	739,200	4,00	December 2011
February 2009 issue	557,400	557,400	3,50	February 2012
June 2009 issue	1,102,400	996,100	3,63	June 2013
September 2009 issue	1,302,200	1,238,300	2,63	February 2013
September 2010 issue	999,722	592,200	3,63	September 2015
March 2011 issue	600,000	-	4,625	March 2015
December 2011 issue	1,100,000	-	4,75	December 2017
Singular bonds	181,764	181,764		
June 2002 issue	81,764	81,764	3-month Euribor + 0,12%	June 2014
December 2005 issue	100,000	100,000	3-month Euribor + 0,13%	December 2012
Registered mortgage-backed bonds	226,000	227,000		
February 2008 issue	92,500	93,000	4,22	February 2013
February 2008 issue	63,500	64,000	4,25	February 2013
April 2008 issue	70,000	70,000	4,585	April 2013
Balance at end of year	18,221,000	18,142,046		

The foregoing detail includes repurchased bonds amounting to EUR 1,798 thousand which offset the above balance at 31 December 2011 (31 December 2010: EUR 109,800 thousand), The bonds repurchased in 2011 gave rise to a gain of EUR 7 million which is recognised under Gains/Losses on Financial Assets and Liabilities (Net)" in the consolidated income statement,

On 30 March 2011, the Group launched a public issue of mortgage-backed bonds for a nominal amount of EUR 600 million which matures on 30 March 2015, This issue consists of mortgage-backed bonds of EUR 100,000 nominal value each,

On 14 December 2011, the Group launched a public issue of mortgage-backed bonds for a nominal amount of EUR 1,100 million which matures on 14 December 2017, This issue consists of mortgage-backed bonds of EUR 100,000 nominal value each,

In the course of 2011, the Bank issued eleven mortgage-backed bonds fungible with existing bonds totalling EUR 1,495 million,

In 2011 the aggregate nominal value of mortgage-backed bond issues totalled EUR 2,595 million, maturing between February 2013 and December 2017,

Mortgage-backed bond issues may be redeemed early by the issuer solely for the purpose of complying, where necessary, with the limits on the balance of outstanding mortgage-backed bonds stipulated by mortgage market regulations,

None of the mortgage-backed bonds issued by the Bank had replacement assets assigned to them,

At 31 December 2011 and 2010, the breakdown of the mortgage loans, indicating their eligibility and computability for mortgage market regulatory purposes, was as follows:

	Thousands of Euros	
	Nominal Value	
	31/12/11	31/12/10
Total mortgage loans and credits (*)	34,253,325	36,740,286
Mortgage participation certificates issued	405,563	646,609
<i>Of which: On-balance-sheet loans</i>	405,563	646,609
Mortgage transfer certificates issued	1,922,656	3,573,371
<i>Of which: On-balance-sheet loans</i>	1,922,656	3,573,371
Mortgage loans and credits securing borrowings	-	-
Mortgage loans and credits backing mortgage and mortgage-backed bond issues (**)	31,925,106	32,520,306
i) Non-eligible mortgage loans and credits (***)		
- <i>Which comply with the requirements to become eligible, except for the limit established in Art, 5,1 of Royal Decree 716/2009</i>	6,189,819	7,217,068
- <i>Other</i>	-	-
ii) Eligible mortgage loans and credits (****)	25,735,287	25,303,238
- <i>Non-computable amounts</i> (*****)	5,147,057	5,060,648
- <i>Computable amounts</i>	20,588,230	20,242,590
a) Mortgage loans and credits covering mortgage bond issues	-	-
b) Mortgage loans and credits eligible to cover mortgage-backed bond issues	20,588,230	20,242,590

(*) Including mortgage loans and credits acquired through mortgage participation certificates and mortgage transfer certificates, irrespective of whether they have been derecognised,

(**) Total loans less mortgage participation certificates issued, mortgage transfer certificates issued and mortgage loans securing borrowings,

(***) Due to non-compliance with the requirements of Art. 3 of Royal Decree 716/2009,

(****) Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account the calculation limits established in Art. 12 of Royal Decree 716/2009,

(*****) Pursuant to Art. 12 of Royal Decree 716/2009,

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

	Millions of Euros			
	31/12/11		31/12/10	
	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans (*)	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans (*)
By origin of transactions				
Originated by the Bank	26,452	20,456	27,115	20,116
From subrogations	5,473	5,280	5,405	5,187
Other	-	-	-	-
	31,925	25,736	32,520	25,303
By currency				
Euros	31,921	25,732	32,273	25,298
Other currencies	4	4	247	5
	31,925	25,736	32,520	25,303
By payment status				
Current	29,625	24,313	29,475	24,054
Past due	2,300	1,423	3,045	1,249
	31,925	25,736	32,520	25,303
By term to maturity				
Less than 10 years	7,526	4,562	8,599	5,293
10 to 20 years	7,987	6,815	7,742	6,479
20 to 30 years	13,005	11,895	13,029	11,538
More than 30 years	3,407	2,464	3,150	1,993
	31,925	25,736	32,520	25,303

	Millions of Euros			
	31/12/11		31/12/10	
	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans (*)	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans (*)
By interest rate formula				
Fixed-rate loans	1,404	766	1,153	501
Floating-rate loans	25,949	22,039	26,088	21,847
Fixed-floating rate loans	4,572	2,931	5,279	2,955
	31,925	25,736	32,520	25,303
By borrower				
Legal entities and individual businessmen	10,773	6,674	12,151	8,126
<i>Of which: Property developments</i>	5,584	2,917	6,613	1,813
Other individuals and non-profit institutions serving households NPISHs)	21,152	19,062	20,369	17,079
	31,925	25,736	32,520	25,303
By type of collateral				
Completed buildings - residential	23,468	21,362	23,309	20,366
<i>Of which: Officially sponsored housing</i>	454	367	425	358
Completed buildings - commercial	4,305	2,879	3,464	2,145
Completed buildings - other	586	-	900	214
Buildings under construction - residential	1,097	763	2,155	1,797
<i>Of which: Officially sponsored housing</i>	9	4	-	-
Buildings under construction - commercial	978	372	674	311
Buildings under construction - other	4	-	13	7
Land - developed land	134	34	138	49
Land - other	1,353	326	1,867	414
	31,925	25,736	32,520	25,303

(*) Pursuant to Art, 3 of Royal Decree 716/2009, without taking into account the calculation limits established in Art, 12 of Royal Decree 716/2009,

Following is a detail, by loan-to-value ratio, of the nominal value of the eligible mortgage loans and credits pursuant to Royal Decree 716/2009, without considering the computation limits established in Article 12 of Royal Decree 716/2009:

	31 December 2011				
	LTV Ranges (Millions of Euros)				
	<=40%	>40%, <=60%	>60%, <=80%	>80%	TOTAL
Mortgage loans and credits eligible for mortgage and mortgage-backed bond issues (*)	6,809	8,340	9,234	1,353	25,736
<i>Home mortgages</i>	4,867	6,703	9,234	1,353	22,157
<i>Other mortgages</i>	1,941	1,637	-	-	3,578

(*) Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account the calculation limits established in Art. 12 of Royal Decree 716/2009,

	31 December 2010				
	LTV Ranges (Millions of Euros)				
	<=40%	>40%, <=60%	>60%, <=80%	>80%	TOTAL
Mortgage loans and credits eligible for mortgage and mortgage-backed bond issues (*)	6,353	8,062	9,758	1,130	25,303
<i>Home mortgages</i>	4,904	6,640	9,758	1,130	22,432
<i>Other mortgages</i>	1,449	1,422	-	-	2,871

(*) Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account the calculation limits established in Art. 12 of Royal Decree 716/2009,

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

	Millions of Euros	
	Eligible Mortgage Loans and Credits (*)	Non-Eligible Mortgage Loans and Credits (**)
Balance at 1 January 2010	24,904	6,279
Period reductions	(1,029)	(868)
<i>Redemption on maturity</i>	(270)	(45)
<i>Early redemptions</i>	(759)	(823)
<i>Subrogations by other entities</i>	-	-
<i>Other</i>	-	-
Period additions	1,428	1,806
<i>Originated by the Bank</i>	1,092	1,042
<i>Subrogations from other entities</i>	61	744
<i>Other</i>	275	20
Balance at 31 December 2010	25,303	7,217
Period disposals	(2,976)	(2,882)
<i>Redemption on maturity</i>	(212)	(441)
<i>Early redemptions</i>	(1,049)	(807)
<i>Subrogations by other entities</i>	(141)	(24)
<i>Other</i>	(1,574)	(1,610)
Period additions	3,409	1,855
<i>Originated by the Bank</i>	2,175	1,476
<i>Subrogations from other entities</i>	387	34
<i>Other</i>	847	345
Balance at 31 December 2011	25,736	6,190

(*) Pursuant to Art. 3 of Royal Decree 716/2009, without deduction of the limits on their calculation established in Art. 12 of Royal Decree 716/2009,

(**) That do not comply with the requirements of Art. 3 of Royal Decree 716/2009,

Following is a detail of the undrawn balances of the mortgage loans and credits backing mortgage and mortgage-backed bond issues:

	(Thousands of Euros)	
	Undrawn Balances, Nominal Value (*)	
	31/12/11	31/12/10
Potentially eligible (**)	177,674	501,425
Non-eligible	144,773	85,497

(*) Amounts committed less amounts drawn down, including amounts delivered to property developers only when the housing units are sold,

(**) Pursuant to Art. 3 of Royal Decree 716/2009,

At 31 December 2011 and 2010 and during these years, the Bank had no replacement assets assigned to mortgage and mortgage-backed bond issues,

d) Mortgage-backed securities

The detail of the Bank's mortgage securities outstanding at 31 December 2011 and 2010 is as follows:

	Nominal Value (Thousands of euros)		Average Term to Maturity
	2011	2010	2011-2010 (***)
Mortgage bonds outstanding	-	-	
Mortgage-backed bonds issued (*)	18,350,164	18,495,364	
<i>Of which: Not recognised in liabilities</i>			
i) Debt instruments, Issued in a public offering			
a) Term to maturity of up to one year,	2,557,400	2,739,200	
b) Term to maturity of one to two years	3,300,000	2,257,400	
c) Term to maturity of two to three years	3,500,000	3,500,000	
d) Term to maturity of three to five years	5,200,000	6,355,000	
e) Term to maturity of five to ten years	1,500,000	3,135,000	
f) Term to maturity of more than ten years	-	-	
ii) Debt instruments, Other issues			
a) Term to maturity of up to one year,	-	-	
b) Term to maturity of one to two years	165,000	-	
c) Term to maturity of two to three years	230,000	-	
d) Term to maturity of three to five years	805,000	-	
e) Term to maturity of five to ten years	685,000	-	
f) Term to maturity of more than ten years	-	-	

	Nominal Value (Thousands of euros)		Average Term to Maturity
	2011	2010	2011-2010(***)
(Continued)			
iii) Deposits			
a) Term to maturity of up to one year,	100,000	100,000	
b) Term to maturity of one to two years	226,000	226,000	
c) Term to maturity of two to three years	81,764	81,764	
d) Term to maturity of three to five years	-	-	
e) Term to maturity of five to ten years	-	-	
f) Term to maturity of more than ten years	-	-	
Mortgage participation certificates issued (**)	405,563	646,609	36-28
i) Issued in a public offering	405,563	646,609	36-28
ii) Other issues			
Mortgage transfer certificates issued (**)	1,922,656	3,573,371	43-51
i) Issued in a public offering	1,922,656	3,573,371	43-51
ii) Other issues			

(*) Whether or not recognised in liabilities,

(**) Relating solely to mortgage loans and credits not derecognised,

(***) Average term to maturity weighted by amount, expressed in months, rounded up when equidistant,

22. Subordinated liabilities

a) Breakdown

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

Issuer	Thousands of Euros		Currency	Interest Rate/ Dividends	Maturity
	2011	2010			
Banco Español de Crédito, S.A.:					
Subordinated deposit	600,000	600,000	Euros	3-month Euribor + 0,32%, + 0,5% from the fifth year	June 2014
Subordinated deposit	-	600,000	Euros	3-month Euribor + 2,50%	September 2018
Preferred participating securities	87,120	96,934	Euros	Floating CMS + 0,125% (fixed coupon of 6% in the first year)	Perpetual
Preferred participating securities	152,959	158,004	Euros	Fixed coupon of 5,5%	Perpetual
Preferred participating securities	497,466	497,466	Euros	Fixed coupon of 6%	(a)
Banesto Banco Emisiones, S.A.:					
Subordinated debentures	9,300	500,000	Euros	1-year Mid IRS + 0,6%	March 2016
Banesto Holding, Ltd.:					
Preference shares	16,526	33,787	US dollar	10,5%	(a)
Add- Valuation adjustments	1,363,371	2,486,191			
<i>Of which:</i>	2,448	18,235			
<i>Accrued interest</i>	2,604	18,699			
<i>Hedge accounting</i>	(156)	(464)			
Balance at end of year	1,365,819	2,504,426			

(a) Redeemable at the discretion of the issuer with the prior consent of the Bank of Spain,

The EUR 87 million, EUR 153 million and EUR 497 million preferred participating security issues are redeemable, subject to authorisation from the Bank of Spain, as from April 2011, May 2010 and June 2014, respectively,

On 23 March 2011, the Group issued 4,885 non-convertible debentures of EUR 100,000 unit value aimed at holders of subordinated debentures included in the "Subordinated Debentures March 2004" issue launched by Banesto Banco de Emisiones, S.A., which was jointly and severally guaranteed by Banco Español de Crédito, S.A. The non-convertible debentures were exchangeable for the subordinated debentures at full par value. This exchange was authorised by the Bank of Spain on 2 March 2011, with an exchange ratio of one subordinated debenture for one non-convertible debenture. The final acceptance rate was 97,7%,

On 19 December 2011, the Bank and Banco Santander, S.A., following notice to the Bank of Spain, redeemed early in full the subordinated deposit (nominal amount: EUR 600,000 thousand) for an ex-coupon amount of EUR 546,000 thousand, returning a gain of EUR 54,000 thousand recognised under "Gains/Losses on Financial Assets and Liabilities (Net) - Financial Instruments not Measured at Fair Value through Profit or Loss" in the 2011 consolidated income statement,

b) Other disclosures

For the purposes of payment priority, preferred participating securities rank junior to all general creditors and to subordinated deposits, The payment of dividends on these shares, which have no voting rights, depends on the obtainment of sufficient distributable profit and on the limits imposed by Spanish banking regulations on capital, If for these reasons the dividends payable on the preferred participating securities are not paid, the Bank will not pay dividends on its ordinary shares,

The other issues are subordinated and, therefore, for the purposes of payment priority, they are junior to all general creditors of the issuers, The issues launched by subsidiaries are guaranteed by Banesto or by restricted deposits arranged at Banesto for this purpose,

At 31 December 2011 and 2010, no issues were convertible into shares of Banesto or granted privileges or rights which, in certain circumstances, make them convertible into shares,

The preference shares issued by Banesto Holding Ltd, relate to the issue launched in 1992 for USD 100 million and guaranteed by Banesto, These preference shares do not carry voting rights, pay a fixed dividend of 10,5% per annum and are fully or partially redeemable at the discretion of the issuer, with the prior consent of the Bank of Spain, The outstanding balance at 31 December 2011 amounted to EUR 16,526 thousand, equivalent to USD 21,383,500 (31 December 2010: EUR 33,787 thousand, equivalent to USD 45,145,700),

The interest accrued on subordinated liabilities amounted to approximately EUR 74,728 thousand in 2011 (2010: EUR 56,349 thousand),

Note 45 contains a detail of the terms to maturity of these liabilities at 2011 and 2010 year-end and of the average interest rates in 2011 and 2010,

23. Other financial liabilities

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

	Thousands of Euros	
	2011	2010
Trade payables (*)	766,504	868,003
Public sector	210,123	273,207
Other	1,465,705	1,881,313
	2,442,332	3,022,523

(*) Including EUR 34,369 thousand and EUR 54,991 thousand relating to the unpaid interim dividends declared by the Bank's Board of Directors at 31 December 2011 and 2010, respectively (see Note 4),

The disclosures required by Additional Provision Three of Law 15/2010, of 5 July, pursuant to Law 3/2004, of 29 December, on combating late payment in commercial transactions, are as follows at 31 December 2011: payments made to suppliers in 2011 amounted to EUR 366,3 million and all of them were made within the statutory period,

At 31 December 2011, there were no unpaid trade payables past due by more than the maximum payment period,

Note 45 contains a detail of the terms to maturity of these liabilities at 2011 and 2010 year-end,

24. Provisions

a) Breakdown

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

	Thousands of Euros	
	2011	2010
Provisions for pensions and similar obligations (Notes 2-u and 2-v)	1,947,103	2,024,299
Provisions for contingent liabilities and commitments	30,846	82,609
Other provisions	57,375	132,081
Provisions	2,035,324	2,238,989

b) Changes

The changes in "Provisions" in 2011 and 2010 were as follows:

	Thousands of Euros	
	2011	2010
Balance at beginning of year	2,238,989	2,599,571
Additions charged to income	107,424	45,663
<i>Of which:</i>		
<i>Interest cost (Note 35)</i>	81,697	86,898
<i>Staff costs (Note 42)</i>	10,613	11,732
<i>(Reversals) / Period provisions</i>	15,114	(52,967)
<i>Provisions for pensions and similar obligations</i>	31,142	(22,213)
<i>Other provisions</i>	(16,028)	(30,754)
Payments to retired employees	(78,250)	(74,647)
Payments to pre-retirees	(122,171)	(129,546)
Insurance premiums paid/return premiums received	1,625	(2,487)
Transfers to impairment of non-current assets held for sale (Note 16)	(30,715)	(189,805)
Provisions used, exchange differences and other changes	(81,578)	(9,760)
Balance at end of year	2,035,324	2,238,989

c) Provisions for pensions and similar obligations

The detail of the present value of the Group's post-employment benefit obligations at 31 December 2010 and 2010, showing the funding status of these obligations, the fair value of the plan assets funding them and the present value of the unrecognised obligations at those dates, is as follows:

	Thousands of Euros	
	2011	2010
Present value of the obligations:		
To current employees	452,796	361,821
To retired employees (vested)	1,341,810	1,364,684
	1,794,606	1,726,505
Fair value of plan assets	177,064	182,547
Unrecognised actuarial losses	196,878	110,972
Unrecognised past service cost	7,348	8,007
Provisions - Provisions for pensions	1,413,316	1,424,979
<i>Of which-</i>		
<i>Insurance contracts linked to pensions:</i>		
<i>Other insurers</i>	<i>190,613</i>	<i>202,458</i>
	1,794,606	1,726,505

At 31 December 2009, 2008 and 2007, the present value of the obligations amounted to EUR 1,756,202 thousand, EUR 1,832,692 thousand and EUR 1,823,470 thousand, respectively; the fair value of the plan assets amounted to EUR 184,279 thousand, EUR 193,106 thousand and EUR 191,823 thousand, respectively; and the unrecognised actuarial losses amounted to EUR 101,969 thousand, EUR 108,476 thousand and EUR 97,280 thousand, respectively,

The changes between the beginning and ending balances of the defined benefit obligations relating to post-employment benefits for current and former employees of the Group are summarised as follows:

	Thousands of Euros	
	2011	2010
Present value of obligations at 1 January	1,726,505	1,756,202
Current service cost	12,995	13,637
Interest cost	67,302	68,545
Benefits paid	(87,887)	(85,124)
Amortisation and new benefits assumed (net)	(13,151)	(12,338)
Actuarial gains/(losses)	88,842	(14,417)
Value of obligations at 31 December	1,794,606	1,726,505

The amount of these obligations was determined by independent actuaries using, under their own responsibility, the following valuation criteria, inter alia:

- 1, Valuation method: projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately,
- 2, Actuarial assumptions used: unbiased and mutually compatible, Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2011	2010
Annual discount rate	4%	4%
Mortality tables	PERM/F 2000	PERM/F 2000
Cumulative annual CPI growth	1,5%	1,5%
Annual salary increase rate	2,9%	2,9%
Annual social security pension increase rate	1,5%	1,5%

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

The fair value of insurance contracts was determined as the amount of the mathematical provisions made by the related insurer, taking into account the following assumptions:

	2011	2010
Expected rate of return on plan assets	4,0%	4,0%
Expected rate of return on reimbursement rights	4,0%	4,0%

The changes in 2011 and 2010 in the fair value of the plan assets were as follows:

	Thousands of Euros	
	2011	2010
Fair value of plan assets at beginning of year	182,547	184,279
Expected return on plan assets	7,146	7,189
Actuarial gains / (losses)	(4,834)	(1,051)
Contributions	1,842	2,607
Benefits paid	(9,637)	(10,477)
Fair value of plan assets at end of year	177,064	182,547

The expected return on the plan assets was determined on the basis of the interest rates guaranteed by the insurance companies that underwrite the related policies,

In 2011 the actual return on the plan assets was EUR 2,312 thousand (2010: EUR 6,138 thousand),

At 31 December 2011 and 2010, each major category of plan assets accounted for the following percentages of the fair value of the plan assets:

	Thousands of Euros	
	2011	2010
Insurance policies taken out with non-Banesto Group insurance companies	95,3%	95,7%
Voluntary community pension entity (EPSV)	4,7%	4,3%
Total	100%	100%

The net amount of the experience adjustments arising on the plan assets and liabilities, expressed as an amount or percentage of these assets and liabilities in 2011 and in the four preceding years, is as follows:

2011	2010	2009	2008	2007
(2,65)%	(0,58)%	0,37%	(0,61)%	(1,32)%

The changes in 2011 and 2010 in the cumulative net unrecognised actuarial losses were as follows:

	Thousands of Euros	
	2011	2010
Balance at beginning of year	110,972	101,969
Increases / (decreases) due to:		
Net actuarial losses / (gains) arising in the year	85,906	9,003
Balance at end of year	196,878	110,972

The Group expects that the provisions for pensions to be recognised in 2012 in respect of post-employment benefit obligations will amount to EUR 30,397 thousand,

d) Other long-term employee benefits

In 2011 the Group offered certain of its employees the possibility of leaving its employ prior to their retirement. Accordingly, provisions were recognised to cover the obligations to the pre-retirees (in terms of both salaries and other employee benefit costs) from the date of their pre-retirement to the date of their effective retirement, amounting to EUR 30,164 thousand,

At 31 December 2011 and 2010, the present value of the obligations was as follows:

	Thousands of Euros	
	2011	2010
Present value of the obligations:		
To pre-retirees	530,806	594,297
Long-service bonuses and other benefits	2,981	5,023
	533,787	599,320
Provisions- Provisions for pensions	533,787	599,320
	533,787	599,320

At 31 December 2009, 2008 and 2007, the present value of the obligations amounted to EUR 711,803 thousand, EUR 691,049 thousand and EUR 771,084 thousand, respectively,

The changes between the beginning and ending balances of the other long-term benefit obligations are summarised as follows:

	Thousands of Euros	
	2011	2010
Present value of obligations at 1 January	599,320	711,803
Current service cost	35,203	(8,639)
Interest cost	21,435	25,702
Benefits paid	(122,171)	(129,546)
Value of obligations at 31 December	533,787	599,320

The amount of these obligations was determined by independent actuaries using, under their own responsibility, the same techniques as those applied to quantify defined benefit plan obligations (see Note 24-c),

e) Other provisions

The balance of "Provisions - Other Provisions" includes, inter alia, the provisions for tax and other litigation, which were estimated using prudent calculation procedures in keeping with the uncertainty inherent in the obligations covered. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation; in certain cases, these obligations have no fixed settlement period and, in other cases, are based on litigation in progress,

f) Litigation

i, Tax litigation

The main tax litigation affecting the Banesto Group at 31 December 2011 can be divided into two groups according to its origin: firstly, that arising from the different criteria used by the State Tax Agency and by the Group companies for the regularisation of state taxes; and secondly, that affecting Banco Español de Crédito S.A., arising from the introduction by the Extremadura Autonomous Community Government of the tax on deposits at credit institutions, against which an appeal has been filed at the Spanish Constitutional Court, The

Andalusia Autonomous Community Government approved a similar tax to that established by the Extremadura Autonomous Government for 2011 and subsequent years, against which an appeal has not been filed at the Constitutional Court,

A) Difference in the criteria used by the State Tax Agency and the Group,

- a) Litigation currently in progress arising from the calculation of the VAT pro rata, The difference in the criteria used relates to the type of services which it is considered must be included in the VAT calculation, The amount of net VAT payable relating to this litigation was EUR 3,567 thousand, This amount, together with the interest accrued until 5 August 2010, was paid to the tax agency on 12 May 2010, However, Banco Español de Crédito, S,A, continues the litigation in the defence of its interests, Banco Español de Crédito, S,A, has filed a new lawsuit for the same facts, amounting to EUR 930 thousand (including late-payment interest), in relation to 2006-2007, This amount was paid on 20 January 2012, without prejudice to the continuation of the litigation in the defence of its interests,
- b) Several litigations affecting the Banesto Group entities for differences in terms of interpretation between the tax agency and the entities amounting to EUR 2,929 thousand, Of this amount, EUR 2,640 thousand relate to AG Activos y Participaciones, S,A, for personal income tax withholdings, A judgment is yet to be handed down by the Supreme Court,

Should the resolution of these lawsuits be totally detrimental to the interests of the entities, they would be required to pay EUR 1,365 thousand in interest, (Amount calculated at 31/12/11),

B) Tax on deposits at credit institutions introduced in Extremadura,

- a) The Extremadura Autonomous Community Government approved a tax on deposits held by credit institutions in their territory, The tax was charged for the first time in 2002,

An appeal against the tax has been filed at the Spanish Constitutional Court, Consequently, the Bank files its returns in due time, challenges the self-assessment, posts a bond for the related amount and then files an appeal, The Extremadura High Court decided not to consider the merits of the case until the Constitutional Court hands down a decision on the unconstitutional nature or otherwise of the tax,

The amount relating to this litigation totals EUR 38,296 thousand,

The above amount includes the enforced collection surcharges that the Bank was unable to avoid, except the enforced collection surcharge for 2010, which had not yet been issued by the tax authorities,

If the Spanish Constitutional Court were to declare that the legislation establishing this tax is constitutional, since the debt is suspended the late-payment interest would fall due, This interest amounted to EUR 6,426 thousand at 31 December 2011,

- b) The Andalusia Autonomous Community Government approved a tax on deposits held by credit institutions in its territory that is similar to the Extremadura Autonomous Community Government's tax, This tax will be levied for the first time in 2011, and tax returns will be filed in July 2012, However, a prepayment has been established to be made within the year preceding the year in which the tax accrues, Consequently, in July 2011 the Bank filed a self-assessment for this prepayment amounting to EUR 5,720 thousand,

This tax has not been appealed against at the Spanish Constitutional Court, Hence, when the Bank files the self-assessment in 2011, it will lodge an appeal against the tax, together with a request for it to be declared unconstitutional,

ii, Other litigation

In addition to the challenges of corporate resolutions (see Note 1-d), the main non-tax litigation affecting the Bank at 31 December 2011, on the basis of the amount thereof, was as follows:

Trustees in the bankruptcy of Ágora, Corporación de Inversiones Inmobiliarias, S,A, The insolvency of this entity and the related bankruptcy order gave rise to several lawsuits and ancillary proceedings related mainly to the backdating of the bankruptcy order and, as a result thereof, the intention to terminate certain financing and debt repayment agreements, The most noteworthy in this respect is the claim to annul the collection of a debt of EUR 5,409 thousand received by the Bank in 1994,

Claims filed against the Bank by companies which received supplementary income tax returns from the tax authorities of the Navarre Autonomous Community Government with respect to transactions performed with the Bank, One of the two ongoing proceedings concluded with a firm court decision which dismissed in full the claim of the plaintiff company, In the other proceeding, in which a claim was made totalling EUR 1,812 thousand, the plaintiff's petition was dismissed at first instance and on appeal, The plaintiff filed an appeal on a point of law against the dismissal of the appeal, The plaintiff's appeal was challenged by Banesto but a decision has not yet been handed down on it,

Claim by the bankruptcy liquidator of the French company Frahuil S,A, In 1999 Banesto filed a claim at the Marseille (France) courts against Frahuil (parent of Spanish company Frint España S,A,, both of which were engaged in the marketing of oil) for the amount not repaid of two loans granted by Banesto to the parent company, Frahuil S,A,, supposedly secured by pledges on oil, and of a third loan granted to the Spanish subsidiary Frint España S,A,, guaranteed by the parent Frahuil S,A, After filing the claim, Frahuil S,A, opened insolvency proceedings, which resulted in bankruptcy, Banesto also filed a claim against the Azria brothers, the main shareholders of the group, for misrepresentation in documents, fraudulent accounting practices and fraud, On 2 June 2008, the Tribunal de Grande Instance of Marseille handed down judgment in the criminal proceedings, finding the Azria brothers guilty of three criminal offences and ordering them to pay Banesto EUR 18,063,681, plus two other amounts of EUR 6,983,425 and EUR 5,000, An appeal was filed against part of this sentence, In 2006 the bankruptcy liquidator of Frahuil filed a claim against Banesto for "misuse of credit", which is specified as an offence under French law, alleging that Banesto had granted credits to the Frahuil Group amounting to more than EUR 20 million in an extortionate manner from 1996 to 1998, thereby contributing to create an artificial appearance of solvency subject to liability, which it provisionally calculated to be equal to the amount of the equity deficit of Frahuil S,A, at the time it was declared to be insolvent, On 12 May 2010, the Commercial Court of Marseille handed down a decision dismissing the claim brought by the bankruptcy liquidator of Frahuil against Banesto, relieving the Bank of the obligation to pay any amount to the plaintiff and ordering the latter to pay Banesto damages totalling EUR 30,000, The plaintiff appealed against the decision at the Aix-en-Provence Appellate Court, which has yet to issue a decision on the appeal,

Claim for the execution of a decision filed by Malce, S,L, and others against Corporación Industrial y Financiera de Banesto, S,A,, currently Banco Español de Crédito, S,A, In the claim filed on 25 April 2007 at the Court of First Instance no. 2 of El Ejido, Malce S,L, and others requested the execution of the decision handed down by the Supreme Court on 14 December 2006 which, by overturning the decision of the Almería Provincial Appellate Court, upheld the cassation appeal filed by the plaintiffs and ordered Quash S,A, and Área de Servicios Agrícolas S,A, (currently Banco Español de Crédito S,A, due to the absorption of Corporación Industrial y Financiera de Banesto S,A, which, in turn, had taken over the aforementioned companies) to execute the sale transaction in a public deed and to transfer the water wells, auxiliary facilities and the property on which the wells and facilities are located to the plaintiffs, to whom they had been sold by the aforementioned companies in the agreement dated 27 November 1995 and the supplementary agreement of 8 January 1994, By interlocutory order of 2 April 2008, the Supreme Court clarified that its decision of 14 December 2006 did not include and, therefore,

did not require delivery of, the water wells and auxiliary facilities required to establish the Comunidad de Regantes Tierras de Almería (association of irrigation water users of Almería) to which they were sold by Quash S,A, and Área de Servicios Agrícolas S,A, in a deed dated 2 November 1995 (in which reference was made to the lawsuit described), these being the only water wells and auxiliary facilities referred to in the contingency, An enforcement proceeding was brought at the Court of First Instance no, 2 of El Ejido to identify and demarcate the wells that must be delivered to the plaintiff, which is currently being processed, Furthermore, on 19 January 2010 the Court of First Instance and Examining Court no, 2 of El Ejido issued an order giving permission for a claim filed by Malce, S,L, against Banco Español de Crédito, S,A, and Quash, S,A, to proceed, and setting the amount of the claim at EUR 3,647 thousand, The claim requested that Banco Español de Crédito, S,A, be ordered to honour certain contractual obligations assumed by the former Quash, S,A, vis-à-vis Malce, S,L, In its judgment the Court of First Instance and Examining Court no, 2 of El Ejido dismissed in full the claim brought by Malce, S,L, and ordered the plaintiff to pay the costs, Malce, S,L, filed an appeal against this judgment on which a decision has not yet been handed down,

Complaint in an ordinary proceeding filed by a former Bank employee, claiming EUR 5,003 thousand in consideration for the professional services which the plaintiff declared to have provided to the Bank, The plaintiff's relationship with the Bank was terminated through a dismissal adjudged to be justified in a firm court decision, The hearing was held on 16 December 2009, New evidence on several points, which could not be taken previously, is currently being taken,

Claim filed by an association called "Grouping of the Shareholders of Banesto" against Mario Conde, Enrique Lasarte Pérez Arregui and the Bank, With respect to the Bank, certain third-party liability claims were filed relating to the actions of the other two defendants which gave rise to the intervention of the Bank of Spain on 28 December 1993 in what became known as the "Banesto case", The quantum of the claim was not specified, The proceeding was initially to be heard at the Court of First Instance no, 2 of Alicante, However, the defendants filed an objection to the regional jurisdiction of the court, The objection was upheld as the jurisdiction was deemed to correspond to the Courts of First Instance of Madrid, which prompted the referral of the case to the Senior Court of Madrid, The claim was allocated to the Court of First Instance no, 41 of Madrid, By court order of 10 October 2008, the Court refused leave to proceed with the claim and dismissed the proceedings due to the lack of standing of the plaintiff association, The plaintiff filed an appeal against this court order, which was allowed by the Provincial Appellate Court in its order of 15 June 2009, Leave was granted for the claim to proceed and the proceedings were referred back to the Court of Instance, In an order dated 28 September 2009, the Court authorised the publication of the leave to proceed of the claim in the manner set forth in Article 15,1 of the Civil Procedure Law, Against this order and certain subsequent actions, the plaintiff has filed several ancillary proceedings and motions that are currently awaiting permission to proceed, On 13 July 2010, the Bank filed its defence to the claim, On 15 July 2010, the court issued an interlocutory order in which it adjudged the defence to have been filed and set the date for the preliminary hearing, which will take place on 10 May 2011,

Complaint in an ordinary proceeding filed against Banesto at Pamplona Court of First Instance no, 5 by Analistas Financieros de Navarra 2006, S,L, and others, The amount claimed by the plaintiff was EUR 6,866,93, relating to commissions supposedly earned for the activity performed by it as a financial agent of Banesto under the financial agency agreement entered into by Analistas Financieros de Navarra 2006, S,L, with Banesto on 23 April 2007, which was terminated on the grounds of breach of contract by the financial agent, plus damages of EUR 49,116,11, At the preliminary hearing, the quantum of the claim was raised to EUR 5,590,796,18, Banesto contested the claim, arguing that the aforementioned financial agency agreement had been terminated due to breach of the agent's contractual obligations, since the agent had improperly received commissions from customers of the financial agency and had provided consultancy services for other financial institutions through a company related to the financial agent, The termination of the agreement did not give rise to the payment of any amount to the plaintiff,

On 14 December 2009, a decision was handed down dismissing the claim in full and the plaintiff was ordered to pay costs. The plaintiff filed an appeal against the decision, contested by Banesto, challenging the decision and the quantum of the proceeding. The appellant requested that evidence be taken at second instance; however, the Provincial Appellate Court has not yet issued its decision on this request.

At 31 December 2011, there were other less material lawsuits of a tax and legal nature. At 31 December 2011 and 2010, the Bank had recognised reasonable provisions to cover any payments it may be required to make as a result of all the aforementioned tax and other litigation.

25. Tax matters

a) Consolidated Tax Group, reconciliation and other information

Since 1999 the Bank has filed consolidated tax returns as part of the corporate Group headed by Banco Santander, S.A, (see Note 28),

The balance of "Financial Liabilities at Amortised Cost - Other Financial Liabilities" in the accompanying consolidated balance sheets includes the liability for the various applicable taxes,

The detail of the deferred taxes at 31 December 2011 and 2010 is as follows:

	Thousands of Euros	
	2011	2010
Deferred tax assets		
Provisions for pensions and similar obligations	311,463	334,268
Other provisions	154,906	173,652
Provisions for inherent losses in outstanding loan portfolio	131,080	154,147
Unused tax credits	297,155	270,418
Income and expenses recognised directly in equity	34,705	61,154
Other deferred tax assets	90,611	57,119
	1,019,920	1,050,758
Deferred tax liabilities		
Income and expenses recognised directly in equity	6,841	10,101
Other deferred tax liabilities	58,136	50,634
	64,977	60,735

In 2011 deferred tax assets were credited for the portion relating to payments made to retired employees and pre-retirees in the year (EUR 31,612 thousand), to the release of other provisions (EUR 18,746 thousand) and to provisions for inherent losses in the outstanding loan portfolio (EUR 23,067 thousand), and were charged for provisions for pensions (EUR 8,807 thousand), tax credits earned in prior years (EUR 26,737 thousand) and other items (EUR 7,043 thousand),

Since 1999 the companies which until 1998 were part of the consolidated tax group headed by Banco Español de Crédito, S,A, have filed consolidated tax returns together with the consolidated tax group headed by Banco Santander, S,A, Following is the estimated reconciliation of the accounting profit to the income tax for the year, prepared on the assumption that the consolidated tax group headed by Banco Español de Crédito, S,A, still existed at 31 December 2011 and 2010:

	Thousands of Euros	
	2011	2010
Consolidated profit before tax:		
From ordinary activities	127,876	608,298
	127,876	608,298
Income tax at 30%	38,363	182,489
Decreases due to permanent differences	(29,472)	(73,323)
Increases due to permanent differences	106	4,622
Elimination of the tax effect of dividends paid between Group companies	(14,987)	(1,538)
Elimination of the tax effect of the results of intra-group transactions	(22,418)	55,239
Other, net	33,657	(16,613)
Current income tax	5,249	150,876
<i>Ordinary activities</i>	5,249	150,876
<i>Discontinued operations</i>		-

This calculation took into account the dividends of EUR 49,958 thousand at 31 December 2011 received from companies belonging to the consolidated tax group (31 December 2010: EUR 5,125 thousand), as well as other positive and negative adjustments to be made amounting to approximately EUR 202,215 thousand and EUR 276,941 thousand, respectively (31 December 2010: EUR 184,385 thousand and EUR 255 thousand, respectively), since they will be eliminated from the consolidated tax group's return,

For the purpose of determining the income tax expense recognised by the Group, regard should be had to the fact that the tax losses incurred at the Group companies before the extinction of the consolidated tax group headed by Banco Español de Crédito, S,A, can only be carried forward for offset by the entities at which they arose, Once the corresponding tax returns had been filed, the tax loss carryforwards at the Banco Español de Crédito Group companies amounted to approximately EUR 27,364 thousand at 31 December 2011 (31 December 2010: approximately EUR 41,634 thousand), the detail being as follows:

	Thousands of Euros		Last Year for Offset
	2010	2009	
Tax loss for the year:			
1995	-	11,576	2010
1996	3,525	6,128	2011
1997	1,167	1,167	2012
1998	4,510	4,510	2013
1999	4,097	4,097	2014
2000	1,866	1,866	2015
2001	1,385	1,385	2016
2002	1,399	1,510	2017
2003	7,149	7,149	2018
2004	1,967	1,967	2019
2005	141	156	2020
2006	48	46	2021
2007	57	53	2022
2008	40	12	2023
2009	13	12	2024
	27,364	41,634	

In 2011 Banesto obtained gains of EUR 54,015 thousand on the transfer of assets for consideration, to which the tax credit for reinvestment of extraordinary income stipulated in Article 42 of Legislative Royal Decree 4/2004, of 5 March, approving the Consolidated Corporation Tax Law as drafted by Law 16/2007, of 4 July, is applicable,

The Bank has the years from 2008 to date open for review by the tax authorities in relation to income tax and the other main taxes, The tax authorities are currently conducting a tax audit of the years from 2005 to 2007, The varying interpretations which can be made of certain tax regulations applicable to the Bank's operations might give rise to contingent tax liabilities which cannot be objectively quantified, However, the Bank's directors and its tax advisers consider that the tax charge, if any, which might arise from future inspections by the tax authorities, or from inspections already performed but pending a final decision, would not have a material effect on the financial statements for the year ended 31 December 2011,

The deed of capital increase with monetary and non-monetary contribution executed by Mesena Servicios de Gestión Inmobiliaria S,A, on 23 December 2010 was registered at the Mercantile Registry on 10 January 2011, The entities which took part in this transaction decided to avail themselves of the provisions of Chapter VIII, Title VII of Legislative Royal Decree 4/2004, of 5 March, approving the Consolidated Spanish Corporation Tax Law,

On 23 December 2010, the shareholders at the Universal Extraordinary General Meeting of Mesena SGI resolved to increase capital, of SIX HUNDRED AND ONE THOUSAND EUROS (EUR 601,000), by THREE HUNDRED AND FIFTY-NINE MILLION, NINE HUNDRED AND NINETY-NINE THOUSAND, NINE HUNDRED AND NINETY-SEVEN EUROS AND SIXTY-SIX CENTS (EUR 359,999,997,66), therefore giving a total of **THREE HUNDRED AND SIXTY MILLION, SIX HUNDRED THOUSAND, NINE HUNDRED AND NINETY-SEVEN EUROS AND SIXTY-SIX CENTS (EUR 360,600,997,66)**, through the issue of 59,900,166 new shares of SIX EUROS AND ONE CENT (EUR 6,01) par value each, numbered in sequence from 100,001 to 60,000,166, inclusive,

Following Dudebasa, S,A,'s waiver of any pre-emption right it might have had, the new shares, once issued and outstanding, were subscribed and paid in this act in the following manner and proportion:

I,- BANCO ESPAÑOL DE CREDITO, S.A.

CONTRIBUTED AND SUBSCRIBED

- TWENTY-FOUR MILLION, NINE HUNDRED AND SIXTY THOUSAND, FOUR HUNDRED AND FORTY-SEVEN (24,960,447) new shares, numbered 100,001 to 25,060,447, inclusive, amounting to one hundred and fifty million, twelve thousand, two hundred and eighty-six euros and forty-seven cents (EUR 150,012,286,47) through payment of this amount in the Company's bank account at Banco Español de Crédito, S,A,, this payment being evidenced by a certificate issued by the bank,

- NINETEEN MILLION, ONE HUNDRED AND FORTY-ONE THOUSAND, ONE HUNDRED AND TWENTY-FIVE (19,141,125) new shares, numbered 25,060,448 to 44,201,572, inclusive, amounting to one hundred and fifteen million, thirty-eight thousand, one hundred and sixty-one euros and twenty-five cents (EUR 115,038,161,25) which were fully paid through a non-monetary contribution of properties owned by it,

II,- ELERCO, S.A.

CONTRIBUTED AND SUBSCRIBED

FIFTEEN MILLION, SEVEN HUNDRED AND NINETY-EIGHT THOUSAND, FIVE HUNDRED AND NINETY-FOUR (15,798,594) new shares, numbered 44,201,573 to 60,000,166, inclusive, amounting to ninety-four million, nine hundred and forty-nine thousand, five hundred and forty-nine euros and ninety-four cents (EUR 94,949,549,94) which were fully paid through a non-monetary contribution of properties owned by it,

The Banco Español de Crédito Group companies included in the consolidated tax group, the parent of which is Banco Santander, S,A,, are Banco Español de Crédito, S,A,, Banesto Bolsa, S,A,, S,V,B,, and 22 and 22 other companies, respectively, at 31 December 2011 and 2010,

The other Group companies will file individual tax returns in accordance with the tax regulations applicable in their countries of residence,

26. Non-controlling interests

The balance of "Non-Controlling Interests" in the consolidated balance sheets shows the net amount of the equity of subsidiaries attributable to equity instruments that do not belong, directly or indirectly, to the Bank, including the portion attributed to them of profit for the year,

a) Breakdown

The detail, by Group company, of the balance of "Equity - Non-Controlling Interests" in the consolidated balance sheets is as follows:

	Thousands of Euros	
	2011	2010
Alcaidesa Holding, S,A,	29,056	31,291
Costa Canaria de Veneguera, S,A,	3,656	3,718
Clínica Sear, S,A,	2,038	2,159
Aljarafe Golf, S,A,	1,086	1,094
Other	180	253
	36,016	38,515

b) Changes

The changes in 2011 and 2010 in “Non-Controlling Interests” in the consolidated balance sheets are summarised as follows:

	Thousands of Euros	
	2011	2010
Beginning balance	38,515	41,165
Change in proportion of ownership interest		-
Attributable loss for the year	(2,514)	(2,650)
<i>Of which:</i>		
<i>Alcaidesa Holding, S,A,</i>	<i>(2,235)</i>	<i>(2,127)</i>
<i>Other</i>	<i>(279)</i>	<i>(523)</i>
Other changes	15	-
Ending balance	36,016	38,515

27. Valuation adjustments

The balances of “Valuation Adjustments” in the consolidated balance sheets include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognised temporarily in equity through the statement of changes in equity until they are extinguished or realised, when they are recognised definitively in shareholders’ equity through the consolidated income statement. The amounts arising from subsidiaries, jointly controlled entities and associates are presented, on a line-by-line basis, in the appropriate items according to their nature,

“Valuation Adjustments” includes the following items:

a) Available-for-sale financial assets

“Valuation Adjustments - Available-for-Sale Financial Assets” includes the net amount of unrealised changes in the fair value of assets classified for measurement purposes as available-for-sale financial assets,

b) Cash flow hedges

“Valuation Adjustments - Cash Flow Hedges” includes the net amount of changes in the value of derivatives designated as hedging instruments in cash flow hedges, for the portion of these changes considered to be “effective hedges” (see Note 12). This amount will be reclassified to profit or loss from 2010 to 2022,

The consolidated statements of recognised income and expense for 2011 and 2010 include the changes in “Valuation Adjustments – Cash Flow Hedges” in the consolidated balance sheets in those years,

28. Issued capital

At 31 December 2011 and 2010, the Bank's share capital consisted of 687,386,798 fully subscribed and paid shares of EUR 0,79 par value each, all with identical voting and dividend rights and listed on the Spanish stock exchanges,

At 31 December 2011, the Bank's majority shareholder was the Santander Group, which held 89,03% of the Bank's share capital (31 December 2010: 89,28%),

At the Annual General Meeting on 23 February 2011, the Bank's shareholders authorised the Board of Directors to implement the derivative acquisition of shares of the Bank and its parent by the Bank and its subsidiaries within the legally stipulated limits,

At 31 December 2011, the Group held 5,160,868 treasury shares with an acquisition cost of EUR 27,954 thousand (31 December 2010: 5,819,840 treasury shares; acquisition cost of EUR 41,164 thousand) (see Notes 29 and 30),

29. Reserves

a) Definitions

The balance of “Shareholders' Equity - Reserves - Accumulated Reserves” in the consolidated balance sheets includes the net amount of the accumulated profit or loss recognised in previous years through the consolidated income statement that, in the distribution of profit, was appropriated to equity. The balance of “Shareholders' Equity - Reserves of Entities Accounted for Using the Equity Method” in the consolidated balance sheets includes the net amount of the accumulated profit or loss generated in previous years by entities accounted for using the equity method, recognised through the consolidated income statement,

b) Breakdown

The detail of “Accumulated Reserves” and “Reserves of Entities Accounted for Using the Equity Method” at 31 December 2011 and 2010 is as follows:

	Thousands of Euros	
	2011	2010
Accumulated reserves:		
Restricted reserves-		
Legal reserve	216,460	216,460
Reserve for treasury shares (Notes 28 and 30) and for loans for the purchase of shares of the Bank and of Banco Santander, S,A,	34,991	48,584
Reserve for redenomination of the share capital in euros	2,480	2,480
Reserve for retired capital	5,485	5,485
Unrestricted reserves-		
Voluntary reserves	4,199,485	3,991,128
Consolidation reserves attributable to the Bank	431,056	226,388
Reserves of subsidiaries	9,643	192,235
	4,899,600	4,682,760
Reserves of entities accounted for using the equity method:		
Associates-		
<i>Of which:</i>		
<i>Sistemas 4B</i>	4,718	4,720
<i>Other</i>	(711)	1,848
	4,007	6,568
	4,903,607	4,689,328

Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches 20% of the share capital, The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount,

Reserves for treasury shares

Pursuant to the Consolidated Spanish Limited Liability Companies Law, a restricted reserve has been recognised for an amount equal to the carrying amount of the Bank shares owned by subsidiaries, The balance of this reserve will become unrestricted when the circumstances that made it necessary to record it cease to exist, Additionally, this reserve covers the outstanding balance of the loans granted by the Group for the acquisition of shares of Banco Santander, S,A, and of the Bank, which are pledged as collateral,

Reserves for retired capital

Pursuant to the Consolidated Spanish Limited Liability Companies Law, a restricted reserve was recognised for an amount equal to the par value of the Bank shares retired in 2008 (see Note 28),

Reserves of subsidiaries

The detail, by company, of the balance of "Reserves at Subsidiaries", based on the subsidiaries' contribution to the Group (considering the effect of consolidation adjustments) is as follows:

	Thousands of Euros	
	2011	2010
Costa Canaria Veneguera, S,A,	(6,879)	(6,683)
Elerco, S,A,	(7,447)	6,632
Banesto Bolsa, S,A,, S,V,B,	77,053	76,618
Dudebasa, S,A,	(631)	4,326
Oil-Dor, S,A,	37,732	35,214
Santander Seguros y Reaseguros, Compañía Aseguradora, S,A,	175,741	174,144
Santander Pensiones, E,G,F,P,, S,A, (*)	-	7,827
Banesto Holding, Ltd,	(6,483)	(5,736)
Mesena Servicios de Gestión Inmobiliaria, S,A,	(359,392)	(197,875)
Hualle, S,A,	87,112	69,254
Promodomus, S,L,	(6,631)	(510)
Aljarafe Golf, S,A,	11,821	11,800
Aktua Soluciones	8,876	5,072
Other companies	(1,229)	(2,234)
Total	9,643	192,235

(*) Company sold in 2011 (see Note 3)

30. Treasury shares

The balance of "Shareholders' Equity – Treasury Shares" in the consolidated balance sheets includes the amount of own equity instruments held by all the Group entities,

Transactions involving own equity instruments, including their issuance and redemption, are recognised directly in equity, and no profit or loss may be recognised as a result of them, The costs of any transaction involving own equity instruments are deducted directly from equity, net of any related tax effect,

The Bank shares owned by the Banesto Group companies accounted for 0,75% of the issued share capital at 31 December 2011 (31 December 2010: 0,85%),

The average purchase price of the Bank shares was EUR 5,57 per share in 2011 and the average selling price was EUR 4,77 per share in that year (2010: EUR 7,27 and EUR 7,34 per share, respectively),

The net losses on transactions involving shares issued by the Bank (EUR 5,208 thousand in 2011 and EUR 3,728 thousand in 2010) were recognised as a reduction of reserves,

31. Memorandum items

"Memorandum Items" includes balances representing rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions entered into by the consolidated entities although they may not impinge on their net assets,

a) Contingent liabilities

"Contingent Liabilities" includes all transactions under which the consolidated entities guarantee the obligations of a third party and which result from financial guarantees granted or from other types of contract, This category comprises the following items:

Guarantees

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 failed to do so,

The detail of "Guarantees" at 31 December 2011 and 2010 is as follows:

	Thousands of Euros	
	2011	2010
Bank guarantees and other indemnities provided	8,034,955	8,621,937
Credit derivatives sold	-	50,000
Irrevocable documentary credits	456,814	459,587
	8,491,769	9,131,524

A significant portion of these guarantees will expire without any payment obligation materialising for the consolidated entities and, therefore, the aggregate balance of these commitments cannot be considered to be an actual future need for financing or liquidity to be provided by the Group to third parties,

Income from guarantee instruments is recognised under "Fee and Commission Income" in the consolidated income statements and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee,

b) Contingent commitments

"Contingent Commitments" includes those irrevocable commitments that could give rise to the recognition of financial assets,

The detail of "Contingent Commitments" at 31 December 2011 and 2010 is as follows:

	Thousands of Euros	
	2011	2010
Drawable by third parties (undrawn credit facilities)	7,889,498	10,426,675
Regular way financial asset purchase contracts	191,823	192,475
Other contingent commitments	2,945,348	8,789,440
	11,026,669	19,408,590

32. Notional amounts of trading and hedging derivatives

The detail of the notional and/or contractual amounts of the trading and hedging derivatives held by the Group at 31 December 2011 and 2010 is as follows:

	Thousands of Euros			
	2011		2010	
	Notional Amount	Market Value (*)	Notional Amount	Market Value (*)
Trading derivatives:				
Interest rate risk-				
Forward rate agreements	16,705,000	(6,272)	2,975,000	430
Interest rate swaps	206,000,904	269,109	176,690,365	148,271
Options and futures	54,794,015	45,393	66,251,629	97,432
Currency risk-				
Foreign currency purchases and sales	4,435,339	84,587	5,951,087	462
Foreign currency options	1,608,268	74	898,991	(1,327)
Currency swaps	4,285,482	(273,913)	4,659,900	(293,673)
Securities and commodities derivatives	18,931,482	288,661	27,169,357	(69,914)
	306,760,490	407,639	284,596,329	(118,319)
Hedging derivatives:				
Interest rate risk-				
Interest rate swaps	38,228,777	913,704	42,304,170	1,041,506
Options and futures	598,705	4,144	608,706	418
	38,827,482	917,848	42,912,876	1,041,924
Total	345,587,972	1,325,487	327,509,205	923,605

(*) See Notes 2-a and 2-b,

The Group manages the credit risk exposure of these contracts through netting agreements with its main counterparties and by taking assets as collateral of its risk function,

The fair value of the hedging derivatives, by type of hedge, is as follows:

	Millions of Euros	
	2011	2010
Fair value hedges	933,894	1,011,291
Cash flow hedges	(16,046)	30,633
	917,848	1,041,924

As stated in Note 2-b, the fair value of hedging derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement,

Following is a description of the main hedges (including the results of the hedging instrument and the hedged item attributable to the hedged risk):

i, Fair value hedges

The Group basically hedges the interest rate risk of the issues guaranteed by it, At 2011 year-end the Group held IRS contracts and interest rate options for a nominal amount of EUR 23,123 million (2010 year-end: EUR 23,122 million), The accumulated gains on these transactions totalled EUR 876 million (2010: EUR 810 million), which were offset by the losses of the same amount resulting from remeasuring the hedged items; these losses are recognised under “Changes in the Fair Value of Hedged Items in Portfolio Hedges of Interest Rate Risk” on the liability side of the consolidated balance sheet,

In 2009 the Group arranged a fair value hedge of the interest rate risk of a portfolio of financial instruments, The purpose of the hedge is to maintain the economic value of the hedged transactions, which are basically fixed-interest loans with original maturities at long term, hedged by IRSs, The accumulated losses on these transactions totalled EUR 128 million, which were offset by the gains resulting from remeasuring the hedged items; these gains are recognised under “Changes in the Fair Value of Hedged Items in Portfolio Hedges of Interest Rate Risk” on the asset side of the consolidated balance sheet,

In 2011 a revenue of EUR 8,739 thousand and an expense of EUR 6,971 thousand, attributable to the hedged risk, were recognised in profit or loss on the hedging instruments and on the hedged items, respectively, and these amounts are recognised under “Gains/Losses on Financial Assets and Liabilities (Net) - Hedge Accounting Transactions not Included in Interest” in the consolidated income statement,

ii, Cash flow hedges

The Group hedges the interest rate risk arising from the variability of the cash flows from mortgage loans tied to floating interest rates,

Following is a detail of the years in which the flows hedged by the cash flow hedges will foreseeably take place:

Thousands of Euros				
2012	2013	2014	2015	>2015
159,028	11,176	-	-	-

The Group did not recognise any charge in profit or loss attributable to the ineffectiveness of the cash flow hedges in 2011 and 2010,

The notional and/or contractual amounts of the contracts entered into (described above) do not reflect the actual risk assumed by the Group, since the net position in these financial instruments is the result of offsetting and/or combining them, This net position is used by the Group basically to hedge the interest rate, underlying asset price or currency risk,

33. Off-balance-sheet funds under management

The detail of off-balance-sheet funds managed by the Group at 31 December 2011 and 2010 is as follows:

	Thousands of Euros	
	2011	2010
Investment funds	4,447,679	5,740,670
Pension funds	1,237,406	1,337,420
Assets under management	2,588,197	2,450,132
	8,273,282	9,528,222

34. Interest and similar income

“Interest and Similar Income” in the consolidated income statement comprises the interest accruing in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value; and the rectifications of income as a result of hedge accounting, Interest is recognised gross, without deducting any tax withheld at source,

The detail of the main items of interest and similar income earned by the Group in 2011 and 2010 is as follows:

	Thousands of Euros	
	2011	2010
Balances with central banks	12,548	10,111
Financial assets held for trading	9,869	11,877
Available-for-sale financial assets	143,066	161,581
Loans and receivables	2,720,526	2,727,299
Held-to-maturity investments	119,747	72,145
Rectifications of income as a result of hedging transactions	(9,442)	(18,373)
Insurance contracts linked to pensions	55,472	56,610
Insurance activity income	19,223	19,968
	3,071,009	3,041,218

35. Interest expense and similar charges

“Interest Expense and Similar Charges” in the consolidated income statement includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest method, irrespective of measurement at fair value; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to pension funds,

The detail of the main items of interest expense and similar charges incurred by the Group in 2011 and 2010 is as follows:

	Thousands of Euros	
	2011	2010
Financial liabilities held for trading	957	889
Financial liabilities at amortised cost	2,003,702	1,980,228
Rectifications of costs as a result of hedging transactions	(533,391)	(751,525)
Provisions for pensions (Note 24)	81,697	86,898
Other liabilities	1,732	1,327
	1,554,697	1,317,817

36. Income from equity instruments

“Income from Equity Instruments” includes the dividends and payments on equity instruments out of profits generated by investees after the acquisition of the equity interest,

The detail of “Income from Equity Instruments” is as follows:

	Thousands of Euros	
	2011	2010
Equity instruments classified as:		
Financial assets held for trading	32,525	42,859
Available-for-sale financial assets	45	35
	32,570	42,894

37. Share of results of entities accounted for using the equity method

“Share of Results of Entities Accounted for Using the Equity Method” comprises the amount of profit or loss attributable to the Group generated during the year by associates, as well as by jointly controlled entities when the equity method has been chosen for their measurement,

The detail of “Share of Results of Entities Accounted for Using the Equity Method” is as follows:

	Thousands of Euros	
	2011	2010
Associates:		
Compañía Concesionaria del Túnel de Soller, S,A,	-	268
Grupo Agres, S,A,	53	(62)
Carnes Estelles, S,A,	(477)	(1,259)
Aguas de Fuensanta, S,A,	(27)	40
Sistemas 4B, S,A,	1,611	1,689
Parque Solar Saelices, S,L,	(1,449)	1,449
Parque Solar la Robla, S,L,	174	(174)
Promotoras Desarrollos de Activos, S,L,	(23)	(1,627)
Queenford, S,L,	(1,495)	-
Other	115	(84)
	(1,518)	240

38. Fee and commission income

“Fee and Commission Income” comprises the amount of all fees and commissions accruing in favour of the Group in the year, except those that form an integral part of the effective interest rate on financial instruments,

The detail of “Fee and Commission Income” is as follows:

Fee and Commission Income Arising from:	Thousands of Euros	
	2011	2010
Financing granted to third parties:		
Commitment fees	22,710	14,014
Management services:		
Investment funds and other collective investment undertakings	59,503	67,224
Pension funds and plans	29,769	31,965
Assets owned by third parties	846	837
	90,118	100,026
Investment services:		
Underwriting and placement of securities issued by third parties	1,794	1,775
Securities market brokerage	13,404	11,814
Custody services	8,198	8,001
	23,396	21,590
Other:		
Foreign exchange	4,841	4,035
Financial guarantees	82,692	85,320
Collection and payment services	321,462	327,841
Other fees and commissions	120,713	114,211
	529,708	531,407
	665,932	667,037

39. Fee and commission expense

“Fee and Commission Expense” shows the amount of all fees and commissions paid or payable by the Group in the year, except those that form an integral part of the effective interest rate on financial instruments,

The detail of “Fee and Commission Expense” is as follows:

	Thousands of Euros	
	2011	2010
Fees and commissions assigned to third parties	71,752	67,668
Other fees and commissions	52,697	55,112
	124,449	122,780

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

“Gains/Losses on Financial Assets and Liabilities (Net)” includes the amount of the valuation adjustments of financial instruments, except those attributable to interest accrued as a result of application of the effective interest method and to allowances, which are recorded in the consolidated income statement, and the gains or losses obtained from the sale and purchase thereof,

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

	Thousands of Euros	
	2011	2010
Fixed-income securities	13,963	70,432
Equities	(224,462)	(57,837)
Financial derivatives and other	310,034	141,033
	99,535	153,628

41. Other operating income and Other operating expenses

"Other Operating Income" and "Other Operating Expenses" include the income and expenses from other operating activities of the Group's credit institutions not included in other items,

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

	Thousands of Euros			
	Income		Expenses	
	2011	2010	2011	2010
Insurance and reinsurance premium income	1,126,118	832,287	-	-
Reinsurance premiums paid			33,770	34,888
Reinsurance income	159,774	154,501		
Claims paid and other insurance-related expenses	-	-	805,046	1,084,292
Net (reversals)/provisions for insurance contract liabilities	-	-	372,940	(206,475)
Sales and income from the provision of non-financial services	21,455	26,122	-	-
Cost of sales	-	-	5,843	10,307
Exploitation of investment property and operating leases (Note 15)	5,236	3,240	-	-
Commissions on financial instruments offsetting related direct costs	12,928	15,041	-	-
Expenses recovered through their addition to the selling cost of goods and services	14,473	10,618	-	-
Other	3,509	3,328	-	-
Contribution to the Deposit Guarantee Fund (Note 1-g)	-	-	22,464	18,606
Investment property and other expenses	-	-	50,206	50,280
	1,343,493	1,045,137	1,290,269	991,898

Insurance activity income

The detail of the net amount of the contribution from insurance and reinsurance subsidiaries to gross income is as follows:

	Thousands of Euros					
	2011			2010		
	Life	Non-Life	Total	Life	Non-Life	Total
Premiums collected	1,069,871	56,247	1,126,118	802,485	29,802	832,287
Reinsurance premiums paid	(32,368)	(1,402)	(33,770)	(29,515)	(5,373)	(34,888)
Net premiums	1,037,503	54,845	1,092,348	772,970	24,429	797,399
Claims paid and other insurance-related expenses	(771,613)	(33,433)	(805,046)	(917,309)	(166,983)	(1,084,292)
Reinsurance income	5,855	153,919	159,774	1,912	152,589	154,501
Net reversals / (provisions) for insurance contract liabilities	(355,560)	(17,380)	(372,940)	178,812	27,663	206,475
Finance income	17,076	2,147	19,223	17,693	2,275	19,968
Finance expense	-	-	-	-	-	-

Sales and income from the provision of non-financial services and Cost of sales

“Sales and Income from the Provision of Non-Financial Services” and “Cost of Sales” show, respectively, the amount of sales of assets and income from the provision of services that constitute the typical activity of non-financial entities and the related cost of sales. The main lines of business of these entities are as follows:

Line of Business	Thousands of Euros			
	2011		2010	
	Sales/ Income	Cost of Sales	Sales/ Income	Cost of Sales
Real estate	6,647	2,122	10,458	7,483
Services	3,108	425	3,543	487
IT and other	11,700	3,296	12,121	2,337
	21,455	5,843	26,122	10,307

42. Staff costs

“Staff Costs” comprises all the remuneration of the personnel on the pay-roll, whether permanent or temporary, irrespective of their functions or activity, accruing in the year for whatever reason, including the current service cost in respect of pension plans, remuneration based on own equity instruments and expenses capitalised as part of the value of assets,

a) Breakdown

The detail of "Staff Costs" is as follows:

	Thousands of Euros	
	2011	2010
Wages and salaries	450,324	481,702
Social security costs	101,664	102,246
Additions to internal pension provisions (Note 24)	10,613	11,732
Contributions to external pension funds (Note 2-v)	6,773	6,645
Other staff costs	41,656	43,536
	611,030	645,861

b) Headcount

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

	Number of Employees			
	2011		2010	
	Men	Women	Men	Women
Senior executives	13	1	12	2
Other line personnel	4,641	2,783	4,801	2,765
Clerical staff	543	434	607	525
General services personnel	6	-	4	-
Staff at subsidiaries and branches abroad	35	15	31	21
Other non-financial companies	343	211	315	191
	5,581	3,444	5,770	3,504

c) Equity-instrument-based employee remuneration

The shareholders at the Annual General Meeting held on 24 February 2010 approved a Long-Term Incentive Plan comprising schemes payable in shares of Banco Español de Crédito, S.A. The Plan beneficiaries are certain executives, including the executive directors and senior executives (see Note 5-a). These schemes entail, where appropriate, the delivery of shares to the beneficiaries in successive cycles. Each cycle will have a duration of three-and-a-half years, although the first three schemes under the Plan commenced simultaneously on 1 January 2010 and will expire on 30 June 2011, 2012 and 2013, respectively. The maximum number of shares to be delivered was 2,489,374 ordinary shares. Following delivery in July 2011 of the shares relating to the scheme that was completed in June 2011, the maximum number of shares to be delivered has been 2,327,328 ordinary shares. The targets, which, if met, will determine the number of shares to be delivered, are based on the performance of the Bank's total shareholder return (TSR) as compared with that of a benchmark group of financial institutions. TSR is taken to be the difference between the latest value of an investment in ordinary shares of each of the compared institutions and the initial value of that same investment, considering the dividends or similar items received by the shareholder as if they had been reinvested in more shares of the same type on the earliest date on which the dividend were payable to the shareholders. The estimated accrued cost of this Plan for the Bank is recognised in equity under "Other Equity Instruments - Other" in the balance sheet. As stipulated in the Plan regulations, should a beneficiary

take up employment at another Santander Group company, provided there are no other modifying circumstances, the rights of that beneficiary shall not be affected,

At 31 December 2010, the TSR targets established in the Plan regulations were met, since Banesto ranked third when compared to the benchmark banks, The shares corresponding to each of the beneficiaries, totalling 153,508 shares, were delivered on 6 July 2011,

The shareholders at the Annual General Meeting held on 23 February 2011 approved the deferral of a percentage of the variable remuneration earned by certain executive directors in 2010 (see Note 5-b), The aforementioned plan envisaged the delivery of Banesto shares over three consecutive years, in the first four months of each year,

43. Other general administrative expenses

The detail of "Other General Administrative Expenses" in the consolidated income statements is as follows:

	Thousands of Euros	
	2011	2010
Technology, systems and communications	67,065	66,644
Advertising and technical reports	19,304	19,270
Property and fixtures	80,189	75,529
Taxes other than income tax	19,138	17,382
Surveillance and cash courier services	14,422	14,148
Insurance premiums	1,572	1,522
Other administrative expenses	69,648	71,700
	271,338	266,195

The detail of the fees paid to the respective auditors for the audits of the Group companies (see Appendices I, II and III) is as follows:

	Thousands of Euros	
	2011	2010
Audit of separate and consolidated financial statements (*)	1,438	1,539
Other reports required of the auditor by the supervisor	169	228
	1,607	1,767
Other services billed by Deloitte	203	476
Other auditors		
<i>Audit</i>	25	42
<i>Other services</i>	28	224
	1,863	2,509

(*) Including the fees paid for the internal control audit required by the US Sarbanes-Oxley Act, with which the Santander Group is obliged to comply (see Note 28),

44. Gains/(losses) on disposal of assets not classified as non-current assets held for sale

“Gains/(Losses) on Disposal of Assets Not Classified as Non-Current Assets Held for Sale” in the consolidated income statement includes the income and expenses arising from non-ordinary activities not included in other items. This line item basically includes net gains on sale of property, plant and equipment amounting to EUR 45,577 thousand (see Note 15) and on sale of investees amounting to EUR 122,173 thousand (see Note 18),

45. Residual maturity periods and average interest rates

The detail, by maturity, of the balances of certain items in the consolidated balance sheets at 31 December 2011 and 2010 and of the average interest rates in 2011 and 2010 is as follows:

2011	Thousands of Euros							Average Annual Interest Rate (%)
	On Demand	Less than 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total	
Assets:								
Cash and balances with central banks	253,822	4,379,976	-	-	-	-	4,633,798	0,95
Loans and receivables-								
Loans and advances to credit institutions	1,013,367	1,828,614	1,642,821	2,462,147	287,514	1,357,524	8,591,987	3,38
Loans and advances to customers	4,408,933	4,831,497	2,094,975	9,513,397	9,540,027	38,809,571	69,198,400	2,88
Debt instruments-								
Financial assets held for trading	-	86,663	7,521	29,913	150,475	29,585	304,157	2,60
Available-for-sale financial assets	-	-	110,600	3,378,313	1,908,027	1,251,370	6,648,310	2,47
Loans and receivables	-	-	-	-	50,000	21,977	71,977	1,61
Held-to-maturity investments	-	-	-	-	2,032,636	1,370,171	3,402,807	3,50
	5,676,122	11,126,750	3,855,917	15,383,770	13,968,679	42,840,198	92,851,436	
Liabilities:								
Financial liabilities at amortised cost-								
Deposits from central banks and credit institutions	142,871	6,385,375	1,401,698	2,665,918	859,954	680,556	12,136,372	1,88
Customer deposits	21,826,222	13,517,321	7,946,485	7,340,152	70,523	545,441	51,246,144	2,01
Marketable debt securities	395,784	495,829	1,200,961	4,296,483	15,639,041	1,994,632	24,022,730	3,05
Subordinated liabilities	2,448	-	-	-	609,300	754,071	1,365,819	5,00
Other financial liabilities	1,919,120	140,963	34,528	250	314,519	32,952	2,442,332	0,01
	24,286,445	20,539,488	10,583,672	14,302,803	17,493,337	4,007,652	91,213,397	

2010	Thousands of Euros							Average Annual Interest Rate (%)
	On Demand	Less than 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total	
Assets:								
Cash and balances with central banks	235,540	1,343,315	-	-	-	-	1,578,855	0,83
Loans and receivables-								
Loans and advances to credit institutions	1,335,784	3,812,002	3,945,193	5,155,682	622,287	1,240,032	16,110,980	2,77
Loans and advances to customers	5,063,128	3,268,396	3,870,302	9,086,564	12,633,808	41,826,859	75,749,057	3,22
Debt instruments-								
Financial assets held for trading	-	80,830	53,571	34,944	136,008	29,455	334,808	1,36
Available-for-sale financial assets	-	95,808	25,517	1,713,409	4,360,368	1,559,368	7,754,470	3,26
Loans and receivables	-	-	-	-	-	379,188	379,188	1,41
Held-to-maturity investments	-	-	-	-	2,054,744	1,376,429	3,431,173	3,02
	6,634,452	8,600,351	7,894,583	15,990,599	19,807,215	46,411,331	105,338,531	
Liabilities:								
Financial liabilities at amortised cost-								
Deposits from central banks and credit institutions	114,842	3,073,397	2,012,840	2,270,098	18,098	61,359	7,550,634	1,05
Customer deposits	23,020,874	20,080,269	12,228,304	3,664,046	407,062	675,625	60,076,180	1,81
Marketable debt securities	448,944	1,344,232	4,355,206	2,409,614	16,156,729	4,499,457	29,214,182	1,56
Subordinated liabilities	18,235	-	-	-	600,000	1,886,191	2,504,426	2,42
Other financial liabilities	2,218,905	430,179	55,256	1,653	307,749	8,781	3,022,523	0,01
	25,821,800	24,928,077	18,651,606	8,345,411	17,489,638	7,131,413	102,367,945	

This table does not reflect the Group's liquidity position since it considers demand deposits and other customer deposits as any other liability, whereas their stability is a typical feature of commercial banking. Considering this effect, the differences between assets and liabilities for each of the maturity periods are within reasonable thresholds in view of the business volumes managed, Note 49 contains a detailed description of the Group's liquidity management activities,

46. Business segment reporting

Basis of segmentation

Segment reporting is structured by the Group's various business segments. The distribution by geographical segment is not significant, since substantially all the profit or loss is obtained in Spain. The business lines described below were established on the basis of the Banesto Group's organisational structure at 2010 year-end, taking into account, on the one hand, the nature of the goods and services offered and, on the other, the customer segments at which they are targeted,

In 2011 the Banesto Group engaged mainly in the following lines of business:

- Commercial Banking (households and SMEs)
- Corporate Banking (large companies)
- Markets and International,

Income and expenses that cannot be specifically attributed to any operating line or that are the result of decisions affecting the Group as a whole -among them, expenses incurred in projects or activities affecting several lines of business, income from strategic investments, impairment losses recognised for goodwill, etc,- are attributed to a unit called "Corporate Activities" to which the reconciling items arising from the reconciliation of the result of integrating the financial statements of the various lines of business (prepared using a management approach) to the Group's consolidated financial statements are also allocated,

Basis and methodology for business segment reporting

The segment information shown below is based on monthly reports prepared using the data provided by a management control computer application,

The reporting structure is designed as if each line of business were an autonomous business and had its own separate equity that is distributed on the basis of the risk to which the assets allocated to each line are subject, based on an internal cost percentage allocation system,

The business lines' net interest income and gross income are calculated by applying to their respective assets and liabilities transfer prices which are consistent with current market rates. Income from equity securities is allocated among the various lines of business on the basis of their share,

Administrative expenses include direct and indirect costs and are allocated among the lines of business and support service units on the basis of the internal use of these services,

Segment assets include financial assets held for trading, investment securities and loans and advances to credit institutions and customers, net of impairment losses, Segment liabilities and equity include deposits from credit institutions, customer deposits and equity, The other assets and liabilities and the reconciling items between total assets, liabilities and equity allocated to the various business lines and those reported in the Group's consolidated balance sheet are allocated to Corporate Activities,

	Thousands of Euros									
	Commercial Banking		Corporate Banking		Markets and International		Corporate Activities		Total Group	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Interest and similar income	2,030,883	2,129,363	387,063	328,662	265,81	296,181	387,244	287,012	3,071,009	3,041,218
Interest expense and similar charges	(789,227)	(708,908)	(269,451)	(202,083)	(184,820)	(214,226)	(311,199)	(192,600)	(1,554,697)	(1,317,817)
Net interest income	1,241,656	1,420,455	117,612	126,579	80,99	81,955	76,045	94,412	1,516,312	1,723,401
Income from equity instruments	-	-	-	-	32,52	42,859	44	35	32,570	42,894
Share of results of entities accounted for using the equity method	-	-	-	-	-	-	(1,518)	240	(1,518)	240
Net fee and commission income	548,633	565,432	57,038	54,857	23,05	23,623	(87,243)	(99,655)	541,483	544,257
Gains/losses on financial assets and liabilities and exchange differences	50,280	70,309	20,134	13,472	54,06	77,011	27,717	35,078	152,199	195,870
Other operating income/expenses	(17,742)	(16,747)	(1,442)	(946)	355	646	72,053	70,286	53,224	53,239
Gross income	1,822,827	2,039,449	193,342	193,962	191,003	226,094	87,098	100,396	2,294,270	2,559,901
Expenses and depreciation and amortisation charge	(862,677)	(875,459)	(24,149)	(22,739)	(45,448)	(44,644)	(59,005)	(74,746)	(991,279)	(1,017,588)
Provisions	-	-	-	-	-	-	(15,114)	52,967	(15,114)	52,967
Asset impairment	(635,458)	(433,147)	(39,262)	(24,633)	(10,531)	(6,499)	24,234	(380,774)	(661,017)	(845,053)
Profit (loss) from operations	324,692	730,843	129,931	146,590	135,024	174,951	37,213	(302,157)	626,860	750,227
Other net gains/losses	-	-	-	-	-	-	(498,984)	(141,929)	(498,984)	(141,929)
Profit (loss) before tax	324,692	730,843	129,931	146,590	135,024	174,951	(461,771)	(444,086)	127,876	608,298
Income tax	(90,914)	(204,636)	(36,381)	(41,045)	(37,806)	(48,987)	159,852	143,792	(5,249)	(150,876)
Profit (loss) for the year from continuing operations	233,778	526,207	93,550	105,545	97,218	125,964	(301,919)	(300,294)	122,627	457,422
Loss attributable to non-controlling interests	-	-	-	-	-	-	(2,514)	(2,650)	(2,514)	(2,650)
Profit (loss) attributable to the Group	233,778	526,207	93,550	105,545	97,218	125,964	(299,405)	(297,644)	125,141	460,072
Assets by segment - millions of euros	52,027	56,326	11,207	12,292	14,532	21,095	31,083	30,907	108,848	120,620
Liabilities by segment - millions of euros	33,006	40,830	3,550	3,457	24,093	23,425	48,200	52,908	108,848	120,620

Substantially all the total income for 2011, which includes interest and similar income, income from investment securities, fee and commission income, net gains on financial assets and liabilities held for trading and other income from ordinary activities, was obtained in Spain. It should be noted, however, that 0,9% of total income for 2011 was generated in the United States (2010: 0,8%),

96,1% of loans and advances to customers relate to borrowers resident in Spain (2010: 96,3%), 1,7% to borrowers resident in other EU countries (2010: 1,9%) and 0,6% to residents in other OECD countries (2010: 0,6%),

47. Related party transactions

a) Transactions with companies in the Banco Español de Crédito Group and the Santander Group (Parent, subsidiaries and associates)

All significant inter-company balances at 2011 year-end and the effect of inter-company transactions during the year were eliminated on consolidation, The detail of the Group's most significant balances with associates and Santander Group companies (see Note 28) and of the effect on the income statements of transactions performed with them is as follows:

	Thousands of Euros	
	2011	2010
Assets:		
Credit institutions	6,336,233	13,959,093
Claims on customers	481,883	187,637
Liabilities:		
Credit institutions	943,645	1,128,710
Due to customers	61,923	74,169
Income statement:		
Debit-		
Interest expense and similar charges	(52,122)	(50,798)
Fee and commission expense	(3,020)	(2,558)
Other general administrative expenses	(72,820)	(79,332)
Credit-		
Interest and similar income	290,503	328,405
Income from equity securities	9,761	3,551
Fee and commission income	135,013	80,845
Gains on derecognition or disposal of assets (see Note 3)	116,427	-
Other income – Repurchase of subordinated debt (see Note 22)	54,000	-
Memorandum items:		
Contingent liabilities	245,912	121,519
Commitments	3,708	7,441

b) Transactions with Board members and executives (key management personnel of the Bank and its parent)

The information on the remuneration earned by the Bank's key management personnel is detailed in Note 5,

The balance of direct lending transactions to key management personnel of the Bank amounted to EUR 2,259 thousand at 31 December 2011 (31 December 2010: EUR 3,255 thousand),

Additionally, the transactions currently performed by the Bank's key management personnel are those characteristic of a normal commercial relationship with a bank,

c) Transactions with other related parties

At 31 December 2011 and 2010, the positions with other related parties as defined in the applicable regulations were as follows:

- Financing transactions (trade discount, credit, mortgage and other loans and other lending transactions): EUR 287 million and EUR 333 million, respectively,
- Off-balance sheet risks (guarantees and documentary credits): EUR 263 million and EUR 266 million, respectively,
- Deposit-taking transactions (customer deposits): EUR 99 million and EUR 6 million, respectively,

The transactions included in the aforementioned categories were performed in the normal course of the Bank's business with its customers (most of the balances relate to the Ferrovial Group) and on an arm's-length basis,

However, certain individuals and legal entities that are defined as related parties ordinarily perform with the Banesto Group transactions which are characteristic of a normal commercial relationship with a financial institution, for amounts which are not material and under market or employee conditions, as appropriate,

48. Fair value of financial assets and financial liabilities not measured at fair value

As discussed above, the financial assets owned by the Bank -except for loans and receivables and held-to-maturity investments, equity instruments whose market value cannot be estimated reliably and financial derivatives that have these instruments as their underlying and are settled by delivery of those investments- are measured at fair value in the accompanying consolidated balance sheets,

Similarly, the Bank's financial liabilities -except for financial liabilities held for trading, those measured at fair value and financial derivatives having equity instruments whose market value cannot be estimated reliably as their underlying- are measured at amortised cost in the accompanying consolidated balance sheets,

A portion of the assets and liabilities recognised under "Loans and Receivables" and "Financial Liabilities at Amortised Cost" in the consolidated balance sheets at 31 December 2011 and 2010 are included in the fair value hedges managed by the Group and, accordingly, are measured in the aforementioned consolidated balance sheets at their fair value in respect of the risk being hedged (interest rate risk - see Note 12),

Most of the other assets and certain liabilities earn or bear interest at a floating rate which is adjusted each year; therefore, their fair value resulting from the variations in market interest rates does not differ significantly from the amount at which they are recognised in the accompanying consolidated balance sheet,

The remaining assets and liabilities earn or bear interest at a fixed rate; and, since a significant portion of them mature within one year, their market value resulting from the variations in market interest rates does not differ significantly from the amount at which they are recognised in the accompanying consolidated balance sheet,

Accordingly, the fair value of the fixed-rate, fixed-term assets and liabilities, with residual maturity of more than one year and not hedged against variations in market interest rates, does not differ materially from the amount recognised in the accompanying consolidated balance sheet,

The market value of the balance of "Held-to-Maturity Investments" in the consolidated balance sheet at 31 December 2011 amounted to EUR 3,313 million (see Note 8),

The market value of derivatives for which there are no observable market data is determined basically using internal valuation models which include the Bank's own analyses of the variables influencing market value, in the form of time series and future probability analyses, such as prepayment rates, probabilities of default, expected losses, etc. All these internally generated data are included in the internal valuation model -previously validated by the Risk Department-, from which the market value of the aforementioned derivatives is obtained,

49. Risk and capital management

The distinguishing feature of risk management at Banesto in 2011 was the application of policies and procedures based on criteria of prudence and responsibility, combining advanced risk management and measurement methodologies with an efficient operating structure aimed at achieving risk control and anticipation, with a view to maintaining a high standard of credit quality and optimising the creation of value for its shareholders,

The risk function is performed by the Lending and Risk Area, which is responsible for meeting the credit quality and growth targets assigned to it, both in the strategic plans and in the annual budgets. The Lending and Risk Area is made up of several functional units, each of which is dedicated to the integral credit risk management of the various segments,

The Risk Committee, regulated by Article 15 bis of the Board Regulations, makes risk policy proposals to the Board of Directors. The Executive Committee decides upon the more complex transactions and those involving larger amounts and has delegated its other powers by operating levels based on the General Risk Responsibilities Map,

Furthermore, the Risk Committee, in addition to proposing the risk strategy and policies to the Board, is responsible for monitoring all the risks to which the Bank is exposed and for verifying and authorising the systems, processes and criteria required to ensure the efficient operation of the risk function,

The Lending and Risk Unit is responsible for proposing, managing, conveying and implementing risk policies, for ensuring compliance therewith and for managing, from both an operational and functional standpoint, all the lending and market-related tasks performed by the Bank,

The organisation, by type of risk, is as follows: the Lending and Risk Unit directly manages and controls credit risk and market risk, the Financial Area manages structural balance sheet risk, and the Resources Area manages operational risk. The Compliance Area regulates and oversees Banesto's reputational risk,

The Global Risk Unit centralises, analyses and compiles information on all risks and prepares balanced scorecards for the Bank's senior management,

I, Global risk management

The detail, by type of risk, of the Group's risk profile in 2011 and 2010, taking into account all its activities and measured in economic capital consumption terms, is shown in the table below:

	Percentage	
	Dec-10	Dec-11
Credit risk	79%	75,3%
Market risk	2%	3,6%
ALM	6%	8,1%
Operational risk	5%	3,8%
Business	3%	2,9%
Tangible assets	5%	6,3%

II, Credit risk

Credit risk is the possibility of a credit institution incurring a loss stemming from the failure of counterparties to meet their contractual financial obligations,

The table below details the distribution, by segment, of the credit risk exposure to customers in terms of exposure at default (EAD) at 31 December 2011 and 2010:

Millions of Euros	2011		2010	
	EAD	%	EAD	%
Corporate banking	13,334	16%	13,918	17%
Business banking	32,311	40%	31,027	38%
SMEs, retail businesses and enterprises	5,586	7%	5,783	7%
Independent professionals	2,151	3%	2,206	3%
Individuals	24,502	30%	27,706	32%
Banks, sovereign debtors and other	3,247	4%	2,497	3%
Total	81,131	100%	83,137	100%

Although Banesto has positions that are deemed to be "large exposures", they are far below the maximum risk concentration limit set by Bank of Spain Circular 3/2008,

Refinancing

Refinancing is one of the management tools established to adapt the maturity structure of loan principal and interest to the customers' new payment capacity,

At the Bank, refinancing is confined, with stringent and selective criteria, to:

- Viable transactions,
- In which customers have a willingness to pay,
- That improve the Bank's position in terms of expected loss, and
- In which refinancing does not discourage an additional effort by customers,

The Bank's refinancing policy ensures uniform strict application of these criteria:

- The overall customer risk is assessed, regardless of the situation of each individual contract, and the highest possible level of guarantees is assigned to all customer risks,
- As a general rule, the customer exposure is not increased,
- All the alternatives to refinancing and their impacts are assessed, making sure that the results of this solution exceed those which would foreseeably be obtained if no refinancing were performed,
- Special attention is paid to the guarantees and the possible future changes in their value,
- Its use is restricted; priority is given to the refinancing of loans that requires an additional effort from customers, and actions that only postpone the problem are avoided,
- Refinanced transactions are subject to special monitoring,

Refinancing is used mainly to address situations having a low impact on customer payment capacity and which are expected to last for a medium/long period of time, With greater restrictions, it can also be used for more serious cases in which the cause of the payment difficulty is estimated to be of short duration, No refinancing is applied to the most severe cases, in which other solutions are sought to recover the amount owed,

In addition to the close monitoring of these portfolios by the Bank's risk management teams, the competent supervisory authorities and the internal audit department of the Group to which it belongs pay special attention to the control and appropriate assessment of refinanced portfolios,

Refinancing does not entail the release of provisions or the classification of the related transactions as performing, unless:

- The criteria established in the regulations based on Bank of Spain circulars are met (i.e, collection of ordinary interest outstanding and new effective guarantees or reasonable assurance of payment capacity);
- The precautionary provisions included, using the principle of prudence, in the corporate policy of the Group to which the Bank belongs (sustained payment for a period of between three and twelve months, depending on the transaction features and the type of guarantee) are met,

At 2011 year-end, the balance of transactions refinancing exposures previously recognised as doubtful assets amounted to EUR 152,465 thousand,

Of the total refinanced amount, EUR 86,953 thousand met the requirements defined by the Bank of Spain to be reclassified as performing at the date of arrangement,

The remaining EUR 65,512 thousand related to refinancing transactions which, again in conformity with the conditions established by the Bank of Spain, remained classified as non-performing at the date of arrangement, It should be noted that a portion of the aforementioned balance remained classified as non-performing due to the application of criteria that were more prudent than those required by the Bank of Spain,

III,- Market risk

III,a Structural balance sheet risk

Interest rate risk is inherent to the Bank's activity and arises because the Bank's balance sheet contains assets and liabilities that are sensitive to interest rates and have different maturity and repricing structures, Dynamic management is required in order to mitigate the negative impact on the net interest margin and on the economic value of the Bank's capital resulting from fluctuations in interest rates,

Management policy and strategy

The Bank's main objective is to stabilise the net interest income in the event of interest rate fluctuations, whilst maintaining the entity's economic value and adequate liquidity and solvency levels, The Asset-Liability Committee (ALCO) is responsible for approving lending strategies and management, hedging, measurement and control policies designed to safeguard the net interest margin and economic value in the various interest rate scenarios, This management excludes the positions of the Markets department,

For the purpose of managing interest rate risk, the Bank enters into hedging transactions using either fixed-income instruments or interest rate derivatives (swaps, collars and swaptions), The selection of one instrument or another is based on factors such as cost, the effectiveness of the instrument and the effects it might have on the Bank's liquidity and capital,

The main measures for the management and control of interest rate risk are as follows:

a) Interest rate gap,

One method of ascertaining a bank's interest rate risk exposure is to analyse the maturity or repricing structure of its on- and off-balance-sheet items, On- and off-balance-sheet items are distributed among the various time horizons, distinguishing the items that are interest rate-sensitive from those that are not, Items (sensitive or otherwise) that do not have a contractual maturity date are allocated using certain assumptions based on their historical behaviour,

b) Sensitivity of net interest margin and economic value,

The sensitivity of the net interest margin is measured, using dynamic simulation tools, as the difference between the margin projected with the market yield curves at each analysis date and that projected on the basis of the various scenarios described above, The sensitivity of the Bank's economic value is determined as the difference between the net value of the interest rate-sensitive items calculated using the market yield curve at the analysis date and that calculated using the curve modified by the various assumptions,

Banesto focuses its sensitivity analysis mainly on its exposure in the first year. In this regard, as can be observed, Banesto's interest rate risk exposure is moderate in terms of the sensitivity at one year of the net interest margin, at - 6,3% (EUR 78 million), and of the economic value of capital, at - 5,1%, to parallel shifts of 100 basis points in the curve,

The following table shows the maturity and repricing gap structure of assets, liabilities and off-balance-sheet transactions at 31 December 2011 and 2010:

31 December 2011	Millions of Euros						Total
	Less than 3 Months	3 Months to 1 Year	1 to 2 Years	2 to 5 Years	More than 5 Years	Not Sensitive	
Assets							
Money market	2,826	2,829	13	1,528	5	2	7,203
Credit system	31,017	26,396	1,955	2,359	4,865	-	66,592
Securities portfolio	2,474	884	145	2,854	1,531	-	7,888
Other assets	-	-	-	-	-	15,542	15,542
Total assets	36,317	30,109	2,113	6,741	6,401	15,544	97,225
Liabilities							
Money market	7,829	839	212	6	48	-	8,934
Deposit market	8,915	12,719	8,492	5,776	5,333	-	41,235
Issues	9,567	4,053	3,916	9,751	1,223	-	28,510
Other liabilities	-	-	-	-	-	18,546	18,546
Total liabilities	26,311	17,611	12,620	15,533	6,604	18,546	97,225
Off-balance-sheet transactions	-19,598	-15,252	7,725	25,388	1,737		
Simple gap	-9,592	-2,754	-2,782	16,596	1,534	-3,002	
Cumulative gap	-9,592	-12,346	-15,128	1,468	3,002	-	
Sensitivity ratios:							
Assets-liabilities/Total assets	10,29%	12,85%	-10,81%	-9,04%	-0,21%	-3,09%	
Simple gap/Total assets	-9,87%	-2,83%	-2,86%	17,07%	1,58%	-3,09%	
Cumulative gap/Total assets	-9,87%	-12,70%	-15,56%	1,51%	3,09%		
Coverage ratio: Sensitive assets/ Sensitive liabilities	138,03%	170,97%	16,74%	43,40%	96,93%		

31 December 2010	Millions of Euros						
	Less than 3 Months	3 Months to 1 Year	1 to 2 Years	2 to 5 Years	More than 5 Years	Not Sensitive	Total
Assets							
Money market	4,228	9,965	34	1,555	46	2	15,830
Credit system	35,945	28,524	2,291	2,686	4,651	-	74,097
Securities portfolio	416	4,628	4,084	2,820	3,886	-	15,834
Other assets	-	-	-	-	-	14,201	14,201
Total assets	40,589	43,117	6,409	7,061	8,583	14,203	119,962
Liabilities							
Money market	10,585	4,043	965	2	5	35	15,635
Deposit market	10,037	20,500	3,194	10,365	5,385	-	49,481
Issues	14,234	1,926	4,807	9,940	3,440	-	34,347
Other liabilities	-	-	-	-	-	20,499	20,499
Total liabilities	34,856	26,469	8,966	20,307	8,830	20,534	119,962
Off-balance-sheet transactions	5,730	12,571	1,078	9,893	7,330	-	
Simple gap	3	4,077	(1,479)	(3,353)	7,083	(6,331)	
Cumulative gap	3	4,080	2,601	(752)	6,331	-	
Sensitivity ratios:							
Assets-liabilities/Total assets	4,78%	13,88%	(2,13)%	(11,04)%	(0,20)%	(5,28)%	
Simple gap/Total assets	-	3,40%	(1,23)%	(2,79)%	5,91%	(5,28)%	
Cumulative gap/Total assets	-	3,40%	2,17%	(0,62)%	5,28%		
Coverage ratio:							
Sensitive assets/ Sensitive liabilities	116,45%	162,90%	71,49%	34,77%	97,22%		

III,b, Liquidity risk

Liquidity risk management at Banesto is the responsibility of the Financial Management unit, The Bank's senior management is also deeply involved through the Asset-Liability Committee, the Risk Committee, the Executive Committee and the Board of Directors,

In 2011 the Bank generated liquidity in excess of EUR 6,000 million organically, as a result of the different trends in the balances of on-balance sheet loans and receivables and customer deposits, Thus, it further consolidated its robust balance sheet structure and reduced its dependence on wholesale financing markets,

The Bank's wholesale funding structure is based on medium- and long-term issues, which in aggregate account for 97% of total wholesale market funding, This financing is well diversified in terms of instruments, markets, investors and maturities,

In 2011 the Bank raised EUR 2,190 million in medium- and long-term issues in the wholesale senior debt and mortgage-backed bond markets, vis-à-vis maturities of the same kind totalling less than EUR 3,050 million in the year. The narrowing of the commercial gap referred to above enabled the Bank to be more selective in the issues launched by it this year, giving priority to maturity distribution and cost over the amount issued. Banesto's issue capacity is underpinned by its creditworthiness and its flexibility in adapting to the needs of the various types of investors,

Consequently, short-term funding represents a residual portion of the Bank's financing structure (less than 1% of total liabilities) and is covered in full by liquid assets,

Lastly, it should be noted that the Bank has significant capacity to resort to central bank funding. At 2011 year-end, the assets eligible for discount at the central bank totalled more than EUR 6,600 million. At that date, the net funds obtained from the ECB financing facility amounted to EUR 700 million,

The following table shows the maturity gaps of assets and liabilities in millions of euros at 31 December 2011 and 2010, which can be used as a basis for the analysis of liquidity:

31 December 2011	Millions of Euros						
	Less than 3 Months	3 Months to 1 Year	1 to 2 Years	2 to 5 Years	More than 5 Years	Not Sensitive	Total
Assets							
Money market	1,015	3,869	13	1,528	778	-	7,203
Credit system	7,541	12,184	7,459	13,393	26,015	-	66,592
Securities portfolio	1,125	2,851	1,934	2,918	3,121	-	11,949
Other assets	-	-	-	-	-	14,171	14,171
Total assets	9,681	18,904	9,406	17,839	29,914	14,171	99,915
Liabilities							
Money market	8,413	1,279	1,883	14	63	-	11,652
Deposit market	6,036	13,723	10,057	5,881	5,392	119	41,208
Issues	3,851	4,309	6,152	12,111	2,087	-	28,510
Other liabilities	-	-	-	-	-	18,545	18,545
Total liabilities	18,300	19,311	18,092	18,006	7,542	18,664	99,915
Simple gap	(8,619)	(407)	(8,686)	(167)	22,372	(4,493)	
Cumulative gap	(8,619)	(9,026)	(17,712)	(17,879)	4,493	-	

31 December 2010	Millions of Euros						
	Less than 3 Months	3 Months to 1 Year	1 to 2 Years	2 to 5 Years	More than 5 Years	Not Sensitive	Total
Assets							
Money market	3,362	9,965	34	1,555	914	-	15,830
Credit system	9,290	15,013	9,157	16,853	23,784	-	74,097
Securities portfolio	138	4,572	4,097	2,785	4,242	-	15,834
Other assets	-	-	-	-	-	14,201	14,201
Total assets	12,790	29,550	13,288	21,193	28,940	14,201	119,962
Liabilities							
Money market	10,585	4,044	967	8	19	12	15,635
Deposit market	7,749	21,175	3,879	11,109	5,416	153	49,481
Issues	7,763	2,412	5,864	13,799	4,509	-	34,347
Other liabilities	-	-	-	-	-	20,499	20,499
Total liabilities	26,097	27,631	10,709	24,916	9,944	20,664	119,962
Simple gap	(13,307)	1,919	2,578	(3,723)	18,996	(6,463)	
Cumulative gap	(13,307)	(11,388)	(8,810)	(12,533)	6,463	-	

These gaps reflect a typical commercial banking structure with a high percentage of demand deposit financing.

The detail of the balance sheet funding structure of the Banesto consolidated Group at 31 December 2011 is as follows:

Stable funding requirements	Thousands of Euros	Stable funding sources	Thousands of Euros
Loans and advances to customers	58,851,208	Customer deposits with 100% Deposit Guarantee Fund coverage	15,048,088
Loans and advances to Group and related companies	481,883	Customer deposits without 100% Deposit Guarantee Fund coverage	14,769,822
Securitised loans	5,313,000		
Specific funds	2,025,479		
Foreclosed assets	3,642,307		
Total loans and advances to customers	70,313,877		
Investments	29,943	Total customer retail deposits	29,817,910
		Mortgage bonds (“ <i>bonos hipotecarios</i> ”) and mortgage-backed bonds (“ <i>cédulas hipotecarias</i> ”)	18,350,160
		Territorial bonds	600,000
		Senior debt	5,837,880
		State-guaranteed issues	-
		Other medium- and long-term financial instruments	-
		Securitisation issues sold to third parties	354,742
		Other funding with residual maturity of > one year	-
		Long-term wholesale financing	25,142,782
		Subordinated financing	1,365,819
		Equity	5,442,302
Total stable funding requirements	70,343,820	Total stable funding sources	61,768,813

The detail, by maturity, of the wholesale debt at 31 December 2011 is as follows:

	Millions of Euros				
	2012	2013	2014	>2014	Total
Mortgage bonds (“ <i>bonos hipotecarios</i> ”) and mortgage-backed bonds (“ <i>cédulas hipotecarias</i> ”)	2,657	3,691	3,811	8,190	18,349
Territorial bonds	-	-	-	600	600
Senior debt	2,075	1,497	405	1,860	5,837
State-guaranteed issues	-	-	-	-	-
Subordinated debt, preference shares and convertible debt	-	-	600	887	1,487
Other medium- and long-term financial instruments	-	-	-	-	-
Securitisation issues sold to third parties	-	-	-	355	355
Commercial paper	580	-	-	-	580
Total maturity – wholesale issues	5,312	5,188	4,816	11,892	27,208

The table below shows the liquid assets and the available issue capacity at 31 December 2011:

	Millions of
Liquid assets:	
ECB eligible assets:	16,216
Pledged assets (nominal value)	8,210
Pledged assets (market value and ECB “haircut”)	5,978
<i>Of which:</i>	
<i>Central government debt securities</i>	917
Unpledged assets (nominal value)	8,006
Total	16,216
Issue capacity:	
Mortgage-backed bonds	2,238
Territorial bonds	313
State-guaranteed issues - available capacity	-
Total	2,551
TOTAL LIQUIDITY CAPACITY	18,767

III,c Treasury operations risk

The measurement of treasury operations risk focuses mainly on credit risk and market risk, Banesto has a Market Operations Risk Unit dedicated to the monitoring and measurement of this type of risk, This Unit has three areas dedicated to the analysis of the aforementioned risks: market risk, credit risk and validation of the models and market price allocation system used in the valuation of positions, This structure makes it possible to group together the measurement of all the types of treasury risk with an integrated approach and integrated systems, 2011 required a meticulous monitoring of treasury operations risk owing to the high volatility in the financial markets,

1,- Credit risk

In treasury operations credit risk is measured as the positive value that any financial instrument could potentially acquire at a future time when it is possible that the counterparty to the financial instrument might fail to comply with its contractual obligations, This non-compliance would give rise to losses for Banesto, since the cost of replacing an instrument with a positive value would represent a loss,

At 2011 year-end, the risk exposure was EUR 10,437 million, and the Wholesale Banking segment (which groups together the Banks, Corporations and Institutions sector) represented the largest portion of this figure, with 94,76%, while the Business Banking, Real Estate and Retail Banking segments represented 4,81%, 0,02% and 0,41%, respectively,

2,- Market risk

The market risks affecting treasury operations (interest rates, exchange rates, equities, credit spreads, implicit volatilities, correlations, etc.) are managed and controlled using a standard historical simulation Value-at-Risk (VaR) methodology, VaR provides a standardised risk figure which represents the maximum expected loss as a result of adverse fluctuations in the market with a confidence level of 99%, At Banesto, VaR is calculated and reported to senior management on a daily basis and is controlled by a system of limits that affect the overall position and each of the portfolios that constitute the operations, Senior management is permanently informed of and involved in market risk management through weekly committee meetings under the auspices of the Risk Committee and through the ALCO,

During 2011 the daily average VaR remained at around EUR 5,8 million (2010: EUR 6,1 million),

The measurement of market risk using VaR is supplemented by an analysis of stress scenarios in which the impact on the value of the portfolios is simulated by replicating historical crises and generating scenarios of extreme fluctuations not previously experienced by the market, such as a change of three or six typical deviations, Thus, historical and hypothetical scenarios with various degrees of severity and plausibility are assessed, and the conclusions drawn are discussed with senior management on a regular basis through the aforementioned reporting cycles, Banesto regularly estimates the extreme losses that might occur if the VaR level were to be exceeded, by calculating the statistical conditional VaR, which is also reported to senior management on a daily basis and analysed in depth by the aforementioned committees, Throughout 2011 conditional VaR remained at around EUR 8,0 million (2010: EUR 8,1 million),

It should be noted that in February 2011 the Bank of Spain approved Banesto's market risk measurement model for use as an internal model to calculate its minimum capital requirements for market risk, Internally, Banesto monitors and refines the quality of the model on an ongoing basis, using back-testing techniques to systematically compare the model's predictions with the actual results of treasury activities, The results of the back testing were checked by the Group's Internal Audit Department, in compliance with the requirements recommended by international regulators, The outcome of these tests shows that the value predicted by VaR

methodology was exceeded on only two days in 2011 and, therefore, no capital surcharge was required in this connection,

III,d Risks and results in 2011

a) Trading

The average VaR profile assumed in 2011 was EUR 5,782 thousand (2010: EUR 6,114 thousand),

b) Balance sheet management

At 31 December 2011, the sensitivity of the net interest margin at one year to parallel falls of 100 basis points was negative by EUR 78,1 million (6,3%) (31 December 2010: EUR 36,8 million; 3,29%),

For the same timeframe the sensitivity of economic value to parallel increases of 100 basis points in the curve was EUR 304,9 million (5,1%) at 2011 year-end (31 December 2010: EUR 35,7 million; 3,2%),

IV, Operational risk

Banesto's operational risk management model was defined in accordance with the Basel II Accord, the EU Directive on capital requirements for credit institutions and Bank of Spain Circular 3/2008 on solvency,

50, Disclosure transparency requirements

Credit risk exposure to construction and property development sectors

At 31 December 2011, the financing granted for construction and property development amounted to EUR 6,588 million (31 December 2010: EUR 7,959 million), of which EUR 1,680 million (31 December 2010: EUR 1,346 million) were impaired assets and EUR 1,399 million (31 December 2010: EUR 1,031 million) were classified as substandard assets for which impairment losses had been recognised,

The specific impairment allowances at that date totalled EUR 793 million (31 December 2010: EUR 525 million),

The foregoing figures relate to financing granted for construction and property development, Consequently, in accordance with the instructions of the Bank of Spain, the National Classification of Economic Activities of the debtors was not taken into account, This entails that, for example, if the debtor is: (a) a real estate company but uses the financing granted for a purpose other than construction or property development, it is not included in these tables, and if it is (b) a company whose core activity is not construction or real estate but which uses the loan to finance buildings to be used in property development, it is included in the tables,

The quantitative information on real estate risk at 31 December 2011 and 2010 is as follows (in millions of euros):

	2011			2010		
	Gross Amount	Excess Over Collateral Value	Specific Allowances	Gross Amount	Excess Over Collateral Value	Specific Allowances
Credit risk exposure	6,588	3,315	793	7,959	-	525
<i>Of which non-performing</i>	701	603	388	384	210	171
<i>Of which doubtful</i>	979	521	203	962	647	162
<i>Of which substandard</i>	1,399	699	202	1,031	(*)	192
Memorandum items						
Written-off assets	53	-	-	124	-	-

(*) The classification of risks as substandard entails the implicit consideration of the value of the underlying guarantees,

The detail of the total loans and advances to customers at 31 December 2011 and 2010, excluding positions with the public sector, is as follows (*Memorandum item: consolidated Group data*):

	Millions of Euros	
	2011	2010
Total loans and advances to customers, excluding public sector (*)	65,018	72,932
Total consolidated assets (**)	108,848	120,621
Total general allowance (**)	72	190

(*) Business in Spain

(**) Total businesses

Following is a detail of real estate credit risk, by type of associated guarantee:

	Millions of Euros	
	2011	2010
Without specific guarantee	1,151	1,594
With mortgage guarantee	5,437	6,365
<i>Completed buildings-residential</i>	1,854	2,196
<i>Completed buildings-other</i>	1,769	1,584
<i>Buildings under construction-residential</i>	225	440
<i>Buildings under construction-other</i>	53	40
<i>Land- developed land</i>	952	1,305
<i>Land- developable land (*)</i>	538	737
<i>Land- other</i>	46	63
	6,588	7,959

(*) Land with respect to which all the urban development procedures required for the commencement of construction have not been completed,

Risk of retail mortgage portfolio

The quantitative information relating to the risk exposure of the retail mortgage portfolio at 31 December 2011 and 2010 is as follows:

	Millions of Euros	
	2011	2010
Home purchase loans:	20,376	20,403
<i>Without mortgage guarantee</i>	158	33
Of which:		
- Doubtful		-
<i>With mortgage guarantee</i>	20,218	20,369
Of which:		
- Doubtful	400	202

The loan-to-value (LTV) ranges of the retail mortgage portfolio at 31 December 2011 and 2010 were as follows:

	31 December 2011						
	LTV Ranges (Millions of Euros)						
	>0 <=40%	>40%, <=60%	>60%, <=80%	>80%, <=100%	>100%	Total	Average LTV Ratio
Home purchase loans outstanding							
<i>With mortgage guarantee</i>	4,725	5,850	7,483	2,013	147	20,218	57,15%
Doubtful home purchase loans							
<i>With mortgage guarantee</i>	45	68	127	139	21	400	71,15%

	31 December 2010						
	LTV Ranges (Millions of Euros)						
	>0 <=40%	>40%, <=60%	>60%, <=80%	>80%, <=100%	>100%	Total	Average LTV ratio
Home purchase loans outstanding							
<i>With mortgage guarantee</i>	3,979	5,715	8,233	2,193	249	20,369	61,02%
Doubtful home purchase loans							
<i>With mortgage guarantee</i>	23	34	64	70	11	202	76,59%

Origin of the assets acquired by the Bank in payment of debts

The detail of the assets foreclosed and acquired, based on the recipient of the loan or credit facility originally granted, at 31 December 2011 and 2010 is as follows:

	31/12/11		
	Thousands of Euros		% Allowance
	Carrying Amount	Allowance	
Property assets arising from financing granted to construction and property development companies:	2,548,215	632,461	24,8%
<i>Completed buildings</i>	593,433	139,558	23,5%
<i>Residential</i>	506,968	121,166	23,9%
<i>Other</i>	86,465	18,391	21,3%
<i>Buildings under construction</i>	194,762	39,874	21,8%
<i>Residential</i>	165,441	35,060	22,6%
<i>Other</i>	29,321	4,814	17,5%
<i>Land</i>	1,760,020	453,030	25,4%
<i>Developed land</i>	1,680,861	432,684	25,4%
<i>Other land</i>	79,159	20,346	25,7%
Property assets from home purchase mortgage financing granted to households	997,708	249,518	25,0%
Other foreclosed property assets	74,695	11,103	14,9%
Special provision for property assets (*)	-	400,000	N/A
Equity instruments	534,588	183,412	34,3%

(*) The special provision for property assets was recognised at 2011 year-end in order to reflect the estimated impairment at that date resulting from the situation of the property market. This provision brings the coverage of the property assets acquired by the Bank in payment of debts up to 35,7%.

	31/12/10		
	Thousands of Euros		% Allowance
	Carrying Amount	Allowance (*)	
Property assets arising from financing granted to construction and property development companies:	2,018,873	472,938	23,4%
<i>Completed buildings</i>			
<i>Residential</i>	374,186	94,250	25,2%
<i>Other</i>	317,771	78,693	24,8%
<i>Buildings under construction</i>	56,415	15,557	27,6%
<i>Residential</i>	171,313	39,750	23,2%
<i>Other</i>	169,971	39,573	23,3%
<i>Land</i>	1,342	177	13,2%
<i>Developed land</i>	1,473,374	338,938	23,0%
<i>Other land</i>	1,387,342	315,428	22,7%
Property assets from home purchase mortgage financing granted to households	86,032	23,510	27,3%
Other foreclosed property assets	756,264	182,643	24,2%
Equity instruments	256,467	53,362	20,8%
	362,303	207,211 (**)	57,0%

(*) Including EUR 30,715 thousand at 31 December 2010 recognised under "Provisions – Other Provisions" in the accompanying consolidated balance sheets,

(**) Including EUR 23,800 thousand at 31 December 2010 recognised under "Provisions – Other Provisions" in the accompanying consolidated balance sheets,

Note 49 contains a detailed description of the Bank's global risk management, Following is a brief description of the asset management policies and strategies,

1,- Credit risk management

The policies governing lending to developers were conditioned by the Bank's strategy to attract mortgage business aimed at households, As a result, the Bank's investment in property developments focused on:

- Houses to be used as principal residences
- Target customers: medium-income bracket
- Maximum leverage of 80%
- Consolidated geographical areas in which the Bank is present,

Each of the projects financed by the Bank is assigned a rating to measure its quality using various parameters,

The Bank assesses the companies engaging in property development projects and also assigns them a rating, The basic characteristics evaluated are as follows:

- Real estate experience and track record
- Professional, transparent management structure
- Suitable economic and financial structure,

The financing granted for the acquisition of land was in keeping with this investment policy and, therefore, long-term lending was avoided. Consequently, most of the building lots financed have been earmarked for the specific purpose of use in principal-residence housing developments,

Since the end of 2007 Banesto has gradually consolidated its investment portfolio and today 90% of the developments are complete and are at the marketing stage. This strategy has led to a reduction of more than 50% in its exposure to the property development sector,

As a result of the above-mentioned financing policies, more than 90% of the exposure to developers is secured by mortgage,

2, Property asset management

Policies and strategies are defined on the basis of the nature of the assets, which are classified into four groups for management purposes: Land, Developments, Completed Houses and Other Buildings,

Land

All land is subject to an ongoing analysis of its zoning status and market value. This analysis is performed by the Real Estate Area with the assistance of independent experts,

A specific action plan is established for each land lot, with the ultimate aim of divesting of the land by either selling or developing it,

The plan envisages:

- optimisation of the use of the land for urban development, through town planning agreements and management of zoning and development instruments
- management and control of the urban development process, and
- the divestment process (marketing)

The land is marketed in conjunction with prestigious marketing companies,

Completed houses

The Bank's ultimate objective with regard to foreclosed completed houses is to sell them in the shortest possible time frame. To this end, the following steps are taken:

- Immediate legal disencumbrance of the property, thereby placing it at the Bank's disposal,
- Grant of financing, where required, in keeping with the creditworthiness of the buyer,
- Use of specialist property sales channels, as well as the Bank's own branch network,

Developments

Where the Bank decides to develop land owned by it, since it considers this to be the best divestment option, the entire development process is contracted out to construction companies and independent professionals, under the supervision and control of the Real Estate Area,

The development process involves:

- an economic assessment of the project
- the selection and management of contractors
- the monitoring of work performed and of compliance with budgets
- a marketing plan, launched in the construction phase

Where the Bank acquires developments in progress, the situation of the project at the acquisition date is assessed in order to decide on the appropriate completion and marketing schedules,

Completed developments are marketed in conjunction with prestigious marketing companies, under the supervision of the Real Estate Area, which has commercial offices throughout Spain,

Each development has its own specific sales plan (prices, time frame, channels, campaigns, financing offers) supported by regular market analyses, which is included in the Annual Sales Plan,

Other Properties

This group includes:

- tertiary or special buildings
- residential buildings that are leased out, where this is the best economic alternative

These properties are marketed (sold or leased out, as the case may be) using prestigious marketing companies, under the supervision of the Real Estate Area,

Each property has its own specific action plan, which is included in the Annual Plan (Sales, Income, Expenses and Profit or Loss),

51. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group (see Note 1-b), Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules,

Appendix I

Subsidiaries Composing the Banesto Group at 31 December 2011 and 2010

Entity	Location	Line of Business	Ownership Interest			31 December 2011			
			Direct	Indirect	Total	Thousands of Euros			Profit (Loss) (*)
						Assets	Liabilities	Equity	
Agrícola Tababal. S.A.	Gran Canaria	Agriculture	-	74.23	74.23	1,972	2,206	(90)	(144)
Aktúa Soluciones Financieras. S.A.	Madrid	Financial services	99.97	0.03	100.00	26,479	10,220	9,287	6,972
Alcaldesa Holding. S.A.	Cádiz	Real estate	-	50.00	50.00	131,041	72,933	62,835	(4,727)
Aljarafe Golf. S.A.	Seville	Real estate	-	89.41	89.41	13,229	566	13,115	(452)
Bajondillo. S.A.	Madrid	Real estate	99.99	0.01	100.00	322	360	(20)	(18)
Banesto Banca Privada Gestión. S.A. S.G.I.I.C.	Madrid	Investment fund manager	99.99	0.01	100.00	4,031	956	2,877	198
Banesto Banco de Emisiones. S.A.	Madrid	Banking	99.99	0.01	100.00	4,113,650	4,010,268	102,663	719
Banesto Bolsa. S.A. Sdad. Valores y Bolsa	Madrid	Stock market	99.99	0.01	100.00	648,141	535,602	111,964	575
Banesto Financial Products. PLC.	Ireland	Finance	99.94	0.06	100.00	6,268,913	6,268,507	383	23
Banesto Holdings. Ltd	Guernsey	Securities investment	100.00	-	100.00	10,092	246	10,179	(333)
Banesto Renting. S.A.	Madrid	Finance	99.99	0.01	100.00	249,979	237,311	10,246	2,422
Banesto Securities. Inc.	New York	Finance	-	100.00	100.00	7,487	634	5,626	1,227
Beta Cero. S.A.	Madrid	Finance	74.00	14.00	88.00	1	0	10	(9)
Caja de Emisiones y Anualidades Debidadas por el Estado	Madrid	Finance	62.87	-	62.87	69	17	62	(10)
Clínica Sear. S.A.	Madrid	Healthcare	50.58	-	50.58	16,937	12,770	4,383	(216)
Club Zaudin Golf. S.A.	Seville	Services	-	85.04	85.04	19,550	5,809	14,131	(390)
Costa Canaria de Veneguera. S.A.	Gran Canaria	Real estate	37.09	37.14	74.23	15,840	3,229	12,878	(267)

(*) The companies' results at 31 December 2011 have not yet been approved by the respective Annual General Meetings.

Note: The directors have opted to omit the net amounts of these investments recognised in the Bank's books on the grounds that, since certain of these companies are undergoing restructuring and/or a sale process, the disclosure of such information might be prejudicial both for the Bank and for the companies themselves.

Appendix I (cont.)

Subsidiaries Composing the Banesto Group at 31 December 2011 and 2010

Entity	Location	Line of Business	31 December 2011						
			Ownership Interest		Thousands of Euros				
			Direct	Indirect	Total	Assets	Liabilities	Equity	Profit (Loss) (*)
Depósitos Portuarios, S.A.	Madrid	Services	99.95	0.05	100.00	1,271	565	706	0
Dudebasa, S.A.	Madrid	Finance	99.99	0.01	100.00	40,544	27,332	23,541	(10,329)
Elenco, S.A.	Madrid	Real estate	99.99	0.01	100.00	360,486	299,038	116,324	(54,876)
Fondo Titulización Hipotecaria Banesto 4	Madrid	Securitisation	-	-	(**)	-	-	-	-
Fondo Titulización Banesto Pymes 2	Madrid	Securitisation	-	-	(**)	-	-	-	-
Fondo Titulización Banesto 1	Madrid	Securitisation	-	-	(**)	-	-	-	-
Fondo Titulización Banesto 2	Madrid	Securitisation	-	-	(**)	-	-	-	-
Fondo Titulización Banesto 5	Madrid	Securitisation	-	-	(**)	-	-	-	-
Fondo Titulización Banesto 6	Madrid	Securitisation	-	-	(**)	-	-	-	-
Mesena Clo 2011-I B,V	Amsterdam	Securitisation	-	-	(**)	-	-	-	-
Fondo Titulización Financiación Banesto 1	Madrid	Securitisation	-	-	(**)	-	-	-	-
Formación Integral, S.A.	Madrid	Training	99.99	0.01	100.00	1,702	393	1,305	4
Gescoban Soluciones, S.A.	Madrid	Finance	99.99	0.01	100.00	12,043	3,279	7,833	931
Hualle, S.A.	Madrid	Securities investment	99.99	0.01	100.00	90,063	17,184	74,744	(1,865)
Larix Chile Inversiones, Ltd.	Chile	Finance	100.00	0.00	100.00	12	0	215	(203)
Merciver, S.L.	Madrid	Financial advisory	99.91	0.09	100.00	1,596,436	1,596,288	129	19
Mesena Servicios de Gestión Inmobiliaria, S.A.	Madrid	Real estate	73.67	26.33	100.00	1,720,640	1,817,925	88,096	(185,381)
Oil-Dor, S.A.	Madrid	Finance	99.99	-	99.99	163,196	260	161,079	1,857
Promodomus Desarrollo de Activos, S.L.	Madrid	Real estate	99.99	51.00	51.00	107,748	126,270	(11,159)	(7,363)
Sodepro, S.A.	Vitoria	Finance	99.99	0.01	100.00	16,228	110	15,836	282
Wex Point España, S.L.	Madrid	Services	100.00	-	100.00	1,943	1,041	976	(74)

(*) The companies' results at 31 December 2011 have not yet been approved by the respective Annual General Meetings,

(**) Companies over which effective control is exercised,

Note: The directors have opted to omit the net amounts of these investments recognised in the Bank's books on the grounds that, since certain of these companies are undergoing restructuring and/or a sale process, the disclosure of such information might be prejudicial both for the Bank and for the companies themselves,

Appendix I (cont.)

Subsidiaries Composing the Banesto Group at 31 December 2011 and 2010

Entity	Location	Line of Business	Ownership Interest			31 December 2010				Profit (Loss) (*)
			Direct	Indirect	Total	Thousands of Euros				
						Assets	Liabilities	Equity		
Agrícola Tabaibal, S.A.	Gran Canaria	Agriculture	-	74.19	74.19	1,695	1,805	141	(251)	
Aktúa Soluciones Financieras, S.A.	Madrid	Finance	99.97	0.03	100.00	20,080	10,828	3,155	6,097	
Alcadesa Holding, S.A.	Cádiz	Real estate	-	50.00	50.00	131,226	68,645	65,387	(2,806)	
Aljarafé Golf, S.A.	Seville	Real estate	-	89.41	89.41	13,623	62	13,661	(100)	
Bajondillo, S.A.	Madrid	Real estate	99.99	0.01	100.00	339	360	(6)	(15)	
Banco Alicantino de Comercio, S.A.	Madrid	Banking	99.99	0.01	100.00	9,126	21	9,100	5	
Banesto Banca Privada Gestión, S.A. S.G.I.I.C.	Madrid	Investment fund manager	99.99	0.01	100.00	3,798	921	2,677	200	
Banesto Banco de Emisiones, S.A.	Madrid	Banking	99.99	0.01	100.00	5,400,343	5,297,680	101,982	681	
Banesto Bolsa, S.A., Sdad. Valores y Bolsa	Madrid	Stock market	99.99	0.01	100.00	579,395	467,345	111,500	550	
Banesto Financial Products, PLC.	Ireland	Finance	99.94	0.06	100.00	10,114,254	10,113,866	366	22	
Banesto Holdings, Ltd	Guernsey	Securities investment	100.00	-	100.00	27,898	255	28,108	(465)	
Banesto Renting, S.A.	Madrid	Finance	99.99	0.01	100.00	286,325	276,080	10,453	(208)	
Banesto Securities, Inc.	New York	Finance	-	100.00	100.00	5,808	549	3,595	1,664	
Beta Cero, S.A.	Madrid	Finance	74.00	14.00	88.00	2	1	13	(12)	
Caja de Emisiones y Anualidades Debidadas por el Estado	Madrid	Financial services	62.87	-	62.87	45	24	35	(14)	
Clínica Sear, S.A.	Madrid	Healthcare	50.58	-	50.58	15,516	11,147	4,419	(50)	
Club Zaudín Golf, S.A.	Seville	Services	-	85.04	85.04	20,104	5,979	14,501	(376)	
Costa Canaria de Veneguera, S.A.	Gran Canaria	Real estate	37.09	37.10	74.19	15,834	2,980	13,151	(297)	

Note: The directors have opted to omit the net amounts of these investments recognised in the Bank's books on the grounds that, since certain of these companies are undergoing restructuring and/or a sale process, the disclosure of such information might be prejudicial both for the Bank and for the companies themselves.

Appendix I (cont.)

Subsidiaries Composing the Banesto Group at 31 December 2011 and 2010

Entity	Location	Line of Business	31 December 2010				Thousands of Euros			
			Ownership Interest		Company Data		Company Data		Profit (Loss) (*)	
			Direct	Indirect	Total	Assets	Liabilities	Equity		
Depósitos Portuarios, S.A.	Madrid	Services	99.95	0.05	100.00	1,248	598	506	144	
Dudebasa, S.A.	Madrid	Finance	99.99	0.01	100.00	54,957	27,082	31,744	(3,869)	
Elenco, S.A.	Madrid	Real estate	99.99	0.01	100.00	464,086	360,869	194,308	(91,091)	
Fondo Titulización Hipotecaria Banesto 2	Madrid	Securitisation	-	-	(**)	-	-	-	-	
Fondo Titulización Hipotecaria Banesto 3	Madrid	Securitisation	-	-	(**)	-	-	-	-	
Fondo Titulización Hipotecaria Banesto 4	Madrid	Securitisation	-	-	(**)	-	-	-	-	
Fondo Titulización Banesto Pymes 2	Madrid	Securitisation	-	-	(**)	-	-	-	-	
Fondo Titulización Banesto 1	Madrid	Securitisation	-	-	(**)	-	-	-	-	
Fondo Titulización Banesto 2	Madrid	Securitisation	-	-	(**)	-	-	-	-	
Fondo Titulización Banesto 3	Madrid	Securitisation	-	-	(**)	-	-	-	-	
Fondo Titulización Banesto 4	Madrid	Securitisation	-	-	(**)	-	-	-	-	
Fondo Titulización Banesto 5	Madrid	Securitisation	-	-	(**)	-	-	-	-	
Fondo Titulización Financiación Banesto 1	Madrid	Securitisation	-	-	(**)	-	-	-	-	
Formación Integral, S.A.	Madrid	Training	99.99	0.01	100.00	1,628	318	1,302	8	
Gescoban Soluciones, S.A.	Madrid	Finance	99.99	0.01	100.00	13,655	5,821	6,444	1,390	
Hualle, S.A.	Madrid	Securities investment	99.99	0.01	100.00	86,107	11,322	74,139	646	
Larix Chile Inversiones, Ltd.	Chile	Finance	-	100.00	100.00	340	455	63	(178)	
Merciver, S.L.	Madrid	Shipping	99.91	0.09	100.00	1,488,804	1,488,675	137	(8)	
Mesena Servicios de Gestión Inmobiliaria, S.A.	Madrid	Securities investment	73.67	26.33	100.00	1,905,873	1,283,564	749,549	(127,240)	
Oil-Dor, S.A.	Madrid	Service stations	99.99	0.01	100.00	163,230	2,991	158,023	2,216	
Promodomus Desarrollo de Activos, S.L.	Madrid	Real estate	-	51.00	51.00	141,256	152,555	(5,188)	(6,111)	
Sodepro, S.A.	Vitoria	Finance	99.99	0.01	100.00	16,095	228	15,580	287	
Wex Point España, S.L.	Madrid	Services	99.98	0.02	100.00	1,969	984	1,082	(97)	

Note: The directors have opted to omit the net amounts of these investments recognised in the Bank's books on the grounds that, since certain of these companies are undergoing restructuring and/or a sale process, the disclosure of such information might be prejudicial both for the Bank and for the companies themselves.

Appendix II

The Banesto Group's Joint Ventures at 31 December 2011 and 2010

Entity	Location	Line of Business	31 December 2011						
			Ownership Interest			Thousands of Euros			
			Direct	Indirect	Total	Assets	Liabilities	Equity	Profit (Loss) (*)
Kassadesing 2005, S.L., Prodesur Mediterráneo, S.L., Proinsur Mediterráneo, S.L., Santander Seguros y Reaseguros, Cía, Aseguradora	Madrid Alicante Alicante Madrid	Real estate Real estate Real estate Insurance	- - - 26.00	50.00 50.00 50.00 -	50.00 50.00 50.00 26.00	57,524 44,134 67,448 17,984,614	56,244 35,895 49,991 17,384,516	2,686 12,634 19,739 495,966	(1,406) (4,395) (2,282) 104,132

(*) The companies' results at 31 December 2011 have not yet been approved by the respective Annual General Meetings,

Entity	Location	Line of Business	31 December 2010						
			Ownership Interest			Thousands of Euros			
			Direct	Indirect	Total	Assets	Liabilities	Equity	Profit (Loss) (*)
Espais Promocat, S.L., Kassadesing 2005, S.L., Prodesur Mediterráneo, S.L., Proinsur Mediterráneo, S.L., Santander Asset Management, S.A., S.G.I.I.C., Santander Pensiones, E.G.F.P., S.A., Santander Seguros y Reaseguros, Cía, Aseguradora	Barcelona Madrid Alicante Alicante Madrid Madrid Madrid	Real estate Real estate Real estate Real estate Investment fund manager Pension fund manager Insurance	- - - - 20.00 20.00 39.00	50.00 50.00 50.00 50.00 - - -	50.00 50.00 50.00 50.00 20.00 20.00 39.00	24,412 54,519 51,210 67,474 279,070 108,924 14,290,933	27,489 52,235 36,778 46,805 162,835 41,353 13,631,285	(811) 3,748 16,615 22,233 94,006 57,220 554,728	(2,266) (1,464) (2,183) (1,564) 22,229 10,351 104,920

Note: The directors have opted to omit the net amounts of these investments recognised in the Bank's books on the grounds that, since certain of these companies are undergoing restructuring and/or a sale process, the disclosure of such information might be prejudicial both for the Bank and for the companies themselves,

Appendix III

Associates of the Banesto Group at 31 December 2011 and 2010

The major companies (representing 100% of direct investments in associates and 100% at Banesto Group level) are included in this list:

Entity	Location	Line of Business	31 December 2011				Thousands of Euros			
			Ownership Interest		Company Data		Assets	Liabilities	Equity	Profit (Loss) (*)
			Direct	Indirect	Total	Assets				
Agres, Agrupación Restauradores, S.L,	Madrid	Restaurants	-	43.01	43.01	3,400	1,080	2,270	50	
Aguas de Fuensanta, S.A,	Asturias	Food	36.78	5.43	42.21	41,416	31,126	10,400	(110)	
Carnes Estellés, S.A,	Valencia	Food	21.41	-	21.41	22,478	22,521	(43)	0	
Cartera del Norte, S.A,	Asturias	Finance	36.10	-	36.10	1,064	14	1,050	0	
Centro Desarrollo Invest, Apli, Nuevas Tecnologías	Madrid	Technology	49.00	-	49.00	1,422	270	1,139	13	
Dirgenfin, S.L,	Castellón	Real estate development	-	40.00	40.00	56,389	53,583	3,386	(580)	
Grupo Alimentario de Exclusivas, S.A,	Asturias	Food	40.53	6.7	47.23	5,963	5,623	319	21	
Parque Solar La Robla, S.L, (**)	Madrid	Energy production	95.00	-	95.00	84,199	81,769	4,845	(2,415)	
Parque Solar Paramo, S.L, (**)	Madrid	Energy production	92.00	-	92.00	29,547	27,172	4,482	(2,107)	
Parque Solar Saelices, S.L, (**)	Madrid	Energy production	95.00	-	95.00	81,733	70,622	11,349	(238)	
Promoveras Desarrollo de Activos, S.L,	Madrid	Real estate purchases/sales	-	35.00	35.00	131,015	130,326	5,789	(5,100)	
Queenford, S.L,	Barcelona	Real estate purchases/sales	-	49.00	49.00	102,927	113,293	3,796	(14,162)	
Sistema 4B, S.A,	Madrid	Services	14.70	-	14.70	101,454	51,177	39,184	11,093	

(*) The companies' results at 31 December 2011 have not yet been approved by the respective Annual General Meetings,

(**) 25% of voting power

Appendix III

Associates of the Banesto Group at 31 December 2011 and 2010

Entity	Location	Line of Business	31 December 2010				Thousands of Euros		
			Ownership Interest		Total	Company Data			
			Direct	Indirect		Assets	Liabilities	Equity	Profit (Loss) (*)
Agres, Agrupación Restauradores, S.L,	Madrid	Restaurants	-	43.01	43.01	3,063	864	2,224	(25)
Aguas de Fuensanta, S.A,	Asturias	Food	36.78	5.43	42.21	36,953	26,773	10,110	70
Carnes Estellés, S.A,	Valencia	Food	21.41	-	21.41	26,780	24,431	5,110	(2,761)
Cartera del Norte, S.A,	Asturias	Finance	36.10	-	36.10	1,063	13	1,049	1
Centro Desarrollo Invest, Apli, Nuevas Tecnologías	Madrid	Technology	49.00	-	49.00	1,345	220	1,125	0
Compañía Concesionaria del Túnel de Sóller, S.A,	Palma de Mallorca	Construction	32.70	-	32.70	45,219	26,075	18,253	891
Dirgenfin, S.L,	Castellón	Real estate development	-	40.00	40.00	55,756	50,848	4,999	(91)
Grupo Alimentario de Exclusivas, S.A,	Asturias	Food	40.46	-	40.46	5,615	5,280	307	28
Parque Solar La Robla, S.L, (**)	Madrid	Energy production	95.00	-	95.00	14,336	14,341	3	(8)
Parque Solar Saelices, S.L, (**)	Madrid	Energy production	95.00	-	95.00	71,628	65,939	4,164	1,525
Promotoras Desarrollo de Activos, S.L,	Madrid	Real estate purchases/sales	-	35.00	35.00	140,318	130,966	13,895	(4,543)
Redes y Procesos, S.A,	Madrid	Services	14.70	-	14.70	8,194	6,526	1,410	258
Sistema 4B, S.A,	Madrid	Services	14.70	-	14.70	118,995	66,552	50,856	1,111

(*) The companies' results at 31 December 2011 have not yet been approved by the respective Annual General Meetings,

Note: The directors have opted to omit the net amounts of these investments recognised in the Bank's books on the grounds that, since certain of these companies are undergoing restructuring and/or a sale process, the disclosure of such information might be prejudicial for the Bank,

Appendix IV

Notifications of Acquisitions of Investees at 31 December 2010 and 2009

(Article 148 of the Consolidated Spanish Limited Liability Companies Law and Article 53 of Securities Market Law 24/1988):

Investee	Line of Business	Percentage of Net Ownership Interest		Date of Notification to the Investee
		Acquired in the Year	At Year-End	
Acquisitions in 2011: Parque Solar Páramo, S,L,	Energy	100.00%	92.00%	21/11/11
Acquisitions in 2010: Parque Solar La Robla, S,L, Parque Solar Saelices, S,L,	Energy Energy	100.00% 100.00%	95.00% 95.00%	19/05/10 26/02/10

Appendix V

List of agents to whom Bank of Spain
Circular 5/1995 is applicable

Name	Location	Area of Activity
A,A,F,F Rute, S,L	Rute	Andalusia
A,L,M, Finanzas y Créditos de La Mancha, S,L,	Manzanares	Castilla La Mancha
Abu Road S,L,L,	Marbella La Poveda	Andalusia
Agencia Financiera Ulloa, S,L,	Culleredo	Galicia
Agesan 2009, S,L,	Granada	Andalusia
AgilityFinancial, S,L,	Xirivella	Valencia Autonomous Community
Alpasugui Agente Financiero, S,L,	Roquetas Mar	Andalusia
Alto Quintana, S,L,	El Barraco	Castilla y León
Arespa Gijón Y Asociados, S,L,	Gijón	Asturias
Arion Financial Services, S,L,	Madrid-Lagasca	Madrid
Asefisco Palma	Palma del Río	Andalusia
Asemar Financiera, S,L,	Rojales	Valencia Autonomous Community
Asesores Financieros de Almendralejo, S,L,	Almendralejo	Extremadura
Bamarval 2008	Zaragoza	Aragon
Banest Blanes, S,L,	Blanes	Catalonia
Banfortunia, S,L	Alcalá de Henares	Madrid
Bangencia Aranjuez, S,L,	Aranjuez	Madrid
Banking Solutions	Madrid – Rivas	Madrid
Berzal Miguel Jesús	Sacramenia	Castilla y León
Berzal Miguel José	Turégano	Castilla y León
BNT 2008 Agentes Financieros, S,L,	Almansa	Castilla La Mancha
Bolero Servicios Financieros, S,L,U	Albacete	Castilla La Mancha
Bopecon Inversiones, S,L,	Seville- Isla de la Cartuja	Andalusia
Burma Agentes Financieros, S,L,	Nerva	Andalusia
Business and Personal Service, S,A,	Pravia	Asturias
Business Rockers, S,L,	Alhaurín de la Torre	Andalusia
Buzabrín, S,L,	Madrid – Chamberí	Madrid
Bw Capnorth Servicios Financieros Y Banc	Barbastro	Aragon
Carramigal, S,L,	Madrid – Vallecas	Madrid
Cetinve, S,L,	Dos Hermanas	Andalusia
Charuma, S,L,	Seville	Andalusia
Cofaresa Servicios Financieros Complemen	Madrid Cofares	Madrid

Appendix V (cont.)

List of agents to whom Bank of Spain
Circular 5/1995 is applicable

Name	Location	Area of Activity
Consultores Financieros Leones	León Comandante Zorita	Castilla y León
Credits Financial Murcia, S L	Puente Tocinos	Murcia
De - Two Y Mas Investment Services, S,L,	Madrid - Manuel Becerra	Madrid
Diptos, S,L,	Cornella Carretera Esplugues	Catalonia
Diserivan, S,L,U,	Garlitos	Extremadura
Division Servicios Financieros	Cáceres	Extremadura
Drimty, S,L,	Mutxamel	Valencia Autonomous Community
Ema Vilatorrada 2007, S,L,	Sant Joan de Vilatorrada	Catalonia
Esteve Capital, S,L,	Gelida	Catalonia
Ferre & Arbo & Reverte Gestio I Finances, S,L,	Sant Carles de la Rapita	Catalonia
Financeres Aro, S,L,	Alcarras	Catalonia
Financiaciones Las Cabezas, S,L,	Las Cabezas de San Juan	Andalusia
Finanlaca, S,L,	Santa Cruz de Tenerife	Canary Islands
Finansando, S,L,	La Algaba	Andalusia
Finanzas Boadilla, S,L,	Boadilla del Monte	Madrid
Finanzas San Andres, S,L,	Barcelona - Plaza Mossen Clapes	Catalonia
Franquicies Bell-Lloch, S,L,	Bell-Lloc D'urgell	Catalonia
Franquicies Financeres Lleida	Lleida	Catalonia
G S G Grupo Corporativo De Servicios, S,L,	Fernandez de la Hoz	Madrid
G, M, T, Proyectos De Calidad Medioambie	Orba	Valencia Autonomous Community
Gessinelx, S,L,	Elche	Valencia Autonomous Community
Gestión 5 Servicios Financieros	Málaga	Andalusia
Gestión Financiera Madrid Norte, S,L,	San Sebastián de los Reyes-A,F Avenida de Madrid	Madrid
Gestión Financiera Malacitana	Málaga - Av, Andalusia	Andalusia
Gestión Invergara, S,L,	Terrassa-Av, Josep Tarradellas	Catalonia
Gestiones E Inversiones Alper, S,L,	Salceda de Caselas	Galicia
Gesvalor Financiación y Vida, S,L,	Tarazona	Aragon
González y Naves, S,L,	Oviedo	Asturias
Grup Arca Oliana, S,L,	Oliana	Catalonia
Grup Bbr Gestio Privada, S,L,	Mora D'Ebre	Catalonia
Hotrarescon, S,L,	San Antonio Benageber	Valencia Autonomous Community
Improve Invest, S,L,	Badalona	Catalonia
Interalde 2003, S,L,	Valle de Trápaga	Basque Country
Inversiones Terra Ferma S,L,	Lleida – Pardinyes	Catalonia
Inversiones Y Finanzas Tres Ca	Madrid- Tres Cantos	Madrid
Isamer Financieros, S,L,	San Pedro de Alcántara	Andalusia
J M Diversos, S,L,	Navarcles	Catalonia

Appendix V (cont.)

List of agents to whom Bank of Spain
Circular 5/1995 is applicable

Name	Location	Area of Activity
Join Banaixo, S,L,	Terrasa	Catalonia
Joluanca 2006, S,L,	Bormujos	Andalusia
Jose Manuel Garcia Morante, S,L,	Granada - Boreal	Andalusia
Jubenes Menorca, S,L,	Ciudadela	Balearic Islands
Julia Lopez Garcia, S,L,	Miguel Esteban	Castilla La Mancha
Lap Asturias, S,L, (Sole-Shareholder Company)	Nava	Asturias
Lastras Audismar, S,L,	Pelayos Presa	Madrid
León Ruiz Francisco Javier	Córdoba El Naranjo	Andalusia
Mariano Morell, S,L,	Soller	Balearic Islands
Marma Mallorca, S,L,	Calvia -Palma Nova	Balearic Islands
Martinez Martínez Vicente Demetrio	Valencia - Jaime Beltran	Valencia Autonomous Community
Meda Financiera, S,L,	Arteixo	Galicia
Molina Cortes Nicolas	Plasencia	Extremadura
Monica Carranza, S,L,U,	Cumbres Mayores	Andalusia
Moraleda Zúñiga Mario	Piedrabuena	Castilla La Mancha
Muñoz Puerto Francisco	Montefrío	Andalusia
Nubarpol, S,L,	Gelves	Andalusia
Ofisfin, S,L,	Madrid - Torrejón de Ardoz	Madrid
Pineban, S,L,	Pineda de Mar	Catalonia
Plaza Fernández, Rosario	Casas de Benítez	Castilla La Mancha
Plaza Servicios Financieros, S,L,	Los Barrios	Andalusia
Punt Financer Gestió i Assessorament	Girona	Catalonia
Rc 2007 Financieros, S,L,	Benahavis	Andalusia
Rodríguez Cals Financiera, S,L,	Estepona	Andalusia
Rolarg Servicios Financieros, S,L,	Bonares	Andalusia
Rusalea Finance, S,L,	Madrid - Maria de Guzmán	Madrid
Sanchez Hernandez Alexis	La Minilla	Canary Islands
Sánchez Solera, Felipe	Hontanaya	Castilla La Mancha
Serarols Associats, S,L,	Berga	Catalonia
Sercom Asfco Agentes Financieros, S,L	A Coruña - Campo Marte	Galicia
Sersaf, S,L,	Seville	Andalusia
Serveis Financers de Banyoles, S,L,	Banyoles	Catalonia
Servicios Financieros Ceres, S,L,	Plasencia	Extremadura
Servicios Financieros Juárez Gomez, S,L,	Santomera	Murcia
Servicios Financieros Mantua, S,L,	Villamanta	Madrid

Appendix V (cont.)

List of agents to whom Bank of Spain
Circular 5/1995 is applicable

Name	Location	Area of Activity
Sismoint, S,L,	Esparreguera	Catalonia
Soluciones de Patrimonio e Inversión, S,L,	Madrid - Colmenar Viejo	Madrid
Tevar Marcilla, S,L,	Quintanar del Rey	Castilla La Mancha
Tinto & Santa Rosa, S,L,	Huelva	Andalusia
Tomas Berlango Antonio Jesús	Sant Boi de Llobregat	Catalonia
Torres Financiación, S,C,A,	Dos Torres	Andalusia
Tramygest Financiera, S,L,	Guardamar Segura	Valencia Autonomous Community
Trezavilla, S,L,	Seville - San Bernardo	Andalusia
Unión Gestora Extremeña, S,L,	Badajoz	Extremadura
Yvan 06 Inversiones, S,L,	Alicante- Los Montesinos	Valencia Autonomous Community
Zisco Finanzas, S,L,	Alcorcón	Madrid
Zona 4 Servicio Financieros, S,R,L,	Majadahonda	Madrid

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails

Banco Español de Crédito Group

Directors' Report for the year ended 31 December 2011

Business performance and situation of the Group

2011 was a complicated year for the banking business, Economic weakness was persistent throughout the year, and in the second half new uncertainties gave rise to a scenario of high tensions and great volatility in the markets, Throughout the year, default rates in the system continued their upward trend and liquidity tensions triggered a general increase in wholesale financing costs,

Against this backdrop, Banesto obtained attributable profit of EUR 125,1 million, i.e, 72,8% less than in 2010, but reinforced the Group's solid equity position by strengthening its provisions significantly,

The changes in the income statement items were as follows:

Net interest income amounted to EUR 1,516,3 million, i.e, 12,0% less than in the previous year, thereby reflecting the impact of the drop in business activity and rising financing costs, which was limited however thanks to the pricing and balance sheet management performed,

Customer management and loyalty gave rise to an increase in transactionality, which improved Banesto's share in the Spanish National Electronic Clearing System (SNCE) by 3,7%, and to higher use of value-added services, which led to a 2,8% increase in income from services to EUR 464,1 million, Fees and commissions from investment and pension funds amounted to EUR 77,4 million, down 16,4% on 2010, due to lower average fees and commissions and because customers chose other sources for placing their savings, As a result, net fees and commissions remained substantially at the same level as in 2010 and amounted to EUR 541,5 million,

The situation of the markets in the second half of 2011 affected gains on financial assets and liabilities and exchange differences; this was due, on the one hand, to negative results from the measurement of assets and, on the other, to the decrease in customer activity, As a result, gains on financial assets and liabilities and exchange differences amounted to EUR 156,6 million in 2011, down 20,0% year-on-year,

Consequently, gross income amounted to EUR 2,294,3 million in 2011, 10,4% less than in 2010,

The objective of controlling efficiency is key in the current environment, Thanks to management efforts, administrative expenses and the depreciation and amortisation charge amounted to EUR 991,3 million, i.e, 2,6% less than the amount incurred in the previous year,

Impairment losses totalled EUR 661,0 million in 2011, compared with EUR 845,1 million in 2010, This trend is the consequence of lower needs for specific provisions in 2011 compared with the previous year and lesser use of provisions for inherent losses of outstanding loans, which currently stands at a minimum of 10%,

As a result of all the above, profit from operations amounted to EUR 626,9 million, down 16,4% on 2010,

Other operations generated a net loss of EUR 499 million, This figure includes a gain on the sale of property, plant and equipment (offices) and financial assets (investees) of EUR 168 million, and losses of EUR 633 million on the disposal of non-current assets held for sale and of EUR 33 million relating to impairment losses on non-financial assets, The above figures include the recognition of a special provision of EUR 400 million for property assets reflecting the property market situation at 2011 year-end, As a result, profit before tax was EUR 127,9 million, After deducting income tax and non-controlling interests, profit attributable to the Group was EUR 125,1 million in 2011, down 72,8% on 2010,

The most significant changes in the consolidated balance sheet were as follows:

- 1, Total assets at 31 December 2011 amounted to EUR 108,848 million, down 9,8% on the year-ago period, as a consequence of the balance sheet management and optimisation performed in 2011,
- 2, The downward trend in loans and advances to customers continued, as a result of weak demand for credit and the environment of higher credit risk and liquidity risk, At 31 December 2011, loans and advances amounted to EUR 69,198 million, 8,6% less than in the previous year,
- 3, Customer deposits totalled EUR 51,246 million, down 14,7% on 2010, This reduction is a result of the Bank's policy to partially renew deposits obtained in the special campaign launched in the second quarter of 2010,
- 4, The Bank's level of capitalisation improved organically and exceeds the minimum requirement by almost EUR 1,600 million, At 31 December 2011, its BIS ratio was 10,65% and its core capital ratio was 9,02%, up 0,71 percentage points over the year,

Research and development

Despite the difficulties occurring in 2011, the Banesto Group did not neglect its commitment to innovation and development, In the field of technology, the Group's new software helped it achieve greater cost savings and further enhance customer service quality whilst preparing it to meet new technological and functional renewal needs, The results in efficiency were obtained by leveraging resources and rationalising processes,

In order to carry out the aforementioned R&D work and the ongoing adaptation of the microcomputer platform used by its personnel, in 2011 the Group incurred expenses and made investments in IT systems amounting to approximately EUR 114 million,

Training the workforce is key in situations such as the current one, with constant changes in the business, to enable it to adapt to the new needs, Consequently, the continuous development of Banesto's professionals was again one of the main focuses of human resources management in 2011, In 2011, the training development strategy focusing on continuous learning, professional development and the harnessing of the advantages of new technologies, maintained the considerable boost provided in prior years,

With regard to innovation, 2011 was the year of consolidation for the project launched in 2010 under the name InnoBanesto, This internal Group social network is a platform for managing, channelling, selecting and implementing ideas arising from Banesto's collective creativity and intelligence, More than 4,800 ideas were channelled in 2011, many of which have already been implemented or are in the process of implementation, thus providing further improvement in services, products and processes,

Banesto, aware of its responsibility towards society, places the results of its innovation effort at its disposal, instead of limiting these results to the internal leveraging of resources, In this respect, in 2011 the Group continued to effectively develop the agreements entered into with official bodies aimed at providing citizens and businesses with easy access to new technologies, Furthermore, the initiatives implemented in 2011 by the Banesto Foundation for Society and Technology, a benchmark in Spain, helped to achieve this objective,

Treasury shares

In 2011, the Bank and two consolidated Group companies acquired and sold 9,093,770 and 9,752,742 Banco Español de Crédito, S,A, shares, respectively, The par value of the shares acquired was EUR 7,184 thousand and that of the shares sold was EUR 7,705 thousand, The acquisition cost was EUR 50,666 thousand and the selling price was EUR 46,565 thousand,

At 31 December 2011, the Bank did not own any treasury shares, Dubeasa, S,A,, a Group company, held 5,160,868 shares of Banco Español de Crédito, S,A, with a par value of EUR 4,077 thousand, The carrying amount of these shares at 31 December 2011 was EUR 27,954 thousand,

Outlook

The economic environment is forecast by the various public and private bodies to continue to be uncertain and difficult in 2012, The effort to cut the public deficit will be key to laying the foundations for growth in coming years in order to stimulate an increase in lending and deposits,

Against this backdrop, Banesto's financial targets for 2012 are as follows:

- To continue to strengthen the capital position, with the objective of increasing core capital despite strong regulatory pressure,
- To maintain the difference between our non-performing loan ratio and the average for the industry and that of our major peers,
- To continue to strengthen the liquidity position and reduce the current commercial gap,
- To focus on efficiency with a reduction in operating costs in 2012,
- To preserve operating profitability, measured in terms of maintaining higher operating profitability than that of our peers,

Events after the reporting period

From 1 January 2012 to the date on which this Directors' Report was prepared, no events occurred that might significantly affect it,

Risk management at the Banesto Group

Note 46 to the consolidated financial statements contains quantitative data relating to risk management at the Banesto Group and a descriptive summary of how this management is performed, However, it is interesting to expand on certain aspects in order to gain a more precise understanding of risk management at Banesto,

Risk management at Banesto is based on the following principles:

- 1) Compliance with current regulations and best risk management practices,
- 2) Involvement of senior management,
- 3) Independence of the risk area,
- 4) Integrated management, in which the key elements, apart from customer service and risk quality, are the composition of the balance sheet, capital and liquidity management and profitability,
- 5) A flexible management model with policies and structures that are adaptable to the market,
- 6) The use of advanced techniques for analysing, measuring and quantifying risks,

- 7) The provision of a quality internal and external service,
- 8) A focus on customer banking based on long-term relationships,
- 9) Prudent loan approval,
- 10) Foresight through monitoring,

In the current delicate economic environment, integrated risk management continues to be the preeminent general risk control principle, the primary objective of which is to maintain the low and predictable risk profile of the Bank's assets. At Banesto, risk quality is a priority objective that is taken into consideration in all the Bank's activities and by all its professionals. The risk culture, which is deeply rooted in the organisation, is one of our hallmarks and makes each manager at the Bank a risk manager,

I, Global risk management

1,a Risk quantification: tools and metrics

Obtaining an overall management of risk in an efficient manner requires the development of methodologies and models to enable the quantification of concepts such as expected and unexpected loss, which both form the basis for calculating capital (regulatory and economic),

It is also essential to have in place tools that enable the establishment of adequate risk protection measures, and systems to identify areas of potential business growth, always bearing in mind the Bank's risk appetite,

In this regard, for several years Banesto has been implementing quantitative models that estimate the components required for calculating expected loss and capital,

Firstly, for over a decade now, the Bank has had internal scoring models for each customer and transaction for the purposes of both risk acceptance and risk monitoring,

These rating and scoring methods are used for measuring the credit quality of each customer or transaction, which is quantified through the probability of default, one of three basic risk parameters: the probability of default associated with each customer/contract (PD), the exposure relating to this customer at the date of default (EAD - exposure at default) and loss severity or loss given default (LGD),

The combination of these three parameters is used to obtain the probable loss or expected loss. This loss is considered to be an additional cost of the activity i.e, the risk premium and, accordingly, the Entity has tended to include it in the decision-making for loan approval and in the price of loans,

In addition, the fourth risk factor to be considered is asset correlation (AC),

The risk parameters described above enable the Group to obtain the calculation of regulatory capital in accordance with the regulations deriving from the Basel Capital Accord (BIS II), which is determined as the difference between expected loss and unexpected loss (a very high but improbable level of loss which must be catered for using capital),

All these risk parameters are modelled on the basis of Banesto's past experience except for low default portfolios, i.e, those in which the low number of defaults make this internal estimate non-viable,

Accordingly, the PD is calculated except for cases of low default portfolios by observing past internal defaults in relation to the rating/scoring,

The LGD estimate is based on the observation of the Entity's recovery processes, taking into consideration all the flows occurring therein (both income and expenses arising from the process),

The EAD calculation is based on the comparison of the use made of the lines committed at the date of the default with a normal situation,

These parameters are modelled using both the average behaviour in an economic cycle (Through-the-Cycle; TTC) and in a cyclical manner so that they reflect the current position in the macroeconomic cycle from a point-in-time (PiT) approach, or in a particular stress period (downturn period),

Due to the instability that has characterised recent years, it was essential to analyse and quantify the sensitivity of the risk components to certain macroeconomic scenarios and to changes in certain characteristics of the Bank's portfolios,

The different behaviour of the portfolios/customers in the light of the change in environment means that the models must have an increasingly high granularity in order to support a risk management tailored to each customer to avoid applying the same policies to different risk profiles,

IDR/DRC

Due to the increasing exposure to credit risk events suffered by the trading books of all financial institutions, the Basel Committee introduced the requirement to have increased additional capital in order to quantify the default risk of the trading books not included in VaR (Value at Risk),

In order to perform this measurement, a model was developed internally at Banesto which was approved by the Bank of Spain at the end of 2010,

Thenceforth, a daily calculation has been made at the Entity of an amount of capital relating to the incremental default risk (IDR) able to absorb the losses associated with the specific default events of the entities comprising the trading books which meet the regulatory requirements,

This internal model simulates scenarios using the Monte Carlo method and subsequently obtains a distribution of losses from which the 99,9% percentile is extracted, as established under Basel II, which makes up the daily IDR figure,

In 2011 a new incremental risk charge (IRC) model was developed at the Bank which is an extension of the current IDR model, The IRC takes into consideration not only the possible losses caused by default events but also those arising from credit migrations,

The incremental risk charge (IRC) is determined by the same expression as that calculated for the incremental default risk (IDR),

Stressed VaR

Since the last quarter of 2011, the Group has been calculating a figure for stressed Value at Risk (VaR), with effects on the calculation of capital,

The objective of this figure is to be able to manage the risks arising from possible future scenarios subject to stressed market conditions experienced in the past as a complement to the VaR figure,

1,b Integration in risk management

Within the Basel framework, following the approval of the internal models by the supervisor, we continued to focus efforts on reinforcing risk management, through the strengthening of the related parameters, and on making risk management an integral part of the Entity's strategy,

Management cycle

In 2011, a year marked again by the instability and uncertainty caused by the crisis, this reinforcement became more important and it became clearer that there is a need to analyse and quantify the sensitivity of the risk components to certain macroeconomic scenarios and to changes in the characteristics of the Bank's portfolios, Equally, the ongoing review of the metrics from a regulatory and management standpoint continues to be important,

This management cycle also leads to a greater integration of risk metrics in the management of the Bank in two respects: the day-to-day management of the Bank and in terms of planning and strategic definition,

The impact of this on day-to-day management is as follows:

- Modification of the loan acceptance policies, Analysing the performance of the parameters of portfolios from different perspectives, not only the traditional ones, discloses behavioural changes that might give rise to a reconsideration of the loan acceptance policies,
- Development of new business strategies on the basis of the identification of new lending growth niches,
- More exhaustive monitoring of customers/transactions, guaranteeing the periodic review and analysis of assessments and the establishment of anticipatory measures,

The purpose of all of the foregoing is to ensure compliance with the risk profile established by the Entity,

From a more global or strategic standpoint:

- Knowledge of the likely performance of the risk profile of the various portfolios managed in a more proactive way which, together with a business forecast structure, makes it possible to project all matters relating to the risk profile and capital and to adjust strategies and day-to-day operating matters,

Risk metrics

The metrics used in management are intended to be prospective overviews and, therefore, they are generally more cyclical, highly dynamic measures, since they must be adapted to the Bank's business plans and to changes in the environment, The regulatory metrics, however, are mostly non-cyclical, static measures that are based more on historical observation,

Despite the differences, the two metrics are inter-related, Integration in management involves continually adapting the regulatory metrics so that they provide measures better adapted to the various requirements: business/risk, loan acceptance/monitoring, pricing/returns, etc,

Furthermore, since the current environment has given rise to changes affecting these metrics, the impact analysis of these changes, which aims to prevent factors inherent to the models from being transferred to the business, has become crucial,

In addition, this environment has helped enhance the estimation of risk metrics since it now includes profiles and behaviours in a period of recession,

In this regard, analyses are regularly performed of the changes in ratings caused by the economic cycle (i.e, of the cyclical nature of the models) together with studies of the default behaviour of the various portfolios,

These analyses and studies entailed the construction of new methodologies that incorporate both the effect of changes in the customers' ratings brought about by extraneous circumstances rather than by a change in their credit quality, and the inclusion of new differential axes in the risk metrics, This is the case of the activity sector or the size of the companies,

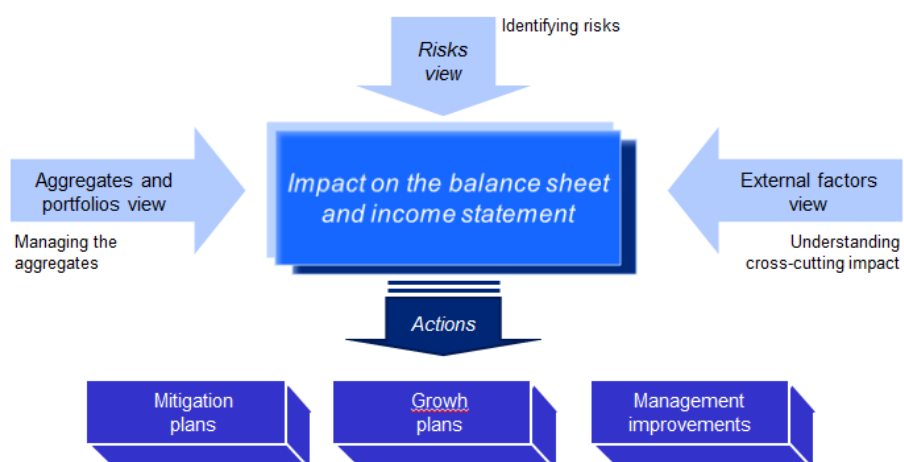
Accordingly, the cyclical nature of the metrics, together with the current economic crisis, have further highlighted the need to quantify the sensitivity of risk to changes in macroeconomic scenarios, Therefore, in 2011 maximum effort was made to quickly obtain the list of the observed and estimated metrics, by continually back-testing them and analysing, through the observation of trends, possible critical points in the behaviour of all the Entity's portfolios,

This importance of the continuous review of the projections made is key, given the high penetration of the risk metrics in the management model: in the income statements of the branches, through Expected Loss, in the use of risk-adjusted return on capital (RAROC), for risk management and in the planning of the provisions and capital required for the coming years, In 2011 work was performed to include liquidity in the management metrics according to the term,

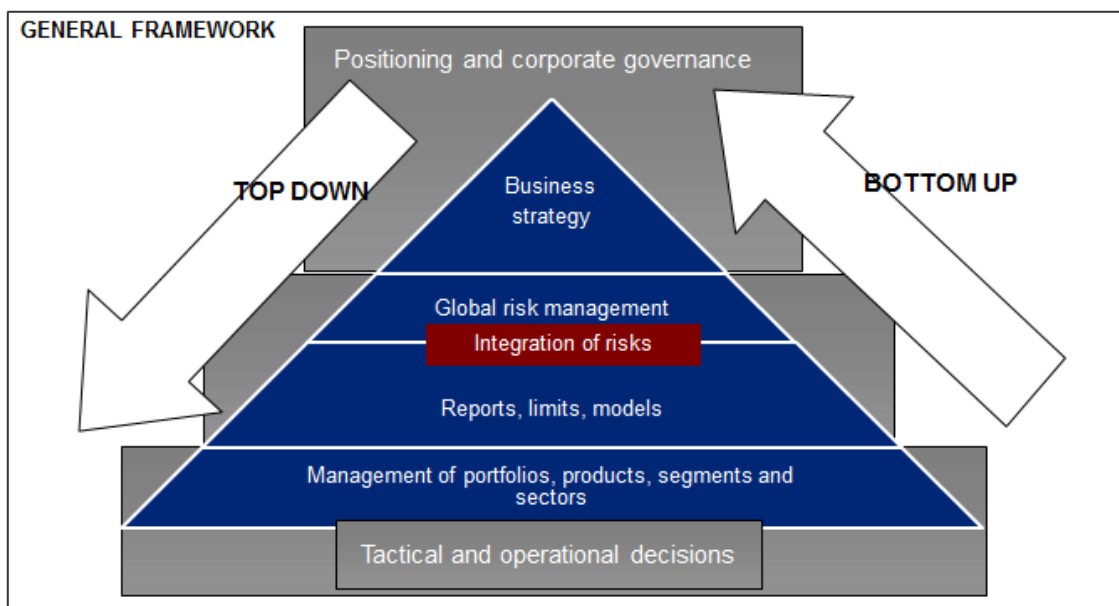
Lastly, it is important to note that stress testing tools continue to be used in order to quantify swiftly the impact of different macroeconomic scenarios on the various portfolios,

Strategic risk management

In 2011 the Bank completed the implementation of the programme for the strategic management and global optimisation of risks and capital, thus enabling it to gain an overall understanding of the various types of risk and providing a deeper level of behavioural analysis of portfolios according to its main decision-making criteria, not only from the standpoint of risks but also by relating them to other criteria such as profitability, This implementation also entailed an improvement in the reporting systems, in which information was added regarding various types of risk: credit, market, operational, interest rate, liquidity, regulatory capital consumption and concentration,



In 2011 work was performed to define a governance and management framework of concentration risk, due to its importance, by improving the procedures already in place for identifying, measuring, managing, monitoring and reporting on this type of risk, Particular attention was made to the interactions that might exist among the various risk categories (credit, market, operational, interest rate and liquidity),



Capital management

Given the current environment of rising risk costs and more stringent capital requirements and regulation, Banesto launched a capital management office, with the aim of improving the granularity of the understanding of the Bank's risks and of launching initiatives to enhance the effectiveness of the use of capital at business level,

The capital management office aims to anticipate regulatory changes with regard to Basel III and trends in Spain's economic situation and their impact on capital costs,

In 2011 the main activity performed by this office was raising awareness among all the businesses of the importance of active management of the assigned capital and the identification of new opportunities for correct estimations and obtaining profitability (precise calculations of risk-weighted assets and reduction and/or appropriate remuneration thereof),

Also in 2011, new improvement initiatives were launched that affect the quality of data, the automatic processing of tasks and improvements to regulatory models, Initiatives are also under way to support commercial management through the creation of new products, active management of credit limits, deadline monitoring and other relevant parameters from a regulatory perspective,

II, Credit risk

Credit risk is defined as the possible loss for the Bank stemming from the failure of counterparties to meet their contractual obligations,

Credit risk is managed in three phases: acceptance, monitoring and recovery management,

II,a Loan acceptance

Loan acceptance is structured on the basis of customer segmentation, This structure enables the Bank to apply specific policies and criteria to each type of customer, standardise the analysis and have acceptance levels in place with a high degree of specialisation that enable it:

- To maintain a quality loan portfolio,
- To enhance the customer response capability and efficiency,
- To adapt the loan acceptance process to the customer's risk profile,

In the Retail Banking segment, Banesto has an acceptance model that combines automatic decision-making systems that include effective behaviour models and models for automatically calculating expected loss by customer, with teams of specialised risk analysts by group to ensure uniform decision-making, The two systems complement each other and ensure the maintenance of a high standard of quality of the Bank's portfolio,

The analysis systems, integrated into our computer platform, are also adapted to each retail customer segment (individuals, SMEs, businesses, retail businesses, independent professionals and the agriculture industry) and constitute the fundamental method for automatic and manual decision-making processes relating to risks,

The Risk Analysis Centre (RAC) is the department responsible for the personalised acceptance of loans on which automatic decisions have not been taken, The experience and specialisation of the analysts in this department ensure that the transactions meet the quality standards required by the Bank and that the branches receive the advice they need to analyse the customers' risk transactions correctly,

Loan acceptance in the Business Area is performed in accordance with the strict principles of prudence of the Bank's policy and in line with the demands of the difficult economic environment that we have been experiencing for several years, This is helping Banesto achieve its main objective: to maintain the quality standards of the portfolio at the highest levels, always above the average of its peers,

Specialisation represents the mainstay of the organisation and functioning of loan acceptance, as described below:

- Each customer has a personal account manager who performs an integrated management of all customers' needs, including loans, Each account manager is assisted by analysts, who are also personal, industry-specific or general, as indicated below:
- Industry risks: specialised teams by activity sector that are responsible for analysing a specific portfolio of customers belonging to particular industries, thereby broadening the perspective, and facilitating and enhancing the analysis, The structure of each portfolio depends on the activity sector and size of the customer, regardless of the management segment to which the customer belongs,
- Traditional circuit: the other customers, not included in the previous segments, are divided into geographical portfolios among the analysts of the Regional Offices making up the Business Network, Their transactions may be resolved by the Regional Offices based on the level of authority delegated to each, Transactions with amounts exceeding the authorisation levels are submitted to Central Services and channelled through the Business Risk Unit, which manages the resolution of these cases at the various risk committees according to the size of each transaction,

- Capital Markets: this team is specialised in certain types of transaction that have higher added value, due to their purpose, structure, complexity, etc., which aim to satisfy the increasingly sophisticated needs of our customers, It specialises by product, regardless of the management segment in which the customer is placed,
- Restructuring: this team handles very specific needs of customers, such as those in a precarious situation who need a complete reordering of their financing structure,
- International Risk: the Bank has a team specialised in the analysis of international risks with detailed knowledge of the various products it can offer customers to solve their needs with regard to international trade transactions, For this purpose it has a specific analysis methodology for each type of risk: country risk, financial institution risk and business risk,

The methodologies and tools used are also adapted to the type of customer, with regard both to the analysis and assessment and to management and monitoring which, ultimately, means that all our customers can be treated in a uniform manner,

In the area of Corporate Banking, integrated customer management is performed based on their particular characteristics, Industry risk customers are managed by a team of managers and analysts who are specialised by industry and know, analyse, compare and assess the customers of a particular industry, Multi-industry customers are handled by the analysis teams at the Madrid and Barcelona branches, There is also a team specialising in project finance with specific methodologies and, faced with the economic situation experienced in recent years, the loan acceptance process was strengthened by the addition of a risk restructuring team to provide closer attention to customers in a precarious situation,

II,b Risk monitoring

The purpose of the tasks and functions of the Monitoring Unit is to seek to know at all times the level of certainty we have that a particular credit transaction repayment will be made on a timely basis and it enables the Bank to foresee any event that might be detrimental to the customer or might affect Banesto's risks negatively,

The monitoring function includes all the customers with credit risks and, therefore, all risks are monitored,

The branches and the customer account managers exercise primary responsibility for all their risks and, therefore, the monitoring thereof, They are supported in this function by the Area Risk Managers who, in turn, are supported by the Regional Monitoring Coordinators, These two positions provide second-level management and are responsible for ensuring that the monitoring tasks are performed in the branches within their areas,

To ensure that the monitoring tasks are being fulfilled, various committees have been set up at branch, area and regional level, Customers to be reviewed at these committees are assigned automatically by the foresight systems and applications in place, and manually in the case of specific reviews,

Within the Monitoring Unit, there is a Special Monitoring Unit that aims specifically to prevent transactions with past-due amounts from becoming doubtful, To this end, it identifies, analyses and manages the risk, and offers solutions designed to either cancel or regularise the loans,

The Unit is supported by a network of Special Transactions Managers (GEOs), who are differentiated and specialised according to the segment they manage,

II,c Loan recovery and the management of foreclosed assets

The purpose of the loan recovery activity is to collect and regularise doubtful and written-off contracts, and to write down, market and sell foreclosed assets, All the Bank's units have been assigned the objective of improving the recovery activity within their scope of competence and of marketing and selling the foreclosed assets,

In 2011 the number of managers devoted to loan recovery activities with the dual objective of increasing and optimising the portfolios under management, using cutting-edge computer applications for managing court and out-of-court procedures,

Further emphasis has also been placed on the specialisation of managers according to customer segment and industry. Accordingly, there are managers who specialise in Businesses whose work requires a highly technical content. Also, differentiated recovery strategies have been implemented for SME customers. Furthermore, work continued to develop a differentiated management model in the mortgage segment through Sociedad Aktua Soluciones Financieras, S.A. This company, which was incorporated in 2009, performs the integrated management of the mortgage portfolios of individuals, and the marketing and sale of foreclosed assets,

In consumer financing, agreements below a given amount are handled with the support of an extensive network of external collection companies and managers, which are evaluated monthly on the basis of efficiency ratios and are encouraged to achieve success. Consumer financing agreements of a higher amount are managed internally through a model characterised by specialisation and face-to-face management. These structures underpin the significant recovery levels of written-off loans, which demonstrates their capacity to recover loans and contribute to the income statement,

The legal proceedings management model is monitored by the Procedural Management Centre in which all the legal claims relating to the recovery activity are prepared, directed and overseen using a fully consolidated management model using the Astrea software which is at the leading edge of the industry. In 2011 further improvements were also made to the new version of the Loan Recovery Management System, which led to a more efficient recovery of loans,

II,d Concentration risk

Another component of credit risk is concentration risk. The Bank constantly monitors the degree of concentration, by geographical area, economic sector, product and customer group, of its credit risk portfolios and establishes the risk policies and exposure limits required to ensure adequate management of credit risk portfolio concentration,

III,- Market risk

III,a Structural balance sheet risk

Interest rate risk is inherent to the Bank's activity and arises because the Bank's balance sheet contains assets and liabilities that are sensitive to interest rates and have different maturity and repricing structures. Changes in interest rates could have a negative impact on the net interest margin and on the economic value of the Bank's capital, and, accordingly, active management is required in order to mitigate this impact,

Management policy and strategy

The Bank's main objective is to stabilise the net interest income in the event of interest rate fluctuations, whilst maintaining the Entity's economic value and adequate liquidity and solvency levels. To control interest rate risk exposure, the Asset-Liability Committee (ALCO) approves lending strategies and the management, hedging, measurement and control policies consistent with the interest rate scenario at each moment, and policies designed to protect the net interest margin and economic value. The ALCO is responsible for the overall management of the Bank's on-balance-sheet interest rate risk, except for the positions of the Markets department,

Interest rate risk management aims to neutralise the negative impact of changes in interest rates of the balance sheet structure on the Entity's net interest margin and economic value. For this purpose, the Bank enters into hedging transactions that are either fixed-income instruments or interest rate derivatives (swaps, collars and

swaptions), The selection of one instrument or another is based on factors such as cost, the effectiveness of the instrument and the effects it might have on the Bank's liquidity and capital,

Management methodology

For the purpose of measuring structural balance sheet risk, Banesto uses the contractual information provided by its accounting systems. This information, which contains all the relevant aspects required for risk analysis (dates, coupons, etc.), ties in with the Bank's accounting records. Also, Banesto has followed a policy of investing in applications and systems that facilitate the development of models that provide considerable capacity for analysing risk and anticipate additional future information requirements,

III,c Treasury operations risk

The measurement of treasury operations risk focuses mainly on credit risk and market risk. Banesto has a Market Operations Risk Unit dedicated to the monitoring and measurement of this type of risk. This Unit has two areas dedicated to the analysis of market risk and credit risk and a third area dedicated to validating models and allocating the market prices used in the valuation of positions. This structure makes it possible to group together the measurement of all the types of treasury risk with an integrated approach and integrated systems. 2011 required a close monitoring of treasury operations risk owing to the high volatility in the financial markets,

Treasury credit risk

In 2011, although the marketing of treasury products to customers did not grow significantly in comparison with prior years, the number of outstanding transactions relating to derivative products was very high. The credit risk of treasury products is managed and controlled at the Market Operations Risk Unit (URAM). For this purpose the potential values of each financial instrument are estimated over the life of the instrument with a confidence level of 97,725%. Accordingly, in the event of customer default, Banesto's loss would be lower than the estimated loss in 97,725% of cases,

The URAM calculates and controls the risk exposure to each customer over different time horizons. This analysis facilitates greater control and a more dynamic and efficient management of the limits established by the Loan Acceptance Units. The Loan Acceptance Units and the Wholesale Banking Area are furnished with very detailed information on the credit risk positions with each customer on a daily basis. Also, detailed information regarding Banesto's exposure to its customers, by segment, product, rating, maturity and risk factor, is presented to senior management through the Risk Committee and the Executive Committee on a weekly basis. In 2011 the URAM made further advances in the methodology used for calculating risk exposure,

IV, Operational risk

Banesto's operational risk management model was defined in accordance with the Basel II Accord, the EU Directive on capital requirements for credit institutions and Bank of Spain Circular 3/2008 on solvency,

Banesto's main operational risk management objectives are:

- Identify and eliminate any clusters of operational risk before they give rise to losses,
- Reduce operational risk losses by establishing mitigation plans based on the type of risk and the business in question,

Banesto is well positioned in the application of the standardised approach within the regulatory framework, with ample coverage of its qualitative and quantitative requirements, which in turn represent a large portion of the requirements set for applying advanced models for calculating operational risk capital,

In 2011 the Bank focussed on operational risk mitigation activities, and defined a monitoring methodology and raised awareness of its importance throughout the organisation, Mitigation makes a difference in operational risk management because it helps to reduce losses and to create a culture of management of this risk by involving all areas of the organisation,

Operational risk management in the Retail, Businesses and Corporate areas continued to obtain noteworthy results through the NORMA model which covers several areas of operational risk in the commercial network: cash management, quality of documentation, security, operating control and anti-money laundering, and other operational risks, In order to enhance the model, temporary campaigns were introduced focussing on specific deficiencies or risks to be resolved in the short term,

Through NORMA, operational risk is integrated in the Entity's executive structure, from branch and area level to the regional and central operational risk committees, which are furnished fortnightly with information on the focal points for the management thereof, The incorporation of the NORMA indicator in the network incentives model represents a significant landmark in the consolidation of this global operational risk management tool,

In 2011 the scope of the risk self-assessment questionnaires was widened, thus enabling the Bank to gain more detailed knowledge of its operational risk map, Other mechanisms for identifying risks that are still ongoing are the monitoring of operational and technical incidents, checks on the quality of documentation, participation in committees of other areas, and the analysis of customer claims and other unresolved matters that might give rise to risks and/or losses,

The operational risk management model includes the management of technological risk, through specific questionnaires and indicators, and the monitoring of IT security and participation of the Operational Risk Unit in the regular contingency tests,

Our loss database has a long track record dating back eight years and, as a result of its level of automation and detail in capturing data, all the Bank's centres, in particular all the branches, are immediately aware of all operational risk events affecting them, This database also facilitates the preparation of reports on a comparative basis with other entities and, in particular, with the Spanish entities forming part of the international consortium known as the Operational Riskdata Exchange Association (ORX), The main purpose of this association is the anonymous exchange of operational risk loss data, which are used at each entity to model this risk and to validate data captured internally, ORX currently has more than 50 members at international level (Banesto has been a member since 2005) and it is a leading forum for research and the development of standards in operational risk management,

In 2011 the active management of events and the implementation of corrective measures gave rise to a reduction in losses in risk types such as External Fraud, Errors in the Execution of Processes and Systems Incidents and Failures,

Banesto's Technological and Operational Risk Unit is also responsible for the business continuity function, which aims to ensure the continuity of the Entity's critical processes in the event of a serious contingency, Banesto has a Continuity Management Committee which meets regularly, defines general strategies, reviews implementation progress and decides on the response mechanisms on the basis of the risks detected, In 2011 the focus was on raising awareness of the plan through extensive training sessions and by performing a series of tests and simulations on areas of the continuity plan,

Banesto participates actively in the Spanish Operational Risk Consortium (CERO Group) and in the Spanish Business Continuity Consortium (CECON),

V, Environmental risk

As part of its corporate responsibility commitment, Banesto has a clear concern for sustainability and thus includes environmental impact as one of the analysis criteria in all its financing projects,

The Wholesale Banking Risks Unit analyses all its customers from a social and environmental perspective, by measuring the degree of compliance with the following variables:

- Compliance with environmental legislation
- Conservation of biodiversity and sustainable management of natural resources
- Environmental litigation and claims in progress
- Level of emissions, discharges or waste generation
- Health and safety of the community
- Accredited environmental certification

In the analysis process, an assessment is also made of the measures implemented by the customers within their production processes to minimise possible environmental impact,

The measures applied by Banesto in this connection help foster responsible behaviour in environmental matters in all its financing projects,

Customer Care Service

As required by Article 17 of Ministry of Economy Order ECO/734/2004, of 11 March, on Customer Care Departments and Services and the Customer Ombudsmen of Financial Institutions, following is a summary of the Annual Report presented by the Head of the Service to the Board meeting held on 25 January 2012,

The activity of the Banesto Group's Customer Care Service was carried out within the framework of the aforementioned Ministry of Economy Order ECO/734/2004 and in compliance with the competencies and procedures established in the Customer Ombudsman Regulations of Banco Español de Crédito, S,A, and of its Economic Group,

a) Statistical summary of the claims and complaints handled

4,300 claims and complaints were filed with the Customer Care Service in 2011, an increase of 13,1% compared with 2010, all of which were admitted for consideration (without prejudice to the existence of grounds for not admitting complaints for consideration in the Service's Regulations), 83,5% of the matters handled (3,616 complaints) were resolved and concluded within the year, whereas a total of 714 complaints had not yet been analysed at 31 December 2011,

The detail, by type, of the main complaints and claims handled is as follows:

DEMAND ACCOUNTS	953	22%
CARDS	627	14%
CAMPAIGNS	442	10%
MORTGAGE LOANS	299	7%
BILLS	194	4%
POOR SERVICE	167	4%
INTEREST RATE HEDGES	147	3%
WILLS	139	3%

INSURANCE	127	3%
POS TERMINALS	107	2%
TRANSFERS	106	2%
CREDITS AND LOANS	98	2%
COMMERCIAL PAPER DISCOUNTING	82	2%
INVESTMENT FUNDS	76	2%
CHEQUES	71	2%
RISKS	70	2%
GUARANTEES	67	2%
DEPOSITS	53	1%
SECURITIES	50	1%
TAXES	48	1%

b) Summary of resolutions:

In favour of the complainant:	2,210 (51,1%)
In favour of the Bank:	1,406 (32,5%)
Not yet analysed:	714 (16,4%)

c) Detail of the complaints filed through the Bank of Spain and the Spanish National Securities Market Commission (CNMV):

Of the total number of complaints and claims handled by the Customer Care Service, 393 were filed through the Bank of Spain and 95 through the CNMV, the detail being as follows:

Bank of Spain

Claims resolved	393
In favour of the customer	112 (28%)
Claim accepted	90 (23%)
In favour of the Bank	69 (18%)
No pronouncement made	36 (9%)
No report	79 (20%)
Rejected	7 (2%)

CNMV

Claims resolved	95
In favour of the customer	13 (14%)
In favour of the Bank	16 (17%)
Claim accepted	5 (5%)
No pronouncement made	1 (1%)
No report	53 (56%)
Rejected	7 (7%)

d) General decision-making criteria

The criteria used as a basis for the resolution of the complaints handled by the Customer Care Service in 2011, as in previous years, were to ensure the correct application of current legislation, in particular with regard to transparency and customer protection, and of good banking practices and customs, all within the framework of the principle of equity and taking into consideration the criteria established in the reports issued by the respective claims services of the Bank of Spain, the CNMV and the Directorate-General of Insurance and Pension Funds,

e) Recommendations or suggestions deriving from the Service's experience, with a view to better attaining the aims of its work

In 2011 the Service continued to implement the proposals aimed at complying with Bank of Spain Circular 8/1990 and ensuring that the Entity's activities are in line with the regulators' recommendations regarding good banking customs and practices,

Also, the autonomy and independence of the Service in the analysis of the claims filed by customers, as established in the Regulations governing its activity, have led to a series of initiatives and proposals to various internal departments and business units aimed at improving both the information furnished before, during and after the arrangement of any transactions (the principle of transparency) and the contractual and commercial documentation provided to the customer,

The recommendations and suggestions made by the Service to the Bank in 2011 related most notably to the following:

- Demand accounts
- Cards
- Campaigns
- Mortgage loans

ANNUAL CORPORATE GOVERNANCE REPORT

FOR LISTED COMPANIES

ISSUER'S PARTICULARS

YEAR ENDED: 31/12/2011

Employer identification number: A-28000032

Company name: BANCO ESPAÑOL DE CREDITO, S.A.

MODEL ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

For a better understanding of the model and subsequent preparation of the report, please read the instructions at the end before filling it out.

A – OWNERSHIP STRUCTURE

A.1 Fill out the following table on the company's share capital:

Date of last change	Share capital (EUR)	Number of shares	Number of voting rights
20/06/08	543,035,570.42	687,386,798	687,386,798

If there are different classes of shares, indicate them below:

NO

A.2 List the direct and indirect holders of significant ownership interests in the company at year-end, excluding directors:

Name or corporate name of shareholder	Number of voting rights held directly	Number of voting rights held indirectly (*)	% of total voting rights
BANCO SANTANDER, S.A.	606,345,555	5,661,461	89.034

Indicate the most significant changes in the shareholder structure during the year:

A.3 Fill out the following tables on the members of the Company's Board of Directors who hold voting rights of shares of the Company:

Name or corporate name of director	Number of voting rights held directly	Number of voting rights held indirectly (*)	% of total voting rights
ANTONIO BASAGOITI GARCIA-TUNON	1,000	0	0.000
JOSE LUIS LOPEZ COMBARROS	2,600	0	0.000
JOSE ANTONIO GARCIA CANTERA	46,847	0	0.007
ALFONSO LIBANO DAURELLA	50	64,000	0.009
BELEN ROMANA GARCIA	200	0	0.000
CARLOS PEREZ DE BRICIO Y OLARIAGA	100	0	0.000
CARLOS SABANZA TERUEL	2,000	0	0.000
JOSÉ CORRAL LOPE	10,000	0	0.001
JOSE MARIA FUSTER VAN BENDEGEM	19,762	0	0.003
JUAN DELIBES LINIERS	50,955	0	0.007
JUAN GUITARD MARIN	100	0	0,000
MATIAS RODRIGUEZ INCIARTE	27,575	0	0.004
RAFAEL DEL PINO CALVO-SOTELO	5,000	0	0.001
ROSA MARIA GARCIA GARCIA	200	0	0.000

% of total voting rights held by the Board of Directors	0.034
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Fill out the following tables on the members of the Company's Board of Directors who hold rights over shares in the Company:

Name or corporate name of director	Number of direct options	Number of indirect options	Number of equivalent shares	% of total voting rights
JOSE ANTONIO GARCIA CANTERA	0	0	170,283	0.000
JUAN DELIBES LINIERS	0	0	124,937	0.000

A.4 Indicate, as appropriate, any relationships of a family, commercial, contractual or corporate nature existing between the holders of significant ownership interests, insofar as they are known to the Company, unless they have scant relevance or arise from the ordinary course of business:

A.5 Indicate, as appropriate, any relationships of a commercial, contractual or corporate nature existing between the holders of significant ownership interests and the Company and/or its Group, unless they have scant relevance or arise from the ordinary course of business:

Type of relationship:

Commercial

Brief description:

TRANSACTIONS WHICH ARISE FROM THE ORDINARY COURSE OF BUSINESS: IN ACCORDANCE WITH RECOMMENDATION 2 OF THE UNIFIED CODE, THE BOARDS OF DIRECTORS OF BANCO SANTANDER, S.A. AND BANCO ESPAÑOL DE CREDITO, S.A. HAVE ESTABLISHED A RELATIONSHIP FRAMEWORK BETWEEN THE TWO ENTITIES DEFINING THEIR RESPECTIVE AREAS OF ACTIVITY AND POSSIBLE BUSINESS RELATIONSHIPS AS WELL AS THE PRECISE MECHANISMS FOR HANDLING ANY CONFLICTS OF INTEREST THAT MIGHT ARISE. THIS DOCUMENT CAN BE CONSULTED ON THE WEBSITES OF THE TWO COMPANIES.

Name or corporate name of related parties
BANCO SANTANDER, S.A.

Type of relationship:

Corporate

Brief description:

PARENT OF THE GROUP OF COMPANIES INCLUDING BANCO ESPAÑOL DE CREDITO, S.A.

Name or corporate name of related parties
BANCO SANTANDER, S.A.

A.6 Indicate any shareholders agreements that have been reported to the Company pursuant to Article 112 of the Securities Market Law. Briefly describe, as appropriate, these agreements and the shareholders involved:

NO

Indicate and briefly describe, as appropriate, any concerted action among the Company's shareholders that is known to the Company:

NO

Expressly indicate any amendment to or termination of such agreements or concerted action during the year.

A.7 Indicate whether there is any individual or legal entity that exercises, or can exercise, control over the Company, in accordance with Article 4 of the Securities Market Law:

YES

Name or corporate name
BANCO SANTANDER, S.A.

Comments
OWNER OF 89.034% OF THE SHARE CAPITAL AND PARENT OF THE GROUP TO WHICH BANESTO BELONGS

A.8 Fill out the following tables on the Company's treasury shares:

At year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
0	5,160,868	0.751

(*) Through:

Name or corporate name of direct holder of ownership interest	Number of direct shares
DUDEBASA, S.A.	5,160,868
Total	5,160,868

Give details of any significant changes during the year, in accordance with Royal Decree 1362/2007:

Date	Total number of direct shares acquired	Total number of indirect shares acquired	Total % of share capital
10/01/2011	0	5,877,736	0.855
27/09/2011	0	4,449,607	0.647
Gains/(losses) on the disposal of treasury shares in the period			-4,101

A.9 Give details of the conditions and time period of any authorisation(s) from the shareholders at the General Meeting for the Board of Directors to acquire and/or transfer treasury shares.

AUTHORISATION FROM THE SHAREHOLDERS AT THE GENERAL MEETING FOR THE BOARD OF DIRECTORS

The shareholders at the General Meeting held on 24 February 2010 resolved to authorise the Board of Directors to engage in the derivative acquisition of shares of Banco Español de Crédito, S.A. and its Parent and the derivative acquisition of such shares from the Bank's subsidiaries treasury shares, directly and through Group companies, in Banco Español de Crédito, S.A. and its Parent.

Conditions:

The sum of the shares to be acquired and of those already held by the acquirer and its investees and, as the case may be, by the parent company and its investees, may not exceed the established statutory ceiling, subject to the applicability of any lower ceiling determined by the Board of Directors within the time limit approved by this General Meeting, and provided that such acquisition – including any shares acquired previously and held by the purchaser or such person as may act in his own name but on behalf of the acquirer – does not have the effect that equity, within the meaning given in article 146 of the Spanish Corporation Law (*Texto Refundido de la Ley de Sociedades de Capital*), falls below the value of share capital plus reserves that are unavailable by law or under the Articles of Association, and provided that all other applicable statutory requirements can also be satisfied. The lower and upper bounds of the acquisition price of the shares shall be their listed value as at the date of performance of the transaction in question, reduced or increased, respectively, by 20%.

The acquisition methods can include a sale, swap or any other form of transaction for valuable consideration as circumstances advise.

An acquisition transacted on the basis of this authority may have as its subject matter shares that are to be transferred to company employees or Directors, whether directly or as a result of the exercise of options of which such parties are the holders, for which purpose recourse may be had to the company's treasury shares or to fresh acquisitions within the scope of this authority.

Timeframe:

This authorisation is granted for a period of five years from the date of this Shareholders General Meeting.

BOARD APPROVAL OF TREASURY SHARES POLICY

At its meeting on 22 January 2008, the Board of Directors of Banco Español de Crédito, S.A., under the remit of article 3.2 letter a section viii of the Regulations of the Board of Directors, approved the general conditions of the company's treasury shares policy governing the acquisition of treasury shares as authorised at the General Meeting.

Below is a summary of the policy approved:

1.- Treasury shares policy will have the following aims:

a) to enhance the liquidity and availability of the company's shares in the market, as required, thus providing the market with depth and minimising temporary imbalances between supply and demand.

b) to enable all shareholders to benefit from weaknesses in the share price in relation to the medium-term expectations.

Notwithstanding the above, all Bank departments and subsidiaries may engage in treasury share transactions in the course of market risk hedging or customer trading or hedging transactions, in which cases the rules stipulated in sections c), d) and e) of point 4 of this report will not apply.

Treasury shares may be acquired to remunerate company directors and employees in the form of shares, share options or other share-based instruments, as well as to satisfy the exchange or conversion of securities conferring rights to acquire shares under the conditions stipulated by the relevant resolutions of the General Meeting.

2.- Sales or purchases of treasury shares by the company or its subsidiaries will be governed firstly by prevailing legislation and by the relevant resolutions of the General Meeting.

3.- The sale and purchase of treasury shares in the market shall be exercised in accordance with the following principles: Under no circumstances may this interfere with the normal evolution of market prices.

. Investment or disposal decisions taken by the relevant individuals shall be controlled by measures to prevent the use of privileged information. Decisions must be taken in isolation and shall be protected by appropriate barriers. To this end, the Business Unit responsible for the operation shall be identified in the applicable regulations, with no other Unit being entitled to carry out treasury share operations apart from those that are intended to hedge market risks or carry out customer trading or hedging operations under the terms described in paragraph 1 above.

Those persons involved in the sale and purchase of treasury shares, as well as the management of the counterparty subsidiary company, must all be subject to the Banesto Group's Code of Conduct in the Securities Market and shall be forbidden from carrying out proprietary trading with Banesto shares.

Any exceptions must be authorised by the Audit and Compliance Department.

. In order to determine the performance of the Bank's shares in the market, investors may gather information from various market members. However, ordinary operations in the continuous market can only be made via one market member, with notification to the CNMV.

4.- The following limits and conditions are set for the sale and purchase of treasury shares in the market:

a) The counterparty in the market will be its subsidiary Dubeasa, S.A., which should register systematically the operations realized in order to dispose the necessary information to achieve the information obligations imposed by the current regulation.

b) The management of the sale and purchase of treasury shares in the market shall be the responsibility of the financial intermediary appointed by the Executive Committee, who shall intermediate directly in operations as a member of the market or via other intermediaries.

To this effect, a Liquidity Agreement shall be entered into with the appointed financial intermediary under the terms stipulated in Circular 3/2007 of 19 December of the CNMV regulating the acceptance of liquidity agreements as market practice or, if the operation should require different clauses as per the model agreement deemed necessary, pursuant to the requirements of the entity's Compliance and Legal Advisory Departments.

c) Sale and buy operations shall be carried out at market price at all times and within the limits and conditions established by the General Shareholder's Meeting. They must meet the following requirements:

- There shall be no simultaneous sale and purchase orders of treasury shares.

- However, share buyback programmes and the acquisition of shares will be allowed to meet the Bank's or Group's obligations relating to share option plans, the delivery of shares or other similar operations, or for the issue of convertible securities.

- Buy orders shall be carried out a price no higher than the higher of the following:

i. The price of the most recent transaction performed in the market by independent third parties.

ii. The highest price of a buy order in the order book.

- Sell orders shall be carried out a price no lower than the lower of the following:

i. The price of the most recent transaction performed in the market by independent third parties.

ii. The lowest price of a sell order in the order book.

d) The maximum daily volume of trading in treasury shares shall not exceed 25% of the average volume traded in the previous 30 sessions. As an exception, in isolated sessions in which market volatility is much greater than usual, or there is a lack of supply or demand, volume of treasury shares may exceed the established limit, in which case the Executive Committee must be informed at its next meeting. Transactions involving Banesto shares which are labelled as special stock market operations as stipulated

in Royal Decree 1416/1991, of 27 September regarding special stock market transactions and over-the counter transfer of listed securities and average weighted changes are exempt from this restriction.

e) The following time limits must be applied to treasury share transactions:

. During the adjustment period, sell and buy orders may not affect the share price.

. All treasury share transactions shall be carried out during normal trading hours apart from one-off transactions which can be classed as special transactions.

f) The rules contained in section 3 (paragraph 3), and letters b), c) and d) of section 4 are not applicable to transactions performed through the treasury share block trading system.

5.- Information regarding treasury share transactions shall be submitted periodically to the Executive Committee. In addition, the Bank's Chairman or CEO must be informed beforehand of any transactions involving a particularly high volume or those subject to special terms and conditions and, in all case, of those affecting over 0.5% of the share capital.

6.-The Compliance Department shall establish the correct procedure to be followed for all treasury share sale and purchase transactions.

A.10 Indicate any restrictions under law or the company's articles of association on exercising voting rights and any legal restrictions on the acquisition and/or transfer in the share capital. Indicate any legal restrictions on voting rights:

No

Maximum percentage of legal restrictions on voting rights a shareholder can exercise	0
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Indicate any restrictions included in company's articles of association on exercising voting rights:

No

Maximum percentage of legal restrictions on voting rights a shareholder can exercise under the company's articles of association	0
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Indicate if there are any legal restrictions on the acquisition or transfer of share capital:

YES

Description of legal restrictions on the acquisition or transfer of share capital
Articles 57 and 58 of Law 26/1988 of 29 July on the Discipline and Intervention of Lending Institutions require that prior notice be given to the Bank of Spain of any intention to acquire a significant stake (5% and multiples) in a Spanish credit institution. The Bank of Spain may oppose such an acquisition under certain legal circumstances. As a listed entity, the acquisition of certain significant stakes is subject to communication to the issuer and the Comisión Nacional del Mercado de Valores (CNMV) and, if applicable, presentation of an Initial Public Offering as per the terms stipulated in Law 24/1988 governing the Spanish Securities Market.

A.11 Indicate if neutralisation measures in the event of a takeover bid were agreed upon at the General Meeting pursuant to Law 6/2007:

No

If so, explain the measures approved and the terms under which the inefficiency of restrictions would occur:

B – STRUCTURE OF THE CORPORATE ADMINISTRATION

B.1 Board of Directors

B.1.1 List the maximum and minimum number of directorships stipulated in the articles of association:

Maximum number of directors	15
Minimum number of directors	5

B.1.2 Fill out the following table with Board members' details:

Name or company name of director	Representative	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
ANTONIO BASAGOITI GARCIA TUNON	--	CHAIRMAN	03/11/2010	23/02/2011	VOTE AT SHAREHOLDER S' MEETING
JOSE LUIS LOPEZ COMBARROS	--	VICE CHAIRMAN	29/07/2004	25/02/2009	VOTE AT SHAREHOLDER S' MEETING
JOSE ANTONIO GARCIA CANTERA	--	CHIEF EXECUTIVE OFFICER	22/06/2006	23/02/2011	VOTE AT SHAREHOLDER S' MEETING
ALFONSO LIBANO DAURELLA	--	DIRECTOR	19/01/2011	23/02/2011	VOTE AT SHAREHOLDER S' MEETING
BELEN ROMANA GARCIA	--	DIRECTOR	25/03/2008	25/02/2009	VOTE AT SHAREHOLDER S' MEETING

CARLOS PEREZ DE BRICIO Y OLARIAGA	--	DIRECTOR	22/07/2008	25/02/2009	VOTE AT SHAREHOLDER S' MEETING
CARLOS SABANZA TERUEL	--	DIRECTOR	28/02/2006	24/02/2010	VOTE AT SHAREHOLDER S' MEETING
JOSÉ CORRAL LOPE	--	DIRECTOR	19/01/2011	23/02/2011	VOTE AT SHAREHOLDER S' MEETING
JOSE MARIA FUSTER VAN BENDEGEM	--	DIRECTOR	28/02/2006	25/02/2009	VOTE AT SHAREHOLDER S' MEETING
JUAN DELIBES LINIERS	--	DIRECTOR	23/08/1994	23/02/2011	VOTE AT SHAREHOLDER S' MEETING
JUAN GUITARD MARIN	--	DIRECTOR	19/01/2011	23/02/2011	VOTE AT SHAREHOLDER S' MEETING
MATIAS RODRIGUEZ INCIARTE	--	DIRECTOR	24/08/1994	23/02/2011	VOTE AT SHAREHOLDER S' MEETING
RAFAEL DEL PINO CALVO-SOTELO	--	DIRECTOR	04/02/2003	24/02/2010	VOTE AT SHAREHOLDER S' MEETING
ROSA MARIA GARCIA GARCIA	--	DIRECTOR	12/05/2009	24/02/2010	VOTE AT SHAREHOLDER S' MEETING

Total number of directors	14
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Indicate any directors leaving the Board during the period:

Name or company name of director	Class of director at the time of removal	Date of removal
DAVID ARCE TORRES	OTHER EXTERNAL DIRECTOR	19/01/2011
JOSÉ MARÍA NUS BADÍA	EXECUTIVE	19/01/2011
FRANCISCO DAURELLA FRANCO	INDEPENDENT	19/01/2011

B.1.3 Fill out the following tables on Board members and their directorships:

EXECUTIVE DIRECTORS

Name or corporate name of director	Committee proposing the appointment	Post held in the company
JOSE ANTONIO GARCIA CANTERA	APPOINTMENTS AND REMUNERATION COMMITTEE	CHIEF EXECUTIVE OFFICER
JUAN DELIBES LINIERS	APPOINTMENTS AND REMUNERATION COMMITTEE	GENERAL MANAGER CORPORATE DEVELOPMENT AND FINANCIAL

Total number of Executive Directors	2
% of the Board	14.286

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Committee proposing the appointment	Name of the main shareholder that represents
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ANTONIO BASAGOITI GARCIA TUNON	APPOINTMENTS AND REMUNERATION COMMITTEE	BANCO SANTANDER, S.A.
JOSE MARIA FUSTER VAN BENDEGEM	APPOINTMENTS AND REMUNERATION COMMITTEE	BANCO SANTANDER, S.A.
JUAN GUITARD MARIN	APPOINTMENTS AND REMUNERATION COMMITTEE	BANCO SANTANDER, S.A.
MATIAS RODRIGUEZ INCIARTE	APPOINTMENTS AND REMUNERATION COMMITTEE	BANCO SANTANDER, S.A.

Total number of Executive Directors	4
% of the Board	28.571

INDEPENDENT DIRECTORS

Name or corporate name of director

JOSE LUIS LOPEZ COMBARROS

Background

ECONOMICS GRADUATE. HAS BEEN A PARTNER OF ARTHUR ANDERSEN AND CHAIRMAN OF THE ICAC (INSTITUTO DE CONTABILIDAD Y AUDITORÍA DE CUENTAS).

Name or corporate name of director

ALFONSO LIBANO DAURELLA

Background

BUSINESS STUDIES GRADUATE. CHIEF EXECUTIVE OFFICER OF COBEGA, S.A., CHAIRMAN OF EQUATORIAL COCA-COLA BOTTLING COMPANY, S.L., VICE CHAIRMAN OF NORBEGA, S.A., DIRECTOR OF CASBEGA, S.A., DIRECTOR OF REFRIGE, S.A., TRUSTEE OF THE COCA-COLA AFRICA FOUNDATION, VICE CHAIRMAN OF EFB-GEEF (EUROPEAN FAMILY BUSINESS), MEMBER OF THE BOARD OF DIRECTORS OF THE FBN (FAMILY BUSINESS NETWORK), FUNDATION MEMBER AND MEMBER OF THE INTERNATIONAL COMMISSION OF THE IEF (FAMILY BUSINESS INSTITUT), VICE CHAIRMAN OF THE USA CHAMBER OF COMMERCE. IN SPAIN AND DIRECTOR OF THE FUNDACIÓN MUSEO DEL ARTE CONTEMPORÁNEO DE BARCELONA (BARCELONA CONTEMPORARY ART MUSEUM FUNDATION).

Name or corporate name of director

BELEN ROMANA GARCIA

Background

GRADUATE IN ECONOMICS AND BUSINESS STUDIES FROM THE UNIVERSIDAD AUTÓNOMA DE MADRID, STATE COMMERCIAL TECHNICAL ADVISOR AND STATE ECONOMIST. MANAGING DIRECTOR CORPORATE STRATEGY AND DEVELOPMENT, ONO, S.A. HAS HELD DIRECTORSHIPS AT MERCASA, ICO, SIDENOR, CERSA AND SEIASA. WAS GENERAL MANAGER OF POLITICAL ECONOMY AND GENERAL MANAGER OF THE TREASURY (SPAIN) AND ALSO A MEMBER OF THE BANK OF SPAIN GOVERNANCE BOARD AND THE NATIONAL SECURITIES MARKET COMMISSION.

Name or corporate name of director

CARLOS PEREZ DE BRICIO Y OLARIAGA

Background

MEMBER OF THE FINANCIAL INSPECTION BODY
HAS ALSO BEEN EXECUTIVE CHAIRMAN AND CEO OF CEPISA SINCE 1996 AND MINISTER OF INDUSTRY, AND VICE CHAIRMAN OF CONFEMETAL AND CEOE.

Name or corporate name of director

CARLOS SABANZA TERUEL

Background

HAS BEEN VICE CHAIRMAN AND CEO OF BANCO DE VITORIA S.A. AND DIRECTOR OF THE GOVERNING BODY OF THE BILBAO STOCK EXCHANGE. VICE CHAIRMAN OF THE ASOCIACIÓN PARA EL PROGRESO DE LA DIRECCIÓN (ASSOCIATION FOR EXECUTIVE ADVANCEMENT)

Name or corporate name of director

RAFAEL DEL PINO CALVO-SOTELO

Background

CIVIL ENGINEER. CHAIRMAN OF THE FERROVIAL GROUP SINCE 2000. PREVIOUSLY CEO OF THE FERROVIAL GROUP SINCE 1992.

Name or corporate name of director

ROSA MARIA GARCIA GARCIA

Background

MATHEMATICS GRADUATE. INDEPENDENT DIRECTOR OF BOLSAS Y MERCADOS, S.A., DIRECTOR OF SIEMENS SPAIN, S.A., BOARD MEMBER OF LA BOARD MEMBER OF LA ASOCIACIÓN PARA EL PROGRESO DE LA DIRECCIÓN (ASSOCIATION FOR EXECUTIVE ADVANCEMENT) AND MEMBER OF THE SENIOR MANAGEMENT FORUM.

Total number of independent directors	7
% of the Board	50.00 0

OTHER EXTERNAL DIRECTORS

Name or corporate name of director	Committee which proposed his appointment
JOSÉ CORRAL LOPE	APPOINTMENT AND REMUNERATION COMMITTEE

Total number of external directors	1
% of the Board	7.143

Indicate why these directors cannot be considered proprietary or independent and their links with either the company, its directors or shareholders.

Name or corporate name of director

JOSÉ CORRAL LOPE

Company with which, or directors or shareholders with whom he has a link

BANCO SANTANDER, S.A.

Reasons

IN ACCORDANCE WITH ARTICLE 23 OF THE BY-LAWS AND ARTICLE 5 OF THE BOARD REGULATIONS, THE DIRECTOR MAY NOT BE CONSIDERED A PROPRIETARY DIRECTOR OR AN INDEPENDENT DIRECTOR.

List any changes in the classification of each director which have occurred during the period:

B.1.4 Explain, if appropriate, the reasons why they have been appointed proprietary directors at the behest of shareholders whose stakes represent less than 5% of the share capital.

Indicate any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship. If so, explain why these requests have been rejected:

NO

B.1.5 Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Indicate if any directors have given up their place before their tenure expires, through resignation or otherwise and state their reasons by what channel. If this was made in writing to the Board, explain the reasons given:

YES

Name of director

DAVID ARCE TORRES

Reason for resignation

At the Board meeting held on 19 January 2011, the Board of Directors was informed about a letter from David Arce Torres in which, in accordance with article 20(4) of the Regulations of the Board of Directors, he declared his intention to resign from his position as a Director of Banco Español de Crédito, S.A., and likewise to resign from his position as member of Audit and Compliance Committee, by reason of personal reasons.

Name of director

FRANCISCO DAURELLA FRANCO

Reason for resignation

At the Board meeting held on 19 January 2011, the Board of Directors was informed about a letter from Francisco Daurella Franco in which, in accordance with article 20(4) of the Regulations of the Board of Directors, he declared his intention to resign from his position as a Director of Banco Español de Crédito, S.A., by reason of personal reasons.

Name of director

JOSÉ MARÍA NUS BADÍA

Reason for resignation

At the Board meeting held on 19 January 2011, the Board of Directors was informed about a letter from David Arce Torres in which, in accordance with article 20(4) of the Regulations of the Board of Directors, he declared her intention to resign from his position as a Director of Banco Español de Crédito, S.A., and likewise to resign from his position as Chairman of Delegated Risks Committee and member of the Executive Committee, by reason of his having been appointed as Director of Santander UK Plc.

B.1.6 Indicate, where applicable, any powers delegated to managing directors:

Name or corporate name of director

JOSÉ ANTONIO GARCÍA CANTERA

Brief description

He has had delegated to him all powers required for the management of the business and the powers attaching to his office, except such powers as are non-delegable by law or under the Articles of Association or the Regulations of the Board of Directors, article 3.

B.1.7 List any Board members holding senior management or directorships in other companies belonging to the listed company's group:

B.1.8 List all board members who are also members of the board of directors of other companies listed on official securities markets in Spain, other than your own group, that have been reported to the company:

Name or corporate name of director	Name of listed entity	Post
ANTONIO BASAGOITI GARCIA TUNON	PESCANOVA. S.A.	DIRECTOR
ANTONIO BASAGOITI GARCIA TUNON	FAES FARMA. S.A.	VICE-CHAIRMAN
BELEN ROMANA GARCIA	ACERINOX. S.A.	DIRECTOR
JUAN DELIBES LINIERS	METROVACESA. S.A.	DIRECTOR
MATIAS RODRIGUEZ INCIARTE	FINANCIERA PONFERRADA. S.A. SICAV	DIRECTOR
RAFAEL DEL PINO CALVO-SOTELO	FERROVIAL. S.A.	CHAIRMAN
ROSA MARIA GARCIA GARCIA	BOLSAS Y MERCADOS ESPANOLES. SOCIEDAD HOLDING DE MERCADOS Y SISTEMAS FINANCIEROS. S.A.	DIRECTOR

B.1.9. Indicate and explain if the company has established rules about the number of directorships their board members can hold:

YES

Explanation
ARTICLE 28 OF THE REGULATIONS OF THE BOARD OF DIRECTORS STIPULATES THAT DIRECTORS SHALL LIMIT THEIR POSITIONS ON THE GOVERNING BODIES OF OTHER ENTITIES TO THE MAXIMUM NUMBER STIPULATED IN THE REGULATORY PROVISIONS FOR LENDING INSTITUTIONS AND OTHER APPLICABLE LEGISLATION. DIRECTORS MAY SIT ON A MAXIMUM OF FIVE GOVERNING BODIES OF COMPANIES OTHER THAN THOSE DIRECTLY OR INDIRECTLY CONTROLLED BY BANCO ESPAÑOL DE CRÉDITO, S. A. .

B.1.10 Regarding Recommendation 8 of the Unified Code, indicate the company's general policies and strategies which the Board in full should reserve the right to approve:

Investment and financing policy	YES
Design of the structure of the corporate group	YES
Corporate governance policy	YES

Corporate social responsibility policy	YES
The strategic or business plan, management targets and annual budgets	YES
Remuneration and evaluation of senior officers	YES
Risk control and management, and the periodic monitoring of internal information and control systems	YES
Dividend policy, as well as the policies and limits applying to treasury shares	YES

B.1.11 Fill out the following tables indicating the aggregate remuneration paid to directors during the year:

a) For directors of the company subject to this report:

Concept	Thousands of euros
Fixed remuneration	1,796
Variable remuneration	3,125
Per diems	229
Statutory compensation	1,195
Options on shares and/or other financial instruments	485
Other	21
Total	6,851

Other benefits	Thousands of euros
Advances	0
Loans	0
Funds and pension plans: contributions	946
Funds and pension plans: obligations	15,934
Life insurance premiums	32
Guarantees issued by the company in favour of directors	0

b) For directors belonging to other boards of directors and/or holding senior management posts in group companies:

Concept	Thousands of euros
Fixed remuneration	0
Variable remuneration	0
Per diems	0
Statutory compensation	0
Options on shares and/or other financial instruments	0
Other	0
Total	0

Other benefits	Thousands of euros
Advances	0
Loans	0
Funds and pension plans: contributions	0
Funds and pension plans: obligations	0
Life insurance premiums	0

Other benefits	Thousands of euros
Guarantees issued by the company in favour of directors	0

c) Total remuneration by type of directorship:

Type of directorship	Company	Group
EXECUTIVE	5,630	0
PROPRIETARY	375	0
INDEPENDENT	840	0
OTHER EXTERNAL DIRECTORS	6	0
Total	6,851	0

d) Remuneration as a percentage of Parent attributable profit

Total remuneration received by directors (in thousands of euros)	6,851
Total remuneration received by directors/Parent attributable profit (%)	2.0

B.1.12 List senior management members who are not executive directors and indicate the total remuneration accruing to them during the year:

Name or corporate name	Post
GONZALO ALONSO TEJUCA	GENERAL MANAGER RETAIL BANKING
JOSE FRANCISCO DONCEL RAZOLA	GENERAL MANAGER CONTROLLER GENERAL
JAIME YBARRA LORING	GENERAL MANAGER FOR WHOLESALE BANKING

MONICA LOPEZ-MONIS GALLEGO	SECRETARY OF THE BOARD OF DIRECTORS
MIGUEL SANZ SAIZ	GENERAL MANAGER HUMAN RESOURCES
ADOLFO RAMIREZ MORALES	GENERAL MANAGER RESOURCES
JESUS FUENTES COLELLA	GENERAL MANAGER FOR INVESTMENTS AND RISKS
MATIAS FRANCISCO SANCHEZ GARCIA	DEPUTY GENERAL MANAGER. CORPORATION BUSINESS
ERNESTO MARTINEZ GOMEZ	DEPUTY GENERAL MANAGER INTERNAL AUDIT MANAGER
IGNACIO MARIA EZQUERRA BASTIDA	GENERAL MANAGER FOR COMPLIANCE AND INTERNAL CONTROL
JUAN ANTONIO LOMBARDIA SAINT GERMAIN	ASSISTANT GENERAL MANAGER FOR CLIENTS RELATIONSHIP STRATEGY, MARKETING AND PRODUCTS
Total remuneration received by senior directors (in thousands of euros)	8,673

B.1.13 Identify in aggregate terms any guarantee or protective clauses benefiting senior management (including executive directors) of the company or its group. Indicate whether these clauses have to be reported to and/or authorised by the governing bodies of the company or its group:

Number of beneficiaries	5
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	Board Of Directors	Shareholders' Meeting
Body authorising clauses	YES	NO

Is the General Meeting informed of these clauses?	YES
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B.1.14 Indicate the procedures for establishing board members' remuneration and any relevant clauses in the Articles of Association regarding this payment.

Procedures for establishing board members' remuneration and relevant clauses in the Articles of Association
<p>Procedures for establishing board members' remuneration are stipulated in the bylaws and the Regulations of the Board of Directors.</p> <p>1.- Article 39 of the By-laws stipulates:</p>

Procedures for establishing board members' remuneration and relevant clauses in the Articles of Association

1. The post of Director is remunerated. Directors shall be entitled to receive compensation for performing the duties entrusted to them by reason of their appointment as mere members of the Board of Directors by the shareholders at a General Meeting or by the Board itself exercising its power to make interim appointments (co-option).

2. This compensation shall be paid as a share in profits and bylaw -mandated compensation, in accordance with legal requirements established, and shall have two components: (a) an annual amount and (b) attendance fees/allowance. Attendance fees shall be paid in advance on account of the profits for the fiscal year.

The specific amount payable for the above-mentioned items to each of the Directors shall be determined by the Board of Directors. For such purpose, the Board might take into consideration the positions held by each Director in the decision-making body and their membership and attendance at the Board's various Committees.

The total amount of the remuneration comprised in this section shall be equivalent to one per cent of the Company's annual profit, although the Board might agree to reduce this participation percentage in years when it deems it justified.

3. In addition to the remuneration systems set forth in the preceding paragraphs, the Directors shall be entitled to receive remuneration by means of the delivery of shares or option rights thereon, or by any other remuneration system referenced to the value of shares, provided the application of such remuneration systems is previously approved by the shareholders at the General Meeting. Such resolution shall determine, as the case may be, the number of shares to be delivered, the exercise price of the options, the value of the shares used as a reference and the duration of such remuneration system.

4. Independently of the provisions of the preceding paragraphs, the Directors shall also be entitled to receive such other compensation (salaries, incentives, bonuses, pensions, insurance and severance payments) as, following a proposal made by the Appointments and Remuneration Committee and upon resolution by the Board of Directors, may be considered appropriate in consideration for the performance of other duties at the Company, whether they are the duties of an executive Director or other, other than the duties of supervision and collective decision-making that they discharge in their capacity as members of the Board.

5. The Board of Directors shall approve an annual report on the remuneration policy, where it shall set forth the standards and basis used to determine the remuneration of the Directors for the previous fiscal year and the current fiscal year, and shall make it available to the shareholders when the General Shareholders' Meeting is called. The contents of the Report shall be governed by the provisions of the Regulations of the Board of Directors.

6. The annual report has individual information on the remuneration received by each Director, specifying the amounts corresponding to each compensation item. It shall also set forth therein, on an individual basis and for each item of compensation, the compensation payable, pursuant to Article 31 of the current By-laws and paragraph 4 above, for the performance of executive duties entrusted to the executive Directors of the Company.

7. The Company shall have in place civil liability insurance for its Directors on such terms as are customary and commensurate with the circumstances of the Company itself.

Article 24 of the Regulations of the Board of Directors stipulates that:

1. In accordance with Article 39 of the By-laws, the post of Director is remunerated, and Directors shall be entitled to receive compensation for performing the duties entrusted to them by reason of their appointment as mere members of the Board of Directors by the shareholders at a General Shareholders' Meeting or by the Board itself exercising its power to make interim appointments (co-option).

This compensation shall be paid as a share in profits and bylaw-mandated compensation, in accordance with legal requirements established, and shall have two components: (a) an annual amount and (b) attendance fees/allowance. Attendance fees shall be paid in advance on account of the profits for the fiscal year.

In the assignation of the remuneration amount that for the above-mentioned concepts corresponds to each Director, the Board might take into consideration the positions held by each Director in the decision-making body and their membership

Procedures for establishing board members' remuneration and relevant clauses in the Articles of Association

and attendance at the Board's various Committees.

The total amount of the remuneration comprised in this section shall be equivalent to one per cent of the Company's annual profit, although the Board might agree to reduce this participation percentage in years when it deems it justified.

2. In accordance to the provisions of the third section of Article 39 of the By-laws, the Board of Directors shall restrict remuneration proposals consisting of delivery or shares or option rights on shares or that are linked to the value of the shares, to Executive Directors, unless the remuneration consists of just the delivery of shares, and Directors being conditioned to hold them until they leave the Board.

3. Independently of the provisions of the preceding paragraphs, and in accordance with Article 39(4) of the By-laws and Article 9.2) of these Regulations, the Directors shall also be entitled to receive such other compensation (salaries, incentives, bonuses, pensions, insurance and severance payments) as, following a proposal made by the Appointments and Remuneration Committee and upon a resolution by the Board of Directors, may be considered appropriate as consideration for the performance of other duties at the Company, whether they are the duties of an executive Director or other, other than the duties of supervision and collective decision-making that they discharge in their capacity as members of the Board.

4. The Board will seek to ensure that directors' remuneration is reasonable and in line with the Bank's results, and is sufficient to remunerate the dedication, skills and responsibilities of all external directors.

5. The Board of Directors shall approve the remuneration policy, following a proposal of the Appointments and Remuneration Committee. The policy will include the relevant criteria and grounds for determining directors' remuneration for the current year and, if applicable, future years. The policy includes:

a) Evolution of directors' remuneration payable for their supervisory and decision-making duties.

b) Separate details of the remuneration payable to executive directors for duties other than those listed above and which will be based, at least, on the following:

- progression of fixed annual remuneration together with an estimate of the total amount.

- benchmark parameters based on any short- or long-term variable remuneration scheme (bonuses or annual/long-term incentives).

- an estimate of the sum total of variable payments arising from the remuneration policy proposed.

- the relative importance of variable vs. fixed remuneration and the deferred variable vs. total variable remuneration.

- the reference criteria for the yield of stock, stock – options or stock price based remunerations.

- the main characteristics of benefit systems (for example, supplementary pensions, life insurance and similar arrangements), with an estimate of their amount or annual equivalent cost.

- the conditions of the contracts for executive directors (duration, prior notice, recruitment premiums, severance payment and any others).

c) It shall also report on remuneration paid to external directors for carrying out functions other than those of director.

d) significant changes to the remuneration policy for the current year compared to the previous year's and a summary of how the remuneration policy was enacted in said year.

6. The Company shall hold a civil liability insurance policy for its Directors in the usual terms and conditions and in

Procedures for establishing board members' remuneration and relevant clauses in the Articles of Association
proportion to the Company's circumstances.

Indicate if the Board acting in full has approved the following decisions:

On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.	YES
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Directors' remuneration and, in the case of executive directors, the additional consideration for their management duties and other contract conditions.	YES
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B.1.15 Indicate whether the Board of Directors approves a detailed remuneration policy and specify the points included:

YES

The amount of the fixed components, itemised where necessary, of board and board committee attendance fees, with an estimate of the fixed annual payment they give rise to.	YES
Variable components	YES
The main characteristics of pension systems with an estimate of their amount of annual equivalent cost.	YES
The conditions to apply to the contracts of executive directors exercising senior management functions	YES

B.1.16 Indicate whether the Board submits a report on the directors' remuneration policy to the advisory vote of the General Meeting, as a separate point on the agenda. Explain the most points regarding the remuneration policy as approved by the Board for forthcoming years, the most significant changes in remuneration policy made this year and a global summary of how the policy was applied over the period in question. Provide details on the role of the Remuneration Committee along with the identity of any external advisors engaged.

YES

Issues covered in the remuneration policy report
Article 25 of the Regulations of the Board of Directors stipulates that the Board will approve an annual report on the company's remuneration policy, which must be submitted to the Ordinary General Meeting for informative purposes. This report shall describe the remuneration policy referred to in article 24.5 and described in B.1.14 above. The first report was submitted at the 2008 General Meeting. The 2011 report shall be submitted at the 29 February 2012 meeting.

Role of the Remunerations Committee
At its meeting on 25 January 2012, the Board of Directors approved a Remuneration Policy Report with the above-mentioned content, which can be consulted on the Bank's website. It has also been made available to all shareholders prior to the General Meeting called for 29 February. The report, along with the remuneration policy, were approved following a proposal of the Appointments and Remuneration Committee. For its preparation, the committee used data contained in reports by companies specialising in directors' remuneration as well as reports issued by corporate governance observatories.

Has an external advisor been engaged?	YES
Identity of external advisor	
The Appointments and Remuneration Committee used, among other information, data from the external advisors Towers Watson.	

B.1.17 Indicate the identity of any board members who sit on board(s) of directors or hold senior management posts in companies having significant shareholdings in the listed company and/or its group companies:

Name or corporate name of director	Corporate name of significant shareholder	Post
ANTONIO BASAGOITI GARCIA TUNON	BANCO SANTANDER, S.A.	DIRECTOR OF BANCO SANTANDER, S.A. MEMBER OF THE EXECUTIVE COMMITTEE, RISK COMMITTEE AND TECHNOLOGY COMMITTEE.
JOSE MARIA FUSTER VAN BENEDEGEM	BANCO SANTANDER, S.A.	GENERAL MANAGER OF BANCO SANTANDER, S.A. IN CHARGE OF TECHNOLOGY AND OPERATIONS
JUAN GUITARD MARIN	BANCO SANTANDER, S.A.	GENERAL MANAGER OF BANCO SANTANDER, S.A. IN CHARGE OF INTERNAL AUDIT
MATIAS RODRIGUEZ INCIARTE	BANCO SANTANDER, S.A.	THIRD VICE CHAIRMAN OF SANTANDER, S.A. MEMBER OF THE EXECUTIVE COMMITTEE AND CHAIRMAN OF THE RISKS COMMITTEE.

List, if appropriate, any relevant relations other than those indicated in the section above that link members of the board of directors with significant shareholders and/or their group companies:

B.1.18 Indicate any changes made to board regulations during the year:

YES

Description of amendments

At its meeting of 19 January 2011, the Board of Directors decided to modify the Regulations of the Board of Directors. The main purpose of the changes was to incorporate to the Regulations the new duties and powers of the Audit and Compliance Committee prescribed by the *Ley 12/2010*, a statute that amends the Auditing Act (*Ley de Auditoría de Cuentas*) and the Securities Market Act (*Ley del Mercado de Valores*), and the new duties and powers of the Nomination and Remuneration Committee arising from the Company's having adopted Financial Stability Board (FSB) standards to implement FSF principles on good practices in remuneration. In addition, a number of clarifications were made regarding the alterations to the By-laws and the Regulations of the General Meeting proposed at the General Meeting of 23 February 2011. The changes involved alterations to Articles 3, 7, 12, 14, 15, 17, 24, 25, 28 and 34, and were explained in a report issued in connection with that General Meeting.

B.1.19 Indicate the procedures for the appointment, re-election, assessment and removal of directors. List the competent bodies, the steps to be followed and the criteria to be applied in each procedure.

Articles 23, 24, 25, 26 and 43 of the By-laws and articles 15, 18, 19, 20 and 20 bis of the Regulations of the Board of Directors deal with the appointment, re-election, ratification and cessation of directors.

APPOINTMENTS:

Composition of the Board of Directors:

The Appointments and Remuneration Committee meeting held on 17 December 2003 defined the requirements governing appointments and re-elections submitted by the Board to the General Meeting, as well as Board decisions regarding appointments by co-optation, all subject to the following distribution of offices:

- a reduced minority of executive directors. At present two of the 14 directors are executive.
- an ample majority of non-executive directors.
- of the majority of non-executive directors, the proportion of proprietary and non-proprietary directors need not strictly reflect the structure of the share capital. Notwithstanding this, a preference must be shown for non-proprietary directors, of whom there are currently eight..
- Responsibilities: The General Meeting is responsible for establishing these as stipulated in the company's By-laws and the Spanish Companies Law (LSA in Spanish). Notwithstanding the above, if vacancies occur upon the Board, by resignation or death of one or more directors, the Board may appoint new directors among shareholders by means of co-optation. It is necessary that the next ensuing General Meeting confirms every such appointment. The authority of any Director so appointed will not last beyond the term for which their predecessors were appointed.
- Requirements and restrictions to appointment: It is not necessary to be a shareholder to be appointed a Director, except in cases of appointment by co-optation. Any persons who are restricted by law cannot be appointed directors.

At its meeting of 17 December 2003, the Appointments and Remuneration Committee expanded on the requirements stipulated in the Regulations of the Board of Directors to be put forward as a director. Due consideration must now be given to the candidate having the necessary solvency, skill, and experience.

Special importance is also attached to their personal track record in strict compliance with company law or other laws regulating economic activity or business, as well as good commercial financial and banking practices.

Included in the criteria set by the Committee is the requirement that a majority of the directors must have provided senior managerial, managerial, control or advisory services to financial institutions for a minimum term of five years, or held similar positions in other public or private entities of a similar size to the Bank, all the foregoing in line with the regulations governing lending institutions.

Finally, the Regulations of the Board of Directors include the prohibitions on being appointed an independent director as listed in the Unified Good Governance Code. This stipulates that independent directors shall be appointed based on their personal and professional experience and must be able to exercise their functions without being influenced by relations with the Bank, its significant shareholders, senior officers or directors. Independent directors may not:

- a) Have been employees or executive directors in Group companies, unless three or five years, respectively, have passed since their departure.
- b) Receive any amount or benefit from the Bank or its Group companies for any reason other than remuneration of their directorship, unless it is insignificant.
- c) Be or have been a partner in the external auditor's firm or in charge of the auditor's report for either the Bank or its Group companies during the last three years.
- d) Be executive directors or senior executives in any other company in which a Bank executive or senior manager is an external director.
- e) Maintain or have maintained during the past year an important business relationship with the Bank or any of its Group companies, either on his/her own behalf or as a relevant shareholder, director or senior executive of a company that maintains or has maintained such relationship.

Business relationships shall mean relationships as a provider of goods and/or services, including financial, advisory and/or consultancy services.

- f) Be significant shareholders, executive directors or senior executives of any organisation that receives or has received significant donations from the Bank or its Group companies during the last three years. Those who are merely trustees of a foundation receiving donations are excluded from the foregoing.
- g) Be married to or linked by equivalent emotional relationship, or related by up to second-degree family ties to an executive director or senior executive of the Bank.
- h) Have not been proposed by the Appointments Committee for appointment or renewal.
- i) Fall within the cases described under letters a), e), f) or g) above, with respect to any significant shareholder or shareholder represented on the Board. In cases of family relationships described under letter g), the limitation shall not only apply to the shareholder, but also to the directors it nominates to sit on the Bank's Board.

Directors who holding shares in the company may nevertheless be classed as independent directors provided they meet all the applicable requirements and their shareholding is not deemed significant.

People appointed as directors undertake, from the time they take office, to meet the conditions and perform the duties required by law, the By-laws and the Regulations of the Board of Directors.

RE-ELECTION

Term of office: Directors will be appointed for a period of six years, without detriment of the possibility of being re-elected once or several times for periods of the same duration. Directors appointed by co-optation and subsequently ratified in their post at the first General Meeting held after their appointment will hold office for the same term as the director they are replacing, unless the General Meeting decides to appoint them for a new maximum term of office as set forth in the By-laws.

Article 24 of the By-laws stipulates that the Board will renew every year one fifth of its members.

There is no age limit for being appointed a director or for exercising the post, nor are there any restrictions on reappointments.

- Procedure: The proposals for appointing, re-electing and ratifying directors submitted by the Board to the Shareholder Meeting and the decisions on appointments taken by the Board itself under the powers legally attributed to it must come with the corresponding proposal from the Appointments and Remuneration Committee.

If the Board departs from the proposal of the Appointments and Remuneration Committee, it must explain its decision and leave a record of it.

Directors affected by appointment, re-election or cessation proposals shall abstain from attending and voting at the corresponding Board or committee meetings.

Once the appointment has been made, this will become effective following acceptance by the director, filing with the Bank of Spain's Register of Senior Executives and likewise with the Companies House.

EVALUATION

As stipulated in article 3.4 of the Regulations of the Board of Directors, the Board shall assess, at least once a year, the quality and efficiency in its operation on the basis of the report submitted by the Appointments and Remuneration Committee. It shall also assess the quality and efficiency of its committees on the basis of the reports furnished by the latter.

CESSATION

Directors will cease in their posts when, with the mandate for which they were appointed expires, a General Meeting has been held and they were not re-elected. Directors must also put their post at the Board's disposal and present their resignation when, following a proposal from the Appointments and Remuneration Committee, it is deemed opportune as a result of cases which could negatively affect the smooth running of the Board or the Bank's credit and reputation and, in particular, for incurring in any of the supposition of incompatibility or legally envisaged bans.

Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the Board. The reason shall be explained in the annual Corporate Governance Report.

Proprietary directors shall tender their resignation when the shareholder they represent sells its shareholding or when said shareholder lowers its stake to a level that requires it to reduce the number of proprietary directors. Said directors may nevertheless be re-elected as executive, independent or proprietary directors acting on behalf of other shareholders.

In the event of the cessation, resignation or dismissal, disability or death of a Board or committee member or the cessation, resignation or dismissal of the Chairman of the Board of Directors, the CEO or other senior executives, the Chairman of the Board, or, in his/her absence, the highest-ranking Vice Chairman, shall call a meeting of the Appointments and Remuneration Committee to guarantee the succession or replacement in an orderly fashion and propose a replacement to the Board. The Executive Committee shall be notified of this proposal, which will then be submitted to the vote at the next scheduled Board meeting or, if deemed necessary, an extraordinary meeting.

B.1.20 Indicate the circumstances under which directors would be obliged to resign.

Without prejudice to incompatibility or other legally prescribed prohibitions, article 20 of the Regulations of the Board of Directors stipulates that directors must offer to resign and present their resignation when their continuity:

- could negatively affect the smooth running of the Board;
- could affect the Bank's credit and reputation;

Proprietary directors shall also tender their resignation when the shareholder they represent sells its shareholding or when said shareholder lowers its stake to a level that requires it to reduce the number of proprietary directors.

B.1.21 Explain whether the duties of chief executive officer fall upon the Chairman of the Board. If so, indicate the measures taken to limit the risk of powers accumulating in a single person:

NO

Risk-limitation measures

The Regulations of the Board of Directors stipulates that the post of Chairman of the Bank shall be executive .However, as the Bank’s power is not concentrated in only one person, there is a clear separation of duties between the Executive Chairman, the CEO, the Board and its committees.

Actually, the Chairman has the category of non executive chairman, having the faculties that the law attributes to its position, to the company bylaws or Board rules.

The Chief Executive Officer, mandated by and reporting to the Board of Directors, will be the first executive of the bank, in charge of running the business , having been empowered by the Board of Directors to decide on his own behalf on every matter reserved to the Board of Director but on those specifically reserved to the Board by law, company bylaws or Board rules.

The Chief Executive Officer, mandated by and reporting to the Board of Directors, will be the first executive of the bank, in charge of running the business, having been empowered by the Board of Directors to decide on his own behalf on every matter reserved to the Board of Director but on those specifically reserved to the Board by law, company bylaws or Board rules.

The Chairman of the Board will be elected from among its members and will be the Bank’s top person in its hierarchy (as stipulated in articles 20 and 7.1 of the By-laws and Regulations of the Board of Directors, respectively). He or she will have all the powers that can be delegated in accordance with the law, the corporate By-laws and these regulations and will manage the team of executives, always in accordance with the decisions and criteria set by the Shareholders’ Meeting and by the Board in their respective spheres of responsibilities.

The CEO, by delegation and under the auspices of the Board and the Chairman, as the top executive is responsible for the business conduct and exercises the executive functions that correspond to the job.

The structure of the Board’s collegiate and individual bodies are formed in such a way as to allow balanced action between them all, including the Chairman. We would highlight the following:

- The Board and its committees supervise and control the activities of both the Chairman and the CEO.
- the Vice Chairman, who shall be an independent external director, shall coordinate all non-executive directors, and not just independents as had previously occurred prior to the latest amendment .
- The powers delegated to the CEO shall be the same as for the Chairman, while in both cases those powers reserved exclusively for the Board are excluded.

Therefore, the Board is of the opinion that there are sufficient checks in place to guarantee an adequate balance of the Bank’s corporate governance structure and has chosen the figure of the Executive Chairman as it is deemed that he/she is best placed to deal with the actual circumstances.

There are two qualities which set apart the Chairman of the Board from the other members: the powers delegated and the ability to call Board meetings and set the agenda. The first has two control mechanisms: the existence of non-delegable powers of the Board and the possibility that the Board may withdraw the delegation at any given time. Article 16 of the Regulations of the Board of Directors stipulates that the Board will meet whenever the Chairman decides it should, at his or her own initiative or at the request of, at least, three directors. The agenda will be approved by the Board at its meeting. All directors have the right to submit to the Chairman proposals for matters not included in the agenda.

Indicate and explain if an independent director is empowered to request the calling of board meetings or the inclusion of new business on the agenda; coordinate and give voice to the concerns of external directors; and lead the board’s evaluation of the Chairman.

YES

Explanation

One of the amendments to the Regulations of the Board of Directors agreed upon at the Board meeting of 22 May 2007 concerns article 8 whereby, in accordance with Recommendation 17 of the Unified Good Governance Code, the first, or only, Vice Chairman (who shall be an independent director) shall coordinate and give voice to the concerns of external directors. Likewise, and as indicated above, a Board meeting may be called at the behest of three directors by submitting to the Chairman any proposal for inclusion in the agenda.

B.1.22 Are qualified majorities, other than those established by law, required for certain decisions?

NO

Describe how resolutions are adopted by the Board of Directors and specify, at least, the minimum attendance quorum and the type of majority for adopting resolutions:

Description of resolutions:

Agreements will be adopted by absolute majority of directors present or represented at meetings. The permanent delegation of powers in the Executive Committee and the agreements to appoint members to it require the favourable vote of at least two thirds of the members of the Board.

Quorum	%
The Board will be validly constituted when more than half of its members are present at meetings or represented.	51.00

Type of majority	%
Absolute majority.	0

B.1.23 Explain if there are any requirements, other than those for Directors, for being appointed Chairman.

NO

B.1.24 Indicate whether the chairman has the casting vote:

YES

Subjects for which a casting vote is required

As stipulated in articles 32 and 17 of the By-laws and the Regulations of the Board of Directors, respectively, in the event of a stalemate, the Chairman will have the casting vote.

B.1.25 Indicate whether the Articles of Association or the Board of Directors Regulations establish an age limit for Directors:

NO

Age limit for Chairman	Age limit for CEO	Age limit for directors
0	0	0

B.1.26 Indicate whether the Articles of Association or the Board of Directors' Regulations establish a limit on the term of office held by independent Directors:

NO

Maximum number of years in office	0
--	---

B.1.27 When women directors are few or non existent, state the reasons for this situation and the measures taken to correct it.

In particular, indicate whether the Appointments and Remunerations Committee has established a procedure of filling board vacancies which has no implicit bias against women candidates:

YES

Indicate the main procedures

Article 15.2 of the Regulations of the Board of Directors stipulates that one of the functions of the Appointments and Remuneration Committee shall be to propose to the Board the criteria to be followed for its composition and for choosing directors and, in particular, to evaluate the balance of skills, knowledge and experience on the Board; define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties and formulate, with criteria of objectivity and meeting social interests, the proposals for appointing new directors and ratifying current ones.

At its meeting of 17 December 2003, the Appointments and Remuneration Committee established the requirements to be stipulated in the Regulations of the Board of Directors governing nominations to the position of director. Due consideration must be given to that person having the necessary solvency, skill, and experience, with special importance attached to their personal track-record in strict accordance with company law or other laws regulating economic activity or business, as well as good commercial financial and banking practices.

B.1.28 Indicate whether there are any formal processes for proxy voting on the Board of Directors. If so, list briefly.

Article 32 of the By-laws and article 17 of the Regulations of the Board of Directors stipulate that directors may delegate, in writing, their representation for each and every Meeting in any another director, for him to present them at the Meeting in question and exercise their voting rights. The same director can hold several delegations. Instructions about the each agenda points vote must be given for each representation.

B.1.29 Indicate the number of sessions held by the Board of Directors during the year. Likewise, indicate the number of times, if any, the Board has met in the absence of its Chairman:

Number of Board meetings	10
Number of Board meetings held at which the Chairman was absent	0

Indicate the number of Board Committee meetings held during the year:

Number of Executive or delegate committee meetings	49
Number of audit. committee meetings	15
Number of Appointments and Remuneration committee meetings	5
Number of Appointments committee meetings	0
Number of Remuneration committee meetings	0

B.1.30 Indicate the number of meetings held by the Board of Directors during the year without all its members present. Non-attendance shall also include proxies without specific instructions given:

Number of non-attendances in the year	0
% of non-attendances of the total votes deposited during the year	0.000

B.1.31 Indicate whether the individual and consolidated accounts are certified prior to their presentation to the Board of Directors:

NO

Identify, if appropriate, the person(s) certifying the individual and consolidated accounts for their formulation by the Board:

B.1.32 Explain the mechanisms, if any, established by the Board of Directors to ensure the individual and consolidated accounts are not presented at the General Meeting with qualifications in the auditor's report.

The mechanisms established by the Board of Directors to ensure the individual and consolidated accounts are not presented at the General Meeting with qualifications in the auditor's report are stipulated in articles 14 (Audit and Compliance Committee) and 39 (Relations with the auditing firm) of the Regulations of the Board of Directors.

Article 14 of the Regulations of the Board of Directors regarding the remit of the Audit and Compliance Committees, states the following:

- review the Bank's and the group's accounts, ensure fulfilment of the legal requirements and the correct application of generally accepted accounting principles, as well as report on proposals to change the accounting principles and criteria suggested by management;
- to be fully familiar with and supervise the process of preparing and presenting the financial information relating to the Company and where appropriate to the Group, reviewing compliance with the regulatory requirements, the adequate delimiting of the perimeter of consolidation and the correct application of the accounting standards;
- to supervise the effective internal control of the Company and the risk management systems, and discuss with the auditors the significant weaknesses of the internal control system, detected in the audit;
- act as the channel of communication between the Board and the auditing company, evaluate the results of each audit and the responses of the management team to its recommendations and mediate in cases of discrepancies between the firm and management over the principles and criteria applied in drawing up financial statements;
- ensure the independence of the auditor;
- review before dissemination the periodic financial information which, as well as the annual report, is sent to the markets and to supervisory bodies, and ensure that it is drawn up with the same principles and practices as the annual financial statements.

B.1.33 Is the Secretary of the Board also a Director?

NO

B.1.34 Explain the procedure for appointing and removing the Secretary of the Board and indicate whether the Appointments and Remunerations Committee notified his appointment and removal and if these were approved by a board meeting in full.

Appointment/removal procedure	
Article 10 of the Regulations of the Board of Directors stipulates that the Secretary to the Board of Directors shall be appointed at the proposal of the Chairman and on the basis of a report from the Appointments and Remuneration Committee.	
The appointment and removal procedure, including for the Secretary of the Board of Directors, is stipulated in article 20 bis of the Regulations of the Board of Directors. Likewise, article 15.2 letter e) of the Regulations expressly states that the Appointments and Remuneration Committee shall report on the appointment and removal of the Secretary to the Board of Directors	

Is the appointment announced by the Appointments Committee?	YES
Is the removal announced by the Appointments Committee?	YES
Does the Board in full approve the appointment?	YES
Does the Board in full approve the removal?	YES

Is the Secretary of the Board especially responsible for overseeing good governance recommendations?

YES

B.1.35 Indicate the mechanisms, if any, established by the Company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

As to assurance of auditor independence, Article 14 of the Board Regulations stipulates that one of the duties of the Audit and Compliance Committee is to seek to ensure the independence of the auditors, establishing the relevant relations with the Auditor so as to receive information on those circumstances or issues that may put its independence at risk, to be examined by the Committee, and on any other issues related to the auditing process, as well as receive information and maintain such communication with the Auditor as is provided for in legislation regarding the auditing of financial standards and in technical auditing regulations. And, specifically to:

- a) on an annual basis, receive from the Auditor written confirmation of its independence with respect to the Company or institutions directly or indirectly connected to the Company, as well as information on any type of additional services provided to these institutions by the said Auditor, or by persons or institutions related to the latter pursuant to the provisions of the Law on Auditing;
- b) request information on the percentage represented by the fees paid for any and all reasons of the total income of the audit firm, and the length of service of the partner who leads the audit team in the provision of such services to the Company as well as to warn the firm of the limit referred to in article 39 of these Regulations.
- c) examine, in the event of resignation of the auditing firm, the circumstances leading to this;
- d) ensure that the change in the auditing firm is publicly communicated as relevant fact and, where appropriate, accompany such communication with a declaration regarding the possible existence of disagreements with the outgoing auditor.
- e) issue annually, prior to the issuing of the external auditor's report, a report expressing an opinion on the independence of the external auditor. In any event, such report should make a statement as to the providing of the additional services referred to in the preceding paragraph.

No express provision is made on analysts and investment banks; the following items of the Board Regulations apply in a general sense. Article 36 of the Board Regulations provides as follows:

Article 36. Relations with institutional investors

1. The Board shall also establish adequate mechanisms to provide regular information to institutional investors who are shareholders of the Company.
2. Under no circumstances shall relations between the Board and institutional investors give rise to the delivery of information to them that could give them a privileged or advantageous situation over other shareholders..

B.1.36 Indicate whether the Company changed its external auditor during the year. If so, identify the incoming and outgoing auditor:

NO

Outgoing auditor	Incoming auditor

Explain any disagreements with the outgoing auditor and the reasons for the same:

NO

B.1.37 Indicate whether the auditing firm does non-audit work for the company and/or its group. If so, state the fees it receives for such work and the percentage such fees represent of the total fees invoiced to the company and/or its group:

YES

	Company	Group	Total
Fees for non-audit work (thousands of euros)	267	105	372
Fees for non-audit work / total amount invoiced by the auditor (%)	20.200	21.500	20.550

B.1.38 Indicate whether the audit report of the previous year's annual accounts is qualified or has reservations. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

NO

B.1.39 Indicate how many consecutive years the current auditing firm has been auditing the annual accounts of the company and/or its group. Likewise, indicate how many years the current auditing firm has been auditing the accounts as a percentage of the total number of years over which the annual accounts have been audited:

	Company	Group
Number of consecutive years	10	10

	Company	Group
Number of years audited by current audit firm /Number of years the company accounts have been audited (%)	43.7	43.7

B.1.40 List the stock holdings of the members of the company's Board of Directors in other companies with the same, similar or complementary types of activity to that which constitutes the corporate purpose of the company and/or its group, and which have been reported to the company. Likewise, list the posts or duties they hold in such companies:

Name or corporate name of director	Name of the Company	% stake	Post or duties
ANTONIO BASAGOITI GARCIA TUNON	BANCO SANTANDER. S.A.	0.009	EXTERNAL DIRECTOR (INDEPENDENT)
JOSE LUIS LOPEZ COMBARROS	MAPFRE, S.A.	0.002	-----
JOSE LUIS LOPEZ COMBARROS	BANKINTER, S.A.	0.005	-----
BELEN ROMANA GARCIA	AGEAS, S.A. NV	0,000	DIRECTOR
CARLOS SABANZA TERUEL	BANCO SANTANDER, S.A.	0.006	-----
DAVID ARCE TORRES	BANCO SANTANDER, S.A.	0.024	----- -
FRANCISCO DAURELLA FRANCO	BANCO VITALICIO DE ESPAÑA COMPAÑIA ANONIMA DE SEGUROS Y REASEGUROS	0.000	DIRECTOR
JOSE MARIA FUSTER VAN BENDEGEM	BANCO CONSUMER BANK GERMANY.	0.000	DIRECTOR
JOSE MARIA FUSTER VAN BENDEGEM	OPEN BANK SANTANDER CONSUMER. S.A.	0.000	DIRECTOR
JOSE MARIA FUSTER VAN BENDEGEM	SANTANDER UK PLC	0.000	DIRECTOR
JOSE MARIA FUSTER VAN BENDEGEM	ALLIANCE LEICESTER	0.000	DIRECTOR
JOSE MARIA FUSTER VAN BENDEGEM	BANKINTER, S.A.	0,004	-----
JOSE MARIA FUSTER VAN BENDEGEM	BANCO SANTANDER, S.A.	0,014	GENERAL MANAGER RESPONSIBLE FOR TECHNOLOGY AND OPERATIONS
JUAN DELIBES LINIERS	SANTANDER SEGUROS Y	0.000	DIRECTOR

Name or corporate name of director	Name of the Company	% stake	Post or duties
	REASEGUROS, CIA ASEGURADORA, S.A		
MATIAS RODRIGUEZ INCIARTE	BANCO SANTANDER, S.A.	0.014	THIRD VICE CHAIRMAN AND EXECUTIVE DIRECTOR. RESPONSIBLE FOR RISK DEPARTMENT
RAFAEL DEL PINO CALVO-SOTELO	PACTIO GESTION, SGIIC, S.A.	22.300	-----
RAFAEL DEL PINO CALVO-SOTELO	THE BLACKSTONE GROUP INTERNATIONAL LTD	0.000	MEMBER OF THE EUROPEAN ADVISORY BOARD
RAFAEL DEL PINO CALVO-SOTELO	BANCO PASTOR, S.A.	1.120	-----
ROSA MARIA GARCIA GARCIA	BOLSAS Y MERCADOS ESPANOLES, SOCIEDAD HOLDING DE MERCADOS Y SISTEMAS FINANCIEROS, S.A.	0,000	DIRECTOR

B.1.41 Indicate and give details of any procedures through which Directors may receive external advice:

YES

Details of the procedure
<p>Article 23 of the Regulations of the Board of Directors stipulates that directors may enlist the help of experts in order to exercise their functions. They can ask, via the secretary of the Board, for legal, accounting and financial advice paid for by the bank. Such advice is only for specific problems of particular importance and complexity arising from the post of director.</p> <p>The decision to hire an expert lies with the Board which can deny it if:</p> <ul style="list-style-type: none"> - it is not necessary for the tasks entrusted to a director; - the cost is not reasonable compared with the importance of the issue; or - the technical assistance sought can be adequately provided by the Bank's own experts.

B.1.42 Indicate whether there are procedures for Directors to receive the information they need in sufficient time to prepare for the meetings of the governing bodies:

YES

Details of the procedure
<p>Article 16. paragraphs 2 and 3 of the Regulations of the Board of Directors, stipulate that the meeting will be called by the Board's secretary or deputy secretary, fulfilling the orders received from the Chairman. The meeting will be called at least seven days before by writing, fax, e-mail or other forms of communication. The agenda for the meeting proposed by the Chairman will be sent at least three days before the Board meets by the</p>

same means. The agenda will be approved by the Board at its meeting.
 The information provided to the directors prior to the meetings is specifically drawn up to prepare these meetings and shall be used for that purpose. The Board is of the opinion that this information is complete. During the meeting and/or before it directors will be provided with as much information or clarifications as is deemed opportune regarding the matters on the agenda.
 Article 22 of the Regulations of the Board of Directors states that Directors have wide powers to obtain information on any aspect of the Bank, examine its books, registers, documents and anything else regarding its operations and to inspect all offices and installations.
 Finally, point 3 of Article 23 of the Regulations of the Board of Directors stipulates that the secretary shall organise induction programmes for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules.

B.1.43 Indicate and give details of whether the company has established rules obliging directors to inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be:

YES

Explain
Article 20 of the Regulations of the Board of Directors stipulates that directors must also put their post at the Board's disposal and present their resignation when, following a report from the Appointments and Remuneration Committee, it is deemed opportune as a result of cases which could negatively affect the smooth running of the Board or the Bank's credit and reputation. Directors who step down before their term of office expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the Board. The reason for the resignation shall be stated in the Annual Report on Good Governance.

B.1.44 Indicate whether any director has notified the company that he has been indicted or tried for any of the crimes stated in article 124 of the Spanish Companies Law:

NO

Indicate whether the board has examined this matter and whether it has decided whether the director in question shall be called on to resign.

NO

Decision	Explanation

B.2 Board of Directors' Committees

B.2.1 List the Board committees and their members:

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Post	Type
JOSE LUIS LOPEZ COMBARROS	CHAIRMAN	INDEPENDENT

BELEN ROMANA GARCIA	MEMBER	INDEPENDENT
ROSA MARIA GARCIA GARCIA	MEMBER	INDEPENDENT

AUDIT AND COMPLIANCE COMMITTEE

Name	Post	Type
BELEN ROMANA GARCIA	CHAIRMAN	INDEPENDENT
JOSE LUIS LOPEZ COMBARROS	MEMBER	INDEPENDENT
JUAN GUITAD MARIN	MEMBER	PROPRIETARY
MATIAS RODRIGUEZ INCIARTE	MEMBER	PROPRIETARY

RISK COMMITTEE

Name	Post	Type
JOSE CORRAL LOPE	CHAIRMAN	OTHER EXTERNAL
BELEN ROMANA GARCIA	MEMBER	INDEPENDENT
CARLOS SABANZA TERUEL	MEMBER	INDEPENDENT
JUAN DELIBES LINIERS	MEMBER	EXECUTIVE

EXECUTIVE COMMITTEE

Name	Post	Type
ANTONIO BASAGOITI GARCIA TUNON	CHAIRMAN	PROPRIETARY
CARLOS SABANZA TERUEL	MEMBER	INDEPENDENT
JOSE ANTONIO GARCIA CANTERA	MEMBER	EXECUTIVE
JOSE CORRAL LOPE	MEMBER	OTHER EXTERNAL
JOSE LUIS LOPEZ COMBARROS	MEMBER	INDEPENDENT
JUAN DELIBES LINIERS	MEMBER	EXECUTIVE

B.2.2 Indicate if the Audit Committee is responsible for the following:

Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.	YES
Review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.	YES
Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.	YES
Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.	YES
Make recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms and conditions of his engagement.	YES
Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.	YES
Monitor the independence of the external auditor.	YES
In the case of groups, the Committee should urge the group auditor to take on the auditing of all component companies.	YES

B.2.3 Describe the organisational and operational rules and the responsibilities attributed to each of the Board committees.

Name of committee

APPOINTMENTS AND REMUNERATION COMMITTEE

Brief description

APPOINTMENTS AND REMUNERATION COMMITTEE (regulated by article 15 of the Regulations of the Board of Directors and by article 37 of the By-laws).

FUNCTIONS:

According to article 15.2 of the Regulations of the Board of Directors, the Committee's functions are:

a) To propose to the Board the criteria to be followed for its composition and for choosing the directors, in particular:

(i) To evaluate the skills, knowledge and experience required of Board members;

(ii) To define the roles and capabilities required of the candidates to fill each vacancy, and to decide upon the time and dedication necessary for them to perform their duties properly.

b) To formulate, with criteria of objectivity and meeting social interests, the proposals for appointing new directors and ratifying current ones (section 2 of article 19 of these regulations), as well as appointing members of all the Board committees. It shall likewise formulate, with the same criteria as described above, the proposals for appointing members of the Board and its committees.

Any board member may suggest directorship candidates to the Nomination Committee for its consideration.

c) To propose to the Board the remuneration policy for directors and senior executives pursuant to article 24, as well as the basic conditions of senior management contracts. To propose to the Board the amount of remuneration payable to directors under all headings, and report on any remuneration proposals for senior executives that the Chairman may submit to the Board and the remuneration paid to other executives who, though not forming part of senior management, receive significant pay, particularly in the form of bonuses, and whose activities may have a material impact on the Group's risk exposure.

d) To ensure the transparency of remuneration and its inclusion in the annual report in the section on the remuneration of Board members.

e) To report on the appointment and removal of the Secretary of the Board and of senior executives proposed to the Board by the Chairman.

f) To ensure that directors fulfil the obligations set out in articles 28 and 29 of the regulations, issue reports on this matter as well as receive information and, where appropriate, issue reports on the measures to be taken against directors who do not meet these obligations or fulfil the Group's Code of Conduct in the Securities Markets.

g) To review the status and category of directors as stated in the Annual Report on Corporate Governance.

h) To inform on the process of assessing its functioning.

ORGANISATION AND OPERATION:

- The make-up and operation of the Appointments and Remuneration Committee are described in article 15 of the current Regulations of the Board of Directors. In addition, articles 3, 5, 10, 18, 20, 20 bis, 24, 25, 29 and 33 of the Regulations contain specific rules concerning its activity.

- The Appointments and Remuneration Committee will have at least three directors and a maximum of five, all external and non-executive directors. The committee shall have a majority of independent directors and will appoint its Chairman from among its members. It is currently comprised of three independent directors, one of whom is the Chairman.

- Members of the Appointments and Remuneration Committee are appointed by the Board, with regard to their knowledge, aptitudes and experience and the functions of the committee.

- The Appointments and Remuneration Committee will meet as many times as it is called by the committee or by its Chairman and, at least, twice a year. Any employee of the Bank or someone not working for it can be asked to attend the committee. In 2011, the committee met on five occasions

- The secretary is Monica Lopez-Monis Gallego, Secretary of the Board of Directors.

The minutes of committee meetings should be sent to all Board members.

Committee

DELEGATED RISKS COMMITTEE

Brief description

DELEGATED RISKS COMMITTEE: In furtherance of the powers recognised in article 31 of the By-laws and article 12 of the Regulations of the Board of the Directors, at its meeting on 28 February 2006, the Board agreed to set up a Delegated Risks Committee comprising a minimum of three members. Its membership and role are governed by Article 35 of the By-laws and Article 15a of the Board Regulations.

FUNCTIONS:

1. To propose a risk strategy and the policies, methods and procedures to be applied to granting, evaluating and recording all risk transactions entered into by the Bank, and to submit these for approval by the Board of Directors.
2. To approve risk operations for each customer or Group, within the risk authorisation system established at the Bank.
3. To carry out periodical assessments of the risks contained in portfolios, with the dual purpose of identifying credit quality and obtaining a correct risk-return trade-off.
4. To carry out a periodical check and verify all systems, valuation processes and methodologies and criteria used by the Bank to approve transactions, and to a greater extent, to ensure the efficient working of the risk function. To determine the risk reporting processes ("scorecards"), which must be submitted to the Executive Committee and the Board of Directors.

ORGANISATION AND OPERATION:

- It is comprised of four directors, two of whom are executive and the other two are external independent. The Chairman is an executive director.
- The Delegated Risks Committee will meet as many times as it is called by the committee itself or by its Chairman. The committee may request the attendance of any Bank employee or any other unrelated third party it deems fit. In 2010, the committee met on 51 occasions.
- The committee's functions are governed by the same regulations as those applicable to the Board of Directors, as set forth at law, in the Bank's By-laws and in the Regulations of the Board of Directors.
- The secretary is Monica Lopez-Monis Gallego, Secretary of the Board of Directors.
- The minutes of committee meetings should be sent to all Board members.

The Risk Committee is governed by Article 15 bis of the Regulations of the Board Of Directors.

Committee

EXECUTIVE COMMITTEE

Brief description

EXECUTIVE COMMITTEE (article 13 of the Regulations of the Board of Directors and article 34 of the By-laws)

POWERS:

All powers of the Board of Directors have been permanently delegated to the Executive Committee, except those reserved for the plenary session of the Board as stipulated in article 3 of its Regulations. These are:

The non-delegable duties and powers set out in Article 3 are guided by the principle that it is the Board's policy to delegate the Company's ordinary management to its executive bodies and management team and focus its activity on the general function of determining the Company's strategy and the organization required to put them into practice, as well as supervising and monitoring management to meet the targets fixed, honouring the corporate purpose of and the Company's interests. The Board shall, without delegating, directly fulfil the responsibilities inherent in this duty and especially the following:

To approve the policies and strategies adopted by the Bank, and in particular:

- i. The strategic or business plan, management targets and annual budgets;
- ii. Corporate governance policy;
- iii. Corporate social responsibility policy;
- iv. The remuneration policy and basic conditions of the contracts of senior executives, following the proposal of the Appointments and Remuneration Committee;
- v. The remuneration of directors in accordance with article 24, following a proposal of the Appointments and Remuneration Committee;
- vi. General risk policy;
- vii. Dividend policy;
- viii. Policy regarding treasury shares and, in particular, the limits applied;
- ix. The policies on information and communicating with shareholders, the markets and public opinion. The Board shall approve the Annual Report on Corporate Governance, and shall be responsible for supplying the markets with rapid, precise and reliable information, especially with regard to the shareholding structure, material amendments to the rules of governance, related transactions of particular importance and the treasury stock.

The following matters are also within the Board's exclusive purview:

- a) Approve the Regulations of the Board of Director's functioning and internal regime and any amendments thereto, having received a report from the Audit and Compliance Committee. The Board of Directors shall inform the General Meeting of Shareholders of the approval of the Regulations and any amendments thereto, and shall notify the Securities and Investments Board thereof, and have them recorded at the Mercantile Registry.
- b) Approve the appointment and removal of Top Managers, monitor management activity, assess their performance and approve their remuneration. The approval of their appointments and remuneration and those of any other executives not comprising top management but earning significant remuneration, in particular, variables, whose activities may have a material impact on the Group's risktaking decisions, shall be adopted at the proposal of the Company's chief executive, having received a report from the Appointments and Remuneration Committee.
- c) Approve in the terms established in Article 39 of the Company By-laws, at the Appointments and Remuneration Committee's proposal, the Directors' remuneration, as well as, in the case of Executives, any additional remuneration and other terms and conditions that the contracts regulating the performance of delegated duties or duties different from those inherent in the post of Director, must honour.
- d) Determine the content of the Company's website, and establish the rules for the functioning of the shareholder's electronic forum, provided for in Article 24 of the Regulation of the Company's General Meeting of Shareholders.
- e) Constitute the Board of Directors' Commissions and Committees, and designate the members of these bodies and the posts on the Board and on its Commissions and Committees.
- f) In general, make decisions on transactions involving the acquisition and disposal of the Company's major assets and large corporate transactions which, due to the amount or special features thereof, are strategic, except when the General Meeting of Shareholders is responsible for the approval thereof.

The Board of Directors is responsible for creating special-purpose institutions and companies domiciled in countries or territories regarded as tax havens, as well as for the acquisition of stakes individually or jointly attributing control thereof. The decision may be adopted by the Executive Committee if there are reasons of urgency that prevent deferring approval to the next Board meeting that should ratify the Committee's decision.

The Board of Directors shall perform the other duties assigned under these Regulations and, in particular, approve the financial information which the Company, as a listed company, must make public periodically, in the terms established in Article 38, and the transactions with related parties referred to in Articles 30 and 37, in accordance with the rules established therein.

ORGANISATION AND OPERATION:

- The Executive Committee will consist of a maximum of eight members. It is currently comprised of six directors (three executive, one proprietary and two independent directors). The Board is of the opinion that this meets the efficiency criteria. The Chairman of the Board is also a member and currently chairs the committee.
- The Committee shall meet as many times as the Chairman or, in his/her absence, the Vice Chairman, deems appropriate. In 2011, the Executive Committee met on 49 occasions.
- All members of the Board who are also not members of the Executive Committee can attend the committee's meetings at least twice a year, and will be called by the Chairman, if so requested.
- The Executive Committee will inform the Board of the main decisions taken at its meetings.
- The secretary is Monica Lopez-Monis Gallego, Secretary of the Board of Directors.
- The minutes of committee meetings should be sent to all Board members.

Committee

AUDIT AND COMPLIANCE COMMITTEE

Brief description

AUDIT AND COMPLIANCE COMMITTEE (regulated by article 18 of the By-laws and article 14 of the Regulations of the Board of Directors)

FUNCTIONS:

As per article 14.2 of the Regulations of the Board of Directors the committee's functions are as follows:

- a) To inform the Shareholders' Meeting at which the annual financial statements are submitted for approval, via the Chairman or Secretary, about issues raised and within the committee's scope. Likewise, the Audit and Compliance Committee shall respond to initiatives, suggestions and complaints from shareholders regarding the functions of this committee, which shall be submitted by the Bank's General Secretariat.
- b) To propose to the Board for its submission to the Shareholders' Meeting the appointment of the auditing company, ensuring it is the same for all Group companies, as well as the conditions of the contract, the scope of its professional mandate and, where appropriate, the company's renewal or the appointment of another firm.
- c) To review the Bank's and the Group's accounts, ensure fulfilment of the legal requirements and the correct application of generally accepted accounting principles, as well as report on proposals to change the accounting principles and criteria suggested by management.
- d) To supervise internal auditing services. To this end, the head of internal audit shall present an annual work programme to the Committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year. In order to execute this supervisory role, the Bank's internal audit services shall meet any requests for information received from the Audit and Compliance Committee in furtherance of its duties.

- e) To supervise the effective internal control of the Company and the risk management systems, and discuss with the auditors the significant weaknesses of the internal control system, detected in the audit;
- f) To be fully familiar with and supervise the process of preparing and presenting the financial information relating to the Company and where appropriate to the Group, reviewing compliance with the regulatory requirements, the accurate demarcation of the scope of consolidation, and correct application of accounting principles.
- g) To act as the channel of communication between the Board and the auditing company, evaluate the results of each audit and the responses of the management team to its recommendations and mediate in cases of discrepancies between the firm and management over the principles and criteria applied in drawing up financial statements.
- h) To supervise fulfilment of the auditing contract, ensuring that the opinion on the annual financial statements and the main contents of the report are drawn up clearly and precisely.
- i) To ensure the independence of the auditor, paying particular attention to those circumstances and issues that could put it at risk and any other matters regarding the development process of the audit, as well as receiving information and maintaining with the auditor the communications envisaged in the legislation on auditing and on the technical rules of auditing. And specifically,
- i. On an annual basis, receive from the Auditor written confirmation of its independence with respect to the Company or institutions directly or indirectly connected to the Company, as well as information on any type of additional services provided to these institutions by the said Auditor, or by persons or institutions related to the latter pursuant to the provisions of the Law on Auditing.
- ii. Require information on the fee for all concepts as a percentage of the auditing firm's total and on the seniority of the partner in the firm responsible for auditing the Bank, as well as alerting the firm to the limit set in article 39 of these regulations.
- iii. The Committee should investigate the issues giving rise to the resignation of any external auditor.
- iv. The company should notify any change of auditor as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- v. Issue annually, prior to the issuing of the external auditor's report, a report expressing an opinion on the independence of the external auditor. In any event, such report should make a statement as to the providing of the additional services referred to in the preceding i section.
- j) To review, prior to its release, financial information that the Bank, as a publicly listed company, must disclose periodically, and ensure that these are drawn up following the same principles and practices used for the annual financial statements. For such purposes, it may decide whether or not to commission a limited audit on such information by the independent auditor.
- k) To supervise fulfilment of the Group's Code of Conduct for the Securities Markets, the manuals and procedures to prevent money laundering and, in general, the Bank's rules of governance, and make the necessary proposals for their improvement. The committee is also responsible for receiving information and, where appropriate, issuing a report on disciplinary measures for senior executives. All of this without detriment to applying the rules approved in matters of prevention of money laundering.
- l) To know the reports and inspection activities of the administrative authorities for supervision and control and review fulfilment of the actions taken as a result of them.
- m) To adopt the measures needed to: (i) receive, deal with and record complaints received by the Bank regarding the generation of financial information, the audit and internal controls; and (ii) establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

- n) To report on the proposals to modify the present regulations prior to their approval by the Board.
- o) To review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.
- p) To report on, prior to obtaining approval from the Board or Executive Committee, the creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens,
- q) To report on related-party transactions submitted for Board approval.
- r) To report on the process of assessing its functioning.

The internal auditing services are within the Board of Directors sphere and report to it. Without detriment to this, the Audit and Compliance Committee shall vouch at all time for the independence and effectiveness of internal auditing, reporting on the proposals regarding the election, appointment, re-election and dismissal of the person in charge of the Bank's internal auditing service. The Audit and Compliance Committee shall receive regular information on the activities of internal auditing and shall verify that the top management takes into account the conclusions and recommendations of its reports.

ORGANISATION AND OPERATION:

- The Audit and Compliance Committee has a minimum of three and a maximum of five members, all of them non-executive directors. It currently comprises four directors, two of whom are external independent directors with one being an external proprietary director and other external. One of the external independent directors is the Chairman, who boasts an impressive curriculum coupled with extensive experience in accounting techniques and principles.
- The Audit and Compliance Committee will meet as many times as it is called by the Committee, its Chairman or two of its members, at least, four times a year. One of its meetings must be devoted to evaluating the efficiency and fulfilment of the rules and procedures of the Bank's governance and to preparing the information that the Board has to approve and include as part of its annual public documents. In 2011 the Audit and Compliance Committee met on 15 occasions. The Committee, via its Chairman, reports to the Board on the work carried out at the meetings intended for this purpose, or at a meeting immediately afterwards when the Chairman of the committee deems it necessary.
- The minutes of committee meetings should be sent to all Board members.
- The secretary is Monica Lopez-Monis Gallego, Secretary of the Board of Directors.

B.2.4 Indicate any advisory or consulting powers and, where applicable, the powers delegated to each of the committees:

Name of committee

APPOINTMENTS AND REMUNERATION COMMITTEE

Brief description

ALREADY DESCRIBED IN SECTION B.2.3 ABOVE

Name of committee

RISK COMMITTEE

Brief description

ALREADY DESCRIBED IN SECTION B.2.3 ABOVE

Name of committee

EXECUTIVE COMMITTEE

Brief description

ALREADY DESCRIBED IN SECTION B.2.3 ABOVE

Name of committee

AUDIT AND COMPLIANCE COMMITTEE

Brief description

ALREADY DESCRIBED IN SECTION B.2.3 ABOVE

B.2.5 Indicate, if applicable, any regulations governing the Board committees, where they are made available for consultation and any amendments to the same made during the financial year. Indicate whether any annual report has been voluntarily drawn up on the activities of each committee.

Name of committee

APPOINTMENT AND REMUNERATION COMMITTEE

Brief description

There are no specific regulations for Board committees as these are governed by the bank By-laws and by the Regulations of the Board of Directors. These Regulations are available on the Bank's website. The composition and structure of the Appointments and Remuneration Committee are also available on the website.

Name of committee

DELEGATED RISKS COMMITTEE

Brief description

Board committees do not have specific rules and regulations because their rules are contained within the Regulations of the Board of Directors. These Regulations are available on the bank's corporate website. A description of functions, composition and procedures is available on the bank's corporate website.

Name of committee

EXECUTIVE COMMITTEE

Brief description

There are no specific regulations for Board committees as these are governed by the Regulations of the Board of Directors. These Regulations are available on the Bank's website. The composition and structure of the Executive Committee are also available on the website.

Name of committee

AUDIT AND COMPLIANCE COMMITTEE

Brief description

The Audit and Compliance Committee has written and issued a report on its activities over the course of 2011 and a report stating its view on the independence of the auditors of companies subject to audit.

There are no specific regulations for Board committees as these are governed by the Regulations of the Board of Directors. These regulations are available on the Bank's website. The composition and structure of the Audit and Compliance Committee are also available on the website.

B.2.6 Indicate whether the composition of the Executive Committee reflects the participation within the Board of the different types of directors:

NO

If the answer is no, explain the composition of the Executive Committee.

As set out in previous sections of this report, Banesto has a majority shareholder that owns close to 90% of its capital. This distribution of capital, which would otherwise call for an overwhelming presence on the Board of proprietary and executive Directors, is not in fact reflected in the composition of that body: non-executive

Directors enjoy an ample majority, and independent Directors account for more than 50% of the Board. Corporate governance considerations have led to a predominance of non-executive Directors on the Board, and this same pattern is in evidence on the Executive Committee, which comprises two executive Directors and four non-executive Directors (one proprietary Director and three independents).

C. Related-party transactions:

C.1. Indicate whether the Board in full has the right to approve, based on a report from the Audit Committee or any other committee responsible for this task, transactions which the company carries out with directors, significant shareholders or representatives on the Board, or related parties:

YES

C.2 List any relevant transactions entailing a transfer of resources or obligations between the company or its group companies and the significant shareholders in the company:

Name or social denomination of the significant shareholder	Name or social denomination of the subsidiary of its group	Nature of its relationship	Nature of the operation	Amount (EUR thousands)
BANCO SANTANDER, S.A.	BANCO ESPANOL DE CREDITO, S.A.	Corporate	Selling material, intangible, or other assets	258,263

C.3 List any relevant transactions entailing the transfer of resources or obligations between the company or its group companies and the company's managers or directors:

C.4 List any relevant transaction undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose object and conditions set them apart from the company's habitual trading activities:

C.5 Identify, where appropriate, any conflicts of interest affecting company Directors pursuant to Article 127 of the Companies Law.

YES

Name or company name of Director

ALFONSO LIBANO DAURELLA

Description of the conflict of interest

He abstained from the debate and vote on the proposals submitted by the Board of Directors at its meeting on 19 January 2011, which were put to the vote at the Annual General Meeting of 23 February 2011, regarding his appointment as a Director.

Name or company name of Director

ANTONIO BASAGOITI GARCIA-TUÑÓN

Description of conflict of interest

1. He abstained from the debate and vote on the resolution of the Board of Directors at its meeting on 19 January 2011, which was put to the vote at the Annual General Meeting of 23 February 2011, regarding his appointment as a Director of the Bank.

2. He abstained from the debate and vote on the resolutions adopted by the Board of Directors at its meeting on 23 February 2011, regarding his appointment as a member and as the chairman of the Executive Committee of the Bank.

Name or company name of Director

JOSÉ ANTONIO GARCÍA CANTERA

Description of the conflict of interest

1. He abstained from the debate and vote on the resolution of the Board of Directors at its meeting on 19 January 2011, which was put to the vote at the Annual General Meeting of 23 February 2011, regarding his re-election as a Director of the Bank.

2. He abstained from the debate and vote on the proposals put forward by the Board of Directors at its meeting on 23 February 2011, regarding his re-election as a member of the Executive Committee and as Chief Executive Officer of the Bank.

Name or company name of Director

JOSÉ CORRAL LOPE

Description of the conflict of interest

1. He abstained from the debate and vote on the proposals submitted by the Board of Directors at its meeting on 19 January 2011, which were put to the vote at the Annual General Meeting of 23 February 2011, regarding his appointment as a Director.

2. He abstained from the debate and vote on the resolutions adopted by the Board of Directors at its meeting on 23 February 2011, regarding his appointment as a member of the Executive Committee and as a member and Chairman of the Risk Committee.

Name or company name of Director

JUAN DELIBES LINIERS

Description of the conflict of interest

1. He abstained from the debate and vote on the proposals submitted by the Board of Directors at its meeting on 19 January 2011, which were put to the vote at the Annual General Meeting of 23 February 2011, regarding his re-election as a Director.

2. He abstained from the debate and vote on the resolutions adopted by the Board of Directors at its meeting on 23 February 2011, regarding his re-election as a member of the Executive Committee and of the Risk Committee.

Name or company name of Director

JUAN GUITARD MARIN

Description of the conflict of interest

1. He abstained from the debate and vote on the proposals submitted by the Board of Directors at its meeting on 19 January 2011, which were put to the vote at the Annual General Meeting of 23 February 2011, regarding his appointment as a Director.
2. He abstained from the debate and vote on the resolutions adopted by the Board of Directors at its meeting on 23 February 2011, regarding his appointment as a member of the Bank's Audit and Compliance Committee.

Name or company name of Director

MATIAS RODRIGUEZ INCIARTE

Description of the conflict of interest

1. He abstained from the debate and vote on the proposals submitted by the Board of Directors at its meeting on 19 January 2011, which were put to the vote at the Annual General Meeting of 23 February 2011, regarding his re-election as a Director.
2. He abstained from the debate and vote on the resolutions adopted by the Board of Directors at its meeting on 23 February 2011, regarding his re-election as a member of the Bank's Audit and Compliance Committee.

C.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its Directors, management or significant shareholders.

- Directors:

Conflicts of interests involving company directors are regulated by article 29 of the Regulations of the Board of Directors. This article stipulates that directors must communicate to the Board any situation of direct or indirect conflict of interest and not attend or participate in discussions that affect their personal affairs, or that affect someone with whom they are linked.

Article 28 also deals with obligations of non-competition while article 33 stipulates that directors cannot benefit personally, or anyone closely involved with them, from the Bank's business opportunities, unless it stops the activity without the director's influence being involved and it is authorised by the Board, following a report from the Appointments and Remuneration Committee.

Transactions entered into by the Bank's directors, with certain exceptions, will require authorisation or ratification of the Board of Directors or the Executive Committee, preceded by a favourable report from the Audit and Compliance Committee.

The Board of Directors shall be responsible for regulating and resolving conflicts of interest involving directors.

- Significant shareholders

Article 37 of the Regulations of the Board of Directors stipulates that:

The Board of Directors or, in urgent cases, the Executive Committee, shall approve, preceded by a favourable report from the Audit and Compliance Committee, company transactions with significant shareholders or those represented on the Board or related parties, unless the circumstances described in article 30 exonerating the need to obtain said authorisation are deemed to exist. Approval granted by the Executive Committee must be subsequently ratified by the Board of Directors.

- Executives

The relevant mechanisms are provided in the Code of Conduct regarding Securities Markets, and are based on the duty of persons subject to the Code to report any conflict of interest.

The Code is available on the Company's website. Title I, Chapter III, Section "Disclosure of Personal Situations" stipulates this duty of disclosure. Of particular relevance are paragraphs 14 and 15, transcribed below:

14. General statement on related parties. All persons subject to the Code shall submit to the Compliance Unit, and keep updated at all times, a statement on their personal situation, including disclosures on related parties.

15. Situations of possible conflict. The Group has in place a conflict of interest policy (published on the website www.banesto.es) that specifies the processes of identification and management of conflicts of interest.

In this connection, any person subject to the policy shall disclose to the Compliance Unit any state of affairs as to related parties or any other factor or circumstance that might, in the view of a fair and impartial observer and with respect to a specific action, service or transaction, give rise to an actual or contingent conflict of interest.

Title I, Chapter III, Section "Conduct in the event of Conflicts of Interest" of the Code of Conduct regarding Securities Markets governs the actions of persons subject to the Code in situations of conflict of interest, based on the "Avoidance of Conflicts" principle, which is further specified in section 16 of the Code, pursuant to which:

16. Avoidance of conflicts, awareness and action pursuant to the Banesto Group Conflicts of Interest Policy. A person subject to the policy shall avoid actual or contingent conflicts of interest of his/her own or of the Group and, if personally affected by any such conflict, shall abstain from taking any decision or, as the case may be, casting a vote in situations arising in that connection, and shall disclose such circumstance to any persons that are to take the relevant decisions. Any person subject to the policy shall be aware of and apply the Group Conflicts of Interest Policy prevailing at the given time and shall accord priority to clients' legitimate interests, acting fairly, diligently, loyally, even-handedly and in confidence, subject to proper compliance with the requirements of market integrity. The Banesto Group's prevailing Order Execution Policy always applies.

Finally, in compliance with item 119 of Bank of Spain Circular 3/2008, lending to Directors and senior executives outside the scope of circumstances permitted under the Circular is subject to authorisation from the Board and disclosure to the Bank of Spain.

Finally, it is highlighted that executives are also subject to the Banesto Code of Conduct, which was updated in 2011. The Code sets out the ethical principles and standards of conduct that are to guide the actions of Banesto employees.

C.7 Is more than one Group company listed in Spain?

NO

Indicate the listed subsidiaries in Spain:

D. - RISK CONTROL SYSTEMS

D.1. Give a general description of risk policy in the company and/or its group, detailing and evaluating the risks covered by the system, together with evidence that the system is appropriate for the profile of each type of risk.

Risk policy is specified in the Risk chapter of Note 49 to the consolidated financial statements for 2011, and in the Directors' report for that year. In addition, however, at its meeting of 5 April 2011 the Board further specified the policy, which hitherto as a general rule had been adopted as part of the financial statements and published in the Directors' report and the corporate governance report. This further specification was a response to changes undergone at the Bank and to market conditions, which warranted a higher profile for the Bank's key risk principles and the overarching goals of its risk policy. In line with this, the main points were emphasised of the specific policies to be implemented over the year at the proposal of the Business and Risk units.

Specifically, the guiding principles of the Bank's general risk policy are based on the Bank's business model, the supporting vectors of which are: customers – Banesto aims to be the best commercial bank; financial strength – a key objective in terms of balance sheet structure, capital adequacy, liquidity and profitability; a stronger risk/profitability profile than that of competitors; and operational and business efficiency throughout the Bank's entire management model, with a focus on service excellence.

To achieve these goals, the Bank must seek to attract the best people in the industry, and continue to implement its commitment to compliance with prevailing legislation, regulatory recommendations and best practices; and it must strive to improve every day, for the benefit of its shareholders, customers and employees, ethically and professionally, and based on a sustainable model that enables the Bank to fulfil its role as a corporate citizen.

The Bank's overall risk principles are set out below:

- a) Compliance with prevailing laws and regulations and best practices in risk management
- b) Senior management involvement
- c) Independence of the risk area

The Bank's key management principles are:

- a) Integrated risk management, with a focus on balance sheet structure, capital adequacy and liquidity, and profitability
- b) A flexible management model that adapts to market conditions in terms of both policy and structure
- c) Use of advanced risk analysis, measurement and quantification technologies
- d) Provision of both inward- and outward-facing services to a high standard of quality
- e) Customer-focused banking based on long-term relationships
- f) Principle of prudence guiding transaction approvals
- g) Early action via monitoring

h) Recovery model based on value maximization

The aims of the Bank's risk policy are to: maintain a low, predictable and manageable risk exposure at all stages of the cycle; achieve minimal levels of loss and default rates; find the right equilibrium in balance sheet structure, liquidity, profitability and capital adequacy; undertake risk management as an organization-wide role; deliver customer-focused banking based on in-depth customer knowledge, acting ethically and professionally; create a competitive edge in risk management in support of business targets; implement proactive management using aggregate and individual approaches based on specific models driven by customer types and characteristics; develop the industry's best team of risk specialists and put in place pay schemes that reward good risk management; and implement a medium-and long-term risk/profitability paradigm.

Policies in 2011 included:

- a) Improving portfolio quality in the short term (bad debt, non-performing loans, incoming assets, threats, outstanding risk in existing and newly signed assets)
- b) Paying special attention to property-related risk, particularly as regards land
- c) Supporting business development in terms of boosting net interest income
- d) Continuing to develop a client-focused banking model in all segments
- e) Improving balance sheet structure by implementing a policy to shorten repayment periods
- f) Improving capital adequacy and liquidity ratios as risk quality and hedging indicators
- g) Moving forward with integration and cooperation across the risk and business areas
- h) Increasing the branch network's involvement in integrated risk management
- i) Improving risk management systems and tools: 1) Analysis and monitoring models. 2) Effective management of pre-doubtful debt. 3) Maximising value in debt recovery.
- j) Prospective monitoring by industry and business area. Markets and competition

D.2 Indicate whether the company and/or group has been exposed to different types of risk (operational, technological, financial, legal, reputational, fiscal...) during the year.

NO

If so, indicate the circumstances and whether the established control systems worked adequately.

D.3 Indicate whether there is a committee or other governing body in charge of establishing and supervising these control systems.

YES

Explain its duties.

Name of Committee or Body

OPERATIONAL RISKS COMMITTEE

Duties

The Operational Risks Committee, as an institutional body, shall review the figures for the various Operational Risk business lines and assess the impact on improving the exposure to Operational Risk of the various business areas and units at Banesto. It shall also propose new mitigation measures.

The Committee meets once a month and is comprised of Business Units which generate Operational Risk and those which are responsible for informing on or designing mitigation measures.

Name of Committee or Body

DELEGATED RISKS COMMITTEE

Duties

The Delegated Risks Committee's functions are described in B.2.3 above.

The Investment and Risks business area reports directly to the CEO and is headed by a General Manager.

In addition, the Internal Control and Compliance Business Area of the Internal Audit Division verify the adequacy and correct implementation of the established policies, controls and procedures.

Name of Committee or Body

EXECUTIVE COMMITTEE

Duties

The Executive Committee, without prejudice to the powers of the Board of Directors to determine risk policy, shall conclude transactions involving amounts that exceed the powers delegated to other junior bodies; ensure that the levels of risks assumed, both global and individual, meet the objectives set; assess the exposure among major customers, economic sectors, types of risk, etc.; and oversee compliance of risk objectives, management tools, improvement initiatives and any other issue regarding this matter.

Name of Committee or Body

AUDIT AND COMPLIANCE COMMITTEE

Duties

In addition to the functions mentioned above, the Audit and Compliance Committee must know the financial information process and the internal control systems (article 14 of the Regulations of the Board of Directors).

D.4 Identify and describe the processes for compliance with the regulations applicable to the company and/or its group.

The Banesto Group operates a range of policies, internal standards and proprietary procedures that are specially adapted and appropriate to the Bank's business and size, and are reviewed on an ongoing basis so that the Bank keeps in step with best practices in the industry. In addition, the Bank's processes are in conformity with applicable statutory provisions. These policies, standards and procedures, which are validated by different Committees at the highest levels, are audited within an ongoing process of review and improvement.

The Compliance function is implemented:

- first, by the Audit and Compliance Committee, which oversees compliance with the Bank's rules of governance, money-laundering prevention regulations, and Codes of Conduct;

– by the Compliance Committee, one of whose duties is to adopt Codes of Conduct and their implementing procedures; and, finally,

– by the Compliance Unit, which operates as the executive arm of the Compliance Committee.

The Compliance function is chiefly concerned with ensuring compliance with prevailing laws and regulations. The Compliance area sets in motion the necessary initiatives in partnership with other areas to ensure that the Bank has appropriate internal rules in place, and that the rules are suitably promulgated and implemented throughout the organisation. Another activity in this area is to implement proactive measures to disseminate information about and raise awareness of various aspects of Compliance throughout the Bank.

The process of reviewing and adapting the bank's activities to regulations in force include other initiatives, which are detailed below:

BANESTO GROUP CODE OF CONDUCT

The Code of Conduct, which is mandatory for all Group staff, sets out the key ethical principles and standards of conduct that are to guide the actions of Banesto employees. In 2011, the Code was revised and updated in line with legislative changes and with developments in best practices that, in the Bank's view, ought to be included.

Code of Conduct in securities market

The Code makes general provision, without limitation, for a range of conduct areas. These guidelines are further specified by rules that are mandatory for the employees concerned with each particular market. The duties established by the Code relate to various issues that might affect the conduct of persons subject to the Code, such as their personal transactions, duty of confidentiality, conflicts of interest, etc. Internal procedures continued to be reviewed in 2011.

Moreover, the Code makes provision for the treatment of privileged information arising from transactions, and for the separate areas and Chinese walls that must be in place to assure the proper handling of information so as to prevent practices that might constitute insider trading or conflicts of interest.

In addition, a specific code of conduct is in existence for employees who prepare and circulate analysis aimed at the securities market. The code stipulates the conditions and restrictions under which such activities are to be performed and the duties binding those who perform them. The necessary resources have been provided for this activity to be suitably monitored.

PRODUCT MARKETING

The Products Committee approves proposals to market new products and services and establishes the requirements to be taken into account when selling them.

In 2011, the Products Committee continued to review the marketing requirements of asset- and liability-side products to improve marketing processes as regards transparency, information to clients, and product manager roles. Several measures have been taken forward in this area. Furthermore, the Products and Services Marketing Monitoring Committee, a subcommittee of the Products Committee created in late 2009, has raised the frequency of its meetings to boost its monitoring of the Bank's products. Its role is to review each item, frame specific policies, and propose product improvements as necessary. What is more, through these committees and the Compliance Unit, further adaptations and improvements have been made in response to the new requirements under the Securities Market Act (Ley del Mercado Valores) arising from MiFID, the European Community Markets in Financial Instruments Directive, with a special focus on the issues surrounding the contractual documentation of the Bank's products.

Training continues to be a high priority. The Bank's marketing network undertakes specific training programmes to improve employee knowledge of each new product or service before it is launched. Alongside its training activities, the Bank has network-wide quality control systems in place to monitor product marketing processes. In 2011, a range of initiatives were carried out to boost product knowledge across the branch network and raise sale quality.

PREVENTION OF MONEY-LAUNDERING AND FUNDING OF TERRORIST ACTIVITIES

Prevention of money-laundering and the funding of terrorist activities remains a high priority of the Banesto Group. In 2011, therefore, the Bank continued to enhance training and systems in this area.

In compliance with its statutory duties, the Bank has in place control systems, regulations and procedures which enable it to identify, assess and prevent the risk of its branch network being used to launder the proceeds of criminal activities or to fund terrorism. The Banesto Group follows best practices in this area, complies with all statutory standards, and fully cooperates with the competent authorities.

The enactment in 2010 of Spain's Prevention of Money-Laundering and Funding of Terrorist Activities Act (Ley 10/2010) brought about a major change in the way that client relationships are established. All clients without exception must be exhaustively identified; in the case of corporate clients, the ultimate beneficial owners must be made known. A risk level is assigned to each client. These requirements mean that clients are asked to provide further documentation and new processes have to be implemented.

With these purposes in mind and in response to the new requirements, the Bank set afoot a review of its documentation and training processes to ensure that clients are properly identified and to verify that their purported business is genuine. As to training, in 2011 face-to-face and online sessions continued to be provided to all Banesto Group employees.

REPUTATION RISK

Reputation risk arises from adverse opinion on the Bank's services. In quantitative terms, an impaired reputation can hurt earnings or capital adequacy; qualitatively, business expectations and development may worsen. To minimise reputational risk, the Banesto Group takes ongoing measures to identify sensitive situations, particularly in the marketing of services and asset- and liability-side products.

E – THE GENERAL MEETING

E.1 Indicate the quorum required for constitution of the General Meeting established in the Company's Articles of Association. Describe any differences from the minimum regime set out in the Companies law (LSA)

NO

	Difference in % of quorum as set out in art. 102 of the LSA	Difference in % of quorum as set out in art. 103 of the LSA
Quorum required for first call	0	0
Quorum required for second call	0	0

E.2 Indicate and describe the differences required for adopting shareholder agreements from the minimum regime set out in the Companies law (LSA).

NO

Describe any differences from the provisions established in the Companies Law.

E.3 List all shareholders' rights regarding the General Meetings other than those established under the Companies Law.

E.4 Indicate the measures adopted to encourage the participation of shareholders in the General Meetings.

Encouraging the participation of shareholders in the General Meetings is a precise objective of the Board of Directors. An indication of this is article 35 of the Regulations which states that:

"The Board will seek informed participation by shareholders at Shareholder Meetings and will adopt whatever measures are needed to enable the Meeting to exercise its functions in accordance with the law and its By-laws.

In particular, the Board will ensure that shareholders, before the Meeting, have all the information required by law and, through the secretary and/or deputy secretary, tend to the information requests regarding the agenda formulated by shareholders before the Meeting. The Chairman and any director or the Board's secretary or deputy secretary will also tend to questions regarding the agenda made by shareholders during the Meeting. The Chairman and any director or the Board's secretary or deputy secretary will also tend to questions regarding the agenda made by shareholders during the Meeting.

The Bank's By-laws were amended at the General Meeting of 27 June 2007. The requirement that shareholders hold a minimum number of shares to be able to attend and vote at the meetings was abolished. Holders of just one share are now allowed to attend and vote with shareholders being granted one vote per every share held. In addition, and in accordance with Recommendation 6 of the Unified Code of Good Governance, it was agreed that financial intermediaries may attend as authorised shareholders but must act on behalf of different customers providing they duly accredit their standing via the procedure established by the Board of Directors. They may therefore request attendance cards for the General Meeting on behalf of their customers when attendance is required to comply with the instructions of their principals.

The right of information prior to the holding of a Shareholder Meeting is stipulated in article 7 of the Regulations of the General Meetings. Notwithstanding the above, and as part of the specific measures adopted to encourage participation, the following were also approved:

- From the date on which the General Meeting is called, the following information shall be available on the company's corporate website as per article 6 of the Regulations of the General Meeting:

- a) The full text of the calling.
- b) The text of all the proposals formulated by the Board in relation to points on the agenda.
- c) The documents or information which, in accordance with the law, must be made available to shareholders on matters in the agenda as of the date of the calling.
- d) Type of card of attendance and, where appropriate, the other documents that must be used for the delegation of votes.
- e) The means of communication at a distance which, in accordance with the law, the By-laws and these regulation shareholders can use to make effective their rights of representation, grouping, voting and, where appropriate, attendance, as well as the requirements, periods and procedures established for their use.

f) Information, where appropriate, on systems and procedures that facilitate following the Meeting, such as simultaneous translation, dissemination via audiovisual means, information in other languages, etc.

g) Information on the channels of communication with the Unit of Relations with Shareholders, in order to be able to gather information or make suggestions or proposals, in accordance with the applicable regulations.

h) The requirements to be met by financial intermediaries who attend as authorised shareholders, but who are acting on behalf of different customers, to request as many voting cards as they have customers, when this is necessary to comply with the instructions received from their different customers.

- Postal and proxy voting is allowed.

- The mechanisms required for proxy and electronic voting have been included on the Bank's website

- Mechanisms have been developed to enable distance attendance at the General Meetings via the Bank's website. These shareholders may exercise their information, proxy and voting rights electronically.

- The Investor Relations Department offers shareholders a personalised service not just on occasion of the General Meeting but all year round.

With a view to the General Meeting to be held on 29 February 2012, a motion is to be laid before the shareholders to alter the By-laws and the Regulations of the Shareholders' Meetings in order that, inter alia, a shareholder may give a proxy to any person he/she wishes, without need of such person also being a shareholder. Moreover, the rules on financial intermediaries are to be modified in accordance with the Restated Corporate Enterprise Act (Texto Refundido de la Ley de Sociedades de Capital).

E.5 Indicate whether the General Meeting is presided by the Chairman of the Board of Directors. List the measures, if any, adopted to guarantee the independence and correct operation of the General Meeting:

YES

Describe the measures
The By-laws and the Regulations of Shareholders' Meetings stipulate that the Chairman shall preside the meeting. Any shareholder, either in person or by electronic means, may attend and vote and request clarifications on items to be included on the agenda and, if they have the necessary share capital, may request the Bank to publish an addendum to the call notice including one or more items on the agenda.

E.6 Indicate the amendments, if any, made to the General Meeting Regulations during the year.

At the Annual General Meeting of 23 February 2011, shareholders were asked to consider the latest modification to the Regulations of Shareholders' Meetings. The changes were intended to bring the rules into line with the Corporate Restructuring Act (Ley 3/2009) and the Restated Corporate Enterprise Act (Texto Refundido de la Ley de Sociedades de Capital), enacted by Royal Legislative Decree 1/2010 ("the Corporate Enterprise Act"). In addition, Royal Decree Law 13/2010 changed the requirements for convening a General Meeting; this change necessitated an alteration of the By-laws dealing with this matter. The alterations adopted at the General Meeting were designed to achieve two main objectives: to bring the By-laws into line with the new statutory provisions referred to above, and to adapt the powers of the General Meeting in alignment with the proposed changes to the By-laws.

The Board's report on the motions to be laid before the shareholders in General Meeting is available on the corporate website, www.banesto.es/webcorporativa.

E.7 Indicate the attendance figures for General Meetings held in 2009

Details of attendance					
Date of General Meeting	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other	
24/02/2010	88.322	2.373	0.000	1.106	91.801

E.8 Briefly describe the resolutions adopted at the General Meetings held during the year and the percentage of votes by which each resolution was adopted.

Annual General Meeting of 23 February 2011:

AGENDA

First. Examine and approve, in its case, the annual financial statements (balance sheet, profit and loss account) and the Management Report of Banco Español de Crédito, S.A. and its Consolidated Group, as well as the Social Management Report, all for 2010. The resolution was carried by 621,911,117 votes in favour, 105,374 votes against and 23,374 abstentions.

Second. Examine and approve the proposed distribution of earnings in 2010.

The resolution was carried by 622,021,601 votes in favour, 2,830 votes against and 15,434 abstentions.

Third A. Set the number of Board members for 2011 at 14. The resolution was carried by 622,988,724 votes in favour, 31908 votes against and 19,233 abstentions.

Third B. Ratify the appointment of the proprietary Director, Mr. Antonio Basagoiti Garcia-Tuñón, carried out by co-option by the Board.

The resolution was carried by 621,979,104 votes in favour, 40,267 votes against and 20,494 abstentions.

Third C. Ratify the appointment of the non-executive Director, Mr. José Corral Lope, carried out by co-option by the Board.

The resolution was carried by 621,964,414 votes in favour, 42,277 votes against and 33,174 abstentions.

Third D. Ratify the appointment of the independent Director, Mr. Alfonso Líbano Daurella, carried out by co-option by the Board.

The resolution was carried by 621,990,177 votes in favour, 26,464 votes against and 23,224 abstentions.

Third E. Ratify the appointment of the proprietary Director, Mr. Juan Guitard Marín, carried out by co-option by the Board.

The resolution was carried by 621,730,097 votes in favour, 286,494 votes against and 23,274 abstentions.

Third F. Re-elect as executive Director Mr. José Antonio Garcia Cantera.

The resolution was carried by 621,933,182 votes in favour, 66,450 votes against and 40,233 abstentions.

Third G. Re-elect as executive Director, Mr. Juan Delibes Liniers.

The resolution was carried by 621,924,851 votes in favour, 66,435 votes against and 48,579 abstentions.

Third H. Re-elect as proprietary Director, Mr. Matías Rodríguez Inciarte.

The resolution was carried by 621,675,946 votes in favour, 317,460 votes against and 46,459 abstentions.

Fourth. Re-elect the auditing firm.

The resolution was carried by 621,900,414 votes in favour, 110,716 votes against and 28,735 abstentions.

Fifth. Approve, in its case, the new By-laws and revoke the prevailing ones. The resolution was carried by 621,981,248 votes in favour, 15,274 votes against and 43,343 abstentions.

Sixth. Approve changes to the Regulations of Shareholders' Meetings.

The resolution was carried by 621,987,526 votes in favour, 12,713 votes against and 39,626 abstentions.

Seventh. Remuneration of Directors through the delivery of shares.

The resolution was carried by 621,950,486 votes in favour, 29,799 votes against and 59,580 abstentions.

Eighth. Authorise the Board to interpret, rectify, complement, execute, substitute the powers and adapt the agreements adopted by the Shareholders' Meeting.

The resolution was carried by 621,971,032 votes in favour, 55,326 votes against and 13,507 abstentions.

Ninth. Report on the remuneration policy for Directors. Consultative vote

The resolution was carried by 621,913,145 votes in favour, 46,773 votes against and 79,947 abstentions.

E.9 Indicate, if appropriate, the minimum number of shares required to attend the General Meeting.

NO

Number of shares required to attend the General Meeting.	
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E.10 Indicate and explain the policies pursued by the company with reference to proxy voting at the General Meeting.

Pursuant to Article 522 of the Restated Corporate Enterprise Act, shareholders entitled to vote at a General Meeting may give proxies to any person they wish. At the Annual General Meeting to be held on 29 February 2012, shareholders will be asked to consider alterations to the By-laws and the Regulations of Shareholders' Meetings to bring those sets of provisions into line with the new statutory requirements. However, the Board has already made provision for compliance, and at the upcoming General Meeting proxy rights will be exercisable in accordance with the new rules. For these purposes, proxies may be given as follows:

- By postal delivery or correspondence, with dispatch to the Company of the hardcopy document granting the proxy, or a Meeting attendance card issued by the Bank, with the proxy-granting section of the printed form filled in and signed, which section includes a request for instructions for exercise of voting rights and the way in which the proxy-holder must vote if no precise instructions are given. Attendance, proxy and voting cards expressly set out all items on the Agenda.

- Electronically

Whatever the chosen proxy-granting procedure, the person to whom a proxy is granted must advise the Bank of his/her acceptance of the proxy. The person thus accepting must therefore sign in the appropriate space on the proxy card or other document granting the proxy. If a shareholder gives a proxy electronically, the appointee, if he/she is also a shareholder, must signify his/her acceptance using the application provided for the purpose on the Bank website, by an electronic signature based on an electronic certificate issued by the Company as an entity providing certification services. If the proxy-holder is not a shareholder, acceptance of the proxy must be notified by electronic mail.

If a proxy is granted to the Chairman, a Director or the Secretary to the Board, such notice of acceptance is deemed to be effected on receipt of the electronic or distance proxy.

To ensure voting rights are exercised, voting cards warn that:

- If no proxy is named, this shall be granted to the Chairman of the Board.

- If the proxy has been granted to the Chairman of the Board and a conflict of interests arises in the voting on any of the proposals submitted to the General Meeting, regardless of whether they are contained in the agenda, the Secretary of the Board shall be granted said proxy.

- If no voting administration instructions are given, the proxy shall vote in favour of the Board's proposals.

- Should items not included in the agenda be submitted to vote, the shareholder granting the proxy may either instruct its proxy to abstain from voting or fail to issue any instructions. In the latter case, the proxy shall vote as he/she sees fit.

- Only one proxy per Meeting is permitted and non-attendance, either physical or remote, of the shareholder holding the proxy, shall mean that his/her shares are not included in the quorum.

- A proxy is always revocable. The physical or remote attendance of a shareholder who has granted a proxy, and subsequent remote voting, shall bring about the cancellation of said proxy, regardless of the date.

E.11 Indicate whether the company is aware of the institutional investors' policy on whether or not to participate in the company's decision-making.

NO

E.12 Indicate the address and mode of access to Corporate Governance content on your website.

Corporate governance information is available on www.banesto.es/webcorporativa. Click the corporate governance tab, and a range of further tabs will then become available: General Meeting,

Board of Directors, Corporate Governance, By-laws, Board Regulations, Regulations of Shareholders' Meetings, Framework for the relationship between Santander and Banesto, and Compliance.

F. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with Corporate Governance recommendations. Should the company not comply with any of the afore-mentioned recommendations, explain the recommendations, rules, practices or criteria the company applies.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

See headings: A.9, B.1.22, B.1.23 and E.1, E.2

Met

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

- a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;
- b) The mechanisms in place to resolve possible conflicts of interest.

See headings: C.4 and C.7

Not applicable

3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the General Meeting for approval or ratification. In particular:

- a) The transformation of listed companies into holding companies through the process of subsidiarisation, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;
- b) Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;
- c) Operations that effectively add up to the company's liquidation.

Met

4. Detailed proposals of the resolutions to be adopted at the General Meeting, including the information stated in Recommendation 28, should be made available at the same time as the publication of the Meeting notice.

Met

5. Separate votes should be taken at the General Meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:

- a) The appointment or ratification of directors, with separate voting on each candidate;
- b) Amendments to the bylaws, with votes taken on all articles or groups of articles that are materially different.

See heading: E.8

Met

6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different customers can issue their votes according to instructions.

See heading: E.4

Met

7. The Board of Directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the company's best interest and, as such, strive to maximise its value over time.

It should likewise ensure that the company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Met

8. The board should see the core components of its mission as to approve the company's strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the board in full should reserve the right to approve:

- a) The company's general policies and strategies, and in particular:
 - i) The strategic or business plan, management targets and annual budgets;
 - ii) Investment and financing policy;
 - iii) Design of the structure of the corporate Group;
 - iv) Corporate governance policy;
 - v) Corporate social responsibility policy;
 - vi) Remuneration and evaluation of senior officers;
 - vii) Risk control and management, and the periodic monitoring of internal information and control systems;
 - viii) Dividend policy, as well as the policies and limits applying to treasury shares.

See headings: B.1.10, B.1.13, B.1.14 and D.3

- b) The following decisions:

- i) On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.

See heading: B.1.14

- ii) Directors' remuneration and, in the case of executive directors, the additional consideration for their management duties and other contract conditions.

See heading: B.1.14

- iii) The financial information that all listed companies must periodically disclose.
- iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Meeting;
- v) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the Group.

- c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").

However, board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard form agreements applied on an across-the-board basis to a large number of customers;
2. They go through at market rates, generally set by the person supplying the goods or services;
3. Their amount is no more than 1% of the company's annual revenues.

It is advisable that related-party transactions should only be approved on the basis of a favourable report from the Audit Committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full board.

See headings C.1 and C.6

Met

9. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer than five and no more than fifteen members.

See heading: B. 1. 1

Met

10. External directors, proprietary and independent, should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

See headings: A.2, A.3, B. 1.3 and B. 1. 14

Met

11. In the event that some external director can be deemed neither proprietary nor independent, the company should disclose this circumstance and the links that person maintains with the company or its senior officers, or its shareholders.

See heading: B. 1.3

Met

12. That among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital.

This proportional criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:

1. In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.

2. In companies with a plurality of shareholders represented on the board but not otherwise related.

See headings: B. 1.3, A.2 and A.3

Met

13. The number of independent directors should represent at least one third of all board members.

See heading: B. 1.3

Met

14. The nature of each director should be explained to the General Meeting of Shareholders, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Nomination Committee. The said Report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

See headings: B. 1.3 and B. 1 4

Met

15. When women directors are few or non existent, the board should state the reasons for this situation and the measures taken to correct it; in particular, the Nomination Committee should take steps to ensure that:

a) The process of filling board vacancies has no implicit bias against women candidates;

b) The company makes a conscious effort to include women with the target profile among the candidates for board places.

See headings: B. 1.2, B. 1.27 and B.2.3

Met

16. The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive, along with the chairmen of the relevant board committees.

See heading: B. 1.42

Met

17. When a company's Chairman is also its chief executive, an independent director should be empowered to request the calling of board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the board's evaluation of the Chairman.

See heading: B.1.21

Not applicable

18. The Secretary should take care to ensure that the board's actions:

- a) Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;
- b) Comply with the company bylaws and the regulations of the General Meeting, the Board of Directors and others;
- c) Are informed by those good governance recommendations of the Unified Code that the company has subscribed to.

In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Nomination Committee and approved by a full board meeting; the relevant appointment and removal procedures being spelled out in the board's regulations.

See heading: B.1.34

Met

19. The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.

See heading: B.1.29

Met

20. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When directors have no choice but to delegate their vote, they should do so with instructions.

See headings: B.1.28 and B.1.30

Met

21. When directors or the Secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.

Met

22. The board in full should evaluate the following points on a yearly basis:

- a) The quality and efficiency of the board's operation;
- b) Starting from a report submitted by the Nomination Committee, how well the Chairman and chief executive have carried out their duties;
- c) The performance of its committees on the basis of the reports furnished by the same.

See heading: B.1.19

Met

23. All directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the bylaws or board regulations indicate otherwise, such requests should be addressed to the Chairman or Secretary.

See heading: B.1.42

Met

24. All directors should be entitled to call on the company for the advice and guidance they need to carry out their duties. The company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the company's expense.

See heading: B.1.41

Met

25. Companies should organise induction programmes for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so advise

Met

26. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:

- a) Directors should apprise the Nomination Committee of any other professional obligations, in case they might detract from the necessary dedication;
- b) Companies should lay down rules about the number of directorships their board members can hold.

See headings: B.1.8, B.1.9 and B1.17

Met

27. The proposal for the appointment or renewal of directors which the board submits to the General Meeting, as well as provisional appointments by the method of co-option, should be approved by the board:

- a) On the proposal of the Nomination Committee, in the case of independent directors.
- b) Subject to a report from the Nomination Committee in all other cases.

See heading: B.1.2

Met

28. Companies should post the following director particulars on their websites, and keep them permanently updated:

- a) Professional experience and background;
- b) Directorships held in other companies, listed or otherwise;
- c) An indication of the director's classification as executive, proprietary or independent; in the case of proprietary directors, stating the shareholder they represent or have links with.
- d) The date of their first and subsequent appointments as a company director, and;
- e) Shares held in the company and any options on the same.

Met

29. Independent directors should not stay on as such for a continuous period of more than 12 years.

See heading: B.1.2

Explain

The Board does not consider it appropriate to adopt Recommendation 29 as this would entail disposing of directors whose presence on the Board is in the company's interest due to their abilities, contribution and experience. This presence is not deemed to affect their independence.

In any event, directors may not be appointed for any term of office in excess of the six years prescribed by applicable law or the By-laws, this notwithstanding their right to be re-elected. In addition, as stipulated in article 17 of the company's By-laws, a fifth of the Board must be re-elected on an annual basis.

30. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

See headings: A.2, A.3 and B.1.2

Met

31. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where just cause is found by the board, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds enumerated in section III.5 (Definitions) of this Code.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in Recommendation 12.

See headings: B.1.2, B.1.5 and B.1.26

Explain

The Board considers that unity is essential when determining its composition. All directors must act in the interest of the Bank and its shareholders and share the same responsibility and liability for Board decisions.

The Board is of the opinion that all directors should perform their duties with independent judgement, based on the solvency, integrity, reputation and professionalism of all of them.

The Board is of the opinion that treating independent directors in a different manner to other directors would run contrary to its principles. It shall therefore not accept Recommendation 31 stating that the Board of Directors should not propose the removal of independent directors before the expiry of their tenure, except where just cause is found by the Board following a proposal from the Appointments and Remuneration Committee. Just cause will be presumed when a director is in breach of his or her fiduciary duties or when his or her independence is compromised. In this case, the Board's decision not to accept Recommendation 31 is also based on the fact that there may be reasons in the Bank's interest which, in the Board's opinion, would prompt it to propose the dismissal of an independent director to the General Meeting due to reasons other than those included in the recommendation.

Therefore, the By-laws do not include the possibility of removing independent directors in that it is not deemed necessary as their condition is the same as that of other directors, i.e. in the event that directors (independent, executive or proprietary) fail to meet their obligations, they shall tender their resignation.

The Bank considers that the ultimate decision on the dismissal, regardless of who submits the proposal, rests with the General Shareholders' Meeting, which may reject the proposal if it deems it unjustified. Also, any shareholder may request its removal which, if agreed, does not mean duties have failed to be honoured.

32. Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the crimes stated in article 124 of the Spanish Companies Law, the board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The board should also disclose all such determinations in the Annual Corporate Governance Report.

See headings: B.1.43 and B.1.44

Met

33. All directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this Recommendation should also apply to the Secretary of the board; director or otherwise.

Met

34. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

See heading: B.1.5

Met

35. The company's remuneration policy, as approved by its Board of Directors, should specify at least the following points:

- a) The amount of the fixed components, itemised where necessary, of board and board committee attendance fees, with an estimate of the fixed annual payment they give rise to;
- b) Variable components, in particular:
 - i) The types of directors they apply to, with an explanation of the relative weight of variable to fixed remuneration items.
 - ii) Performance evaluation criteria used to calculate entitlement to the award of shares or share options or any performance-related remuneration;

- iii) The main parameters and grounds for any system of annual bonuses or other, non cash benefits; and
 - iv) An estimate of the sum total of variable payments arising from the remuneration policy proposed, as a function of degree of compliance with pre-set targets or benchmarks.
- c) The main characteristics of pension systems (for example, supplementary pensions, life insurance and similar arrangements), with an estimate of their amount of annual equivalent cost.
- d) The conditions to apply to the contracts of executive directors exercising senior management functions. Among them:
- i) Duration;
 - ii) Notice periods; and
 - iii) Any other clauses covering hiring bonuses, as well as indemnities or 'golden parachutes' in the event of early termination of the contractual relation between company and executive director.

See heading: B.1.15

Met

36. Remuneration comprising the delivery of shares in the company or other companies in the group, share options or other share-based instruments, payments linked to the company's performance or membership of pension schemes should be confined to executive directors.

The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.

See headings: A.3 and B.1.3

Met

37. External directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.

Met

38. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Met

39. In the case of variable awards, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.

Met

40. The board should submit a report on the directors' remuneration policy to the advisory vote of the General Meeting, as a separate point on the agenda. This report can be supplied to shareholders separately or in the manner each company sees fit.

The report will focus on the remuneration policy the board has approved for the current year with reference, as the case may be, to the policy planned for future years. It will address all the points referred to in Recommendation 35, except those potentially entailing the disclosure of commercially sensitive information. It will also identify and explain the most significant changes in remuneration policy with respect to the previous year, with a global summary of how the policy was applied over the period in question.

The role of the Remuneration Committee in designing the policy should be reported to the Meeting, along with the identity of any external advisors engaged.

See heading: B.1.16

Met

41. The notes to the annual accounts should list individual directors' remuneration in the year, including:

- a) A breakdown of the compensation obtained by each company director, to include where appropriate:
 - i) Participation and attendance fees and other fixed director payments;
 - ii) Additional compensation for acting as chairman or member of a board committee;
 - iii) Any payments made under profit-sharing or bonus schemes, and the reason for their accrual;

- iv) Contributions on the director's behalf to defined-contribution pension plans, or any increase in the director's vested rights in the case of contributions to defined-benefit schemes;
 - v) Any severance packages agreed or paid;
 - vi) Any compensation they receive as directors of other companies in the group;
 - vii) The remuneration executive directors receive in respect of their senior management posts;
 - viii) Any kind of compensation other than those listed above, of whatever nature and provenance within the group, especially when it may be accounted a related-party transaction or when its omission would detract from a true and fair view of the total remuneration received by the director.
- b) An individual breakdown of deliveries to directors of shares, share options or other share-based instruments, itemised by:
- i) Number of shares or options awarded in the year, and the terms set for their execution;
 - ii) Number of options exercised in the year, specifying the number of shares involved and the exercise price;
 - iii) Number of options outstanding at the annual close, specifying their price, date and other exercise conditions;
 - iv) Any change in the year in the exercise terms of previously awarded options.
- c) Information on the relation in the year between the remuneration obtained by executive directors and the company's profits, or some other measure of enterprise results.

Met

42. When the company has an Executive Committee, the breakdown of its members by director category should be similar to that of the board itself. The Secretary of the board should also act as secretary to the Executive Committee.

See headings B.2.1 and B.2.6

Partially complies

As set out in previous sections of this report, Banesto has a majority shareholder that owns close to 90% of its capital. This distribution of capital, which would otherwise call for an overwhelming presence on the Board of proprietary and executive Directors, is not in fact reflected in the composition of that body: non-executive Directors enjoy an ample majority, and independent Directors account for 50% of the Board. Whereas corporate governance considerations have led to a predominance of non-executive Directors on the Board, it has not been thought appropriate for this pattern to be followed in the Executive Committee, whose functions, relating more closely to the ordinary running of the company, demand a balance between executive Directors (2) and non-executive Directors (1 proprietary and 3 independent).

The Secretary of the Board is also the Secretary of the Executive Committee and of other committees having functions delegated to them by the Board of Directors.

43. The board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the Committee's minutes.

Met

44. In addition to the Audit Committee mandatory under the Securities Market Law, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration.

The rules governing the make-up and operation of the Audit Committee and the committee or committees of Nomination and Remuneration should be set forth in the board regulations, and include the following:

- a) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting;
- b) These committees should be formed exclusively of external directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, for information purposes, at the Committees' invitation.
- c) Committees should be chaired by an independent director.

d) They may engage external advisors, when they feel this is necessary for the discharge of their duties.

e) Meeting proceedings should be minuted and a copy sent to all board members.

See headings: B.2.1 and B.2.3

Met

45. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Nomination Committee or, as the case may be, separate Compliance or Corporate Governance committees.

Met

46. All members of the Audit Committee, particularly its chairman, should be appointed with regard to their knowledge and background in accounting, auditing and risk management matters.

Met

47. Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.

Met

48. The head of internal audit should present an annual work programme to the Audit Committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.

Met

49. Control and risk management policy should specify at least:

a) The different types of risk (operational, technological, financial, legal, reputational...) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks;

b) The determination of the risk level the company sees as acceptable;

c) Measures in place to mitigate the impact of risk events should they occur;

d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

See headings: D

Met

50. The Audit Committee's role should be:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.

c) Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

d) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2. With respect to the external auditor:

a) Make recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms and conditions of his engagement.

b) Receive regular information from the external auditor on the progress *and* findings of the audit programme, and check that senior management are acting on its recommendations.

- c) Monitor the independence of the external auditor, to which end:
 - i) The company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
 - ii) The Committee should ensure that the company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence;
 - iii) The Committee should investigate the issues giving rise to the resignation of any external auditor.
- d) In the case of groups, the Committee should urge the group auditor to take on the auditing of all component companies.

See headings: B.1.35, B.2.2, B.2.3 and D.3

Met

51. The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Met

52. The Audit Committee should prepare information on the following points from Recommendation 8 for input to board decision-making:

- a) The financial information that all listed companies must periodically disclose.
The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.
- b) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.
- c) Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.

See headings: B.2.2 and B.2.3

Met

53. The Board of Directors should seek to present the annual accounts to the General Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

See heading: B.1.38

Met

54. The majority of Nomination Committee members – or Nomination and Remuneration Committee members as the case may be – should be independent directors.

See heading: B.2.1

Met

55. The Nomination Committee should have the following functions in addition to those stated in earlier recommendations:

- a) Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.
- b) Examine or organise, in appropriate form, the succession of the chairman and chief executive, making recommendations to the board so the handover proceeds in a planned and orderly manner.
- c) Report on the senior officer appointments and removals which the chief executive proposes to the board.
- d) Report to the board on the gender diversity issues discussed in Recommendation 14 of this Code.

See heading: B.2.3

Met

56. The Nomination Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors.

Any board member may suggest directorship candidates to the Nomination Committee for its consideration.

Met

57. The Remuneration Committee should have the following functions in addition to those stated in earlier recommendations:

- a) Make proposals to the Board of Directors regarding:
 - i) The remuneration policy for directors and senior officers;
 - ii) The individual remuneration and other contractual conditions of executive directors.
 - iii) The standard conditions for senior officer employment contracts.
- b) Oversee compliance with the remuneration policy set by the company.

See headings: B.1.14 and B. 2.3

Met

58. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Met

G – OTHER INFORMATION OF INTEREST

List and explain below the contents of any relevant principles or aspects of corporate governance applied by the company that have not been covered by this report.

SANTANDER-BANESTO RELATIONSHIP FRAMEWORK

Even though Banco Español de Crédito S.A. does not have any listed entities within its Group which require it to comply with Recommendation 2, the Bank's Board has decided to take on this recommendation in the relationship with its Parent. It has therefore established a series of rules to define a relationship framework between Banco Santander, as the Parent, and Banesto, in addition to their respective areas of business, possible business ties and mechanisms to avoid possible conflicts of interest. These rules are available on the Group's website (www.banesto.es/webcorporativa).

HEADING B.1.11

- Total variable pay for 2011. Total variable pay is €1,694 thousand, while variable pay deferred on a three-year basis (2013-2015) is €1,431 thousand.

- Share options and/or other financial instruments. This item includes remuneration in kind in the form of Banesto shares transferred in 2011 under the First Long-Term Incentive Scheme to Ana Patricia Botín (who held an executive directorship up until 3 November 2010) and José Maria Nus Badía (who held an executive directorship during the first half of 2011).

- This total includes the amounts for per diems and profit-sharing under the By-laws due to José Maria Nus, Francisco Daurella Franco and David Arce Torres up until 19 January 2011, on which date they departed from office.

HEADING B.1.12

Total remuneration paid to senior management:

– Includes fixed and in-kind remuneration to Raml Aboukhair, who was a member of the Management Committee until 23 February 2011, on which date he departed from Banesto.

- This section includes Variable Pay for 2011. Variable Pay breaks down into available pay of €3,189 and pay deferred over three years (2013-2015) of €2,063.

HEADING B.1.29

The Delegated Risks Committee met 51 times.

HEADING B.1.40

Some directors hold stakes of less than 0.001% in the following companies: BBVA, BANCO SANTANDER and BANCO PAOPULAR.

HEADING C.2

- See note 47 of the consolidated annual financial statements for 2011.

- Banco Español de Crédito, S.A. (BANESTO) sold to Santander AM Holding S.L. and Santander Insurance Holding S.L. its stakes in Santander Pensiones S.A., E.G.F.P. and Santander Asset Management S.A., S.G.I.I.C., and 13% of Santander Seguros y Reaseguros, Compañía Aseguradora S.A., respectively, for an aggregate price of €258.263 million.

HEADING C.3

- In 2011, a total of EUR 550 thousand in loans was extended to senior executives. These loans were extended applying the conditions of bank employee.

- The balance at 31 December 2011 of lending operations which were subject to the conditions of bank employee (i.e. non-market conditions) totalled 2,259 EUR thousand.

- Notwithstanding the above, there are directors, managers, and associated natural persons and legal bodies that have carried out standard commercial transactions with Banesto or Group companies under normal market conditions and as part of normal trade relationships.

Other

- On 22 September 2010, the Board of Directors decided to adhere to the Code of Good Tax Practice (*Código de Buenas Prácticas Tributarias*). At its meeting of 25 January 2012, the Board adopted tax policies that are compliant with the code; these policies will become effective in 2012.
- Shareholders at the Annual General Meeting convened for 29 February 2012 will be asked to approve an amendment to the Bank's By-laws. The change is intended to bring the Bank's By-laws into line with prevailing company law.

As a corollary of the foregoing proposal, there will also be laid before the Annual General Meeting a proposed resolution to alter the Regulations of Shareholders' Meeting of Banco Español de Crédito, S.A.. In addition, shareholders will be briefed on the changes to be made to the Regulations of the Board of Directors. The purpose of these changes is to bring the Regulations of Shareholders' Meetings and of the Board into line with the new wording of the By-laws, and with the changes to company law recently introduced by the Sustainable Economy Act (Ley 2/2011) and the Ley 25/2011, a statute that partially amends the Corporate Enterprise Act and implements Directive 2007/36/EC (the "Shareholders' Rights Directive").

The Board's report explaining the proposed changes to the Bank's By-laws, including the full text of the proposed alteration, and the Board's report on the proposed changes to the Regulations of Shareholders' Meetings and of the Board, including the full text of the proposed changes, will be made available to shareholders in the notice convening the Annual General Meeting.

Finally, Article 61a of the Securities Market Act, inserted by virtue of the Sustainable Economy Act, requires that this Report include, in the form of an Appendix hereto, the disclosures prescribed by that statutory provision. This section may include any other relevant but not re-iterative information, clarification or detail related to previous sections of the report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different from that required by this report.

Binding definition of an independent director:

List any independent directors who have or have had a relationship with the company, its significant shareholders or managers, which are of a sufficiently significant nature or important to determine that the directors may not be deemed independent as per the definition included in point 5 of the Unified Good Governance Code:

NO

Date and signature:

This Annual Corporate Governance Report was approved by the Bank's Board of Directors at its Meeting on

19/01/2011

List the directors that voted against or abstained from approving this report.

NO

**ANNEX TO THE REPORT ON CORPORATE GOVERNANCE OF BANCO
ESPAÑOL DE CRÉDITO S.A. FOR 2011**

Passage of Spanish Law 2/2011, the Sustainable Economy Act (*Ley de Economía Sostenible*), has modified the prevailing legal regime, introducing new disclosure requirements for listed companies. Specifically, the Sustainable Economy Act amended Law 24/1988, of 28 July, Spain's Securities Market Act (*Ley de Mercado de Valores*), adding a new chapter VI titled "Regarding the annual corporate governance report". This new chapter VI contains a new article (article 61 bis) which regulates the contents of annual corporate governance reports. The foregoing article 61 bis repeals and consolidates the contents of article 116 regarding the Annual Corporate Governance Report and article 116 bis, which stipulated the need to include certain additional information in the management report. It further requires that the Annual Corporate Governance Report include a description of the main characteristics of the internal risk control and management systems in relation to the financial reporting process.

The Annual Corporate Governance Report for the year ended 31 December 2011 has been prepared based on the content and structure of the standard-form model established by CNMV Circular 4/2007, of 27 December. However, the additional corporate governance disclosure requirements introduced under the Sustainable Economy Act which are not specifically referred to in any section of the standard forms in effect, warrant the drafting of the present Annex.

The above-mentioned Spanish Securities Markets Commission (hereinafter, the "CNMV" for its acronym in Spanish) standard form is therefore complemented by this Annex which sets forth the disclosure requirements stipulated in article 61 bis of the Securities Market Act, specifically under the following headings:

- Securities not admitted to trading on a regulated European Community market, where appropriate indicating the different classes of shares and, for each class of shares, the attaching rights and obligations.
- Any restrictions on the ability to transfer securities or on the exercise of voting rights.
- Rules governing By-law amendments.
- Significant agreements entered into by the company which take effect, alter or terminate upon a change of control of the company following a takeover bid and the effects thereof.
- Any agreements between the company and its board members, executives or employees providing for termination benefits in the event that they resign or are made redundant without due cause or if their employment ceases because of a takeover bid.

- Description of the key aspects of the internal control and risk management systems with respect to the financial reporting process.

In light of the foregoing, there follow itemised responses to the above-listed headings:

1. Securities not admitted to trading on a regulated European Community market, where appropriate indicating the different classes of shares and, for each class of shares, the attaching rights and obligations.

None of the Bank's securities trade on non-EC exchanges.

2. Any restrictions on the ability to transfer securities or to exercise voting rights.

a) Restrictions on the transfer of securities

There are no Bylaw-stipulated restrictions on the transferability of securities representing share capital, the application of certain rules, listed below, notwithstanding.

The transfer of the shares representing the Bank's equity is not subject to any restrictions, unless the volume purchased surpasses the significant interest threshold, in which case the provisions of article 56 and the related articles of Law 26/1988, of 29 July, regarding Discipline and Intervention at Credit Institutions, as newly worded in Law 5/2009, of 29 June, are triggered. In keeping with the abovementioned articles, any party intending to acquire an equity or voting interest of 10% or more is obliged to first notify the Bank of Spain, which has 60 working days to object to the proposed acquisition. The Bank of Spain may only object to the proposed acquisitions on reasonable grounds on the basis of the criteria established to this end in article 58, section 1 of the foregoing Law or if the information provided by the potential buyer is deemed incomplete. It is also mandatory to provide the Bank of Spain with prior notice of any plans to directly or indirectly increase an existing interest such that the resulting percentage of voting rights or equity equals or exceeds 20%, 30%, or 50%. In addition, any party acquiring an interest in a credit institution such that the resulting percentage interest in the voting rights or equity is equal to or greater than 5% must notify the Bank of Spain and the affected credit entity immediately of this fact.

As a listed entity, the acquisition of certain significant interests requires notification of both the issuer and the CNMV, as provided for in article 53 of the Securities Market Act, Royal Decree 1362/2007, of 19 October, and CNMV Circular 2/2007, of 19 December, which stipulate an initial notification threshold of 3% of equity or voting rights (or 1% if the party obliged to notify is a resident of a tax haven or a tax-exempt country or territory or one with which there is insufficient exchange of tax information as required under prevailing legislation).

Lastly, and also due to its condition as a listed company, the acquisition of an interest of 30% or more of the Company's equity or voting rights triggers the obligation to launch a takeover bid under the terms set forth in article 60 of the Securities Market Act.

b) Restrictions on voting rights

The existing restrictions on the exercise of voting rights are those common to any public limited company; the By-laws do not stipulate any other specific restrictions in this regard.

Article 527 of the Consolidated Text of the Corporate Enterprises Act, enacted by means of Royal Legislative Decree 1/2010, of 2 July (*Ley de Sociedades de Capital*), deprives of legal effect any By-law stipulations at listed public limited companies which have the effect of directly or indirectly capping the number of votes which a given shareholder or companies belonging to the same group can issue. The By-laws of Banco Español de Crédito S.A. do not contain any clauses which limit the maximum number of votes which a given shareholder or companies belonging to the same group may cast.

3. Rules governing By-law amendments.

The rules in force essentially coincide with those established in the Consolidated Text of the Corporate Enterprises Act. Accordingly, in keeping with article 194 of the Consolidated Text of the Corporate Enterprises Act, article 49 of the Company's By-laws stipulates a general meeting quorum for valid ratification of a capital increase or decrease and any other amendment to the By-laws of shareholders at first call (whether attending in person or by valid proxy) holding at least fifty per cent of subscribed voting capital. At second call, shareholders representing twenty-five percent of share capital shall be sufficient. Similarly, article 12 of the Regulations of Shareholders' Meetings rules establishes the same majorities as article 49 of the By-laws. As required in article 286 of the Consolidated Text of the Corporate Enterprises Act, in the event that the By-laws are to be amended, the Company's directors or, where appropriate, the shareholders proposing the resolution, must draft the complete text of the proposed amendment along with a written report justifying the proposed change which must be provided to shareholders in conjunction with the call to the meeting at which proposed amendment will be voted on.

Elsewhere, in its capacity as a credit institution, as required by article 8.1 of Royal Decree 1245/1995, of 14 July, the amendment of the Bank's By-laws is subject to the authorisation and registration procedure established in article 1 of this same piece of legislation. Notwithstanding the foregoing, and in keeping with section 2 of the above article 8, the following amendments will be exempt from this authorisation procedure, although they must nevertheless be communicated to the Bank of Spain: those intended to reflect a change in registered business address within Spain, a capital increase, the addition to the wording of the By-laws of legal or regulatory requirements of an imperative or prohibitive nature or wording changes to comply with judicial or court rulings and any other amendments which the Directorate General of the Treasury and Financial Policy has ruled to be scanty material in response to prior consultations submitted to it to this end.

As is the case for all general meetings, the Bank's shareholders may ask its directors to provide them with as much information and as many clarifications as they deem necessary and may submit as many questions as they deem warranted in writing up until the seventh day prior to the meeting's scheduled date. The directors have a duty to provide such information in writing, to which end they have until the day the general meeting is scheduled to take place. In addition, during the course of the general meeting the Bank's shareholders are entitled to ask verbally for any information or clarifications they deem warranted regarding the items included on the meeting agenda; should it not be possible to attend to the shareholders' requests at that time, the directors have a duty to provide them with the information requested in writing during the seven days following the day on which the meeting ends.

4. Significant agreements entered into by the company which take effect, alter or terminate upon a change of control of the company following a takeover bid and the effects thereof.

The Bank is not party to any significant agreements that would take effect, be altered or terminate in the event of a change in control of the Bank as a result of a takeover bid.

5. Any agreements between the company and its directors, officers or employees that provide for severance payments if they resign, are unfairly dismissed or if their employment contracts terminate as a result of a takeover bid.

The legal and labour relations ramifications of the termination of the services linking the Bank's personnel to the entity are not uniform, but rather vary as a function of the personnel category in question, the position or job discharged by the employee, the nature of the contract entered into with the entity, the legislation governing the employment relationship, as well as sundry other factors. However, the following generalisations can be made:

- a) Employees: In the case of employees tied to the Company by means of a standard employment arrangement, a formula which encompasses virtually all the staff in the entity's service, the job contracts binding these employees to the entity do not include special indemnity clauses for termination of their employment; in these instances, the employee is entitled to any severance pay provided for in prevailing labour law as a function of the grounds for termination.

There are some instances of standard employment arrangements whereby the job contracts entitle the employee to an indemnity in the event of termination on specific grounds, generally limited to unfair dismissal. In these cases, the severance pay is usually set as a function of the employee's annual base salary at the time the employment relationship is terminated.

- b) Senior management: In the case of personnel bound to the entity under a special senior management contract, there are instances in which the contracts do not establish any severance payments in the event of termination, which means that these executives would be entitled to the severance provided for in the regulations

governing special senior management employment arrangements. To this end, it is worth noting that article 10.3 of Royal Decree 1382/1985, of 1 August, which regulates Special Senior Management Employment Arrangements, provides that senior executives may terminate their special job contracts with entitlement to the agreed-upon severance, or that provided for in the same piece of legislation in the event the termination is instigated by the business owner on the basis of, among other grounds, a material change in the ownership structure of the company which has the effect of renewing its governing bodies or changing the content or approach of the core business, so long as said termination is effected within three months from when these changes occur.

Alongside these cases, there are executives whose contracts do entitle them to severance benefits in the event of termination on certain specific grounds. This severance is usually set individually with each senior executive depending on their professional qualifications and the importance and responsibility attaching to the position held at the Bank.

- c) Executive directors: As for executive directors, the contracts regulating the discharge of their executive duties, other than those related to the decision-making and supervision which are intrinsic to their board membership, are open-ended. However, termination of the arrangement for breach of duty or at these executives' free will does not entitle them to any financial compensation. If an executive director is dismissed on grounds attributable to the Bank or due to the occurrence of neutral circumstances, such as any affecting the director's job status or status within the organisational structure, the outgoing director shall be entitled to receive the severance provided for in the respective contracts, which is not dictated by general criteria but rather the directors' personal and professional circumstances and going rates when they were signed. The breakdown of these terms is provided in the annual report and the report on director remuneration which will be provided to the Bank's shareholders at the general meeting scheduled for 29 February 2012.

- Exclusivity clause and non-compete agreement

The executive directors may not enter into service provision agreements with other companies or entities without the express authorisation of the Board of Directors and in all cases subject to a non-compete clause with respect to companies and activities similar in nature to those of the Bank and its consolidated Group.

- Compliance with the Code of Conduct

Executive directors are bound by the Code of Conduct of Banco Español de Crédito S.A.

- Confidentiality obligations and commitment to return confidential information

Executive directors are strictly bound by a duty of confidentiality throughout the term of their employment and also after termination, at which point they are obliged

to return any documents and objects related to their professional activities in their possession to the Bank.

- Term, notice periods and severance upon termination

There are no standard criteria for setting severance pay upon contract termination for reasons attributable to the Bank or under other neutral circumstances; rather, severance is dictated by the clauses contained in the contracts in place with each executive director which are agreed as a function of prevailing personal circumstances and the dates they were signed.

Nor are the clauses setting the periods for giving notice standard; although they exist in all the contracts in force, they range from 30 days to four months.

As already noted, contracts with executive directors are open-ended. However, termination of the arrangement for breach of duty or at these executives' free will does not entitle them to any financial compensation. If an executive director's contract is terminated on grounds attributable to the Bank or due to the occurrence of neutral circumstances, such as any affecting the director's job status or status within the organisational structure, the outgoing director shall be entitled to the following when the arrangement is terminated:

- Mr. José Antonio García Cantera would receive a severance payment equivalent to three years' annual fixed salary, as per his contract.
- Mr. Juan Delibes Liniers would be entitled to payment of one-half of 80% of his fixed annual salary multiplied by the number of years' of certified service at the Bank, up to a maximum of 10 annuities.

6. Description of the key aspects of the internal control and risk management systems with respect to the financial reporting process

Mechanisms comprising the risk control and management systems as they affect the entity's internal control over financial reporting (ICFR)

6.1 The entity's control environment

6.1.1. Bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

Article 14 of the Board Rules specifies, among other matters, the power delegated in the Audit and Compliance Committee *"To supervise the effective internal control of the Company and the risk management systems, and discuss with the auditors any significant internal control system weaknesses detected in the audit. To be fully familiar with and supervise the process of preparing and presenting the financial*

information relating to the Company and, where appropriate, to the Group, reviewing compliance with the regulatory requirements, the adequate delimiting of the perimeter of consolidation and the correct application of accounting standards”.

The Bank has an Internal Control Unit, which is independent within the organisational structure and is charged with designing and implementing the ICFR model (also known internally as the Banesto Internal Control Model) and ensuring its quality, consistency and continual updating, which oversees and monitors the model continually, ensuring that it works as it should, is secure and efficient, reporting its findings back to management, the Audit and Compliance Committee and the Board of Directors.

6.1.2. List of the components in place in relation to the process of preparing the financial information:

□ The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company:

The Organisation, Processes and Change Management Unit, which reports to the Resources Division, is responsible for the design, implementation, review and continual updating of Banesto’s organisational structure in general and, as a result, the structure of those units involved in the process of preparing the financial information.

This unit has documented internal procedures intended to ensure the correct exercise of these functions and their due communication the all other engaged Divisions and/or Units at the Bank.

The purpose of this schematic is to try to ensure, among other things, that the organisational structure provides a solid ICFR model.

□ Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action:

The Code of Conduct is approved by the Bank’s Board of Directors and all the people working at the Banesto Group are bound by it. Its subjects are given copies of the Code and receive the opportune training (onsite and/or online). In addition, the Code can be consulted by anyone at any time as part of the body of internal rules and regulations; it is also available for download from the corporate website.

The Code is updated whenever circumstances so warrant; the Board of Directors approved the latest changes on 21 December 2011.

With respect to financial information and transaction record-keeping, the Code stipulates the following:

- Title II lists the ethical principles inspiring the Code, including that of *transparency*, and fleshes out those principles and their application in general.
- Title III, regarding general behavioural guidelines, encompasses the concept of *responsibility*, indicating in section g) the obligation to oversee *the reliability of the financial information, preparing it in accordance with prevailing regulations, ensuring that transactions, events and other developments affecting the entity effectively exist, having been fully documented and comply with prevailing rules and regulations with respect to presentation, disclosure and comparability as well as providing a true and fair image of the entity's financial situation and its rights and obligations as of the corresponding date.*
- Title IV, regarding behavioural guidelines with respect to certain aspects of information disclosure stipulates that the persons subject to the Code refrain from disclosing any information or news regarding the Group and from expressly manifesting any opinion on the relevant information, stipulating that it is up to the Compliance Department to notify any such information to the CNMV before or at the same time as it is disclosed to the market or the media.
- Title IV also includes a list of financial information obligations and controls:

– *Financial information related obligations*

Those persons subject to the Code involved in the preparation of the Group's financial information undertake to work thoroughly to ensure that the information is reliable, ensuring that:

- a) The transactions, events and other developments mirrored in the financial information actually exist and were duly recorded.*
- b) The information reflects all the transactions, events and other developments affecting the entity.*
- c) The transactions, events and other developments are recorded and measured in keeping with applicable regulations.*
- c) The transactions, events and other developments are classified, presented and disclosed in the financial information in keeping with applicable regulations.*
- e) The financial information reflects, as of the corresponding date, the entity's rights and obligations by means of the corresponding assets and liabilities, in keeping with applicable regulations.*

Internal controls

Mandatory compliance with all the internal control procedures established by the Group to guarantee that its transactions are properly accounted for and accurately depicted in the financial information published by the Group.

In preparing the financial information, the areas of the Group responsible for each activity, process and sub-process must certify that the controls established by the Group have been complied with and the information furnished is accurate.

The Audit and Compliance Committee shall supervise the financial information preparation process and oversee that the internal control model, internal audit and risk management systems are proving effective.

The Internal Compliance and Control Division is in charge of directing and coordinating any investigations into alleged breaches and proposing any fines deemed appropriate.

□ ‘Whistle-blowing’ channel, for the reporting to the audit committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential:

Article 14 of the Board Rules specifies, among other matters, the power delegated in the Audit and Compliance Committee to “*Adopt the necessary measures to: (i) receive, deal with and keep a record of the claims received by the Bank on matters related to the process of gathering financial information generation, auditing and internal control; and (ii) make it possible for employees, on a confidential and, if considered appropriate, anonymous basis to report irregularities of potential significance, specially financial and accounting ones, detected within the sphere of the Company*”.

On this subject there is a binding circular within the body of internal rules and regulations, which must be distributed to everyone, called “Employee or third-party reporting to the Audit and Compliance Committee” which details the following procedure to be followed in reporting to the committee:

Group employees wishing to convey their concern regarding potentially questionable accounting or auditing practices to the Audit and Compliance Committee may do so on an anonymous and confidential basis by sending a letter to the General Secretariat and the Board (...).

Any claims concerning matters related to accounting, auditing or internal controls received from third parties by the various divisions of the Bank must also be sent immediately to the General Secretariat and the Board (...).

Upon receipt, the reporting party will receive a number and the complaint will be recorded in a special purpose file. The Secretary of the Board will review the content of the claim in order to determine whether or not it concerns accounting or auditing related matters.

If the reported matter concerns accounting or auditing related issues, it will be put before the Audit and Compliance Committee at the next meeting taking place after its receipt by means of submission to the Secretary of the Committee (...). If the reported

matter does not refer to accounting or auditing related issues, it will be forwarded to the head of the implicated division, recording such development as appropriate.

An account will be given at each meeting of the Audit and Compliance Committee of any claims not submitted to the Committee on account of not relating to accounting or auditing matters, making note of where, if anywhere, they were sent.

The related documentation, including any follow-up measures, shall be archived for a period of five years.

Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management:

Banesto employees involved in the various financial information processes benefit from training programmes and regular knowledge refresher courses which are specifically designed to allow them to discharge their duties properly.

The training and refresher courses are mostly promoted by the Accounting Unit itself and are designed and overseen together with the Training and Development Unit, which is part of the Human Resources Division.

These training initiatives take the form of a mixture of onsite and online sessions, all of which are monitored and overseen by the aforementioned Training and Development Unit in order to guarantee they are duly taken and that the concepts taught have been properly assimilated.

The following courses stand out among the training sessions provided to these employees: “The New General Chart of Accounting”, “Bank of Spain Circulars and Regulation”, “International Financial Reporting Standards”; “Financial Statement Analysis”; “Transaction Taxation”, “Analysis, Valuation and Application of Financial Models”, “M&A and IPOs”; and “Legal Aspects of Companies and other Corporate Structures”.

6.2 Risk assessment in financial reporting:

6.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

The process exists and is documented:

In compliance with the guidelines set by the COSO II (Committee of Sponsoring Organizations for the Commission on Fraudulent Financial Reporting, the Treadway

Commission) under the framework of the Enterprise Risk Management Integrated Framework¹, Banesto has a specific procedure for performing the risk identification task which is duly implemented, documented and communicated at all levels of the organisation.

This procedure establishes, among other matters, that the corporate risk management function is a process carried out by the Board of Directors of the entity, its management and other employees. It further states that the function is applicable to strategy setting throughout the whole company, designed to enable timely identification of events which could affect the organisation, management of risk within acceptable levels and the provision of reasonable assurance that objectives will be attained.

□ 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:

In order to guarantee the reliability and accuracy of the financial information, the risk identification process takes the following potential accounting errors unwaveringly into account:

- Integrity: Transactions/balances which should be recorded and are not.
- Transaction cut-off: Transactions recognised in a period other than the accrual period.
- Recording: Transactions input with mistakes (amounts, terms).
- Measurement: This refers to transactions (assets, liabilities, expenses, income and commitments) recognised for which the amounts are not correct because the measurement calculations performed were not the right ones.
- Presentation: Mistaken classification within the various financial statement headings.
- Validity: Transactions recognised which are not valid because they do not correspond to the financial period in question or because they have not been authorised by the customer.
- Asset safeguarding: This refers to assets acquired or liabilities incurred (or settled) without the right level of clearance.
- Compliance risk: The failure to comply with applicable regulations and/or the obligations assumed with customers in the ordinary course of operations and which could give rise to claims and therefore potential losses for the company.

¹ *An international committee created in 1985 to establish a methodology for identifying risk factors that could derive in the presentation of false or fraudulent financial information and to issue recommendations on how to ensure maximum financial information transparency*

□ A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.:

The Accounting Division has a dedicated Consolidation Department which is tasked with ensuring that the Group's scope of consolidation is properly defined at all times.

By way of illustration, the financial statements of Banesto and its direct and indirect investees constitute the starting point for this process. On the basis of the effective percentage interest in all potential scope investees, this department then proceeds to analyse:

- The significant influence which Banesto, individually or together with the rest of the Group entities, exercises over the investee under analysis.
- Banesto's effective ownership interest in the investee under analysis.
- The investee's business activity and corporate purpose, distinguishing between those considered similar to those of the other Group companies and those considered non-core.
- The existence of a decision-making unit, as defined in applicable legislation, for the special-purpose vehicles (there is an additional specific procedure for identifying this class of entity).

Ultimately, article 14 of the Board Rules establishes, among other things, the power delegated in its Audit and Compliance Committee, worded as follows: *“To be fully familiar with and supervise the process of preparing and presenting the financial information relating to the Company and, where appropriate, to the Group, reviewing compliance with the regulatory requirements, the adequate delimiting of the perimeter of consolidation and the correct application of accounting standards”*.

The Committee's duties, also stipulated in the aforementioned article 14, include *“To report, before approval by the Board or the Executive Committee, on the creation or acquisition of participations in special purpose entities or domiciled in countries or territories considered tax haven”*.

□ The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements:

In order to address important matters in addition to those directly related to the preparation of financial information, all classes of risk factors, especially those recommended by the Basel Risk Committee in its various reports, are factored into the entire risk identification process.

This process evaluates all the risk factors identified, regardless of whether or not they have a direct impact on the preparation of financial information, based on the criteria in place for prioritising and estimating their importance, which prioritisation process factors in the probability of occurrence and magnitude of the risk event.

The risk identification process factors in the following risk factors, among others: credit and counterparty, market, interest rate (including structural), liquidity, operational, technological, legal, documentation-related, fraud, money laundering, organisational, product marketing, capital shortfall, reputational, environmental, exposure concentration, business change, subsidiary risks, etc.

□ Which of the company's governing bodies is responsible for overseeing the process:

Ultimately, the Board of Directors, through its Audit and Compliance Committee, as enshrined in its rules, which stipulate that it shall “*supervise the internal control and management risk systems so that the main risks are identified, managed and reported adequately.*”.

6.3 Control activities

6.3.1. Procedures for reviewing and authorising financial information and the description of the ICFR to be disclosed to the market, indicating the corresponding lines of responsibility, as well as documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

As already noted elsewhere in this report, it is the Board of Directors which delegates in its Audit and Compliance Committee the function “*To be fully familiar with and supervise the process of preparing and presenting the financial information relating to the Company and, where appropriate, to the Group, reviewing compliance with applicable regulatory requirements, the adequate definition of the scope of consolidation and the correct application of accounting standards*”.

Similarly, the Committee shall “*Review, before its issue, the regular financial information, which, as a listed company, the Company periodically must make public ensuring that such information, is prepared in accordance with the same principles and practices applicable to the annual financial statements. To that effect, the Committee might consider the need to proceed to a limited revision of the Auditor.*”.

In this respect it is also necessary to periodically validate all the control mechanisms intended to mitigate the risks inherent to our business operations.

For this reason, and to comply with section 404 of the Sarbanes-Oxley Act (SOX), which sets out very structured requirements regarding financial information production, analysis and publication processes, laying great responsibility with directors and

executives in order to reduce the risk that this information could be unsafe, incomplete or wrong, we have established the following certification procedure:

1. Certification by the employees responsible for the controls. At present, the ICFR model comprises some 2,000 controls, for which around 150 people are responsible. This certification process takes place twice a year, firstly at the end of the first half and secondly at the financial year-end, the latter marking the start of the overall certification process, moving up the hierarchical ladder until it encompasses the Bank's most senior officers.
2. Certification of sub-processes, processes and activities. To ensure a well-organised and hierarchical schematic which encompasses the Bank's full spectrum of activities, the ICFR model is built on the basis of a structure of sub-processes, processes and activities. As noted, the certification of this structure begins at year-end and involves all the Bank's business units, including senior management.
3. A certification signed jointly by the chief executive officer (CEO) and the chief financial officer (CFO). Once certification has been obtained at all levels, these two officers proceed to certify the overall ICFR model, to which end they are aided by the so-called Internal Evaluation Report.

This report is prepared by the Internal Control Unit and includes the evidence on which these two officers base their certification, including:

- A list of the certifications obtained at all levels.
- Any additional certifications performed/obtained.
- Specific certification of all significant outsourced services.
- The ICFR model design and operation tests performed by those responsible for its maintenance, i.e., the internal audit and the internal control areas.

This report additionally itemises any incidents unearthed throughout the certification process by any of the implicated parties, indicating whether these incidents have been properly resolved or, to the contrary, the status of the plans in place to bring them to a satisfactory conclusion.

Another of the important checks in place for verifying that the accounting scope of the ICFR model is adequate is the so-called 'accounting mapping' drawn up each quarter; this is an extremely complex process which is fully automated and which generates consolidated financial information on the basis of the daily accounting entries previously associated with the ICFR controls, comparing this with the financial information actually published.

This process is monitored and updated continually and the scope is around 99% in all instances.

Although the ICFR model encompasses all of the Bank's activities, a significant part of the system is based on ensuring the proper recording, measurement, presentation and disclosure of all transactions which could have a material impact on its financial information.

With respect to the accounting close process and the review of critical accounting judgements, estimates, measurements and projections, the related activities are established by the Accounting Division (Controller) and are outlined in detail in the annual financial statements in Note 1, "Critical accounting estimates and judgements", and Note 2, "Accounting policies and measurement bases applied".

These same criteria are followed when preparing the monthly closes, which always entail a results presentation by the head of the Accounting and Control Division to the Executive Committee, a presentation which specifies any estimates made.

In addition, the Banks earnings are analysed by the Audit and Compliance Committee at least quarterly prior to submission to the Board of Directors for certification. To discharge these duties, these governance bodies ask the Internal Audit Department for any analysis and input they deem warranted with the same frequency, also asking the firm hired to audit the Group's financial statements for testimony twice yearly.

6.3.2. 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:

Banesto's IT systems which are directly or indirectly related to the financial statements are configured to ensure the correct preparation and publication of financial information at all times by means of a specific internal control protocol.

To this end, the entity has internal policies and procedures, which are duly updated and distributed, relating to the management of access to the IT applications and systems in accordance with the duties and clearances assigned to each unit/post.

Management of IT system access by the Bank's various users is clearly defined and regulated. Access is managed by the Organisation Unit so as to ensure proper separation of powers.

The Bank's methodology is designed to ensure that any new software developments and the updating and maintenance of existing programmes go through a definition-development-testing cycle which guarantees that financial information is handled reliably.

In this way, once software developments have been completed on the basis of the regulated and so-defined specifications (detailed documentation of the processes to be implemented), these developments are subjected to exhaustive testing by a specialist 'software lab'.

Subsequently, in a pre-production environment (an IT environment which simulates real events), and prior to definitive rollout, the implementation experts perform specific performance tests, while the change management area runs tests related to user functionality.

Lastly, the users themselves test the new developments in order to verify the suitability of the new software based on the sensitivity of the data and results obtained for each application.

Regarding the control mechanisms in place for recovering data for any reason, Banesto has a Business Continuity Plan for the IT system structure underpinning its business operations.

This Plan catalogues the measures, which translate into specific plans, designed to mitigate the scale and severity of IT incidents and to ensure that operations get back up and running as quickly and with as little fallout as possible.

To this end, the Bank has highly-automated back-up systems which ensure the continuity of the most critical systems with little or no human intervention thanks to parallel redundant systems, high-availability systems and redundant communication lines.

In addition, there are specific force majeure risk mitigation strategies in place such as the so-called virtual data processing centres, back-up power suppliers and offsite storage facilities.

6.3.3. 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:

It is worth noting that Bank's policy is not to outsource any activity considered significant² and which could have a material impact on the financial statements to companies which are not part of the Santander Group, the entity's ultimate parent group.

At any rate, any services so outsourced are governed by the services agreement for Santander Group companies which clearly indicates the service being provided and the resources to be provided by the service supplier.

² **Significant service:** tasks performed by service providers which could have a material impact (quantitative and/or qualitative) on Banesto's financial information, body of internal rules and regulations, regulatory compliance, business continuity, information security (proprietary or customer information) and the quality of its services and/or products and tasks constituting a key control intended to mitigate risks associated with these same factors.

Irrespective of these contracts, because the fact of outsourcing certain activities, albeit to another Group company, does not exonerate a company from liability, Banesto has in place a permanent protocol which monitors that all ICFR risks are sufficiently mitigated by means of effective controls and checks:

- Each year, the inventory of service providers is reviewed and the services provided are classified as significant or not significant.
- On the basis of the scope of companies providing significant services so-defined, all of which are part of the Santander Group, each provider is required to provide Banesto with CEO and CFO certification of its own ICFR model twice yearly.

These individual ICFR models play a direct role in mitigating the Bank's own risks, which is why Banesto's ICFR model is equipped with permanent controls over these activities and these controls are performed by Banesto officers.

- In order to ensure that this control regime is always up-to-date, the controls performed by outsourced providers and those within Banesto's own model for overseeing these tasks are exhaustively cross-checked twice yearly so that all material risk factors are subject to effective mitigating controls.

The entire process of overseeing outsourced tasks is performed for the ICFR model as a whole. Note, however, that none of the measurement, judgement or calculation processes relating to the preparation and publication of the financial statements is outsourced.

6.4 Information and communication:

6.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations:

The Accounting and Control Division is responsible for defining accounting policies and settling any queries relating to their interpretation, providing this service for all areas of the Bank. This Division is part of a corporate department which reports directly to the CEO.

Application of accounting policies is determined by the accounting framework applicable to the Bank which is that enshrined in the Code of Commerce and the rest of the body of applicable corporate law, the International Financial Reporting Standards adopted by the European Union, and also taking into consideration Bank of Spain Circular 4/2004, of 22 December, such that the financial statements provide a true and fair value of its equity and financial situation.

It is worth highlighting from a technical standpoint that these financial statements are built up on the basis of accounting templates as part of a fully automated process. These

templates underpin all the accounting processes associated with any transaction and are designed by the aforementioned Accounting Division, which is similarly in charge of maintaining them and updating them immediately whenever necessary.

Following supervision and analysis of the financial statements by the Accounting Division, whenever necessary, this same unit, following a special protocol, makes any required accounting entries which are not encompassed by the aforementioned automated process.

6.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

Banesto's computer applications are configured into a management model which, using an IT system structure appropriate for a bank, is divided into several 'layers', which supply different kinds of services, including:

General IT systems: these provide information to division/business unit heads.

Management systems: these produce information for business monitoring and control purposes.

Business systems: software encompassing the full product-contract-customer life cycle.

The so-called structural systems: these support the data shared and used by the rest of the applications and services. These systems include all those related to the accounting and financial information.

The software architecture: this defines the design patterns and principles for all systems.

System architecture: the mechanisms used in the model for design outsourcing, tool encapsulation and task automation.

The overriding purpose of this schematic is to provide the Bank's IT systems with the right software infrastructure to manage all the accounting entries made by the various applications and the subsequent entries into the corresponding accounting registers, all endowed with the resources needed to enable access to and consultation of the various levels of supporting data.

The scope of this schematic therefore encompasses the most critical financial information related processes, including those of capturing and balancing the movements received, consolidating and reconciling with application balances, cross-checking the software and accounting information for accuracy, complying with the

accounting allocation structural model, managing and storing auxiliary accounting data and making accounting entries for saving in the accounting system itself.

The various applications, based on a business-centric model, enter the transactions performed on a day-to-day basis via the various distribution channels (branches, internet, telephone banking, e-banking, etc.) into the “general transaction daily register”. These banking transactions may or may not have accounting implications and are input online or in batches.

This accounting infrastructure and the aforementioned structural systems generate the processes needed to generate, disclose and store all the financial information required of a financial institution for regulatory and internal purposes, all of which under the guidance, supervision and control of the Accounting and Control Division.

6.5 System monitoring

6.5.1. ICFR monitoring activities performed by the Audit Committee, including an indication of whether the entity has an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR.

Also describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information:

In addition to its other duties itemised elsewhere in this questionnaire, the Audit and Compliance Committee, one of the Board of Director’s steering committees, shall also *“Supervise the internal auditing services. To that end, the person responsible should submit annually to the Committee their work plan and inform directly of any incidents arising during the development thereof, and submit to the Committee a year-end activities report.. In order to make this supervision possible, the Bank’s internal Auditors shall deal with the Audit and Compliance Committee’s requests for information in the performance of their duties;”*.

The Regulations of the Board of Directors additionally establish that the internal audit service reports directly to the Board. Without detriment to this, the Audit and Compliance Committee shall vouch at all time for the independence and effectiveness of internal auditing, reporting on the proposals regarding the election, appointment, re-election and dismissal of the person in charge of the Bank’s internal auditing service.. The Audit and Compliance Committee also receives regular information on the activities of internal audit function’s activities and verifies that senior management takes the conclusions and recommendations of its reports under advice.

As already noted, the Bank also has an Internal Control Unit, which is independent within the organisational structure, which oversees and monitors the ICFR model continually, ensuring that it works as it should, is secure and efficient, reporting its

findings back to management, the Audit and Compliance Committee and the Board of Directors.

Here we make note of the following aspects of the internal audit function:

1. Internal audit function.

The Banesto Group's Internal Audit Department's mission includes oversight of the suitability, efficiency and effectiveness of the Group's internal control systems and the reliability and quality of its financial and business information.

This Department, which performs this function for the entire Group, reports directly to Banesto's Board of Directors, to which it gives an account of its annual audit work programme and the results of the work performed during the preceding year at least once a year.

As already mentioned, the Audit and Compliance Committee is in charge of overseeing the internal audit service, to which end it performs the following duties, among others:

- Ensuring the ongoing independence and effectiveness of the internal audit function.
- Getting the Internal Audit Department to present it with its annual work schedule, report directly to it on any incidents arising during its execution and submit a report on its activities to it at the end of each year. In order to perform this duty, the Audit and Compliance Committee is kept regularly updated on the activities of the internal audit function, verifying that senior management takes the conclusions and recommendations of its reports under advice.

In order to facilitate this supervisory function, the internal audit service is required to attend to any information requests made by the Audit and Compliance Committee in the course of discharging its duties, participating in Committee meetings as requested.

The Executive Committee and the Risk Committee may also ask for information regarding the internal audit work performed in areas falling under their respective spheres of expertise and for feedback regarding compliance with the recommendations made in their reports. These committees may also suggest the addition of specific risk factors to the audit programme.

All of the professionals working in the Internal Audit Department do so on a dedicated basis; none of them juggles internal audit functions with non-audit duties.

As already noted, these professionals' basic duties include oversight of the Banesto Group's internal control systems, additionally verifying that the risks intrinsic to the Group's business operations are duly covered by these management and control systems.

2. Scope of the ICFR assessment.

In keeping with the foregoing, the Internal Audit Department, executing the annual work plan approved by the Board of Directors, reviews Banesto's existing ICFR system on an ongoing basis to ensure the financial information produced is reliable and duly controlled.

The Banesto Group, in its capacity as a subgroup certifying the ICFR model of the Santander Group (in compliance with the Sarbanes Oxley Act, or SOX), predicated primarily on the identification of potential risk events and the development of initiatives to control and mitigate the same, is tasked with the duties of documenting, updating, monitoring, validating and certifying the said model, tasks which include due identification of the critical processes and attendant risks which could have a material impact on the financial information.

Execution of the annual work programme encompasses ongoing validation of the risk and control matrix defined by the Banesto Group under the auspices of the SOX Act in order to safeguard the quality of its financial information.

This review also encompasses the issuance of an annual report addressing: (i) an assessment of how well these regulations were applied; (ii) the effectiveness of the controls in place; (iii) updated documentation; (iv) self-assessment of the controls by units of the Group; and (v) follow-up of any related audit recommendations made during the year.

The conclusions of this review were positive in 2011, with no material incidents uncovered.

The scope of the annual audit plan and the work methodology used encompass a review of the practices followed in the control environment and of the IT system controls themselves.

On the basis that the ICFR review should ensure the quality of the Group's financial information, the following accounting information checks, among others, are considered intrinsic to the ongoing execution of the annual audit programme:

- a. Banesto's individual financial statements and the related business-accounting controls.
- b. The consolidation process, including a specific review of the accounting processes of the Group companies which pose a greater risk of financial information errors or shortcomings.
- c. Reviews of the quarterly accounting closes, including analysis of the most significant accounting aspects of the consolidated financial information.
- d. Ad-hoc and regular analysis of the quality of and procedures for controlling the preparation of the financial information sent to the regulatory and supervisory authorities.
- e. Ongoing monitoring of any summons issued by the regulatory authorities in the form of inspection orders.
- f. Continual monitoring of the audit conclusions and recommendations of an accounting nature.

The quarterly information published is reviewed by the Audit and Compliance Committee for the consolidated Group's successive closes. This review focuses particularly on the adequacy of the provisioning effort, non-recurring gains and losses and other events of accounting significance or which pose a greater risk of deriving in material errors in the Group's financial information and matters which enable it to stay abreast of and form an opinion on the most significant accounting issues affecting the Group.

3. Specific financial statement processes, units and areas evaluated.

The scope of the internal audit review encompasses the totality of material risk factors across the units within the Banesto Group 'universe', prioritising risks of a business-accounting nature, by ICFR accounting areas or implicit processes.

To this end, the internal audit function has a risk map which enables it to prioritise, in keeping with the main risk parameters intrinsic to each process, unit or area, the work to be performed for the totality of units in order to facilitate subsequent execution of the annual schedule.

The scope of the annual programme is fully comprehensive and includes all the processes, units and areas classified as 'priority' or 'to be supervised'.

4. Review of the effective design and operation of practices evaluated.

The analytical schematic outlined extends to the effective design and operation of the ICFR under the umbrella of consultancy reviews. The Audit Department issues recommendations and best practice guidance whenever warranted.

The depth and scope of the audit work, including the annual evaluation of the overall model and the coordination structure, enables due verification of the effective operation of the ICFR model with respect to the quality of financial information and the identification of any flaws, with a particular focus on critical processes which pose a risk of material financial information errors.

6.5.2. Indication of the existence of discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Among other stipulations, article 14 of the Board Rules refers to the power delegated in the Audit and Compliance Committee to *“Serve as a communication channel between the Board and the Auditors, assess the results of each audit and the response of the management team to its recommendations, and act as a mediator in the event of disagreement between the Board and the Auditor regarding the principles and standards to be applied in the preparation of the financial statements”*.

The Committee's duties also include that of supervising *“the fulfilment of the auditing contract, endeavouring to ensure that the opinion on the annual financial statements and the main contents of the Auditor's report are drafted in a clear and accurate fashion”*.

In this sense, the Audit and Compliance Committee's regularly scheduled meetings deal with any possible control deficiencies which could affect the reliability and accuracy of the financial statements, to which end it can call in the various implicated areas of the Bank to provide the necessary information and clarifications; the Committee also takes stock of the potential impact of any flaws detected on the financial information.

6.6 Other disclosures.

In compliance with section 404 of the Sarbanes-Oxley Act (SOX), Deloitte, S.L., in its capacity as auditor of the annual financial statements of the Bank and of the Banesto Group, reviews the ICFR model on an annual basis.

6.7 External auditor report.

At the date of authorising this Annual Report on Corporate Governance for issue, the auditor had yet to complete the review of the ICFR model for the purpose of complying with article 404 of the Sarbanes–Oxley Act, as the Bank’s certification process is still ongoing. It is expected that the review will be completed before the annual financial statements are ratified by the Bank’s shareholders at its upcoming General Shareholders’ Meeting.