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

Consolidated Financial Statements and
Consolidated Directors' Report
for the year ended 31 December 2012

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.

Deloitte.

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

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

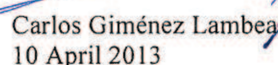
To the Shareholders of
Santander Consumer Finance, S.A.:

We have audited the consolidated financial statements of Santander Consumer Finance, S.A. ("the Bank", which is part of the Santander Group - see Note 25 to the accompanying consolidated financial statements) and of the Companies composing, together with the Bank, the Santander Consumer Finance Group ("the Group"), which comprise the consolidated balance sheet at 31 December 2012 and the related consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in total equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended. As indicated in Note 1-b to the accompanying consolidated financial statements, the directors of the Bank (the Parent) 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 2012 present fairly, in all material respects, the consolidated equity and consolidated financial position of the Santander Consumer Finance Group at 31 December 2012, and the consolidated results of its operations and the consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

The accompanying consolidated directors' report for 2012 contains the explanations which the directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2012. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Santander Consumer Finance, S.A. and Subsidiaries.

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



Carlos Giménez Lambea
10 April 2013

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

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

Consolidated Financial Statements and
Consolidated Directors' Report
for the year ended 31 December 2012

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 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.

SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011

(Thousands of Euros)

ASSETS	Note	2012	2011 (*)
CASH AND BALANCES WITH CENTRAL BANKS		1,387,071	857,339
FINANCIAL ASSETS HELD FOR TRADING:		92,573	122,323
Loans and advances to credit institutions		-	-
Loans and advances to customers		-	-
Trading derivatives	9	92,573	122,323
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS:		216,990	193,639
Debt instruments	7	213,849	192,326
Equity instruments	8	3,141	1,313
LOANS AND RECEIVABLES:		64,485,783	66,297,359
Loans and advances to credit institutions	6	6,452,616	9,190,334
Loans and advances to customers	10	56,613,224	56,609,199
Debt instruments	7	1,419,943	497,826
HELD-TO-MATURITY INVESTMENTS		-	-
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	31	542,432	376,982
HEDGING DERIVATIVES	11	118,632	90,847
NON-CURRENT ASSETS HELD FOR SALE	12	89,958	208,221
INVESTMENTS:	13	238,705	229,995
Associates		228,582	229,995
Jointly controlled entities		10,123	-
INSURANCE CONTRACTS LINKED TO PENSIONS	14	-	27,738
REINSURANCE ASSETS		-	-
TANGIBLE ASSETS:	15	359,160	366,543
Property, plant and equipment - For own use		172,344	173,620
Property, plant and equipment - Other assets leased out under an operating lease		186,735	192,923
Investment property		81	-
Memorandum item: Acquired under a finance lease		*55,431*	*56,889*
INTANGIBLE ASSETS:	16	2,100,565	2,211,124
Goodwill		1,539,252	1,778,415
Other intangible assets		561,313	432,709
TAX ASSETS:	24	942,089	900,885
Current		136,435	98,270
Deferred		805,654	802,615
OTHER ASSETS:	17	555,138	675,212
Inventories		7,562	10,894
Other		547,576	664,318
TOTAL ASSETS		**71,129,096**	**72,558,207**
CONTINGENT LIABILITIES	30	264,016	384,408
CONTINGENT COMMITMENTS	30	8,818,731	7,993,502

LIABILITIES AND EQUITY	Note	2012	2011 (*)
LIABILITIES			
FINANCIAL LIABILITIES HELD FOR TRADING:		98,684	135,131
Trading derivatives	9	98,684	135,131
OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
FINANCIAL LIABILITIES AT AMORTISED COST:		61,540,015	61,962,659
Deposits from central banks	18	2,233,215	515,143
Deposits from credit institutions	18	17,320,939	19,608,428
Customer deposits	19	32,114,140	33,062,214
Marketable debt securities	20	7,700,971	7,719,420
Subordinated liabilities	21	1,524,555	777,868
Other financial liabilities	22	646,195	279,586
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		-	-
HEDGING DERIVATIVES	11	721,955	566,929
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	12	859	9,883
LIABILITIES UNDER INSURANCE CONTRACTS		-	-
PROVISIONS:	23	609,598	483,969
Provisions for pensions and similar obligations		354,642	361,010
Provisions for taxes and other legal contingencies		82,367	23,439
Provisions for contingent liabilities and commitments		6,222	3,888
Other provisions		166,367	95,632
TAX LIABILITIES:	24	547,085	592,491
Current		163,969	192,597
Deferred		383,116	399,894
OTHER LIABILITIES	17	823,758	2,045,462
TOTAL LIABILITIES		**64,341,954**	**65,796,524**
EQUITY			
SHAREHOLDERS' EQUITY:		6,536,090	6,653,847
Registered share capital	25	4,663,639	4,353,639
Share premium	26	1,139,990	1,139,990
Reserves-	27	552,482	724,824
Accumulated reserves		539,918	709,808
Reserves of entities accounted for using the equity method		12,564	15,016
Less- Treasury shares		-	-
Profit for the year attributable to the Parent		279,983	435,394
Less- Dividends and remuneration		(100,004)	-
VALUATION ADJUSTMENTS:	28	57,830	(22,693)
Available-for-sale financial assets		642	321
Cash flow hedges		(48,064)	(58,857)
Exchange differences		105,591	35,631
Entities accounted for using the equity method		(339)	212
NON-CONTROLLING INTERESTS:	29	193,222	130,529
Valuation adjustments		2,700	(12,373)
Other		190,522	142,902
TOTAL EQUITY		**6,787,142**	**6,761,683**
TOTAL LIABILITIES AND EQUITY		**71,129,096**	**72,558,207**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 51 and Appendices I to III are an integral part of the consolidated balance sheet at 31 December 2012.

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.

SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(Thousands of Euros)

		Income/(Expenses)	
	Note	2012	2011 (*)
INTEREST AND SIMILAR INCOME	32	3,931,817	4,080,280
INTEREST EXPENSE AND SIMILAR CHARGES	33	(1,788,292)	(1,945,395)
NET INTEREST INCOME		**2,143,525**	**2,134,885**
INCOME FROM EQUITY INSTRUMENTS		45	20
SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	13 & 34	11,587	12,537
FEE AND COMMISSION INCOME	35	1,035,225	1,098,783
FEE AND COMMISSION EXPENSE	36	(251,647)	(242,249)
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES (net):	37	(10,041)	(22,340)
Held for trading		16,526.	(20,066)
Other financial instruments at fair value through profit or loss		(1,353)	-
Financial instruments not measured at fair value through profit or loss		4,564	(718)
Other		(29,778)	(1,556)
EXCHANGE DIFFERENCES (net)	38	4,132	367
OTHER OPERATING INCOME:	39	98,272	117,185
Sales and income from the provision of non-financial services		42,395	46,866
Other		55,877	70,319
OTHER OPERATING EXPENSES:	40	(109,180)	(117,215)
Changes in inventories		(28,924)	(37,172)
Other		(80,256)	(80,043)
GROSS INCOME		**2,921,918**	**2,981,973**
ADMINISTRATIVE EXPENSES:		(1,221,292)	(1,210,497)
Staff costs	41	(515,092)	(500,250)
Other general administrative expenses	42	(706,200)	(710,247)
DEPRECIATION AND AMORTISATION CHARGE	15 & 16	(128,434)	(102,958)
PROVISIONS (net)	23	(93,604)	(50,877)
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (net):		(781,018)	(853,304)
Loans and receivables	10	(781,018)	(853,304)
PROFIT FROM OPERATIONS		**697,570**	**764,337**
IMPAIRMENT LOSSES ON OTHER ASSETS (net):	43	(249,208)	(63,584)
Goodwill and other intangible assets		(249,062)	(63,612)
Other assets		(146)	28
GAINS (LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE	44	(2,362)	(3,346)
GAINS FROM BARGAIN PURCHASES ARISING IN BUSINESS COMBINATIONS		-	-
GAINS (LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS	45	(13,969)	(39,447)
PROFIT BEFORE TAX		**432,031**	**657,960**
INCOME TAX	24	(111,010)	(166,574)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**321,021**	**491,386**
LOSS FROM DISCONTINUED OPERATIONS (net)	46	(6,944)	(24,420)
CONSOLIDATED PROFIT FOR THE YEAR		**314,077**	**466,966**
PROFIT ATTRIBUTABLE TO THE PARENT		279,983	435,394
PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	29	34,094	31,572
BASIC AND DILUTED EARNINGS PER SHARE			
From continuing and discontinued operations	4	*0.18*	*0.32*
From continuing operations		*0.19*	*0.34*

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 51 and Appendices I to III are an integral part of the consolidated income statement for 2012.

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.

SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE

FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(Thousands of Euros)

	2012	2011 (*)
CONSOLIDATED PROFIT FOR THE YEAR	**314,077**	**466,966**
OTHER RECOGNISED INCOME AND EXPENSE	**95,596**	**(19,788)**
AVAILABLE-FOR-SALE FINANCIAL ASSETS:	502	309
Revaluation gains (losses)	2,210	101
Amounts transferred to income statement	(1,708)	208
CASH FLOW HEDGES:	15,821	43,082
Revaluation gains (losses)	(12,823)	(29,550)
Amounts transferred to income statement	28,644	72,632
HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS	-	-
EXCHANGE DIFFERENCES:	85,420	(49,366)
Revaluation gains (losses)	89,423	(48,009)
Amounts transferred to income statement	(4,003)	(1,357)
NON-CURRENT ASSETS HELD FOR SALE	-	-
ACTUARIAL GAINS (LOSSES) ON PENSION PLANS	-	-
ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	(551)	212
Revaluation gains (losses)	(551)	212
OTHER RECOGNISED INCOME AND EXPENSE	-	-
INCOME TAX	(5,596)	(14,025)
TOTAL RECOGNISED INCOME AND EXPENSE	**409,673**	**447,178**
Attributable to the Parent	360,506	430,077
Attributable to non-controlling interests	49,167	17,101

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 51 and Appendices I to III are an integral part of the consolidated statement of recognised income and expense for 2012.

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.

SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(Thousands of Euros)

	2012												
	EQUITY ATTRIBUTABLE TO THE PARENT												
	SHAREHOLDERS' EQUITY												
			RESERVES										
	Share Capital	Share Premium	Accumulated Reserves (Losses)	Reserves (Losses) of Entities Accounted for Using the Equity Method	Other Equity Instruments	Less: Treasury Shares	Profit for the Year Attributable to the Parent	Less: Dividends and Remuneration	Total Shareholders' Equity	Valuation Adjustments	Total	Non-Controlling Interests	Total Equity
Ending balance at 31 December 2011	**4,353,639**	**1,139,990**	**709,808**	**15,016**	**-**	**-**	**435,394**	**-**	**6,653,847**	**(22,693)**	**6,631,154**	**130,529**	**6,761,683**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**4,353,639**	**1,139,990**	**709,808**	**15,016**	**-**	**-**	**435,394**	**-**	**6,653,847**	**(22,693)**	**6,631,154**	**130,529**	**6,761,683**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**279,983**	**-**	**279,983**	**80,523**	**360,506**	**49,167**	**409,673**
Other changes in equity	**310,000**	**-**	**(169,890)**	**(2,452)**	**-**	**-**	**(435,394)**	**(100,004)**	**(397,740)**	**-**	**(397,740)**	**13,526**	**(384,214)**
Capital increases	310,000	-	(14)	-	-	-	-	-	309,986	-	309,986	-	309,986
Distribution of dividends	-	-	(300,027)	-	-	-	(310,008)	(100,004)	(710,039)	-	(710,039)	-	(710,039)
Transfers between equity items	-	-	127,838	(2,452)	-	-	(125,386)	-	-	-	-	-	-
Other increases (decreases) in equity	-	-	2,313	-	-	-	-	-	2,313	-	2,313	13,526	15,839
Ending balance at 31 December 2012	**4,663,639**	**1,139,990**	**539,918**	**12,564**	**-**	**-**	**279,983**	**(100,004)**	**6,536,090**	**57,830**	**6,593,920**	**193,222**	**6,787,142**

The accompanying Notes 1 to 51 and Appendices I to III are an integral part of the consolidated statement of changes in total equity for 2012.

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.

SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011 (CONTINUED)

(Thousands of Euros)

	2011 (*)												
	EQUITY ATTRIBUTABLE TO THE PARENT												
	SHAREHOLDERS' EQUITY												
			RESERVES										
	Share Capital	Share Premium	Accumulated Reserves (Losses)	Reserves (Losses) of Entities Accounted for Using the Equity Method	Other Equity Instruments	Less: Treasury Shares	Profit for the Year Attributable to the Parent	Less: Dividends and Remuneration	Total Shareholders' Equity	Valuation Adjustments	Total	Non-Controlling Interests	Total Equity
Ending balance at 31 December 2010	**3,853,639**	**1,139,990**	**716,691**	**11,069**	**-**	**-**	**344,915**	**(350,008)**	**5,716,296**	**(17,376)**	**5,698,920**	**141,738**	**5,840,658**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**3,853,639**	**1,139,990**	**716,691**	**11,069**	**-**	**-**	**344,915**	**(350,008)**	**5,716,296**	**(17,376)**	**5,698,920**	**141,738**	**5,840,658**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**435,394**	**-**	**435,394**	**(5,317)**	**430,077**	**17,101**	**447,178**
Other changes in equity	**500,000**	**-**	**(6,883)**	**3,947**	**-**	**-**	**(344,915)**	**350,008**	**502,157**	**-**	**502,157**	**(28,310)**	**473,847**
Capital increases	500,000	-	-	-	-	-	-	-	500,000	-	500,000	-	500,000
Distribution of dividends	-	-	-	-	-	-	-	-	-	-	-	(2,360)	(2,360)
Transfers between equity items	-	-	(9,040)	3,947	-	-	(344,915)	350,008	-	-	-	-	-
Other increases (decreases) in equity	-	-	2,157	-	-	-	-	-	2,157	-	2,157	(25,950)	(23,793)
Ending balance at 31 December 2011	**4,353,639**	**1,139,990**	**709,808**	**15,016**	**-**	**-**	**435,394**	**-**	**6,653,847**	**(22,693)**	**6,631,154**	**130,529**	**6,761,683**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 51 and Appendices I to III are an integral part of the consolidated statement of changes in total equity for 2012.

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.

SANTANDER CONSUMER FINANCE GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 December 2012 AND 2011

(Thousands of Euros)

	2012	2011 (*)
CASH FLOWS FROM OPERATING ACTIVITIES	**(1,271,267)**	**2,668,904**
Consolidated profit for the year	*314,077*	*466,966*
Adjustments made to obtain the cash flows from operating activities:	*1,368,018*	*1,267,553*
Depreciation and amortisation charge	128,434	102,958
Other adjustments	1,239,584	1,164,595
Net increase/decrease in operating assets:	*403,787*	*2,992,504*
Financial assets held for trading	(29,750)	(23,568)
Available-for-sale financial assets	8,218	(118,317)
Loans and receivables	258,808	2,740,414
Other operating assets	166,511	393,975
Net increase/decrease in operating liabilities:	*(2,361,544)*	*4,074,840*
Financial liabilities held for trading	(36,500)	(32,449)
Financial liabilities at amortised cost	(880,939)	2,688,301
Other operating liabilities	(1,444,105)	1,418,988
Income tax recovered/paid	*(188,031)*	*(147,951)*
CASH FLOWS FROM INVESTING ACTIVITIES	**(141,417)**	**(789,095)**
Payments-	*275,149*	*931,575*
Tangible assets	33,362	78,346
Intangible assets	236,082	346,855
Investments	3,250	-
Subsidiaries and other business units	2,455	506,374
Proceeds-	*133,732*	*142,480*
Tangible assets	13,242	69,775
Non-current assets held for sale and associated liabilities	120,490	72,705
CASH FLOWS FROM FINANCING ACTIVITIES	**(7,665)**	**57,940**
Payments-	*330,503*	*485,680*
Dividends	310,008	-
Subordinated liabilities	20,481	440,176
Other payments related to financing activities	14	45,504
Proceeds-	*322,838*	*543,620*
Subordinated liabilities	-	43,620
Issuance of own equity instruments	310,000	500,000
Other proceeds related to financing activities	12,838	-
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**7,733**	**(7,094)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,412,616)**	**1,930,655**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,954,393**	**1,023,738**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**1,541,777**	**2,954,393**
MEMORANDUM ITEMS:		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	209,601	139,704
Cash equivalents at central banks	1,177,470	717,635
Other financial assets	154,706	2,097,054
Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year	**1,541,777**	**2,954,393**
of which: held by consolidated entities but not drawable by the Group	-	-

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 51 and Appendices I to III are an integral part of the consolidated statement of cash flows for 2012.

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.

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012

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

a) Introduction

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

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

The Bank is part of the Santander Group, the parent entity of which (Banco Santander, S.A.) had a 100% direct and indirect ownership interest in the share capital of the Bank at 31 December 2012 (see Note 25). Banco Santander, S.A. has its registered office at Paseo de Pereda 9-12, Santander. The consolidated financial statements for 2011 of the Santander Group were authorised for issue by the directors of Banco Santander, S.A. at its Board of Directors Meeting on 23 January 2012, were approved by the shareholders at the Annual General Meeting on 30 March 2012 and were filed at the Santander Mercantile Registry. The Bank has one branch (Madrid), is not listed and, in 2012, it carried on most of its business activities in Spain.

Additionally, since December 2002 the Bank has been the head of a European corporate group, consisting mainly of financial institutions, which engages in commercial banking, consumer finance, operating and finance leasing, full-service leasing and other activities. The Group has 628 branches distributed throughout Europe (73 of which are located in Spain).

As required by Bank of Spain Circular 4/2010, of 30 July, the accompanying Appendix III lists the agents of the Group at 31 December 2012.

The relationship between the Bank and the other Group companies sometimes gives rise to transactions which respond to the Group's global strategy (see Note 49).

b) *Basis of presentation of the consolidated financial statements*

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

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

The Group's consolidated financial statements for 2012 were formally prepared by the directors of the Bank, as Parent (at the Board Meeting on 21 March 2013), in accordance with the regulatory financial reporting framework applicable to the Group (which consists of the Spanish Commercial Code and all other Spanish corporate law, International Financial Reporting Standards as adopted by the European Union, taking into account Bank of Spain Circular 4/2004, of 22 December, and successive amendments thereto, and other mandatory rules approved by the Bank of Spain), using the basis of consolidation, accounting policies and measurement bases set forth in Note 2 and, accordingly, they present fairly the Group's consolidated equity and consolidated financial position at 31 December 2012, and the consolidated results of its operations, the changes in consolidated equity and its consolidated cash flows in the year then ended. These consolidated financial statements were prepared from the individual accounting records of the Bank and of each of the other companies composing the Group, and include the adjustments and reclassifications required to unify the accounting policies and measurement bases used by each of the Group companies with those used by the Parent.

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

The Group's consolidated financial statements for 2011 were approved by the shareholders at the Annual General Meeting of the Bank on 16 April 2012 and filed at the Madrid Mercantile Registry. The 2011 consolidated financial statements of the Group and the 2011 financial statements of the Bank and of substantially all the Group entities have not yet been approved by their shareholders at the respective Annual General Meetings. However, the Bank's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

All the figures relating to 2011 included in these notes to the consolidated financial statements are presented for comparison purposes only.

Adoption of new standards and interpretations issued

The following standards and interpretations came into force and were adopted by the European Union in 2012:

- Amendments to IFRS 7, Financial Instruments: Disclosures (obligatory for reporting periods beginning on or after 1 July 2011) - Transfers of Financial Assets. These amendments enhance the disclosure requirements applicable to transfers of financial assets, including both those in which the assets are not derecognised and those in which the assets are derecognised but the entity has a continuing involvement in them.

- Amendments to IAS 12, Income Taxes: these amendments provide that the measurement of deferred tax assets and liabilities relating to investment property will depend on whether the entity expects to recover the investment property through its use or sale. IAS 12 also includes the contents of SIC 21 - "Deferred Taxes - Recovery of Revalued Non-Depreciable Assets" and, therefore, this interpretation has been withdrawn.

The application of the aforementioned accounting standards did not have a material effect on the Group's consolidated financial statements.

Also, at the date of preparation of these consolidated financial statements the following standards and interpretations with effective dates subsequent to 31 December 2012 were in force:

- IFRS 10, Consolidated Financial Statements (obligatory for reporting periods beginning on or after 1 January 2014, early application permitted): this standard replaces the current IAS 27 and SIC 12, introducing a single basis for consolidation (control), irrespective of the nature of the investee. IFRS 10 modifies 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 (obligatory for reporting periods beginning on or after 1 January 2014, early application permitted): this standard replaces the IAS 31 currently in force. The fundamental change introduced by IFRS 11 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, Disclosure of Interests in Other Entities (obligatory for reporting periods beginning on or after 1 January 2014, early application permitted): this standard represents 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. The objective of this standard is to require an entity to disclose information that enables users of its financial statements to evaluate the judgements and assumptions made in determining that it has control over another entity, the possible restrictions on its ability to access or use assets and settle liabilities, the risks associated with its interests in unconsolidated entities, and other matters.

  The Group is currently analysing the possible effects of the aforementioned standards (IFRSs 10, 11 and 12). Based on the analysis performed to date, the Group does not foresee that the application of these standards may have a material effect on the consolidated financial statements.

- IFRS 13, Fair Value Measurement (obligatory for reporting periods beginning on or after 1 January 2013): this standard replaces the current rules concerning fair value contained in various standards and sets out in a single IFRS a framework for measuring fair value. It does not modify the criteria set out in other standards for measuring assets and liabilities at fair value. IFRS 13 is applicable to the measurement of both financial and non-financial items and it introduces new disclosure requirements.

- Amendments to IAS 1, Presentation of Items of Other Comprehensive Income (obligatory for reporting periods beginning on or after 1 July 2012): these amendments consist basically of the requirement for items to be classified into items that will be reclassified (recycled) to profit or loss in subsequent periods and items that will not be reclassified.

- Amendments to IAS 19, Employee Benefits (obligatory for reporting periods beginning on or after 1 January 2013): these amendments eliminate the corridor whereby entities are currently able to choose to defer recognition of a given percentage of actuarial gains and losses, establishing that from the date on which these amendments come into force all actuarial gains and losses must be recognised immediately.

The amendments include significant changes in the presentation of cost components, as a result of which the service cost relating to post-employment benefit obligations (past service cost and plan curtailments and settlements) and net interest cost will be recognised in profit or loss and the remeasurement component (basically actuarial gains and losses) will be recognised in equity under "Valuation Adjustments" and may not be reclassified to profit or loss. The Bank's directors consider that, had this standard been applied at 31 December 2012, consolidated equity would have been reduced by EUR 58,553 thousand, due mainly to the elimination of the corridor. In accordance with IAS 8, these amendments entail a change of accounting policy and, accordingly, they must be applied retrospectively from 1 January 2013, by adjusting the beginning balances of equity for the earliest period presented as though the new accounting policy had always been applied.

- Amendments to IAS 27 and IAS 28 (revised) (obligatory for reporting periods beginning on or after 1 January 2014, early application permitted): these amendments reflect the changes arising from the new IFRS 10 and IFRS 11 described above.

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

- Amendments to IFRS 7, Offsetting Financial Assets and Financial Liabilities (obligatory for reporting periods beginning on or after 1 January 2013): these amendments introduce new disclosures for financial assets and financial liabilities that are presented net in the balance sheet and for other instruments subject to an enforceable netting arrangement.

- IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine: in view of its nature, this interpretation does not affect the Group's consolidated financial statements.

Lastly, at the date of preparation of these consolidated financial statements, the following standards and interpretations which effectively came into force after 31 December 2012 had not yet been adopted by the European Union:

- IFRS 9, Financial Instruments: Classification and Measurement (obligatory as from 1 January 2015), which will in the future replace the current IAS 39 relating to the classification and measurement of financial assets. IFRS 9 presents significant differences regarding financial assets with respect to the current standard, including the approval of a new classification model based on only two categories, namely instruments measured at amortised cost and those measured at fair value, the disappearance of the current Held-to-maturity investments and Available-for-sale financial assets categories, impairment analyses only for assets measured at amortised cost and the non-separation of embedded derivatives in financial contracts. The main change with regard to financial liabilities applies only to liabilities that an entity elects to measure at fair value. The portion of the change in the fair value of these liabilities relating to changes in the entity's own credit risk must be presented in equity as valuation adjustments instead of in profit or loss.

- Improvements to IFRSs, 2009-2011 cycle (obligatory for reporting periods beginning on or after 1 January 2013): these improvements introduce minor amendments to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34.

- Transition rules - Amendments to IFRSs 10, 11 and 12 (obligatory for reporting periods beginning on or after 1 January 2013): these amendments clarify the transition rules for IFRSs 10, 11 and 12.

- Investment companies - Amendments to IFRS 10, IFRS 12 and IAS 27 (obligatory for reporting periods beginning on or after 1 January 2014): these amendments provide for an exception from the consolidation rules for parent companies that meet the definition of investment companies. In view of the nature of these amendments, they do not have any impact on the Group's consolidated financial statements.

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

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

c) Accounting estimates

The consolidated results and the determination of consolidated equity are sensitive to the accounting policies, measurement bases and estimates used by the directors of the Bank in preparing the consolidated financial statements. The information in these notes to the consolidated financial statements is the responsibility of the directors of the Bank (the Parent). In this regard it should be noted that in the Group's consolidated financial statements for 2012 estimates were occasionally made by the senior managers, subsequently ratified by the Bank's directors, in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

1. The impairment losses on certain assets (see Notes 2-f, 2-h, 2-i, 2-k, 7, 8, 10, 12, 15 and 16);

2. The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other long-term obligations to employees (see Notes 2-p, 2-q and 23);

3. The useful life of the tangible and intangible assets (see Notes 2-i, 2-k, 15 and 16);

4. The measurement of goodwill (see Notes 2-k and 16); and

5. The fair value of certain unquoted assets and liabilities (see Notes 9, 11, 13 and 31).

Although these estimates were made on the basis of the best information available at 31 December 2012 on the events analysed, future events might make it necessary to change these estimates (upwards or downwards) in coming years. If required, changes in accounting estimates would be applied in accordance with current legislation (prospectively, recognising the effects of any changes in estimates in the related consolidated income statements for the years in question).

d) Comparative information

The information relating to 2011 contained in these notes to the consolidated financial statements is presented with the information relating to 2012 for comparison purposes only and, accordingly, it forms part of the Group's statutory consolidated financial statements for 2012.

e) Basis of consolidation

i. Subsidiaries

"Subsidiaries" are defined as entities over which the Bank has the capacity to exercise control; 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.

At 31 December 2012, there were no companies in which the Group held ownership interests of less than 50% but which were considered to be subsidiaries.

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 these entities and the Bank are eliminated on consolidation.

On acquisition of a subsidiary, its assets, liabilities and contingent liabilities are recognised at fair value at the date of acquisition. Any positive differences between the acquisition cost of these entities and the fair values of the identifiable net assets acquired are recognised as goodwill (see Note 16). Negative differences are recognised in profit or loss on the date of acquisition.

The share of third parties of the Group's equity is presented under "Non-Controlling Interests" in the consolidated balance sheet (see Note 29). Their share of the consolidated profit for the year is presented under "Profit Attributable to Non-Controlling Interests" in the consolidated income statement.

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

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

ii. Interests in joint ventures (jointly controlled entities)

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

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

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

iii. Associates

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

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

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

iv. Special purpose entities

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

v. Business combinations

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

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

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

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

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

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

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

Since 1 January 2010, goodwill is only measured and recognised once, when control is obtained of a business.

vi. Acquisitions and disposals

Note 3 to these consolidated financial statements provides information on the most significant acquisitions and disposals in 2012 and 2011.

f) Capital and capital management

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

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

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

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

At 2012 year-end, the Group had to meet minimum requirements of 8% of its risk-weighted assets.

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

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

At 31 December 2012 and 2011, the eligible capital of the Group and of the individual Group entities which are subject to this requirement, and the principal capital ratio, exceeded the minimum required under the regulations then in force.

The detail of the Group's eligible capital at 31 December 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	2011
Tier 1 capital:	**4,784,353**	**4,304,184**
Share capital	4,663,639	4,353,639
Share premium	1,139,990	1,139,990
Reserves	657,706	760,667
Non-controlling interests	159,503	101,540
Deductions (goodwill and other)	(2,050,558)	(2,206,016)
Net attributable profit (less dividends)	214,073	154,364
Tier 2 capital:	**840,761**	**899,304**
Other items and deductions	484,730	438,322
Additional capital	356,031	460,982
Total eligible capital	**5,625,114**	**5,203,488**
Total minimum capital	**3,955,707**	**3,960,601**

g) Deposit Guarantee Fund

The Bank and other consolidated entities participate in the Deposit Guarantee Fund or a similar scheme in their respective countries. The contributions made to these schemes amounted to EUR 25,467 thousand in 2012 (2011: EUR 24,026 thousand) and they are recognised under "Other Operating Expenses" in the accompanying consolidated income statements (see Note 40).

h) Environmental impact

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

i) *Events after the reporting period*

In 2012 the Bank paid CNY 250 million (approximately EUR 32,550 thousand) to establish in China a financial institution 50% owned by the Bank and by the Chinese vehicle manufacturer Anhui Jianghuai Automobile Co. Ltd. (JAC Motors). This amount is recognised under "Loans and Receivables - Loans and Advances to Credit Institutions" in the accompanying consolidated balance sheet at 31 December 2012. On 25 January 2013, having obtained the relevant regulatory approvals, this financial institution was incorporated under the name of Fortune Auto Finance Co. Ltd.

From 31 December 2012 to the date on which these consolidated financial statements were authorised for issue no additional events took place significantly affecting them.

j) *Customer Care Service Annual Report*

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

Santander Consumer Finance, S.A.

i. Statistical summary of claims and complaints handled

47 claims were received by the Customer Care Service in 2012 (2011: 46 claims), up 2% year-on-year. All the claims received were admitted for consideration.

97.87% of the claims (46 files) were resolved and concluded during the year (2011: 97.83%, 45 files), and 1 file was pending consideration at 2012 year-end (2011 year-end: 1 file). The detail, by type, of the claims filed is as follows:

	Percentage	
	2012	2011
Modus operandi	42%	31%
Cards	47%	45%
Insurance	-	4%
Price	11%	11%
Service / treatment	-	5%
Other claims	-	4%

The Bank's directors state that the matter not yet resolved at 2012 year-end will not have a material effect on these consolidated financial statements.

ii. Summary of resolutions

The detail of the responses to customers is as follows:

	Percentage	
	2012	2011
In favour of claimant	46%	60%
In favour of the Bank	54%	40%

The average handling period for claims was 12 calendar days in 2012, i.e. the same as in 2011.

The Bank paid EUR 9 thousand to its customers for claims resolved in their favour in 2012 (2011: EUR 25 thousand).

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

The Customer Care Service received 23 claims through the Bank of Spain and the Directorate-General of Insurance in both 2012 and 2011. All claims had been resolved by year-end, as follows:

	Percentage	
	2012	2011
In favour of the customer	34%	59%
In favour of the Bank	66%	41%

The Bank paid EUR 4 thousand to its customers for claims made through the Bank of Spain and the Directorate-General of Insurance which were resolved in the customers' favour in 2012 (2011: EUR 22 thousand).

iv. Claims received by the Customer Ombudsman

In 2012 the Customer Ombudsman received 120 claims (2011: 139 claims). These claims were resolved as follows:

	Percentage	
	2012	2011
In favour of the customer	74%	74%
In favour of the Bank	3%	1%
Other claims not giving rise to any loss for the customer	23%	25%

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

The Bank paid EUR 3 thousand to its customers for claims made through the Customer Ombudsman which were resolved in the customers' favour in 2012 (2011: EUR 6 thousand).

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

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

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

i. Claims received by the Customer Care Services

24 claims were received by the Customer Care Services in 2012 (2011: 16 claims), up 50% year-on-year. All the claims received were admitted for consideration. At 31 December 2012 and 2011, no claims were pending resolution.

The Company paid EUR 1 thousand to its customers for claims resolved in their favour in 2012 (2011: EUR 5 thousand).

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

The Customer Care Services of the Bank received 13 claims through the Bank of Spain and the Directorate-General of Insurance in 2012 (2011: 13 claims), which had been resolved by 31 December 2012. The detail of the resolved claims is as follows:

	Percentage	
	2012	2011
In favour of the customer	16%	46%
In favour of Santander Consumer, E.F.C., S.A.	84%	54%

Santander Consumer, E.F.C., S.A. paid EUR 1 thousand to its customers for claims made through the Bank of Spain and the Directorate-General of Insurance which were resolved in the customers' favour in 2012 (2011: EUR 3 thousand).

iii. Claims received by the Customer Ombudsman

In 2012 the Customer Ombudsman received 44 claims, of which 26 were resolved in the customers' favour and 4 in favour of Santander Consumer, E.F.C., S.A. Of the remaining 14 claims, 6 related to formalities and clarifications that did not involve a direct damage for the customer; 3 related to insurance; 1 was rejected because it was dealt with in court; 1 was cancelled by the customer; 1 was outside the scope of the Company's responsibility, and 1 was handled directly by the Company. At 31 December 2012, 1 claim was pending resolution (there were no claims pending resolution at 31 December 2011).

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

The Company paid approximately EUR 1 thousand to its customers for claims made through the Customer Ombudsman which were resolved in the customers' favour in 2012 (2011: EUR 3 thousand).

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

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

Other Spanish consolidated entities

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

2. Accounting policies and measurement bases

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

a) Foreign currency transactions

i. Functional currency

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

ii. Translation of foreign currency to the functional currency

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

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

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

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

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

Translation of functional currencies to euros

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

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

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

- Equity items, at the historical exchange rates.

iii. Recognition of exchange differences

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

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

iv. Exposure to foreign currency risk

The equivalent euro value of the total assets and liabilities in foreign currency held by the Group at 31 December 2012 amounted to EUR 9,166 million and EUR 8,177 million, respectively (2011 year-end: EUR 9,323 million and EUR 6,891 million, respectively) (see Note 47). Approximately 99.19% of the assets and 99.99% of the liabilities relate to Norwegian kroner and Polish złotys. Virtually all the remainder relate to other currencies traded in the Spanish market. The effect on the consolidated income statement and consolidated equity of variations of 1% in the various foreign currencies in which the Group holds significant balances would be scantly material.

b) *Definitions and classification of financial instruments*

i. Definitions

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

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

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

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

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

- Investments in associates (see Note 13).
- Rights and obligations under employee benefit plans (see Note 23).
- Rights and obligations under insurance contracts (see Note 14).
- Contracts and obligations relating to employee remuneration based on own equity instruments (see Note 41).

ii. Classification of financial assets for measurement purposes

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

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

- Financial assets held for trading (at fair value through profit or loss): this category includes the financial assets acquired for the purpose of generating a profit in the near term from fluctuations in their prices and financial derivatives that are not designated as hedging instruments.
- Available-for-sale financial assets: this category includes debt instruments not classified as “Held-to-Maturity Investments” or as “Financial Assets at Fair Value through Profit or Loss”, and equity instruments issued by entities other than subsidiaries, associates and jointly controlled entities, provided that such instruments have not been classified as “Financial Assets Held for Trading”.

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

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

iii. Classification of financial assets for presentation purposes

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

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

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

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

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

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

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

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

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

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

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

iv. Classification of financial liabilities for measurement purposes

In the consolidated balance sheet, financial liabilities are classified into the various categories used for management and measurement purposes, unless they have to be presented as “Hedging Derivatives”, which are reported separately.

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

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

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

v. Classification of financial liabilities for presentation purposes

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

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

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

- Customer deposits: includes all repayable balances received in cash by the Group, other than those represented by marketable securities, money market operations through central counterparties, subordinated liabilities and deposits from central banks and credit institutions.

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

- Trading derivatives: includes the fair value of the Group’s liability in respect of derivatives which do not form part of hedge accounting.

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

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

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

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

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

i. Measurement of financial assets

Financial assets are measured at fair value, except for loans and receivables and equity instruments whose fair value cannot be determined in a sufficiently objective manner (as well as 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 active, transparent and deep market ("quoted price" or "market price").

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

Derivatives are recognised in the consolidated balance sheet at fair value from the trade date. If the fair value is positive, they are recognised as an asset and if the fair value is negative, they are recognised as a liability. The fair value on the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. The changes in the fair value of derivatives from the trade date are recognised under "Gains/Losses on Financial Assets and Liabilities" in the consolidated income statement. Specifically, the fair value of 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 OTC derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using valuation techniques commonly used by the financial markets: "net present value" (NPV), option pricing models and other methods.

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

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

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

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

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

ii. Measurement of financial liabilities

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

iii. Valuation techniques

The following table shows a summary of the fair values, at 31 December 2012 and 2011, of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by the Group to determine their fair value:

	Thousands of Euros					
	2012			2011		
	Published Price Quotations in Active Markets	Internal Models (*)	Total	Published Price Quotations in Active Markets	Internal Models (*)	Total
Financial assets held for trading	-	92,573	92,573	-	122,323	122,323
Available-for-sale financial assets	216,990	-	216,990	98,243	95,396	193,639
Hedging derivatives (assets)	18,816	99,816	118,632	-	90,847	90,847
Financial liabilities held for trading	-	98,684	98,684	-	135,131	135,131
Hedging derivatives (liabilities)	599	721,356	721,955	-	566,929	566,929

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

Financial instruments at fair value, determined on the basis of published price quotations in active markets, include mainly government debt securities and asset-backed bonds.

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

Most of the instruments recognised at fair value in the consolidated balance sheet are interest rate swaps (IRSs) and cross currency swaps, which are measured using the present value method. This valuation method is also used to calculate the fair value of financial instruments measured at amortised cost in the consolidated balance sheet (see Note 47). Expected future cash flows are discounted using the yield curves of the related currencies. In general, the yield curves are observable market data and, therefore, this valuation method does not include the use of assumptions that could have a significant effect on the calculation of the fair value of these financial instruments.

iv. Recognition of fair value changes

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

Adjustments due to changes in fair value arising from:

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

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

v. Hedging transactions

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

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

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

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

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

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

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

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

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

   - There is sufficient evidence that the hedge was actually effective during the whole life of the hedged item or position ("retrospective effectiveness").

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

   - In the case of fair value hedges, the ratio of the change in the fair value of the hedged item during the measurement period to the change in the fair value of the hedging instrument during the same period is calculated retrospectively. 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 risk of a portfolio of financial instruments, the Group compares the amount of the net asset and/or liability position with the hedged amount designated for each one. The hedge is deemed to be ineffective when the amount of this net position is less than the hedged amount, in which case the ineffective portion is recognised immediately in the consolidated income statement.

   - In cash flow hedges, retrospective effectiveness is basically assessed by calculating the ratio of the interest cash flows generated by the hedged item during the measurement period to the interest cash flows generated by the hedging instrument during the same period. 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 hedge was expected to be achieved and measured, provided that this is consistent with the Group's management of own risks.

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

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

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

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

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

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

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

d) *Derecognition of financial assets and liabilities*

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

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

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

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

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

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

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

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

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

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

e) *Offsetting of financial instruments*

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

f) *Impairment of financial assets*

i. Definitions

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

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

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

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

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

When the recovery of any recognised amount is considered unlikely, the amount is written off, without prejudice to any actions that the consolidated entities may initiate to seek collection until their contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause. The amount of the financial assets that would be deemed to be impaired had the conditions thereof not been renegotiated is not material.

ii. 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.

In estimating the future cash flows of debt instruments the following factors are taken into account:

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

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

- The circumstances in which collections will foreseeably be made.

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

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

The Group has certain policies, methods and procedures for covering its credit risk arising both from insolvency allocable to counterparties and from country risk.

These policies, methods and procedures are applied in the granting, examination and documentation of debt instruments and contingent liabilities and commitments, and in the identification of their impairment and the calculation of the amounts required to cover the related credit risk.

Impairment losses on these assets are assessed as follows:

- Individually, for all significant debt instruments and for instruments which, although not material, are not susceptible to being classified in homogeneous groups of instruments with similar risk characteristics: instrument type, debtor's industry and geographical location, type of guarantee or collateral, age of past-due amounts, etc.

- Collectively in all other cases. 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 guarantee or collateral and age of past-due amounts. For each risk group it establishes the minimum impairment losses ("identified losses") that must be recognised.

  In addition to the identified losses, the Group recognises an allowance for the inherent losses on debt instruments not measured at fair value through profit or loss and on contingent liabilities classified as standard risk, taking into account the historical experience of impairment and other circumstances known at the time of assessment. For these purposes, inherent losses are losses incurred at the reporting date, calculated using statistical methods, that have not yet been allocated to specific transactions. The Bank of Spain, based on experience and on the information available to it on the banking industry, has determined certain parameters for the quantification of inherent impairment losses.

The total allowances recognised at any time are the sum of the allowances for impairment losses on specific transactions and the allowances for inherent impairment losses (losses incurred at the reporting date, calculated using statistical procedures).

The recognition of accrued interest in the consolidated income statement is suspended for debt instruments individually classified as impaired and for the instruments for which impairment losses have been assessed collectively because they have payments more than three months past due. This interest is recognised as income, when collected, as a reversal of the related impairment losses.

iii. Debt or equity instruments classified as available for sale

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

When there is objective evidence that the losses arising on measurement of these assets are due to impairment, they are removed from “Valuation Adjustments - Available-for-Sale Financial Assets” in the consolidated balance sheet and are recognised, for their cumulative amount, in the consolidated income statement. If all or part of the impairment losses are subsequently reversed, the reversed amount is recognised in the consolidated income statement for the period in which the reversal occurs, or in equity under "Valuation Adjustments - Available-for-Sale Financial Assets" in the case of equity instruments.

iv. Equity instruments carried at cost

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

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

g) Repurchase agreements and reverse repurchase agreements

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

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

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

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

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

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

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

The income and expenses, of any nature, including those relating to impairment losses, generated in the year from the operations of a component of the entity that has been classified as a "discontinued operation", even if they were generated prior to its classification as such, are presented, net of the related tax effect, as a single amount under "Loss from Discontinued Operations (net)" in the consolidated income statement, irrespective of whether the component remains in the balance sheet or is derecognised. This item also includes the gains or losses obtained on the sale or disposal of the component.

i) Tangible assets

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

i. Property, plant and equipment for own use

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

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

	Annual Rate
Buildings for own use	1.5-2
Furniture	10
IT equipment	25
Fixtures and other	12

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

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

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

Tangible assets that require more than twelve months to get ready for use include as part of their acquisition or production cost the borrowing costs which have been incurred before the assets are ready for use and which have been charged by the supplier or relate to loans or other types of borrowings directly attributable to their acquisition, production or construction. Capitalisation of borrowing costs is suspended during periods in which the development of the asset is interrupted, and ceases when substantially all the activities necessary to prepare the asset for its intended use are complete.

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

ii. Investment property

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

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

iii. Assets leased out under an operating lease

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

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

j) Leases

i. Finance leases

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

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

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

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

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

ii. Operating leases

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

When the consolidated entities act as the lessors, they present the acquisition cost of the leased assets under “Tangible Assets” (see Note 15) in the consolidated balance sheet. The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use (see Note 2-i), and income from operating leases is recognised on a straight-line basis under “Other Operating Income” in the consolidated income statement.

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

k) Intangible assets

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

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

i. Goodwill

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

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

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

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

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

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

ii. Other intangible assets

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

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

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

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

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

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

l) *Other assets and Other liabilities*

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

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

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

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

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

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

m) *Provisions and contingent assets and liabilities*

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

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

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

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

Provisions are classified according to the obligations covered as follows:

- Provisions for pensions and similar obligations: includes the amount of the provisions made to cover post-employment benefits, commitments to pre-retirees and similar obligations (see Note 23).

- Provisions for contingent liabilities and commitments: includes the amount of the provisions made to cover contingent liabilities –defined as those transactions in which the Group guarantees the obligations of a third party, arising as a result of financial guarantees granted or contracts of another kind– and contingent commitments –defined as irrevocable commitments that may give rise to the recognition of financial assets (see Note 23).

- Provisions for taxes and other legal contingencies: includes the amount of the provisions made to cover tax and legal contingencies and litigation (see Note 23).

- Other provisions: includes the amount of other provisions made by the consolidated entities (see Note 23).

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

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

n) Litigation and/or claims in process

At the end of 2012 and 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 the Bank's directors consider that any economic loss that might ultimately result from these litigation and claims has been adequately provided for (see Note 23) and, therefore, will not have a material effect on the consolidated financial statements.

o) Recognition of income and expenses

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

i. Interest income, interest expenses and similar items

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

ii. Commissions, fees and similar items

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

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

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

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

iii. Non-finance income and expenses

These are recognised for accounting purposes on an accrual basis.

iv. Deferred collections and payments

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

v. Loan arrangement fees

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

p) Financial guarantees

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

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

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

The provisions made for these transactions are recognised under “Provisions - Provisions for Contingent Liabilities and Commitments” on the liability side of the consolidated balance sheet (see Note 23). These provisions are recognised and reversed with a charge or credit, respectively, to “Provisions (Net)” in the consolidated income statement.

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

q) Post-employment benefits

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

The Group’s post-employment obligations to its employees are deemed to be "defined contribution plans" when the Group makes pre-determined contributions to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as “defined benefit plans” (see Note 23).

Defined contribution plans

The Group recognises the defined contributions accrued in the year under “Administrative Expenses - Staff Costs” in the consolidated income statement. At year-end any amount not yet contributed to the external plans funding the obligations is recognised at its present value under “Provisions - Provisions for Pensions and Similar Obligations” on the liability side of the consolidated balance sheet (see Note 23).

Defined benefit plans

The Group recognises under “Provisions - Provisions for Pensions and Similar Obligations” on the liability side of the consolidated balance sheet (or under “Other Assets - Other” on the asset side, as appropriate) the present value of its defined benefit post-employment obligations, net of the fair value of the plan assets and of the net unrecognised cumulative actuarial gains and/or losses disclosed on measurement of these obligations, which are deferred using a corridor approach, as explained below (see Note 23).

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

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

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

If the consolidated entities 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 (see Note 14).

"Actuarial gains and losses" are defined as those arising from differences between the previous actuarial assumptions and what has actually occurred and from the effects of changes in actuarial assumptions. The consolidated entities use, on a plan-by-plan basis, the corridor approach and recognise in the consolidated income statement the amount resulting from deferring, over five years, the net amount of the cumulative actuarial gains and/or losses not recognised at the beginning of each year which exceeds 10% of the present value of the obligations or 10% of the fair value of the plan assets at the beginning of the year, whichever amount is higher. The maximum five-year allocation period, which is required by the Bank of Spain for all Spanish financial institutions, is shorter than the average number of remaining years of active service relating to the employees participating in the plans, and is applied systematically. However, it should be noted that the corridor has been eliminated since 1 January 2013 (see Note 1-b).

The "past service cost" -which arises from changes to existing post-employment benefits or from the introduction of new benefits- is recognised on a straight-line basis in the consolidated income statement over the period from the time the new obligations arise to the date on which the employee has an irrevocable right to receive the new benefits. At 2012 and 2011 year-end, there were no unrecognised past service costs.

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" (see Notes 23 and 41).

- 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" (see Notes 23 and 33). When obligations are presented on the liability side of the consolidated balance sheet, net of the plan assets, the cost of the liabilities recognised in the consolidated income statement relates exclusively to the obligations recognised as liabilities.

- 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" (see Notes 14, 23 and 32).

- The actuarial gains and losses calculated using the corridor approach, under "Provisions (Net)" (see Note 23).

r) Other long-term benefits and other obligations

Other long-term employee benefits, defined as obligations to pre-retirees -taken to be those who have ceased to render services at the consolidated entities but who, without being legally retired, continue to have economic rights vis-à-vis the entities until they acquire the legal status of retiree- and long-service bonuses, are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that all past service costs and actuarial gains and losses are recognised immediately in the consolidated income statement (see Note 23).

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

s) *Termination benefits*

Termination benefits are recognised when there is a detailed formal plan identifying the basic changes to be made, provided that implementation of the plan has begun, its main features have been publicly announced or objective facts concerning its implementation have been disclosed. At 2012 and 2011 year-end there were no objective reasons for, and circumstances had not arisen requiring, the recognition of material provisions in this connection.

t) *Income tax*

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

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

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

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

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

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

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

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

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

u) Residual maturity periods and average interest rates

The analysis of the maturities of the balances of certain items in the consolidated balance sheets at 31 December 2012 and 2011 and of the average annual interest rates in 2011 and 2010 is provided in Note 47.

v) Consolidated statement of recognised income and expense

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

Accordingly, this statement presents:

a. Consolidated profit for the year.

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

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

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

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

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

The changes in income and expenses recognised in consolidated equity under "Valuation Adjustments" are broken down as follows:

a. Revaluation gains (losses): includes the amount of the income, net of the expenses incurred in the year, recognised directly in consolidated equity. The amounts recognised under this line item in the year remain there, even if in the same year they are transferred to the income statement or are reclassified to another line item.

b. Amounts transferred to income statement: includes the amount of the revaluation gains and losses previously recognised in consolidated equity, albeit in the same year, which are recognised in the consolidated income statement.

c. Amount transferred to initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognised in consolidated equity, albeit in the same year, which are recognised in the initial carrying amount of the assets or liabilities as a result of cash flow hedges.

d. Other reclassifications: includes the amount of the transfers made in the year between valuation adjustment items in accordance with current regulations.

These amounts are presented gross and, except as indicated above for the items relating to valuation adjustments of entities accounted for using the equity method, the related tax effect is recognised under "Income Tax" in this statement.

w) Consolidated statement of changes in total equity

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

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

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

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

x) Consolidated statements of cash flows

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

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

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

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

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

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

- Net cash balances and net balances with central banks, which are recognised under “Cash and Balances with Central Banks” in the consolidated balance sheet and amounted to EUR 1,387,071 thousand at 31 December 2012 (31 December 2011: EUR 857,339 thousand).

- Balances receivable on demand from credit institutions other than central banks, which are recognised under “Loans and Receivables - Loans and Advances to Credit Institutions” in the consolidated balance sheet and amounted to EUR 154,706 thousand at 31 December 2012 (31 December 2011: EUR 2,097,054 thousand) (see Note 6).

3. Santander Consumer Finance Group

a) Santander Consumer Finance, S.A.

The Bank is the parent of the Santander Consumer Finance Group (see Note 1). Following are the condensed balance sheets, income statements, statements of changes in equity and statements of cash flows of the Bank for 2012 and 2011:

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011

(Thousands of Euros)

ASSETS	2012	2011	LIABILITIES AND EQUITY	2012	2011
CASH AND BALANCES WITH CENTRAL BANKS	9,050	40,936	**LIABILITIES**		
FINANCIAL ASSETS HELD FOR TRADING	20,349	38,758	FINANCIAL LIABILITIES HELD FOR TRADING	24,759	40,688
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS			FINANCIAL LIABILITIES AT AMORTISED COST	14,460,918	17,653,126
LOANS AND RECEIVABLES	18,067,544	21,284,936	CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-
HELD-TO-MATURITY INVESTMENTS	-	-	HEDGING DERIVATIVES	50,025	43,479
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-	LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	-	-
HEDGING DERIVATIVES	104,131	89,495	PROVISIONS	63,487	58,863
NON-CURRENT ASSETS HELD FOR SALE	9,984	31,050	TAX LIABILITIES	252,738	204,134
INVESTMENTS	4,247,343	4,503,998	OTHER LIABILITIES	21,218	15,349
INSURANCE CONTRACTS LINKED TO PENSIONS	-	22,027	**TOTAL LIABILITIES**	**14,873,145**	**18,015,639**
TANGIBLE ASSETS	40	42			
INTANGIBLE ASSETS	1,123	1,622	SHAREHOLDERS' EQUITY	7,978,479	8,264,514
TAX ASSETS	361,649	237,739	VALUATION ADJUSTMENTS	(28,420)	(28,444)
OTHER ASSETS	1,991	1,106	**TOTAL EQUITY**	**7,950,059**	**8,236,070**
TOTAL ASSETS	**22,823,204**	**26,251,709**	**TOTAL LIABILITIES AND EQUITY**	**22,823,204**	**26,251,709**
MEMORANDUM ITEMS:					
CONTINGENT LIABILITIES	716,420	1,005,344			
CONTINGENT COMMITMENTS	9,933,939	7,481,336			

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011
(Thousands of Euros)

	Income/(Expenses)	
	2012	2011
INTEREST AND SIMILAR INCOME	578,833	565,403
INTEREST EXPENSE AND SIMILAR CHARGES	(277,590)	(419,604)
NET INTEREST INCOME	**301,243**	**145,799**
INCOME FROM EQUITY INSTRUMENTS	267,279	360,222
FEE AND COMMISSION INCOME	41,387	38,916
FEE AND COMMISSION EXPENSE	(52,839)	(48,300)
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES (net)	(432)	(33,967)
EXCHANGE DIFFERENCES (net)	193	(1,935)
OTHER OPERATING INCOME	1,725	248
OTHER OPERATING EXPENSES	(2,423)	(2,922)
GROSS INCOME	**556,133**	**458,061**
ADMINISTRATIVE EXPENSES	(35,630)	(28,739)
DEPRECIATION AND AMORTISATION CHARGE	(1,044)	(2,492)
PROVISIONS (net)	(8,278)	(8,643)
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (net)	(57,289)	18,524
PROFIT FROM OPERATIONS	**453,892**	**436,711**
IMPAIRMENT LOSSES ON OTHER ASSETS (net)	(399,857)	(38,000)
GAINS (LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE	-	-
GAINS FROM BARGAIN PURCHASES ARISING IN BUSINESS COMBINATIONS	-	-
GAINS (LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS	(13,175)	(45,216)
PROFIT BEFORE TAX	**40,860**	**353,495**
INCOME TAX	73,159	19,604
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**114,019**	**373,099**
PROFIT/LOSS FROM DISCONTINUED OPERATIONS (net)	-	-
PROFIT FOR THE YEAR	**114,019**	**373,099**

SANTANDER CONSUMER FINANCE, S.A.

STATEMENTS OF CHANGES IN EQUITY

CONDENSED STATEMENTS OF RECOGNISED INCOME AND EXPENSE
FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011
(Thousands of Euros)

	2012	2011
PROFIT FOR THE YEAR	**114,019**	**373,099**
OTHER RECOGNISED INCOME AND EXPENSE	**24**	**(17,333)**
AVAILABLE-FOR-SALE FINANCIAL ASSETS	-	-
CASH FLOW HEDGES	34	(24,761)
HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS	-	-
EXCHANGE DIFFERENCES	-	-
NON-CURRENT ASSETS HELD FOR SALE	-	-
ACTUARIAL GAINS (LOSSES) ON PENSION PLANS	-	-
OTHER RECOGNISED INCOME AND EXPENSE	-	-
INCOME TAX	(10)	7,428
TOTAL RECOGNISED INCOME AND EXPENSE	**114,043**	**355,766**

SANTANDER CONSUMER FINANCE, S.A.

STATEMENTS OF CHANGES IN EQUITY

CONDENSED STATEMENTS OF CHANGES IN TOTAL EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(Thousands of Euros)

	SHAREHOLDERS' EQUITY									
	Share Capital	Share Premium	Reserves	Other Equity Instruments	Less: Treasury Shares	Profit for the Year	Less: Dividends and Remuneration	Total Shareholders' Equity	VALUATION ADJUSTMENTS	TOTAL EQUITY
Ending balance at 31 December 2011	**4,353,639**	**1,139,990**	**2,397,786**	**-**	**-**	**373,099**	**-**	**8,264,514**	**(28,444)**	**8,236,070**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**4,353,639**	**1,139,990**	**2,397,786**	**-**	**-**	**373,099**	**-**	**8,264,514**	**(28,444)**	**8,236,070**
Total recognised income and expense	**-**	**-**	**-**	-	**-**	**114,019**	**-**	**114,019**	**24**	**114,043**
Other changes in equity	**310,000**	**-**	**(236,951)**	-	**-**	**(373,099)**	**(100,004)**	**(400,054)**	**-**	**(400,054)**
Capital increases	310,000	-	(15)	-	-	-	-	309,985	-	309,985
Distribution of dividends	-	-	(300,027)	-	-	(310,008)	(100,004)	(710,039)	-	(710,039)
Transfers between equity items	-	-	63,091	-	-	(63,091)	-	-	-	-
Ending balance at 31 December 2012	**4,663,639**	**1,139,990**	**2,160,835**	**-**	**-**	**114,019**	**(100,004)**	**7,978,479**	**(28,420)**	**7,950,059**

	SHAREHOLDERS' EQUITY									
	Share Capital	Share Premium	Reserves	Other Equity Instruments	Less: Treasury Shares	Profit for the Year	Less: Dividends and Remuneration	Total Shareholders' Equity	VALUATION ADJUSTMENTS	TOTAL EQUITY
Ending balance at 31 December 2010	**3,853,639**	**1,139,990**	**2,292,940**	**-**	**-**	**454,866**	**(350,008)**	**7,391,427**	**(11,111)**	**7,380,316**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**3,853,639**	**1,139,990**	**2,292,940**	**-**	**-**	**454,866**	**(350,008)**	**7,391,427**	**(11,111)**	**7,380,316**
Total recognised income and expense	**-**	**-**	**-**	-	**-**	**373,099**	**-**	**373,099**	**(17,333)**	**355,766**
Other changes in equity	**500,000**	**-**	**104,846**	-	**-**	**(454,866)**	**350,008**	**499,988**	-	**499,988**
Capital increases	500,000	-	(12)	-	-	-	-	499,888	-	499,988
Distribution of dividends	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	104,858	-	-	(454,866)	350,008	-	-	-
Ending balance at 31 December 2011	**4,353,639**	**1,139,990**	**2,397,786**	**-**	**-**	**373,099**	**-**	**8,264,514**	**(28,444)**	**8,236,070**

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(Thousands of Euros)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES	**86,112**	**(249,083)**
Profit for the year	114,019	373,099
Adjustments made to obtain the cash flows from operating activities	406,353	57,279
Net increase/decrease in operating assets	(3,181,775)	(704,952)
Net increase/decrease in operating liabilities	(3,616,052)	(1,384,243)
Income tax recovered/paid	17	(170)
CASH FLOWS FROM INVESTING ACTIVITIES	**(108,832)**	**(302,963)**
Payments	143,745	328,325
Proceeds	34,913	25,362
CASH FLOWS FROM FINANCING ACTIVITIES	**(23)**	**499,988**
Payments	310,023	12
Proceeds	310,000	500,000
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**-**	**-**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(22,743)**	**(52,058)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**46,355**	**98,413**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**23,612**	**46,355**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	-	-
Cash equivalents at central banks	9,050	40,936
Other financial assets	14,562	5,419
Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year	**23,612**	**46,355**

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

b) *Acquisitions and disposals*

The most significant acquisitions and disposals of investments in Group entities and other relevant corporate transactions in 2012 and 2011 were as follows:

Zagiel S.A. (Poland)

On 31 July 2012, the Polish subsidiary Santander Consumer Finanse S.A. acquired all the share capital of Zagiel S.A., a financial intermediary specialising in lending to private borrowers, from the Belgian bank KBC Bank N.V., for PLN 10 million (approximately EUR 2,455 thousand). This transaction gave rise to goodwill amounting to EUR 433 thousand, which was recognised under "Intangible Assets - Goodwill" in the accompanying consolidated balance sheet at 31 December 2012 (see Note 16).

Santander Consumer Finance a.s. (Czech Republic)

On 24 September 2012, the subsidiaries Santander Consumer Bank AG and Santander Consumer Holding GmbH resolved to sell all the shares of Santander Consumer Finance a.s. (Czech Republic) to non-Group third parties for CZK 148 million (approximately EUR 5,851 thousand), giving rise to a gain of EUR 4,962 thousand for the Group which is recognised under "Profit from Discontinued Operations" in the accompanying consolidated income statement for 2012 (see Note 46).

Santander Consumer Finanse S.A. (Poland)

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

Skandinaviska Enskilda Banken (SEB Germany)

On 12 July 2010, the Santander Group announced an agreement with Skandinaviska Enskilda Banken (SEB Group) for the purchase by the German subsidiary Santander Consumer Bank AG of SEB's commercial banking business in Germany. As a result of the acquisition of this business, which comprised 173 branches and provided services to a million customers, the number of Santander Consumer Bank AG branches in Germany almost doubled and the Group's headcount increased by approximately 2,200. Once the relevant regulatory approvals had been obtained, the transaction was completed on 31 January 2011 for EUR 494 million (EUR 555 million less certain adjustments agreed upon by the parties to the acquisition price), subject to such adjustments as might arise following a review of the net assets acquired.

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

	Millions of Euros
Cash	61
Loans and advances to customers (loans) (*)	8,185
Tangible assets	16
Other assets	69
	8,331
Financial liabilities at amortised cost-	
Deposits from credit institutions	710
Customer deposits	4,486
Other financing	2,545
	7,741
Provisions and other liabilities (**)	241
	7,982
Fair value of net assets acquired	349
Goodwill (***)	**145**

(*) Of which approximately 83% related to mortgage loans and the remainder to consumer loans. The estimate of fair value included impairment losses of EUR 126 million on the acquired loans.

(**) Of which approximately EUR 62 million and EUR 103 million related to pension funds and accounts payable and provisions for customer claims (see Note 23).

(***)Belongs to the Santander Consumer Germany/Austria cash-generating unit (see Note 16).

The amounts contributed by the acquired business to gross income and profit before tax in the consolidated income statement for 2011 amounted to EUR 295 million and EUR -58 million, respectively.

Santander Consumer Renting, S.L.

On 26 July 2011, the subsidiary Santander Consumer, E.F.C., S.A. acquired 40% of the share capital of Santander Consumer Renting, S.L. from SAG Gest - Soluções Automóvel Globais, S.G.P.S., S.A. for EUR 20,896 thousand. The difference between the purchase price and the amount recognised under "Non-Controlling Interests" in the balance sheet relating to the equity of this investee owned by non-controlling shareholders at the transaction date amounted to EUR 21,080 thousand, which was recognised under "Shareholders' Equity - Reserves - Accumulated Reserves" in the balance sheet at 31 December 2011. At 31 December 2012 and 2011, Santander Consumer Renting, S.L. was wholly owned by Group entities.

Multirent - Aluguer e Comércio de Automóveis, S.A.

On 23 March 2011, the subsidiary Santander Consumer Renting, S.L. resolved to sell all the shares of Multirent - Aluguer e Comércio de Automóveis, S.A. to non-Group third parties for EUR 22,000 thousand, giving rise to a gain of EUR 370 thousand for the Group 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 (see Note 44).

Santander Consumer Bank, S.A. (Poland)

On 1 March 2011, the merger by absorption of Santander Consumer Bank, S.A. (absorbing company) and AIG Bank Polska, S.A. (absorbed company) was executed.

Capital increases

In 2012 and 2011 certain investees carried out capital increases which were fully subscribed and paid, the detail being as follows:

	Millions of Euros (*)	
	2012	2011
Transolver Finance, E.F.C., S.A.	3	-
Santander Consumer Bank, S.p.A. (Italy)	40	215
Unifin, S.p.A. (Italy)	30	-
Santander Consumer Bank A.S. (Norway)	41	113
Santander Consumer Finance Benelux B.V. (The Netherlands)	60	-
Santander Consumer Finance Zrt. (Hungary)	3	-
Santander Consumer Bank, AG (Germany)	325	1,150
Santander Consumer Leasing GmbH (Germany)	-	14
Santander Consumer Finanzia S.r.l. (Italy)	-	55
Santander Consumer Finanse S.A. (Poland)	29	-
	531	**1,547**

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

Notifications of acquisitions of investments

There were no acquisitions of ownership interests in 2012 which should have been disclosed in the notes to the consolidated financial statements in accordance with Article 155 of the Spanish Limited Liability Companies Law or Article 53 of Securities Market Law 24/1988.

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 2012 that the Board of Directors will propose for approval by the shareholders at the Annual General Meeting and the distribution of the 2011 net profit approved by the shareholders at the Annual General Meeting on 16 April 2012 are as follows:

	Thousands of Euros	
	2012	2011
Dividends	100,004	310,008
To legal reserve	11,402	37,310
To voluntary reserves	2,613	25,781
Net profit for the year (Note 3)	**114,019**	**373,099**

On 26 January 2012, the Bank distributed an interim dividend out of 2011 profit amounting to EUR 310,008 thousand, which was approved by the Board of Directors at its meeting held on 26 January 2012. The provisional accounting statement prepared by the Bank's directors in accordance with legal requirements evidencing the existence of sufficient liquidity for the distribution of the interim dividend was included in Note 4 to the Group's consolidated financial statements for 2011.

The shareholders at the Annual General Meeting of the Bank on 10 December 2012 resolved to distribute a dividend out of voluntary reserves of EUR 300,027 thousand, subject to approval by the Spanish Ministry of Economy and Competitiveness, which was granted on 28 December 2012. This dividend had not yet been paid at 2012 year-end and, accordingly, it is recognised under "Financial Liabilities at Amortised Cost - Other Financial Liabilities" in the accompanying consolidated balance sheet at 31 December 2012 (see Note 22).

Also, at its meeting on 13 December 2012, the Board of Directors of the Bank resolved to distribute an interim dividend out of 2012 profit of EUR 100,004 thousand. This dividend had not yet been paid at 2012 year-end and, accordingly, it is recognised under "Financial Liabilities at Amortised Cost - Other Financial Liabilities" in the accompanying consolidated balance sheet at 31 December 2012 (see Note 22).

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

	Thousands of Euros
	30/11/12
Profit before tax	409,483
Less:	
Estimated income tax	(38,119)
Appropriation to legal reserve	(37,136)
Distributable profit	**334,228**
Interim dividend to be distributed	**100,004**
Gross dividend per share (euros)	**0.06**

b) Basic earnings per share

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

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

At 31 December 2012 and 2011, there were no share option plans on Bank shares or issues convertible into Bank shares conferring privileges or rights which might, due to any contingency, make them convertible into shares. Therefore, there is no dilutive effect on net profit and diluted earnings per share coincide with basic earnings per share.

Accordingly:

	Thousands of Euros	
	2012	2011
Net profit for the year attributable to the Parent (in thousands of euros)	279,983	435,394
Of which:		
From discontinued operations:	*(6,944)*	*(24,420)*
Weighted average number of shares outstanding	1,533,371,308	1,379,066,717
Basic and diluted earnings per share (euros)	0.18	0.32
Of which:		
From discontinued operations	*(0.01)*	*(0.02)*

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

a) Bylaw-stipulated emoluments and other fees

In 2012 and 2011 the members of the Board of Directors did not earn any bylaw-stipulated emoluments or attendance fees.

In 2012 the Bank's directors received approximately EUR 14,273 thousand from Banco Santander, S.A. (2011: approximately EUR 16,782 thousand), basically in respect of fixed and variable remuneration earned by certain directors for discharging executive duties at Banco Santander, S.A. and in their capacity as members of the Boards of Directors of other Santander Group entities. Also, the Bank's directors received EUR 32 thousand in 2012 (2011: EUR 15 thousand) from a Group subsidiary in this connection. The variable remuneration of certain directors is subject to a three-year deferral period for payment thereof, as appropriate, in cash and/or in shares of Banco Santander, S.A., provided that certain conditions are met.

The remuneration in kind paid to the Bank's directors, mainly in respect of share option plans, amounted to approximately EUR 1,184 thousand in 2012 (2011: approximately EUR 2,479 thousand) and was paid in full by other Santander Group entities.

b) Post-employment and other long-term benefits

The Santander Group's supplementary pension obligations to its current and retired employees include the obligations to current and former directors of the Bank who discharge (or have discharged) executive functions thereat. The total accrued pension obligations to these directors, together with the sum insured under life insurance policies and other defined benefit obligations, amounted to EUR 33,972 thousand at 31 December 2012 (31 December 2011: EUR 72,165 thousand). This amount is covered basically by provisions recorded at Santander Group entities.

In 2012, as part of the measures implemented by the Santander Group to mitigate the risks associated with ongoing defined-benefit pension obligations with certain employees, the contracts with certain Santander Group executives, including the Bank's directors' defined-benefit pension arrangements, were amended for them to be converted to a defined-contribution pension plan, which was externalised to the subsidiary Santander Seguros y Reaseguros, Compañía Aseguradora, S.A. Under the new scheme, the directors qualify for a pension benefit upon retirement, which is calculated on the basis of the contributions made, replacing the right hitherto held by them to receive a supplementary pension benefit upon retirement, and expressly excluding any obligation of Banco Santander, S.A. to its executives, other than the conversion of the current scheme to the new pension plan and, as the case may be, the annual contributions payable described in this note. In case of pre-retirement, the executives who have not exercised the option referred to in the preceding paragraph are eligible for an annual emolument until the date of retirement. The market value of the defined-benefit pension obligations on the conversion date amounted to EUR 37,933 thousand, which were contributed to the new pension plan.

The contributions made for the Bank's directors to pension plans amounted to EUR 952 thousand in 2012, of which EUR 330 thousand related to defined-benefit pension plans and EUR 622 thousand to defined-contribution pension plans (2011: EUR 2,103 thousand, of which EUR 1,553 thousand related to defined-benefit pension plans and EUR 550 thousand to defined-contribution pension plans). These contributions were made by other Santander Group entities.

The pension payments made to former members of the Bank's Board of Directors amounted to EUR 337 thousand in both 2012 and 2011.

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

The detail of the Banco Santander, S.A. share options granted to directors of the Bank in 2012 and 2011 is as follows:

	Options at 1 January 2011	Options Granted in 2011 (number)	Shares Delivered in 2011 (number)	Options Cancelled in 2011 (number)	Options at 31 December 2011	Options Granted in 2012 (number)	Shares Delivered in 2012 (number)	Options Cancelled in 2012 (number)	Options at 31 December 2012	Grant Date	Share Delivery Deadline
Incentive Plan (I11)											
Mr. Javier San Félix García	36,000	-	30,960	5,040	-	-	-	-	-	21/06/08	31/07/11
Mr. José A. Álvarez Álvarez	59,361	-	51,050	8,311	-	-	-	-	-	21/06/08	31/07/11
Mr. Juan Rodríguez Inciarte	50,555	-	43,477	7,078	-	-	-	-	-	21/06/08	31/07/11
Mr. José María Espí Martínez	54,801	-	47,129	7,672	-	-	-	-	-	21/06/08	31/07/11
Mr. Ernesto Zulueta Benito	11,500	-	9,890	1,610	-	-	-	-	-	21/06/08	31/07/11
Ms. Inés Serrano González	17,500	-	15,050	2,450	-	-	-	-	-	21/06/08	31/07/11
Ms. Magdalena Salarich Fernández de Valderrama	69,837	-	60,060	9,777	-	-	-	-	-	21/06/08	31/07/11
Mr. David Turiel López	14,000	-	12,040	1,960	-	-	-	-	-	21/06/08	31/07/11
	313,554	-	**269,656**	**43,898**	-	-	-	-	-		
Incentive Plan (I12)											
Mr. Javier San Félix García	28,000	-	-	-	28,000	-	8,400	19,600	-	19/06/09	31/07/12
Mr. José A. Álvarez Álvarez	71,530	-	-	-	71,530	-	21,459	50,071	-	19/06/09	31/07/12
Mr. Juan Rodríguez Inciarte	60,904	-	-	-	60,904	-	18,271	42,633	-	19/06/09	31/07/12
Mr. José María Espí Martínez	66,035	-	-	-	66,035	-	19,811	46,224	-	19/06/09	31/07/12
Mr. Ernesto Zulueta Benito	13,800	-	-	-	13,800	-	4,140	9,660	-	19/06/09	31/07/12
Ms. Inés Serrano González	21,000	-	-	-	21,000	-	6,300	14,700	-	19/06/09	31/07/12
Ms. Magdalena Salarich Fernández de Valderrama	84,154	-	-	-	84,154	-	25,246	58,908	-	19/06/09	31/07/12
Mr. David Turiel López	16,800	-	-	-	16,800	-	5,040	11,760	-	19/06/09	31/07/12
	362,223	**-**	**-**	**-**	**362,223**	**-**	**108,667**	**253,556**	**-**		
Incentive Plan (I13)											
Mr. Javier San Félix García	-	28,840	-	-	28,840	-	-	-	28,840	11/06/10	31/07/13
Mr. José A. Álvarez Álvarez	-	71,530	-	-	71,530	-	-	-	71,530	11/06/10	31/07/13
Mr. Juan Rodríguez Inciarte	-	60,904	-	-	60,904	-	-	-	60,904	11/06/10	31/07/13
Mr. José María Espí Martínez	-	66,035	-	-	66,035	-	-	-	66,035	11/06/10	31/07/13
Mr. Ernesto Zulueta Benito	-	14,214	-	-	14,214	-	-	-	14,214	11/06/10	31/07/13
Ms. Inés Serrano González	-	21,630	-	-	21,630	-	-	-	21,630	11/06/10	31/07/13
Ms. Magdalena Salarich Fernández de Valderrama	-	84,154	-	-	84,154	-	-	-	84,154	11/06/10	31/07/13
Mr. David Turiel López	-	17,304	-	-	17,304	-	-	-	17,304	11/06/10	31/07/13
	-	**364,611**	-	-	**364,611**	-	-	-	**364,611**		

Note 41 to the accompanying consolidated financial statements includes a brief description of these incentive plans.

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

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

The number of shares for the second and third cycles detailed in the foregoing table accrued to the aforementioned directors in February 2012 and March 2013, respectively, once compliance with the conditions to receive these shares had been substantiated. The cost of this remuneration was borne in full by other Santander Group entities.

A description of the incentive plans available to certain Santander Group executives, including certain Bank directors, is contained in the Santander Group's consolidated financial statements for 2012.

d) Loans and deposits

At 2012 year-end, the Group was exposed to direct risks with its directors in connection with loans, credits or guarantees provided amounting to EUR 37 thousand (2011 year-end: no direct exposure) (see Note 49). At the end of 2012 and 2011, the directors did not hold any customer deposits with the Group.

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

e) Senior managers

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

The remuneration received by the Bank's non-director senior managers (ten persons in 2012 and 2011) amounted to EUR 3,240 thousand in 2012 (2011: EUR 3,862 thousand) and was paid in full by other Santander Group entities.

The remuneration in kind paid to the Bank's senior managers (non-directors) totalled approximately EUR 154 thousand in 2012 (2011: EUR 661 thousand), which were paid by other Santander Group entities.

In 2012 contributions amounting to EUR 199 thousand were made to defined contribution pension plans for the Bank's senior managers (non-directors) (2011: EUR 202 thousand). These contributions were made by other Santander Group entities. No amounts were paid in this connection in 2012.

The detail, by cycle, of the share options granted to the Bank's senior managers (non-directors) at 31 December 2012 and 2011 is as follows:

	Options at 31 December 2012	Options at 31 December 2011
Incentive Plan (I11)	-	-
Incentive Plan (I12)	-	123,350
Incentive Plan (I13)	133,686	133,686
Incentive Plan (I14)	80,528	80,528
	214,214	**337,564**

The Group's direct risk exposure with senior managers (non-directors) amounted to EUR 12 thousand and EUR 13 thousand at 31 December 2012 and 2011, respectively, all of which was direct risk exposure with the Bank (see Note 49). It should also be noted that the senior managers held deposits at Group entities totalling EUR 106 thousand at 31 December 2012 (31 December 2011: EUR 0) (see Note 49).

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

f) Termination benefits

The Bank's directors have indefinite-term contracts. Executive directors whose contracts are terminated voluntarily or due to breach of duties are not entitled to receive any economic compensation. Additionally, certain directors 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 a provision for pensions and similar obligations and as a staff cost only when the employment relationship between Banco Santander, S.A. and its executives is terminated before the normal retirement date.

Also, if the director Mr. Juan Rodríguez Inciarte takes pre-retirement, he will receive an annual emolument of EUR 987 thousand (31 December 2011: EUR 948 thousand), in the form of an annuity or a lump sum (i.e. in a single payment). The cost of this emolument would be borne by other Santander Group entities.

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

In accordance with the requirements of Article 229 of the Consolidated Spanish Limited Liability Companies Law, following is a detail of the investments held by the directors and persons related to them, as defined in Article 231 of the aforementioned Law, in the share capital of entities engaging in banking, financing or lending in 2012; and of the management or governing functions, if any, that they discharged thereat:

Director	Corporate Name	Line of Business	Ownership Interest	Functions
Mr. Antonio Escámez Torres	Banco Santander, S.A.	Financial institution	0.008%	Director (*)
	Open Bank, S.A.	Financial institution	-	Chairman
	Banco de Valencia, S.A.	Financial institution	Less than 0.001%	-
	Attijariwafa Bank, S.A. (Morocco)	Financial institution	Less than 0.001%	Deputy Chairman
	Santander UK plc.	Financial institution	-	Director
Mr. Juan Rodríguez Inciarte	Banco Santander, S.A.	Financial institution	0.014%	Director
	Banco Bilbao Vizcaya Argentaria, S.A.	Financial institution	Less than 0.001%	-
	Wells Fargo & Co.	Financial institution	Less than 0.001%	-
	Santander UK plc.	Financial institution	-	Deputy Chairman
	Banco Banif, S.A.	Financial institution	-	Director
Ms. Magdalena Salarich Fernández de Valderrama	Banco Santander, S.A.	Financial institution	0.002%	General Manager
	Banco Banif, S.A.	Financial institution	-	Director
Mr. José Antonio Álvarez Álvarez	Banco Santander, S.A.	Financial institution	0.001%	General Manager
	Banco Santander (Brasil) S.A.	Financial institution	-	Director
	Santander de Titulización, S.G.F.T.	Management company	-	Chairman
	Bank of Zachodni WBK S.A. (Poland)	Financial institution	-	Director
Mr. José María Espí Martínez	Banco Santander, S.A.	Financial institution	0.004%	General Manager
	Santander Lease, S.A., E.F.C.	Financial institution	-	Chairman
	Unión de Créditos Inmobiliarios, E.F.C., S.A.	Financial institution	-	Chairman
	U.C.I., S.A.	Financial institution	-	Director
Mr. David Turiel López	Banco Santander, S.A.	Financial institution	Less than 0.001%	-
	Citigroup, Inc.	Financial institution	Less than 0.001%	-
	The Royal Bank of Scotland Group, Plc	Financial institution	Less than 0.001%	-
Mr. Javier San Félix García	Banco Santander, S.A.	Financial institution	Less than 0.001%	-
	Santander Consumer UK plc	Financial institution	-	Chairman (*)
	Banco Español de Crédito, S.A.	Financial institution	-	CEO
Mr. Bruno Montalvo Wilmot	Santander Consumer UK plc	Financial institution	-	Chairman
	Banco Santander, S.A.	Financial institution	Less than 0.001%	-
Mr. Ernesto Zulueta Benito	Santander Consumer USA Inc.	Financial institution	-	Director (*)
	Banco Santander, S.A.	Financial institution	Less than 0.001%	-

(*) Resigned as a director in 2012.

Director	Corporate Name	Line of Business	Ownership Interest	Functions
Ms. Inés Serrano González	Transolver Finance E.F.C., S.A.	Financial institution	-	Individual representative of Santander Consumer Finance, S.A.
	Banco Santander, S.A.	Financial institution	Less than 0.001%	-

6. Loans and advances to credit institutions

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

	Thousands of Euros	
	2012	2011
Type:		
Reciprocal accounts	154,706	2,097,054
Time deposits	5,032,741	6,669,360
Other accounts	1,248,821	387,771
	6,436,268	9,154,185
Currency:		
Euro	5,982,499	9,011,398
Foreign currency	453,769	142,787
	6,436,268	9,154,185
Add - Valuation adjustments	16,348	36,149
Of which:		
Accrued interest	*16,410*	*36,348*
Fees and commissions	*(62)*	*(199)*
	6,452,616	**9,190,334**

Note 47 contains a detail of the terms to maturity of these assets at 31 December 2012 and 2011 and of the related average interest rates in the years then ended.

Most of the loans and advances to credit institutions relate to balances with associates and Santander Group entities (see Note 49).

7. Debt instruments

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

	Thousands of Euros	
	2012	2011
Classification:		
Loans and receivables	1,419,943	497,826
Available-for-sale financial assets	213,849	192,326
	1,633,792	**690,152**
Type:		
Foreign government debt securities	173,052	99,337
Issued by financial institutions	809,313	101,765
Other fixed-income securities	651,427	489,050
	1,633,792	**690,152**
Currency:		
Euro	1,461,976	552,837
Foreign currency	171,816	137,315
	1,633,792	**690,152**

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

"Other Fixed-Income Securities" in the foregoing table includes asset-backed bonds issued by Holmes Masters Issuer Plc. and purchased by the subsidiary Santander Consumer Bank AG (Germany) for EUR 650,000 thousand. The asset-backed bonds mature on 15 October 2054 and bear interest at 3M Euribor + 0.75%.

At 31 December 2012 and 2011, none of the debt instruments held by the Group was assigned to own or third-party commitments.

Note 47 contains a detail of the terms to maturity of these assets at 2012 and 2011 year-end and of the related average interest rates in 2012 and 2011.

8. Equity instruments

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

	Thousands of Euros	
	2012	2011
Classification:		
Available-for-sale financial assets	3,141	1,313
	3,141	**1,313**
Type:		
Shares of foreign companies	3,141	1,313
	3,141	**1,313**
Currency:		
Euro	2,140	522
Foreign currency	1,001	791
	3,141	**1,313**

The changes in 2012 and 2011 in "Available-for-Sale Financial Assets - Equity Instruments" in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2012	2011
Balance at beginning of year	1,313	1,711
Net additions (disposals)	1,441	(526)
Valuation adjustments	387	128
Balance at end of year	**3,141**	**1,313**

9. Trading derivatives (assets and liabilities)

The detail, by type of inherent risk, of the fair value of the trading derivatives arranged by the Group at 31 December 2012 and 2011 is as follows:

	Thousands of Euros			
	2012		2011	
	Asset Balance	Liability Balance	Asset Balance	Liability Balance
Interest rate risk	92,573	97,962	122,323	128,877
Foreign currency risk	-	722	-	6,254
	92,573 (*)	**98,684 (*)**	**122,323**	**135,131**

(*) Of which EUR 78,394 thousand and EUR 83,772 thousand of asset and liability balances, respectively, relate to amounts held with Santander Group companies (31 December 2011: EUR 100,296 thousand and EUR 135,131 thousand of asset and liability balances, respectively, related to Santander Group companies) (see Note 49).

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

10. Loans and advances to customers

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

	Thousands of Euros	
	2012	2011
By loan type and status:		
Commercial credit	47,645	174,818
Secured loans	10,393,744	8,614,382
Other term loans	38,967,202	41,447,363
Finance leases	3,447,141	3,368,220
Receivable on demand and other	3,550,223	2,785,686
Impaired assets	2,312,311	2,359,536
	58,718,266	58,750,005
By borrower sector:		
Public sector - Spain	134	307
Individuals	49,523,917	51,547,511
Energy	162,860	2,342
Construction	272,108	382,441
Manufacturing	1,478,808	1,433,107
Services	4,209,726	3,669,551
Other sectors	3,070,713	1,714,746
	58,718,266	58,750,005
By geographical area:		
Spain and Portugal	7,884,450	8,413,770
Italy	6,633,469	7,539,895
Germany and Austria	31,815,948	31,578,446
Scandinavia	8,087,016	7,002,826
Other	4,297,383	4,215,068
	58,718,266	58,750,005
By interest rate formula:		
Fixed rate	45,218,990	45,823,416
Floating rate	13,499,276	12,926,589
	58,718,266	58,750,005
By currency:		
Euro	48,702,496	49,946,571
Foreign currency	10,015,770	8,803,434
	58,718,266	58,750,005
Less - Valuation adjustments	(2,105,042)	(2,140,806)
Of which:		
Impairment losses	*(2,526,116)*	*(2,574,306)*
Accrued interest	*65,801*	*57,994*
Other	*355,273*	*375,506*
	56,613,224	**56,609,199**

Note 47 contains a detail of the terms to maturity of loans and advances to customers at 31 December 2012 and 2011 and of the related average annual interest rates in the years then ended.

On 26 April 2012, the Bank subscribed 3,425 mortgage participation certificates issued by Banco Santander S.A. for EUR 416,625 thousand which were recognised under "Loans and Receivables - Loans and Advances to Customers" in the accompanying consolidated balance sheet at 31 December 2012. These mortgage participation certificates relate to loans maturing at between 1 and 39 years and earn annual interest of between 1.90% and 6.82%.

At 31 December 2012 and 2011, there were no loans and advances to customers for material amounts without fixed maturity dates. Loans and advances to customers assigned to own or third-party commitments totalled EUR 1,350,000 thousand at both 31 December 2012 and 2011 (see Notes 19 and 20).

Impairment losses

The changes in "Impairment Losses" in the foregoing table in 2012 and 2011 were as follows:

	Thousands of Euros	
	2012	2011
Balance at beginning of year	2,574,306	2,854,707
Net impairment losses charged to consolidated profit for the year	920,109	975,255
Of which:		
Identified losses	*944,710*	*883,546*
Inherent losses	*(24,601)*	*91,709*
Changes in the scope of consolidation	(9,376)	118,487
Write-off of impaired balances against recorded impairment allowance	(947,605)	(1,338,777)
Exchange differences and other	(11,318)	(35,366)
Balance at end of year	**2,526,116**	**2,574,306**
Of which:		
By method of assessment-		
Identified losses	*1,662,616*	*1,695,100*
Inherent losses	*863,500*	*879,206*
By geographical location of risk-		
Spain	*403,566*	*456,364*
Other	*2,122,550*	*2,117,942*

Previously written-off assets recovered in 2012 amounted to EUR 139,091 thousand (2011: EUR 121,951 thousand) and are presented as a deduction from the balance of "Impairment Losses on Financial Assets - Loans and Receivables" in the accompanying consolidated income statements.

In 2012 the Bank sold a portfolio of mortgage-backed doubtful assets for EUR 15,533 thousand, the outstanding balance of which, net of allowances, amounted to EUR 42,132 thousand at the date of sale. The Bank incurred a loss on this sale amounting to EUR 26,599 thousand which was recognised under "Impairment Losses on Financial Assets (Net)" in the accompanying consolidated income statement for 2012.

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

Impaired assets

The changes in 2012 and 2011 in the balance of the financial assets classified as loans and receivables and considered to be impaired due to credit risk at 31 December 2012 and 2011 were as follows:

	Thousands of Euros	
	2012	2011
Balance at beginning of year	2,359,536	2,824,512
Additions net of recoveries	880,553	717,019
Written-off assets	(947,605)	(1,338,777)
Exchange differences and other	19,827	156,782
Balance at end of year	**2,312,311**	**2,359,536**

Following is a detail of the financial assets classified as loans and receivables and considered to be impaired due to credit risk at 31 December 2012 and 2011, classified by geographical location of risk and by age of the oldest past-due amount:

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

2011						
	Thousands of Euros					
	With no Past-Due Balances or Less than 3 Months Past Due	With Balances Past Due by				
		0 to 6 Months	6 to 9 Months	9 to 12 Months	More than 12 Months	Total
Spain and Portugal	102,875	75,328	50,197	48,668	126,414	403,482
Germany and Austria	7,864	335,667	102,286	117,190	691,292	1,254,299
Italy	-	121,560	38,335	15,085	89,800	264,780
Scandinavia	14,015	37,199	37,951	42,738	522	132,425
Other	23,337	33,797	15,353	15,141	216,922	304,550
	148,091	**603,551**	**244,122**	**238,822**	**1,124,950**	**2,359,536**

The non-performing loans ratio stood at 3.94% at 31 December 2012 (31 December 2011: 4.02%).

The accrued interest receivable on impaired assets amounted to EUR 4,219 thousand at 31 December 2012 (31 December 2011: EUR 8,144 thousand). This interest has not been recognised in the accompanying consolidated income statements as there are doubts as to its collection.

Written-off assets

The changes in 2012 and 2011 in the balance of the financial assets classified as loans and receivables and considered to be written-off assets at 31 December 2012 and 2011 were as follows:

	Thousands of Euros	
	2012	2011
Balance at beginning of year	3,084,306	2,523,488
Changes in the scope of consolidation	(14,531)	-
Inclusion of entities in the Group	-	-
Additions	947,605	1,338,777
Disposals	(1,297,373)	(777,959)
Balance at end of year	**2,720,007**	**3,084,306**

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

The quantitative information on the loans granted to households for the acquisition of homes by the main businesses in Spain at 31 December 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	2011
Home purchase loans:	2,439,032	2,215,841
Without mortgage guarantee	*178,735*	*200,589*
Of which:		
- *Doubtful*	*3,601*	*9,684*
With mortgage guarantee	*2,260,297*	*2,015,252*
Of which:		
- *Doubtful*	*53,911*	*85,518*

The detail, by loan-to-value ratio, of the mortgage loans to households for the acquisition of homes at 31 December 2012 and 2011 is as follows:

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

	2011					
	Loan-to-Value Ratio					
	Millions of Euros					
	Less than or Equal to 40%	More than 40% and Less than 60%	More than 60% and Less than 80%	More than 80% and Less than 100%	More than 100%	Total
Gross amount	436	510	1,036	32	1	2,015
Of which: Doubtful	*8*	*12*	*60*	*6*	-	*86*

Securitisation

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

	Thousands of Euros	
	2012	2011
Derecognised	**-**	**-**
Retained on the balance sheet:	**12,014,077**	**11,020,261**
Of which:		
Santander Consumer, E.F.C., S.A. (Spain)	*1,621,517*	*1,882,894*
Santander Consumer Bank AG (Germany)	*2,182,443*	*4,346,241*
Santander Consumer Bank S.p.A. (Italy)	*4,719,088*	*3,096,389*
Santander Consumer Bank A.S. (Norway)	*2,441,211*	*859,014*
Banco Santander Consumer Portugal, S.A.	*747,801*	*835,723*
Santander Consumer Finance Oy (Finland)	*302,017*	-
Total	**12,014,077**	**11,020,261**

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

In 2012 the subsidiaries mentioned in the foregoing table securitised receivables amounting to EUR 4,363,762 thousand (2011: EUR 6,214,180 thousand). Since substantially all the risks and rewards associated with these receivables had not been transferred, they were not derecognised.

Note 20 details the liabilities associated with these securitisation transactions.

11. Hedging derivatives

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

	Thousands of Euros			
	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Fair value hedges:				
Micro-hedges	99,126	1,540	89,438	765
Portfolio hedges	690	647,895	669	466,261
Cash flow hedges (*):				
Micro-hedges	-	13,156	-	24,598
Portfolio hedges	18,816	59,364	740	75,305
	118,632	**721,955**	**90,847**	**566,929**

(*) Of which EUR 48,064 thousand of losses, net of tax, were recognised as a reduction of consolidated equity at 31 December 2012 (31 December 2011: EUR 58,857 thousand) (see Note 28).

Note 31 includes a description of the hedges arranged by the Group.

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

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

	Thousands of Euros	
	2012	2011
Loans and advances to credit institutions	4,154	11,869
Loans and advances to customers	67,409	149,077
Other assets	359	5,817
	71,922	166,763
Foreclosed tangible assets	62,337	100,904
Other	5,339	3,977
	67,676	104,881
Less - Impairment losses	(49,640)	(63,423)
	89,958	**208,221**

The changes in "Impairment Losses" in the foregoing table in 2012 and 2011 were as follows:

	Thousands of Euros	
	2012	2011
Balances at beginning of year	63,423	39,194
Net impairment losses charged to consolidated income for the year (Note 45)	10,929	46,175
Amounts released	(24,712)	(21,946)
	49,640	**63,423**

The consolidated entities obtained a net loss of EUR 3,040 thousand in 2012 on the sale of non-current assets held for sale (2011: a net gain of EUR 6,728 thousand) (see Note 45).

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

	Thousands of Euros	
	2012	2011
Other financial liabilities	145	2,781
Tax liabilities	20	908
Accrued expenses and deferred income	292	2,901
Other liabilities	402	3,293
	859	**9,883**

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

The detail of the assets foreclosed, based on the recipient of the loan or credit facility initially granted, at 31 December 2012 and 2011 is as follows:

	Thousands of Euros			
	31 December 2012		31 December 2011	
	Carrying Amount	Of which: Impairment Losses	Carrying Amount	Of which: Impairment Losses
Property assets arising from financing granted for construction and property development				
- Completed buildings	357	1,609	440	817
Residential	*68*	*203*	*137*	*255*
Other	*289*	*1,406*	*303*	*562*
- Buildings under construction	-	-	-	-
Residential	-	-	-	-
Other	-	-	-	-
- Land	672	2,549	485	894
Developed land	*627*	*2,417*	-	-
Other land	*45*	*132*	*485*	*894*
Property assets from home purchase mortgage financing granted to households	9,428	40,656	31,084	57,712
Other property assets received in payment of debts	410	1,296	-	-
Equity instruments of, ownership interests in and financing provided to non-consolidated companies holding these assets	-	-	-	-

13. Investments - Associates and jointly controlled entities

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

	Thousands of Euros	
	2012	2011
Santander Benelux, S.A., N.V.	199,904	201,586
Konecta B.T.O., S.L.	17,458	15,745
Reintegra, S.A.	2,553	2,589
Other	18,790	10,075
	238,705	229,995
Of which:		
Goodwill	*3,906*	*3,884*
	238,705	**229,995**

The changes in 2012 and 2011 in “Investments - Associates" and “Investments - Jointly Controlled Entities” in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2012	2011
Balance at beginning of year	229,995	223,492
Purchases and capital increases	4,291	-
Sales	(1,860)	-
Effect of equity accounting (Note 34)	11,587	12,537
Exchange differences and other	(5,308)	(6,034)
Balance at end of year	**238,705**	**229,995**

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

	Millions of Euros	
	2012 (*)	2011
Total assets	12,601	12,817
Total liabilities	(11,308)	(11,540)
Equity	(1,293)	(1,277)
Group's share of the net assets of associates	235	226
Goodwill	4	4
Total Group share	**239**	**230**
Total income	70,611	94,929
Total profit	60	65
Group's share of the profit of associates	12	13

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

14. Insurance contracts linked to pensions

The detail of “Insurance Contracts Linked to Pensions” in the accompanying consolidated balance sheets is as follows:

	Thousands of Euros	
	2012	2011
Assets relating to insurance contracts covering post-employment benefit plan obligations (Note 23):		
Santander Consumer Finance, S.A.	-	21,605
Santander Consumer E.F.C, S.A.	-	5,711
	-	**27,316**
Assets relating to insurance contracts covering other long-term benefits (Note 23):		
Santander Consumer Finance, S.A.	-	422
	-	**422**
	-	**27,738**

On 27 June 2012 the Bank and its subsidiary Santander Consumer, E.F.C., S.A. cancelled the insurance policies arranged with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros) which partially covered the pension obligations of these entities to the employees who had taken pre-retirement. Consequently, the amount at which the aforementioned reimbursement rights was recorded at that date was derecognised by the Bank's directors. The difference between this amount and the surrender value amounted to EUR 963 thousand, of which EUR 82 thousand were credited to “Provisions - Provisions for Pensions and Similar Obligations” in the accompanying consolidated balance sheet at 31 December 2012 (actuarial gains on post-employment obligations) (see Note 23) and the remainder, EUR 881 thousand, was credited to “Provisions (Net)” in the accompanying consolidated income statement for 2012 (other long-term benefits).

The interest earned on these assets in 2012 amounted to EUR 461 thousand (2011: EUR 1,111 thousand) (see Notes 2-q, 2-r and 32).

15. Tangible assets

The changes in 2012 and 2011 in "Tangible Assets" in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros			
	Property, Plant and Equipment for Own Use	Other Assets Leased out under an Operating Lease	Investment Property	Total
Cost:				
Balances at 1 January 2011	323,023	497,358	-	820,381
Additions / Disposals (net)	(16,063)	(27,084)	-	(43,147)
Additions	*21,255*	*57,091*	-	*78,346*
Disposals	*(37,318)*	*(84,175)*	-	*(121,493)*
Net additions due to change in the scope of consolidation	192,914	(187,745)	-	5,169
Exchange differences	(4,510)	(858)	-	(5,368)
Transfers and other	(2,945)	(861)	-	(3,806)
Balances at 31 December 2011	492,419	280,810	-	773,229
Additions/Disposals (net)	(5,538)	(7,546)	-	(13,084)
Additions	*20,765*	*12,597*	-	*33,362*
Disposals	*(26,303)*	*(20,143)*	-	*(46,446)*
Net additions / (disposals) due to change in the scope of consolidation	6,653	-	93	6,746
Exchange differences	3,646	606	-	4,252
Transfers and other	3,177	(741)	-	2,436
Balances at 31 December 2012	**500,357**	**273,129**	**93**	**773,579**
Accumulated depreciation:				
Balances at 1 January 2011	(155,295)	(147,109)	-	(302,404)
Net additions due to change in the scope of consolidation	(151,875)	27,743	-	(124,132)
Charge for the year	(23,426)	(531)	-	(23,957)
Disposals and retirements	9,232	38,769	-	48,001
Exchange differences	1,930	231	-	2,161
Transfers and other	1,799	(2,559)	-	(760)
Balances at 31 December 2011	(317,635)	(83,456)	-	(401,091)
Net additions/(disposals) due to change in the scope of consolidation	(5,439)	-	(12)	(5,451)
Charge for the year	(20,387)	(585)	-	(20,972)
Disposals and retirements	19,443	9,901	-	29,344
Exchange differences	(1,666)	(248)	-	(1,914)
Transfers and other	(2,239)	(8,394)	-	(10,633)
Balances at 31 December 2012	**(327,923)**	**(82,782)**	**(12)**	**(410,717)**
Impairment losses:				
Balance at 1 January 2011	(779)	(5,146)	-	(5,925)
Net impairment losses (Note 43)	520	(14)	-	506
Disposals and retirements	-	727	-	727
Transfers and other	(905)	2	-	(903)
Balance at 31 December 2011	(1,164)	(4,431)	-	(5,595)
Net impairment losses (Note 43)	-	219	-	219
Disposals and retirements	-	1,498	-	1,498
Transfers and other	1,074	(898)	-	176
Balances at 31 December 2012	**(90)**	**(3,612)**	**-**	**(3,702)**
Net tangible assets:				
Balances at 31 December 2011	173,620	192,923	-	366,543
Balances at 31 December 2012	**172,344**	**186,735**	**81**	**359,160**

The Group incurred a net loss of EUR 2,362 thousand in 2012 (2011: EUR 3,716 thousand) on sales of property, plant and equipment, relating mainly to assets leased out under an operating lease (see Note 44).

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

	Thousands of Euros			
	Cost	Accumulated Depreciation	Impairment Losses	Carrying Amount
Buildings	107,531	(21,694)	-	85,837
Furniture	197,068	(147,361)	-	49,707
IT equipment	141,905	(125,719)	-	16,186
Other	45,915	(22,861)	(1,164)	21,890
Balances at 31 December 2011	**492,419**	**(317,635)**	**(1,164)**	**173,620**
Buildings	108,387	(24,739)	-	83,648
Furniture	204,175	(155,678)	-	48,497
IT equipment	138,990	(122,152)	-	16,838
Other	48,805	(25,354)	(90)	23,361
Balances at 31 December 2012	**500,357**	**(327,923)**	**(90)**	**172,344**

The net balance of "Property, Plant and Equipment for Own Use" at 31 December 2012 includes approximately EUR 169,274 thousand (31 December 2011: EUR 170,028 thousand) relating to property, plant and equipment owned by Group entities and branches located abroad.

16. Intangible assets

a) Goodwill

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

	Thousands of Euros	
	2012	2011
Germany/Austria	1,284,389	1,284,389
Italy	-	249,047
Nordic countries (Scandinavia)	186,332	179,544
The Netherlands	35,550	35,550
Poland	32,822	29,726
Other	159	159
Total	**1,539,252**	**1,778,415**

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

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

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

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

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

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

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

Following is a detail of the main assumptions used in determining the recoverable amount, at 2012 year-end, of the cash-generating unit which became impaired in 2012, which was valued using the discounted cash flow method:

	Projected Period	Discount Rate	Nominal Perpetuity Growth Rate
Italy	5 years	11%	3%

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

Based on the foregoing and on the estimates, projections and sensitivity analyses available to the Bank's directors, in 2012 the Group recognised impairment losses amounting to EUR 249,047 thousand under “Impairment Losses on Other Assets – Goodwill and Other Intangible Assets” in the consolidated income statement for 2012 which related to its business in Italy (2011: EUR 59,295 thousand which related to its business in Portugal) (see Note 43). These losses were attributable to the deterioration of the key assumptions used to calculate the recoverable amount (expected profit, discount rate and perpetuity growth rate).

At 31 December 2012, none of the cash-generating units with significant goodwill, other than the Italian unit, had a recoverable amount approximating their carrying amount. The recoverable amount is considered to be close to the carrying amount when reasonable changes in the main assumptions used in the valuation cause the recoverable amount to be below the recoverable amount.

The changes in 2012 and 2011 in this item in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2012	2011
Balance at beginning of year	1,778,415	1,693,191
Additions (Note 3-b)	433	149,223
Of which:		
Santander Consumer Bank AG (Germany) (Note 3)	-	*145,263*
Santander Consumer Bank, S.A. (Poland)	-	*3,960*
Zagiel, S.A. (Poland) (Note 3)	*433*	-
Impairment losses (Note 43)	(249,047)	(61,427)
Exchange differences and other	9,451	(2,572)
Balance at end of year	**1,539,252**	**1,778,415**

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

b) Other intangible assets

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

	Estimated Useful Life	Thousands of Euros	
		2012	2011
With finite useful life:			
Customer base	10 years	26,658	34,600
IT developments	3 years	534,636	398,109
Other		19	-
		561,313	**432,709**

The changes in 2012 and 2011 in "Other Intangible Assets" in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2012	2011
Balance at beginning of year	432,709	315,641
Net additions	236,081	200,386
Amortisation charge	(107,462)	(79,001)
Impairment losses (Note 43)	(15)	(4,317)
Balance at end of year	**561,313**	**432,709**

Most of the additions in 2012 relate to the implementation of management and accounting software at Santander Consumer Germany for its commercial banking business.

17. Other assets and Other liabilities

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

	Thousands of Euros			
	Assets		Liabilities	
	2012	2011	2012	2011
Inventories	7,562	10,894	-	-
Prepayments	41,711	35,363	-	-
Accrued expenses	-	-	346,829	426,584
Transactions in transit	12,903	1,372	32,219	114,383
Other	492,962	627,583	444,710	1,504,495
	555,138	**675,212**	**823,758**	**2,045,462**

18. Deposits from central banks and Deposits from credit institutions

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

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

	Thousands of Euros	
	2012	2011
Type:		
Reciprocal accounts	5,985	220,986
Time deposits	16,590,642	18,074,458
Other demand accounts	675,978	1,189,439
	17,272,605	19,484,883
Currency:		
Euro	12,259,477	14,741,285
Foreign currency	5,013,128	4,743,598
	17,272,605	19,484,883
Add - Valuation adjustments	48,334	123,545
Of which:		
Accrued interest	*48,440*	*124,570*
Other	*(106)*	*(1,025)*
	17,320,939	**19,608,428**

A portion of these deposits from credit institutions relates to transactions performed with Santander Group entities (see Note 49).

Note 47 contains a detail of the terms to maturity of these financial liabilities at amortised cost at 31 December 2012 and 2011 and of the related average annual interest rates in the years then ended.

At 31 December 2012, the consolidated entities had unused credit facilities amounting to EUR 6,783,776 thousand (31 December 2011: EUR 6,013,167 thousand).

19. Customer deposits

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

	Thousands of Euros	
	2012	2011
Type:		
On demand-		
Current accounts	10,441,143	11,543,074
Savings accounts	2,895,826	2,624,158
Other demand deposits	3,833	718
Time deposits-		
Fixed-term deposits	18,036,670	18,286,174
Home-purchase savings accounts	2	26
Other time deposits	150,000	150,000
	31,527,474	32,604,150
Geographical area:		
Spain and Portugal	271,790	458,421
Germany	29,350,277	30,767,000
Poland	1,598,009	1,089,278
Italy	267,347	254,320
Scandinavia	38,759	33,380
Other	1,292	1,751
	31,527,474	32,604,150
Currency:		
Euro	29,890,706	31,481,493
Foreign currency	1,636,768	1,122,657
	31,527,474	32,604,150
Add - Valuation adjustments	586,666	458,064
Of which:		
Accrued interest	*587,098*	*448,672*
	32,114,140	**33,062,214**

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

Note 47 contains a detail of the terms to maturity of these financial liabilities at amortised cost at 31 December 2012 and 2011 and of the related average annual interest rates in the years then ended.

20. Marketable debt securities

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

	Thousands of Euros	
	2012	2011
Bonds and debentures outstanding	5,658,043	5,462,084
Mortgage-backed bonds	1,193,952	1,193,952
Notes and other securities	697,400	955,649
	7,549,395	7,611,685
Add- Valuation adjustments-	151,576	107,735
Of which:		
Accrued interest	64,087	50,858
Issue premiums/discounts	(9,355)	(39,374)
Micro-hedges (Note 31) (*)	101,818	100,545
Other	(4,974)	(4,294)
	7,700,971	**7,719,420**

(*) Of which EUR 25,141 thousand relate to a micro-hedge that was discontinued in 2012 (EUR 32,704 thousand relate to a micro-hedge that was discontinued in 2011). This amount is deferred with a credit to “Interest Expense and Similar Charges” in the consolidated income statement until the mortgage-backed bonds included in the foregoing table mature.

The balance of “Bonds and Debentures Outstanding” in the foregoing table includes the amount of the bonds and debentures issued by Santander Consumer Bank, S.A. (Poland), Santander Consumer Bank, S.p.A. (Italy), Santander Consumer Bank AG (Germany) and Santander Consumer Bank AS (Norway), totalling EUR 1,926,464 thousand at 31 December 2012. This balance also includes the bonds issued by Fondo de Titulización de Activos Santander Consumer Auto 07-1, Fondo de Titulización de Activos Santander Consumer Spain Auto 2011-1, Fondo de Titulización de Activos Santander Consumer Spain Auto 2012-1, Santander Consumer Germany Auto 2010-1 UG, Santander Consumer Germany Auto 2011-2 UG, SC Private Cars 2010-1 Limited, SCF Rahoituspalvelut Limited, Svensk Autofinans 1 Limited and Bilkreditt 1 Limited, totalling EUR 2,695,875 thousand at that date (see Appendix I). Also, at its meeting held on 21 June 2012, the Bank’s Board of Directors resolved to launch a Euro Medium Term Notes programme with a maximum principal amount outstanding that may not exceed EUR 5,000 million. The programme was listed on the Luxembourg Stock Exchange on 22 June 2012. At 31 December 2012, the outstanding balance of these notes amounted to EUR 1,035,704 thousand, and they mature between 26 April 2013 and 28 September 2016. The annual interest rate on these liabilities is 3-month Euribor plus a spread of between 0.86% and 3.25%.

At its meeting held on 24 May 2012, the Bank’s Board of Directors resolved to launch a Euro Commercial Paper programme with a maximum principal amount outstanding that may not exceed EUR 8,000 million. The maturities of this commercial paper range from a minimum of 1 day to a maximum of 364 days. This programme was listed on the Dublin Stock Exchange on 22 June 2012. The outstanding balance of this commercial paper amounted to EUR 197,637 thousand at 31 December 2012 (31 December 2011: 162,816 thousand).

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

The balance of "Notes and Other Securities" in the foregoing table relates to note issues launched by the Bank, which were admitted to trading on the AIAF market. These notes, issued at a discount, bore average annual interest of 1.19% in 2012 (2011: 1.49%).

At each of its meetings held on 26 July 2012, 27 July 2011 and 17 June 2010, the Bank's Board of Directors resolved to issue a Notes Programme with a maximum principal amount outstanding that may not exceed EUR 10,000 million per programme. These notes, whose unit nominal value is EUR 1,000, have maturities ranging from a minimum of three business days to a maximum of 25 months. These programmes were registered in the Official Registers of the Spanish National Securities Market Commission (CNMV) at 2012 year-end.

The balance of the notes traded on the Spanish AIAF bond market amounted to EUR 499,763 thousand at 31 December 2012, of which EUR 250,077 thousand, EUR 249,392 thousand and EUR 294 thousand related to the Notes Programmes of 2012, 2011 and 2010, respectively (31 December 2011: 792,833 thousand).

The shareholders at the Extraordinary General Meeting of the Bank on 24 May 2012 delegated powers to the Board of Directors for the issuance of fixed-income securities up to an amount of EUR 30,000 million. These powers can be exercised within five years and the Board may, in each case, decide on the redemption of the securities or modify the related terms and conditions, and on the applicable interest rates.

At 31 December 2012 and 2011, none of these issues was convertible into Bank shares or granted privileges or rights which, in certain circumstances, make them convertible into shares.

Note 47 contains a detail of the terms to maturity of these financial liabilities at amortised cost at 31 December 2012 and 2011 and of the related average annual interest rates in the years then ended.

Information on issues, repurchases or redemptions of debt instruments

Following is a detail of the outstanding balance of the debt instruments issued by the Bank or by any other Group entity, at 31 December 2012 and 2011, and of the changes in this balance in 2012 and 2011:

	Thousands of Euros				
	2012				
	Outstanding Balance at 01/01/11	Issues	Repurchases or Redemptions	Exchange Rate and Other Adjustments	Outstanding Balance at 31/12/12
Debt instruments issued in an EU Member State for which it was necessary to file a prospectus	7,611,685	9,506,006	(9,566,143)	(2,153)	7,549,395
Debt instruments issued in an EU Member State for which it was not necessary to file a prospectus	-	-	-	-	-
Other debt instruments issued outside an EU Member State	-	-	-	-	-
	7,611,685	**9,506,006**	**(9,566,143)**	**(2,153)**	**7,549,395**

	Thousands of Euros				
	2011				
	Outstanding Balance at 01/01/11	Issues	Repurchases or Redemptions	Exchange Rate and Other Adjustments	Outstanding Balance at 31/12/11
Debt instruments issued in an EU Member State for which it was necessary to file a prospectus	10,152,494	15,347,757	(17,864,808)	23,758	7,611,685
Debt instruments issued in an EU Member State for which it was not necessary to file a prospectus	-	-	-	-	-
Other debt instruments issued outside an EU Member State	-	-	-	-	-
	10,152,494	**15,347,757**	**(17,864,808)**	**23,758**	**7,611,685**

Other issues guaranteed by the Group

At 31 December 2012 and 2011, there were no debt instruments issued by associates or non-Group third parties that had been guaranteed by the Bank or by any other Group entity.

Spanish mortgage-market issues

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

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

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

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

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

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

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

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

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

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

Mortgage-backed bonds

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

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

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

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

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

The Group had a balance of outstanding mortgage-backed bonds at 31 December 2012 amounting to EUR 1,350 million relating to issues launched by the Bank. The Bank's separate financial statements include details of the issues outstanding at 31 December 2012 and 2011.

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

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

Information, on a case-by-case basis, of certain issues, repurchases or redemptions of debt instruments

The main characteristics of the most significant issues launched by the Group in 2012 and 2011, or guaranteed by the Bank or Group entities in those years, are as follows:

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

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

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

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

Issuer Data				Data on the Issues Launched in 2011								
Name	Relationship with the Bank	Country	Issuer or Issue Credit Rating	ISIN Code	Type of Instrument	Transaction Date	Amount of the Issue (Thousands of Euros)	Balance Outstanding at 31/12/11 (Thousands of Euros)	Interest Rate	Market Where Quoted	Type of Guarantee Given	Risks Additional to the Guarantee that the Group would Assume
SC Germany Consumer 11-1 Limited	(*)	Ireland	Moody's Aaa Rating & S&P AAA Rating	XS0616416532	Senior debt	14/04/11	350,800(**)	210,984	1M Euribor + 1.05%	Luxembourg Stock Exchange	-	-
SC Germany Consumer 11-1 Limited	(*)	Ireland	Moody's Baa3 Rating & S&P BBB Rating	XS0616426416	Senior debt	14/04/11	82,300	82,300	1M Euribor + 1.55%	Luxembourg Stock Exchange	-	-
Golden Bar Programme V: Golden Bar Series 1 2011	(*)	Ireland	Moody's Aaa Rating & Fitch AAA Rating	IT0004671241	Senior debt	31/03/11	411,000	411,000	3M Euribor + 1.10%	Irish Stock Exchange	-	-
Golden Bar Programme V: Golden Bar Series 1 2011	(*)	Ireland	Moody's Baa1 Rating	IT0004671746	Senior debt	31/03/11	129,000	129,000	3M Euribor + 1.10%	Irish Stock Exchange	-	-
Golden Bar Programme V: Golden Bar Series 1 2011	(*)	Ireland	Unrated	IT0004671753	Junior debt	31/03/11	60,000	60,000	N/A	Irish Stock Exchange	-	-
Bilkreditt 1 Limited	(*)	Ireland	Fitch AAA(sf) Rating & DBRS AAA(sf) Rating	XS0595990978	Senior debt	10/03/11	511,349(**)	287,917	NIBOR + 0.95%	Irish Stock Exchange	-	-
Bilkreditt 1 Limited	(*)	Ireland	Fitch AAA(sf) Rating & DBRS AAA(sf) Rating	XS0595991273	Senior debt	10/03/11	603,173(**)	339,619	NIBOR + 0.95%	Irish Stock Exchange	-	-
Bilkreditt 1 Limited	(*)	Ireland	Unrated	N/A	Senior debt	10/03/11	259,665	259,665	NIBOR + 1.05%	-	-	-

Issuer Data				Data on the Issues Launched in 2011								
Name	Relationship with the Bank	Country	Issuer or Issue Credit Rating	ISIN Code	Type of Instrument	Transaction Date	Amount of the Issue (Thousands of Euros)	Balance Outstanding at 31/12/11 (Thousands of Euros)	Interest Rate	Market Where Quoted	Type of Guarantee Given	Risks Additional to the Guarantee that the Group would Assume
Bilkreditt 2 Limited	(*)	Ireland	Fitch AAA(sf) Rating & Moody's Aaa Rating	XS0706720496	Senior debt	21/11/11	615,166	615,166	NIBOR + 1.05%	Irish Stock Exchange	-	-
Bilkreditt 2 Limited	(*)	Ireland	Unrated	-	Senior debt	21/11/11	129,427	129,427	NIBOR + +1.15%	-	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2011-1	(*)	Spain	Moody’s Aaa(sf) Rating & Fitch AAA(sf) Rating	ES0364543001	Senior debt	01/12/11	659,800	659,800	3M Euribor + 1.40%	AIAF Fixed-Income Market	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2011-1	(*)	Spain	Moody’s Aa3(sf) Rating & Fitch AA-(sf) Rating	ES0364543019	Senior debt	01/12/11	71,600	71,600	3M Euribor + 1.70%	AIAF Fixed-Income Market	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2011-1	(*)	Spain	Moody’s Baa2(sf) Rating & Fitch A(sf) Rating	ES0364543027	Senior debt	01/12/11	63,600	63,600	3M Euribor + 2.00%	AIAF Fixed-Income Market	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2011-1	(*)	Spain	Moody’s Ca(sf) Rating	ES0364543035	Senior debt	01/12/11	117,300	117,300	3M Euribor + 0.65% + Extra	AIAF Fixed-Income Market	-	-
SC Germany Auto 2011-1 UG (haftungsbeschränkt)	(*)	Germany	Fitch AAA Rating / S&P AAA Rating & Moody's Aaa Rating	XS0642101819	Senior debt	21/09/11	573,000(**)	530,562	1M Euribor + 0.90%	Luxembourg Stock Exchange	-	-
SC Germany Auto 2011-1 UG (haftungsbeschränkt)	(*)	Germany	Fitch A+(sf) Rating & S&P A(sf) Rating	XS0642102205	Senior debt	21/09/11	27,000	27,000	1M Euribor + 1.55%	Luxembourg Stock Exchange	-	-

Issuer Data				Data on the Issues Launched in 2011								
Name	Relationship with the Bank	Country	Issuer or Issue Credit Rating	ISIN Code	Type of Instrument	Transaction Date	Amount of the Issue (Thousands of Euros)	Balance Outstanding at 31/12/11 (Thousands of Euros)	Interest Rate	Market Where Quoted	Type of Guarantee Given	Risks Additional to the Guarantee that the Group would Assume
SC Germany Auto 2011-2 UG (haftungsbeschränkt)	(*)	Germany	Fitch AAA Rating / S&P AAA Rating & Moody's Aaa Rating	XS0704702413	Senior debt	25/11/11	573,000 (**)	559,020	1M Euribor + 0.95%	Luxembourg Stock Exchange	-	-
SC Germany Auto 2011-2 UG (haftungsbeschränkt)	(*)	Germany	Fitch A Rating / S&P A Rating & Moody's NR Rating	XS0704706679	Senior debt	25/11/11	27,000	27,000	1M Euribor + 1.55%	Luxembourg Stock Exchange	-	-
Golden Bar Programme VI: Golden Bar Series 2 2011	(*)	Ireland	Moody's Aaa Rating / DBRS AAA Rating	IT0004765662	Senior debt	12/10/11	532,000	532,000	3M Euribor + 1.50%	Irish Stock Exchange	-	-
Golden Bar Programme VI: Golden Bar Series 2 2011	(*)	Ireland	Moody's Baa1 Rating / DBRS A (high) Rating	IT0004765647	Senior debt	12/10/11	95,000	95,000	3M Euribor + 1.50%	Irish Stock Exchange	-	-
Golden Bar Programme VI: Golden Bar Series 2 2011	(*)	Ireland	Unrated	IT0004765654	Junior debt	12/10/11	323,000	323,000	-	Irish Stock Exchange	-	-

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

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

21. Subordinated liabilities

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

	Thousands of Euros		31 December 2012		31 December 2011	
Currency of Issue	2012	2011	Outstanding Issue Amount in Foreign Currency (Millions)	Interest Rate at 31/12/12	Issue Amount in Foreign Currency (Millions)	Annual Interest Rate at 31/12/11
Euro	1,434,070	693,390	-	3.02%	-	2.56%
Norwegian krone (*)	53,097	50,320	390	4.89%	390	4.78%
Polish zloty (**)	37,388	34,158	152	6.08%	152	6.99%
Balance at end of year	**1,524,555**	**777,868**				

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

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

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

Company	Thousands of Euros	Counterparty	Early Redemption Date	Maturity Date
Santander Consumer E.F.C., S.A. (1)	34,000	Santander Benelux, S.A./N.V.	16/12/14	16/12/19
Santander Consumer Finance, S.A. (1)	153,600	Banco Santander, S.A.	27/02/08	27/02/13
Santander Consumer Finance, S.A. (1)	86,000	Banco Santander, S.A.	28/11/11	28/09/16
Santander Consumer Bank S.p.A.	6,500	Open Bank Santander Consumer, S.A.	(2)	30/06/13
Santander Consumer Bank S.p.A.	6,500	Open Bank Santander Consumer, S.A.	(2)	30/06/14
Santander Consumer Bank S.p.A.	6,500	Open Bank Santander Consumer, S.A.	(2)	31/10/14
Santander Consumer Bank S.p.A.	6,500	Open Bank Santander Consumer, S.A.	(2)	30/06/15
Santander Consumer Bank S.p.A.	6,500	Open Bank Santander Consumer, S.A.	(2)	31/10/15
Santander Consumer Bank S.p.A.	6,500	Open Bank Santander Consumer, S.A.	(2)	31/10/16
Santander Consumer Bank S.p.A.	6,500	Open Bank Santander Consumer, S.A.	(2)	31/10/17
Santander Consumer Bank S.p.A.	39,000	Open Bank Santander Consumer, S.A.	(2)	22/06/16
Santander Consumer Bank S.p.A.	39,000	Open Bank Santander Consumer, S.A.	(2)	31/10/18
Santander Consumer Bank AG	20,000	Open Bank Santander Consumer, S.A.	(3)	06/08/14
Santander Consumer Bank AG	25,000	Open Bank Santander Consumer, S.A.	(3)	30/11/14
Santander Consumer Bank AG	20,000	Open Bank Santander Consumer, S.A.	(3)	20/04/15
Santander Consumer Bank AG	22,000	Open Bank Santander Consumer, S.A.	(3)	20/01/16
Santander Consumer Bank S.p.A.	10,000	Santander Benelux, S.A./N.V.	(2)	30/06/13
Santander Consumer Bank S.p.A.	10,000	Santander Benelux, S.A./N.V.	(2)	30/06/14
Santander Consumer Bank S.p.A.	39,000	Santander Benelux, S.A./N.V.	(2)	22/04/15
Santander Consumer Bank S.p.A.	21,000	Santander Benelux, S.A./N.V.	(2)	30/06/14
Santander Consumer Bank S.p.A.	4,000	Santander Benelux, S.A./N.V.	(2)	31/12/15
Santander Consumer Bank S.p.A.	4,000	Santander Benelux, S.A./N.V.	(2)	31/12/16
Santander Consumer Bank S.p.A.	4,000	Santander Benelux, S.A./N.V.	(2)	31/12/17
Santander Consumer Bank S.p.A.	4,000	Santander Benelux, S.A./N.V.	(2)	31/12/18
Santander Consumer Bank S.p.A.	24,000	Santander Benelux, S.A./N.V.	(2)	31/12/19
Santander Consumer Holding GmbH	600,000	Banco Santander, S.A.	(3)	22/03/21
Santander Consumer Holding GMBH	200,000	Banco Santander, S.A.	(3)	22/03/21
Santander Consumer Bank S.p.A.	25,000	Banco Madesant, Sociedade Unipessoal, S.A.	(2)	30/09/19
	1,429,100			
Add - Valuation adjustments	4,970			
Total	**1,434,070**			

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

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

(3) May not be redeemed early.

The changes in “Subordinated Liabilities” in 2012 and 2011 were as follows:

	Thousands of Euros	
	2012	2011
Balance at beginning of year	777,868	1,211,732
Additions	800,764	-
Of which:		
Germany	*800,764*	-
Redemptions	(55,535)	(433,274)
Of which:		
Spain	-	*(414,000)*
Italy	*(22,886)*	*(10,000)*
Germany	*(32,649)*	*(9,274)*
Exchange differences and other	1,458	(590)
Balance at end of year	**1,524,555**	**777,868**

Note 47 contains a detail of the residual maturity periods of these subordinated liabilities at 31 December 2012 and 2011 and of the related average annual interest rates in the years then ended.

22. Other financial liabilities

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

	Thousands of Euros	
	2012	2011
Declared dividends payable (Note 4-a)	400,031	-
Trade payables	55,220	60,367
Tax collection accounts	20,979	15,738
Unsettled financial transactions	4,276	3,665
Other financial liabilities (*)	165,689	199,816
	646,195	**279,586**

(*) This item includes EUR 80,380 thousand at 31 December 2012 relating to balances payable arising from tax consolidation with Banco Santander, S.A. (31 December 2011: EUR 80,960 thousand in this connection) (see Note 25).

Note 47 to these consolidated financial statements contains a detail of the residual maturity periods of these financial liabilities at 2012 and 2011 year-end.

Disclosures on the payment periods to suppliers. Additional Provision Three. "Disclosure obligation" provided for in Law 15/2010, of 5 July

Set forth below are the disclosures required by Additional Provision Three of Law 15/2010, of 5 July:

	Amounts Paid and Payable at 2012 Year-End		Amounts Paid and Payable at 2011 Year-End	
	Amount (Thousands of Euros)	Percentage	Amount (Thousands of Euros)	Percentage
Paid in the maximum payment period	195,132	100%	178,996	100%
Remainder	-	0%	-	0%
Total payments made in the year	195,132	100%	178,996	100%
Weighted average period of late payment (in days)	-	0%	-	0%
Payments at year-end not made in the maximum payment period	-	-	-	-

The figures shown in the foregoing table in relation to payments to suppliers relate to suppliers that because of their nature are trade creditors for the supply of goods and services and, therefore, they include the figures relating to “Other Financial Liabilities - Payable to Suppliers” in the consolidated balance sheet. The information disclosed relates solely to Spanish consolidated companies.

Weighted average period of late payment was calculated as the quotient whose numerator is the result of multiplying the payments made to suppliers outside the maximum payment period by the number of days of late payment and whose denominator is the total amount of the payments made in the year outside the maximum payment period. The maximum payment period applicable to the Spanish consolidated companies under Law 3/2004, of 29 December, on combating late payment in commercial transactions, was 75 days in 2012 (2011: 85 days).

At 31 December 2012 and 2011, the Spanish consolidated companies did not have any unpaid trade payables past due by more than the maximum payment period.

23. Provisions

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

	Thousands of Euros	
	2012	2011
Provisions for pensions and similar obligations	354,642	361,010
Provisions for taxes and other legal contingencies	82,367	23,439
Provisions for contingent liabilities and commitments	6,222	3,888
Other provisions	166,367	95,632
	609,598	**483,969**

The changes in 2012 and 2011 in the balance of this item in the accompanying consolidated balance sheets were as follows:

	2012					2011				
	Pensions and Similar Obligations	Taxes and other Contingencies	Contingent Liabilities and Commitments	Other Provisions	Total	Pensions and Similar Obligations	Taxes and other Contingencies	Contingent Liabilities and Commitments	Other Provisions	Total
Balances at beginning of year	361,010	23,439	3,888	95,632	483,969	298,087	29,249	2,371	54,607	384,314
Net inclusion (exclusion) of entities in (from) the Group	4,040	-	18	4,961	9,019	61,305	1,593	-	(833)	62,065
Additions charged to income:										
Interest expense and similar charges (Note 33)	17,644	-	-	-	17,644	16,717	-	-	-	16,717
Staff costs (Note 41)	9,022	-	-	-	9,022	10,590	-	-	-	10,590
Net additions to provisions (amounts used) (**)	1,601	(15,043)	2,020	105,026(*)	93,604	1,004	3,924	2,412	43,537	50,877
	32,307	(15,043)	2,038	109,987	129,289	89,616	5,517	2,412	42,704	140,249
Payments to retired employees and pre-retirees with a charge to internal provisions (***)	(23,607)	-	-	-	(23,607)	(24,066)	-	-	-	(24,066)
Insurance premiums paid and return premiums received	-	-	-	-	-	-	-	-	-	-
Payments to retired employees by insurance companies	(3,137)	-	-	-	(3,137)	(2,187)	-	-	-	(2,187)
Amounts used	-	(2,416)	-	(7,107)	(9,523)	-	(10,240)	-	(7,358)	(17,598)
Transfers, exchange differences and other changes	(11,931)	76,387	296	(32,145)	32,607	(440)	(1,087)	(895)	5,679	3,257
	(38,675)	73,971	296	(39,252)	(3,660)	(26,693)	(11,327)	(895)	(1,679)	(40,594)
Balances at end of year	**354,642**	**82,367**	**6,222**	**166,367**	**609,598**	**361,010**	**23,439**	**3,888**	**95,632**	**483,969**

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

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

	Thousands of Euros	
	2012	2011
Post-employment benefits - Spanish entities:		
Recognised actuarial losses/(gains)	25	9
Past service cost	302	177
Pre-retirements	-	-
Curtailments/settlements	-	-
Return premiums received on defined contribution pension plans	(165)	-
	162	186
Other long-term benefits - Spanish entities:		
Recognised actuarial losses/(gains) (obligations and assets)	(1,125)	(1,312)
Pre-retirements	-	-
Past service cost	-	-
Curtailments/settlements	-	-
	(1,125)	(1,312)
Foreign entities:		
Recognised actuarial losses/(gains) (obligations and assets)	2,681	2,154
Curtailments/settlements	(117)	(24)
	2,564	2,130
	1,601	**1,004**

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

	Thousands of Euros	
	2012	2011
Payments with a charge to the internal provision:		
Post-employment benefits - Spanish entities	2,675	2,687
Other long-term benefits - Spanish entities	12,946	13,532
Foreign entities	7,986	7,847
	23,607	**24,066**

Provisions for pensions and similar obligations

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

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

Santander Consumer Finance, S.A.

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

In 2012 the Bank received return premiums amounting to EUR 165 thousand from the insurance company. No premiums were paid to the insurance company in 2012 and 2011 (see Note 2-q).

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

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

No premiums were paid to the insurance company in 2012 and 2011 (see Note 2-q).

Spanish entities

The Collective Agreement of the Group's Spanish entities entered into on 2 February 2012 established a supplementary employee welfare system for current employees meeting certain conditions, which was instrumented through a defined contribution pensions plan. This pensions plan covers the following contingencies: retirement, death and permanent disability (total, absolute or severe disability). The Group's Spanish entities assumed the obligation of making an annual contribution of EUR 640 for each employee participating in the plan (the amount of this contribution might be subject to review by common agreement between the parties). In 2012 contributions made in this connection amounted to EUR 303 thousand and were recognised with a charge to "Staff Costs - Contributions to Defined Contribution Pension Plans" in the accompanying consolidated income statement for 2012 (see Note 41).

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

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

Santander Consumer Finance, S.A.

- Pension obligations under the Private Banking Collective Agreement to current employees, employees who took pre-retirement prior to May 1996 (including future insurance premiums for disability and surviving spouse/child benefits) and retired employees, which are funded in full by an internal provision (see Note 14).

- Life insurance guaranteed to retired employees from Banco de Fomento, S.A., covered by an insurance policy (that does not meet the requirements for externalisation) taken out with a non-related entity (Axa España S.A.). The present value of future premiums is funded by an internal provision (see Note 14).

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

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

Pension obligations under the Private Banking Collective Agreement to current employees, pre-retirees (including future insurance premiums for disability and surviving spouse/child benefits for employees who took pre-retirement prior to May 1996) and employees who retired prior to May 1996, which are funded in full by an internal provision (see Note 14).

The present value of the post-employment benefit obligations of the Spanish consolidated entities and the value of the reimbursement rights under the insurance policies linked to these obligations at 31 December 2012 and 2011 were as follows:

	Thousands of Euros	
	2012	2011
Present value of the obligations:		
To current employees	78	73
Vested obligations to retired employees and pre-retirees	30,610	31,308
Other obligations to retired employees (*)	189	780
	30,877	32,161
Less - Unrecognised actuarial gains/(losses)	(1,639)	(1,947)
Provisions - Provisions for pensions and similar obligations (Note 2-q)	**29,238**	**30,214**
Insurance contracts linked to pensions, taken out with non-related entities (Note 14)	**-**	**27,316**

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

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

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

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

	2012	2011
Annual discount rate	3%	4.0%
Mortality tables	GRM/F-95	GRM/F-95
Cumulative annual CPI growth	1.5%	1.5%
Annual salary increase rate	0% for 2 years & 2% thereafter	2.5%
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 amounts recognised in the consolidated income statement in relation to those pension obligations are as follows:

	Thousands of Euros	
	2012	2011
Current service cost (Note 41)	55	60
Net interest cost (Note 33)	1,236	1,263
Expected return on insurance contracts linked to pensions (Note 32)	(437)	(1,081)
Extraordinary charges		
Actuarial (gains)/losses recognised in the year	25	9
Past service cost	302	177
Amount recognised in the year	**1,181**	**428**

The changes in 2012 and 2011 in the cumulative net unrecognised actuarial gains and/or losses were as follows:

	Thousands of Euros	
	2012	2011
Balance at beginning of year	1,947	2,111
Exclusion of companies from the scope of consolidation	-	-
Net actuarial (gains)/losses arising in the year (*)	(283)	(155)
Amount recognised in the year (Note 2-q)	(25)	(9)
Balance at end of year	**1,639**	**1,947**

(*) Relates to obligations and assets amounting to EUR -201 thousand and EUR -82 thousand, respectively, in 2012 (2011: EUR 493 thousand and EUR -648 thousand, respectively).

The changes in 2012 and 2011 in the present value of the accrued defined benefit obligations were as follows:

	Thousands of Euros	
	2012	2011
Present value of the obligations at beginning of year	32,161	32,856
Net exclusion of Group companies from the scope of consolidation	-	-
Current service cost (Notes 2-q and 41)	55	60
Interest cost (Notes 2-q and 33)	1,236	1,263
Pre-retirements	-	-
Effect of curtailments/settlements	-	-
Benefits paid	(2,675)	(2,687)
Past service cost	302	177
Actuarial (gains)/losses arising in the year (Note 2-q)	(201)	493
Other	(1)	(1)
Present value of the obligations at end of year	**30,877**	**32,161**

The changes in 2012 and 2011 in the fair value of the insurance contracts linked to pensions were as follows:

	Thousands of Euros	
	2012	2011
Fair value of insurance contracts at beginning of year	27,316	28,160
Expected return on insurance contracts linked to pensions (Notes 2-q and 32)	437	1,081
Actuarial gains/(losses) arising in the year (Note 2-q)	82	648
Premiums paid/(amounts recovered)	(27,456)	(261)
Benefits paid	(379)	(2,312)
Fair value of insurance contracts at end of year	**-**	**27,316**

iii. Post-employment benefits – Other foreign subsidiaries

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

	Thousands of Euros	
	2012	2011
Present value of the obligations:	360,170	299,773
Of which:		
Germany	*306,895*	*244,495*
Less-		
Unrecognised actuarial gains/(losses)	(82,763)	(30,031)
Plan assets	(25,544)	(22,578)
Provisions - Provisions for pensions and similar obligations (Note 2-q)	**251,863**	**247,164**
Of which:		
Germany	*225,594*	*224,674*

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

	2012	2011
Annual discount rate	3.50%	5.13%
Mortality tables	R2005G of Heubeck-Richttafeln-	R2005G of Heubeck-Richttafeln-
Cumulative annual CPI growth	-	-
Annual salary increase rate	2.75%	2.75%
Annual social security pension increase rate	2.00%	2.00%
Estimated retirement age	60/63(M/F)	60/63(M/F)

Also, certain foreign entities have defined contribution plans (mainly Santander Consumer Bank, S.p.A., Santander Consumer Bank AS and Santander Consumer Bank AG). The contributions made to these plans amounted to EUR 7,460 thousand in 2012 (2011: EUR 6,754 thousand) (see Note 41).

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

	Thousands of Euros	
	2012	2011
Current service cost (Note 41)	8,958	10,521
Net interest cost (Note 33)	14,456	13,023
Expected return on plan assets (Note 33)	(1,137)	(1,104)
Extraordinary charges		
Actuarial (gains)/losses recognised in the year	2,564	2,130
Past service cost	-	-
Amount recognised in the year	**24,841**	**24,570**

The changes in 2012 and 2011 in the present value of the accrued defined benefit obligations and in the plan assets were as follows:

	Thousands of Euros	
	2012	2011
Present value of the obligations at beginning of year	299,773	212,749
Net inclusion/(exclusion) of entities in/(from) the Group	4,040	61,305
Current service cost (Notes 2-q and 41)	8,958	10,521
Interest cost (Notes 2-q and 33)	14,456	13,023
Pre-retirements	-	-
Effect of curtailments/settlements	(117)	(24)
Benefits paid	(9,654)	(8,582)
Past service cost	-	-
Actuarial (gains)/losses arising in the year (Note 2-q)	55,598	9,957
Exchange differences, transfers and other items	(12,884)	824
Present value of the obligations at end of year	**360,170**	**299,773**

The changes in 2012 and 2011 in the fair value of the plan assets were as follows:

	Thousands of Euros	
	2012	2011
Fair value of plan assets at beginning of year	22,578	21,607
Expected return on plan assets (Notes 2-q and 33)	1,137	1,104
Actuarial gains/(losses) arising in the year (Note 2-q)	(456)	(566)
Contributions	1,877	1,033
Benefits paid	(867)	(735)
Exchange differences and other items	1,275	135
Fair value of plan assets at end of year	**25,544**	**22,578**

iv. Other long-term benefits - Spanish entities

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

Santander Consumer Finance, S.A.

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

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

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

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

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

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

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

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

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

Santander Consumer Renting, S.L.

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

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

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

The present value of the aforementioned obligations and the fair value of the assets arising from insurance contracts linked to these obligations at 31 December 2012 and 2011 were as follows:

	Thousands of Euros	
	2012	2011
Present value of the obligations:		
To pre-retirees	73,386	83,481
Long-service bonuses	155	151
Provisions - Provisions for pensions and similar obligations (Note 2-r)	**73,541**	**83,632**
Insurance contracts linked to pensions, taken out with non-related entities (Note 14)	**-**	**422**

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

1. Valuation method: projected unit credit method.

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

	2012	2011
Annual discount rate	3%	4.0%
Mortality tables	GRM/F-95	GRM/F-95
Cumulative annual CPI growth	1.5%	1.5%
Annual increase in pre-retirements	0% - 1.5%	0% - 1.5%
Annual increase in bonuses	1.5%	2%

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

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

	Thousands of Euros	
	2012	2011
Current service cost (Note 41)	9	9
Net interest cost (Note 33)	3,089	3,535
Expected return on insurance contracts linked to pensions (Note 32)	(4)	(30)
Extraordinary charges		
Actuarial (gains)/losses recognised in the year	(1,125)	(1,312)
Past service cost	-	-
Pre-retirement cost	-	-
Amount recognised in the year	**1,969**	**2,202**

The changes in 2012 and 2011 in the present value of the accrued obligations for other long-term benefits were as follows:

	Thousands of Euros	
	2012	2011
Present value of the obligations at beginning of year	83,632	95,081
Current service cost (Notes 2-q and 41)	9	9
Interest cost (Notes 2-r and 33)	3,089	3,535
Pre-retirements	-	-
Effect of curtailments/settlements	-	-
Benefits paid	(12,946)	(13,532)
Past service cost	-	-
Actuarial (gains)/losses recognised in the year (Note 2-r)	(243)	(1,461)
Exchange differences and other items	-	-
Present value of the obligations at end of year	**73,541**	**83,632**

The changes in 2012 and 2011 in the fair value of the insurance contracts linked to pensions were as follows:

	Thousands of Euros	
	2012	2011
Fair value of insurance contracts at beginning of year	422	945
Expected return on insurance contracts linked to pensions (Notes 2-r and 32)	4	30
Actuarial gains/(losses) recognised in the year (Note 2-r)	881	(149)
Benefits paid	(45)	(384)
Premiums paid	(1,262)	(20)
Fair value of insurance contracts at end of year	**-**	**422**

v. Sensitivity analysis

Changes in the main assumptions might affect the calculation of the obligations. A 50 bp increase or decrease in the discount rate would have had an impact of -/+ EUR 1,260 thousand (net of tax) on the consolidated income statement for 2012 and of -/+ EUR 40,981 thousand on the unrecognised actuarial gains and losses.

vi. Funding status of pension fund in 2012 and the four preceding years

The funding status of the defined benefit obligations at the end of 2012 and the four preceding years is as follows:

Spanish companies-

	Thousands of Euros									
	Post-Employment Benefits					Other Long-Term Employee Benefits				
	2012	2011	2010	2009	2008	2012	2011	2010	2009	2008
Present value of the obligations:										
To current employees	78	73	69	61	1,480	-	-	-	-	-
Vested obligations to retired employees	30,610	31,308	32,607	32,917	31,927	-	-	-	-	-
To pre-retirees	-	-	-	-	-	73,386	83,481	94,941	105,680	65,936
Long-service bonuses and other benefits	-	-	-	-	-	155	151	140	135	232
Other	189	780	180	978	960	-	-	-	-	-
	30,877	32,161	32,856	33,956	34,367	73,541	83,632	95,081	105,815	66,168
Less-										
Fair value of plan assets	-	-	-	-	-	-	-	-	-	-
Unrecognised actuarial gains/(losses)	(1,639)	(1,947)	(2,111)	(1,918)	(2,010)	-	-	-	-	-
Unrecognised past service	-	-	-	-	-	-	-	-	-	-
Provisions - Provisions for pensions	**29,238**	**30,214**	**30,745**	**32,038**	**32,357**	**73,541**	**83,632**	**95,081**	**105,815**	**66,168**
Of which:										
Insurance contracts linked to pensions (Note 14)	-	*27,316*	*28,160*	*29,649*	*30,448*	-	*422*	*945*	*1,553*	*2,428*

Foreign entities-

	Thousands of Euros				
	2012	2011	2010	2009	2008
Present value of the obligations	360,170	299,773	212,749	201,224	173,406
Less-					
Unrecognised actuarial gains/(losses)	(82,763)	(30,031)	(18,881)	(8,915)	8,971
Fair value of plan assets	(25,544)	(22,578)	(21,607)	(19,278)	(15,107)
Provisions - Provisions for pensions	**251,863**	**247,164**	**172,261**	**173,031**	**167,270**

24. Tax matters

a) Current tax receivables and payables

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

b) Reconciliation of the accounting profit to the taxable profit

The reconciliation of the accounting profit to the estimated taxable profit for 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	2011
Consolidated profit before tax	425,718	634,922
Of which:		
From continuing operations	*432,031*	*657,960*
From discontinued operations	*(6,313)*	*(23,038)*
Income tax (at 30%)	127,715	190,477
Permanent differences (*)	(16,073)	(22,521)
Current income tax recognised in consolidated books	**111,642**	**167,956**
Of which:		
From continuing operations	*111,010*	*166,574*
From discontinued operations	*632*	*1,382*
Effective tax rate	**26.2%**	**26.5%**

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

c) Deferred taxes

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

The detail of the two balances is as follows:

	Thousands of Euros	
	2012	2011
Tax assets:		
Credit loss allowance	142,880	164,042
Tax credit for reinvestment and double taxation of gains on disposal of investments	56,637	56,637
Pension fund	25,790	50,347
Fees and commissions	2,214	4,249
Derivatives	12,180	21,005
Germany	130,971	161,445
Italy	158,171	154,931
Goodwill	120,715	44,433
Tax assets and tax credits recognised	129,474	127,276
Other	26,622	18,250
	805,654	**802,615**
Tax liabilities:		
Fees and commissions	1,479	1,719
Goodwill	39,262	63,326
Gains on disposal of investments	139,193	139,193
Germany	130,165	136,697
Norway	63,550	50,067
Other	9,467	8,892
	383,116	**399,894**

d) Tax recognised in equity

In addition to the income tax recognised in the consolidated income statement, in 2012 and 2011 the Group recognised the following amounts in consolidated equity:

	Thousands of Euros	
	2012	2011
Tax charged to equity:		
Measurement of available-for-sale equity securities	155	50
Measurement of cash flow hedges	5,441	13,975
Tax credited to equity:		
Measurement of available-for-sale equity securities	-	-
Measurement of cash flow hedges	-	-
Total	**5,596**	**14,025**

e) Years open for review by the tax authorities

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

In 2010 the tax audit of the transactions performed by the Bank and its subsidiary Santander Consumer, E.F.C., S.A. in 2003 and 2004 was completed in relation to all the taxes applicable to them, with most of the assessments signed on a contested basis.

On 6 October 2010, the tax authorities notified the Bank of the commencement of a new tax audit for 2005, 2006 and 2007 in relation to all the taxes applicable to it. On 13 July 2011, the tax audits for all the taxes audited were completed, except for income tax for these years, and no assessments were issued. On 28 July 2011, the tax authorities notified the Bank of the extension of the tax audit to include the treatment of goodwill in the income tax returns for 2008 and 2009. In October 2012 the related consolidated tax assessment certificates were issued, which are not expected to have a material effect on these consolidated financial statements. However, at the date of preparation of the consolidated financial statements, the Bank was preparing pleadings against the conclusions reached in the aforementioned tax audit.

Also, on 4 October 2011 the tax authorities notified the subsidiary Santander Consumer, E.F.C., S.A. of the commencement of a tax audit of the income tax returns for 2005, 2006 and 2007. Consolidated tax assessment certificates were signed, which are not expected to have a material effect on these consolidated financial statements.

The other consolidated entities have the appropriate years, based on their local tax legislation, open for review by the tax authorities. Specifically, tax audits are being performed at the German subsidiaries Santander Consumer Bank AG, Santander Consumer Holding GmbH and Santander Consumer Leasing GmbH for 2006 to 2008 and at the subsidiaries Santander Consumer Bank, S.p.A. for 2010 to 2012 and Unifin, S.P.A. for 2007 to 2011.

In the opinion of the Bank’s directors and of the Group’s tax advisers, the provisions recognised by the Group at 2012 year-end are sufficient to cover the amount of the obligations, if any, that might arise as a result of the aforementioned tax audits in progress (see Note 23).

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

25. Registered share capital

At 31 December 2010, the Bank's share capital consisted of 1,284,546,168 fully subscribed and paid registered shares of EUR 3 par value each, all with the same voting and dividend rights.

On 19 May 2011, the shareholders at the Bank's Extraordinary General Meeting resolved to increase capital by EUR 500,000 thousand by issuing at par 166,666,668 ordinary shares of EUR 3 par value each. This capital increase was fully subscribed and paid by the Bank's shareholders and it was executed in a public deed on 31 May 2011 and registered in the Mercantile Register on 7 June 2011.

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

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

Consequently, at 31 December 2012, the Bank's share capital, the only share capital included in the accompanying consolidated balance sheet at that date as a result of the consolidation process, consisted of 1,554,546,172 fully subscribed and paid registered shares of EUR 3 par value each, all with the same voting and dividend rights. At 31 December 2012, the Bank's shareholders were as follows:

	Ownership Interest
Banco Santander, S.A.	63.19%
Holneth, B.V. (*)	25.00%
Fomento e Inversiones, S.A. (*)	11.81%
	100.00%

(*) Santander Group companies.

At 31 December 2012, the capital increases in progress at Group companies and the additional capital authorised by their shareholders at the respective Annual General Meetings were not material at Group level.

26. Share premium

The balance of "Share Premium" in the accompanying consolidated balance sheets includes the amount paid up by the Bank's shareholders in capital issues in excess of the par value. The Consolidated Spanish Limited Liability Companies Law expressly permits the use of the share premium account balance to increase capital at the entities at which it is recognised and does not establish any specific restrictions as to its use.

27. Reserves

The balance of "Shareholders' Equity - Reserves - Accumulated Reserves" in the accompanying consolidated balance sheets includes the net amount of the accumulated profit or loss recognised in previous years through the consolidated income statement that, in the distribution of profit, was appropriated to equity, and the own equity instrument issuance expenses and the differences between the selling price of treasury shares and the cost of acquisition thereof.

The balance of "Shareholders' Equity - Reserves - Reserves of Entities Accounted for Using the Equity Method" in the accompanying consolidated balance sheets includes the net amount of the accumulated profit or loss generated in previous years by entities accounted for using the equity method, recognised through the consolidated income statement.

The detail of "Accumulated Reserves" and "Reserves of Entities Accounted for Using the Equity Method" at 31 December 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	2011
Accumulated reserves:		
Legal reserve	376,886	339,576
Unrestricted, voluntary and other reserves (*)	1,786,958	2,094,210
Consolidation reserves attributable to the Bank	103,311	150,257
Reserves at subsidiaries	(1,727,237)	(1,874,235)
	539,918	**709,808**
Reserves of entities accounted for using the equity method:		
Associates	**12,564**	**15,016**

(*) The decrease in these reserves in 2012 was due mainly to the payment of a dividend amounting to EUR 300,027 thousand with a charge to voluntary reserves, that the Bank's shareholders approved at the General Meeting held on 10 December 2012 (see Note 4).

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. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

Reserves at subsidiaries

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

	Thousands of Euros	
	2012	2011
Santander Consumer, E.F.C., S.A. (Spain)	(215,416)	(228,780)
Santander Consumer Holding GmbH (Germany)	(2,067,278)	(1,825,447)
Santander Consumer Bank S.p.A. (Italy)	(87,360)	(67,709)
Santander Consumer Bank AS (Norway)	45,641	46,088
Santander Consumer Finanse S.A. (Poland)	(38,653)	(38,477)
Santander Consumer Bank S.A. (Poland)	118,985	70,485
Santander Consumer Bank AG (Germany)	433,597	169,336
Other companies	83,247	269
	(1,727,237)	**(1,874,235)**

28. Valuation adjustments

The balances of "Valuation Adjustments" in the accompanying consolidated balance sheets include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognised temporarily in equity through the consolidated statement of changes in equity (consolidated statement of recognised income and expense) until they are extinguished or realised, when they are recognised definitively in the consolidated income statement.

"Valuation Adjustments" includes the following items:

a) Available-for-sale financial assets

The balance of this item includes the net amount of unrealised changes in the fair value of financial assets classified as available for sale.

The changes in 2012 and 2011 were as follows:

	Thousands of Euros	
	2012	2011
Balance at beginning of year	321	44
Revaluation gains/(losses)	2,177	123
Amounts transferred to income statement	(1,708)	208
Income tax	(148)	(54)
Balance at end of year	**642**	**321**
Of which:		
Equities	*204*	*186*
Fixed-income securities	*438*	*135*

b) Cash flow hedges

The balance of this item includes the net amount of the changes in value of financial derivatives designated as hedging instruments in cash flow hedges, in respect of the portion of these changes considered to be effective hedges (see Note 11).

The changes in 2012 and 2011 were as follows:

	Thousands of Euros	
	2012	2011
Balance at beginning of year	(58,857)	(87,962)
Revaluation gains/(losses)	(12,313)	(29,550)
Amounts transferred to income statement	28,644	72,632
Income tax	(5,538)	(13,977)
Balance at end of year (Note 31)	**(48,064)**	**(58,857)**

c) Exchange differences

The balance of "Valuation Adjustments - Exchange Differences" includes the net amount of exchange differences arising on non-monetary items whose fair value is adjusted against equity and the differences arising on the translation to euros of the balances of the consolidated entities whose functional currency is not the euro (see Note 2-a).

29. Non-controlling interests

"Non-Controlling Interests" in the accompanying consolidated balance sheets includes the net amount of the equity of subsidiaries attributable to equity instruments that are not held, directly or indirectly, by the Group, including the portion attributed to them of profit for the year.

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

	Thousands of Euros	
	2012	2011
Santander Consumer Finanse, S.A. (Poland)	13,252	-
Santander Consumer Renting, S.L.	-	(2,594)
Santander Consumer Finance Media, S.r.L.	2,875	2,594
Suzuki Servicios Financieros, S.L.	830	639
Sánchez Ramade Santander Financiera, S.L.	(3)	1
Santander Consumer Multirent Spolka Z Ograniczona Odpowiedzialnoscia	(56)	(143)
Santander Consumer Bank S.A. (Poland)	142,230	98,460
	159,128	98,957
Profit (loss) for the year attributable to non-controlling interests:		
Santander Consumer Finanse, S.A. (Poland)	*(4,718)*	*-*
Santander Consumer Renting, S.L.	*-*	*2,594*
Santander Consumer Finance Media, S.r.l.	*(177)*	*609*
Suzuki Servicios Financieros, S.L.	*389*	*191*
Sánchez Ramade Santander Financiera, S.L.	*(60)*	*(4)*
Santander Consumer Multirent Spolka Z Ograniczona Odpowiedzialnoscia	*55*	*143*
Santander Consumer Bank, S.A. (Poland)	*38,605*	*28,039*
	34,094	31,572
	193,222	**130,529**

The changes in 2012 and 2011 in “Non-Controlling Interests” were as follows:

	Thousands of Euros	
	2012	2011
Balance at beginning of year	130,529	141,738
Changes in the scope of consolidation	-	-
Change in proportion of ownership interest	14,435 (*)	(25,786)
Changes in capital	-	-
Exchange differences and other	14,164	(16,995)
Profit for the year attributable to non-controlling interests	34,094	31,572
Balance at end of year	**193,222**	**130,529**

(*) Relates mainly to the effect of the capital increase carried out by AIG Consumer Finance Group, Inc. equal to 30% of the share capital of the subsidiary Santander Consumer Finanse, S.A. (Poland) (see Note 3).

30. Memorandum items

The detail of memorandum items is as follows:

	Thousands of Euros	
	2012	2011
Contingent liabilities:		
Bank guarantees and other indemnities provided	260,115	360,620
Of which:		
Credit institutions	*134,155*	*285,883*
Other sectors	*125,960*	*74,737*
Other contingent liabilities	3,901	23,788
	264,016	**384,408**
Contingent commitments:		
Drawable by third parties	8,719,118	7,955,198
Of which:		
Drawable by credit institutions (*)	*2,599,400*	*1,060,592*
Other sectors	*6,119,718*	*6,894,606*
Other contingent commitments	99,613	38,304
	8,818,731	**7,993,502**

(*) Relates mainly to credit facilities granted to Group associates and jointly controlled entities.

a) Contingent liabilities

The balance of “Contingent Liabilities” in the accompanying consolidated balance sheets includes the amounts that would be payable by the consolidated entities on behalf of third parties as a result of the commitments assumed by those entities in the course of their ordinary business, if the parties who are originally liable to pay failed to do so.

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

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

b) Contingent commitments

“Contingent Commitments” in the accompanying consolidated balance sheets includes those irrevocable commitments that could give rise to the recognition of financial assets.

31. Notional amounts of trading and hedging derivatives

The detail of the notional and/or contractual amounts and of the market values of the trading and hedging derivatives held by the Group at 31 December 2012 and 2011 is as follows:

	Thousands of Euros			
	2012		2011	
	Notional Amount	Market Value	Notional Amount	Market Value
Trading derivatives:				
Interest rate risk-				
Forward rate agreements	-	-	-	-
Interest rate swaps	16,078,229	(4,723)	17,659,431	(3,127)
Options and futures	-	-	-	-
Foreign currency risk-				
Foreign currency purchases and sales	-	-	-	-
Foreign currency options	-	-	-	-
Currency swaps	234,144	(1,388)	324,430	(9,681)
Securities and commodities derivatives	-		-	-
	16,312,373	(6,111)	17,983,861	(12,808)
Hedging derivatives:				
Interest rate risk-				
Forward rate agreements	-	-	-	-
Interest rate swaps	17,890,790	(621,386)	20,578,450	(476,764)
Options and futures	-	-	-	-
Foreign currency risk-				
Foreign currency purchases and sales	-	-	-	-
Foreign currency options	-	-	-	-
Currency swaps	1,070,888	18,063	222,820	682
Securities and commodities derivatives	-	-	-	-
	18,961,678	(603,323)	20,801,270	(476,082)
	35,274,051	**(609,434)**	**38,785,131**	**(488,890)**

The detail, by residual maturity period, of the notional and/or contractual amounts of the trading and hedging derivatives held by the Group at 31 December 2012 is as follows:

Trading derivatives-

	Thousands of Euros				
	Less than 1 Year	1 to 5 Years	5 to 10 Years	More than 10 Years	Total
Other interest rate transactions:					
Interest rate swaps (IRSs)	1,837,064	7,069,550	5,821,934	1,349,681	16,078,229
Currency swaps	203,324	30,820	-	-	234,144
Total	**2,040,388**	**7,100,370**	**5,821,934**	**1,349,681**	**16,312,373**

Hedging derivatives-

	Thousands of Euros				
	Less than 1 Year	1 to 5 Years	5 to 10 Years	More than 10 Years	Total
Other interest rate transactions:					
Interest rate swaps (IRSs)	2,748,084	11,525,320	3,617,386	-	17,890,790
Currency swaps	704,331	281,643	84,914	-	1,070,888
Total	**3,452,415**	**11,806,963**	**3,702,300**	**-**	**18,961,678**

The notional and/or contractual amounts of the contracts entered into do not reflect the actual risk assumed by the Group, since the net position in these financial instruments is the result of offsetting and/or combining them. This net position is used by the Group basically to hedge the interest rate, underlying asset price or foreign currency risk. The results on these financial instruments are recognised under "Gains/Losses on Financial Assets and Liabilities (Net)" in the consolidated income statements and increase or offset, as appropriate, the gains or losses on the investments hedged.

The fair value of the hedging derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement.

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

i. Fair value hedges

Fair value hedges are used to reduce the changes in the fair value (attributable to interest rate risk) of the hedged items. The overall aim of these hedges is to use interest rate derivatives to convert the fixed interest rate of net hedged assets to a floating interest rate.

At 2012 year-end, the Group held IRS contracts with a nominal amount of EUR 700 million (31 December 2011: EUR 700 million), the fair value of which represented a gain of EUR 76,677 thousand at that date (31 December 2011: EUR 67,841 thousand), which was offset by the loss of the same amount on the hedged items, which is recognised under "Financial Liabilities at Amortised Cost - Marketable Debt Securities" in the consolidated balance sheet (see Note 20).

In addition, at consolidated level the Group has arranged fair value macrohedges of the interest rate risk of portfolios of financial assets granted. The adjustment to the fair value of the hedged financial assets (long-term, fixed rate loans) was recognised under "Changes in the Fair Value of Hedged Items in Portfolio Hedges of Interest Rate Risk" on the asset side of the accompanying consolidated balance sheets with a charge or credit to "Gains/Losses on Financial Assets and Liabilities (Net)" in the accompanying consolidated income statements. This adjustment is offset by an adjustment of the opposite sign -arising from the measurement of the hedging derivatives (IRSs) associated with the hedged financial assets, the notional amount of which was EUR 14,173 million at 31 December 2012- recognised in "Gains/Losses on Financial Assets and Liabilities (Net)" in the accompanying consolidated income statement.

In 2012 the Group recognised losses amounting to EUR 21,024 thousand under "Gains/Losses on Financial Assets and Liabilities (Net) - Other" in the accompanying consolidated income statement for 2012, which relate to the ineffective portions of these macrohedges.

ii. Cash flow hedges

Cash flow hedges are used to reduce the variability in the cash flows of the hedged transactions. These hedges use interest rate swaps to convert the variability of the interest rates at which short-term financial liabilities are repriced.

The fair value of the IRSs associated with the hedged items, discounting the portion already accrued and recognised in the consolidated income statement, amounted to EUR -48,064 thousand at 31 December 2012 (31 December 2011: EUR -58,857 thousand). This amount was recognised in the Group's consolidated equity at 31 December 2012 (see Note 28).

32. Interest and similar income

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

The detail of the main items of interest and similar income earned by the Group in 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	2011
Balances with the Bank of Spain and other central banks	5,513	9,749
Loans and advances to credit institutions	134,684	117,891
Debt instruments	15,890	20,174
Loans and advances to customers	3,663,800	3,658,428
Insurance contracts linked to pensions (Note 14) (*)	461	1,111
Doubtful assets	24,859	25,935
Rectification of income as a result of hedge accounting and other interest	86,610	246,992
	3,931,817	**4,080,280**

(*) Includes the return on insurance policies of Spanish entities funding post-employment and other long-term benefits, amounting to EUR 437 thousand and EUR 4 thousand, respectively (2011: EUR 1,081 thousand and EUR 30 thousand, respectively) (see Note 23).

33. Interest expense and similar charges

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

The detail of the main items of interest expense and similar charges incurred by the Group in 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	2011
Balances with the Bank of Spain and other central banks	12,429	1,580
Deposits from credit institutions	382,469	483,181
Customer deposits	840,965	758,442
Marketable debt securities	182,612	232,011
Subordinated liabilities	56,636	27,831
Provisions for pensions (Notes 2-q, 2-r and 23) (*)	17,644	16,717
Rectification of expenses as a result of hedge accounting	292,108	415,254
Other interest	3,429	10,379
	1,788,292	**1,945,395**

(*) Includes the interest on post-employment and other long-term benefits of Spanish entities, amounting to EUR 1,236 thousand and EUR 3,089 thousand, respectively, in 2012 (2011: EUR 1,263 thousand and EUR 3,535 thousand, respectively), and of foreign entities, amounting to EUR 13,319 thousand (2011: EUR 11,919 thousand) (see Note 23).

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

"Share of Results of Entities Accounted for Using the Equity Method" in the consolidated income statements includes the amount of profit or loss attributable to the Group generated during the year by associates and jointly controlled entities.

The detail of this item is as follows (see Note 13):

	Thousands of Euros	
	2012	2011
Santander Benelux, S.A./N.V.	7,883	8,874
Konecta BTO, S.L.	2,432	1,059
Other companies	1,272	2,604
	11,587	**12,537**

35. Fee and commission income

The balance of "Fee and Commission Income" in the consolidated income statements comprises the amount of the fees and commissions earned in the year, except those that form an integral part of the effective interest rate on financial instruments, which are recognised under "Interest and Similar Income" in the accompanying consolidated income statements.

The detail of this item is as follows:

	Thousands of Euros	
	2012	2011
Collection and payment services:		
Bills	5	9
Demand accounts	16,829	11,278
Cards	71,561	74,819
Cheques and orders	45,959	43,713
	134,354	129,819
Marketing of non-banking financial products:		
Investment and pension funds	4,303	57
Insurance	632,499	641,225
Other	4,448	4,269
	641,250	645,551
Securities services:		
Securities trading	20,533	37,081
Administration and custody	4,223	3,378
Asset management	121	176
	24,877	40,635
Other:		
Financial guarantees	3,493	4,879
Other fees and commissions	231,251	277,899
	234,744	282,778
	1,035,225	**1,098,783**

36. Fee and commission expense

The balance of “Fee and Commission Expense” in the consolidated income statements shows the amount of fees and commissions paid or payable by the Group accruing in the year, except those that form an integral part of the effective interest rate on financial instruments, which are recognised under “Interest Expense and Similar Charges” in the accompanying consolidated income statements.

The detail of this item is as follows:

	Thousands of Euros	
	2012	2011
Brokerage fees on lending and deposit transactions	8,108	10,512
Fees and commissions assigned in respect of off-balance-sheet risks	486	190
Fees and commissions assigned for collection and return of bills	5,541	4,727
Fees and commissions assigned in other connections	7,966	8,847
Fees and commissions assigned for cards	29,463	26,434
Fees and commissions assigned for securities	13,123	13,703
Fees and commissions assigned to intermediaries	53,937	49,260
Other fees and commissions for placement of insurance	62,243	41,444
Other fees and commissions	70,780	87,132
	251,647	**242,249**

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

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

The detail of this item, by type of instrument, is as follows:

	Thousands of Euros	
	2012	2011
Financial derivatives	(13,780)	(21,846)
Fixed-income securities	3,156	(445)
Equities	13	(201)
Other	570	152
	(10,041)	**(22,340)**

38. Exchange differences (net)

"Exchange Differences (Net)" in the consolidated income statements includes basically the gains or losses on currency trading, the differences that arise on translating monetary items in foreign currencies to the functional currency, and those disclosed on non-monetary assets in foreign currency at the time of their disposal.

39. Other operating income

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

	Thousands of Euros	
	2012	2011
Sales and income from the provision of non-financial services (*)	42,395	46,866
Other	55,877	70,319
	98,272	**117,185**

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

40. Other operating expenses

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

	Thousands of Euros	
	2012	2011
Contributions to Deposit Guarantee Funds (Note 1-g)	25,467	24,026
Changes in inventories	28,924	37,172
Other operating expenses	54,789	56,017
	109,180	**117,215**

41. Staff costs

The detail of "Staff Costs" in the consolidated income statements includes the remuneration accruing in the year in any respect to permanent or temporary employees on the payroll, regardless of their function or duties.

The detail of "Staff Costs" is as follows:

	Thousands of Euros	
	2012	2011
Wages and salaries	401,782	391,928
Social security costs	68,778	67,113
Additions to pension provisions (Note 23) (*)	9,022	10,590
Contributions to defined contribution pension funds (Note 23)	7,763	6,754
Contributions to plans - Spanish entities	*303*	-
Contributions to plans - foreign entities	*7,460*	*6,754*
Share-based payment costs	3,436	3,364
Other staff costs	22,311	18,160
Termination benefits	2,000	2,341
	515,092	**500,250**

(*) Of which:

- In 2012, EUR 55 thousand relate to "current service cost of defined benefit post-employment obligations - Spanish entities" (2011: EUR 60 thousand) (see Notes 2-q and 23).
- In 2012, EUR 8,958 thousand relate to "current service cost of defined benefit post-employment obligations - foreign entities" (2011: EUR 10,521 thousand) (see Notes 2-q and 23).
- In 2012, EUR 9 thousand relate to "current service cost of other long-term defined benefit obligations - Spanish entities" (2011: EUR 9 thousand) (see Notes 2-r and 23).

The average number of employees at the Group in 2012 and 2011, by professional category, was as follows:

	Average Number of Employees	
	2012	2011
The Bank:		
Senior executives	2	2
Middle management	2	4
Clerical staff	4	3
	8	9
Other companies (*)	10,199	9,905
	10,207	**9,914**

(*) Excluding personnel assigned to discontinued operations.

The functional breakdown, by gender, of the number of employees at the Group at 31 December 2012 and 2011 is as follows:

	2012			2011		
	Total	Men	Women	Total	Men	Women
Senior executives	96	88	8	95	87	8
Middle management	516	382	134	545	400	145
Clerical staff and other	9,811	3,963	5,848	9,787	3,898	5,889
	10,423	**4,433**	**5,990**	**10,427**	**4,385**	**6,042**

At 31 December 2012 and 2011, the Board of Directors of the Bank had 9 members, of whom 2 were women.

The labour relations between employees and the various Group companies are governed by the related collective agreements or similar regulations.

Share-based payments

In recent years the Group has set up remuneration systems tied to the performance of the stock market price of the shares of Banco Santander, S.A., based on the achievement of certain targets. The detail of these systems at 2012 and 2011 year-end is as follows:

	Number of Shares	Year Granted	Employee Group	Number of Persons	Date of Commencement of Exercise Period	Date of Expiry of Exercise Period
Plans outstanding at 1 January 2011	**2,038,934**					
Options granted (Plan I14)	*827,626*	*2011*	Executives	221	17/06/11	31/07/14
Options exercised (Plan I11)	(504,614)	*2008*	Executives	163	21/06/08	31/07/11
Options cancelled, net (Plan I11)	(82,147)	2008	Executives	27	21/06/08	31/07/11
Plans outstanding at 31 December 2011	**2,279,799**					
Options granted	-	-	-	-	-	-
Options exercised (Plan I12)	(201,582)	*2009*	Executives	62	19/06/09	30/06/12
Options cancelled (Plan I12)	(470,359)	2009	Executives	145	19/06/09	30/06/12
Plans outstanding at 31 December 2012	**1,607,858**					
Of which:						
Plan I13	*780,232*	*2010*	Executives	*240*	11/06/10	31/07/13
Plan I14	*827,626*	*2011*	Executives	*221*	17/06/11	31/07/14

In 2007 the Santander Group approved a long-term incentive policy aimed at certain executive personnel of the Group companies. The plans shaping this policy include the Performance Share Plan which, since July 2007, has involved successive cycles of deliveries of shares of Banco Santander, S.A. to the plan beneficiaries. At 31 December 2012, the Santander Group had approved a total of six cycles, four of which had already been settled, one in 2012.

For each cycle a maximum number of shares is established for each beneficiary who remains in the Group's employ for the scheduled duration of the plan, which is three years, with the exception of the first cycle, which had a duration of two years. The targets, which, if met, determine the number of shares to be delivered are defined by comparing the Group's performance with that of a benchmark group of financial institutions, taking Total Shareholder Return as the reference parameter.

The ultimate number of shares to be delivered will be determined in each of the cycles by the degree of achievement of the targets on the third anniversary of commencement of each cycle, and the shares will be delivered within a maximum period of seven months from the beginning of the year in which the cycle ends.

Plan I12 matured in 2012. As established in the aforementioned plan, the number of shares received by each beneficiary was determined by the degree of achievement of the targets to which the Plan was tied and, since it fell short of the maximum number established, the unearned options were cancelled.

In relation to these plans, Banco Santander, S.A. entered into an agreement with the Group companies whereby it guarantees the delivery of the related shares at the appropriate time in exchange for a non-refundable fixed premium. The total cost of the plans (the maximum number of shares to be delivered valued at the cost of the aforementioned premium) is recognised under "Administrative Expenses - Staff Costs" in the income statement of each company over the accrual period –three years from the date of approval of each plan in force. At 31 December 2012, the expense recognised by the Group in this connection amounted to EUR 3,436 thousand (2011: EUR 3,364 thousand).

42. Other general administrative expenses

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

	Thousands of Euros	
	2012	2011
Property, fixtures and supplies	104,073	102,608
Other administrative expenses	36,246	40,356
Communications	43,752	44,340
Taxes other than income tax	19,792	23,490
Technology and systems	151,084	140,351
Public relations, advertising and publicity	68,825	72,420
Per diems and travel expenses	13,135	11,707
Outside services	234,903	231,679
Technical reports	29,935	38,952
Insurance premiums	3,577	3,565
Surveillance and cash courier services	878	779
	706,200	**710,247**

"Technical Reports" in the foregoing table includes the fees paid by the various Group companies to their respective auditors, the detail being as follows:

	Millions of Euros	
	2012	2011
Recurrent annual audits of the financial statements of the companies audited by member firms of the Deloitte worldwide organisation	3.0	3.4
Of which:		
Audit of the Bank's separate and consolidated financial statements	*0.6*	*0.6*

In addition to the audits of financial statements, the member firms of the Deloitte organisation performed the internal control audit required by the US Sarbanes-Oxley Act (for EUR 0.6 million in 2012 and 2011) and prepared other reports in accordance with the requirements of the tax and non-tax related legislation issued by the supervisory authorities of the countries in which the Group operates, including services required for the issuance of marketable securities, for a total of EUR 1.2 million in 2012 (2011: EUR 1.4 million). Also, these firms provided tax advisory services for EUR 0.4 million (2011: EUR 0.5 million) and other non-audit services for EUR 2.3 million (2011: EUR 2.1 million).

No due diligence review work or audit work relating to other corporate transactions was commissioned by the Group companies from their auditors in 2012 (2011: EUR 0.7 million in this connection).

The services commissioned from the Group's auditors meet the independence requirements stipulated by the consolidated Audit Law (Legislative Royal Decree 1/2011, of 31 July) and by the Sarbanes-Oxley Act of 2002, and they did not involve the performance of any work that is incompatible with the audit function.

The services provided by other audit firms amounted to EUR 5.9 million in 2012 (2011: EUR 4.2 million).

43. Impairment losses on other assets

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

	Thousands of Euros	
	2012	2011
Goodwill and other intangible assets:		
Goodwill (Note 16)	(249,047)	(59,295)
Other intangible assets (Note 16)	(15)	(4,317)
	(249,062)	(63,612)
Other assets:		
Other (*)	(146)	28
	(249,208)	**(63,584)**

(*) In 2012 this item includes gains of EUR 219 thousand from the reversal of impairment losses on property, plant and equipment (2011: EUR 506 thousand) (see Note 15).

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

The detail of “Gains (Losses) on Disposal of Assets Not Classified as Non-Current Assets Held for Sale” in the consolidated income statements is as follows:

	Thousands of Euros	
	2012	2011
Gains:		
Property, plant and equipment (Note 15)	1,015	2,062
Investments (Note 3)	-	370
Of which:		
Multirent - Aluguer e Comércio de Automóveis	-	*370*
	1,015	2,432
Losses:		
Property, plant and equipment (Note 15)	(3,377)	(5,778)
	(2,362)	**(3,346)**

45. Gains (losses) on non-current assets held for sale not classified as discontinued operations

The detail of "Gains (Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations" in the consolidated income statements is as follows:

	Thousands of Euros	
	2012	2011
Net gains (losses) on disposals:	(3,040)	6,728
Tangible assets (Note 12)	*(3,040)*	*6,728*
Impairment losses (net) (Note 12)	(10,929)	(46,175)
	(13,969)	**(39,447)**

46. Discontinued operations

In 2012 the Bank's directors considered the investments in the subsidiaries Santander Consumer Finance Zrt. (Hungary), Santander Consumer Leasing, s.r.o. and Santander Consumer Finance a.s. (both located in the Czech Republic) to be "discontinued operations".

The results generated by discontinued operations in 2012 and 2011 are indicated below:

	Thousands of Euros	
	2012	2011
Interest and similar income	8,762	19,373
Interest expense and similar charges	(1,233)	(4,126)
Net interest income	7,529	15,247
Income from equity instruments	-	13
Fee and commission expense	(131)	(270)
Fee and commission income	308	1,506
Exchange differences	(475)	286
Other operating income	-	115
Other operating expenses	(1)	(3)
Gross income	7,230	16,894
Administrative expenses	(5,438)	(10,126)
Depreciation and amortisation charge	(38)	(2,553)
Provisions (net)	-	(88)
Impairment losses on financial assets (net)	(15,205)	(22,553)
Loss from operations	(13,451)	(18,426)
Impairment losses on other assets (net)	-	(2,132)
Gains (losses) on disposal of assets not classified as non-current assets held for sale	2,176	(2,480)
Loss before tax	(11,275)	(23,038)
Income tax	(631)	(1,382)
Losses on disposal of investments (Note 3-b)	4,962	-
Loss from discontinued operations	**(6,944)**	**(24,420)**

Additionally, following is a detail of the net cash flows attributable to the operating, investing and financing activities of discontinued operations in 2012 and 2011:

	Thousands of Euros	
	2012	2011
Cash and cash equivalents at beginning of year	5	23
Cash flows from operating activities	6,257	5,662
Cash flows from investing activities	10	830
Cash flows from financing activities	(6,271)	(6,510)
Cash and cash equivalents at end of year	**1**	**5**

Loss per share from discontinued operations

The loss per share from discontinued operations, which coincides with the diluted loss per share from those operations, was EUR 0.01 in 2012 (2011: EUR 0.02) (see Note 4).

47. Other disclosures

a) Residual maturity periods and average interest rates

The detail, by maturity, of the balances of certain items in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	2012								
	Thousands of Euros								
	On Demand	Less than 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Undetermined or Undefined Maturity	Total	Average Interest Rate in 2012
Assets:									
Cash and balances with central banks	1,387,071	-	-	-	-	-	-	1,387,071	0.23%
Available-for-sale financial assets-									
Debt instruments (Note 7)	4	172,048	-	10,040	30,790	967	-	213,849	2.96%
Loans and receivables-									
Loans and advances to credit institutions (Note 6)	3,578,829	1,119,270	917,104	629,923	207,490	-	-	6,452,616	0.81%
Loans and advances to customers (Note 10)	2,510,116	2,203,812	3,690,282	9,344,095	24,516,713	14,348,206	-	56,613,224	6.27%
Debt instruments (Note 7)	-	1,417,920	-	2,023	-	-	-	1,419,943	-
	7,476,020	4,913,050	4,607,386	9,986,081	24,754,993	14,349,173	-	66,086,703	
Liabilities:									
Financial liabilities at amortised cost-									
Deposits from central banks (Note 18)	-	406,097	300,075	-	1,527,043	-	-	2,233,215	0.75%
Deposits from credit institutions (Note 18)	486,901	8,176,003	3,366,030	2,506,772	1,753,183	1,032,050	-	17,320,939	1.96%
Customer deposits (Note 19)	10,597,370	4,688,879	2,173,105	6,213,184	8,064,523	377,079	-	32,114,140	2.53%
Marketable debt securities (Note 20)	-	394,287	23,289	1,447,483	2,367,433	3,468,479	-	7,700,971	2.42%
Subordinated liabilities (Note 21)	2,336	764	-	-	430,513	1,090,942	-	1,524,555	0.30%
Other financial liabilities (Note 22)	160,127	23,593	293	410,719	8,610	42,853	-	646,195	-
	11,246,734	13,689,623	5,862,792	10,578,158	14,151,305	6,011,403	-	61,540,015	
Difference (assets less liabilities)	**(3,770,714)**	**(8,776,573)**	**(1,255,406)**	**(592,077)**	**10,603,688**	**8,337,770**	**-**	**4,546,688**	

	2011								
	Thousands of Euros								
	On Demand	Less than 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Undetermined or Undefined Maturity	Total	Average Interest Rate in 2011
Assets:									
Cash and balances with central banks	857,339	-	-	-	-	-	-	857,339	0.70%
Available-for-sale financial assets-									
Debt instruments (Note 7)	20	91,440	-	26,986	72,913	967	-	192,326	3.06%
Loans and receivables-									
Loans and advances to credit institutions (Note 6)	4,079,631	1,816,159	1,627,611	1,117,941	435,295	113,697	-	9,190,334	0.91%
Loans and advances to customers (Note 10)	2,727,911	1,270,349	3,435,411	10,226,438	24,153,425	14,795,665	-	56,609,199	6.68%
Debt instruments (Note 7)	-	2,194	456,472	-	-	39,160	-	497,826	1.33%
	7,664,901	3,180,142	5,519,494	11,371,365	24,661,633	14,949,489	-	67,347,024	
Liabilities:									
Financial liabilities at amortised cost-									
Deposits from central banks (Note 18)	-	-	-	-	515,143	-	-	515,143	1.00%
Deposits from credit institutions (Note 18)	465,321	7,824,794	2,939,211	3,580,169	3,710,314	1,088,619	-	19,608,428	2.92%
Customer deposits (Note 19)	11,602,774	149,019	4,464,561	3,736,916	12,693,388	415,556	-	33,062,214	2.48%
Marketable debt securities (Note 20)	12,218	698,438	42,033	536,230	3,184,501	3,246,000	-	7,719,420	2.53%
Subordinated liabilities (Note 21)	2,580	9	-	-	481,193	294,086	-	777,868	0.70%
Other financial liabilities (Note 22)	194,066	29,282	-	-	-	56,238	-	279,586	-
	12,276,959	8,701,542	7,445,805	7,853,315	20,584,539	5,100,499	-	61,962,659	
Difference (assets less liabilities)	**(4,612,058)**	**(5,521,400)**	**(1,926,311)**	**3,518,050**	**4,077,094**	**9,848,990**	**-**	**5,384,365**	

b) *Equivalent euro value of assets and liabilities*

The detail of the main foreign currency balances in the accompanying consolidated balance sheets, based on the nature of the related items, is as follows:

	Equivalent Value in Millions of Euros			
	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Cash and balances with central banks	174	-	26	-
Available-for-sale financial assets	174	-	100	-
Loans and receivables	8,268	-	8,582	-
Hedging derivatives	-	-	-	-
Non-current assets held for sale	74	-	169	-
Investments	3	-	3	-
Tangible assets	27	-	25	-
Intangible assets	232	-	217	-
Financial liabilities at amortised cost	-	7,866	-	6,614
Liabilities associated with non-current assets held for sale	-	1	-	10
Other assets and liabilities	214	310	203	267
	9,166	**8,177**	**9,325**	**6,891**

c) *Fair value of financial assets and liabilities not measured at fair value*

The financial assets owned by the Group are measured at fair value in the consolidated balance sheets, except for loans and receivables. Similarly, the Group's financial liabilities -except for financial liabilities held for trading and derivatives- are measured at amortised cost in the consolidated balance sheets.

i. Financial assets measured at other than fair value

Following is a comparison of the carrying amounts of the Group's financial assets measured at other than fair value and their respective fair values at year-end:

Assets	Millions of Euros			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loans and receivables:				
Loans and advances to credit institutions	6,453	6,426	9,190	9,190
Loans and advances to customers	56,613	57,874	56,609	58,548
Debt instruments	1,420	1,420	498	498
	64,486	**65,720**	**66,297**	**68,236**

ii. Financial liabilities measured at other than fair value

Following is a comparison of the carrying amounts of the Group's financial liabilities measured at other than fair value and their respective fair values at year-end:

Liabilities	Millions of Euros			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities at amortised cost:				
Deposits from central banks and credit institutions	19,554	19,554	20,124	20,258
Customer deposits	32,114	32,085	33,062	33,061
Marketable debt securities	7,701	7,698	7,719	7,719
Subordinated liabilities	1,525	1,525	778	778
Other financial liabilities	646	646	280	280
	61,540	**61,508**	**61,963**	**62,096**

48. Geographical and business segment reporting

a) Geographical segments

This primary level of segmentation, which is based on the Group's management structure, comprises five segments relating to five operating areas. The operating areas, which include all the business activities carried on therein by the Group, are Spain, Italy, Germany, Scandinavia, Poland and Other Areas.

The financial statements of each operating segment are prepared by aggregating the figures for the Group's various business units. The basic information used for segment reporting comprises the accounting data of the legal units composing each segment and the data available from the management information systems.

All segment financial statements have been prepared on a basis consistent with the accounting policies used by the Group. Consequently, the sum of the figures in the income statements of the various segments is equal to those in the consolidated income statements. With regard to the balance sheet, due to the required segregation of the various business units (included in a single consolidated balance sheet), the amounts lent and borrowed between the units are shown as increases in the assets and liabilities of each business. These amounts relating to intra-Group liquidity are eliminated and are shown in the "Intra-Group Eliminations" column in the table below in order to reconcile the amounts contributed by each business unit to the consolidated Group's balance sheet.

Additionally, for segment presentation purposes, the equity shown for each geographical unit is that reflected in the related separate financial statements and is offset as a capital endowment made by the Spain area, which acts as the holding unit for the other businesses and, therefore, reflects the Group's total equity.

The condensed balance sheets and income statements of the various geographical segments are as follows:

Thousands of Euros — 2012

Consolidated Balance Sheet (Condensed)	Spain	Italy	Germany	Scandi-navia	Poland	Other Areas	Intra-Group Eliminations (*)	Total
Loans and advances to customers	8,994,564	6,525,961	29,654,387	7,980,897	2,663,882	3,518,981	(2,725,448)	56,613,224
Financial assets held for trading	54,627	6,758	43,317	-	.	-	(12,129)	92,573
Debt instruments	980,176	766,492	277,278	56	171,760	1,287	(563,257)	1,633,792
Loans and advances to credit institutions	10,118,105	196,973	6,098,045	493,644	129,694	179,550	(10,763,395)	6,452,616
Tangible and intangible assets	224,326	20,894	568,493	104,797	43,922	29,079	1,468,214	2,459,725
Other asset accounts	407,753	337,933	1,735,060	221,515	288,134	220,176	666,595	3,877,166
Total assets	**20,779,551**	**7,855,011**	**38,376,580**	**8,800,909**	**3,297,392**	**3,949,073**	**(11,929,420)**	**71,129,096**
Customer deposits	226,765	269,204	29,894,446	38,759	1,635,515	26,887	22,564	32,114,140
Marketable debt securities	3,493,247	626,420	1,040,725	1,610,408	272,692	-	657,479	7,700,971
Subordinated liabilities	241,961	-	376,555	24,504	-	-	881,535	1,524,555
Deposits from central banks and credit institutions	11,599,702	6,127,605	1,650,508	6,067,507	616,747	2,713,757	(9,221,672)	19,554,154
Other liability accounts	1,062,498	263,897	1,840,521	256,967	334,312	145,367	(204,376)	3,699,186
Equity	4,155,378	567,885	3,573,825	802,764	438,126	1,063,062	(4,064,950)	6,536,090
Total funds under management	**20,779,551**	**7,855,011**	**38,376,580**	**8,800,909**	**3,297,392**	**3,949,073**	**(11,929,420)**	**71,129,096**

Thousands of Euros — 2011

Consolidated Balance Sheet (Condensed)	Spain	Italy	Germany	Scandi-navia	Poland	Other Areas	Intra-Group Eliminations (*)	Total
Loans and advances to customers	9,124,229	7,481,079	29,276,924	6,909,205	2,636,238	3,743,101	(2,561,577)	56,609,199
Financial assets held for trading	54,627	2,980	65,694	-	-	-	(978)	122,323
Debt instruments	980,310	456,472	93,009	39,160	98,155	1,162	(978,116)	690,152
Loans and advances to credit institutions	12,988,891	63,414	9,703,210	139,664	130,055	94,052	(13,928,952)	9,190,334
Tangible and intangible assets	189,220	18,651	408,854	95,623	39,716	30,408	1,795,195	2,577,667
Other asset accounts	464,087	332,441	1,417,645	219,875	105,450	118,653	710,381	3,368,532
Total assets	**23,801,364**	**8,355,037**	**40,965,336**	**7,403,527**	**3,009,614**	**3,987,376**	**(14,964,047)**	**72,558,207**
Customer deposits	595,330	255,217	31,332,315	33,380	1,111,023	28,046	(293,097)	33,062,214
Marketable debt securities	4,087,203	834,653	1,997,388	1,356,157	214,754	-	(770,735)	7,719,420
Subordinated liabilities	278,256	321,499	378,042	84,600	34,158	-	(318,687)	777,868
Deposits from central banks and credit institutions	14,529,406	6,013,683	1,358,990	5,021,851	1,020,435	2,720,543	(10,541,337)	20,123,571
Other liability accounts	627,080	381,920	2,815,614	220,753	267,869	213,257	(305,206)	4,221,287
Equity	3,684,089	548,065	3,082,987	686,786	361,375	1,025,530	(2,734,985)	6,653,847
Total funds under management	**23,801,364**	**8,355,037**	**40,965,336**	**7,403,527**	**3,009,614**	**3,987,376**	**(14,964,047)**	**72,558,207**

Thousands of Euros — 2012

Consolidated Income Statements (Condensed)	Spain	Italy	Germany	Scandi-navia	Poland	Other Areas (*)	Total
NET INTEREST INCOME	**333,295**	**255,628**	**943,653**	**332,396**	**219,049**	**59,504**	**2,143,525**
Share of results of entities accounted for using the equity method	4,009	-	986	-	-	6,592	11,587
Net fee and commission income	42,486	57,413	511,593	19,402	93,839	58,845	783,578
Gains/losses on financial assets and liabilities (net)	2,656	(885)	(11,423)	(1,553)	(2,187)	3,351	(10,041)
Other operating income/(expenses)	5,541	1,714	(29,628)	10,119	(2,143)	7,666	(6,731)
GROSS INCOME	**387,987**	**313,870**	**1,415,181**	**360,364**	**308,558**	**135,958**	**2,921,918**
Administrative expenses	(112,025)	(86,750)	(662,081)	(128,168)	(105,873)	(126,395)	(1,221,292)
Staff costs	(55,860)	(44,723)	(328,530)	(70,625)	(56,714)	41,360	(515,092)
Other general administrative expenses	(56,165)	(42,027)	(333,551)	(57,543)	(49,159)	(167,755)	(706,200)
Depreciation and amortisation charge	(17,287)	(10,662)	(103,652)	(13,154)	(12,264)	28,585	(128,434)
Provisions (net)	(23,760)	1,756	(8,044)	(3,144)	(5,113)	(55,299)	(93,604)
Impairment losses on financial assets (net)	(96,879)	(244,964)	(178,206)	(68,827)	(38,780)	(153,362)	(781,018)
PROFIT (LOSS) FROM OPERATIONS	**138,036**	**(26,750)**	**463,198**	**147,071**	**146,528**	**(170,513)**	**697,570**
Other gains/(losses)	106	-	-	-	(16)	(265,629)	(265,539)
PROFIT (LOSS) BEFORE TAX	**138,142**	**(26,750)**	**463,198**	**147,071**	**146,512**	**(436,142)**	**432,031**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**120,684**	**(16,860)**	**479,785**	**119,421**	**127,060**	**(509,069)**	**321,021**
Profit (Loss) from discontinued operations (net)	**-**	**-**	**-**	**-**	**-**	**(6,944)**	**(6,944)**
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**120,684**	**(16,860)**	**479,785**	**119,421**	**127,060**	**(516,013)**	**314,077**
Profit (Loss) attributable to the Parent	**121,012**	**(17,037)**	**479,785**	**119,421**	**161,003**	**(584,201)**	**279,983**

Thousands of Euros — 2011

Consolidated Income Statements (Condensed)	Spain	Italy	Germany	Scandi-navia	Poland	Other (*)	Total
NET INTEREST INCOME	**371,103**	**235,952**	**1,058,927**	**287,151**	**232,448**	**(50,696)**	**2,134,885**
Share of results of entities accounted for using the equity method	3,218	-	-	-	-	9,319	12,537
Net fee and commission income	56,386	77,900	568,490	11,640	82,119	59,999	856,534
Gains/losses on financial assets and liabilities (net)	(2,546)	(459)	(9,566)	68	(23)	(9,814)	(22,340)
Other operating income/(expenses)	4,146	6,083	(17,230)	6,384	(1,326)	2,300	357
GROSS INCOME	**432,307**	**319,476**	**1,600,621**	**305,243**	**313,218**	**11,108**	**2,981,973**
Administrative expenses	(119,048)	(90,240)	(663,969)	(115,857)	(101,887)	(119,496)	(1,210,497)
Staff costs	(57,956)	(44,254)	(305,131)	(65,050)	(53,317)	25,458	(500,250)
Other general administrative expenses	(61,092)	(45,986)	(358,838)	(50,807)	(48,570)	(144,954)	(710,247)
Depreciation and amortisation charge	(15,671)	(10,625)	(62,990)	(12,525)	(11,974)	10,827	(102,958)
Provisions (net)	(758)	-	(1,221)	-	(1,094)	(47,804)	(50,877)
Impairment losses on financial assets (net)	(142,344)	(209,389)	(309,910)	(36,867)	(63,320)	(91,474)	(853,304)
PROFIT (LOSS) FROM OPERATIONS	**154,486**	**9,222**	**562,531**	**139,994**	**134,943**	**(236,839)**	**764,337**
Other gains/(losses)	(48,209)	2,915	(29,470)	(2,501)	(18,641)	(10,471)	(106,377)
PROFIT (LOSS) BEFORE TAX	**106,277**	**12,137**	**533,061**	**137,493**	**116,302**	**(247,310)**	**657,960**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**97,288**	**7,414**	**492,753**	**112,063**	**104,179**	**(322,311)**	**491,386**
Profit (Loss) from discontinued operations (net)	**-**	**-**	**-**	**-**	**-**	**(24,420)**	**(24,420)**
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**97,288**	**7,414**	**492,753**	**112,063**	**104,179**	**(346,731)**	**466,966**
Profit (Loss) attributable to the Parent	**100,068**	**8,022**	**492,753**	**112,063**	**132,362**	**(409,874)**	**435,394**

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

Also, pursuant to CNMV Circular 1/2008, following is a detail:

1. By the geographical areas indicated in the aforementioned Circular, of the balance of "Interest and Similar Income" recognised in the consolidated income statements for 2012 and 2011:

	Thousands of Euros	
	31/12/12	31/12/11
Spain	472,028	523,934
Abroad:		
European Union	3,002,133	3,233,897
OECD countries	457,656	322,449
Other countries	-	-
	3,459,789	3,556,346
Total	**3,931,817**	**4,080,280**

2. Of revenue, by the geographical segments used by the Group. For the purposes of the table below, revenue is deemed to be that recognised under “Interest and Similar Income”, “Income from Equity Instruments”, “Fee and Commission Income”, “Gains/Losses on Financial Assets and Liabilities (Net)” and “Other Operating Income” in the consolidated income statements for 2012 and 2011:

	Revenue (Thousands of Euros)					
	Revenue from External Customers		Inter-Segment Revenue		Total Revenue	
	31/12/12	31/12/11	31/12/12	31/12/11	31/12/12	31/12/11
Spain and Portugal	689,629	751,113	447,528	450,948	1,137,157	1,202,061
Italy	540,665	608,939	3,964	3,085	544,629	612,024
Germany	2,511,203	2,695,395	257,180	416,787	2,768,383	3,112,182
Scandinavia	611,394	539,157	77,497	24,095	688,891	563,252
Poland	459,114	429,604	13,119	3,857	472,233	433,461
Other	243,313	249,720	10,111	10,582	253,424	260,302
Inter-segment revenue adjustments and eliminations	-	-	(809,399)	(909,354)	(809,399)	(909,354)
Total	**5,055,318**	**5,273,928**	**-**	**-**	**5,055,318**	**5,273,928**

b) Business segments

At the secondary level of segment reporting, the Group is structured into three businesses, one for each of the main products marketed.

The "Automotive" business comprises all the businesses related to the financing of new and used vehicles, including operating and finance leases.

The "Consumer Finance and Cards" business reflects the income from the consumer finance business not included in the Direct Finance Business and the card financing, issue and management business.

The "Direct Finance" business includes the results from the consumer finance business conducted through own channels, with no dealer intermediation.

"Other Business" includes operations that are not included in any of the aforementioned categories, mainly mortgages and the contribution to consolidated results of all the activities performed by the Group related to mortgage lending and the inventory credit (“crédito stock”) business, which includes the contribution to the Group of all the transactions related to the “crédito stock” product.

The condensed consolidated income statements for 2012 and 2011, by business, are as follows:

(Condensed) Consolidated Income Statement	Thousands of Euros				
	2012				
	Automotive	Consumer Finance and Cards	Direct Finance	Other Business (*)	Total
NET INTEREST INCOME	**982,540**	**281,996**	**832,235**	**46,754**	**2,143,525**
Share of results of entities accounted for using the equity method	-	(290)	-	11,877	11,587
Net fee and commission income	268,393	107,649	302,847	104,689	783,578
Gains/losses on financial assets and liabilities (net)	-	(7)	(8)	(10,026)	(10,041)
Other operating income/(expenses)	9,775	(1,658)	1,054	(15,902)	(6,731)
GROSS INCOME	**1,260,708**	**387,690**	**1,136,128**	**137,392**	**2,921,918**
Administrative expenses	(310,020)	(118,048)	(218,463)	(574,761)	(1,221,292)
Staff costs	(172,196)	(55,797)	(114,054)	(173,045)	(515,092)
Other general administrative expenses	(137,824)	(62,251)	(104,409)	(401,716)	(706,200)
Depreciation and amortisation charge	(41,857)	(9,875)	(20,879)	(55,823)	(128,434)
Provisions	519	(864)	(428)	(92,831)	(93,604)
Impairment losses on financial assets (net)	(274,023)	(98,505)	(284,368)	(124,122)	(781,018)
PROFIT (LOSS) FROM OPERATIONS	**635,327**	**160,398**	**611,990**	**(710,145)**	**697,570**
Other gains/(losses)	519	(864)	(428)	(264,766)	(265,539)
PROFIT (LOSS) BEFORE TAX	**635,846**	**159,534**	**611,562**	**(974,911)**	**432,031**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**470,178**	**117,968**	**452,223**	**(719,348)**	**321,021**
Loss from discontinued operations (net)	-	-	-	(6,944)	(6,944)
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**470,178**	**117,968**	**452,223**	**(726,292)**	**314,077**

(*) “Other Business” includes mainly the results from the deposit and managed asset businesses, which are not individually material for the Group as a whole, and those arising from the Group’s financial management activity.

(Condensed) Consolidated Income Statement	Thousands of Euros				
	2011				
	Automotive	Consumer Finance and Cards	Direct Finance	Other (*)	Total
NET INTEREST INCOME	**897,391**	**271,296**	**764,229**	**201,969**	**2,134,885**
Share of results of entities accounted for using the equity method	-	-	-	12,537	12,537
Net fee and commission income	313,383	123,411	311,916	107,824	856,534
Gains/losses on financial assets and liabilities (net)	-	(11)	(12)	(22,317)	(22,340)
Other operating income/(expenses)	11,557	(727)	2,319	(12,792)	357
GROSS INCOME	**1,222,331**	**393,969**	**1,078,452**	**287,221**	**2,981,973**
Administrative expenses	(332,906)	(144,067)	(227,173)	(506,351)	(1,210,497)
Staff costs	(172,623)	(66,468)	(112,860)	(148,299)	(500,250)
Other general administrative expenses	(160,283)	(77,599)	(114,313)	(358,052)	(710,247)
Depreciation and amortisation charge	(43,360)	(13,206)	(23,523)	(22,869)	(102,958)
Provisions	7,033	-	52	(57,962)	(50,877)
Impairment losses on financial assets (net)	(278,706)	(94,919)	(318,941)	(160,738)	(853,304)
PROFIT (LOSS) FROM OPERATIONS	**574,392**	**141,777**	**508,867**	**(460,699)**	**764,337**
Other gains/(losses)	(161)	(1,179)	-	(105,037)	(106,377)
PROFIT (LOSS) BEFORE TAX	**574,231**	**140,598**	**508,867**	**(565,736)**	**657,960**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**424,618**	**103,966**	**376,283**	**(413,481)**	**491,386**
Profit (Loss) from discontinued operations (net)	(10,228)	(94)	873	(14,971)	(24,420)
CONSOLIDATED PROFIT (LOSS) FOR THE YEAR	**414,390**	**103,872**	**377,156**	**(428,452)**	**466,966**

(*) “Other” includes mainly the results from the deposit and managed asset businesses, which are not individually material for the Group as a whole, and those arising from the Group’s financial management activity.

49. Related parties

The Group’s related parties are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, the Bank’s key management personnel (the members of its Board of Directors and the General Managers, together with their close family members) and the entities over which the key management personnel may exercise significant influence or control.

Following is a detail of the transactions performed by the Group with its related parties at 31 December 2012 and 2011, distinguishing between associates, Santander Group entities, members of the Bank's Board of Directors and the Bank’s senior managers, and of the income and expenses arising from the transactions with these related parties in 2012 and 2011. Related party transactions were made on terms equivalent to those prevailing in arm's-length transactions.

	Thousands of Euros							
	2012				2011			
	Associates	Santander Group Entities	Members of the Board of Directors	Senior Managers	Associates	Santander Group Entities	Members of the Board of Directors	Senior Managers
Assets:								
Loans and advances to credit institutions (Note 6)	2,607,093	2,940,508	-	-	4,307,579	2,587,676	-	-
Loans and receivables-								
Loans and advances to customers (Note 10)	-	12,666	37	12	-	13,974	-	13
Debt instruments (Note 7)	-	1,417,827	-	-	-	456,472	-	-
Trading derivatives (Note 9)	-	78,394	-	-	-	100,296	-	-
Hedging derivatives (Note 11)	-	19,661	-	-	-	2,620	-	-
Other assets (Note 17)	9,225	5,544	-	-	7,585	5,513	-	-
Liabilities:								-
Deposits from credit institutions (Note 18)	4,887,489	10,079,177	-	-	4,736,905	10,408,692	-	-
Customer deposits (Note 19)	10,381	218,169	-	106	3,683	42,536	-	-
Marketable debt securities (Note 20)	894,739	723,517	-	-	1,042,792	1,084,976	-	-
Subordinated liabilities (Note 21)	220,015	1,304,540	-	-	255,788	522,080	-	-
Other financial liabilities (Note 22)	3	481,281	-	-	-	82,302	-	-
Trading derivatives (Note 9)	-	83,772	-	-	-	135,131	-	-
Hedging derivatives (Note 11)	-	695,978	-	-	-	538,155	-	-
Other liabilities (Note 17)	531	9,496	-	-	36	13,578	-	-
Income statement:								-
Interest and similar income (Note 32)	40,351	57,518	-	-	73,497	39,441	-	-
Interest expense and similar charges (Note 33)	(190,571)	(182,508)	-	-	(176,515)	(270,294)	-	-
Fee and commission income (Note 35)	40,351	3,062	-	-	46,207	4,861	-	-
Fee and commission expense (Note 36)	(3,659)	(4,223)	-	-	-	(2,950)	-	-
Gains/losses on financial assets and liabilities (net) (Note 37)	-	(172,284)	-	-	-	342,990	-	-
Exchange differences (Note 38)	-	9,721	-	-	-	6,611	-	-
Other operating income (Note 39)	-	371	-	-	112	246	-	-
Other general administrative expenses (Note 42)	(4,719)	(220,834)	-	-	(5,434)	(215,967)	-	-
Gains/(losses) on disposal of assets not classified as non-current assets held for sale (Note 44)	-	-	-	-	-	-	-	-
Memorandum items:								
Contingent liabilities (Note 30)	-	126,887	-	-	-	259,621	-	-
Contingent commitments (Note 30)	2,489,500	6,010	-	-	1,078,692	10,010	-	-

50. Risk management

Corporate risk management principles

As part of the Santander Group, Santander Consumer Finance's risk management is based on the following principles:

- Involvement of senior management. Banco Santander's Risk Committee and the Group units' senior management committees are structured so as to involve management in the overall risk oversight process.

- Independence of the risk function with respect to the business. The Risk Area Manager at Santander Consumer Finance, as Deputy General Manager of the Santander Group, reports directly to the General Manager of the Group's Risk Division, who in turn reports to Mr Matías Rodríguez Inciarte who, as Third Deputy Chairman and in his capacity as Chairman of the Risk Committee, reports directly to the Executive Committee and the Board. The separation of the functions of the business areas (risk-takers) and those of the risk areas responsible for risk measurement, analysis, control and reporting provides sufficient independence and autonomy for the performance of adequate risk control.

- Decisions by consensus (even at branch level), which ensure that different opinions are taken into account and avoid situations in which individual decision-making powers are delegated.

- Decisions on credit transactions are taken jointly by the risk and commercial areas.

- Definition of responsibilities. The type of activities to be performed, segments, risks to be assumed and risk decisions to be made are clearly defined for each risk-taking unit and, where appropriate, each risk management unit, based on the powers delegated to them. How these transactions should be arranged and managed and where they should be recognised for accounting purposes is also defined.

- Risk measurement. Risk measurement takes into account all risk exposures assumed across the business spectrum and uses measures based on the components and dimensions of risk throughout its life-cycle for the management of risk at any given time.

- From a qualitative standpoint, this integrated vision translates into the use of a series of comprehensive metrics, mainly the charge for capital at risk and the return on risk-adjusted capital (RORAC).

- Risk limitation. This aims to limit, in an efficient and comprehensive manner, the maximum levels of risk that are set for the various risk measures, where the risks being incurred are known and the Group has the infrastructure required for their management, control and reporting. It also aims to ensure that undesired types of risk are not incurred and that the capital charge, by risk type, exposure and loss, does not exceed the approved maximum limits.

- Establishment of risk policies and procedures. The risk policies and procedures constitute the basic regulatory framework, consisting of circulars, frameworks and operating rules, through which risk activities and processes are regulated.

- Definition and assessment of risk methodologies. Risk methodologies provide the definitions of the internal risk models applicable by the Group, and, therefore, stipulate the risk measures, product valuation methods, yield curve and market data series building methods, calculation of risk-based capital requirements and other risk analysis methods, and the respective calibration and testing processes.

As part of the Santander Group, the risk management and control process at Santander Consumer Finance is structured in the following phases:

- Establishment of the risk management frameworks and policies that reflect the principles and standards governing the general modus operandi of the Santander Group's risk activities, based on a corporate risk management framework, which includes the organisational and management models, as well as a series of more specific corporate frameworks for the functions accountable to the risk unit. Local risk units transpose corporate risk regulations into their internal policies and develop the procedures required to implement them.

- Identification of risks, through the constant review and monitoring of exposures, the assessment of new products and businesses and the specific analysis of singular transactions.

- Measurement of risks using methodologies and models implemented subject to a validation and approval process.

- Definition of the Group’s risk appetite by setting overall and specific limits for the various types of risks, products, customers, groups, sectors and geographical locations.

- Preparation and distribution of a complete set of reports that are reviewed daily by the heads at all levels of Santander management.

- Implementation of a risk control system which checks, on a daily basis, the degree to which Santander’s risk profile matches the risk policies approved and the risk limits set.

For many years the Santander Group has managed risk using a number of techniques and tools which are described in detail in various sections of this Note. The most noteworthy of these techniques and tools, due to the foresight with which Santander implemented them at the time and their current significance in light of the New Basel Capital Accord (BIS II), are as follows:

- Internal ratings- and scorings-based models which, by assessing the various qualitative and quantitative risk components by customer and transaction, make it possible to estimate, firstly, the probability of default and, subsequently, the expected loss, based on LGD estimates.

- Economic capital, as a homogeneous measure of the risk assumed and a basis for the measurement of the management performed.

- RORAC, which is used both as a transaction pricing tool (bottom-up approach) and in the analysis of portfolios and units (top-down approach).

- VaR, which is used for controlling market risk and setting the market risk limits for the various trading portfolios.

- Scenario analysis and stress testing to supplement market and credit risk analyses in order to assess the impact of alternative scenarios, even on provisions and capital.

Consequently, Santander Consumer Finance’s risk management fully identifies with BIS II principles, insofar as it recognises and supports the leading-edge industry practices that the Group has implemented in advance.

The Santander Group calculates the minimum regulatory capital in conformity with Bank of Spain Circular 3/2008 on the calculation and control of minimum capital requirements for credit institutions. This Circular completed the transposition into Spanish banking legislation of the Directives (2006/48/EC and 2006/49/EC) that incorporated the New Basel Capital Accord (BIS II) into European Union legislation.

As a result of the new developments in the regulatory framework, commonly referred to as BIS III, the Santander Group has taken measures to apply the future requirements of BIS III -increased levels of high-quality capital and adequate capital conservation and countercyclical buffers- sufficiently in advance.

Also, the Santander Group is preparing, per the required schedule, the two new liquidity ratios indicated in BIS III, currently in the observation period, which guarantee sufficient liquidity even in stress scenarios. These ratios are the Liquidity Coverage Ratio (LCR) for the short term (30 days) and the Net Stable Funding Ratio (NSFR), which relates to the structure of financing.

Following is an analysis of the Group's main types of risk: credit, market and operational risks.

Credit risk-

Introduction to the treatment of credit risk

Credit risk is the possibility of loss stemming from the total or partial failure of our customers or counterparties to meet their financial obligations to the Group.

The specialisation of the risk function at Santander Consumer Finance is based on the type of customer and, accordingly, a distinction is made between individualised customers and standardised customers throughout the risk management process:

- Individualised customers are defined as those to which a risk analyst has been assigned, basically because of the risk assumed. This category includes wholesale banking customers, financial institutions and certain enterprises belonging to retail banking. Risk management is performed through expert analysis supplemented by decision-making support tools based on internal risk assessment models, supervised by an analyst.

- Standardised customers are those which have not been expressly assigned a risk analyst. This category generally includes individuals, individual traders, and retail banking enterprises not classified as individualised customers. Management of these risks is based on internal risk assessment and automatic decision-making models, supplemented subsidiarily, when the model is not comprehensive enough or is not sufficiently accurate, by teams of analysts specialising in this type of risk.

Main aggregates and variations

The profile of the credit risk assumed by Santander Consumer Finance is characterised by a diversified geographical distribution and the prevalence of retail banking operations.

a) Global credit risk map- 2012

The following table shows a detail of the Group's global credit risk map in its core business, disregarding valuation adjustments:

SCF Group - Gross Credit Risk Exposure			
	2012 (Millions of Euros)	Change on December 2011	% of Portfolio
Germany	30,307	0.57%	51.62%
The Netherlands	1,218	-0.65%	2.07%
Spain	6,874	-3.60%	11.71%
Italy	6,633	-12.03%	11.30%
Portugal	1,011	-21.20%	1.72%
Nordic countries	8,087	15.48%	13.77%
Poland	3,079	3.01%	5.24%
Austria	1,509	4.50%	2.57%
SCF Group	**58,718**	**-0.06%**	**100.00%**

Credit risk exposure fell by 0.06% in year-on-year terms as a result of the decline in the portfolios in Italy, the Netherlands, Spain and Portugal that was not offset by the growth in the Nordic countries, Austria, Poland and Germany.

Germany accounts for 51.62% of this exposure, followed by the Nordic countries, Spain and Italy which account for over 10%.

b) Variations in main aggregates in 2012

The changes in non-performing loans and the cost of credit reflect the impact of the deterioration of the economic environment, mitigated by prudent risk management, which generally enabled the Group to keep these data at levels below those of its competitors. As a result, Santander Consumer Finance has a significant coverage ratio and a high level of available general reserves.

The non-performing loans ratio was 3.94% at 31 December 2012 (31 December 2011: 4.02%), i.e., it fell by 8 basis points in 2012. The NPL coverage ratio stood at 109%, maintaining the high levels at 2011 year-end.

The distribution, by business line, of loans and advances to customers at 31 December 2012 is as follows:

	Thousands of Euros							
			Secured Loans. Loan-to-Value Ratio					
	Property Mortgage Guarantee	Other Collateral	Less than or Equal to 40%	More than 40% and Less than or Equal to 60%	More than 60% and Less than or Equal to 80%	More than 80% and Less than or Equal to 100%	More than 100%	Total
Public sector	-	-	-	-	-	-	-	2,517
Other financial institutions	-	-	-	-	-	-	-	49,584
Non-financial companies and individual traders	70,054	153,261	15,979	40,651	12,788	153,689	207	14,770,400
Of which:								
Construction and property development	-	-	-	-	-	-	-	5,724
Civil engineering construction	-	-	-	-	-	-	-	112,093
Large companies	34,312	-	2,500	29,846	1,657	309	-	1,077,835
SMEs and individual traders	35,742	153,261	13,479	10,805	11,131	153,380	207	13,574,748
Other households and non-profit institutions serving households (NPISHs)	10,339,853	309,275	635,446	791,486	8,366,287	352,497	503,411	42,654,223
Of which:								
Residential	10,339,853	250,924	635,446	791,486	8,366,287	333,223	464,333	10,170,207
Consumer loans	-	58,351	-	-	-	19,274	39,078	29,753,301
Other purposes	-	-	-	-	-	-	-	2,730,715
Less: Impairment losses on assets not earmarked for specific transactions	-	-	-	-	-	-	-	863,500
Total	**10,409,907**	**462,536**	**651,425**	**832,137**	**8,379,075**	**506,186**	**503,618**	**56,613,224**
Memorandum items								
Refinancing, refinanced and restructured transactions	*131,728*	*250,078*	*49,719*	*65,952*	*205,206*	*27,355*	*33,573*	*967,339*

Restructured portfolio

On 28 September 2012, the Bank of Spain published Circular 6/2012 establishing the regulations relating to the information on refinancing and restructuring transactions that Spanish credit institutions must disclose in their financial statements. Bank of Spain Circular 6/2012 uses the general term “restructured/refinanced portfolio” to refer to transactions in which the customer has, or might foreseeably have, financial difficulty in meeting its payment obligations under the terms and conditions of the current agreement and, accordingly, it may be advisable to cancel the agreement and/or even enter into a new transaction. Also, Bank of Spain Circular 6/2012 requires credit institutions to disclose a summary of their restructuring/refinancing policies in their financial statements.

Restructuring/refinancing policy

The Group follows highly rigorous definitions and policies in this management process, so that it is performed in accordance with the best practices and in strictest compliance with regulatory requirements. In this connection, the Group has a detailed corporate policy with regard to transactions in which the customer has, or might foreseeably have, difficulty in meeting its payment obligations under the terms and conditions of the current agreement and, accordingly, it may be advisable to modify or cancel the agreement and/or even enter into a new transaction.

Applicable to all countries and all customers, this policy is adapted to local requirements and regulations and is always subordinate to compliance with any stricter local regulation that might apply. Its principles include the following:

- The restricted use of this practice, which must be accompanied by additional guarantees or efforts by the customer, avoiding any actions that might defer the recognition of non-performing loans.

- Its purpose must be to recover all the amounts owed, which entails recognising any unrecoverable amounts as soon as possible. Delaying the immediate recognition of losses would be contrary to good management practices.

- It must always envisage maintaining the existing guarantees and, if possible, enhancing them or extending their coverage. Effective guarantees do not only mitigate losses given default, but might also reduce the probability of default.

- This practice must not give rise to the granting of additional funding to the customer, or be used to refinance debts to competitors or as a cross-selling instrument.

- All the alternatives and their impacts must be assessed, making sure that the results of this practice exceed those which would foreseeably be obtained if it were not performed.

- It may not give rise to an improvement in the classification of the loan until such time as the experience with the customer has proven to be satisfactory.

Given that the purpose of restructuring/refinancing is to enable the customer to continue to settle its debts, the focal point of any analysis is the ability to pay. The main factors considered in determining whether there has been a deterioration in the borrower's economic situation and, therefore, a possible impairment of its ability to pay, are: non-payment, frequent payment delays or a reduction in income levels. The scope of this practice and corporate policy does not include, therefore, the changes made to the terms and conditions of a transaction as a result of the habitual commercial relationship with the customer and where the borrower is not experiencing any financial difficulties.

The Group's approach to managing restructured/refinanced transactions varies depending on the degree of deterioration of the borrower's financial situation at the time the terms and conditions of the transaction are modified. Thus, in managing these transactions, it distinguishes between:

- Transactions which at the time of their restructuring/refinancing were current in their payments or did not have any payments more than three months past due, with respect to which it is expected that the borrower might possibly experience a reduction in its ability to pay. The approach adopted is to adapt the terms and conditions of the debt to suit the customer's new payment capacity. This early action represents one of the main levers of the Group's credit risk management. 55% of SCF Spain's total restructured/refinanced portfolio relates to transactions of this kind.

- Transactions which at the time of their restructuring/refinancing were classified as doubtful due to payment arrears (more than three months) or other situations. This restructuring/refinancing does not entail the release of provisions and the borrowers continue to be classified as doubtful, unless the criteria established in the regulations based on Bank of Spain circulars are met (i.e. collection of ordinary interest outstanding and, in any case, provision of new effective guarantees or reasonable assurance of ability to pay) and the precautionary requirements included for prudential reasons in the Group's corporate policy are also satisfied (i.e. sustained payment for a certain period, depending on the transaction features and the type of guarantee).

This practice of loan restructuring/refinancing is confined, subject to stringent and selective criteria, to transactions:

- that are viable and whose initial impairment is not very severe,
- in which customers have a willingness to pay,
- that improve the Group's position in terms of expected loss, and
- in which restructuring/refinancing does not discourage an additional effort by customers.

For exposures to standardised customers, the following general rules are applied, although exceptional circumstances are handled on a case-by-case basis:

- The overall customer risk is assessed.
- The exposure to the customer is not increased.
- All the alternatives and their impacts are assessed, making sure that the results of this practice exceed those which would foreseeably be obtained if it were not performed.
- Special attention is paid to the guarantees and the possible future changes in their value.
- The use of loan restructuring/refinancing is restricted, with priority being given to additional efforts from customers, and actions that only postpone the problem are avoided.
- Restructured/refinanced transactions are subject to special monitoring, which continues until the debt has been repaid in full.

In the case of individualised customers, these principles are used as a point of reference, but a case-by-case analysis of each customer is of particular importance.

The corporate policy establishes different types of modifications to be made to the terms and conditions of the transactions, based on the borrower’s economic situation:

1. Borrowers displaying a severe but transitory deterioration in their ability to pay (which is expected to be recovered in a short space of time):

    a. Increasing instalment: used when the customer’s ability to pay is likely to improve gradually over time; thus, the instalment gradually increases in order to match the improved payment capacity.

    b. Short-term adjustments: a payment moratorium is applied on the principal during a short period, until the customer recovers his original payment capacity.

2. Borrowers displaying a slight but prolonged deterioration in their ability to pay:

    a. Term extension: the customer’s instalment is reduced by means of lengthening the amortisation period of the loan.

    b. Final bullet: the customer’s instalment is reduced by postponing part of the principal, which is paid together with the last instalment. This alternative is considered only where it is not viable to extend the term of the loan and there is an effective guarantee that increases the likelihood of collecting the final instalment (e.g. mortgages).

Each case is analysed on an individual basis, with priority being given to modifications for customers displaying a slight but prolonged deterioration, since those who have suffered severe transitory deterioration carry a higher risk, as they depend on the accuracy of the estimated time of their future recovery.

The Group has a series of mechanisms for the management and control of loan restructuring/refinancing, which allow it to manage these transactions in a differentiated way, paying particular attention to the processes of:

- Planning and budgeting, including preparing the pertinent business plans, projections and limits for the most relevant items.
- Monitoring portfolio evolution and assessing the degree of compliance with the projections prepared in the planning phase.

Restructuring/refinancing does not entail the release of provisions recognised for a particular transaction. It is not considered appropriate to classify products for provisioning purposes based on the support measures they may have received. Transactions must have a previous classification and, under certain circumstances, an improvement in their status could be studied. Meanwhile, the provision remains unaltered, i.e. the provisioning percentage is frozen until reasonable certainty of payment, which exists at the time of modification of the terms of the transaction, can be evidenced.

Quantitative information required by Bank of Spain Circular 6/2012

Set forth below is the quantitative information required by Bank of Spain Circular 6/2012 on the restructured/refinanced transactions in force at 31 December 2012. The following terms are used in Bank of Spain Circular 6/2012 with the meanings specified:

- Refinancing transaction: transaction granted or used for reasons relating to current or foreseeable financial difficulties the borrower may have in repaying one or more of the transactions granted to it, or through which the payments on such transactions are brought fully or partially up to date, in order to enable the borrowers of cancelled or refinanced transactions to repay the debt (principal and interest) because the borrower is unable, or might foreseeably become unable, to comply with the conditions thereof in due time and form.

- Restructured transaction: transaction with respect to which, for economic or legal reasons relating to current or foreseeable financial difficulties of the borrower, the financial terms and conditions are modified in order to facilitate the payment of the debt (principal and interest) because the borrower is unable, or might foreseeably become unable, to comply with the aforementioned terms and conditions in due time and form, even if such modification is envisaged in the agreement.

Current restructuring balances (a)

	Thousands of Euros																					
	Standard (b)						Substandard							Doubtful							Total		
	Full Property Mortgage Guarantee		Other Collateral (c)		Without Collateral		Full Property Mortgage Guarantee		Other Collateral (c)		Without Collateral			Full Property Mortgage Guarantee		Other Collateral (c)		Without Collateral					
	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Specific Allowance	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Number of Transactions	Gross Amount	Specific Allowance	Number of Transactions	Gross Amount	Specific Allowance
Public sector	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**	**-**
Other legal entities and individual traders	8	754	1	54	2,505	19,276	3	116	-	-	1,372	22,960	4,742	2	489	-	-	2,194	25,208	18,548	**6,085**	**68,857**	**23,290**
Of which: Financing for construction and property development	-	-	-	-	-	-	-	-	-	-	*76*	*1,266*	*118*	-	-	-	-	*8*	*119*	*19*	***84***	***1,385***	***137***
Other individuals	1,140	64,947	8,695	68,870	45,518	226,169	670	44,001	992	126,578	12,509	112,034	27,066	516	21,420	3,796	54,575	32,374	179,888	171,861	**106,210**	**898,482**	**198,927**
Total	**1,148**	**65,701**	**8,696**	**68,924**	**48,023**	**245,445**	**673**	**44,117**	**992**	**126,578**	**13,881**	**134,994**	**31,808**	**518**	**21,909**	**3,796**	**54,575**	**34,568**	**205,096**	**190,409**	**112,295**	**967,339**	**222,217**

(a) Including all refinancing, refinanced or restructured transactions as defined in section 1.g) of Annex IX of Bank of Spain Circular 4/2004.
(b) Standard risks classified as under special monitoring pursuant to section 7.a) of Annex IX of Bank of Spain Circular 4/2004.
(c) Including transactions without a full property mortgage guarantee, i.e. with a loan-to-value ratio of more than 1, and transactions with collateral other than a real estate mortgage, irrespective of their loan-to-value ratio.

It should be noted that 71% of all the transactions restructured/refinanced by the Group are not classified as doubtful.

Of the total gross amount of transactions restructured/refinanced by the Group at 31 December 2012, EUR 466,853 thousand relate to portfolios in Spain, with the following features:

- There were no transactions with real estate companies.
- 23% of the total portfolio in Spain is classified as doubtful, with a coverage ratio of 64%.
- 75% relate to transactions previously classified as other than doubtful, with collateral of 55%.

Following is a detail of the restructured/refinanced portfolio at 31 December 2012, distinguishing, on the basis of their management, the transactions previously classified as other than doubtful from those previously classified as doubtful:

	Standard	Substandard		Doubtful		Total		
	Thousands of Euros	Thousands of Euros	Specific Allowance %	Thousands of Euros	Specific Allowance %	Thousands of Euros	*% of total*	Specific Allowance %
Transactions previously classified as other than doubtful	215,023	246,503	9%	67,701	62%	529,227	*55%*	12%
Transactions previously classified as doubtful	165,045	59,187	18%	213,879	69%	438,112	*45%*	36%
Total	**380,068**	**305,690**	**10%**	**281,580**	**68%**	**967,339**	***100%***	**23%**

The transactions presented in the foregoing tables are classified at 31 December 2012, by nature, as follows:

- Doubtful: transactions that are in the process of becoming standard or those which, having been classified as standard or substandard during the term of the transaction, have again encountered payment difficulties. Pursuant to the corporate policy of prudence, if this deterioration should worsen, the loan would be classified as written-off.

- Substandard: transactions previously classified as doubtful with respect to which sustained payments have been made for a certain period, depending on the transaction features and the type of guarantee. In the specific case of transactions with a grace period, the transaction is classified as substandard, unless it has already been classified as doubtful, and it will remain in this category until the end of the grace period. Also, if a transaction classified as standard falls into arrears (non-payment), this is sufficient reason for the transaction to be classified as substandard.

- Standard: transactions previously classified as doubtful or substandard which have successfully completed a precautionary observation period evidencing that payment capacity pursuant to the terms established in the corporate policy has been re-established. According to this policy, transactions classified as standard must remain under special surveillance for a minimum precautionary period of two years and until 20% of their principal has been repaid, except in the case of transactions involving some form of debt reduction, which must remain under special surveillance until they are extinguished.

c) Distribution of credit risk

The Group is geographically diversified, since it is present in more than 15 countries, and concentrates its activities on its core markets. The Group has a mainly retail profile (consumer loans represent 95% and inventory financing for dealers 5%) as it engages principally in vehicle financing.

Metrics and measurement tools

Credit rating tools

In keeping with the Santander Group's tradition of using proprietary rating models since 1993, the credit quality of customers and transactions is also measured by internal scoring and rating systems at Santander Consumer Finance. Each rating assigned by models relates to a certain probability of default or non-payment, determined on the basis of the Group's historical experience.

Since Santander Consumer Finance focuses mainly on the retail business, assessments are primarily based on scoring models or tables which, together with other credit policy regulations, issue an automatic decision on the applications received. These tools have the dual advantage of allocating an objective appraisal of the level of risk and speeding up the response time that would be required by a purely manual analysis.

In addition to the scoring models for the approval and management of portfolios (by rating the transactions composing the portfolios in order to assess their credit quality and estimating their potential losses), other tools are available to assess existing accounts and customers which are used in the defaulted loan recovery process. This method is intended to cover the entire "loan cycle" (approval, monitoring and recovery) by means of statistical rating models based on the Bank's internal historical data.

For individualised corporates and institutions which, at Santander Consumer Finance, include mainly agents, the assessment of the level of credit risk is based on expert rating models that combine in the form of variables the most relevant factors to be taken into account in the assessment, in such a way that the allocation process generates appraisals that are consistent and comparable among customers and summarise all the relevant information. In 2012 all the units reviewed the aforementioned portfolios, with the participation of all areas of the Bank. These meetings included large exposures, companies under special surveillance and the main credit indicators of this portfolio.

Ratings assigned to customers are reviewed periodically to include any new financial information available and the experience in the banking relationship. The frequency of the reviews is increased in the case of customers that reach certain levels in the automatic warning systems and of customers classified as requiring special monitoring. The rating tools themselves are also reviewed in order to progressively fine-tune the ratings they provide.

To a lesser extent, global rating tools are also applied to certain exposures in the global wholesale banking segment. Management of this segment is centralised at the Risk Division of the Santander Group, for both rating calculation and risk monitoring purposes. These tools assign a rating to each customer, which is obtained from a quantitative or automatic module, based on balance sheet ratios or macroeconomic variables, supplemented by the analyst's expert judgement.

Santander Consumer Finance's portfolio of individualised companies is not representative of the total risks managed, which relate mainly to vehicle dealer stock financing.

Credit risk parameters

The assessment of customers or transactions using rating or scoring systems constitutes a judgement of their credit quality, which is quantified through the probability of default (PD).

In addition to customer assessment, the quantification of credit risk requires the estimation of other parameters, such as exposure at default (EAD) and the percentage of EAD that will not be recovered (loss given default or LGD). Therefore, other relevant factors are taken into account in estimating the risk involved in transactions, such as the quantification of off-balance-sheet exposures, which depends on the type of product, or the analysis of expected recoveries, which is related to the guarantees provided and other characteristics of the transaction: type of product, term, etc.

These factors are the main credit risk parameters. Their combination facilitates calculation of the probable loss or expected loss (EL). This loss is considered to be an additional cost of the activity which is reflected in the risk premium and must be charged in the transaction price.

These risk parameters also make it possible to calculate the regulatory capital in accordance with the regulations deriving from the new Basel Capital Accord (BIS II). Regulatory capital is determined as the difference between unexpected loss and expected loss.

Unexpected loss is the basis for the capital calculation and refers to a very high, albeit scantly probable, level of loss, which is not deemed to be recurring and must be catered for using capital.

For portfolios with scant internal default experience, such as banks, sovereign risk or global wholesale banking, risk parameter estimates (PD, LGD and EAD) are based on external sources: market prices or studies conducted by rating agencies gathering the shared experience of a sufficient number of entities. These portfolios are known as low default portfolios.

For all other portfolios, parameter estimates are based on the entity’s internal experience. The PD is calculated by observing the cases of new arrears in relation to the final rating assigned to customers or to the scoring assigned to the related transactions.

LGD calculation is based on the observation of the recoveries of defaulted loans, taking into account not only the income and expenses associated with the recovery process, but also the timing thereof and the indirect costs arising from the recovery process.

EAD is estimated by comparing the use of committed facilities at the time of default and their use under normal (performing) circumstances, so as to identify the actual use of the facilities at the time of default.

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

The parameters are then assigned to the units' on-balance-sheet transactions in order to calculate the expected losses and the capital requirements associated with their exposure.

Observed loss: measures of cost of credit

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

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

The three indicators measure the same reality and, consequently, converge in the long term although they represent successive moments in credit cost measurement: flows of non-performing loans (change in NPL), coverage of doubtful loans (net credit loss provisions) and classification as write-offs (net write-offs), respectively. Although they converge in the long term within the same business cycle, the three approaches show differences at certain times, which are particularly significant at the start of a change of cycle. These differences are due to the different timing of recognition of losses, which is basically determined by accounting rules (for example, mortgage loans have a longer coverage schedule and are classified as write-offs more "slowly" than consumer loans). In addition, the analysis can be complicated due to changes in the policy of coverage and classification as write-offs, the composition of the portfolio, doubtful loans of entities acquired, changes in accounting rules, sale of portfolios, etc.

Credit risk cycle

The risk management process consists of identifying, measuring, analysing, controlling, negotiating and deciding on, as appropriate, the risks incurred in the operations of Santander Consumer Finance. The parties involved in this process are the risk taking areas, senior management and the risk function.

As Santander Consumer Finance is part of the Santander Group, the process begins at senior management level, through the Board of Directors and the Risk Committee, which establishes the risk policies and procedures, and the limits and delegations of powers, and approves and supervises the scope of action of the risk function.

The risk cycle comprises three different phases: pre-sale, sale and post-sale:

- Pre-sale: this phase includes the risk planning and target setting processes, determination of the Santander Group's risk appetite, approval of new products, risk analysis and credit rating process, and limit setting.

- Sale: this is the decision-making phase for both pre-classified and specific transactions.

- Post-sale: this phase comprises the risk monitoring, measurement and control processes and the recovery process.

a) Risk limit planning and setting

Risk limit setting is a dynamic process that identifies the Santander Group's risk appetite through the discussion of business proposals and the attitude to risk.

This process is defined in the Global Risk Limit Plan, an agreed-upon comprehensive document for the integrated management of the balance sheet and the inherent risks, which establishes risk appetite on the basis of the various factors involved.

The risk limits are founded on two basic structures: customers/segments and products.

b) Risk analysis and credit rating process

Risk analysis is one of the fundamental factors in the assessment of credit risk and, therefore, in the approval of loans to customers by the Santander Group. This analysis consists of examining the counterparty's ability to meet its contractual obligations to Santander Consumer Finance, which involves analysing the customer's credit quality, its risk transactions, its solvency and the return to be obtained in view of the risk assumed.

The risk analysis is conducted every time a new customer or transaction arises or with a pre-established frequency, depending on the segment involved. Additionally, the credit rating is examined and reviewed whenever a warning system is triggered or an event affecting the counterparty/transaction occurs.

c) Transaction decision-making

The purpose of the transaction decision-making process is to analyse transactions and adopt resolutions thereon, taking into account the risk appetite and any transaction elements that are important in achieving a balance between risk and return.

Since 1993 the Santander Group has been using, among others, the RORAC (return on risk-adjusted capital) methodology for risk analysis and pricing as part of the decision-making process for transactions and deals.

d) Monitoring

In order to ensure adequate credit quality control, in addition to the tasks performed by the Internal Audit Division, the Risk Unit has a specific risk monitoring function, consisting of local and global teams, to which specific resources and persons in charge have been assigned.

This monitoring function is based on an ongoing process of permanent observation to enable early detection of any incidents that might arise in the evolution of the risk, the transactions, the customers and their environment, with a view to adopting mitigating actions. The risk monitoring function is specialised by customer segment.

For this purpose a system called "companies under special surveillance" (FEVE) has been designed that distinguishes four categories based on the degree of concern raised by the circumstances observed (extinguish, secure, reduce and monitor). The inclusion of a company in the FEVE system does not mean that there has been a default, but rather that it is deemed advisable to adopt a specific policy for this company, to place a person in charge and to set the policy implementation period. Customers classified as FEVE are reviewed at least every six months, or every three months for those classified in the most severe categories. A company can be classified as FEVE as a result of the monitoring process itself, a review performed by Internal Audit, a decision made by the sales manager responsible for that company or the triggering of the automatic warning system.

Assigned ratings are reviewed at least annually, but should any weakness be detected, or depending on the rating itself, more frequent reviews are performed.

For exposures to standardised customers, the key indicators are monitored in order to detect any variance in the performance of the loan portfolio with respect to the forecasts contained in the credit management programmes.

e) Risk control function

Supplementing the management process, the risk control function obtains a global view of Santander Consumer Finance's loan portfolio, through the various phases of the risk cycle, with a level of detail sufficient to permit the assessment of the current position of the exposure and any changes therein.

The aim of the control model is to assess the solvency risk assumed in order to detect any areas requiring attention and to propose measures to correct any possible impairment. Therefore, it is essential that the control activity itself be accompanied by an analysis component aimed at facilitating a proactive approach to the early detection of problems and the subsequent recommendation of action plans.

Any changes in the Group's risk exposure with respect to budgets, limits and benchmarks are controlled on an ongoing and systematic basis, and the impacts of these changes in future situations, both of an exogenous nature and those arising from strategic decisions, are assessed in order to establish measures that place the profile and amount of the loan portfolio within the parameters set by Santander Consumer Finance and the Santander Group.

The risk control function is performed by assessing risks from various complementary perspectives, the main pillar being control by geographical location, business area, management model, product and process, thus facilitating the detection of specific areas of action requiring decision-making.

In 2006, within the corporate framework established in the Santander Group for compliance with the Sarbanes-Oxley Act, a corporate tool was made available on the Group's intranet for the documentation and certification of all the subprocesses, operational risks and related mitigating controls. The Risk Division, as part of the Group, assesses annually the efficiency of the internal control of its activities.

Scenario analysis

Stress tests are performed periodically in order to monitor and control the various loan portfolios. Scenario analysis is a relevant tool intended to measure the sensitivity of the value of a portfolio to changes in the circumstances surrounding it. Thus, taking into account factors such as variations in the interest rate, the unemployment rate or housing prices, the Group is able to ascertain whether the general allowances recognised are adequate in relation to the estimated impacts obtained in the stress tests.

f) Recovery process

As part of the Santander Group, Santander Consumer Finance considers loan recovery management to be a strategic, integral business activity.

Santander Consumer Finance has incorporated the global model of the Santander Group, combining it with a local implementation, considering the specific features of the business in each area of activity.

The main objective of loan recovery is to contribute to a reduction in the need for provisions and reduce the costs associated with risk.

Thus, the specific aims of the recovery process are as follows:

- To seek collection or regularisation of unpaid balances, so that accounts can return to the performing status; if this is not possible, the aim is to fully or partially recover the debts, regardless of their status for accounting or management purposes.

- To maintain and strengthen the relationship with customers, paying attention to their payment behaviour and offering refinancing products to meet their needs in accordance with the corporate approval and control policies carefully established by the risk areas.

In the recovery process, general or standardised customers are segregated or differentiated from individualised customers, using specific integrated management models in each case, in accordance with certain basic specialisation criteria.

Recovery management involves the use of a multichannel customer relation strategy.

The telephone channel is aimed at large-scale, standardised management and involves high levels of activity in contacting customers and monitoring their payments, with each conversation being prioritised and adapted on the basis of the status of their debts (in arrears, doubtful or non-performing), their balances and their payment commitments.

The commercial recovery management network, which complements the telephone channel, is geared towards establishing close relationships with selected customers. It consists of teams of highly commercially-oriented agents with specific training and excellent negotiating skills who carry out a personalised management of their own portfolios of high impact customers (high balances, special products and specially managed customers).

The recovery activity for advanced stages of default (pre-litigation and litigation) involves both in- and out-of-court management and the continuation of commercial and monitoring activities through the telephone channels and agent network, applying specific strategies and practices based on the particular stage of default.

The management model favours proactiveness and oriented management, achieved through ongoing recovery campaigns specifically tailored to particular groups of customers and stages of default. Predefined objectives are pursued using specific strategies and intensive actions conducted through the appropriate channels within limited time frames.

Adequate local production and analysis of daily and monthly management information, aligned with corporate models, were defined as the basis for the business intelligence required in order to take management-oriented decisions on an ongoing basis and to monitor the results thereof.

Since 2011 Santander Consumer Finance consolidated the implementation of the global recovery model in Spain, Italy, Germany, the Netherlands and the Nordic countries and introduced its management methodology and work practices in the other European countries and units within its sphere of operations.

Concentration risk

Concentration risk is a key component of credit risk management. The Santander Group continuously monitors the degree of credit risk concentration, by geographical area/country, economic sector, product and customer group.

The Risk Committee establishes the risk policies and reviews the exposure limits required to ensure adequate management of credit risk concentration.

The Group is subject to Bank of Spain regulations on large exposures (defined as those exceeding 10% of eligible capital). In accordance with Bank of Spain Circular 3/08, no exposure to a single individual or economic group, including all types of credit and equity risks, should exceed 25% of the Group's capital. Also, the total amount of large exposures may not exceed eight times the Group's capital. Exposures to governments and central banks belonging to the OECD are excluded from this treatment.

The Santander Group's Risk Division works closely with the Finance Division in the active management of credit portfolios, which includes reducing the concentration of exposures through several techniques, such as the arrangement of credit derivatives for hedging purposes or the performance of securitisation transactions, in order to optimise the risk/return ratio of the total portfolio.

The detail, by activity and geographical area of the counterparty, of the concentration of the Group's risk at 31 December 2012 is as follows:

	Thousands of Euros				
	Spain	Other EU Countries	Americas	Rest of the World	Total
Credit institutions	2,378,385	5,981,087	59,972	232,011	8,651,455
Public sector	137	4,124	-	-	4,261
Of which:					
Central government	-	*1,287*	-	-	*1,287*
Other	*137*	*2,837*	-	-	*2,974*
Other financial institutions	85	50,914	591	-	51,590
Non-financial companies and individual traders	848,819	7,892,708	-	6,169,099	14,910,626
Of which:					
Construction and property development	-	108,849	-	-	108,849
Civil engineering construction	-	8,968	-	-	8,968
Large companies	360,710	733,712	-	-	1,094,422
SMEs and individual traders	488,109	7,041,179	-	6,169,099	13,698,387
Other households and non-profit institutions serving households (NPISHs)	5,984,878	36,016,136	-	661,253	42,662,267
Of which:					
Residential	2,402,060	7,750,526	-	-	10,152,586
Consumer loans	3,579,511	25,543,311	-	661,246	29,784,068
Other purposes	3,307	2,722,299	-	7	2,725,613
Less: Impairment losses on assets not earmarked for specific transactions					863,500
Total					**65,416,699**

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

Sovereign risk

As a general rule, the Group considers sovereign risk to be the risk assumed in transactions with central banks, the issuer risk of the Treasury or Republic and the risk arising from transactions with public entities (those whose funds are obtained from fiscal income, which are legally recognised as entities included in the government sector and whose activities are of a non-commercial nature). Following is the Group's total risk exposure to the so-called peripheral countries of the euro zone, distinguishing between sovereign risk and private sector exposure based on the country of the issuer or borrower:

Sovereign Risk by Country of Issuer/Borrower at 31 December 2012 (**)										
	Thousands of Euros									
		Debt Instruments				Derivatives (***)				
	Balances with Central Banks	Financial Assets Held for Trading/Other Financial Assets at Fair Value through Profit or Loss	Available-for-Sale Financial Assets	Loans and Receivables	Loans and Advances to Customers (Net) (*)	Other than CDSs	CDSs	Total On-Balance-Sheet Exposure	Contingent Liabilities and Commitments	Total Exposure
Spain	9,861	-	-	-	134	-	-	9,995	-	9,995
Italy	3,473	-	-	-	39,613	-	-	43,086	-	43,086

(*) Presented without taking into account the valuation adjustments recognised (EUR 2,073 thousand).

(**) Exposure to reverse repurchase agreements is included under "Balances with Central Banks" and "Loans and Advances to Customers" in the foregoing table.

(***) “Other than CDSs” refers to the exposure to derivatives based on the location of the counterparty in one of the peripheral countries of the euro zone, irrespective of the location of the underlying. “CDSs” refers to the exposure to CDSs based on the location of the underlying in one of the peripheral countries of the euro zone.

Private Sector Exposure by Country of Issuer/Borrower at 31 December 2012 (**)										
	Thousands of Euros									
		Debt Instruments				Derivatives (***)				
	Balances with Central Banks	Financial Assets Held for Trading/Other Financial Assets at Fair Value through Profit or Loss	Available-for-Sale Financial Assets	Loans and Receivables	Loans and Advances to Customers (Net) (*)	Other than CDSs	CDSs	Total On-Balance-Sheet Exposure	Contingent Liabilities and Commitments	Total Exposure
Spain	-	-	171,594	2,026	6,959,603	(720,055)	-	6,413,168	3,811,220	10,224,388
Portugal	-	-	-	-	1,034,742	-	-	1,034,742	66,130	1,100,872
Italy	-	-	-	-	6,661,387	-	-	6,661,387	102,924	6,764,311
Ireland	-	-	739	-	-	-	-	739	-	739

(*) Presented without taking into account the valuation adjustments recognised (EUR 633,507 thousand).

(**) Exposure to reverse repurchase agreements is included under "Balances with Central Banks" and "Loans and Advances to Customers" in the foregoing table.

(***) “Other than CDSs” refers to the exposure to derivatives based on the location of the counterparty in one of the peripheral countries of the euro zone, irrespective of the location of the underlying. “CDSs” refers to the exposure to CDSs based on the location of the underlying in one of the peripheral countries of the euro zone.

At 31 December 2012, the Group had not arranged any credit default swaps (CDSs).

Market risk-

The measurement, control and monitoring of the Market Risk area comprises all operations in which net worth risk is assumed. The risk arises from changes in the risk factors -interest rate, exchange rate, equities and the volatility thereof- and from the solvency and liquidity risk of the various products and markets in which the Group operates.

The activities are segmented by risk type as follows:

a) *Trading*: this item includes financial services for customers, trading operations and positioning in fixed-income, equity and foreign currency products.

   The Santander Consumer Group does not carry out trading activities at local level, and the scope of its treasury operations is limited to managing and hedging its structural balance sheet risk and managing the liquidity required to finance its business activity.

b) *Balance sheet management*: interest rate risk and liquidity risk arising as a result of the maturity and repricing gaps of all assets and liabilities.

c) *Structural risks:*

   - Structural foreign currency risk/hedges of results: foreign currency risk arising from the currency in which investments in consolidable and non-consolidable companies are made (structural exchange rate). This item also includes the positions taken to hedge the foreign currency risk on future results generated in currencies other than the euro (hedges of results).

     Structural foreign currency risk arises mainly from investments in banks in currencies other than euro.

   - Structural equities risk: this item includes equity investments in non-consolidated financial and non-financial companies that give rise to equities risk. This risk does not apply to the Group.

The Financial Management area is responsible for managing the balance sheet management risk and structural risks centrally through the application of uniform methodologies adapted to the situation of each market in which the Group operates. The aim pursued by Financial Management is to ensure the stability and recurring nature of both the net interest margin of the commercial activity and the Group's economic value, whilst maintaining adequate liquidity and solvency levels.

The Market Risk area supports business management, defines risk measurement methodologies, assists in establishing limits and controls the structural market risks arising from the Group's operations, ensuring that the risks assumed are within the risk appetite limits established by the Risk Committee.

Decisions affecting the management of these risks are taken through the ALCO Committees in the respective countries and, ultimately, by the Parent’s ALCO Committee.

Each of these activities is measured and analysed using different tools in order to reflect their risk profiles as accurately as possible.

Methodologies

Balance-sheet management

Interest rate risk

The Group analyses the sensitivity of the net interest margin and market value of equity to changes in interest rates. This sensitivity arises from maturity and interest rate repricing gaps in the various balance sheet items.

On the basis of the balance-sheet interest rate position, and considering the market situation and outlook, the necessary financial measures are adopted to align this position with that desired by the Bank. These measures can range from the taking of positions on markets to the definition of the interest rate features of commercial products.

The measures used by the Group to control interest rate risk in these activities are the interest rate gap and the sensitivity of net interest margin and market value of equity to changes in interest rates.

- *Interest rate gap of assets and liabilities*

The interest rate gap analysis focuses on the mismatches between the interest reset periods of on-balance-sheet assets and liabilities and of off-balance-sheet items. This analysis facilitates a basic snapshot of the balance sheet structure and enables concentrations of interest rate risk in the various repricing buckets to be detected. Additionally, it is a useful tool for estimating the possible impact of potential changes in interest rates on the entity's net interest margin and market value of equity.

The flows of all the on- and off-balance-sheet aggregates must be broken down and placed at the point of repricing or maturity. The duration and sensitivity of aggregates that do not have a contractual maturity date are analysed and estimated using the Santander Group's internal model.

- *Net interest margin (NIM) sensitivity*

The sensitivity of the net interest margin measures the change in the expected net interest income for a specific period (twelve months) given a shift in the yield curve.

- *Market value of equity (MVE) sensitivity*

The sensitivity of the market value of equity is a complementary measure to the sensitivity of the net interest margin.

This sensitivity measures the interest rate risk implicit in the market value of equity based on the effect of changes in interest rates on the present values of financial assets and liabilities.

Liquidity risk

Liquidity risk is associated with the Santander Consumer Finance Group's ability to fund its commitments at reasonable market prices and to carry out its business plans with stable sources of funding. The Group permanently monitors maximum gap profiles.

The measures used to control liquidity risk in balance sheet management are the liquidity gap, liquidity ratios and the structural liquidity table.

- *Liquidity gap*

The liquidity gap provides information on contractual and expected cash inflows and outflows for a given period for each currency in which the Santander Consumer Finance Group operates. The gap measures net cash requirements or surpluses at a given date and reflects the liquidity level maintained under normal market conditions.

In the contractual liquidity gap, all cash-flow generating balance sheet items are analysed and placed at the point of contractual maturity. For assets and liabilities without contractual maturities, the Santander Group's internal analysis model is used, based on a statistical study of the time series of the products, and the so-called stable or unstable balance for liquidity purposes is determined.

- *Liquidity ratios*

The minimum liquidity ratio compares the liquid assets available for sale or transfer (after the relevant discounts and adjustments have been applied) and the assets maturing in less than twelve months with the liabilities maturing in twelve months or less.

- *Structural liquidity table*

The aim of this analysis is to determine the structural liquidity position on the basis of the liquidity profile (more or less stable) of the various asset and liability instruments.

Structural foreign currency risk / Hedges of results / Structural equities risk

Structural foreign currency risk arises mainly from investments in banks in currencies other than the euro.

Structural foreign currency risk is managed centrally at Santander Group level by applying the general corporate procedures.

Control system

Limit setting

The limit setting process is performed together with the budgeting activity and is the tool used to establish the assets and liabilities of each business activity.

Limit setting is a dynamic process that responds to the level of risk considered acceptable by senior management.

Objectives of the limits structure

The limits structure requires a process to be performed that pursues, inter alia, the following objectives:

- To identify and delimit, in an efficient and comprehensive manner, the main types of market risk incurred, so that they are consistent with business management and the defined strategy.

- To quantify and communicate to the business areas the risk levels and profile deemed acceptable by senior management so as to avoid undesired risks.

- To give flexibility to the business areas for the efficient and timely assumption of financial risks, depending on market changes, and for the implementation of the business strategies, provided that the acceptable levels of risk are not exceeded.

- To allow business makers to assume risks which, although prudent, are sufficient to obtain the budgeted results.

- To delimit the range of products and underlyings with which each Treasury unit can operate, taking into account features such as assessment model and systems, liquidity of the instruments involved, etc.

Definition and objectives

Santander Consumer Finance defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, human resources or systems or from external events". This risk generally relates to events of a purely operational nature, which differentiates it from market or credit risk, although it also includes external risks, such as natural disasters.

The basic aim pursued by Santander Consumer Finance in operational risk control and management is to identify, measure/assess, control/mitigate and inform about this risk.

The priority of Santander Consumer Finance, therefore, is to identify and eliminate any clusters of operational risk, irrespective of whether losses have been incurred.Measurement of this risk also contributes to the establishment of priorities in operational risk management.

For the purpose of calculating regulatory capital for operational risk, the Group decided to opt initially for the Standardised Approach provided for under Basel II standards. The Group is assessing the most appropriate time to shift to Advanced Measurement Approaches (AMA) taking into account, however, that: a) the short-term priority in operational risk management is focused on mitigation; and b) most of the regulatory requirements established for use of the AMA must now be incorporated in the Standardised Approach and, at the present time, these requirements have already been included in the operational risk management approach used.

Compliance with the new regulatory framework

Throughout 2012 the Santander Group participated in the impact studies launched by the Basel Committee and CEBS and coordinated at local level by the Bank of Spain to gauge the new regulations known as Basel III, the implementation of which involves the establishment of new capital and liquidity standards, with more stringent criteria that are homogenous at international level.

The Santander Group has very sound capital ratios, in keeping with its business model and its risk profile, which places it in a good position to comfortably comply with Basel III. The impact analysis performed did not disclose significant effects on the high capital adequacy ratios of the Group, which benefits from a considerable organic capacity to generate capital. The new capital regulations will be implemented gradually between 2013 and 2019.

The Santander Group intends to adopt, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks, until the percentage of net exposure of the loan portfolio covered by this approach exceeds 90%. The attainment of this short-term objective also depends on the acquisitions of new entities and the need for the various supervisors to coordinate the validation processes of the internal approaches. The Group is present in geographical areas where there is a common legal framework among supervisors, as is the case in Europe through the Capital Requirements Directive. However, in other jurisdictions, the same process is subject to the framework of cooperation between the home and host country supervisors under different legislations, which in practice entails adapting to the different criteria and timetables in order to obtain authorisation to use the advanced approaches on a consolidated basis.

With regard to operational risk, the Group considers that the development of the internal model should be based primarily on the experience accumulated in the management of the entity through the corporate guidelines and criteria established after assuming control, which are a distinctive feature of Santander. The Group has performed numerous acquisitions in recent years and, as a result, a longer maturity period is required in order to develop the internal model based on its own management experience of the various acquired entities. However, although the Santander Group has initially decided to use the standardised approach for regulatory capital calculation purposes, it is considering the possibility of adopting AMA approaches once it has collated sufficient data using its own management model in order to make as much use as possible of the virtues that characterise the Group.

Internal validation of risk models

Internal validation is a pre-requisite for the supervisory validation process. A fully-independent specialised unit of the Entity obtains an expert opinion on the adequacy of the internal models for the intended internal or regulatory purposes, and concludes on their usefulness and effectiveness.

In addition to complying with the regulatory requirement, the internal validation function provides essential support to the Risk Committee and the local risk committees in the performance of their duties to authorise the use of the models (for management and regulatory purposes) and to review them regularly.

Internal model validation at the Santander Group encompasses credit risk models, market risk models, financial asset pricing models and the economic capital model. The scope of the validation includes not only the more theoretical or methodological aspects, but also the technology systems and the quality of the data the models provide, on which their effective operation relies, and, in general, all the relevant aspects of risk management (controls, reporting, uses, involvement of senior management, etc.).

The internal validation function of Santander Consumer Finance, as part of the Santander Group, is located at corporate level within the integrated risk control and internal risk validation area (CIVIR) and reports directly to the Third Deputy Chairman of the Group and Chairman of the Risk Committee.

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

Company	Country	Registered office	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (c)	Line of Business	Millions of Euros (a)		
			Direct	Indirect			Capital and Reserves (a)	Net Profit (Loss) (a)	Amount of Ownership Interest (b)
AKB Marketing Services Sp. Z.o.o.	Poland	Poznan/ul. Marcelinska 90, 60-324 (Poznan)	-	70.00%	100.00%	MARKETING	6	-	-
Andaluza de Inversiones, S.A.	Spain	Ciudad Grupo Santander, Av.Cantabria, 28660 (Boadilla del Monte)	99.99%	0.01%	100.00%	HOLDING COMPANY	44	6	27
Banco Santander Consumer Portugal, S.A.	Portugal	Rua Castilho 2/4, 1269-073 (Lisbon)	80.09%	19.91%	100.00%	BANKING	129	9	128
Bilkreditt 1 Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
Bilkreditt 2 Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
FTA Santander Consumer Spain Auto 07-1	Spain	-	-	(d)	-	SECURITISATION	-	-	-
FTA Santander Consumer Spain 09-1	Spain	-	-	(d)	-	SECURITISATION	-	-	-
FTA Santander Consumer Spain 10-1	Spain	-	-	(d)	-	SECURITISATION	-	-	-
FTA Santander Consumer Spain 11-1	Spain	-	-	(d)	-	SECURITISATION	-	-	-
FTA Santander Consumer Spain Auto 12-1	Spain	-	-	(d)	-	SECURITISATION	-	-	-
Golden Bar (Securitisation) S.r.l.	Italy	-	-	(d)	-	SECURITISATION	-	-	-
Golden Bar Securitization Programme I	Italy	-	-	(d)	-	SECURITISATION	-	-	-
Golden Bar Securitization Programme IV	Italy	-	-	(d)	-	SECURITISATION	-	-	-
Golden Bar Securitization Programme V	Italy	-	-	(d)	-	SECURITISATION	-	-	-
Golden Bar Securitization Programme VI	Italy	-	-	(d)	-	SECURITISATION	-	-	-
Golden Bar Securitization Programme VII	Italy	-	-	(d)	-	SECURITISATION	-	-	-
Golden Bar Securitization Programme VIII	Italy	-	-	(d)	-	SECURITISATION	-	-	-
Golden Bar Stand Alone 2012-2 (CBCQS)	Italy	Nacional II, km.16.500, 28830 San Fernando de Henares (Madrid)	-	100.00%	100.00%	AUTOMOTIVE	3	(1)	1
Hispamer Renting, S.A. (Sole-Shareholder Company)	Spain	Ciudad Grupo Santander, Av. Cantabria, 28660 (Boadilla del Monte) - Spain	-	100.00%	100.00%	FULL-SERVICE LEASING	12	-	1
Sánchez Ramade Santander Financiera, S.L.	Spain	Plaza de Colón 10 (Córdoba)	50.00%	-	50.00%	FINANCIAL SERVICES	-	-	-
Santander Consumer Bank AS	Norway	Strandveien 18, 1366 Lysaker, 0219 (Baerum)	100.00%	-	100.00%	FINANCE	685	93	724

Company	Country	Registered office	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (c)	Line of Business	Millions of Euros (a)		
			Direct	Indirect			Capital and Reserves (a)	Net Profit (Loss) (a)	Amount of Ownership Interest (b)
Santander Consumer Bank AG	Germany	Santander Platz 1, 41061 (Mönchengladbach)	-	100.00%	100.00%	BANKING	2,962	334	3,074
Santander Consumer Bank GmbH	Austria	Andromeda Tower, Donau-City. Str. 6- Wien (Vienna)	-	100.00%	-	FINANCE	826	44	856
Santander Consumer Bank S.p.A.	Italy	Vía Nizza 262, I-10126 (Turin)	100.00%	-	100.00%	FINANCE	513	(40)	347
Santander Consumer Bank Spólka Akcyjna	Poland	Pl. Solny 16, 50-062 (Wroclaw)	70.00%	-	75.01%	BANKING	469	130	217
Santander Consumer Beteiligungsverwaltungsgesellschaft mbH	Germany	Santander Platz 1, 41061 (Mönchengladbach)	-	100.00%	100.00%	HOLDING COMPANY	1	43	1
Santander Consumer Finance Benelux BV.	The Netherlands	Kokermolen 10-14, NL-3994	-	100.00%	100.00%	FINANCE	79	8	93
Santander Consumer Finance Media S.r.l.	Italy	Vía Nizza 262, I-10126 (Turin)	-	65.00%	65.00%	FINANCE	8	-	5
Santander Consumer Finance Oy	Finland	Hermannin Rantatie 10, 00580 (Helsinki)	-	100.00%	100.00%	FINANCE	126	19	130
Santander Consumer Finance Zrt.	Hungary	Kapas Center, Kapas U6-12H-1027 (Budapest)	-	100.00%	100.00%	FINANCE	5	(2)	-
Santander Consumer Finanse Spólka Akcyjna	Poland	Pl. Solny 16, 50-062 (Wroclaw)	70.00%	-	75.00%	SERVICES	49	(9)	64
Santander Consumer Holding Austria GmbH	Austria	Rennweg 17, A 1030 (Wien)	-	100.00%	100.00%	HOLDING COMPANY	863	44	863
Santander Consumer Holding GmbH	Germany	Santander Platz 1, 41061 (Mönchengladbach)	100.00%	-	100.00%	HOLDING COMPANY	663	143	2,051
Santander Consumer Leasing GmbH	Germany	Santander Platz 1, 41061 (Mönchengladbach)	-	100.00%	100.00%	LEASING	20	20	20
Santander Consumer Multirent Sp. z.o.o.	Poland	Ul. Jutrzenki 183, 02-231 (Warsaw)	-	70.00%	70.00%	LEASING	7	1	5
Santander Consumer Renting, S.L.	Spain	Santa Bárbara 1, 28180 (Torrelaguna)	-	100.00%	100.00%	FULL-SERVICE LEASING	54	1	39
Santander Consumer Services GmbH	Austria	Thomas Alva Edison Str. 1 Eisendstadt	-	100.00%	-	SERVICES	-	-	-
Santander Consumer, E.F.C., S.A.	Spain	Ciudad Grupo Santander, Av. Cantabria, 28660 (Boadilla del Monte)	99.99%	0.01%	100.00%	FINANCE	270	42	505
SC Germany Auto 06-1 Plc	Ireland	-	-	(d)	-	SECURITISATION	-	2	-
SC Germany Auto 09-1 Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
SC Germany Auto 10-1 UG (haftungsbeschränkt)	Germany	-	-	(d)	-	SECURITISATION	-	-	-
SC Germany Auto 11-1 UG (haftungsbeschränkt)	Germany	-	-	(d)	-	SECURITISATION	-	-	-

Company	Country	Registered office	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (c)	Line of Business	Millions of Euros (a)		
			Direct	Indirect			Capital and Reserves (a)	Net Profit (Loss) (a)	Amount of Ownership Interest (b)
SC Germany Auto 11-2 UG (haftungsbeschränkt)	Germany	-	-	(d)	-	SECURITISATION	-	-	-
SC Germany Consumer 10-1 Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
SC Germany Consumer 11-1 Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
SC Private Cars 2010-1 Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
SCF Ajoneurohallinto Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
SCF Rahoituspalvelut Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
Silk Finance No. 3 Limited	Ireland	-	-	(d)	-	SECURITISATION	(10)	(6)	-
Suzuki Servicios Financieros, S.L.	Spain	C/ Carlos Sainz 35, Pol. Ciudad del Automóvil, Leganés (Madrid)	-	51.00%	51.00%	INTERMEDIATION	2	1	-
Svensk Autofinans 1 Limited	Ireland	-	-	(d)	-	SECURITISATION	-	-	-
Unifin, S.p.A.	Italy	Strada Maggiore 47-I, 40125 (Bologna)	100.00%	-	100.00%	FINANCE	71	(6)	62
Zagiel Spólka Akcjna	Poland	Lubin at ul. Tomasza Zana 39ª, 20-601 Lubin (Poland)	-	70.00%	70.00%	FINANCE	6	(15)	2

(a) Data obtained from the financial statements of each subsidiary for 2012. These financial statements have not yet been approved by the respective governing bodies. However, the Bank's directors consider that they will be ratified without any changes.

(b) Carrying amount of the investments in each subsidiary per the books of the holding company, net of the related impairment allowance, if any.

(c) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September, approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other parties acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. Accordingly, the number of votes corresponding to the Parent in relation to companies in which it has an indirect interest is the number corresponding to the subsidiary holding a direct ownership interest in such companies.

(d) Vehicles over which effective control is exercised.

Appendix II

Associates and jointly controlled entities

Company	Location	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (b)	Line of Business	Millions of Euros (a)			
		Direct	Indirect			Assets	Capital and Reserves	Profit (Loss)	Amount of Ownership Interest
Grupo Konecta Centros Especiales de Empleo, S.L.	Spain	-	44.77%	44.77%	TELEMARKETING	1	-	-	-
Grupo Konecta Maroc S.A.R.L. à associé unique	Morocco	-	44.77%	44.77%	TELEMARKETING	2	-	1	1
Grupo Konecta UK, Ltda.	United Kingdom	-	44.77%	44.77%	FINANCE	3	-	-	-
Grupo Konectanet, S.L.	Spain	-	44.77%	44.77%	HOLDING COMPANY	30	7	4	9
Grupo Konectanet México, S.A. de C.V.	Mexico	-	44.77%	44.77%	TELEMARKETING	3	(1)	(1)	-
Hyundai Capital Germany GmbH	Germany	-	49.99%	49.99%	SERVICES	3	3	-	1
Konecta Activos Inmobiliarios, S.L.	Spain	-	48.83%	48.83%	PROPERTY	36	5	4	1
Konecta Brazil Outsourcing, Ltda.	Brazil	-	44.77%	44.77%	SERVICES	-	-	-	-
Konecta Broker, S.L.	Spain	-	44.77%	44.77%	SERVICES	-	-	-	-
Konecta Bto, S.L.	Spain	-	44.77%	44.77%	TELECOMMUNICATIONS	103	45	4	16
Konecta Chile Limitada	Chile	-	44.77%	44.77%	SERVICES	13	3	-	1
Konecta Colombia Grupo Konecta Colombia Ltda.	Colombia	-	44.77%	44.77%	TELEMARKETING	4	-	-	-
Konectanet Comercialización, S.L.	Spain	-	44.77%	44.77%	MARKETING	2	1	-	-
Konecta Field Marketing, S.A.	Spain	-	44.77%	44.77%	MARKETING	1	-	-	-
Konecta Perú S.A.C.	Peru	-	44.77%	44.77%	SERVICES	6	-	-	-
Konecta Portugal, Lda.	Portugal	-	44.77%	44.77%	MARKETING	4	-	-	-
Konecta Servicios Administrativos y Tecnológicos, S.L.	Spain	-	44.77%	44.77%	SERVICES	3	1	1	-

Company	Location	Percentage of Ownership Interest Held by the Bank		Percentage of Voting Power (b)	Line of Business	Millions of Euros (a)			
		Direct	Indirect			Assets	Capital and Reserves	Profit (Loss)	Amount of Ownership Interest
Home Services Online Solutions, S.L.	Spain	-	44.77%	44.77%	SERVICES	-	-	-	-
Konectanet Andalucía, S.L.	Spain	-	44.77%	44.77%	SERVICES	4	3	1	-
Konecta Catalunya, S.L.	Spain	-	44.77%	44.77%	SERVICES	-	-	-	-
Kontacta Comunicaciones, S.A.	Spain	-	33.58%	33.58%	SERVICES	10	3	-	1
Kontacta Servicios de BPO, S.L.	Spain	-	33.58%	33.58%	SERVICES	-	-	-	-
Omega Financial Services GmbH	Germany	-	50.00%	50.00%	SERVICES	4	3	1	-
Puntoform, S.L.	Spain	-	44.77%	44.77%	TRAINING	-	1	-	-
Reintegra, S.A.	Spain	-	45.00%	45.00%	COLLECTION AND PAYMENT SERVICES	14	5	6	1
Santander Benelux, S.A./N.V.	Belgium	-	16.80%	16.80%	BANKING	13,681	1,197	42	200
Santander Mediación Operador de Banca-Seguros Vinculado, S.A.	Spain	7.00%	1.50%	8.50%	ADVISORY SERVICES	65	3	1	-
Transolver Finance E.F.C., S.A.	Spain	50.00%	-	50.00%	LEASING	160	13	-	
Universal Supoprt, S.A.	Spain	-	44.77%	44.77%	TELEMARKETING	4	3	1	-

(a) Data obtained from the financial statements of each associate and/or jointly controlled entity for 2012. These financial statements have not yet been approved by the respective governing bodies. However, the Bank's directors consider that they will be ratified without any changes.

(b) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September, approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other parties acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. Accordingly, the number of votes corresponding to the Parent in relation to companies in which it has an indirect interest is the number corresponding to the company holding a direct ownership interest in such companies.

Appendix III

List of agents to whom Bank of Spain Circular 4/2010 is applicable

Name	Registered office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Álvarez y Garrúes Dos, S.L.	Av. de Vigo, 65 - Pontevedra	27003	B21380746	01/08/08	31/07/13	Pontevedra, Villagarcía de Arosa, O Grove, Sanxenxo, Cambados, Lalín, La Estrada, Silleda and Caldas de Rey	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
Alvarez y Garrues, S.L.	Av. A Coruña, 439 - Lugo	27003	B27274216	01/12/03	-	Lugo and its province	Mortgage loans, consumer loans, finance leases
Álvarez y Garrúes Tres, S.L.	C/ Salvador Dalí, 12 - Ourense	27003	B27412816	01/11/10	31/10/15	Ourense and its province	Consumer loans and automotive financing, leasing and full-service leasing
Antonio García Fernández Servicios Financieros, S.L.	Av. Argentina 1, Pozoblanco	14400	B14771554	01/10/06	-	Alcaracejos, Añora, Belalcazar, Belmez, Los Blázquez, Cardenas, Conquista, Dos Torres, Espiel, Fuente La Mancha, Fuenteovejuna, Elguido, Hinojosa del Duque, Pedroche, Peñarroya-Pueblonuevo, Pozoblanco, Santa Eufemia, Torrecampo, Valsequillo, Villamaría, Villanueva de Córdoba, Villanueva del Duque and Villanueva del Rey, Villarralto, Villa Viciosa de Córdoba and El Viso.	Mortgage loans, consumer loans, finance leases
Asedime Servicios Financieros, S.L.	Doctor Dorronsoro 2 - Valverde del Camino	21600	B21380746	01/04/08	31/07/13	Alajar, Almonaster la Real, Aracena, Aroche, Arroyo Molinos de León, Beas, Berrocal, Cala, Calañas, El Campillo, Campofrío, Cañaveral de León, Castaño de Robledo, Corteconcepción, Cortegana, Cortelazor, Cumbre de En Medio, Cumbres de San Bartolomé, Cumbres Mayores, Encinasola, Fuenteheridos, Galaroza, La Granada de Ríotinto, La Nava, Nerva, Puerto del Moral, Rosal de la Frontera, Santa Ana la Real, Santa Olalla del Cala, Trigueros, Valdelarco, Valverde del Camino, Zalamea la Real and Zufre.	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
Asesoramiento Financiero Toledano Cortés, S.L.	Agustín Rodríguez Sahagún, 30 Local 3 - Ávila	5003	B05182563	01/12/03	-	Province of Ávila	Mortgage loans, consumer loans, finance leases
Asesoramiento Financiero Zafra, S.L.	Andrés Pro, 18 - Zafra	6300	B06433973	03/01/05	-	Badajoz	Mortgage loans, consumer loans, finance leases

Name	Registered office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Asesoramiento Integral Financiero, S.L.	Montesinos, 44 - Aranjuez (Madrid)	28300	B82672569	01/10/03	-	Aranjuez, Ciempozuelos, Valdemoro, Pinto, Chinchón, Ocaña, Noblejas, Villarejo de Salvanes, San Martín de Salvanes, San Martín de Valdeiglesias, Seseña, Ontigola, Titulcia	Mortgage loans, consumer loans, finance leases
Asesoria Financiera J. Asenjo, S.L.	Plaza de Comillas, 2 Local 7, Navalmoral de la Mata	10300	B103022279	03/01/05	-	Villanueva de la Vera, Trujillo y Miajadas, Jaraiz de la Vera, Navalmoral de la Mata	Mortgage loans, consumer loans, finance leases
Berga Gestió, S.L.	C/ Gran Vía, 46 - Berga (Barcelona)	08600	B64396476	02/01/10	01/01/15	Berguedá, Solsonès, Alt Urguell, Navàs, Cardona	Consumer loans and automotive financing, leasing and full-service leasing
Canovaca Agentes Financieros S.L.	Ancha, 2 - Palma del Río	14700	B14539290	01/04/00	-	Almodovar del Rio, Fuente Palmera, Palma del Rio, Posadas, Lora del Rio, Peñaflor, Carmona, La Campana, La Puebla de los Infantes, Mairena del Alcor, El Viso del Alcor	Loans and credits, finance leases
Carrasco Agentes, S.L.	Av. Andalucía, 43 - Linares	23700	B23478704	02/01/04	-	Jaén	Mortgage loans, consumer loans, finance leases
Centro Asesor de Teruel Financiera, S.L.	Carretera de Alcañiz 3, Bajo - Teruel	44003	B44224947	02/06/08	01/06/13	Teruel and its entire province	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
Centro Financiero de Benidorm, S.L.	Av. Constitución 113 - Valencia	46009	B98050305	10/06/08	09/06/13	Alfaz del Pi, Altea, Beniarres, Benidorm, Callosa d'en Sarria, Finestrat, Guadalest, La Nucia, Polop and Villajoyosa	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
Consultoría Financiera de la Mancha, S.L.	Ramiro Ledesma - Socuéllanos	13630	B13354303	15/12/03	-	Socuéllamos, Tomelloso, Argamasilla de Alba, Pedro Muñoz, Campo de Criptana, Alcázar de San Juan, Las Pedroñeras, Monta del Cuervo, Villanueva de los Infantes	Mortgage loans, consumer loans, finance leases
Donat Finance Service, S.L.	Plaza Velázquez, 11 - Melilla	52004	B52015435	01/02/07	01/02/12	Melilla	Mortgage loans, consumer loans, finance leases

Name	Registered office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Estudios y Análisis de Riesgos, S.L. (*)	Avda. del Mediterráneo, sn - Cuenca	16004	B16156598	30/06/07	02/11/08	Cuenca	Mortgage loans, consumer loans, finance leases
Financiaceuta, S.L.U.	C/ General Aranda, 3 - Ceuta	51001	B51017101	01/07/06	-	Ceuta	Mortgage loans, consumer loans, finance leases
Finanduero 2007, S.L.U.	Plaza Arco Isilla, 5 - Aranda de Duero	9400	B09480013	02/11/07	02/11/12	Aranda de Duero, Lerma, Huerta del Rey, Salas de los Infantes and Roa.	Mortgage loans, consumer loans, insurance and financing, automotive leasing and full-service leasing
Finangi. Cat, S.L.	Avda. de la Rápita, 33 1º Amposta (Tarragona)	43870	B43571660	01/06/99	-	Tarragona	Loans and credits, finance leases
Fromin Consultores, S.L.U.	Badia Polesina, 6 - Estepa	41560	B41969767	01/06/04	-	Aguadulce, Badolatosa, Casariche, Los Corrales, Estepa, Gilena, Herrera, La Lentejuela, Lora de Estepa, Marinaleda, Martin de la Jara, Osuna, Pedrea, La Roda de Andalucía, El Rubio, El Saucejo.	Mortgage loans, consumer loans, finance leases
García y Trinidad Asesoramiento y Financiación, S.L.	Rosario, 9 - Albox	4800	B04577383	01/10/06	-	Albox, Alcontar, Almanzorra, Armuña de Almanzorra, Bacares, Bayarque, Benitagla, Bezalon, Cantoria, Cobrar, Fines, Laroya, Lijar, Lubrin, Lucar, Macael, Olula del Rio, Partaloa, Purchena, Seron, Sierro, Somontin, Tahall, Tijola, Uleila del Campo, Urracal and Zurgena.	Mortgage loans, consumer loans, finance leases
Gestió de Financament I Inversions de Ponent	Av. De la Pau, 49 - Mollerusa	25230	B25539123	01/10/06	-	The regions of Pla D´urgell, la Noguera, L´Urgell and La Segarra. And Lérida, Balafia; Les Basses D'Alpicat, La Bordeta, Camps D'Escorts, Cap Pont, Castel De Gardeny, Clot-Princep de Viana, Gualda; Llivia, Magraners, Mariola, Pardinyes, Raimat, Seca Sant Pere, Sucs, Suquets; Les Torres de Sanui, Abella de la Conca Les Alamus, L'Albages, Albatarrec, L'Albi, Alanco, Alcarras, Alcoletge, Alfes, Alguaire, Almatret, Almenar, Alpicat, Artessa de Lleida, Aspa, Aitona, Benavent de Segria, Bovera, Les Borges, Blanquets, Castelldans, Cervia de Garrigues, Corbins, L'Espluga Calba, La Floresta, Fulleda, La Granja D'Escarp, Gimenells i Pla de la Font, Granyera de les Garrigues, Juncosa, Juneda, Llardecans, Masalcoreig, Maials de Lleida, Els Omellons, La Pobla de Cervoles, Bellaguarda, La Portella, Puiggros, Puigverd de Lleida; Roselló, Seros, El Soleras, Soses, Tarres, Els Torms, Torrebesses, Torrefarrera, Torres de Segre, Torre Serona, Vilanova de Segria, El Vilosell, Vilanova de la Barca and Vinaixa.	Mortgage loans, consumer loans, finance leases

Name	Registered office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Gestión de Servicios Financieros Artimar, S.L.	Avda. de Canarias 344 - Sta. Lucia de Tirajana	35110	B35496777	01/01/98	-	Santa Lucía de Tirajana, San Bartolomé de Tirajana	Loans and credits, finance leases
Gestión Financiera Villalba S.L.	General Luque Arenas, 16 - Ubrique (Cádiz)	11600	B11517620	01/08/01	-	Ubrique, Alcalá del Valle, Algodonales, Arcos de la Frontera, Benaocaz, Bornos, El Bosque, El Gastor, Espera, Grazalema, Olivera, Prado del Rey, Setenil, Torre Alhaquine, Villanueva del Rosario, Villa Martín, Puerto Serrano	Loans and credits, finance leases
GEYBA Servicios Financieros, S.L.	Antonio Machado - 10 - La Algaba	41980	B91385377	01/09/04	-	Arevalillo de Cega, Alacala del Rio, Alcolea del Rio, La Algaba, Almaden de la Plata, Brenes, Burguillos, Cantillana, Castilblanco de los Arroyos, El Castillo de las Guardas, Cazalla de la Sierra, Constantina, El Garrobo, Gerena, El Madroño, Las Navas de la Concepción, El Pedroso, La Roda de Andalucía, La Rinconada	Mortgage loans, consumer loans, finance leases
Graciano Vega Vidal, S.L.	C/ Del Agua, 2 - Gijón (Asturias)	33206	B33957580	02/01/10	01/01/15	Gijón, Cabrales, Cangas de Onís, Caravía, Caso, Colunga, Llanes, Nava, Onís, Parrés, Peñamerella Alta, Peñamellera Baja, Pesoz, Pilonga, Ponga, Rivadedeva, Rivadesella, Villaviciosa	Consumer loans and automotive financing, leasing and full-service leasing
Ilinium Finance, S.L.	Calle Juan de Herrera, 2 - Albacete	2400	B02466993	24/06/08	01/05/13	Hellín and Jumilla	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
Indastec Asociados, S.L.	Madrid, 20 - Ibiza	7800	B57150310	01/01/04	-	Eivissa, Sant Antoni de Portmany, Santa Eulalia del Rio San Jose Formentera	Mortgage loans, consumer loans, finance leases
Insema Inversiones, S.L.	Av. Andalucía 11 - Planta 1 - Puente Genil (Córdoba)	14500	B14499909	19/12/08	-	Aguilar, Castro del Río, Espejo, Fernan Nuñez, Montalbal de Córdoba, Montemayor, Montilla, Monturque, Moriles, Palenciana, Puente Genil, La Rambla and Santaella	Mortgage loans, consumer loans, finance leases
Intermediación y Servicios Junval, S.L.	Bebricio 54, Calahorra	26500	B26319178	01/12/03	-	Calahorra	Mortgage loans, consumer loans, finance leases
Jordi Masso Riera	C/ Bruc 52 - Igualada	8700	35036266K	01/03/08	28/02/13	Argençola, Bellprat, Bruc, Cabrera d'Igualada, Calaf, Calonge de Segarra, Capellades, Carme, Castellfollit de Riubregós, Castellolí, Capons, Hostalets de Pierola, Igualada, Jorba, Llanuca, Masquefa, Montmaneu, Òdena, Orpí, Piera, Pobla de Claramunt, Prats de Rei, Pujalt, Rubió, Sant Martí de Tous, Sant Martí Sesgueioles, Sant Pere Sallavinera, Santa Margarida de Montbui, Santa María de Miralles, Torre de Claramunt, Vallbona d'Anoia, Veciana, Vilanova del Camí, Castellví de Rosanes, Collbató, Esparreguera, Martorell and Olesa de Montserrat.	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing

Name	Registered office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Juan Jimenez Gestión Financiera, S.L.	C/ Capitán Vigueras, local 18 - Seville	41004	B91167973	01/02/02	-	Bormujos, Coria del Río, Gelves, Gines, Pilas, Sanlucar la Mayor, Umbrete, Villamanrique de la Condesa, Villanueva del Ariscal.	Loans and credits, finance leases
L'Eliana Finance, S.L.	Av. Cortes Valencianes 35 - L'Eliana	46183	B9739462	01/10/05	-	Riba-roja de Turia, Lliria, Betera, Buñol, Requena, Utiel, L'Eliana, La Pobla de Vallbona	Mortgage loans, consumer loans, finance leases
Martin & Castilla Servicios Financieros, S.L.	Fray Diego de Cádiz, 163 - Morón de la Frontera	41530	B91369231	01/06/04	-	Algamitas, Arahal, Caripe, El Coronil, Marchena, Montellano, Morón de la Frontera, Paradas, Pruna, La Puebla de Cazalla, Villanueva de San Juan	Mortgage loans, consumer loans, finance leases
Martínez Valdivieso Serafín S.L.N.E.	Murcia s/n - Baza	18800	B18706713	01/02/05	31/01/10	Granada	Mortgage loans, consumer loans, finance leases
Medifirent, S.L.	Vitoria, 2 - Miranda de Ebro	9200	B09410572	01/03/04	-	Miranda de Ebro	Mortgage loans, consumer loans, finance leases
Noguer Bau, S.L. (*)	Sant Fidel, 5. Vic	8500	B64018179	31/08/07	31/08/07	Aiguafreda, Alpens, El Brull, Calldetenes, Centelles, Collsuspina, Espinelves, Folgueroles, Gurb, Els Hostalets De Balenya, Lluça, Perafita, Prats De Lluçanes, Roda De Ter, Rupit-Pruit, Santa Cecilia De Voltrega, Santa Eugenia De Berga, Santa Eulalia De Riuprimer, Sant Agusti Del Lluçanes, Santa Maria De Corco L'Asquirol, Sant Bartomeu Del Grau, Sant Boi De Lluçanes, Sant Hipolit De Voltrega	Mortgage loans, consumer loans, finance leases
Ramsa Servicios Financieros y Empresariales, S.L.	Blas Infante, 7 - Lepe	21440	B21347190	02/01/04	-	Punta Umbría, Cartaya, Lepe, Isla Cristina and Ayamonte	Mortgage loans, consumer loans, finance leases
Santex Financial Services, S.L.	C/ Sancho El Sabio, 29-1º Vitoria (Álava)	1008	B01445923	02/07/08	01/07/13	Madrid	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
Servicios Específicos de Financiación, S.L.	Lealtad, 12 - Santander	28027	B83957126	05/04/04	-	Cantabria	Mortgage loans, consumer loans, finance leases
Servicios Financieros Quintanar, S.L.	General López Brea, 5 - Quintanar de la Orden (Toledo)	45800	B45545167	01/12/03	-	Quintanar de la Orden, Madridejos	Mortgage loans, consumer loans, finance leases
Servicios Financieros Sorianos, S.L.	Plaza del Salvador, 1 - Soria	42002	B42180927	02/01/06	-	Soria	Mortgage loans, consumer loans, finance leases
Servital Asesores S.L.	Nuestro Padre Jesús 3 - La Palma del Condado	14500	B2161177	02/11/05	-	Almonte, Bollullos Par del Condado, Bonares, Chucena, Escacena del Campo, Hinojos, Lucena del Puerto, Manzanilla, Niebla, La Palma del Condado, Paterna del Campo, Rociana del Condado, Villalba del Alcor, Villarrasa	Mortgage loans, consumer loans, finance leases
Soluciones Financieras del Este S.L.	C/ Crisol 3 - Rivas VaciaMadrid	28521	B84418904	02/11/05	-	Arganda del Rey, Rivas - Vaciamadrid	Mortgage loans, consumer loans, finance leases

Name	Registered office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Hermanos P.Q. Servicios Financieros S.L.	Calle Armonía 14 - Vélez Rubio, Vela (Almería)	4820	B04678348	01/09/09	31/07/13	Vera	Mortgage loans, consumer loans
Tudegues Tudela, S.L.	Sancho el Fuerte, 1-1º - Tudela - Navarre	31500	B31618325	23/02/10	22/02/15	Tudela	Consumer loans and automotive financing, leasing and full-service leasing
Finanroda Servicios Financieros S.L.	Calle Molino 82 - Ronda	29400	B92963388	02/01/09	01/01/14	Agatocin, Alpendeire, Arriate, Atajate, Benalid, Benalauria, Benaojan, Benarraba, El Burgo, Cañete La Real, Cartajima, Cortes de la Frontera, Cuevas del Becerro, Faraja, Gaucin, Genalquacil, Igualeja, Jimera de Libas, Jubrique, Juzcar, Montecorto, Montejaque, Parauta, Pujerra, Ronda and Yunquera.	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
European Financial Consumer S.L.	C/ Montesinos, 42- Aranjuez	28300	B86080280	03/01/11	31/01/16	Segovia and rest of province	Mortgage loans, consumer loans, finance leases
Gestiones Sanchez Triay S.L.U	Calle Beal Joseph Castellcamps, 9 bajo Ciutadella	07760	B57394769	01/01/11	01/01/16	Alalor, Castell, Ciutadella de Menorca, Fornells, Ferreries, Mahón, Mercadal, Migjorn Gran, Sant Lluis.	Mortgage loans, consumer loans, insurance, finance leases and automotive financing, leasing and full-service leasing
M&G Figueres Associats S.L.	C/ Col·legi, 54 Bajo - Figueres	17600	B17673823	01/01/11	01/01/16	Agullana, Albanya, Arrentera, Bascara, Biure, Boadella i les Escaudes, Cebanes, Cantallaps, Capmany, Cistella, Escada, Empolla,Figueres, Garniguelia, Jenguera, Lladó, Masarac, Mollet de Peralado, Pont de Mollins and Crespia.	Mortgage loans, consumer loans, finance leases
Financiaciones Costa Sol Oriental, S.L.	C/ Angustias, 24 Torre del Mar	29700	B93195477	29/11/12	-	Alcaucin, Alfarnate, Algarrobo, Almachar, Archez, Arenas, Benamargosa, El Boger, Canillas de Aceituno, Canillas de Albaida, Comares, Competa, Macharaviaya, Moclinejo, Frigiliana, Nerja, Periana, Riogordo, Salares, Sayalonga, Torre del Mar, Torrox, Velez Málaga, Viñuela.	Loans and credits, finance leases
Servicios Financieros Jienenses, S.L. (*)	Plaza del Camping, 4 Local 10 - Andujar	23740	B86340767	29/11/12	01/12/14	Aldeaquemada, Andújar, Arjona, Arjonilla, Bailén, Baños de Quemada, Carboneros, La Carolina, Cazalilla, Espeluy, Higuera de Arjona, Lopera, Marmolejo, Santa Elena, Villanueva de la Reina, Villardonpardo and Villa del Río,	Automotive financing, automotive leasing and full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending
Inversiones Financieras Bilegui, S.L. (*)	C/ Artiz Bidea, 48 - Mungía	48100	B95659579	30/11/12	01/10/16	Eibar, Mondragón, Genika and its catchment area.	Automotive financing, automotive leasing and full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending

Name	Registered office	Postal Code	Employer/National Identification Number	Date of Granting of Powers	Expiry Date of Mandate	Geographical Area of Activity	Scope of Representation
Asfinza Badajoz, S.L. (*)	C/ Andrés Pro, 3 - Zafra	06300	B06580708	14/12/12	01/07/15	Badajoz capital and its catchment area	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending
Fincar Gestiones Financieras, S.L. (*)	Av. Buenos Aires, 32 - Guadix	18500	B21507751	14/12/12	01/02/15	Guadix, Baza, Huescar, Cullar, Cuevas del Campo, Iznalloz and Guadahortuna.	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending
Servicios Financieros Palentinos, S.L.U. (*)	Av. Castilla, 47-6ºA - Aranda de Duero	34005	B09525973	14/12/12	01/07/16	Palencia and the municipalities within its province.	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending
128Innova24H, S.L. (*)	C/ Oasis, 17 - El Ejido (Almería)	04700	B92999846	14/12/12	01/03/16	El Ejido, Adta and Berja	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending
Efincar Fleet Services, S.L. (*)	C/ Dr. Fleming, 1 Local. Ecija (Seville)	41940	B91958363	14/12/12	01/01/15	Écija, Fuentes de Andalucía, La Luisina, Cañada Rosal, La Carlota.	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards, consumer loans (Crediyá) and direct customer lending

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

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

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

2012 Consolidated Directors' Report

General background

The world economy remained weak in 2012, burdened by the European sovereign debt crisis and the slow recovery of the US economy. The performance of the emerging economies was more positive, although some of them were affected by the international environment. The euro zone crisis reached a turning point with the European Council in June and the financial aid mechanisms announced by the European Central Bank (ECB) in September that significantly reduced the likelihood of the euro break-up anticipated by the market.

The euro zone looks set for a fall in GDP of around 0.4% year on year in 2012. The return to recession in the second half of the year reflected the impact of the austerity measures in the public sector and the deleveraging processes in the private sector. This was combined with the temporary worsening of the financial conditions associated with the sovereign debt crisis and the doubts about the future of the Monetary Union that were only dissipated after the June summit and ECB measures referred to earlier.

Inflation remained above the ECB target of 2% throughout the year, at an average rate of 2.5%, driven by crude oil prices at the beginning of the year and the rise in indirect taxes in some economies. However, the rate was lower than that of 2011 and displayed a downward trend that will bring it close to the target in 2013.

The ECB once again played a decisive role in the evolution of the crisis. The monetary authority began 2012 with two very long-term refinancing operations aimed at guaranteeing the liquidity of the financial system. In July the increased uncertainty led the ECB to lower the official interest rate by 25 basis points to 0.75% and to cut the deposit facility rate (the current benchmark for money market rates) to 0%.

In September the ECB announced that it would undertake Outright Monetary Transactions (OMT) in order to restore the mechanism of monetary policy transmission that was affected by the financial fragmentation of the area associated with the perceived risk of break-up. These would enable the ECB to buy government-issued bonds maturing in one to three years from countries on the condition that they apply for aid under an EFSF/ESM programme. Although OMT activation is ultimately in the hands of national governments, the mere announcement thereof succeeded in easing the financial tensions. As for the exchange rate, the tensions in the euro zone led to a depreciation of the euro against the dollar that was corrected from August onwards, ending December at EUR 1 = USD 1.32.

There continue to be differences between the countries in terms of economic situation and outlook. The European peripheral economies suffered the effects of greater fiscal adjustment and private sector deleveraging combined with very high funding costs. Conversely the central European economies enjoyed a more favourable underlying situation. Germany continued to reduce its unemployment rate (5.4%) with GDP growth that is expected to be more limited in 2013 (0.7% in 2012).

The Spanish economy will end 2012 with an estimated decrease of around 1.5% as a result of the strong adjustments made in both the public sector (fiscal consolidation) and the private sector (deleveraging process).

Domestic demand reflected the sharp reduction in household spending (higher income tax withholdings, increased VAT, pay cuts and uncertainty), the major effort to curb public spending and investment (mainly in the latter part of the year), and the adjustment of the residential sector. The positive feature was to be found in the foreign sector, which recorded a bigger advance in exports than was expected resulting in current account balance surpluses towards the end of the year.

Inflation ended the year at 2.9% affected by the increase in VAT and medicinal drug and administered prices. The underlying component ended the year at 2.1%, in line with the evolution of prices in the euro zone.

Poland recorded slower GDP growth in 2012 (1.4% in the third quarter) although it remained above the European average. The slower growth of Europe, the reduction in domestic consumption and the measures to control the budget deficit were the reasons for this decrease. With falling inflation (2.7% in November), in the fourth quarter the monetary authorities lowered the official interest rate by 25 b.p. to 4.50%. This trend is continuing in 2013 (-50 b.p. in January to 4.0%). The zloty appreciated against the euro in 2012 to PLN 4.07 = EUR 1.

Business performance

- Attributable profit amounted to EUR 279.9 million.

- Income fell by 2%, with stable net interest income and lower fee and commission income (-8.6%) due to the weak environment.

- Higher operating costs (+3%) due to the development of Santander Retail in Germany.

- Improved credit quality (lower NPL ratio and higher coverage ratio) resulting in lower credit loss provisions (-8%).

- Increase in lending (+1%) far exceeding the industry average due to Poland, Germany and the Nordic countries.

Santander Consumer Finance in Continental Europe generated profit attributable to the Group amounting to EUR 279.9 million at December, as compared with EUR 435.3 million in 2011. It should be noted that this profit includes impairment of EUR 249 million (gross) on goodwill in Italy.

Strategy

Santander Consumer Finance specialises in financing for the purchase of vehicles through agents. Its offering also includes personal loans, loans for the purchase of durable goods, credit cards and deposits.

In 2012 Santander Consumer Finance made further progress in the pillars of its business model: diversification, leadership in key markets, efficiency, risk control and recoveries, and a single pan-European platform. The main focuses of management were:

- Organic growth and cross-selling, supported by brand agreements and by penetration in the used vehicle market to offset the decline in new vehicle registrations.

- The consolidation of the business model in Germany by rolling out the Partenón technology platform.

- The consolidation of SC Poland, strengthened in the third quarter with the acquisition of Zagiel, which specialises in consumer loans.

Activity

Loans and advances to customers stood at EUR 58,718 million, in line with the figure at the end of 2011 (-0.1%). Better performance of the central and northern European markets (Nordic countries +15%; Germany stable). The other markets were affected by the economic situation and deleveraging (Spain -4%, Portugal -21%, Italy -12%).

New loans amounted to EUR 21,720 million at December (+1% year-on-year), underpinned mainly by used vehicles (+6%) and durable goods (+10%). There was also differential growth in financing new vehicles (+2%) in contrast with the 5% drop in new vehicle registrations in the European Union. By contrast, there were declines in direct credit (-5%) and in other products (-11%).

Noteworthy was the double-digit growth in the activity generated by the agreements entered into with vehicle manufacturers, with a positive impact in all countries. This above-industry-average performance has increased its relative weighting in the area, so that it now represents 12% of the total loan portfolio, while presenting a better risk profile.

By unit, lending increased in Poland (+9% in local currency terms), Nordic countries (+8% in local currency terms) and Germany (+5%). Production decreased in Spain (-4%), Italy (-29%) and Portugal (-37%) due to the drop in new vehicle registrations. On the liability side, the area maintained a high level of customer deposits (EUR 32,114 million; -3% year-on-year), which sets it apart from its competitors and gives it great funding stability.

Wholesale financing performed well, with more than EUR 2,100 million issued in 2012. Noteworthy was the securitisation activity (EUR 1,600 million captured in the market), since Santander Consumer Finance was the first entity to securitise loans to finance vehicles in Finland and Sweden. Also, a senior debt issue amounting to EUR 500 million was launched by the parent of Santander Consumer Finance in the fourth quarter.

The funding plan for 2013 maintains current trends: high level of customer deposits together with wholesale financing through securitisations and issues.

Earnings

The year-on-year comparison of income statements reflects the management undertaken in a complex environment of growth, funding and risk. Noteworthy was the stability of net interest income (+0.4%) as a result of the active management of spreads, which boosts the return on new lending, and of funding costs.

Total income was down by 2.2% due to the poor performance of fee and commission income (-8.6%). Costs, which were up by 4.0% year-on-year, reflected the development of Santander Retail in Germany, including restructuring costs, and the incorporation of Zagiel in Poland. This resulted in an efficiency ratio of 46.1%.

The credit loss provisions (-8%) reflected the improvement in credit quality of the portfolio, which is expected to continue in 2013. The non-performing loans ratio improved for the third year running, and ended 2012 at 3.94% (2011: 4.02%). The coverage ratio stood at 109% (the same figure as in 2011).

In addition, the lesser burden of other income and write-downs following the efforts made in 2011 had a favourable impact. The combined performance of income, expenses and write-downs boosted the aforementioned profit.

By geographical area, growth was recorded in the Nordic countries, Poland and Spain, which offset the weakness of Portugal and Italy. Germany continues to contribute most to the total profit of the area, and the technological and operational integration of Santander Retail (formerly SEB) is now complete, which will support the development of the business in the coming years.

Risk management

Corporate risk management principles

2012 highlighted the importance of the Santander Group's risk policy geared towards maintaining a predictable medium-low risk profile in all of its risks, a distinguishing feature that has enabled the Santander Group to occupy one of the most outstanding positions in the market during these years of marked uncertainty on the economic stage.

For the Santander Group, quality in risk management constitutes one of its distinguishing features and, therefore, represents a focal point of its activities. In its more than 150 years of history, Santander has developed a combination of prudence in risk management together with the use of advanced risk management techniques which has proven to be crucial to obtaining recurring, healthy economic results and, in short, to creating value for shareholders.

The intense turbulence affecting the financial markets since July 2007 has demonstrated the effectiveness of Santander's risk management policies.

As part of the Santander Group, Santander Consumer Finance's risk management is based on the following principles:

- Involvement of senior management. Banco Santander's Risk Committee and the Group units' senior management committees are structured so as to involve management in the overall risk oversight process.

- Independence of the risk function with respect to the business. The Risk Area Manager at Santander Consumer Finance, as Deputy General Manager of the Santander Group, reports directly to the General Manager of the Group's Risk Division, who in turn reports to Mr Matías Rodríguez Inciarte who, as Third Deputy Chairman and in his capacity as Chairman of the Risk Committee, reports directly to the Executive Committee and the Board. The separation of the functions of the business areas (risk-takers) and those of the risk areas responsible for risk measurement, analysis, control and reporting provides sufficient independence and autonomy for the performance of adequate risk control.

- Decisions by consensus (even at branch level), which ensure that different opinions are taken into account and avoid situations in which individual decision-making powers are delegated.

- Decisions on credit transactions are taken jointly by the risk and commercial areas.

- Definition of responsibilities. The type of activities to be performed, segments, risks to be assumed and risk decisions to be made are clearly defined for each risk-taking unit and, where appropriate, each risk management unit, based on the powers delegated to them. How these transactions should be arranged and managed and where they should be recognised for accounting purposes is also defined.

- Risk measurement. Risk measurement takes into account all risk exposures assumed across the business spectrum and uses measures based on the components and dimensions of risk throughout its life-cycle for the management of risk at any given time.

- From a qualitative standpoint, this integrated vision translates into the use of a series of comprehensive metrics, mainly the charge for capital at risk and the return on risk-adjusted capital (RORAC).

- Risk limitation. This aims to limit, in an efficient and comprehensive manner, the maximum levels of risk that are set for the various risk measures, where the risks being incurred are known and the Group has the infrastructure required for their management, control and reporting. It also aims to ensure that undesired types of risk are not incurred and that the capital charge, by risk type, exposure and loss, does not exceed the approved maximum limits.

- Establishment of risk policies and procedures. The risk policies and procedures constitute the basic regulatory framework, consisting of circulars, frameworks and operating rules, through which risk activities and processes are regulated.

- Definition and assessment of risk methodologies. Risk methodologies provide the definitions of the internal risk models applicable by the Group, and, therefore, stipulate the risk measures, product valuation methods, yield curve and market data series building methods, calculation of risk-based capital requirements and other risk analysis methods, and the respective calibration and testing processes.

As part of the Santander Group, the risk management and control process at Santander Consumer Finance is structured in the following phases:

- Establishment of the risk management frameworks and policies that reflect the principles and standards governing the general modus operandi of the Santander Group's risk activities, based on a corporate risk management framework, which includes the organisational and management models, as well as a series of more specific corporate frameworks for the functions accountable to the risk unit. Local risk units transpose corporate risk regulations into their internal policies and develop the procedures required to implement them.

- Identification of risks, through the constant review and monitoring of exposures, the assessment of new products and businesses and the specific analysis of singular transactions.

- Measurement of risks using methodologies and models implemented subject to a validation and approval process.

- Definition of the Group’s risk appetite by setting overall and specific limits for the various types of risks, products, customers, groups, sectors and geographical locations.

- Preparation and distribution of a complete set of reports that are reviewed daily by the heads at all levels of Santander management.

- Implementation of a risk control system which checks, on a daily basis, the degree to which Santander’s risk profile matches the risk policies approved and the risk limits set.

For many years the Santander Group has managed risk using a number of techniques and tools which are described in detail in various parts of this section. The most noteworthy of these techniques and tools, due to the foresight with which Santander implemented them at the time and their current significance in light of the New Basel Capital Accord (BIS II), are as follows:

- Internal ratings- and scorings-based models which, by assessing the various qualitative and quantitative risk components by customer and transaction, make it possible to estimate, firstly, the probability of default and, subsequently, the expected loss, based on LGD estimates.

- Economic capital, as a homogeneous measure of the risk assumed and a basis for the measurement of the management performed.

- RORAC, which is used both as a transaction pricing tool (bottom-up approach) and in the analysis of portfolios and units (top-down approach).

- VaR, which is used for controlling market risk and setting the market risk limits for the various trading portfolios.

- Scenario analysis and stress testing to supplement market and credit risk analyses in order to assess the impact of alternative scenarios, even on provisions and capital.

Consequently, Santander Consumer Finance's risk management fully identifies with BIS II principles, insofar as it recognises and supports the leading-edge industry practices that the Group has implemented in advance.

As a result of the new developments in the regulatory framework, commonly referred to as BIS III, the Santander Group has taken measures to apply the future requirements of BIS III -increased levels of high-quality capital and adequate capital conservation and countercyclical buffers- sufficiently in advance.

Also, the Santander Group is preparing, per the required schedule, the two new liquidity ratios indicated in BIS III, currently in the observation period, which guarantee sufficient liquidity even in stress scenarios. These ratios are the Liquidity Coverage Ratio (LCR) for the short term (30 days) and the Net Stable Funding Ratio (NSFR), which relates to the structure of financing.

Corporate governance of the risk function

The Banco Santander's Risk Committee is responsible for proposing the Group's risk policy for approval by the Board as part of its governing and supervisory powers. Furthermore, the committee ensures that the Group's activities are consistent with its risk tolerance level and, in this regard, it sets global limits for the main risk exposures, which it reviews systematically, and decides upon any transactions that exceed the powers delegated to lower-ranking bodies.

The Risk Committee, an executive body that adopts decisions within the scope of the powers delegated by the Board, is presided over by the Third Deputy Chairman of the Santander Group and also comprises a further four members of the Board of Directors of Banco Santander.

In 2012 the Risk Committee held 98 meetings, evidencing the importance that the Santander Group attaches to the proper management of its risks.

The responsibilities assigned to the Risk Committee are essentially as follows:

- To propose to the Board the Group's risk policy, which will identify, in particular:

  - The various types of risk (financial, operational, technological, legal and reputational, inter alia) facing the Santander Group.

  - The information and internal control systems to be used to control and manage the aforementioned risks.

  - The level of risk deemed acceptable by the Santander Group.

  - The measures envisaged to mitigate the impact of identified risks in the event that they materialise.

- To conduct systematic reviews of the Group's exposure to its main customers, economic activity sectors, geographical areas and types of risk.

- To authorise the management tools and risk models and ascertain the result of their internal validation.

- To ensure that the Santander Group's actions are consistent with the level of risk tolerance previously defined.

- To be informed of, assess and follow any remarks and recommendations that may be periodically made by the supervisory authorities in discharging their function.

- To decide on transactions outside the powers delegated to lower-ranking bodies and on the overall limits for pre-classified risk categories for economic groups or in relation to exposure by type of risk.

The Risk Committee has delegated certain of its powers to risk subcommittees which are structured by geographical area, business line and type of risk, all of which are defined in the corporate risk governance model.

The risk function at the Santander Group is performed through two Risk Units, which are independent from the business areas from both a hierarchical and a functional standpoint. The two Risk Units are directly linked to the Board of Directors through the Risk Committee and the Third Deputy Chairman of the Group, who is ultimately responsible for the Group's risk management.

In order to meet the requirements of Basel II and to enhance the Group's capacity to cater for its business growth, the organisational and functional structure of the two Risk Units was defined as follows:

- The integrated risk control and internal risk validation unit, with global-reaching corporate responsibilities, which provide support to the Group's governing bodies, namely:

  - Validation of the internal risk models in order to assess the appropriateness and adequacy of the rating systems, internal processes and data processing systems, in conformity with Basel II.

  - Integrated risk control in order to ensure that the risk management and control systems are consistent with the Bank's global risk profile.

- The Risk Unit, whose functions are divided into two blocks:

- A corporate structure, with global-reaching responsibilities ("all risks, all geographical areas"), which establishes the risk policies, methodologies and control systems: solvency, market and methodology.

- A business structure, centred on the performance and management integration of the risk function in the Group's commercial, global and local businesses.

As part of the Santander Group, Santander Consumer Finance's risk policy focuses on maintaining a predictable medium-low risk profile for all its risks.

Following is an analysis of the Group's main types of risk: credit, market, operational and reputational risks.

Credit risk

Introduction to the treatment of credit risk

Credit risk is the possibility of loss stemming from the total or partial failure of our customers or counterparties to meet their financial obligations to the Group.

The specialisation of Santander Consumer Finance's risk function is based on the type of customer and, accordingly, a distinction is made between individualised customers and standardised customers in the risk management process:

- Individualised customers are defined as those to which a risk analyst has been assigned, basically because of the risk assumed. This category includes wholesale banking customers and certain enterprises belonging to retail banking. Risk management is performed through expert analysis supplemented by decision-making support tools based on internal risk assessment models.

- Standardised customers are those which have not been expressly assigned a risk analyst. This category generally includes individuals, individual traders, and retail banking enterprises not classified as individualised customers. Management of these risks is based on internal risk assessment and automatic decision-making models, supplemented subsidiarily, when the model is not comprehensive enough or is not sufficiently accurate, by teams of analysts specialising in this type of risk.

Main aggregates and variations

The profile of the credit risk assumed by Santander Consumer Finance is characterised by a diversified geographical distribution and the prevalence of retail banking operations.

Global credit risk map - 2012

The following table shows a detail of the Group's global credit risk map in its core business, disregarding valuation adjustments:

SCF Group - Gross Credit Risk Exposure			
	2012 (Millions of Euros)	Change on December 2011	% of Portfolio
Germany	30,307	0.57%	51.62%
The Netherlands	1,218	-0.65%	2.07%
Spain	6,874	-3.60%	11.71%
Italy	6,633	-12.03%	11.30%
Portugal	1,011	-21.20%	1.72%
Nordic countries	8,087	15.48%	13.77%
Poland	3,079	3.01%	5.24%
Austria	1,509	4.50%	2.57%
SCF Group	**58,718**	**-0.06%**	**100.00%**

Credit risk exposure fell by 0.06% in year-on-year terms as a result of the decline in the portfolios in Italy, the Netherlands, Spain and Portugal that was not offset by the growth in the Nordic countries, Austria, Poland and Germany.

Germany accounts for 51.62% of this exposure, followed by the Nordic countries, Spain and Italy which account for over 10%.

Variations in main aggregates in 2012

The changes in non-performing loans and the cost of credit reflect the impact of the deterioration of the economic environment, mitigated by prudent risk management, which generally enabled the Group to keep these data at levels below those of its competitors. As a result, Santander Consumer Finance has a significant coverage ratio and a high level of available general reserves.

The non-performing loans ratio was 3.94% at 31 December 2012 (31 December 2011: 4.02%), i.e., it fell by 8 basis points in 2012. The NPL coverage ratio stood at 109%, maintaining the high levels at 2011 year-end.

Distribution of lending

The Group is geographically diversified, since it is present in 13 countries, and concentrates its activities on its core markets. Santander Consumer Finance has a mainly retail profile (consumer loans represent 94.8% and inventory financing for dealers 5.2%) as it engages principally in vehicle financing.

Metrics and measurement tools

Credit rating tools

In keeping with the Santander Group's tradition of using proprietary rating models since 1993, the credit quality of customers and transactions is also measured by internal scoring and rating systems at Santander Consumer Finance. Each credit rating assigned by models relates to a certain probability of default or non-payment, determined on the basis of the Group's historical experience.

Since Santander Consumer Finance focuses mainly on the retail business, assessments are primarily based on scoring models or tables which, together with other credit policy regulations, issue an automatic decision on the applications received. These tools have the dual advantage of allocating an objective appraisal of the level of risk and speeding up the response time that would be required by a purely manual analysis.

In addition to the scoring models for the approval and management of portfolios (by rating the transactions composing the portfolios in order to assess their credit quality and estimating their potential losses), other tools are available to assess existing accounts and customers which are used in the defaulted loan recovery process. Thus, an attempt is made to cover the entire "loan cycle" (approval, monitoring and recovery) by means of statistical rating models based on the Entity's internal historical data.

For individualised corporates and institutions which, at Santander Consumer Finance, include mainly agents, the assessment of the level of credit risk is based on expert rating models that combine in the form of variables the most relevant factors to be taken into account in the assessment, in such a way that the rating process generates appraisals that are consistent and comparable among customers and summarise all the relevant information. In 2012 all the units reviewed the aforementioned portfolios, with the participation of all areas of the Bank. These meetings included large exposures, companies under special surveillance and the main credit indicators of this portfolio. Ratings assigned to customers are reviewed periodically to include any new financial information available and the experience in the banking relationship. The frequency of the reviews is increased in the case of customers that reach certain levels in the automatic warning systems and of customers classified as requiring

special monitoring. The rating tools themselves are also reviewed in order to progressively fine-tune the ratings they provide.

To a lesser extent, global rating tools are also applied to certain exposures in the global wholesale banking segment. Management of this segment is centralised at the Risk Division of the Santander Group, for both rating calculation and risk monitoring purposes. These tools assign a rating to each customer, which is obtained from a quantitative or automatic module, based on balance sheet ratios or macroeconomic variables, supplemented by the analyst's expert judgement.

Santander Consumer Finance's portfolio of individualised companies is scantly representative of the total risks managed, since it relates mainly to dealer inventory financing (5.8% of the total portfolio).

Credit risk parameters

The assessment of customers or transactions using rating or scoring systems constitutes a judgement of their credit quality, which is quantified through the probability of default (PD).

In addition to customer assessment, the quantification of credit risk requires the estimation of other parameters, such as exposure at default (EAD) and the percentage of EAD that will not be recovered (loss given default or LGD). Therefore, other relevant factors are taken into account in estimating the risk involved in transactions, such as the quantification of off-balance-sheet exposures, which depends on the type of product, or the analysis of expected recoveries, which is related to the guarantees provided and other characteristics of the transaction: type of product, term, etc.

These factors are the main credit risk parameters. Their combination facilitates calculation of the probable loss or expected loss (EL). This loss is considered to be an additional cost of the activity which is reflected in the risk premium and must be charged in the transaction price.

These risk parameters also make it possible to calculate the regulatory capital in accordance with the regulations deriving from the new Basel Capital Accord (BIS II). Regulatory capital is determined as the difference between unexpected loss and expected loss.

Unexpected loss is the basis for the capital calculation and refers to a very high, albeit scantly probable, level of loss, which is not deemed to be recurring and must be catered for using capital.

For portfolios with scant internal default experience, such as banks, sovereign risk or global wholesale banking, risk parameter estimates (PD, LGD and EAD) are based on external sources: market prices or studies conducted by rating agencies gathering the shared experience of a sufficient number of entities. These portfolios are known as low default portfolios.

For all other portfolios, parameter estimates are based on the entity's internal experience. The PD is calculated by observing the cases of new arrears in relation to the final rating assigned to customers or to the scoring assigned to the related transactions.

LGD calculation is based on the observation of the recoveries of defaulted loans, taking into account not only the income and expenses associated with the recovery process, but also the timing thereof and the indirect costs arising from the recovery process.

EAD is estimated by comparing the use of committed facilities at the time of default and their use under normal (performing) circumstances, so as to identify the actual use of the facilities at the time of default.

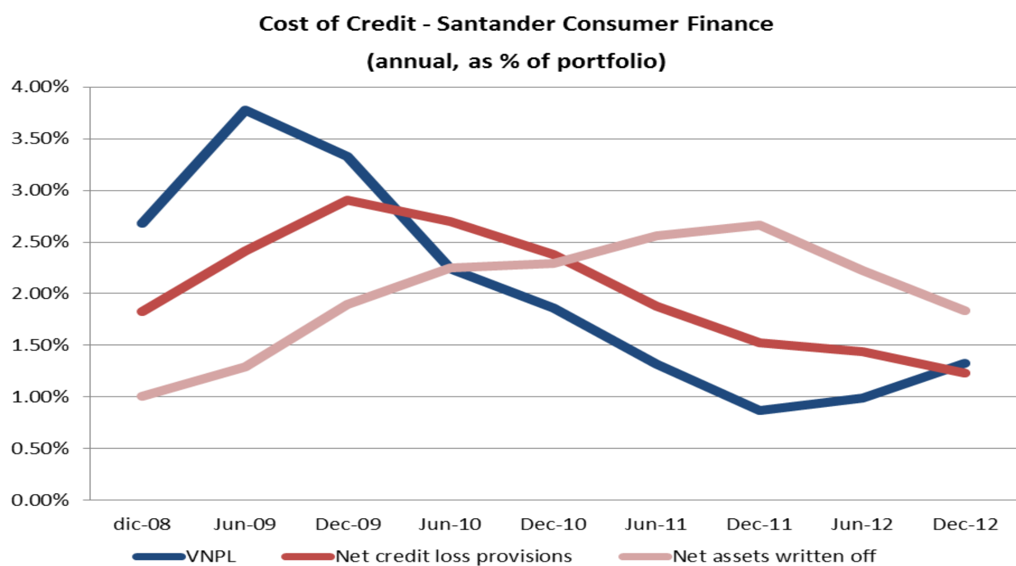
The estimated parameters for the global portfolios are the same for all the Group's units. Therefore, a financial institution with an 8.5 rating will have the same PD, regardless of the Group unit in which its exposure is accounted for. By contrast, the retail portfolios have specific rating and scoring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

The parameters are then assigned to the units' on-balance-sheet transactions in order to calculate the expected losses and the capital requirements associated with their exposure.

Observed loss: measures of cost of credit

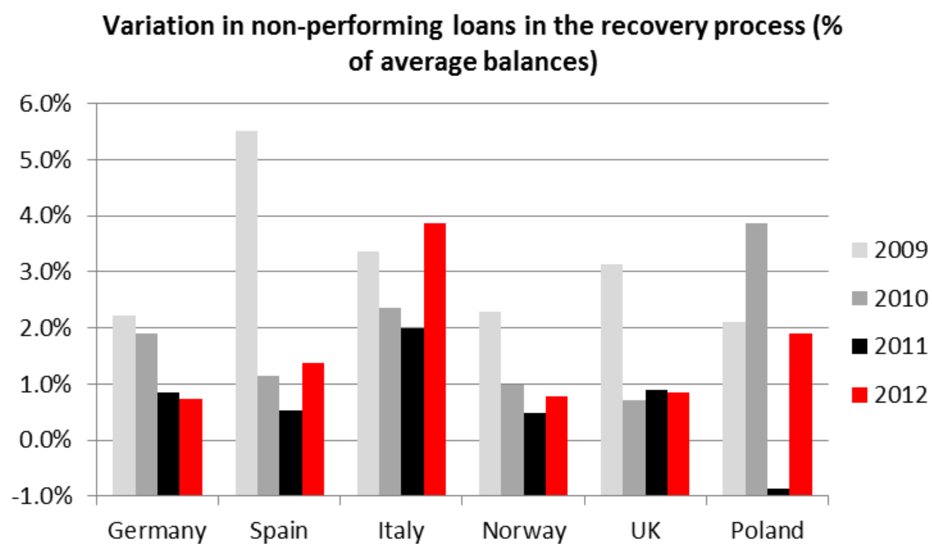
To supplement the predictiveness provided by the advanced models described above, other habitual measures are used to facilitate prudent and effective management of credit risk based on observed loss.

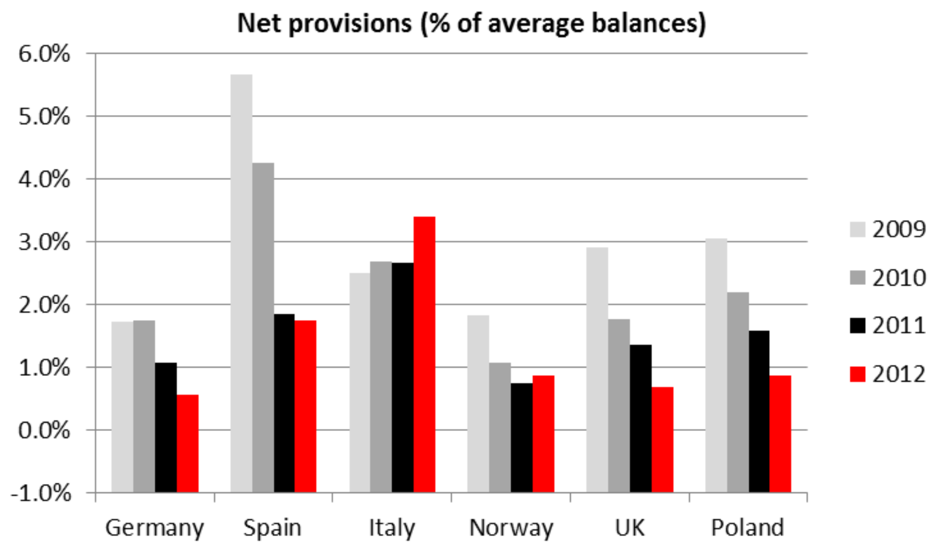
As part of the Santander Group, the cost of credit risk at Santander Consumer Finance is measured using different approaches: variation in non-performing loans in the recovery process (ending doubtful assets - beginning doubtful assets + assets written off - recovery of assets written off); net credit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

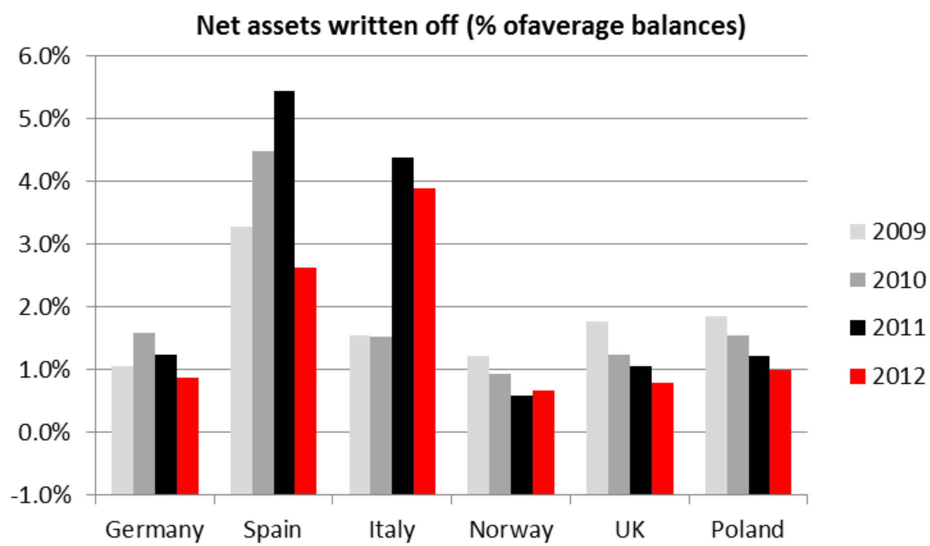


The three indicators measure the same reality and, consequently, converge in the long term although they represent successive moments in credit cost measurement: change in NPL (variation in non-performing loans in the recovery process), coverage of doubtful loans (net credit loss provisions) and classification as write-offs (net assets written-off), respectively. Although they converge in the long term within the same business cycle, the three approaches show differences at certain times, which are particularly significant at the start of the change of cycle. These differences are due to the different timing of recognition of losses, which is basically determined by accounting rules (for example, mortgage loans have a longer coverage schedule and are classified as write-offs more "slowly" than consumer loans). In addition, the analysis can be complicated due to changes in the policy of coverage and classification as write-offs, the composition of the portfolio, doubtful loans of entities acquired, changes in accounting rules, sale of portfolios, etc.

The following charts reflect the cost of Santander Consumer Finance's credit risk in its main areas of activity in 2012 and prior years, measured using the different approaches:




Net provisions (% of average balances)
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
-1.0%
Germany
Spain
Italy
Norway
UK
Poland
2009
2010
2011
2012


Net assets written off (% ofaverage balances)
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
-1.0%
Germany
Spain
Italy
Norway
UK
Poland
2009
2010
2011
2012

As shown above, the general trend in recent years has been for Santander Consumer Finance to keep its cost of credit at low levels. The cost of credit rose in 2009 due to the significant deterioration of the economic environment and to growth in a number of retail portfolios which, with greater expected loss, show both higher direct returns (net interest margin less cost of provisions) and indirect returns (induced business), and also prove more attractive in view of the greater predictability of this type of risk. 2010-2011 saw a recovery of the management metrics, and in 2012 they deteriorated slightly to below the 2010 levels.

Credit risk cycle

The risk management process consists of identifying, measuring, analysing, controlling, negotiating and deciding on, as appropriate, the risks incurred in the Group's operations. The parties involved in this process are the risk-taking areas, senior management and the risk function.

As Santander Consumer Finance is part of the Santander Group, the process begins at senior management level, through the Board of Directors and the Risk Committee, which establishes the risk policies and procedures, and the limits and delegations of powers, and approves and supervises the scope of action of the risk function.

The risk cycle comprises three different phases: pre-sale, sale and post-sale:

- Pre-sale: this phase includes the risk planning and target setting processes, determination of the Santander Group's risk appetite, approval of new products, risk analysis and credit rating process, and limit setting.

- Sale: this is the decision-making phase for both pre-classified and specific transactions.

- Post-sale: this phase comprises the risk monitoring, measurement and control processes and the recovery process.

Risk limit planning and setting

Risk limit setting is a dynamic process that identifies the Santander Group's risk appetite through the discussion of business proposals and the attitude to risk.

This process is defined in the Global Risk Limit Plan, an agreed-upon comprehensive document for the integrated management of the balance sheet and the inherent risks, which establishes risk appetite on the basis of the various factors involved.

The risk limits are founded on two basic structures: customers/segments and products.

Risk analysis and credit rating process

Risk analysis is one of the fundamental factors in the assessment of credit risk and, therefore, in the approval of loans to customers by the Santander Group. This analysis consists of examining the counterparty's ability to meet its contractual obligations to Santander Consumer Finance, which involves analysing the customer's credit quality, its risk transactions, its solvency and the return to be obtained in view of the risk assumed.

The risk analysis is conducted every time a new customer or transaction arises or with a pre-established frequency, depending on the segment involved. Additionally, the credit rating is examined and reviewed whenever a warning system is triggered or an event affecting the counterparty/transaction occurs.

Transaction decision-making

The purpose of the transaction decision-making process is to analyse transactions and adopt resolutions thereon, taking into account the risk appetite and any transaction elements that are important in achieving a balance between risk and return.

Since 1993 the Santander Group has been using, among others, the RORAC (return on risk-adjusted capital) methodology for risk analysis and pricing as part of the decision-making process for transactions and deals.

Monitoring

In order to ensure adequate credit quality control, in addition to the tasks performed by the Internal Audit Division, the Risk Unit has a specific risk monitoring function, which it performs through local and global teams, to which specific resources and persons in charge have been assigned.

This monitoring function is based on an ongoing process of permanent observation to enable early detection of any incidents that might arise in the evolution of the risk, the transactions, the customers and their environment, with a view to adopting mitigating actions. The risk monitoring function is specialised by customer segment.

For this purpose a system called "companies under special surveillance" (FEVE) has been designed that distinguishes four categories based on the degree of concern raised by the circumstances observed (extinguish, secure, reduce and monitor). The inclusion of a company in the FEVE system does not mean that there has been a default, but rather that it is deemed advisable to adopt a specific policy for this company, to place a person in charge and to set the policy implementation period. Customers classified as FEVE are reviewed at least every six months, or every three months for those classified in the most severe categories. A company can be classified as FEVE as a result of the monitoring process itself, a review performed by Internal Audit, a decision made by the sales manager responsible for that company or the triggering of the automatic warning system.

Assigned ratings are reviewed at least annually, but should any weakness be detected, or depending on the rating itself, more frequent reviews are performed.

For exposures to standardised customers, the key indicators are monitored in order to detect any variance in the performance of the loan portfolio with respect to the forecasts contained in the credit management programmes.

Risk control function

Supplementing the management process, the risk control function obtains a global view of Santander Consumer Finance's loan portfolio, through the various phases of the risk cycle, with a level of detail sufficient to permit the assessment of the current position of the exposure and any changes therein.

The aim of the control model is to assess the solvency risk assumed in order to detect any areas requiring attention and to propose measures to correct any possible impairment. Therefore, it is essential that the control activity itself be accompanied by an analysis component aimed at facilitating a proactive approach to the early detection of problems and the subsequent recommendation of action plans.

Any changes in the Group's risk exposure with respect to budgets, limits and benchmarks are controlled on an ongoing and systematic basis, and the impacts of these changes in future situations, both of an exogenous nature and those arising from strategic decisions, are assessed in order to establish measures that place the profile and amount of the loan portfolio within the parameters set by Santander Consumer Finance and the Santander Group.

The risk control function is performed by assessing risks from various complementary perspectives, the main pillar being control by geographical location, business area, management model, product and process, thus facilitating the detection of specific areas of action requiring decision-making.

One of the focal points since 2010 has been to strengthen the vision of the various units from a local control perspective, obtaining in-depth knowledge of their business contexts, legislation, strategies, local regulations and changes in their portfolios. Also, the uniformity of the control model was consolidated by establishing standards in the data flow, its portfolio-based analysis and the monitoring of the main management metrics, which facilitate the ongoing measurement of the exposure of each of the business segments.

In 2006, within the corporate framework established in the Santander Group for compliance with the Sarbanes-Oxley Act, a corporate tool was made available on the Group's intranet for the documentation and certification of all the subprocesses, operational risks and related mitigating controls. The Risk Division, as part of the Group, assesses annually the efficiency of the internal control of its activities.

Scenario analysis

Stress tests are performed periodically in order to monitor and control the various loan portfolios. Scenario analysis is a relevant tool intended to measure the sensitivity of the value of a portfolio to changes in the circumstances surrounding it. Thus, taking into account factors such as variations in the interest rate, the unemployment rate or housing prices, the Group is able to ascertain whether the general allowances recognised are adequate in relation to the estimated impacts obtained in the stress tests.

Recovery process

As part of the Santander Group, Santander Consumer Finance considers loan recovery management to be a strategic, integral business activity.

Santander Consumer Finance has incorporated the global model of the Santander Group, combining it with a local implementation, considering the specific features of the business in each area of activity.

The main objective of loan recovery is to contribute to a reduction in the need for provisions and reduce the costs associated with risk.

Thus, the specific aims of the recovery process are as follows:

- To seek collection or regularisation of unpaid balances, so that accounts can return to the performing status; if this is not possible, the aim is to fully or partially recover the debts, regardless of their status for accounting or management purposes.

- To maintain and strengthen the relationship with customers, paying attention to their payment behaviour and offering refinancing products to meet their needs in accordance with the corporate approval and control policies carefully established by the risk areas.

In the recovery process, general or standardised customers are segregated or differentiated from individualised customers, using specific integrated management models in each case, in accordance with certain basic specialisation criteria.

Recovery management involves the use of a multichannel customer relation strategy.

The telephone channel is aimed at large-scale, standardised management and involves high levels of activity in contacting customers and monitoring their payments, with each conversation being prioritised and adapted on the basis of the status of their debts (in arrears, doubtful or non-performing), their balances and their payment commitments.

The commercial recovery management network, which complements the telephone channel, is geared towards establishing close relationships with selected customers. It consists of teams of highly commercially-oriented agents with specific training and excellent negotiating skills who carry out a personalised management of their own portfolios of high impact customers (high balances, special products and specially managed customers).

The recovery activity for advanced stages of default (pre-litigation and litigation) involves both in- and out-of-court management and the continuation of commercial and monitoring activities through the telephone channels and agent network, applying specific strategies and practices based on the particular stage of default.

The management model favours proactiveness and oriented management, achieved through ongoing recovery campaigns specifically tailored to particular groups of customers and stages of default. Predefined objectives are pursued using specific strategies and intensive actions conducted through the appropriate channels within limited time frames.

Adequate local lending and analysis of daily and monthly management information, aligned with the Bank's corporate models, were defined as the basis for the business intelligence required in order to take management-oriented decisions on an ongoing basis and to monitor the results thereof.

Since 2011 Santander Consumer Finance has consolidated the implementation of the global recovery model in Spain, Italy, Germany, the Netherlands and the Nordic countries and introduced its management methodology and work practices in the other European countries and units within its sphere of operations.

Concentration risk

Concentration risk is a key component of credit risk management. The Santander Group continuously monitors the degree of credit risk concentration, by geographical area/country, economic sector, product and customer group.

The Risk Committee establishes the risk policies and reviews the exposure limits required to ensure adequate management of credit risk concentration.

The Group is subject to Bank of Spain regulations on large exposures (defined as those exceeding 10% of eligible capital). In accordance with Bank of Spain Circular 3/2008, no exposure to a single individual or economic group, including all types of credit and equity risks, should exceed 25% of the Group’s capital. Also, the total amount of large exposures may not exceed eight times the Group’s capital. Exposures to governments and central banks belonging to the OECD are excluded from this treatment.

The Santander Group’s Risk Division works closely with the Finance Division in the active management of credit portfolios, which includes reducing the concentration of exposures through several techniques, such as the arrangement of credit derivatives for hedging purposes or the performance of securitisation transactions, in order to optimise the risk/return ratio of the total portfolio.

Market risk

1. Activities subject to market risk

The scope of measurement, control and monitoring of the Market Risk area comprises all operations in which capital risk is assumed. This risk arises from changes in the risk factors -interest rate, exchange rate, equities and the volatility thereof- and from the solvency and liquidity risk of the various products and markets in which the Santander Consumer Finance Consumer Group operates.

The activities are segmented by risk type as follows:

- Trading: this item includes financial services for customers, trading operations and positioning in fixed-income, equity and foreign currency products.

  The Santander Consumer Group does not carry out trading activities at local level, and the scope of its treasury operations is limited to managing and hedging its structural balance sheet risk and managing the liquidity required to finance its business activity.

- Balance sheet management: interest rate risk and liquidity risk arising as a result of the maturity and repricing gaps of all assets and liabilities.

- Structural risks:

  - Structural foreign currency risk/hedges of results: foreign currency risk arising from the currency in which investments in consolidable and non-consolidable companies are made (structural exchange rate). This item also includes the positions taken to hedge the foreign currency risk on future results generated in currencies other than the euro (hedges of results).

    Structural foreign currency risk at Santander Consumer arises mainly from investments in banks in currencies other than the euro.

  - Structural equities risk: this item includes equity investments in non-consolidated financial and non-financial companies that give rise to equities risk. Structural equities risk does not apply to the Group.

The Financial Management area at Santander Consumer is responsible for managing the balance sheet management risk and structural risks centrally through the application of uniform methodologies adapted to the situation of each market in which the Group operates. The aim pursued by Financial Management is to ensure the stability and recurring nature of both the net interest margin of the commercial activity and the economic value of the Santander Consumer Group, whilst maintaining adequate levels of liquidity and capital adequacy.

The Market Risk area at Santander Consumer supports business management, defines risk measurement methodologies, assists in establishing limits and controls the structural market risks arising from the Group's operations, ensuring that the risks assumed are within the risk appetite limits established by the Risk Committee.

Decisions affecting the management of these risks are taken through the ALCO Committees in the respective countries and, ultimately, by the Parent’s ALCO Committee.

Each of these activities is measured and analysed using different tools in order to reflect their risk profiles as accurately as possible.

2. Methodologies

A. Balance sheet management

Interest rate risk

The Group analyses the sensitivity of the net interest margin and market value of equity to changes in interest rates. This sensitivity arises from maturity and interest rate repricing gaps in the various balance sheet items.

On the basis of the balance-sheet interest rate position, and considering the market situation and outlook, the necessary financial measures are adopted to align this position with that desired by the Bank. These measures can range from the taking of positions on markets to the definition of the interest rate features of commercial products.

The measures used by the Group to control interest rate risk in these activities are the interest rate gap and the sensitivity of net interest margin and market value of equity to changes in interest rates.

- *Interest rate gap of assets and liabilities*

The interest rate gap analysis focuses on the mismatches between the interest reset periods of on-balance-sheet assets and liabilities and of off-balance-sheet items. This analysis facilitates a basic snapshot of the balance sheet structure and enables concentrations of interest rate risk in the various repricing buckets to be detected. Additionally, it is a useful tool for estimating the possible impact of potential changes in interest rates on the entity's net interest margin and market value of equity.

The flows of all the on- and off-balance-sheet aggregates must be broken down and placed at the point of repricing or maturity. The duration and sensitivity of aggregates that do not have a contractual maturity date are analysed and estimated using the Santander Group's internal model.

- *Net interest margin (NIM) sensitivity*

The sensitivity of the net interest margin measures the change in the expected net interest income for a specific period (twelve months) given a shift in the yield curve.

- *Market value of equity (MVE) sensitivity*

The sensitivity of the market value of equity is a complementary measure to the sensitivity of the net interest margin.

This sensitivity measures the interest rate risk implicit in the market value of equity based on the effect of changes in interest rates on the present values of financial assets and liabilities.

Liquidity risk

Liquidity risk is associated with the Santander Consumer Finance Group's ability to fund its commitments at reasonable market prices and to carry out its business plans with stable sources of funding. The Group permanently monitors maximum gap profiles.

The measures used to control liquidity risk in balance sheet management are the liquidity gap, liquidity ratios and the structural liquidity table.

- *Liquidity gap*

The liquidity gap provides information on contractual and expected cash inflows and outflows for a given period for each currency in which the Santander Consumer Finance Group operates. The gap measures net cash requirements or surpluses at a given date and reflects the liquidity level maintained under normal market conditions.

In the contractual liquidity gap, all cash-flow generating balance sheet items are analysed and placed at the point of contractual maturity. For assets and liabilities without contractual maturities, the Santander Group's internal analysis model is used, based on a statistical study of the time series of the products, and the so-called stable or unstable balance for liquidity purposes is determined.

- *Liquidity ratios*

The minimum liquidity ratio compares the liquid assets available for sale or transfer (after the relevant discounts and adjustments have been applied) and the assets maturing in less than twelve months with the liabilities maturing in twelve months or less.

- *Structural liquidity table*

The aim of this analysis is to determine the structural liquidity position on the basis of the liquidity profile (more or less stable) of the various asset and liability instruments.

B. Structural foreign currency risk / Hedges of results / Structural equities risk

Structural foreign currency risk arises mainly from investments in banks in currencies other than the euro.

Structural foreign currency risk is managed centrally at Santander Group level by applying the general corporate procedures.

3. Control system

Limit setting

The limit setting process is performed together with the budgeting activity and is the tool used to establish the assets and liabilities of each business activity.

Limit setting is a dynamic process that responds to the level of risk considered acceptable by senior management.

Objectives of the limits structure

The limits structure requires a process to be performed that pursues, inter alia, the following objectives:

- To identify and delimit, in an efficient and comprehensive manner, the main types of market risk incurred, so that they are consistent with business management and the defined strategy.

- To quantify and communicate to the business areas the risk levels and profile deemed acceptable by senior management so as to avoid undesired risks.

- To give flexibility to the business areas for the efficient and timely assumption of financial risks, depending on market changes, and for the implementation of the business strategies, provided that the acceptable levels of risk are not exceeded.

- To allow business makers to assume risks which, although prudent, are sufficient to obtain the budgeted results.

- To delimit the range of products and underlyings with which each Treasury unit can operate, taking into account features such as assessment model and systems, liquidity of the instruments involved, etc.

Risks and results in 2012

A. Balance sheet management

A1. Interest rate risk

The maximum interest rate risk appetite for 2012 for the consolidated portfolios denominated in euros was set at EUR 115 million (in absolute terms) for the sensitivity of the net interest margin (NIM) at one year to a parallel increase of 100 bp in the yield curve, and at EUR 190 million for the sensitivity of the market value of equity (MVE) in the same scenario.

In March these limits were extended to EUR 125 million and EUR 290 million, respectively, in order to change the Group's positioning in view of the change in the interest rate cycle to a flat or downward scenario.

As from August, with a view to improving interest rate risk control in various scenarios, limit setting started to consider the scenario of a parallel decrease of 100 bp as well as a parallel increase, i.e. linearity in the scenarios was not assumed. From this date, the limit is compared to the sensitivity of the scenario that returns the greatest loss. In any case, the comments in the paragraphs below refer to the scenario of interest rate rises, in order to see the changes in the exposure throughout the year, and because it is the most significant scenario for interest rate risk purposes at the Santander Consumer Group.

At 31 December 2012, the scope of consolidation comprised the units of the following countries: Germany, Austria, the Netherlands, Belgium, Spain, Italy, Portugal and Finland.

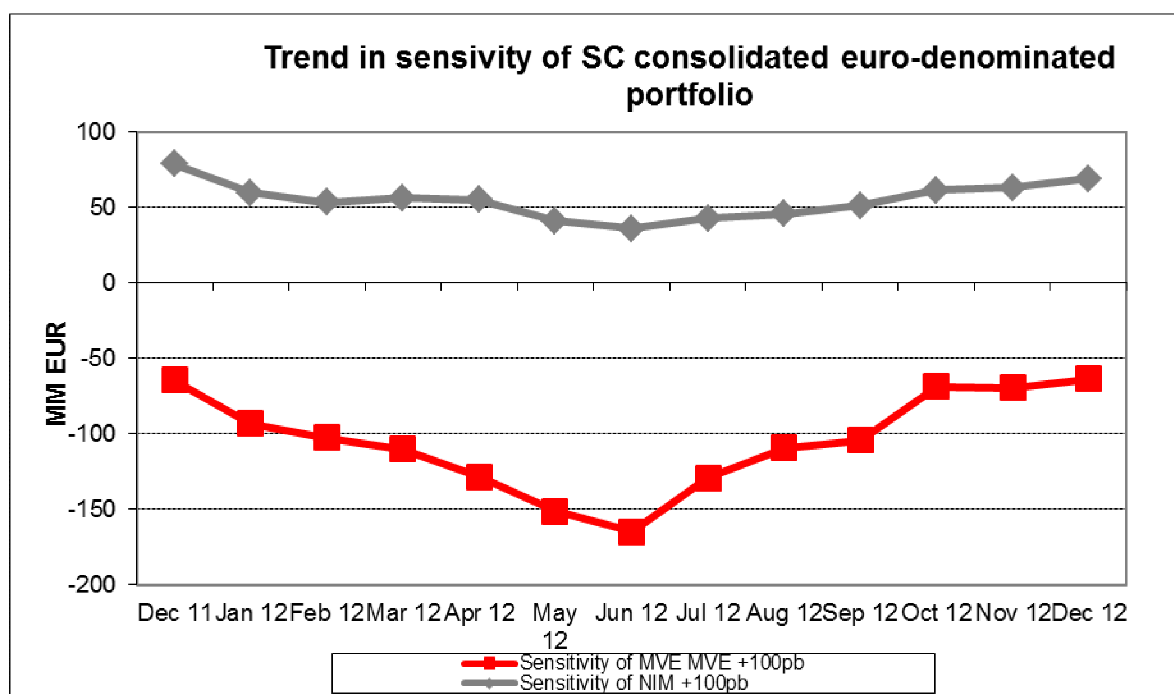
The first few months of 2012 were marked by a worsening of the economic and financial situation, with interest rates not expected to rise in the months to come, and, accordingly, no hedges were entered into. The absence of new hedges naturally made the sensitivity of the market value of equity more negative and sensitivity of the net interest margin less positive until June.

As from July, new hedges started to be entered into, since the euro interest rates were at record lows with little scope for downside. These hedges were entered into very selectively, by taking advantage of market opportunities, since the risk level was not high and there were no prospects of interest rate rises. The reduction in the exposure in the second half of 2012 to levels similar to those witnessed at the start of the year can also be explained by the securitisation and issue of senior debt by Spain (at a fixed interest rate), the shorter maturities of interbank lending from Germany and the longer terms of customer deposits in Germany.

The sensitivity of the net interest margin at 2012 year-end to a parallel increase of 100 bp was an increase of EUR 69 million. The sensitivity of the market value of equity at the same date in the same scenario was a decrease of EUR 64 million.

The sensitivity of both the net interest margin and market value of equity was within the established limits at December 2012.

The chart below shows the changes in the sensitivity of the net interest margin and of the market value of equity in 2012.



A2. Structural credit risk management

The aim of structural credit risk management is to reduce, through the sale of assets, the concentrations that arise naturally as a result of commercial activity. In view of the Group's business, its main asset is a highly atomised portfolio of consumer loans. Therefore, credit risk is analysed as part of the unit's commercial strategy.

A3. Structural liquidity management

Structural liquidity management seeks to finance the Group's business with optimal maturity and cost conditions, avoiding the need to assume undesired liquidity risks.

The Group has an increasingly active presence in a wide, diverse range of financing markets, thus limiting its dependence on specific markets and ensuring the availability of various sources of market funding.

Structural liquidity management involves planning its funding requirements, structuring the sources of financing to achieve optimum diversification in terms of maturities, instruments and markets, and defining contingency plans.

Each year, a liquidity plan is prepared on the basis of the funding needs arising from the business budgets of all the Group's subsidiaries. Based on these liquidity requirements, an analysis is made of the limits on new securitisations, considering the eligible assets available, and of the potential growth in customer deposits. This

information is used to establish an issue and securitisation plan for the year. Throughout the year the Group periodically monitors the actual changes in financing requirements and updates this plan accordingly.

Set forth below are certain highlights of structural liquidity management in 2012:

Issue programmes:

AIAF NOTES PROGRAMME

Santander Consumer Finance has a EUR 5,000 million Promissory Note Issuance programme outstanding, which was registered in the Official Registers of the Spanish National Securities Market Commission (CNMV) on 25 October 2012 and is supplemented by the Registration Document of Santander Consumer Finance, S.A. filed at the CNMV Registers on 25 October 2012. The notes are traded on the Spanish AIAF Bond Market, with maturities of between 3 working days and 25 months (760 calendar days). Santander Consumer Finance (which acts as an issuer on the primary market and places its issues through cooperating financial institutions) issued promissory notes for EUR 3,152 million in 45 transactions in 2012. The average outstanding balance was EUR 845 million.

ECP PROGRAMME

Santander Consumer Finance has an EUR 8,000 million multi-currency European Commercial Paper (ECP) programme outstanding, with maturities of between 1 and 364 days. In 2012 the Bank launched ECP issues for EUR 1,703 million in 47 transactions. The average outstanding balance was EUR 367 million.

SECURITISATIONS

Note 20 to the consolidated financial statements contains a detail of the securitisations performed by the Group in 2012 (consumer and vehicle loans).

EMTN PROGRAMME

Santander Consumer Finance has a multi-currency Euro Medium Term Note (EMTN) programme outstanding, with a maximum amount of EUR 5,000 million. At the end of 2012, the outstanding balance was EUR 1,046 million. Noteworthy was the issue launched in December 2012 with a principal amount of EUR 500 million, maturing in June 2014.

The Santander Consumer Finance Group’s structural liquidity position and market presence, along with the support from its Parent, Banco Santander S.A., through intragroup financing facilities, have enabled and continue to enable the Group to run its credit lending activity normally under current market conditions.

B. Structural foreign currency risk/hedges of results

Structural foreign currency risk arises mainly from investments in banks in currencies other than the euro. At 31 December 2012, the open foreign currency position amounted to EUR 1,044 million, the most significant positions being in Norwegian kroner (EUR 785 million) and in Polish zlotys (EUR 248 million).

Structural foreign currency risk is managed centrally at Santander Group level by applying the general corporate procedures.

Operational risk

Definition and objectives

Santander Consumer Finance defines operational risk as “the risk of loss resulting from inadequate or failed internal processes, human resources or systems or from external events”. This risk generally relates to events of a purely operational nature, which differentiates it from market or credit risk, although it also includes external risks, such as natural disasters.

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

The Group's priority, therefore, is to identify and eliminate any clusters of operational risk, irrespective of whether losses have been incurred. Measurement of this risk also contributes to the establishment of priorities in operational risk management.

For the purpose of calculating regulatory capital for operational risk, Santander Consumer Finance decided to opt initially for the Standardised Approach provided for under Basel II standards. Santander Consumer Finance is assessing the most appropriate time to shift to Advanced Measurement Approaches (AMA) taking into account, however, that: a) the short-term priority in operational risk management is focused on mitigation; and b) most of the regulatory requirements established for use of the AMA must now be incorporated in the Standardised Approach and, at the present time, these requirements have already been included in the operational risk management approach used by Santander Consumer Finance.

Management model

The organisational model for risk management and control is the result of the adaptation to the new Basel II environment implemented by the Group, which establishes three levels of control:

- First level: control functions performed by the Group’s units.

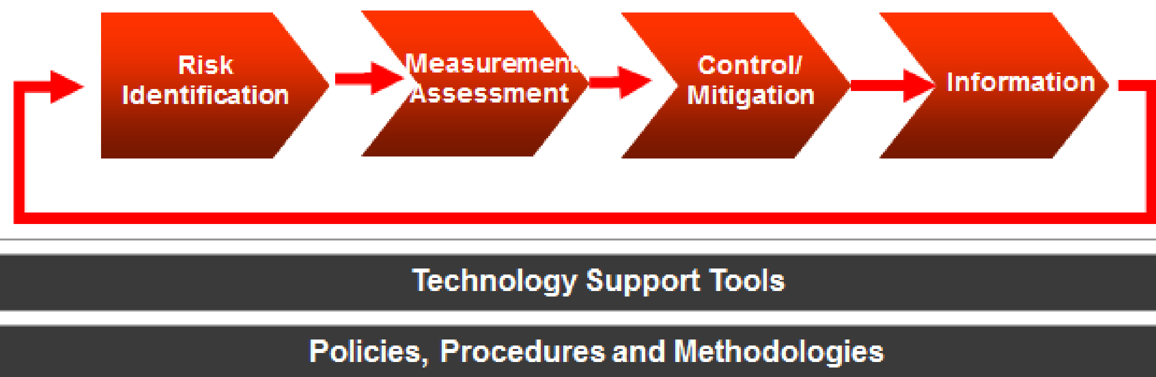
- Second level: functions performed by the corporate areas.

- Third level: integrated control functions performed by the Risk Division - Integrated Risk Control and Internal Risk Validation Area (CIVIR).

Operational risk management and control are conducted by the Technology and Operations Division. Within this division, the Corporate Technology and Operational Risk Area, created in 2009, is responsible for the definition of policies and methodology and for the management and control of technology and operational risks. The implementation, integration and local adaptation of the policies and guidelines established by this area are entrusted to the local operational risk officers identified in each unit.

This operational risk management structure is based on the knowledge and experience of the executives and professionals of the various Group units, with particular importance being attached to the role of the local operational risk officers.

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



The objectives of the various phases of the technology and operational risk management model are as follows:

- To identify the operational risk inherent in all the Bank's activities, products, processes and systems.

- To measure and assess operational risk in an objective and continuous manner, consistent with regulatory (Basel II, Bank of Spain) and industry standards, and to set risk tolerance levels.

- To continuously monitor the exposures to operational risk in order to detect the levels of unassumed risk, implement control procedures, improve internal awareness and mitigate losses.

- To implement control procedures and improve knowledge of the causes of operational risk as well as the related implications.

- To establish mitigation measures to eliminate or minimise operational risk.

- To produce periodic reports on the exposure to operational risk and the level of control for senior management and the Group's areas/units, as well as inform the market and the regulatory authorities.

- To define and implement systems enabling the Group to monitor and control operational risk exposures. These systems are integrated into the Group's daily management, using the current technology and maximising the automation of applications.

- To define and document operational risk management policies, and to implement the related methodologies consistent with current regulations and best practices.

The benefits of the Santander Consumer Finance Group's operational risk management model are as follows:

- Integrated and effective management of operational risk (identification, measurement / assessment, control / mitigation and information).

- Improved knowledge of actual and potential operational risks and better assignment to business and support lines.

- The information on operational risk helps improve processes and controls and reduce losses and income volatility.

Model implementation: global initiatives and results

The corporate function for operational risk management and control was created in 2001 and has been operating since then. The main duties and activities performed and global initiatives adopted by this function are summarised as follows:

- Designation of head coordinators and creation of operational risk departments.

- Training and experience sharing: communication of best practices within the Group.

- Fostering of mitigation plans: control of both the implementation of corrective measures and projects under development.

Implementation of the operational risk management model at the various Group entities began in 2002. Substantially all the Group units are currently included in the model, with a high degree of uniformity. However, the different pace of the implementation, phases, timetables and historic depth of the respective databases gives rise to differences in the level of progress between one country and another.

In general:

- Classified databases of operational errors and incidents are received on a monthly basis. The Group's own database contains unrestricted events, i.e. with no exclusions due to amount, and includes events with accounting impacts (including positive effects) and non-accounting impacts.

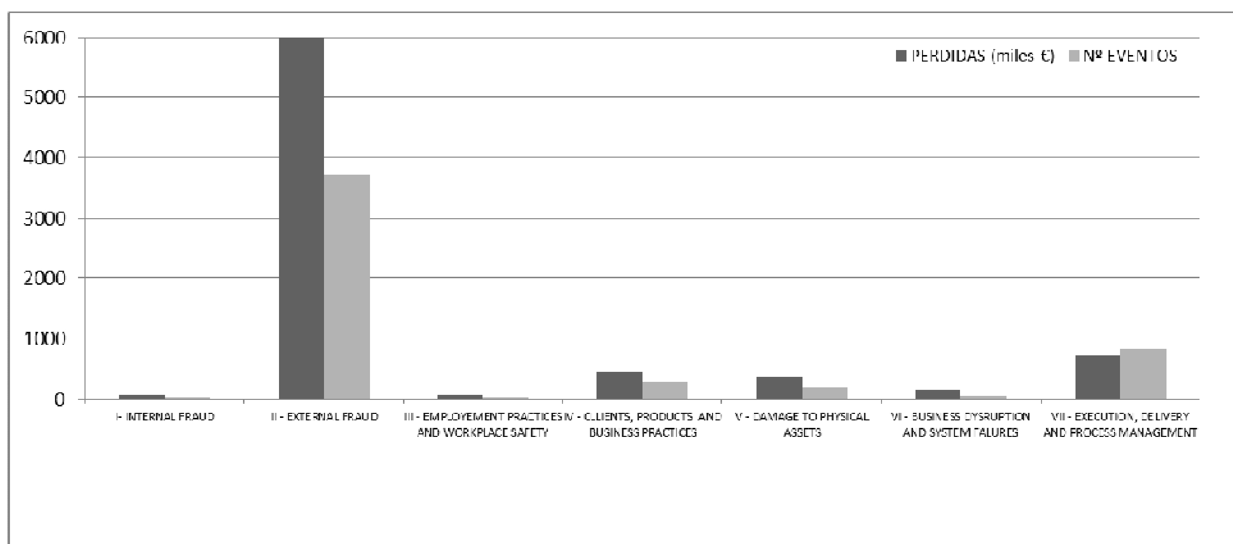
- Self-assessment questionnaires completed by the main Group units are received and analysed.

- There is a corporate operational risk indicator system in place.

- The most significant and frequent events are identified and analysed, and mitigation measures are adopted and disseminated to the other Group units as best practice guidelines.

- Databases are reconciled with the accounting records.

With regard to events databases, based on the aggregation of all the information received, the Group's operational risk profile is shown in the charts below:



Losses (thousands of euros) No. of events

Analysis and monitoring of controls in market operations

In view of the specific features and complexity of financial markets, the Group considers it necessary to continually strengthen the operational control of its financial market activities, thus bolstering the highly stringent and conservative risk and operational principles already applied on a regular basis by the Santander Group.

In addition to monitoring all operational control-related matters, in all its units the Group placed greater emphasis on a number of aspects, the reviews conducted being validated on a monthly basis by the Management Committee of each unit. The most noteworthy of these aspects are as follows:

- Review of the valuation models and, in general, of the values of the portfolios.
- Processes for the capture and independent validation of prices.
- Adequate confirmation of transactions with counterparties.
- Review of transaction cancellations/modifications.
- Review and monitoring of the effectiveness of guarantees, collateral and risk mitigants.

Corporate reporting

The Corporate Technology and Operational Risk Control Area has an Integrated Operational Risk Management Information system (IGIRO) in place, which every quarter consolidates the information available from each country/unit in connection with operational risk and gives a global view with the following features:

- Two levels of information: consolidated corporate information and the individualised data for each country/unit.

- Dissemination of the best practices among the countries/units of the Santander Group, obtained from the combined study of the results of qualitative and quantitative analyses of operational risk.

Information is also prepared on the following aspects:

- The Santander Group's operational risk management model.

- Human resources and scope of action.

- Analysis of the database of errors and incidents.

- Operational risk cost and accounting reconciliation.

- Self-assessment questionnaires.

- Indicators.

- Mitigating measures/active management.

- Contingency plans.

- Regulatory framework: BIS II.

- Insurance.

This information is used as a basis for reporting to the Risk Committee, senior management, regulators, rating agencies, etc.

Role of insurance in operational risk management

The Santander Group was a pioneer in considering insurance as a key factor in operational risk management. Since 2004 the Operational Risk Area has worked closely with the Insurance Area in the Santander Group in all activities leading to improvements in the two areas. Some notable examples are as follows:

- Cooperation in the presentation of the Santander Group's operational risk management and control model to insurers and reinsurers.

- Analysis and follow-up of recommendations and suggestions for improving operational risks made by insurance companies, via previous audits conducted by specialised companies, and of the subsequent implementation thereof.

- Sharing of information generated in the two areas in order to strengthen the quality of error bases and the cover of insurance policies for the various operational risks.

- Close cooperation between local operational risk officers and local insurance coordinators in order to enhance operational risk mitigation.

- Regular meetings to report on specific activities, statements of position and projects in the two areas.

- Active participation of the two areas in the Global Insurance Sourcing Desk, the Group's highest technical body responsible for the definition of insurance coverage and arrangement strategies.

Reputational risk

The Santander Group's Risk Committee, in its capacity as the body ultimately responsible for global risk management and for all banking operations, assesses, with the support of the General Secretary's Division, the reputational risk within its scope of competence in areas for which it has decision-making powers.

The Audit and Compliance Committee supervises the Santander Group's reputational risk. Amongst other functions, it supervises compliance with the Group's Code of Conduct in Securities Markets, the anti-money laundering manuals and procedures and, in general, Banco Santander's governance and compliance rules, and makes any required proposals for improvement.

The Santander Group manages the reputational risk that may arise from an inadequate sale of products or an improper provision of services by the Group in accordance with the corporate policies for the management of reputational risk arising from the marketing of products and services.

These corporate policies aim to establish a single corporate framework for all regions, businesses and entities that: (i) reinforces the organisational structures; (ii) ensures that decision-making committees oversee not only the approval of products and services, but also the monitoring thereof over their whole lives; and (iii) establishes the guidelines for defining uniform Group-wide criteria and procedures for the marketing of products and services, encompassing all its phases (approval, pre-sale, sale and follow-up or post-sale).

These policies are developed and specifically adapted to the actual local situation and to local regulatory requirements through the local internal rules of the various Group units, once authorisation has been obtained from the corporate compliance and reputational risk area.

COMPLIANCE WITH THE NEW REGULATORY FRAMEWORK

Throughout 2012 the Santander Group took part in the impact studies steered by the Basel Committee and the European Banking Authority (EBA) and coordinated locally by the Bank of Spain to gauge the impact of the new Basel III regulations which, when implemented, will establish new capital and liquidity standards with stricter and more standardised criteria at international level.

The Santander Group has very sound capital ratios, in keeping with its business model and its risk profile, which places it in a good position to comfortably comply with Basel III. The impact analysis performed did not disclose significant effects on the high capital adequacy ratios of the Group, which benefits from a considerable organic capacity to generate capital. The new capital regulations will be implemented gradually between 2013 and 2019.

With regard to credit risk, the Santander Group intends to adopt, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks, until the percentage of net exposure of the loan portfolio covered by this approach exceeds 90%. The attainment of this short-term objective also depends on the acquisitions of new entities and the need for the various supervisors to coordinate the validation processes of the internal approaches. The Group is present in geographical areas where there is a common legal framework among supervisors, as is the case in Europe through the Capital Requirements Directive. However, in other jurisdictions, the same process is subject to the framework of cooperation between the home and host country supervisors under different legislations, which in practice entails adapting to the different criteria and timetables in order to obtain authorisation to use the advanced approaches on a consolidated basis.

Accordingly, Santander continued in 2012 with the project for the gradual implementation of the technology platforms and methodological improvements required for the roll-out of the AIRB approaches for regulatory

capital calculation purposes at the remaining Group units. The Santander Group has obtained authorisation from the supervisory authorities to use advanced approaches for the calculation of regulatory capital requirements for credit risk for the Parent and the main subsidiaries in Spain, the United Kingdom and Portugal, and certain portfolios in Mexico, Brazil, Chile and Santander Consumer Finance. The Group's Basel implementation strategy is focused on obtaining authorisation for the use of AIRB approaches at the main entities in the Americas and Europe.

Santander Consumer Finance has already started to implement the AIRB approach at its most significant units based on the schedule agreed upon with the Bank of Spain and communicated to the various local supervisors (Spain, Germany and the Nordic countries, in this order).

With regard to operational risk, the Group considers that the development of the internal model should be based primarily on the experience accumulated in the management of the entity through the corporate guidelines and criteria established after assuming control, which are a distinctive feature of Santander. The Santander Group currently uses the standardised approach for regulatory capital calculation purposes and it is considering the possibility of adopting AMA approaches in the near future, once it has collated sufficient data using its own management model.

With respect to Pillar II, the Santander Group uses an economic capital approach to quantify its global risk profile and its capital adequacy position as part of the internal capital adequacy assessment process (ICAAP) at consolidated level. This process, which is supplemented with a qualitative description of the risk management and internal control systems, is reviewed by the internal audit and internal validation teams and is subject to a corporate governance structure that culminates in its approval by the Group's Board of Directors, which also establishes the strategic factors relating to risk appetite and capital adequacy targets on an annual basis. The economic capital model considers risks not included in Pillar 1 (concentration risk, interest rate risk, business risk, and risks relating to pensions, goodwill, other intangible assets and deferred tax assets).

In accordance with the capital requirements set by the European Directive and Bank of Spain rules, the Santander Group publishes its Pillar 3 disclosures report on an annual basis. This report comfortably meets the market transparency requirements in relation to Pillar 3. The Santander Group considers that the market reporting requirements are fundamental to complement the minimum capital requirements established in Pillar 1 and the supervisory review process performed through Pillar 2. In this respect, its Pillar 3 disclosures report incorporates the recommendations made by the European Banking Authority (EBA) to make Santander an international benchmark in terms of market transparency, as is already the case with its annual report. In parallel to the roll-out of advanced approaches at the various Group units, Santander is carrying out an ambitious training process on Basel at all levels of the organisation, covering a significant number of professionals from all areas and divisions, with a particular focus on those most affected by the changes arising from the adoption of the new international standards on capital adequacy.

INTEGRATED RISK CONTROL AND INTERNAL RISK VALIDATION

The integrated risk control and internal risk validation functions are located at corporate level within the integrated risk control and internal risk validation area, and report directly to the Third Deputy Chairman of the Group and Chairman of the Risk Committee. These functions provide risk control and management support to the Group's governing bodies.

Integrated risk control function

In 2008 the Santander Group implemented the integrated risk control function in order to ensure an overview of the management of all the risks that might affect the performance of the Group's normal business activities. The risks taken into consideration are: credit risk (including concentration and counterparty risks); market risk

(including liquidity risk and structural interest rate and foreign currency risks); operational and technology risk; and compliance and reputational risk.

The integrated risk control function is articulated in three complementary activities:

1) To guarantee that the management and control systems for the various risks inherent in the Santander Group's activities comply with the most stringent criteria and the best practices observed in the industry and/or required by regulators;

2) To ensure that senior management has an all-embracing view of the profiles of the various risks assumed at any time and that these profiles are consistent with the pre-determined risk appetite; and

3) To supervise adequate compliance, in due time and form, with any recommendations on risk management and control made as a result of inspections conducted by internal audit and by the competent supervisory authorities.

The function has a global and corporate scope, covering all risks, all businesses and all geographical areas, and it is a third layer of control, which follows the control performed in the first instance by the officer responsible for managing and controlling each risk at each business or functional unit (first layer of control) and by the officer responsible for the control of each risk at corporate level (second layer of control). This system ensures a vision and, therefore, the integrated monitoring of all the risks incurred by Santander in the performance of its business activities.

Methodology and tools

This function is performed using an internally developed methodology and a series of supporting tools with a view to systematising its operation and tailoring it to Santander's particular needs. As a result, it is possible to formalise the implementation of this methodology, making it traceable and objectifiable. Both the methodology and the tools of the three complementary activities referred to above are articulated in the following modules:

Module 1) Testing or review guidelines are in place for each risk, and are divided into control areas (e.g. corporate governance, organisational structure, management systems, management integration, technology environment, contingency plans and business continuity, etc.).

The Group performs the tests and gathers the relevant evidence assessed in the process -which enables it to standardise the control parameters of the various risks- on an annual basis, with the inclusion of new tests if required, in accordance with the most recent best practices observed in the industry and/or required by regulators. The supporting tool is a repository for the findings of each test and of the related working papers. Additionally, the situation of each risk is reviewed on a half-yearly basis, following the recommendations arising from the integrated control annual report.

Module 2) Senior management is provided with the relevant monitoring capacity in terms of an all-embracing view of the various risks assumed and their consistency with the pre-determined risk appetite.

Module 3) In order to proactively follow up the recommendations on risk management and control made by internal audit and by the supervisory authorities, the Group uses a tool which also enables the recommendations made by the integrated risk control function itself to be registered.

The Bank of Spain has unrestricted access these tools and, accordingly, to the working papers used to perform the integrated risk control function.

Independent internal validation of risk models

In addition to constituting a regulatory requirement, the internal risk model validation function provides essential support to the Board's Risk Committee and the local and corporate risk committees in the performance of their duties to authorise the use of the models (for management and regulatory purposes) and to review them regularly.

Internal model validation involves the obtainment, by a sufficiently independent specialised unit of the Entity, of an expert opinion on the adequacy of the internal models for the intended internal management and/or regulatory purposes (calculation of regulatory capital, level of provisions, etc.), expressing a conclusion on their robustness, usefulness and effectiveness.

Internal model validation at the Group encompasses credit risk models, market risk models, financial asset pricing models and the economic capital model. The scope of the validation includes not only the more theoretical or methodological aspects, but also the technology systems and the quality of the data the models provide, on which their effective operation relies, and, in general, all the relevant aspects of risk management (controls, reporting, uses, involvement of senior management, etc.).

The internal validation function is located, at corporate level, within the integrated risk control and internal risk validation area (CIVIR) and reports directly to the Third Deputy Chairman of the Group and Chairman of the Risk Committee. This function is performed at a global and corporate level in order to ensure uniformity of application, and is implemented through four regional centres located in Madrid, London, Sao Paulo and New York. From a functional and hierarchical standpoint, these centres are fully accountable to the corporate centre, thus ensuring consistency in the performance of their activities. This system facilitates the application of a corporate methodology that is supported by a set of tools developed internally by Santander that provide a robust corporate framework to be used at all the Group's units and which automate certain verifications to ensure efficient reviews.

It should be noted that the Santander Group's corporate internal validation framework is fully consistent with the internal validation standards for advanced approaches issued by the Bank of Spain and by the competent supervisory authorities. Accordingly, the Group maintains the segregation of functions between internal validation and internal audit, which, in its role as the last layer of control at the Group, is responsible for reviewing the methodology, tools and work performed by internal validation and for giving its opinion on the degree of effective independence.

Main achievements in 2012

In 2012:

(a) The use of advanced models by Santander Consumer Finance in Spain for its private vehicle loan and consumer loan portfolios was approved.

The Bank continued to review the various risks in close cooperation with the corporate risk control areas. Areas for improvement were identified, giving rise to recommendations, with the related implementation schedule agreed upon with the areas involved, together with the half-yearly follow-up of the progress made with respect to the 2011 recommendations;

(b) Periodic reports were submitted to the Board of Directors and the Executive Committee of Banco Santander with an integrated view of all risks; and

(c) Work continued on extending the integrated risk control model to the Santander Group's main units.

Economic capital

The concept of economic capital has traditionally been contrasted with that of regulatory capital, the latter being the measure required by capital adequacy regulations. The Basel capital framework has without doubt brought the two concepts closer together. While Pillar 1 determines the minimum regulatory capital requirements, Pillar 2 quantifies, through economic capital, the Group's overall capital adequacy position.

The Group's economic capital model enables it to quantify the consolidated risk profile taking into account all the significant risks of the business (not only those contemplated in Pillar 1), as well as the diversification effect inherent in a multi-national, multi-business group such as Santander Consumer Finance. Diversification is fundamental to the proper measurement of the risk profile of a group with global operations. Although it is an intuitive concept that has been a part of risk management since the very beginnings of the banking business, diversification can also be explained in terms of the imperfect correlation between the various risks, which means that the largest loss events do not occur simultaneously in all portfolios or for all types of risk. In addition, the economic capital measurement and aggregation model also considers the concentration risk for wholesale portfolios (large corporations, banks and sovereigns), in terms of both the size of their exposure and their industry-based or geographical concentration. Lastly, the definition of capital included in Santander's model differs from the regulatory definition and it enables, in our opinion, a better separation between the capital available for stress scenarios and the risks to be assessed. The Group uses this model to prepare its internal capital adequacy assessment report in accordance with Bank of Spain regulations within the framework of Pillar 2 of Basel II.

Analysis of the global risk profile

The Santander Group periodically assesses the level and the changes in the value creation (VC) and return on risk-adjusted capital (RORAC) of its main business units. The VC is the profit generated over and above the cost of the capital used, and is calculated using the following formula:

VC = economic profit - (economic capital x % cost of capital)

Economic profit is obtained by making the required adjustments to accounting attributable profit in order to reflect only the recurring profit or loss that each unit obtains from its business activity. Cost of capital, which is the minimum remuneration required by the shareholders, can be calculated objectively by adding to the risk-free return the premium that shareholders demand for investing in the Santander Group. This premium depends essentially on the degree of volatility of the market price of the Santander share in relation to the market performance.

As was the case in 2011, Santander Consumer Finance obtained a RORAC above the cost of capital in 2012 and maintained, therefore, a positive contribution to the value creation of the Santander Group.

The main aim of the Santander Group’s capital planning is to obtain future projections of economic and regulatory capital and thus assess the capital adequacy in various scenarios. Capital planning incorporates the Entity’s earnings forecasts in various scenarios, in a manner consistent with its strategic targets (organic growth, M&A, pay-out ratio, etc.) and with economic developments, and simulating stress situations, and identifies possible capital management strategies to enable it to optimise the Bank’s capital adequacy position and the return on capital.

More specifically, the capital planning framework defined at the Santander Group makes it possible to provide a global view of the capital adequacy in various time horizons and stress scenarios, and acts as a complement to certain aspects contained in the Guidelines on the Internal Capital Adequacy Assessment Process (ICAAP) issued by the Bank of Spain in compliance with the requirements established in Pillar 2 of Basel.

Proposed distribution of profit

The distribution of the Bank’s net profit for 2012, amounting to EUR 114,019 thousand, that will be proposed for approval by the shareholders at the Annual General Meeting is as follows:

Dividends: EUR 100,004 thousand.

To legal reserve: EUR 11,402 thousand.

To voluntary reserve: EUR 2,613 thousand.

Share capital and treasury shares

The Group did not perform any transactions involving treasury shares in 2012 and it did not have any treasury share balance in its balance sheet at 31 December 2012.

Research and development

In 2012 the Santander Consumer Finance Group continued with its efforts in developing and improving the technological platforms that enable it to operate in an increasingly competitive market and in the current climate of maximum structural complexity. These platforms have always been intended to provide top quality systems that make it possible to improve the units' cost structure while making progress in the creation and management of business opportunities. The most noteworthy initiatives include the following:

- The continuation of the inclusion of Group units on the Ficres dealers management platform.

- The development and enhancement of the ITACA management information system.

- Roll-out of the commercial management and reporting platform.

- Virtualisation of servers for managing the process load and enhancing security.

- Optimisation of the collaborative environment infrastructure.

- Development of the loan recoveries corporate platform.

- Analysis of credit card marketing systems (in progress).

Significant events after the reporting period

Significant events occurring after 2012 year-end are detailed in Note 1-i to the consolidated financial statements.

Outlook

The world economy will see moderate and heterogeneous growth in 2013. The emerging economies will continue to lead growth, while the pace of the developed economies will be very moderate, as they are still immersed in processes of public and private sector deleveraging, adjustments and reforms.

Risks continue to fall, especially in the euro zone. The first steps towards achieving banking union, together with other major initiatives such as those of the ECB, have warded off the most catastrophic scenarios of euro break-up. However, Europe will have to face big challenges in 2013. On the one hand, the effective framework of single supervision must be developed, and progress must be made with the other aspects of banking union and other areas of European integration. While at national level, the economies must continue to implement structural reforms, and their outlook will remain dampened by the need for further fiscal adjustments and the continued deleveraging of the private sector.

In the United States, assuming that an agreement is reached to avert the fiscal cliff, the recovery will still be slow, underpinned by loose monetary conditions and abundant liquidity in the system.

Thus, once again the emerging countries will be the ones to display greater dynamism, supported by the strength of domestic demand and the fiscal and monetary policy stimulus they received in 2012 (China and Brazil), the impact of which will be felt throughout 2013.

Against this backdrop, the Group's objectives for 2013 are to gain selective penetration share to boost the consumer loan business in a complex climate, and to maintain attractive returns above those of its rivals.

Liquidity, the increased degree of self-financing, and the maintenance both of stable capital exceeding current regulatory requirements and of credit quality are the foundations for the Group's management in 2013. This management approach will be clearly differentiated by area with the aim of adapting to the specific conditions prevailing in each market in order to extract the maximum value.

Annual Corporate Governance Report

The Bank, an entity registered in Spain whose voting rights correspond, directly or indirectly, to Banco Santander, S.A., in compliance with Rule Six of CNMV Circular 1/2004, of 17 March, does not prepare an Annual Corporate Governance Report, which is prepared and presented to the CNMV by Banco Santander, S.A., as the Parent of the Santander Group.

Capital structure and significant holdings

Banco Santander, S.A.	982,364,449	Percentage of ownership 63.19%
Holneth, B.V.	388,636,543	Percentage of ownership 25.00%
Fomento e Inversiones, S.A.	183,545,180	Percentage of ownership 11.81%
Total number of shares	1,554,546,172	
Nominal value (euros)	3.00	
Share capital (euros)	4,663,638,516	

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

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

Restrictions on the transferability of securities

Not applicable.

Significant direct and indirect ownership interests

The most significant transactions performed on investments in subsidiaries are described in Note 3 to the consolidated financial statements. A detail of the Group companies, jointly controlled entities and associates is included in Appendices I and II to the notes to the consolidated financial statements for the year ended 31 December 2012.

Restrictions on voting rights

The shareholders attending the Annual General Meeting will have one vote for each share that they hold or represent.

Only the holders of 20 or more shares will be entitled to attend the Annual General Meeting, provided that they are registered in their name in the corresponding accounting record.

Side agreements

Not applicable.

Board of Directors

Appointment and replacement of members of the Board of Directors and amendment of the bylaws

The representation of the Bank is the responsibility of the Board of Directors, which will comprise no fewer than 5 and no more than 15 members, who will be appointed by the Annual General Meeting for a period of one year, although they may be re-elected, as many times as may be desired, for further one-year periods.

Any vacancies arising on the Board of Directors in the interval between Annual General Meetings will be filled by the Board of Directors by co-optation between the shareholders, as provided for under current legislation.

It is not necessary to be a shareholder of the Bank in order to be a director, except as mentioned above.

Powers of the members of the Board of Directors

On 24 May 2012, the Bank granted powers of attorney to the General Managing Director, Ms. Inés Serrano González, and to the General Managing Director, Mr. Bruno Montalvo Wilmot, so that any one of them, acting jointly and severally, for and on behalf of the Bank, can exercise the powers detailed below:

a) To manage, control and govern all manner of properties now or hereafter owned by the principal, to perform the improvements, repairs and work thereon that they deem appropriate, to lease them for the period, price and terms they consider appropriate, to evict tenants or dwellers and approve new ones, to collect rent, interest, dividends and lease payments, and to give the corresponding receipts and invoices thereof.

   To enter into, modify, subrogate and terminate finance leases on all manner of real and movable properties, upon the terms and conditions that they may freely determine, and to acquire the properties held under such finance leases, the only limit being that when the acquisition amount exceeds EUR 300,507 it must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee, or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of his assignee.

b) To verify groupings or subdivisions of properties, demarcations and deeds of declaration of new construction.

c) To submit accounts and request them, approve them, adjust or challenge them, to provide and receive the amounts of the resulting balances and sign and receive final settlements.

d) To use, with full powers, the signature of the principal in all banking transactions, acts and agreements to which the principal is party, subject to the limits indicated for the transactions referred to in sections e) and j), and to sign all manner of correspondence.

e) To acquire and dispose of, at the price and under the terms that they may feely stipulate, including resale and repurchase agreements and by any other means permitted by law, all manner of movable and immovable property, not excluding rights in personam and rights in rem, the only limit being that when the transaction arranged in exercise of this power exceeds EUR 300,507 it must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of his assignee.

   Notwithstanding the provisions of the preceding paragraph, the limitation will not exist when the acquisition relates to loans that other financial institutions (banks, saving banks, credit cooperatives and similar entities registered with the Bank of Spain) may have granted to their customers, i.e. the loans included in the loan portfolio of the entity in question, even if the latter, in turn, had acquired the loans from another financial institution and they were not originally granted by said entity; or when the disposal relates to loans in the Bank's portfolio, whether these be loans granted to its customers or loans that the Bank had acquired previously from another financial institution; all the foregoing irrespective of whether these acquisitions or disposals relating to the loan or loans in question are full or partial, and of the type of the loans themselves, whether due to the form of instrumentation (agreement, deed, bills, promissory notes or by another other means) or to the additional guarantees they might have (all manner of security interest, mortgages, etc.).

f) To arrange in favour of the Bank mortgages and other encumbrances on immovable property to secure the loan transactions to which it is party or to underwrite guarantees and other obligations which, with respect to these transactions, are outstanding, and they will stipulate the periods, interest and distribution of charges and any other terms inherent to the agreements in question at their own discretion.

g) To modify, transfer or subrogate and terminate mortgages and other in rem rights, including entries in the Land Registry, held by the Bank, and to grant and release, in the Bank's name, tax payment documents and final account settlements, or declare that the obligations related to the encumbrances have been extinguished.

h) To reach a settlement on properties and rights and submit any questions and discrepancies affecting the Bank to the decision of arbitrators or honest brokers.

i) To appear in the hereditary successions of debtors, at insolvencies, insolvency proceedings and bankruptcies, to approve inventories and arrangements and contest them; to take part and vote at the meetings held for such purposes, whether they be in or out of court; to accept or reject such agreements as are adopted for the purpose; to sign arrangements in or out of court, to provide the guarantees that may be required, and to accept attached assets.

j) As security for the obligations of third parties and for their own account, whether they be individuals or legal entities, and under the terms and clauses they deem appropriate, they may arrange, modify and withdraw or terminate guarantees and all other types of collateral before all manner of departments, bodies and agencies at central, provincial or municipal and autonomous community government level and bodies reporting thereto, autonomous community or semi-public agencies, ordinary and special tribunals and courts, including the

economic-administrative and judicial review jurisdictions, employment courts, official banks and savings banks and, in general, before any public body, and before any type of company or individual, placing, as the case may be, the required deposits in cash or securities, with or without transfer of possession, and they may bind the Bank, even jointly and severally with the principal debtor, therefore waiving the benefits of order, discussion and division, the only limit being that, if the obligation undertaken by way of guarantee exceeds EUR 3,005,070, the transaction must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of his assignee.

k) Without any limitations, to perform all manner of actions and to file claims and appeals at the courts and tribunals of any jurisdiction, including the Constitutional Court, and very in particular in the judicial review jurisdiction; to answer interrogatories; to give court depositions; to file complaints and criminal complaints and to ratify them.

   Request the ministries, directorates general, central government and autonomous community units and offices, provincial, municipal and any other level of public corporations, authorities and civil servants, to act as deemed appropriate for the interests of the principal, by filing economic-administrative claims, appeals to superior administrative bodies and claims of any other nature and class, which they will conduct through all stages and levels; to request payment orders, and to present affidavits and evidence.

   To confer legal and court-case powers on court procedural representatives ("procuradores") if the principal requires such legal representation, and to perform in the Bank's name all manner of actions and exceptions which might be available to the former, conducting the proceedings through all stages and levels, including the Constitutional Court and the extraordinary cassation and review levels, and to withdraw, settle and stay such proceedings.

l) To pledge securities belonging to the Bank's portfolio in sufficient quantity so as to arrange credit account agreements pledged for the amount deemed appropriate in each case, signing the documents required for this purpose, and for the arrangement, drawdown and cancellation of the aforementioned accounts and of their related guarantees and the renewal thereof upon expiry of each agreement.

m) To present for conversion, at any central government offices, banks (including the Bank of Spain), companies, establishments and private individuals, shares or securities for conversion or exchange purposes, withdrawing or collecting the new certificates, receipts, securities or bills resulting from the exchange or conversion, with current or in-arrears coupons, and in general carrying out any transactions required to this end.

n) To arrange with insurance companies policies that cover all manner of movable or immovable property owned by the Bank or pledged or mortgaged in its favour against the risks of fire, catastrophic damage or third-party liability, being able to establish such terms and conditions of the policies as they see fit.

o) To authorise certifications of the Company's accounting ledgers and documents.

p) To grant and sign the public deeds and private documents required to prepare the aforementioned acts and agreements.

q) To take part in Annual General Meetings and meetings of the Board of Directors in the name and on behalf of the Bank at companies in which the Bank holds an ownership interest.

The Bank does not grant the power to issue or buy back treasury shares, which corresponds to the Annual General Meeting or the Board of Directors, as appropriate.

Significant agreements which will be modified or terminated in the event of a change in control of the Company

Not applicable.

Agreements between the Company and the directors, executives or employees which provide for termination benefits if the relationship with the Company ends as a result of a takeover bid

Not applicable.