ANNUAL REPORT
2012

ceca

CONFEDERACIÓN
ESPAÑOLA
DE CAJAS
DE AHORROS

cecabank

SERVICIOS FINANCIEROS

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1

INTRODUCTION

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Letter from the Chairman

Solid foundations were laid during 2012 for a return to growth. One important development during the year was that talks have begun with a view to creating a European Banking Union, which would entail a major transfer of power from the national and regional supervisors to the European Central Bank.

The framework within which banks can act will no longer be confined to regional or state territory but will look beyond those limits to the European market and regulator. The restructuring process we are currently tackling will put us in an ideal position to play a major role within the European financial system, commensurate with our capacity and potential. The anticipation of this inclination towards Europe has guided our restructuring process from the outset to make sure that our institutions are ready for the challenge of the European Banking Union.

The transformation of CECA at this precise time is no coincidence. The creation of Cecabank is a turning point in our history and completes the adaptation of our organisation, as has already occurred in the vast majority of undertakings in our sector.

Through the sector restructuring process, of the 45 savings banks operating at the beginning of 2010, 43 have participated or are participating in some kind of business combination or consolidation. As a result, there is now one-third of the original number of savings banks and their average size has tripled.

Parallel to this unprecedented consolidation process, the sustained efforts to enhance efficiency have made it possible to greatly reduce our installed capacity. These efforts boosted the strength and capacity of the Spanish financial system, ready to face the major challenges that lie ahead.

The challenges facing the Spanish economy in the immediate future lie in three closely linked scenarios: global, national and specific aspects of our financial system.

In the global scenario, especially in Europe, the tax consolidation and structural reforms will have to be combined with a firm commitment to growth to pull out of the crisis.

In Spain, the main concern is still the high unemployment rate and weak internal demand. Against this backdrop, policies geared to stimulate business competitiveness and enhance productivity will be very important.

And within the financial system, the legal and institutional framework must be stable and secure enough to enable us to perform our trade, which is essentially to support business and personal projects by granting loans and credit facilities.

The application of these strategies will be vital to restore confidence in the Spanish financial system and preserve the banking model with which the members of CECA formed the first social and welfare network in Spain.

We have been investing resources in social work for two centuries, helping to improve opportunities for the underprivileged segments of the population and we plan to continue doing this in the future.

Isidro Fainé Casas

Letter from the Chief Executive Officer

2012 will be remembered as the year in which Cecabank came into existence, taking over the financial businesses and services of CECA, thereby completing the lengthy, intense work that began with the reform of our articles of association in July 2011, a fundamental landmark in itself, by permitting the integration in CECA's governing bodies of the new entities created by the savings banks within the restructuring process.

In March, the new Board resolved to set the ball rolling to spin off the financial business of the Confederation into a new bank. Four months later, the General Assembly approved an offer to buy back the association's share certificates (negotiable financial instruments issued by Saving Banks wich may produce an economisc yield but entail no ownership rights) issued in 1988 conditional upon subscribing a capital increase in the new bank, Cecabank, with the acceptance of 97.34% of the issue. After an independent assessment, the savings banks that accepted the offer became the new shareholders of Cecabank, holding 11% of the capital, the remaining 89% being held by CECA.

After obtaining authorisation from the Minister of Economy and Competitiveness in the Order of 1 October 2012, the new bank came on stream in November and by December it had assets valued at €15,016 million, equity of €704.6 million and a principal capital ratio of 18.4%, one of the highest on the market.

The new structure of the group is beneficial for corporate governance, since it aids an adequate separation of functions: CECA maintains its representation of the new sector while Cecabank has taken over the business and services functions in a model open to the entire financial system. CECA now has a simple governance structure, characteristic of an association (Assembly, Board and dependent committees, such as the Foundations and Social Work Committee). Funcas will continue to organise CECA's Social Work, maintaining its function of promoting economic and social surveys and investigations. Cecabank, with a smaller Board of Directors including independent members, is designed as a wholesale bank, which will provide securities, treasury and banknotes services, technological means and payment services, as well as consultancy and support services.

The group has improved its financial margin over 2012 through adequate management of liquidity and the investments made. In the area of commissions, the depositary and securities business increased as a result of the recent acquisitions of the trustee business of collective investment undertakings and pension funds, offsetting the dwindling commissions from traditional services, such as technological services. Consequently, the Cecabank services are an upgrade of the CECA portfolio.

We have also slashed overheads by enhancing efficiency, among other measures by considerably downsizing our workforce through negotiated redundancies and early retirements. Over the past two years, the headcount has been cut from 870 to 583 employees, a 33% reduction. Over the same period, the entity's payroll has been trimmed by 43%.

We are currently drafting our Strategic Plan 2013-2016. This plan, which will be submitted to the Board of Directors during the first four months of 2013, proposes a growth strategy focusing on consolidated business areas, such as trustee, depositary, treasury and securities services, with a parallel reduction of services provided to smaller entities. Cecabank aims to become a benchmark in Spain in the provision of independent services related with the custody, settlement and deposit of funds and securities.

José María Méndez Álvarez-Cedrón

2

SELF-DEFINITION

- History of CECA
- Reforms of the Articles of Association in 2011 and 2012
- Creation of Cecabank
- CECA Vision
- Cecabank Vision
- CECA Mission
- Cecabank Mission
- Principal objectives of CECA
- Principal objectives of Cecabank
- Funcas

"CECA came into being 1928 as a body through which savings banks could join forces and be represented in different forums"

2.1. History of CECA

Confederación Española de Cajas de Ahorros, the Spanish Confederation of Savings Banks, was founded in 1928 at the initiative of Federación de Cajas de Ahorros Vasco-Navarras (the Basque-Navarre Federation of Savings Banks) to combine the efforts of all its members and represent them in different forums.

In 1971, the Confederation took over most of the duties of Instituto de Crédito de las Cajas de Ahorros (ICCA), the Savings Banks Credit Institute, including: purchase and trading of securities and investment of funds on behalf of the savings banks; drawing and transfer of funds and passbooks between members; and acting as a subsidiary agency of the savings banks in their customers' deposits and withdrawals. At the same time, the Confederation inherited ICCA's principal coordination function, granting loans to savings banks with funds that they had voluntarily deposited.

"The Savings Banks (Governing Bodies) Act (LORCA) of 1985 confirmed the model initially designed within the reforms of the seventies"

As a result, CECA no longer had a purely representative role. It embarked on a new venture, with financial services, operations and duties more characteristic of credit institutions. A research unit was set up in 1976 and its work was later used as the basis for reforming the Spanish financial system.

In addition to recruiting staff with a new professional profile, new training policies were introduced in the sector around that time and the ESCA (Escuela Superior de Cajas de Ahorros) college was opened. With the deregulation of the Spanish financial system in 1977, savings banks recovered their traditional independence from politics and full operating capacity (which had been severely undermined by the interventionism of the authorities as from 1940, particularly evident in the regulation of compulsory investments).

Royal Decree 2290/1977 of 27 August clearly defined the scope of the Spanish Confederation of Savings Banks for the first time, defining CECA as the National Association and financial services provider of all member savings banks.

The Savings Banks (Governing Bodies) Act (LORCA) of 1985 confirmed the model initially designed within the reforms of the seventies. Since then, owing to the major expansion of the savings banks sector within the Spanish financial system, savings banks have had to reconcile their cooperation within the Confederation with their growing commercial competition with one another on the market.

"Royal Decree-Law 11/2010 recognised the institutional diversity of savings banks based on their business autonomy while maintaining their distinctive qualities"

Against this new backdrop and upon recommendation by the Board of Directors, the General Assembly approved a change of strategy and organisation in 1990, basically redefining the Confederation's objectives to bring its services in line with the demands of savings banks on free market conditions. Under this new arrangement, it became common practice to set rates for the operating, financial and technological services provided for and voluntarily acquired by savings banks, with the ultimate aim of making them self-financing. Moreover, as the productivity of its association duties grew, membership fees were lowered every year as from 1995.

The next milestone in this evolution was the passing of the 2002 Finance Act and the 2003 Transparency Act. The purpose of the Finance Act was twofold: to make the management of savings banks even more professional and to facilitate their access to the capital market. The Transparency Act increased savings banks' disclosure requirements to regulatory bodies and the public. Since its entry into force, savings banks have published an annual corporate governance report informing on the decision-making processes of their governing bodies.

The publication in July 2010 of Royal Decree-Law 11/2010 of 9 July on Governing Bodies and Other Aspects of the Legal Framework of Savings Banks brought a significant reform to Spanish law. The most characteristic feature of the reform was the acceptance of institutional diversity, as it had been accepted in the late XIX century, through numerous strategic alternatives for these institutions, based on their business autonomy while maintaining their distinctive properties.

"The 2010 reform aimed to foster the capitalisation of savings banks"

The reform provided solutions tailored to the different needs of savings banks, putting new corporate formulas at their disposal (indirect performance of the business, consolidation through institutional protection schemes and the issuing of association's share certificates with or without voting rights).

Each savings bank was to choose the solution that best suited its vocation and needs. But at the same time, the reform fully respected the legal nature of savings banks. All the new formulas maintained a foundational substratum that guaranteed the survival of the corporate model inherited from the LORCA: a model based on the stakeholder approach and commitment to regional development through Social Work and advanced corporate social responsibility policies.

The reform was structured on two basic lines of action: the first aimed to foster the capitalisation of savings banks, facilitating their access to top quality resources on an equal footing with other credit institutions, and the second sought to enhance the professional competence of their governing bodies. These lines were complemented with a modification of the tax system to guarantee tax neutrality of the different models of consolidation.

"The restructuring process gave rise to the banks through which the savings banks now perform their financial business"

Following the reform made by Royal Decree-Law 11/2010, of 9 July on Governing Bodies and other aspects of the Legal Framework of Savings Banks, the process of restructuring and concentration of the savings banks sector led to the creation of new corporate structures and new types of institution, whose financial business derived from the financial business of one or several savings banks. They were essentially the banks through which the savings banks now perform their financial business.

In December 2012, the sector was made up of entities performing financial business directly (savings banks) or indirectly (the banks of savings banks) and foundations, whose main purpose is the management of social work.

"In 2011, CECA altered its articles of association to contemplate the new entities appearing in the sector"

2.2. Reforms of the Articles of Association in 2011 and 2012

As a result of the new composition of the Sector, the Confederation had to adapt its Articles of Association to contemplate the new types of financial institutions, which unquestionably belonged to the savings bank sector, as deduced from their recent regulation. Accordingly, the Articles of Association of the Confederation of Spanish Savings Banks were altered by virtue of a resolution adopted at an Extraordinary General Assembly on 20 July 2011, duly authorised by the Ministry of Economy and Finance and entered in the Madrid Trade Register. This reform established a new composition of the Confederation's governing bodies to reflect the new operating and organisational situation in the savings sector.

Firstly, all the entities currently comprising the savings sector are to be represented at top level in the General Assembly.

"The 2012 alterations of the Articles adapted the governing bodies to the new situation prevailing in the sector"

Secondly, representation on the board of directors has shifted from territorial representation, through regional Federations, to a model based on representation of the savings banks and savings bank groups, in view of the new situation of the sector, permitting the inclusion of representatives of the new institution directing the group.

All savings banks and savings bank groups are represented on the Board of Directors. Under the new structure the General Assembly, as the sovereign body, will decide on the composition of the Board of Directors.

Thirdly, two new advisory committees have been set up: the Federations Committee, renovating the participation by Federations, and the Foundations and Social Work Committee, to boost social work as the distinctive feature of the sector.

On 25 July 2012, following the resolution adopted by the Board of Directors in March to spin off the financial business of CECA into a new bank (Cecabank), the Extraordinary General Assembly altered the Articles of Association, incorporating the following changes, among others:

> Adapt the governing bodies to Royal Decree-Law 2/2012. The Control Committee, Remuneration and Nomination Committee, Investment Committee and Audit Committee have disappeared and now all the savings banks and savings bank groups are represented on the Board of Directors.

> As a result of the disappearance of the association's share certificates, the rights of the legitimate holders who still have share certificates are adapted to the liquidation of CECA and no new share certificates may be issued.

> Finally, there are novelties regarding the members of CECA. The full members of CECA will now be savings banks, indirectly exercising savings banks and banks created by the savings banks; and special foundations will be associated members of CECA. The latter group will sit on the Foundations and Social Work Committee and may be invited to General Assemblies.

"Cecabank was created on 12 November 2012 as a wholesale financial services bank"

2.3. Creation of Cecabank

In March 2012 the Board of Directors of CECA resolved to begin the process to spin off its financial business to a new bank, Cecabank, through which CECA would perform its business and services activity indirectly.

Cecabank was set up on 12 November 2012 as a wholesale financial services bank, after being authorised by the Ministry of Economy and Competitiveness and following the road map approved by the CECA Board of Directors.

With the new structure, the governing bodies of CECA still make association-related decisions to defend the interests of its members (savings banks and their banks) and associates (foundations), while the new bank, Cecabank, will take over as service provider.

At year-end 2012 Cecabank had assets of €15,016 million, equity of €704.6 million and a capital adequacy ratio of 18.4%.

The shareholders of the new bank are CECA, holding 89% of the capital, and the holders of the former association's share certificates, which have been converted into shares according to the valuation made by an independent expert, which hold the remaining 11%.

"CECA aims to strengthen its members' position within the Spanish and international financial system"

2.4. CECA Vision

CECA's strategic goal is to strengthen its members' position within the Spanish and international financial system, from the point of view of both their financial activity and their social work and social responsibility.

2.5. Cecabank Vision

Cecabank has been set up as a credit institution, a service provider within the framework of a model open to all undertakings in the financial sector. Cecabank provides a set of financial, technological and consultancy products and services based on CECA's extensive track record and divided into four areas:

- Securities services (security safe-keeping and settlement, and fund depositary)
- Treasury and bank notes
- Payment methods and services
- Consultancy and support services

“Cecabank is set up with the firm intention of focusing entirely on customers”

2.6. CECA Mission

To achieve its goal, the Confederation acts as a forum of strategic reflection for all its members and undertakes to publicise, defend and represent their interests, fostering the important mission they are to perform in society.

The essential principle and code of conduct of the Confederation upholds absolute respect for the personality and independence of its members, in both their organisation and their operations.

2.7. Cecabank Mission

Cecabank has the firm intention of focusing entirely on customers, based on three essential premises: wise management, rigour in knowledge, professionalism and expertise; and being open to change.

"The principal objectives of CECA are to promote, facilitate and boost the actions of its members and represent them individually or collectively"

2.8. Principal objectives of CECA

As described in its Articles of Association, the principal objectives of CECA are:

- Promote, facilitate and boost the domestic and international operations of savings banks and other members of the Confederation, based on the social and economic importance of saving, while safeguarding the general and reciprocal interests of savings banks and the markets on which they operate.

- Represent savings banks and other members of the Confederation individually or collectively before the public authorities, facilitating their support for the government's economic and social policy, without prejudice to any powers of representation that savings banks or the other member institutions may decide to exercise directly or delegate to the corresponding Federations in matters specifically affecting the savings bank, member institution or federation in question, which are not of general interest for members on the whole. In order to achieve these objectives, CECA may:

  1. Encourage savings banks and other members of the Confederation to fulfil the important role they must play in society.

  2. Work jointly with savings banks and other members of the Confederation to spread and promote the virtue of saving as efficiently as possible.

"International representation is also one of its purposes"

3. Work directly or indirectly to instil in all social classes the value of saving and making good use of personal and collective wealth.

4. Report on such issues as the government may submit for study, voluntarily or in response to official requests.

> Represent savings banks and other members of the Confederation internationally, particularly in the World Savings Banks Institute (WSBI), the European Savings Banks Group (ESBG) and any other international organisations.

> Offer savings banks and other members of the Confederation whatever financial or other services they may request and facilitate the drawing and transfer of funds and notes between members, providing any support that may be required for members to make optimum use of their resources and overcome management difficulties. In this area and in strict fulfilment of Spanish laws and regulations, its main functions will be to:

1. Grant loans and credit facilities of whatsoever nature to savings banks and other members of the Confederation.

2. Bid for any loans and other financial transactions of the government and other public and private entities at the request and on behalf of the savings banks and other member institutions.

3. Facilitate and act as traders in the trading and administration of securities commissioned by the savings banks or other member institutions.

4. Act as agent of member institutions in deposits and withdrawals that their customers wish to make through the Confederation.

5. Provide economic and social assistance to Spanish emigrants, establishing such operating branches and agencies as may be necessary overseas and correspondent banks with credit institutions in the respective countries to facilitate remittances by emigrants and foreign trade and financing transactions.

"Another basic objective of CECA is to provide services, prepare statistics and give counselling to its members"

6. Assist savings banks and other members overseas, offering whatever services that they may require.

7. Issue registered association's share certificates with an indefinite duration, which can be counted as equity; the conditions will be agreed by the General Assembly, within the limits laid down by law. The association's share certificates can only be subscribed by savings banks and other members of the Confederation and may only be transferred among them. Issue bonds and debentures, subordinated or otherwise, all equity-backed, within the limits and on the terms laid down by law.

8. And, in general, perform such actions and transactions as may be required to fulfil its objects as a credit institution.

> Provide operating services, information and legal, administrative, tax, technical and investment counselling and advice, report on any regulatory changes that may affect savings in general or the savings banks or other members of the Confederation in particular; prepare statistics on savings banks and other member institutions and analyse their management, individually and collectively; provide counselling on organisation; promote saving and the savings banks and other member institutions; and any other activity that may help to enhance the competitive capacity of savings banks and other members of the Confederation, doing whatever may be deemed fit to secure these goals.

"CECA may also provide services for any public or private entity"

- Collaborate with the financial authorities in the restructuring, management improvement and compliance of savings banks and other members of the Confederation.

- Act as a study and training centre for all kinds of issues affecting the financial markets, introducing such institutions, services or procedures as may be considered convenient to develop the competitive capacity and fulfilment of the general purposes of savings banks and other member institutions and any other players in the financial markets. It may also publish such technical and cultural publications as may be deemed fit.

- This notwithstanding, the Confederation may provide financial, technological, administrative and counselling services to government bodies and any other public or private entity.

"The main aim of Funcas is to contribute towards a better understanding of the present Spanish economic and social situation"

2.9. Principal objectives of Cecabank

As described in its Articles of Association, the principal objectives of Cecabank are:

> All kinds of activities, operations and services corresponding to or directly or indirectly related with the banking business in general and which it is permitted by law to perform, including the provision of investment and ancillary services and insurance brokering.

> The provision of technological, administrative and counselling services to public authorities and any other public or private entity; and the acquisition, holding, benefiting and disposal of all kinds of marketable securities.

2.10. Funcas

The Savings Bank Foundation (Funcas) is a private, non-profit organisation created and financed by CECA within its Social Work, the main aim of which is to contribute towards a better understanding of the present Spanish economic and social situation.

To achieve this, it makes a constant analysis of the economic situation and the evolution of the financial system; sponsors other research and studies by external collaborators; and promulgates all this information through a large set of publications and through the organisation of and participation in courses, seminars and conferences.

3

CORPORATE GOVERNANCE

- Corporate governance
- Structure and procedures of the governing bodies
- Corporate shareholdings
- Other information on corporate governance of the group

"Information on the corporate governance of CECA and Cecabank can be found on the website www.ceca.es"

3.1 Corporate governance

This chapter gives ample coverage of the corporate governance structures and practices in CECA and Cecabank. The aim is to give all stakeholders a general idea of the group: the structure and procedures of its governing bodies, the risk control systems and any other significant information on corporate governance of the group. CECA and Cecabank have two websites, *www.ceca.es* and *www.cajasdeahorros.es*, both regularly updated. On the first there is a specific section containing information on the corporate governance of CECA and Cecabank.

"The members of the CECA General Assembly represent the general interests of saving and savers"

3.2. Structure and procedures of the governing bodies

3.2.1. General Assembly of CECA –General Shareholders' Meeting of Cecabank

The **General Assembly of CECA,** made up of representatives of all the members of CECA, is the highest governing and decision-making body. Its members, known as Consejeros Generales, represent the general interests of savings and savers.

Among other duties contemplated in its Articles of Association, the CECA General Assembly defines each year the broad outlines of the Confederation's action plan, appoints the members of the Board, confirms the appointment of the CEO, nominated by the Board, and approves the annual accounts and the allocation of earnings to the Confederation's different activities.

The CECA General Assembly holds one ordinary meeting a year, within the time stipulated in law. Extraordinary meetings are held whenever called by the Board or Consejeros Generales representing at least one-tenth of the votes corresponding to all the members.

In 2012 the CECA General Assembly held its annual meeting on 22 February and one extraordinary meeting on 25 July.

A fortnight before the annual General Assembly, the members were provided with an Annual Report containing a detailed description of the Confederation's development during 2011, together with the balance sheet, income statement and proposal for the allocation of earnings.

During 2012, the CECA General Assembly adopted the following resolutions, among others:

22 February 2012

- Approval of the separate and consolidated annual accounts of CECA (balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes to the financial statements), the management report and allocation of earnings to the different activities of the Confederation, as well as the management of corporate affairs by the Board, all corresponding to 2011.
- Charitable and social work budget outturn for 2011 and maintenance budget for 2012.
- Retirement of the Board of Directors, the Control Committee and the Remuneration and Nomination Committee; and appointment of the new Board of Directors, Control Committee and Remuneration and Nomination Committee.

25 July 2012

- Approval of the division of CECA, organising a new company, with the indirect performance of its financial activity through Cecabank.
- Partial redemption of the association's share certificates.
- Approval of the alteration and recast of Articles of Association.
- Ratification and appointment of Board members.

"On 25 July 2012, the CECA General Assembly approved the indirect performance of its financial activity through Cecabank"

The **General Shareholders' Meeting of Cecabank** is made up of shareholders who are entitled to attend and may be represented by proxies.

Among other duties contemplated in its Articles of Association, the General Meeting appoints and removes directors and approves the annual accounts and allocation of earnings.

The Annual General Meeting is necessarily held within the time stipulated in law and extraordinary meetings are held whenever requested by shareholders holding at least 5% of the capital.

No General Meetings of the Shareholders of Cecabank were held during 2012 because Cecabank was started up on 15 November 2012.

"The General Shareholders' Meeting of Cecabank appoints and removes directors and approves the annual accounts and allocation of earnings"

"The Boards of Directors are responsible for the administration, management and representation of CECA and Cecabank"

3.2.2 Board of Directors

The administration, management and representation of CECA and Cecabank are entrusted to their respective Boards of Directors. As such, these bodies are responsible for the governance and administration of both entities and represent them in all matters relating to their business and in any legal disputes, with the powers expressly vested in them in the Articles of Association.

The members of the Boards of Directors of CECA and Cecabank are appointed by the General Assembly and the General Shareholders' Meeting, respectively, in a number decided by those bodies, which may not be fewer than 5 nor more than 15.

In CECA nominations for Board members are submitted by the members and nominees may only be Consejeros Generales.

According to the Articles of Association, both Boards must hold at least six meetings a year, called by the Chairman.

Eleven CECA Board meetings and three Cecabank Board meetings were held during 2012, called by the Chairman at his own initiative.

The meetings of both Boards were attended by the CEO and the Secretary, who acted as non-director vice-secretary, although they were not entitled to speak or vote.

At 31 December 2012, the members of the Boards of Directors of CECA and Cecabank coincided, consisting of the following persons:

CHAIRMAN:

- D. Isidro Fainé Casas

VICE-CHAIRMEN:

- D. Amado Franco Lahoz
- D. José Ignacio Goirigolzarri Tellaeche
- D. Braulio Medel Cámara
- D. Mario Fernández Pelaz

SECRETARY:

- D. Carlos Egea Krauel

MEMBERS:

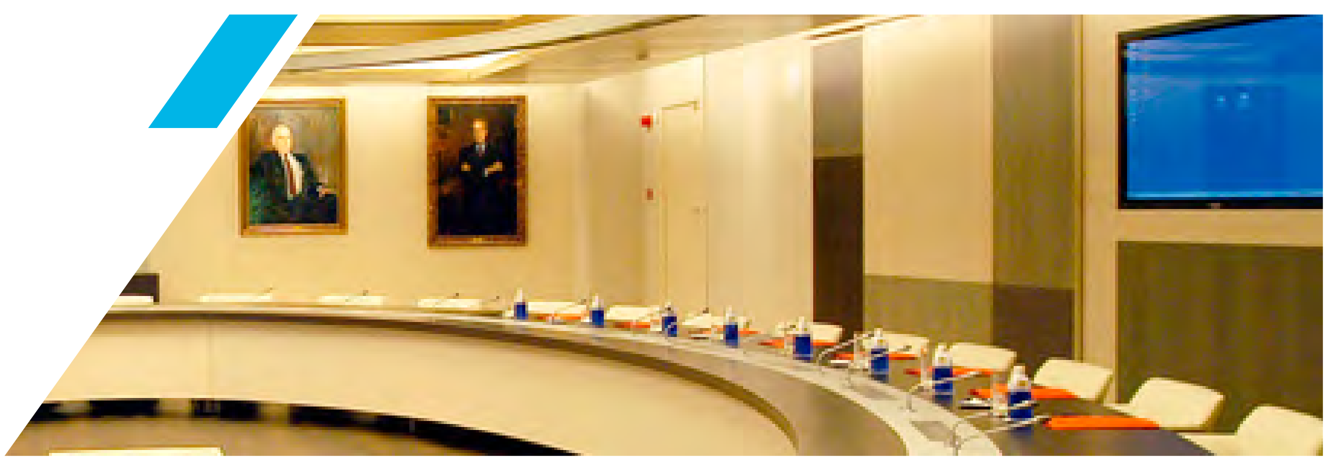
- D. Manuel Menéndez Menéndez
- D. Adolf Todó Rovira
- D. Evaristo del Canto Canto
- D. José María Castellano Ríos
- D. Rafael Soriano Cairols
- D. Juan María Pemán Gavín
- D. Josep A. Cifre Rodríguez

"The Board of Directors of Cecabank may delegate its powers to the Executive Committee, except any which may not be delegated by law or the articles"

3.2.3 Executive Committee

The Board of Directors may delegate its powers to the Executive Committee, except those concerning the submission of proposals to the General Assembly and those especially delegated to the Board, unless it is expressly authorised to do so.

Twelve CECA Executive Committee meetings were held in 2012.



The members of this Committee are the Chairman, Vice-Chairmen and Secretary of the Board. Accordingly, at 31 December 2012, the members of the Executive Committee were:

- Isidro Fainé Casas
- Amado Franco Lahoz
- José Ignacio Goirigolzarri Tellaeche
- Braulio Medel Cámara
- Mario Fernández Pelaz
- Carlos Egea Krauel

3.2.4 Remuneration and Nomination Committee

Among other duties, the Remuneration and Nomination Committee of CECA reported on the general remuneration and incentives policy for members of the Board of Directors and Control Committee and for senior executives and ensured observance of that policy.

The duties and procedures of this Committee were set out in the CECA Articles of Association and in the committee's internal regulations.

The Remuneration and Nomination Committee held five meetings in 2012 and submitted two reports to the Board of Directors, on review of expenses of the governing bodies and support committees.

On 14 November 2012, when the CECA Board of Directors put on record its winding up by virtue of the new Articles of Association, the members of the Remuneration and Nomination Committee of CECA were:

- Amado Franco Lahoz (Chairman)
- Antonio Pulido Gutiérrez (Vice-Chairman)
- Adolf Todó Rovira (Secretary)

The resolution to wind up this committee was adopted as a result of the creation of Cecabank. From now on, it is Cecabank that will have a Remuneration and Nomination Committee.

"On 14 November 2012 the CECA Board of Directors put on record the winding up of the Remuneration and Nomination Committee"

"The Investment Committee was wound up following the creation of Cecabank"

3.2.5 Investment Committee

Among other duties, the CECA Investment Committee reported to the Board on strategic and stable investments and divestments made by the Confederation directly or through group companies and on the financial viability of those investments and whether they fitted in with the Confederation's strategic plans and budgets.

The duties and procedures of this Committee were set out in the CECA Articles of Association and in the committee's internal regulations.

The Investment Committee held 3 meetings in 2012, at which it analysed, inter alia, the activity of the Assets and Liabilities Committee and the acquisition of depositary business for collective investment undertakings and pension funds. It also submitted its mandatory annual report to the Board, informing that during 2012:

- No strategic and stable investments or divestments were made in listed companies for more than 5% of the capital of the listed companies or multiples thereof.

"The Control Committee has also been wound up following the creation of Cecabank"

> CECA did not participate during the year in business projects in which it was involved in the management or governing bodies, with investments implying a takeover of the company and representing more than 5% of CECA's equity.

On 14 November 2012, when the CECA Board of Directors put on record its winding up by virtue of the new Articles of Association, the members of the Investment Committee of CECA were:

> Manuel Menéndez Menéndez (Chairman)

> José María Castellano Ríos (Vice-Chairman)

> Evaristo del Canto Canto (Secretary)

The resolution to wind up this committee was adopted as a result of the creation of Cecabank. From now on, it is Cecabank that will have an Investment Committee.

3.2.6 Control Committee

The purpose of the Control Committee was to see that the Board acted with the utmost efficiency and precision within the general lines of action established by the General Assembly and the guidelines deriving from financial laws and regulations. In order to perform its duties, the Control Committee could request and obtain from the Board of Directors any details and information that it considered necessary.

Its duties included, in particular and among others, the following:

> Analyse the Confederation's economic and financial management, submitting six-monthly reports to the Bank of Spain and the General Assembly.

> Examine the account audit summarising the activities of the year and lay before the General Assembly a report on the review made.

> Report to the General Assembly on the budgets and funding of social work, and ensure that the planned investments and expenditure were made.

"The duties of the Control Committee included those established in the Securities Market Act"

> Propose suspending the implementation of Board resolutions whenever it believed they infringed prevailing legal provisions or unjustifiably and seriously affected the financial situation, earnings or credit of the Confederation or of the savings banks and other members.

> Require the Chairman of the Confederation to call an extraordinary general assembly in the case contemplated in the preceding point and whenever else it saw fit.

> Perform the duties established for the Audit Committee in the Securities Market Act.

> Oversee the procedures for nominating and appointing members of the governing bodies.

The CECA Control Committee had three members elected by the General Assembly from among the Consejeros Generales. Members of the Committee were appointed for a term of 6 years.

On 14 November 2012, when the CECA Board of Directors put on record its winding up by virtue of the new Articles of Association, the members of the Control Committee of CECA were:

> Rafael Soriano Cairols (Chairman)

> Juan María Pemán Gavín (Vice-Chairman)

> Josep Cifre Rodríguez (Secretary)

"During 2012 the external auditor, the internal auditor and the head of regulatory compliance reported to the Control Committee"

The Control Committee held 9 meetings in 2012, at which reports were received from the following persons, among others:

> The external auditor, to explain the contents of the auditor's report on the separate and consolidated annual accounts of the Confederation for 2011.

> The internal auditor to submit the information required by the Committee to draft the compulsory six-monthly reports and to submit the annual report on operational risks.

> The head of Regulatory Compliance to present the annual report on regulatory compliance.

On 28 March 2012, the Control Committee checked the information set down in the Key Information Document.

3.3. Corporate shareholdings

CECA's corporate shareholdings are intended to assist it in meeting its strategic objectives. Its principal interests at 31 December 2012 are set out below:

14,44%

AHORRO CORPORACIÓN, S.A.
Financial services holding company

99,99%

CAJA ACTIVA, S.A.
Internet and other network links.

50,00%

AHORRO Y TITULIZACIÓN, SOCIEDAD GESTORA DE FONDOS DE TITULIZACIÓN, S.A.
Securitisation fund manager

1,55%

CASER, GRUPO ASEGURADOR
Insurance.

18,75%

SOCIEDAD ESPAÑOLA DE SISTEMAS DE PAGOS (IBERPAY)
Interchange, clearing and settlement of transfer orders.

10,00%

EURO 6000, S.A.
Administration of credit and debit card programmes,

0,61%

MASTERCAJAS, S.A.
Means of payment.

11,25%

TRIONIS DATA
Development, management and maintenance of financial services, especially means of payment.

8,85%

LICO CORPORACIÓN, S.A.
Leasing and banking services.

20,00%

TEVEA INTERNATIONAL S.A
Support for international operations of savings banks and their customers.

0,084%

SWIFT
International electronic payments.

22,49%

EUFISERV PAYMENTS SCRL
Means of payment.

100%

CEA TRADE SERVICE, TSL
Documentary credit management.

The list of investees shows that they are all engaged in services that complement and broaden the range of financial activities and services provided by Cecabank.

CECA holds a 89.08% stake in Cecabank.

"The Management Committee is the highest body assisting the General Management of Cecabank"

3.4 Other information regarding corporate governance of the group

The information on Cecabank's internal governance should mention the bodies involved in its main decision-making processes, namely the Management Committee, which assists the CEO, and the Assets and Liabilities Committee, ultimately responsible for reporting, management, monitoring and control of Cecabank's risk exposure. The Control Compliance and Operational Risk Committees should also be mentioned.

3.4.1 Management Committee

The Management Committee assists the CEO and General Management of the company. It also has the following basic responsibilities and any others that may be assigned to it by the Board:

a) Decide on issues directly submitted by the Board of Directors.

b) Decide on issues submitted by the CEO before being approved by the Board.

c) Decide on issues submitted by the CEO on his own initiative.

d) Approve the codes of conduct and internal regulations of the company, provided they do not require approval by the Board.

"The most significant duties of the Management Committee are delegated to the Executive Committee"

The members of this Committee are the senior executives of the company. However, its meetings may be attended, with the right to speak but not vote, by other employees invited by the Chairman of the Committee.

The Chairman of the Management Committee is the CEO and the Secretary is the Secretary of Cecabank, who issues minutes of all the business transacted at committee meetings.

The Management Committee has its own Internal Regulations, approved in February 2007.

The Management Committee meets prior to Board meetings and whenever it is called by its chairman. Twenty-three meetings were held in 2012.

3.4.2 Executive Committee

The most significant duties of the Management Committee are delegated to the Executive Committee, which performs them according to their urgency or nature, whenever so considered by the CEO.

The members of the Executive Committee are the Chairman of the Management Committee, who is in turn Chairman of the Executive Committee, the assistant general managers and the assistant managers of the company. The Executive Committee held 11 meetings in 2012.

"The mission of ALCO is to approve, report, manage, monitor and control Cecabank's financial risks"

3.4.3 Assets and Liabilities Committee

The Assets and Liabilities Committee (ALCO) is the body appointed by the Board to approve, report, manage, monitor and control the institution's financial risks and to implement the policies established by the Board, specifying the tasks and duties to be performed within the company.

The policies, methods, procedures and systems for controlling the risks to which the institution is exposed are set out in the ALCO Manual, approved by the Board and revised annually. The latest revision of the manual was approved by the Board on 16 May 2012.

Within these responsibilities, ALCO has the following duties, among others:

> Study and issue general policies within the framework of the institution's risk policy and establish the procedures and methods for management, monitoring and control of credit risks, market risks (interest rate, spreads, currency, price and volatility) and structural risks of the balance sheet (interest rates and liquidity).

> Monitor and analyse the institution's balance sheet, assessing the underlying risk in its structure in accordance with the policies issued by the Board.

- Study and issue specific policies on significant on balance-sheet items.
- Measure the risks deriving from the foreseeable evolution of the figures on the balance sheet and markets and, accordingly, assess their effect on both the economic value and the financial margin of the institution.
- Assess the market situation and analyse the evolution of public data.
- Monitor the evolution of cash positions in euro and other currencies.

- Prevent liquidity pressure and approve the corresponding liquidity contingency plans.
- Authorise financial instrument valuation criteria and methods.
- Approve any change in the settlement rates of options and futures transactions.
- Approve any change in the interest rates applicable to credit accounts.
- Decide on proposed transactions and credit risk limits exceeding the level of powers delegated to the Risk Committee and take note of those authorised by the Committee within the limits of its delegated powers.
- Be informed of the activities performed and resolutions passed, if any, by the different support committees.
- Be informed, analyse and, if appropriate, authorise any new financial product or activity that the institution wishes to offer or perform.

"ALCO meets whenever so required to discuss any contingency on the markets or performance of the institution"

- With regard to the internal self-assessment of available capital adequacy, considering the risks incurred, ALCO will be responsible for making sure that the procedures and methods used in the capital self-assessment process are suitable for the institution's risk profile.
- Approve the Risk Policies and Procedures Manual - Management of Risks associated with the Financial-Operating activities.
- Approve the manual of the New Financial Products Committee.
- Annually revise its internal manual and, if appropriate, propose to the Board any modifications that must be approved by the latter.
- Any other activities related with the foregoing.

ALCO is chaired by the CEO and the Assistant General Manager of the Operating and Financial Area is Vice-Chairman. The committee has 6 members and the Head of the Legal Department is the Committee secretary/coordinator.

ALCO holds ordinary meetings once a month and extraordinary meetings whenever so required to discuss any contingency on the markets or performance of the institution, called by the committee chairman through the secretary. Thirty ALCO meetings were held in 2012 (11 ordinary meetings and 19 extraordinary meetings).

ALCO is assisted by the following support committees:

- The **Risks Committee**, which ensures that the risk exposure is within the limits established by the Board and ALCO and constantly adapts the risk management procedures to the increasingly sophisticated financial market, making sure that they are commensurate with the capital requirements in place from time to time.

"The ALCO support committees include the Risks Committee, the Financial Committee, the New Products Committee and the Liquidity Contingency Committee"

Moreover, with a view to achieving more specialised and dynamic decision-making, ALCO has delegated to the Risks Committee certain powers for credit risk operations up to certain limits.

> The **Financial Committee**, responsible for ordinary management of market risks in trading operations, in accordance with the policy approved by the Board and the guidelines issued by ALCO, submitting such information as may be required by ALCO for decision-making. It is also responsible for the management and monitoring of investments of equity, customers' funds and several balance-sheet items, submitting the relevant information to ALCO.

> The **New Products Committee**, which ensures that in Cecabank dealings in financial products and markets:

- Cecabank is fully aware of the risks involved.
- It has the necessary infrastructure for their management, control and administration.
- The systems and procedures relating to the financial products in which Cecabank operates are further standardised.

"To ensure compliance with the applicable laws and regulations, Cecabank has a committee structure that guarantees coordination of all the different units of the institution"

> The **Liquidity Contingency Committee**, which has the following basic objectives, among others:

- The systems and procedures relating to the financial products in which the Confederation operates are further standardised.
- Define the strategy for handling the situation, deciding on the important areas requiring intervention.
- Coordinate the areas involved in implementing the plan and make any necessary adjustments to adapt it to the situation on the market.

3.4.4 Regulatory Compliance

To ensure compliance with the applicable laws and regulations, Cecabank has a specific statute and basic guidelines for action, set out in the Compliance Policy approved by the Board.

To secure adequate coordination of all the units involved in compliance risk management and to guarantee an efficient information flow, the institution has a two-tier committee structure:

> The lower level consists of ad hoc committees: the Anti-Money Laundering and Anti-Terrorist Financing Committee, the Code of Market Conduct Committee and the Data Protection Committee.

> On the higher level there is a Compliance Committee with sweeping powers in compliance risk. The members of this committee are appointed by the Board.

"The Regulatory Compliance Committee implements compliance risk control in Cecabank"

The Compliance Committee has the following powers and responsibilities:

- Ensure implementation of compliance risk control in Cecabank.
- Pinpoint and assess issues relating to compliance risk, assisted by the Regulatory Compliance Department, and the plans for dealing with them. Within this process:
  - It regularly monitors compliance risk management. The Compliance Committee meets at least once a quarter for this purpose.
  - It checks the ordinary management of compliance risk by the Regulatory Compliance Department. It analyses the information and oversees the documents received from that department on compliance risk management.

"The duties of the Regulatory Compliance Committee include supervising handling of reputational risk"

- See that the compliance policy is respected. This involves seeing that the competent units take remedial measures whenever any non-compliance is detected.
- Submit to the Management Committee any internal codes and regulations on regulatory compliance required by law and the applicable standards, to be submitted in turn, if appropriate, to the Board of Directors.
- Propose action plans and procedures to the Management Committee for Cecabank's compliance risk management.
- Report to the competent body on compliance risk management at least once a year, through the Head of the Regulatory Compliance Department, to enable that body to form a well-founded opinion the effectiveness of that management.
- Supervise handling of reputational risk.
- Implement the guidelines and take whatever actions may be established by the CEO in respect of regulatory compliance

3.4.5 Operational Risk Committee

The operational risk management system defined in the control framework includes the Operational Risk Committee among those with direct responsibilities in this area. This committee is responsible for regular monitoring of the operational risk management, reporting annually to the Management Committee and the Control Committee on evolution of the risk and any actions taken in this regard.

It also analyses any information it receives from the Operational Risk Unit on the management of this risk and proposes risk transfer systems and procedures (insurance, bonds, outsourcing, etc.) to mitigate latent operational risks.

"The Operational Risk Committee proposes systems and procedures to mitigate latent operational risks"

Its duties also include:

> Promoting implementation of operational risk control in Cecabank.

> Overseeing the documents provided by the Operational Risk Unit on operational losses and on the entity's risk profile.

> Supervising the degree of compliance with the operational risk control framework.

> Approving the institution's operational risk management procedures.

> Approving the maximum limits permitted (tolerance) for the residual value of operational risk.

> Overseeing the minimum information required to prove that the institution meets the requirements stipulated in Circular 3/2008 for application of the standard method.

The Operational Risk Committee has a support body to help it with these responsibilities, the Operational Risk Identification Committee (ORIC), a standing committee mainly responsible for detecting any operational risks inherent in the institution's processes, products and systems. It aims to draw up and keep up to date an inventory of operational risks and select risk and management indicators to guarantee adequate monitoring of operational risks.

4

MANAGEMENT REPORT

- Confederación Española de Cajas de Ahorros (CECA) Management Report
- Cecabank Management Report
- Ceca Group Management Report

[Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.]

"The main aim of this Directors' report is to provide information on the most significant initiatives developed by CECA Group in 2012"

4.1. Confederación Española de Cajas de Ahorros (CECA)

Confederación Española de Cajas de Ahorros (CECA) is the Parent of the Confederación Española de Cajas de Ahorros Group (CECA Group). The companies composing the Group are detailed in Note 1 to the consolidated financial statements for the year ended 31 December 2012.

The main aim of this Directors' report is to provide information on the most significant initiatives developed by CECA Group in 2012, present the actual results obtained, and disclose both the most significant matters relating to risk management and the activities that will be carried out within the framework of the strategic lines of action defined for 2013.

4.1.1. Spin-off of the business activity

At its meeting of 21 March 2012, the Board of Directors of CECA resolved to commence a process to spin off the entity's financial business to a newly-created bank. This process was ratified at the General Assembly on 25 July 2012.

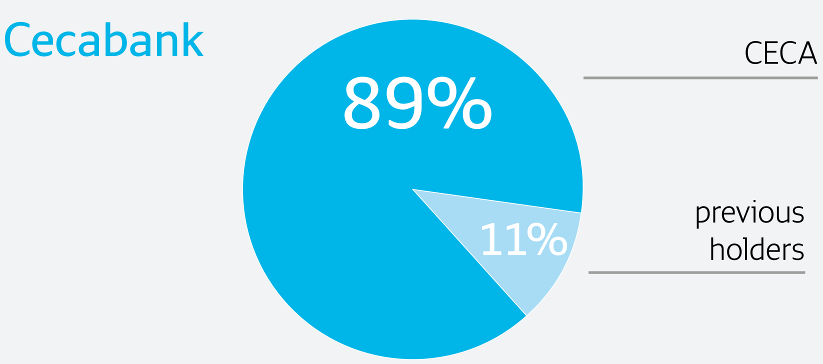
The aim of this spin-off was, on the one hand, to maintain and strengthen the association functions performed by CECA, which consist mainly of the representation of the member entities, either individually or collectively, before regulators and supervisors in Spain and abroad; and, on the other, to endow the financial business with a more flexible structure that is better suited to the current market situation.

In this regard, on 12 November 2012, the deed for the spin-off the Confederación through the incorporation of a new credit institution named Cecabank was registered at the Mercantile Registry. Effective 1 January 2012, all the assets and liabilities of the Confederación were spun off to Cecabank, which became the company through which CECA carries on its activity as a credit institution.

"CECA owns 89% of the share capital of Cecabank and the remaining 11% is held by the previous holders of the non-voting equity units"

At the same time as this process, following a resolution by its directors, CECA made a repurchase offer to the holders of the non-voting equity units ("Cuotas Participativas de Asociación") that the entity had issued in 1988, which was conditional on the simultaneous, irrevocable commitment to subscribe ordinary shares of Cecabank. Substantially all the holders of the non-voting equity units accepted the offer (97.34% of the issue) and only EUR 799 thousand continued to be owned by one of the initial holders. After this transaction, following authorisation by the Bank of Spain, CECA retired the acquired securities.

As a result of the transactions described above, CECA owns 89% of the share capital of Cecabank and the remaining 11% is held by the previous holders of the non-voting equity units.



"The General Assembly on 21 December 2011 set the main objectives for the year 2012"

4.1.2. Business performance and achievement of targets in 2012

In this section relating to business performance and the results obtained in the development of the business, comment will be made, on the one hand, on the most significant actions undertaken in order to comply with the main objectives set by the General Assembly on 21 December 2011, on the other, on the attainment of the profitability targets que in order to fund the needs of the welfare foundation, Funcas, for next year, i.e. 2013.

In relation to the first of these matters, worthy of mention was the performance of the following actions:

4.1.2.1. Regulatory Matters:

In defense of the interests of savings banks and their groups, a **monitoring of the regulatory matters** which are priorities to the sector such as the implementation of CRD4, the processing of the directive of credit agreements relating to residential buildings, and the latest publications on international financial regulatory policies has been made. In order to **boost this strategic focus**, it participated in various working groups created by the European Central Bank and the Bank of Spain for the development of the European Target 2-Securities project as member of the technical work groups; and new taxonomies of CIRBE; the CNMV's work groups for the reform of the system for the settlement, clearing and registration of securities and the negotiation of the sector's employment collective agreement. It also continued to develop the **social corporate responsibility**, the coordination of savings banks and their Groups in international debates about non-financial reporting and the evaluation and renewal of financial education initiatives and social investment.

"In the second part of the year the bulk of the activity centered representative interest in monitoring regulatory aspects included in the MoU "

In the second part of the year the bulk of the activity centered representative interest in monitoring regulatory aspects included in the MoU (Memorandum of Understanding) signed between the Eurogroup and the government of Spain. Within this document there is a specific regulation that affects a group of CECA's member institutions.

4.1.2.2. Cooperation:

With regards to cooperation, the main objective has been to boost the collaboration of the sector in the development of projects aimed at improving the efficiency and effectiveness of the savings banks and their groups by developing projects in the area of CECA Group's Organization, Automation and Service Committee (COAS) whose new structure has been implemented and has been put into operation in 2012. In this connection, mention should be made to the development of the Bank of Spain's new financial reporting application, the promotion of the digital signature, the analysis and the disclosure in the area of savings banks and their Groups of the impact of the next European Commission regulation on SEPA END DATE, the collaboration with the General Management of Taxes on the FATCA Project, the development and implementation of new agreements with the government, the implementation in the field of outsourcing model CORE and the multichannel tour model by entity and implementation of scorecard loyalty within the project.

"In social work, a sector communication and reputation plan has been implemented to strengthen and improve the visibility of the welfare project brand"

4.1.2.3. Advisory:

In the midst of the complex transformation of the industry, the savings banks and their groups have continued to be able to rely on the firm support of CECA's human and technical resources applied to the analysis and adaptation of the regulatory modifications and developments in the scope of legal, tax, solvency and accounting competencies. In this sense, work has been carried out for advising the entities that have required the adaptation of the bylaws of the new societies which have joined CECA as a product of the new sectorial map and initiatives have been proposed for cost reduction derived from the application of the registration fee for mortgage transactions.

4.1.2.4. Social work:

With regard to welfare projects, a sector communication and reputation plan has been implemented to strengthen and improve the visibility and distribution of the welfare project brand.

4.1.3. Income statement

Given that Cecabank is the entity which performs CECA's business activity, it is considered relevant to present the comparison of its results against the budget:

	THOUSANDS OF EUROS
Financial margin	7,008
Other operating income and expenses (net)	13,429
Gross income	20,437
Operating expenses	(12,024)
Profit before tax	8,413
Income tax	926
Profit for the year	9,339

"Gross income amounted to € 20 millions"

Gross income, which reflects in full the income obtained by the entity, amounted to EUR 20,437 thousand. It consists of the interest obtained as the return on its available liquidity, the dividend collected in the year from its ownership interest in Cecabank and the membership dues paid by the CECA associate entities. Income from membership dues continued the decline of recent years, down 6.67% in 2012 on the previous year.

Operating expenses mainly consist of the dues paid to associations and the expenses arising from the support services that the entity has contracted from Cecabank, since it does not have internal resources to perform these activities.

Income tax accrued in 2012 amounted to a positive amount of EUR 926 thousand and, accordingly, the entity obtained a **profit for the year** amounting to EUR 9,339 thousand.

"With regard to institutional representation and development, the main association objectives will focus on representing and defending the interests of the member entities in the domestic and international regulatory agenda"

4.1.4. Risk management

At its meeting of 18 December 2012, as a consequence of the indirect performance of CECA's business through Cecabank, the Board of Directors passed a resolution whereby all the procedures for assessing, measuring and controlling risks that develop the general risk management principles defined by the CECA Board will be determined at Cecabank and will be applicable for the Group as a whole.

4.1.5. Significant events subsequent to year-end

No significant events have occurred subsequent to year-end.

4.1.6. Business outlook

With regard to **institutional representation and development**, the main association objectives will focus on:

- Representing and defending the interests of the member entities in the domestic and international regulatory agenda in 2013, the priorities being the new law governing savings banks and banking foundations, and the implementation of the Memorandum of Understanding and of CRD IV (the new capital requirements directive).
- The adaptation of CECA's institutional structure to the new bylaws and the new situation following the spin-off and the indirect performance of its financial activity.
- The adjustment of the committees and working groups to the new reality facing the sector.
- A gradual reduction in the Confederación membership dues, which will be replaced by the Cecabank dividend as a source of income to finance CECA's activity as an association.

[Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.]

"Cecabank is the credit institution through which CECA carries on business as a credit institution indirectly"

4.2. Cecabank

Cecabank, S.A. (Cecabank) is the credit institution through which the Confederación Española de Cajas de Ahorros (CECA) carries on business as a credit institution indirectly.

The main aim of this Directors' report is to provide information on the most significant initiatives developed by Cecabank in 2012, present the actual results obtained, in comparison with the budget, and disclose both the most significant matters relating to risk management and the activities that will be carried out within the framework of the strategic lines of action defined for 2013.

4.2.1. Spin-off of the business activity

At its meeting of 21 March 2012, the Board of Directors of CECA resolved to commence a process to spin off the entity's financial business to a newly-created bank. This process was ratified at the General Assembly on 25 July 2012.

The aim of this spin-off was, on the one hand, to maintain and strengthen the association functions performed by CECA, which consist mainly of the representation of the member entities, either individually or collectively, before regulators and supervisors in Spain and abroad; and, on the other, to endow the financial business with a more flexible structure that is better suited to the current market situation.

In this regard, on 12 November 2012, the deed for the spin-off of CECA through the incorporation of a new credit institution named Cecabank was registered at the Mercantile Registry. Effective 1 January 2012, all the assets and liabilities of CECA were spun off to Cecabank, which became the company through which CECA carries on its activity as a credit institution.

"CECA made a repurchase offer to the holders of the non-voting equity units which was conditional on the simultaneous, irrevocable commitment to subscribe ordinary shares of Cecabank. The 97.34% of the issue was accepted"

At the same time as this process, following a resolution by its directors, CECA made a repurchase offer to the holders of the non-voting equity units ("cuotas participativas de asociación") that the entity had issued in 1988, which was conditional on the simultaneous, irrevocable commitment to subscribe ordinary shares of Cecabank. Substantially all the holders of the non-voting equity units accepted the offer (97.34% of the issue) and only EUR 799 thousand continued to be owned by one of the initial holders. After this transaction, following authorization by the Bank of Spain, CECA retired the acquired securities.

As a result of the transactions described above, CECA owns 89% of the share capital of Cecabank and the remaining 11% is held by the previous holders of the non-voting equity units.

4.2.2. Business performance and achievement of targets in 2012

In this section relating to business performance and the results obtained in the development of the business, comment will be made, on the one hand, on the most significant actions undertaken in order to comply with the main objectives set by the General Assembly on 21 December 2011, within the framework of the permanent strategic lines of action which direct Company's activities, and, on the other, on the attainment of the profitability targets through the various items of the income statement.

"The efficiency project proposed the adaptation of the resources that is expected to be completed between 2012 and 2013"

In relation to the first of these matters and within the framework of the contents of each strategic line, worthy of mention was the performance of the following actions:

4.2.2.1 Efficiency

As part of the efficiency project, in 2012 scheduled tasks were performed for the Risk Area, the Integral Cash Management System, Means of Payment, and Centralized Account Administration, among others. The aims pursued in the analyses performed focused on the rationalization of processes and structures, the reorganization of assigned human resources, the review of the analytical billing criteria, and the adjustment of costs to future revenue estimates, in order to eliminate non-profitable activities.

As a result of the proposed actions, the adaptation of the resources is expected to be completed between 2012 and 2013.

In this same strategic line, with a focus on detecting a better and more efficient use of available resources, through analyzing the processes, procedures and the cost components of the activities performed in the various business and support lines, the following actions were carried out: the automation of the Central Counterparty Clearing House and margin call processes, and the analysis and planning of actions to adapt the Interchange and Settlement Centre applications to the migration to SEPA, as well as to the new regulations governing foreign economic transactions, and the launch of a project to rationalize agreements with suppliers in order to obtain enhanced efficiency through new contractual conditions that are financially more beneficial. Processes and applications were also adapted to the new European regulations on the disclosures to be made regarding collective investment undertakings.

"Cecabank's strategic growth area is focused on increasing activity levels in operating and financial services"

With regard to association services, actions were carried out to reduce the related costs. To this end, the processes relating to the regulatory compliance function were computerized, the "Ahorro" magazine was digitalized and modernized, and the efficiency of publication distribution was enhanced.

In order to complete the adjustment and adaptation of production factors to the competitive demands arising from the changes in the financial sector, an Early Retirement Plan was implemented in 2012, for 72 employees. In line with this, energy consumption and the utilization of spaces and buildings have been revised and adapted to the Bank's new structure.

4.2.2.2 Growth

Within the strategic growth area, the objectives were focused on increasing activity levels in operating and financial services, having achieved the projected increases in the volume of pensions, pan-European direct debit transactions, payments between the UK and Spain and transactions channeled through the dealing room. There has also been a presentation of the new platform for treasury to newly created entities arising from the restructuring of the sector.

"The growth in the depository activity in 2012 due to the acquisition and integration of other entities' business"

With regard to the product and service offering, the range and activities in the Association Area were increased through the launch of a new marketing policy and the preparation and implementation of business plans to market new tools such as social network monitoring and regulatory monitoring tools for automation of the regulatory compliance function. The range of consultancy services was also increased.

It is worth making a special mention of the growth in the depository activity in 2012 due to the acquisition and integration of other entities' business, thereby confirming the entity's commitment to the expansion of its Securities Custody and Settlement and Fund Depositary activity.

4.2.2.3 Effectiveness

Functional, technological and structural support services, and any other service provided to Cecabank's customers are subject to annual external process and internal quality assessment, where furthermore the degree of satisfaction is determined.

This quality level, along with indicators of service availability and response times, are subjected to an analysis that allows to draw conclusions that will be used as a basis for setting targets for improving quality of services. The level of satisfaction for 2012 was 100% of the expected levels.

"Cecabank aims to improve services provided via innovation"

4.2.2.4 Innovation

The search for new formulas offering more flexible balance sheet liquidity led to the introduction of repo transactions in central clearing houses in currencies other than the euro and three-party repos. Also, in order to provide the Savings Banks and their groups with other avenues of financing, the marketing of derivatives service on the network has begun, integrating it with the treasury platform.

In addition, the Consulting and Quality Unit provided methodologies to enable entities to streamline and right-size central services, manage foreclosed assets and prepare business continuity plans.

With regard to technological services, the acquiring project was developed and the functionality of terminal (POS terminals and ATMs) management was increased in order to improve fraud prevention, raising the security standards of payment systems and new payment and information methods have been developed through the "MIRROR" application. Also, the architecture of new channels has been improved with emphasizing on efficiency and security of electronic banking and in the consolidation of interactive services and e-commerce.

The research and development projects in which work has been made during 2012 are the following:

- Advanced Client Analysis and Management system loyalty oriented.
- Mercvrio.
- Digitization of processes.
- Client segmentation system based on multichannel and mobility.
- Automized financial management and control tool in the web and mobile scope.
- Regina.
- E- banking and mobility.

"Cecabank's internal processes such as that relating to derivatives were adapted to the new regulations"

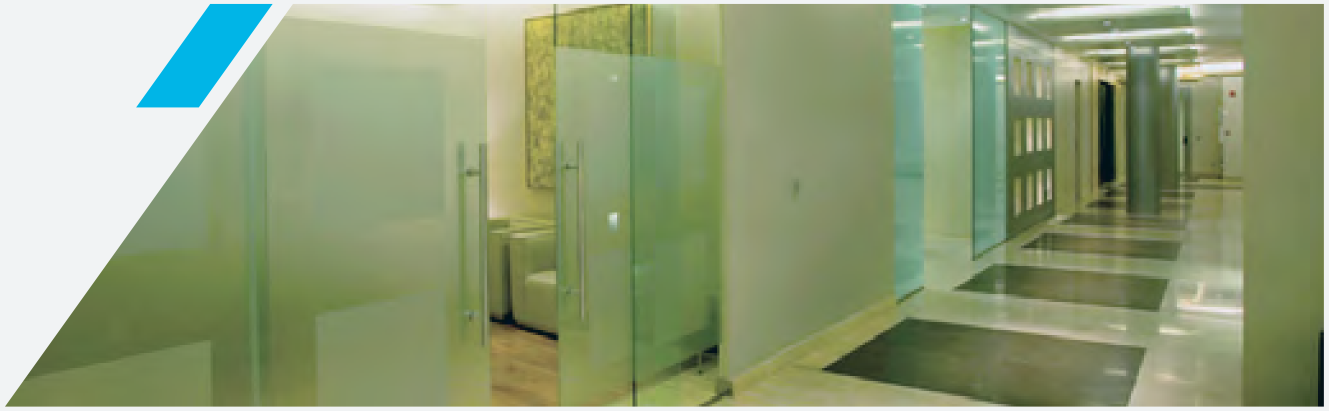
> New centralized model of processes for development, maintenance and system operation.

> New communication platform SWIFTNet.

> New balance management and overall risk control tools.

> New platform for pension funds and investment funds management.

> New tools and innovative developments for Governance and Treasury Applications.



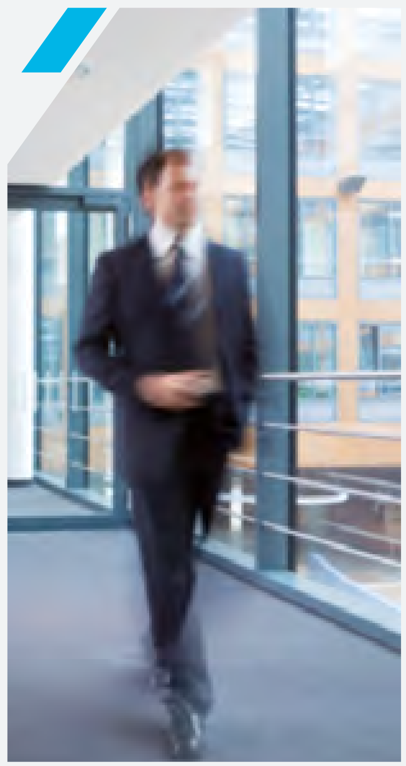
4.2.2.5 Capacity development

In relation to management and control information systems, internal technologies were adapted through the renewal of software and the development of new modules to widen the range of operational services. Work was performed to develop and promote technologies, services and platforms to support the management of expenses and human resources, and business management for customers. Software was also integrated in order to facilitate financial reporting to the Bank of Spain.

With regard to the internal legal context, the bylaws of CECA and Cecabank were prepared. Internal processes such as that relating to derivatives were also adapted to the new regulations, vis-à-vis applications supporting the Treasury Rooms and those used for managing credit and counterparty risk.

With regard to the risk control and reporting systems, analysis procedures were applied to the transactions channeled through central counterparties, and parameters were introduced to facilitate the calculation of risks associated with the remuneration policy.

"The profit of the year grows to € 34.6 millions"



4.2.3. Income statement

	THOUSANDS OF EUROS			
	2012	Budget	Variance	%
Financial margin (*)	188,940	93,599	95,341	102
Net fee and commission income	78,189	53,447	24,742	46
Other operating income and expenses (net)	60,594	65,963	-5,369	-8
Gross income	327,723	213,009	114,714	54
Operating expenses	-236,450	-167,765	-68,685	-41
Profit from operations	91,273	45,244	46,029	102
Other losses (net)	-44,818	0	-44,818	-100
Profit before tax	46,455	45,244	1,211	3
Income tax	-11,801	-12,220	419	3
Profit for the year	34,654	33,024	1,630	5

(*) Includes net interest income, income from equity instruments, the gains and losses on financial assets and liabilities and exchange differences.

Profit before tax for 2012 exceeded the budget by 3% and after-tax profit for the year by 5%.

"87% of the net interest margin arises from the Markets Room activity"

If the income statement is analyzed with regard to the various margins composing it, the net interest margin exceeded the forecast by EUR 95 million, of which EUR 83 million were obtained from dealing room activity and EUR 12 million of gains were obtained from equity investments. The extraordinary income from dealing room activities is the result of an adequate management of the products offered, the diversification of its activities and the liquidity position maintained in financial assets and liabilities.

Gross income, which reflects in full the net income obtained from operating activities, reached EUR 328 million, exceeding the forecast by EUR 115 million of which, the most significant amount arises from net interest margin, as mentioned before. It is also remarkable the EUR 25 million increase obtained from fees and commissions mainly arising from operations performed in technical, operational and dealing room services.

The total increase in **operating expenses** beyond the budgeted amount was EUR 69 million and is comprised of an extraordinary provision of EUR 39 million to meet the obligations for the early retirement agreements for a total of 72 employees; an increase in provisions and impairment of financial assets of EUR 47 million which, using conservative criteria, were used to increase specific and general allowances for credit, market and operational risk arising from dealing room activities; a positive variance of EUR 17 million resulting from a decrease in staff costs and general administrative expenses (including amortization) due to the implementation of programs and initiatives which improved cost efficiency.

"Cecabank's business plan, with 4 strategic guidelines, was submitted to the authorities"

4.2.4. External credit ratings

The ratings assigned to the Cecabank, the entity making the indirect exercise of the activity of CECA, at 31 December 2012 by the international agencies *Fitch Ratings, Moody's and Standard & Poor's* are the followings:

	Short Run	Long Run
FITCH RATINGS	F3	BBB-
MOODYS	NP	Ba1
STANDARD & POOR'S	B	BB+

4.2.5. Risk management

In note 22 through 26 of the annual report is all the information related to objectives, politics and procedures in risk management of the entity, as its exposure by type of risk.

4.2.6. Significant events subsequent to year-end

No significant events have occurred subsequent to year-end.

4.2.7. Business outlook

In the process to incorporate Cecabank, the entity prepared a business plan which was submitted to the authorities and which included the following services:

- Securities Custody and Settlement and Fund Depositary: the outlook for the entity's business in this connection is very positive, with significant growth prospects.
- Treasury and Banknotes: the entity will continue to conduct this activity from its highly consolidated market position.
- Payment Methods and Services: the entity's technological expertise is regarded as a significant support factor for maintaining its market share.
- Consultancy and Support Services: the activity is to be carried on in line with the entity's various areas of specialization.

"With regard to enhancing efficiency and effectiveness, the objectives focus on ensuring that the entity is managed more efficiently without increasing resources"

In order to comply with the strategic guidelines, which represent the pillars of the balanced scorecard implemented throughout the organization, on a permanent basis, objectives were set for each area and were approved by the Board of Directors at its meeting of 18 December 2012. The content of these objectives can be outlined as follows:

With regard to **institutional representation and development,** the main association objectives will focus on:

- Representing and defending the interests of the member entities in the domestic and international regulatory agenda in 2013, the priorities being the new law governing savings banks and banking foundations, and the implementation of the Memorandum of Understanding and of CRD IV (the new capital requirements directive).
- The adaptation of CECA's institutional structure to the new bylaws and the new situation following the spin-off and the indirect performance of its financial activity.
- The adjustment of the committees and working groups to the new reality facing the sector.
- A gradual reduction in the Confederación membership dues, which will be replaced by the Cecabank dividend as a source of income to finance CECA's activity as an association.

Another objective set for 2013 is to carry out a program of visits to the main domestic and international counterparties, and to international investors, in order to promote Cecabank's institutional brand and services.

With regard to **enhancing efficiency and effectiveness,** the objectives focus on ensuring that the entity is managed more efficiently without increasing resources. In this regard, costs will be cut in relation to certain services in comparison with the 2012 budget, and work on the rationalization of services company management will continue.

"The objectives in relation to innovation center on developing the portfolio of products and services in order to adapt them to changes in the sector"

In order for Cecabank to be fully operational from an institutional point of view, the composition of the Board of Directors will be modified in line with the principles of good corporate governance, and the regulations governing the Audit Committee and the Nomination and Remuneration Committee will be approved. Furthermore, adjustments will be made at the entity to adapt it to the new regulatory requirements relating to financial reporting and control management and systems; the securities applications will gradually be adapted to the new requirements relating to the reform of Iberclear, and the management tools will be optimized in order to focus them on the income obtained per customer and product.

In relation to **growth**, the objectives for increasing the level of activity planned for operational and financial services focus on the analysis of possible legal and fiscal formulae for the acquisition or, where appropriate, orderly disposal of businesses by Cecabank, in accordance with its business plan.

In the area of Resources and the ESCA training school, the latter will focus on specialized training modules relating to regulatory matters and other services provided by Cecabank, with the aim of consolidating the benchmark position in the market.

The Technology Area will widen its customer and market portfolio both within and outside the financial sector, in Spain and abroad, and will promote technological services, particularly in: electronic banking, mobility, business intelligence, surveys, consultancy and the contribution of services to ongoing mergers and the restructuring plans of banks, savings banks and foundations, through services that lead to enhanced efficiency.

Lastly, the General Secretary and Legal and Tax Advisory Service Area will promote the entity's services in other sectors and in international markets.

The objectives in relation to **innovation** center on developing the portfolio of products and services in order to adapt them to changes in the sector.

[Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.]

"CECA and Cecabank represent 99.96% of the Group's assets and they provide 96.21% of the Group's profit"

4.3. Confederación Española de Cajas de Ahorros and Subsidiaries composing the CECA

Confederación Española de Cajas de Ahorros (CECA) is the Parent of the Confederación Española de Cajas de Ahorros Group (CECA Group). The companies composing the Group are detailed in Note 2 to the consolidated financial statements for the year ended 31 December 2012. CECA and Cecabank represent 99.96% of the Group's assets and they provide 96.21% of the Group's profit.

The main aim of this Directors' report is to provide information on the most significant initiatives developed by CECA Group in 2012, present the actual results obtained, in comparison with the budget, and disclose both the most significant matters relating to risk management and the activities that will be carried out within the framework of the strategic lines of action defined for 2013.

4.3.1. Spin-off of the business activity

At its meeting of 21 March 2012, the Board of Directors of CECA resolved to commence a process to spin off the entity's financial business to a newly-created bank. This process was ratified at the General Assembly on 25 July 2012.

"CECA is the Parent of CECA Group"

The aim of this spin-off was, on the one hand, to maintain and strengthen the association functions performed by CECA, which consist mainly of the representation of the member entities, either individually or collectively, before regulators and supervisors in Spain and abroad; and, on the other, to endow the financial business with a more flexible structure that is better suited to the current market situation.

In this regard, on 12 November 2012, the deed for the spin-off of CECA through the incorporation of a new credit institution named Cecabank was registered at the Mercantile Registry. Effective 1 January 2012, all the assets and liabilities of CECA were spun off to Cecabank, which became the company through which CECA carries on its activity as a credit institution.

At the same time as this process, following a resolution by its directors, CECA made a repurchase offer to the holders of the non-voting equity units ("cuotas participativas de asociación") that the entity had issued in 1988, which was conditional on the simultaneous, irrevocable commitment to subscribe ordinary shares of Cecabank. Substantially all the holders of the non-voting equity units accepted the offer (97.34% of the issue) and only EUR 799 thousand continued to be owned by one of the initial holders. After this transaction, following authorisation by the Bank of Spain, CECA retired the acquired securities.

As a result of the transactions described above, CECA owns 89% of the share capital of Cecabank and the remaining 11% is held by the previous holders of the non-voting equity units.

"CECA and Cecabank represent 99.96% of the Group's assets and they provide 96.21% of the Group's profit"

4.3.2. Business performance and achievement of targets in 2012

In this section relating to business performance and the results obtained in the development of the business, comment will be made, on the one hand, on the most significant actions undertaken in order to comply with the main objectives set by the General Assembly on 21 December 2011, within the framework of the permanent strategic lines of action which direct CECA Group's activities, and, on the other, on the attainment of the profitability targets through the various items of the income statement.

In relation to the first of these matters and within the framework of the contents of each strategic line, worthy of mention was the performance of the following actions:

4.3.2.1 Institutional representation and development

4.3.2.1.1. Regulatory Matters:

In defense of the interests of savings banks and their groups, a **monitoring of the regulatory matters** which are priorities to the sector such as the implementation of CRD4, the processing of the directive of credit agreements relating to residential buildings, and the latest publications on international financial regulatory policies has been made. In order to **boost this strategic focus**, it participated in various working groups created by the European Central Bank and the Bank of Spain for the development of the European Target 2-Securities project as member of the technical work groups; and new taxonomies of CIRBE; the CNMV's work groups for the reform of the system for the settlement, clearing and registration of securities and the negotiation of the sector's employment collective agreement. It also continued to develop the **social corporate responsibility**, the coordination of savings banks and their Groups in international debates about non-financial reporting and the evaluation and renewal of financial education initiatives and social investment.

In the second part of the year the bulk of the activity centered representative interest in monitoring regulatory aspects included in the MoU (Memorandum of Understanding) signed between the Eurogroup and the government of Spain. Within this document there is a specific regulation that affects a group of CECA's member institutions.

4.3.2.1.2. Cooperation

With regards to cooperation, the main objective has been to boost the collaboration of the sector in the development of projects aimed at improving the efficiency and effectiveness of the savings banks and their groups by developing projects in the area of CECA Group's Organization, Automation and Service Committee (COAS) whose new structure has been implemented and has been put into operation in 2012. In this connection, mention should be made to the development of the Bank of Spain's new financial reporting application, the promotion of the digital signature, the analysis and the disclosure in the area of savings banks and their Groups of the impact of the next European Commission regulation on SEPA END DATE, the collaboration with the General Management of Taxes on the FATCA Project, the development and implementation of new agreements with the government, the implementation in the field of outsourcing model CORE and the multichannel tour model by entity and implementation of scorecard loyalty within the project.

4.3.2.1.3. Advisory

In the midst of the complex transformation of the industry, the savings banks and their groups have continued to be able to rely on the firm support of CECA's human and technical resources applied to the analysis and adaptation of the regulatory modifications and developments in the scope of legal, tax, solvency and accounting competencies. In this sense, work has been carried out for advising the entities that have required the adaptation of the bylaws of the new societies which have joined CECA as a product of the new sectorial map and initiatives have been proposed for cost reduction derived from the application of the registration fee for mortgage transactions.

4.3.2.1.4. Social work

With regard to welfare projects, a sector communication and reputation plan has been implemented to strengthen and improve the visibility and distribution of the welfare project brand.

4.3.2.2 Efficiency

As part of the efficiency project, in 2012 scheduled tasks were performed for the Risk Area, the Integral Cash Management System, Means of Payment, and Centralized Account Administration, among others. The aims pursued in the analyses performed focused on the rationalization of processes and structures, the reorganization of assigned human resources, the review of the analytical billing criteria, and the adjustment of costs to future revenue estimates, in order to eliminate non-profitable activities.

As a result of the proposed actions, the adaptation of the resources is expected to be completed between 2012 and 2013.

"CECA is the Parent of CECA Group"

In this same strategic line, with a focus on detecting a better and more efficient use of available resources, through analyzing the processes, procedures and the cost components of the activities performed in the various business and support lines, the following actions were carried out: the automation of the Central Counterparty Clearing House and margin call processes, and the analysis and planning of actions to adapt the Interchange and Settlement Centre applications to the migration to SEPA, as well as to the new regulations governing foreign economic transactions, and the launch of a project to rationalize agreements with suppliers in order to obtain enhanced efficiency through new contractual conditions that are financially more beneficial. Processes and applications were also adapted to the new European regulations on the disclosures to be made regarding collective investment undertakings.

With regard to association services, actions were carried out to reduce the related costs. To this end, the processes relating to the regulatory compliance function were computerized, the "Ahorro" magazine was digitalized and modernized, and the efficiency of publication distribution was enhanced.

In order to complete the adjustment and adaptation of production factors to the competitive demands arising from the changes in the financial sector, an Early Retirement Plan was implemented in 2012, for 72 employees. In line with this, energy consumption and the utilization of spaces and buildings have been revised and adapted to the Group's new structure.

4.3.2.3 Growth

Within the strategic growth area, the objectives were focused on increasing activity levels in operating and financial services, having achieved the projected increases in the volume of pensions, pan-European direct debit transactions, payments between the UK and Spain and transactions channeled through the dealing room. There has also been a presentation of the new platform for treasury to newly created entities arising from the restructuring of the sector.

With regard to the product and service offering, the range and activities in the Association Area were increased through the launch of a new marketing policy and the preparation and implementation of business plans to market new tools such as social network monitoring and regulatory monitoring tools for automation of the regulatory compliance function. The range of consultancy services was also increased.

It is worth making a special mention of the growth in the depository activity in 2012 due to the acquisition and integration of other entities' business, thereby confirming the entity's commitment to the expansion of its Securities Custody and Settlement and Fund Depositary activity.

4.3.2.4 Effectiveness

Functional, technological and structural support services, and any other service provided to customers of the Group are subject to annual external process and internal quality assessment, where furthermore the degree of satisfaction is determined.

This quality level, along with indicators of service availability and response times, are subjected to an analysis that allows to draw conclusions that will be used as a basis for setting targets for improving quality of services. The level of satisfaction for 2012 was 100% of the expected levels.

4.3.2.5 Innovation

The search for new formulas offering more flexible balance sheet liquidity led to the introduction of repo transactions in central clearing houses in currencies other than the euro and three-party repos. Also, in order to provide the savings banks and their groups with other avenues of financing, the marketing of derivatives service on the network has begun, integrating it with the treasury platform.

"CECA and Cecabank represent 99.96% of the Group's assets and they provide 96.21% of the Group's profit"

In addition, the Consulting and Quality Unit provided methodologies to enable entities to streamline and right-size central services, manage foreclosed assets and prepare business continuity plans.

With regard to technological services, the acquiring project was developed and the functionality of terminal (POS terminals and ATMs) management was increased in order to improve fraud prevention, raising the security standards of payment systems and new payment and information methods have been developed through the "MIRROR" application. Also, the architecture of new channels has been improved with emphasizing on efficiency and security of electronic banking and in the consolidation of interactive services and e-commerce.

The research and development projects in which work has been made during 2012 are the following:

> Advanced Client Analysis and Management system loyalty oriented.
> Mercvrio.
> Digitization of processes.
> Client segmentation system based on multichannel and mobility.
> Automized financial management and control tool in the web and mobile scope..
> Regina.
> E- banking and mobility.
> New centralized model of processes for development, maintenance and system operation.
> New communication platform SWIFTNet.
> New balance management and overall risk control tools.
> New platform for pension funds and investment funds management.
> New tools and innovative developments for Governance and Treasury Applications.

4.3.2.6 Capacity development

In relation to management and control information systems, internal technologies were adapted through the renewal of software and the development of new modules to widen the range of operational services. Work was performed to develop and promote technologies, services and platforms to support the management of expenses and human resources, and business management for customers. Software was also integrated in order to facilitate financial reporting to the Bank of Spain.

With regard to the internal legal context, the bylaws of CECA and Cecabank were prepared. Internal processes such as that relating to derivatives were also adapted to the new regulations, vis-à-vis applications supporting the Treasury Rooms and those used for managing credit and counterparty risk.

With regard to the risk control and reporting systems, analysis procedures were applied to the transactions channeled through central counterparties, and parameters were introduced to facilitate the calculation of risks associated with the remuneration policy.

"CECA is the Parent of CECA Group"

"The profit of the year grows to € 34.6 millions"

4.3.3. Income statement

Given that Cecabank is the entity which performs CECA's business activity, it is considered relevant to present the comparison of its results against the budget:

	THOUSANDS OF EUROS			
	2012	Budget	Variance	%
Financial margin (*)	188,940	93,599	95,341	102
Net fee and commission income	78,189	53,447	24,742	46
Other operating income and expenses (net)	60,594	65,963	-5,369	-8
Gross income	327,723	213,009	114,714	54
Operating expenses	-236,450	-167,765	-68,685	-41
Profit from operations	91,273	45,244	46,029	102
Other losses (net)	-44,818	0	-44,818	-100
Profit before tax	46,455	45,244	1,211	3
Income tax	-11,801	-12,220	419	3
Profit for the year	34,654	33,024	1,630	5

(*) Includes net interest income, income from equity instruments, the gains and losses on financial assets and liabilities and exchange differences.

“87% of the net interest margin arises from the Markets Room activity“

Profit before tax for 2012 exceeded the budget by 3% and after-tax profit for the year by 5%.

If the income statement is analyzed with regard to the various margins composing it, the net interest margin exceeded the forecast by EUR 95 million, of which EUR 83 million were obtained from dealing room activity and EUR 12 million of gains were obtained from equity investments. The extraordinary income from dealing room activities is the result of an adequate management of the products offered, the diversification of its activities and the liquidity position maintained in financial assets and liabilities.

Gross income, which reflects in full the net income obtained from operating activities, reached EUR 328 million, exceeding the forecast by EUR 115 million of which, the most significant amount arises from net interest margin, as mentioned before. It is also remarkable the EUR 25 million increase obtained from fees and commissions mainly arising from operations performed in technical, operational and dealing room services.

The total increase in operating expenses beyond the budgeted amount was EUR 69 million and is comprised of an extraordinary provision of EUR 39 million to meet the obligations for the early retirement agreements for a total of 72 employees; an increase in provisions and impairment of financial assets of EUR 47 million which, using conservative criteria, were used to increase specific and general allowances for credit, market and operational risk arising from dealing room activities; a positive variance of EUR 17 million resulting from a decrease in staff costs and general administrative expenses (including amortization) due to the implementation of programs and initiatives which improved cost efficiency.

4.3.4. External credit ratings

The ratings assigned to the Cecabank, the entity making the indirect exercise of the activity of CECA, at 31 December 2012 by the international agencies *Fitch Ratings, Moody's and Standard & Poor's* are the followings:

	Short Run	Long Rung
FITCH RATINGS	F3	BBB-
MOODYS	NP	Ba1
STANDARD & POOR'S	B	BB+

4.3.5. Risk management

In note 24 through 28 of the annual report is all the information related to objectives, politics and procedures in risk management of the entity, as its exposure by type of risk.

“In order to comply with the strategic guidelines, objectives were set for each area“

4.3.6. Significant events subsequent to year-end

No significant events have occurred subsequent to year-end.

4.3.7. Business outlook

In the process to incorporate Cecabank, the entity prepared a business plan which was submitted to the authorities and which included the following services:

- Securities Custody and Settlement and Fund Depositary: the outlook for the entity’s business in this connection is very positive, with significant growth prospects.
- Treasury and Banknotes: the entity will continue to conduct this activity from its highly consolidated market position.
- Payment Methods and Services: the entity’s technological expertise is regarded as a significant support factor for maintaining its market share.
- Consultancy and Support Services: the activity is to be carried on in line with the entity’s various areas of specialization.

In order to comply with the strategic guidelines, which represent the pillars of the balanced scorecard implemented throughout the organisation, on a permanent basis, objectives were set for each area and were approved by the Board of Directors at its meeting of 18 December 2012. The content of these objectives can be outlined as follows:

With regard to **institutional representation and development,** the main association objectives will focus on:

- Representing and defending the interests of the member entities in the domestic and international regulatory agenda in 2013, the priorities being the new law governing savings banks and banking foundations, and the implementation of the Memorandum of Understanding and of CRD IV (the new capital requirements directive).
- The adaptation of CECA’s institutional structure to the new bylaws and the new situation following the spin-off and the indirect performance of its financial activity.
- The adjustment of the committees and working groups to the new reality facing the sector.
- A gradual reduction in the Confederación membership dues, which will be replaced by the Cecabank dividend as a source of income to finance CECA’s activity as an association.

"Another objective set for 2013 is to carry out a program of visits to the main domestic and international counterparties, and to international investors, in order to promote Cecabank's institutional brand and services"

Another objective set for 2013 is to carry out a program of visits to the main domestic and international counterparties, and to international investors, in order to promote Cecabank's institutional brand and services.

With regard to enhancing efficiency and effectiveness, the objectives focus on ensuring that the entity is managed more efficiently without increasing resources. In this regard, costs will be cut in relation to certain services in comparison with the 2012 budget, and work on the rationalization of services company management will continue.

In order for Cecabank to be fully operational from an institutional point of view, the composition of the Board of Directors will be modified in line with the principles of good corporate governance, and the regulations governing the Audit Committee and the Nomination and Remuneration Committee will be approved. Furthermore, adjustments will be made at the entity to adapt it to the new regulatory requirements relating to financial reporting and control management and systems; the securities applications will gradually be adapted to the new requirements relating to the reform of Iberclear, and the management tools will be optimized in order to focus them on the income obtained per customer and product.

In relation to **growth,** the objectives for increasing the level of activity planned for operational and financial services focus on the analysis of possible legal and fiscal formulae for the acquisition or, where appropriate, orderly disposal of businesses by Cecabank, in accordance with its business plan.

"The objectives in relation to innovation center on developing the portfolio of products and services in order to adapt them to changes in the sector"

In the area of Resources and the ESCA training school, the latter will focus on specialized training modules relating to regulatory matters and other services provided by Cecabank, with the aim of consolidating the benchmark position in the market.

The Technology Area will widen its customer and market portfolio both within and outside the financial sector, in Spain and abroad, and will promote technological services, particularly in: electronic banking, mobility, business intelligence, surveys, consultancy and the contribution of services to ongoing mergers and the restructuring plans of banks, savings banks and foundations, through services that lead to enhanced efficiency.

Lastly, the General Secretary and Legal and Tax Advisory Service Area will promote the entity's services in other sectors and in international markets.

The objectives in relation to innovation center on developing the portfolio of products and services in order to adapt them to changes in the sector.

5

CONSOLIDATED FINANCIAL STATEMENTS

- Balance sheets and accounts Confederación Española de Cajas de Ahorros (CECA)
- Balance sheets and accounts Cecabank
- Balance sheets and accounts CECA Group

[Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.]

Confederación Española de Cajas de Ahorros (CECA)

BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

ASSETS	2012	2011 (*)
1. Cash and balances with central banks (Note 5)	-	492,394
2. Financial assets held for trading (Note 6.1)	-	5,781,782
2.1 Loans and advances to credit institutions	-	-
2.2 Loans and advances to customers	-	-
2.3 Debt instruments	-	664,492
2.4 Equity instruments	-	39,284
2.5 Trading derivatives	-	5,078,006
Memorandum item: Loaned or advanced as collateral	-	328,709
3. Other financial assets at fair value through profit or loss (Note 6.2)	-	999,877
3.1 Loans and advances to credit institutions	-	493,590
3.2 Loans and advances to customers	-	506,287
3.3 Debt instruments	-	-
3.4 Equity instruments	-	-
Memorandum item: Loaned or advanced as collateral	-	169,324
4. Available-for-sale financial assets (Note 7)	-	3,608,306
4.1 Debt instruments	-	3,488,733
4.2 Equity instruments	-	119,573
Memorandum item: Loaned or advanced as collateral	-	1,928,145

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I and II are an integral part of the balance sheet at 31 December 2012.

BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

ASSETS	2012	2011 (*)
5. Loans and receivables (Note 8)	13,542	5,304,647
5.1 Loans and advances to credit institutions	13,542	2,403,417
5.2 Loans and advances to customers	-	458,590
5.3 Debt instruments	-	2,442,640
Memorandum item: Loaned or advanced as collateral	-	611,190
6. Held-to-maturity investments	-	-
Memorandum item: Loaned or advanced as collateral	-	-
7. Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
8. Hedging derivatives (Note 9)	-	10
9. Non-current assets held for sale (Note 10)	-	84
10. Investments (Note 11)	648,817	515
10.1 Associates	-	-
10.2 Jointly controlled entities	-	451
10.3 Subsidiares	648,817	64
11. Insurance contracts linked to pensions	-	-

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I and II are an integral part of the balance sheet at 31 December 2012.

BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

ASSETS	2012	2011 (*)
13. Tangible assets (Note 12)	-	98,414
13.1. Property, plant and equipment	-	97,282
13.1.1 For own use	-	97,282
13.1.2 Leased out under an operating lease	-	-
13.1.3 Assigned to welfare projects	-	-
13.2 Investment property	-	1,132
Memorandum item: Acquired under a finance lease	-	-
14. Intangible assets (Note 13)	-	2,446
14.1 Goodwill	-	-
14.2 Other intangible assets	-	2,446
15. Tax assets	1,372	128,981
15.1 Current	1,372	639
15.2 Deferred (Note 22)	-	128,342
16. Other assets (Note 14)	24	42,031
TOTAL ASSETS	663,755	16,459,487
MEMORANDUM ITEMS		
1. Contingent liabilities (Note 28.1)	-	137,602
2. Contingent commitments (Note 28.3)	-	2,297,670

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BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

Page 1 of 4

LIABILITIES AND EQUITY	2012	2011 (*)
LIABILITIES		
1. Financial liabilities held for trading (Note 6.1)	-	5,360,647
1.1 Deposits from central banks	-	-
1.2 Deposits from credit institutions	-	-
1.3 Customer deposits	-	-
1.4 Marketable debt securities	-	-
1.5 Trading derivatives	-	5,017,293
1.6 Short positions	-	343,354
1.7 Other financial liabilities	-	-
2. Other financial liabilities at fair value through profit or loss (Note 6.2)	-	2,324,724
2.1 Deposits from central banks	-	930,840
2.2 Deposits from credit institutions	-	352,750
2.3 Customer deposits	-	1,041,134
2.4 Marketable debt securities	-	-
2.5 Subordinated liabilities	-	-
2.6 Other financial liabilities	-	-

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I and II are an integral part of the balance sheet at 31 December 2012.

BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

Page 2 of 4

LIABILITIES AND EQUITY	2012	2011 (*)
LIABILITIES		
3. Financial liabilities at amortised cost (Note 15)	101	7,000,314
3.1 Deposits from central banks	-	344,845
3.2 Deposits from credit institutions	-	2,917,015
3.3 Customer deposits	-	3,447,709
3.4 Marketable debt securities	-	-
3.5 Subordinated liabilities	-	-
3.6 Other financial liabilities	101	290,745
4. Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
5. Hedging derivatives (Note 9)	-	25,759
6. Liabilities associated with non-current assets held for sale	-	-
7. Liabilities under insurance contracts	-	-
8. Provisions (Note 16)	-	206,302
8.1 Provisions for pensions and similar obligations	-	65,467
8.2 Provisions for taxes and other legal contingencies	-	-
8.3 Provisions for contingent liabilities and commitments	-	17
8.4 Other provisions	-	140,818
9. Tax liabilities (Note 20)	-	44,926
9.1 Current	-	8,443
9.2 Deferred	-	36,483

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I and II are an integral part of the balance sheet at 31 December 2012.

BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

LIABILITIES AND EQUITY	2012	2011 (*)
LIABILITIES		
10. Welfare fund (Note 27)	215	215
11. Other liabilities (Note 14)	126	763,135
12. Capital repayable an demand	-	-
TOTAL LIABILITIES	442	15,726,022
EQUITY		
1. Own funds	663,313	738,288
1.1 Endowment fund	-	-
1.1.1 Registered capital	-	-
1.1.2 *Less: Uncalled capital*	-	-
1.2 Share premium	-	-
1.3 Reserves (Note 19)	653,175	669,481
1.4 Other equity instruments	799	30,051
1.4.1 Equity component of compound financial instruments	-	-
1.4.2 Non-voting equity units and associated funds (Note 18)	799	30,051
1.4.3 Other equity instruments	-	-
1.5 *Less: Treasury shares*	-	-
1.6 Profit for the year	9,339	38,756
1.7 *Less: Dividends and remuneration*	-	-

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I and II are an integral part of the balance sheet at 31 December 2012.

BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

LIABILITIES AND EQUITY	2012	2011 (*)
EQUITY		
2. Valuation adjustments	-	(4,823)
2.1 Available-for-sale financial assets (Note 17)	-	(4,823)
2.2 Cash flow hedges	-	-
2.3 Hedges of net investments in foreign operations	-	-
2.4 Exchange differences	-	-
2.5 Non-current assets held for sale	-	-
2.6 entities accounted for using the equity method	-	-
2.7 Other valuation adjustments	-	-
TOTAL EQUITY	663,313	733,465
TOTAL LIABILITIES AND EQUITY	663,755	16,459,487

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I and II are an integral part of the balance sheet at 31 December 2012.

[Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.]

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

	INCOME / (EXPENSE)	
	2012	2011 (*)
1. Interest and similar income (Note 29)	3,008	323,055
2. Interest expense and similar charges (Note 30)	-	(208,463)
3. Remuneration of capital having the nature of a financial liability	-	-
A. NET INTEREST INCOME	3,008	114,592
4. Income from equity instruments (Note 31)	4,000	115,005
5. Fee and commission income (Note 32)	-	103,854
7. Fee and commission expense (Note 33)	-	(32,710)
8. Gains/losses on financial assets and liabilities (net) (Note 34)	-	(50,724)
8.1 Held for trading	-	(35,004)
8.2 Other financial instruments at fair value through profit or loss	-	(10,577)
8.3 Financial instruments not measured at fair value through profit or loss	-	(924)
8.4 Other	-	(4,219)
9. Exchange differences (net)	-	27,021
10. Other operating income (Note 35)	13,429	74,369
11. Other operating expenses (Note 38)	-	(3,142)

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I and II are an integral part of the income statement for 2012.

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

	INCOME / (EXPENSE)	
	2012	2011 (*)
B. GROSS INCOME	20,437	348,265
12. Administrative expenses	(12,024)	(164,660)
12.1 Staff costs (Note 36)	(578)	(81,734)
12.2 Other general administrative expenses (Note 37)	(11,446)	(82,926)
13. Depreciation and amortisation (Note 40)	-	(7,566)
14. Provisions (net) (Note 16)	-	(132,775)
15. Impairment losses on financial assets (net) (Notes 22 and 39)	-	4,798
15.1 Loans and receivables	-	9,735
15.2 Other financial instruments not measured at fair value through profit or loss	-	(4,937)
C. PROFIT FROM OPERATIONS	8,413	48,062
16. Impairment losses on other assets (net)	-	-
16.1 Goodwill and other intangible assets	-	-
16.2 Other assets	-	-
17. Gains (losses) on disposal of assets not classified as non-current assets held for sale	-	(7)
18. Negative goodwill on business combinations	-	-
19. Gains (losses) on non-current assets held for sale not classified as discontinued operations (Note 12)	-	945

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I and II are an integral part of the income statement for 2012.

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

	INCOME / (EXPENSE)	
	2012	2011 (*)
D. PROFIT BEFORE TAX	8,413	49,000
20. Income tax (Note 20)	926	(10,244)
21. Mandatory transfer to welfare projects and funds	-	-
E. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	9,339	38,756
22. Profit/Loss from discontinued operations (net)	-	-
E. PROFIT FOR THE YEAR	9,339	38,756

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 43 and Appendixes I and II are an integral part of the income statement for 2012.

[Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.]

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

Page 1 of 2

	INCOME / (EXPENSE)	
	2012	2011 (*)
A. PROFIT FOR THE YEAR	9,339	38,756
B. OTHER RECOGNISED INCOME AND EXPENSE	4,823	349
1. Available-for-sale financial assets	6,890	499
1.1 Revaluation gains (losses)	-	(1,389)
1.2 Amounts transferred to income statement (Note 34)	-	1,888
1.3 Other reclassifications	6,890	-
2. Cash flow hedges	-	-
2.1 Revaluation gains (losses)	-	-
2.2 Amounts transferred to income statement	-	-
2.3 Amounts transferred to the initial carrying amount of hedged items	-	-
2.4 Other reclassifications	-	-
3. Hedges of net investments in foreign operations	-	-
3.1 Revaluation gains (losses)	-	-
3.2 Amounts transferred to income statement	-	-
3.3 Other reclassifications	-	-

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I and II are an integral part of the statement of recognised income and expense for 2012.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

	INCOME / (EXPENSE)	
	2012	2011 (*)
4. Exchange differences	-	-
4.1 Revaluation gains (losses)	-	-
4.2 Amounts transferred to income statement	-	-
4.3 Other reclassifications	-	-
5. Non-current assets held for sale	-	-
5.1 Revaluation gains (losses)	-	-
5.2 Amounts transferred to income statement	-	-
5.3 Other reclassifications	-	-
6. Actuarial gains (losses) on pension plans	-	-
7. entities accounted for using the equity method	-	-
7.1 Revaluation gains (losses)	-	-
7.2 Amounts transferred to income statement	-	-
7.3 Other reclassifications	-	-
8. Other recognised income and expense	-	-
9. Income tax	(2,067)	(150)
C. TOTAL RECOGNISED INCOME AND EXPENSE (A+B)	14,162	39,105

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I and II are an integral part of the statement of recognised income and expense for 2012.

[Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.]

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

(THOUSANDS OF EUROS)

Page 1 of 2

	OWN FUNDS									
	ENDOWMENT FUND	SHARE PREMIUM	RESERVES (NOTE 19)	OTHER EQUITY INSTRUMENTS (NOTE 18)	LESS: TREASURY SHARES	PROFIT FOR THE YEAR (NOTE 3)	LESS: DIVIDENDS AND REMUNERATION	TOTAL OWN FUNDS	VALUATION ADJUSTMENTS (NOTE 17)	TOTAL EQUITY
1. Ending balance at 31/12/11	-	-	669,481	30,051	-	38,756	-	738,288	(4,823)	733,465
1.1. Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-
1.2. Adjustments made to correct errors	-	-	-	-	-	-	-	-	-	-
2. Adjusted beginning balance	-	-	669,481	30,051	-	38,756	-	738,288	(4,823)	733,465
3. Total recognised income and expense	-	-	-	-	-	9,339	-	9,339	4,823	14,162
4. Other changes in equity	-	-	(16,306)	(29,252)	-	(38,756)	-	(84,314)	-	(84,314)
4.1. Increases in endowment fund	-	-	-	-	-	-	-	-	-	-
4.2. Reductions of endowment fund	-	-	-	(29,252)	-	-	-	(29,252)	-	(29,252)
4.3. Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-
4.4. Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-
4.5. Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-
4.6. Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-
4.7. Remuneration of shareholders	-	-	-	-	-	(1,667)	-	(1,667)	-	(1,667)
4.8. Transactions involving own equity instruments	-	-	-	-	-	-	-	-	-	-
4.9. Transfers between equity items	-	-	33,374	-	-	(33,374)	-	-	-	-
4.10. Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-
4.11. Discretionary transfer to welfare projects and funds	-	-	-	-	-	(3,715)	-	(3,715)	-	(3,715)
4.12. Equity-instrument-based payments	-	-	-	-	-	-	-	-	-	-
4.13. Other increases (decreases) in equity	-	-	(49,680)	-	-	-	-	(49,680)	-	(49,680)
5. Ending balance at 31/12/12	**-**	**-**	**653,175**	**799**	**-**	**9,339**	**-**	**663,313**	**-**	**663,313**

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

Page 2 of 2

	OWN FUNDS									
	ENDOWMENT FUND	SHARE PREMIUM	RESERVES (NOTE 19)	OTHER EQUITY INSTRUMENTS (NOTE 18)	LESS: TREASURY SHARES	PROFIT FOR THE YEAR (NOTE 3)	LESS: DIVIDENDS AND REMUNERATION	TOTAL OWN FUNDS	VALUATION ADJUSTMENTS (NOTE 17)	TOTAL EQUITY (*)
1. Ending balance at 31/12/10	-	-	623,547	30,051	-	52,337	-	705,935	(5,172)	700,763
1.1. Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-
1.2. Adjustments made to correct errors	-	-	-	-	-	-	-	-	-	-
2. Adjusted beginning balance	-	-	623,547	30,051	-	52,337	-	705,935	(5,172)	700,763
3. Total recognised income and expense	-	-	-	-	-	38,756	-	38,756	349	39,105
4. Other changes in equity	-	-	45,934	-	-	(52,337)	-	(6,403)	-	(6,403)
4.1. Increases in endowment fund	-	-	-	-	-	-	-	-	-	-
4.2. Reductions of endowment fund	-	-	-	-	-	-	-	-	-	-
4.3. Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-
4.4. Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-
4.5. Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-
4.6. Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-
4.7. Remuneration of shareholders	-	-	-	-	-	(2,408)	-	(2,408)	-	(2,408)
4.8. Transactions involving own equity instruments	-	-	-	-	-	-	-	-	-	-
4.9. Transfers between equity items	-	-	45,934	-	-	(45,934)	-	-	-	-
4.10. Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-
4.11. Discretionary transfer to welfare projects and funds	-	-	-	-	-	(3,995)	-	(3,995)	-	(3,995)
4.12. Equity-instrument-based payments	-	-	-	-	-	-	-	-	-	-
4.13. Other increases (decreases) in equity	-	-	-	-	-	-	-	-	-	-
5. Ending balance at 31/12/11	**-**	**-**	**669,481**	**30,051**	**-**	**38,756**	**-**	**738,288**	**(4,823)**	**733,465**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 43 and Appendixes I and II are an integral part of the statement of changes in total equity for 2012.

[Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.]

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

	2012	2011 (*)
A. CASH FLOWS FROM OPERATING ACTIVITIES (Note 2.18)	4,426	368,706
1. Profit for the year	9,339	38,756
2. Adjustments made to obtain the cash flows from operating activities	(926)	51,496
2.1 Depreciation and amortisation	-	7,566
2.3 Other adjustments	(926)	43,930
3. Net (increase)/decrease in operating assets	(80)	4,358,545
3.1 Financial assets held for trading	-	(149,798)
3.2 Other financial assets at fair value through profit or loss	-	3,712,697
3.3 Available-for-sale financial assets	-	199,317
3.4 Loans and receivables	-	636,604
3.5 Other operating assets	(80)	(40,275)
4. Net (increase)/decrease in operating liabilities	(3,517)	(4,032,124)
4.1 Financial liabilities held for trading	-	1,101,664
4.2 Other financial liabilities at fair value through profit or loss	-	(6,398,150)
4.3 Financial liabilities at amortised cost	101	472,859
4.4 Other operating liabilities	(3,618)	791,503
5. Collections/(Payments) of income tax	(390)	(47,967)

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I and II are an integral part of the cash flow statement for 2012.

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

	2012	2011 (*)
B. CASH FLOWS FROM INVESTING ACTIVITIES (Note 2.18)	-	(911)
6. Payments	-	(1,961)
6.1 Tangible assets	-	(1,525)
6.2 Intangible assets	-	(436)
6.3 Investments	-	-
6.4 Other business units	-	-
6.5 Non-current assets held for sale and associated liabilities	-	-
6.6 Held-to-maturity investments	-	-
6.7 Other payments related to investing activities	-	-
7. Collections	-	1,050
7.1 Tangible assets	-	-
7.2 Intangible assets	-	-
7.3 Investments	-	-
7.4 Other business units	-	-
7.5 Non-current assets held for sale and associated liabilities	-	1,050
7.6 Held-to-maturity investments	-	-
7.7 Other payments related to investing activities	-	-

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I and II are an integral part of the cash flow statement for 2012.

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011
(THOUSANDS OF EUROS)

	2012	2011 (*)
C. CASH FLOWS FROM FINANCING ACTIVITIES	(80,599)	(2,408)
8. Payments	(80,599)	(2,408)
8.1 Dividends	(1,667)	(2,408)
8.2 Subordinated liabilities	-	-
8.3 Redemption of own equity instruments	(29,252)	-
8.4 Acquisition of own equity instruments	-	-
8.5 Other payments related to financing activities	(49,680)	-
9. Collections	-	-
9.1 Subordinated liabilities	-	-
9.2 Issuance of own equity instruments	-	-
9.3 Disposal of equity instruments	-	-
9.4 Other collections related to financing activities	-	-
D. EFFECT OF CHANGES IN EXCHANGE RATES	-	-
E. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	(76,173)	365,387
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	89,715	127,007

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I and II are an integral part of the cash flow statement for 2012.

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

	2012	2011 (*)
G. CASH AND CASH EQUIVALENTS AT END OF YEAR	13,542	492,394
MEMORANDUM ITEMS COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
1.1. Cash	-	56,438
1.2. Cash equivalents at central banks	-	435,956
1.3. Other financial assets	13,542	-
1.4. Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year (Note 5)	13,542	492,394

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I and II are an integral part of the cash flow statement for 2012.

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

1.1. Introduction

Confederación Española de Cajas de Ahorros ("the Confederación") is an entity subject to the rules and regulations applicable to credit institutions operating in Spain. The Confederación operates mainly in Spain. Its registered office is at calle Alcalá, 27, Madrid. Public information on the Confederación can be consulted both on the Confederación's official website (www.ceca.es) and at its registered office.

The Confederación is the National Association of all member, or potential member, popular savings banks, whether or not they are grouped together in Federations, and provides them with financial services. Membership of the Confederación, with the same rights and obligations, is also open to entities which, in accordance with current legislation, carry on the financial activity of one or several savings banks and, in particular, to those for which certain circumstances prevail, including:

a. The central entities of Institutional Protection Schemes that include savings banks, as provided for by Article 8.3 d) of Law 13/1985, of 25 May, on the investment ratios, capital and reporting requirements of financial intermediaries.

b. The instrumental financial institutions through which one or several savings banks carry on their business activity indirectly, as provided for by Article 5 of Royal Decree-Law 11/2010, of 9 July, on governing bodies and other aspects of the legal regime of savings banks.

It is a community welfare institution governed by current legislation and regulations in this connection and, particularly, by its bylaws.

As described below, the Confederación carries on the activities relating to its object through a newly-created bank to which it transferred all its financial business and almost all the non-financial assets and liabilities attached thereto, in the terms provided for in Article 5 of Royal Decree-Law 11/2010, of 9 July, on governing bodies and other aspects of the legal regime of savings banks.

The most significant dates in the spin-off process involving the Confederación in 2012 and in the creation of the new bank named Cecabank, S.A. are as follows:

- On 21 March 2012, the Board of Directors of the Confederación resolved to change the entity's regime in order to carry on its financial activity indirectly, in accordance with the aforementioned current legislation. In this regard, the Board of Directors approved the Spin-Off Plan whereby all the Confederación's assets and liabilities except certain items relating to charitable and social work were spun off to a newly-created bank named Cecabank, S.A., which was subrogated to all the rights and obligations intrinsic to the spun-off assets and liabilities.
- On 25 July 2012, the Spin-Off Plan was approved at the Extraordinary General Assembly, together with the spin-off balance sheet and the agreement to spin off the Confederación's business to Cecabank, S.A.
- Lastly, on 12 November 2012, the Confederación spin-off deed was registered at the Mercantile Registry, following authorization by the Ministry of Economy and Finance. The spin-off involved the creation of the new credit institution named "Cecabank, S.A.", to which the Confederación's assets and liabilities were spun off and through which the Confederación carries on its activity as a credit institution indirectly.

The table below includes a comparison of the Confederación's balance sheet at 31 December 2011, which was considered the spin-off balance sheet and forms part of the Confederación's separate financial statements for the year then ended, and the balance sheet at 1 January 2012 after including the effects arising from the spin-off process which resulted in the transfer of the financial assets and liabilities relating to its financial activity to Cecabank, S.A., with the exceptions mentioned above:

(THOUSANDS OF EUROS)

ASSETS	31/12/2011	Spin-off Perimeter	01/01/2012 (1)
Cash and balances with central banks	492,394	402,679	89,715
Financial assets held for trading	5,781,782	5,781,782	-
Other financial assets designated at fair value through profit or loss	999,877	999,877	-
Available-for-sale financial assets	3,608,306	3,608,306	-
Loans and receivables	5,304,647	5,304,647	-
Hedging derivatives	10	10	-
Non-current assets held for sale	84	84	-
Investments	515	515	648,817
Tangible assets	98,414	98,414	-
Intangible assets	2,446	2,446	-
Tax assets	128,981	128,981	-
Other assets	42,031	42,031	-
TOTAL ASSETS	16,459,487	16,369,772	738,532

(1) Non-audited figures with the effect of the Spin-off Project.

(THOUSANDS OF EUROS)

TOTAL LIABILITIES AND EQUITY	31/12/2011	Spin-off Perimeter	01/01/2012 (1)
Financial liabilities held for trading	5,360,647	5,360,647	-
Other financial liabilities at fair value through Profit or loss	2,324,724	2,324,724	-
Financial liabilities at amortized cost	7,000,314	7,000,314	-
Hedging derivatives	25,759	25,759	-
Provisions	206,302	206,302	-
Tax liabilities	44,926	44,926	-
Welfare funds	215	-	215
Other liabilities	763,135	763,135	29
TOTAL LIABILITIES	15,726,022	15,726,022	244
TOTAL EQUITY	733,465	643,994	738,288
TOTAL LIABILITIES AND EQUITY	16,459,487	16,369,772	738,532

(1) Non-audited figures with the effect of the Spin-off Project.

As part of the process to create the new entity named Cecabank, S.A., the Confederación carried out, through the spin-off of its assets and liabilities, a non-monetary contribution to this entity's share capital, of which it was the sole shareholder at that time, with a balancing entry of the same amount recognized as an increase in the balance of "Investments - Subsidiaries" on the asset side of the balance sheet at that date.

On 13 November 2012, following the resolution of its directors at the Board meeting held on 21 March 2012 and following authorization by the Bank of Spain, the Confederación repurchased the non-voting equity units ("cuotas participativas de asociación") it had issued in 1988 and which were recognized in equity in its balance sheet at 31 December 2011, through an offer to the holders of these securities under the following terms and conditions:

- Acceptance of the Repurchase Offer by the holders of the non-voting equity units was conditional on the simultaneous, irrevocable undertaking to subscribe ordinary shares of Cecabank for a cash amount equal to that of the repurchased non-voting equity units.
- The price of the repurchase was EUR 16,217.83 per non-voting equity unit and, as a result, the Repurchase Offer amounted to EUR 81,089 thousand in total.
- Substantially all the holders of the non-voting equity units accepted the offer. As a result, the amount recognized under "Equity - Own Funds - Other Equity Instruments - Non-Voting Equity Units and Associated Funds" in the Confederación's balance sheet at 31 December 2012 was EUR 799 thousand (see Note 18)

Subsequently, Cecabank, S.A. performed a capital increase amounting to EUR 78,932,117.60 through the issue of 12,256,540 new shares, with the same voting and dividend rights as the existing shares, of EUR 1 par value each and a share premium of EUR 5.44 per share. These shares were fully subscribed and paid by the former holders of the non-voting equity units, following acceptance of the aforementioned Repurchase Offer and the Confederación's waiver of its pre-emptive subscription right. Accordingly, at 31 December 2012, the Confederación held an 89% ownership interest in the share capital of Cecabank, S.A.

In addition to the operations carried on directly and indirectly through Cecabank, S.A., the Confederación is the head of a group of subsidiaries through Cecabank, S.A. that engage in various business activities and which compose, together with it, the Confederación Española de Cajas de Ahorros Group ("the Group"). Therefore, the Confederación is obliged to prepare, in addition to its own individual financial statements, the Confederación's financial statements, which also include the interests in joint ventures (jointly controlled entities) and the investments in associates, if any.

The Confederación financial statements for 2011 were approved at the Confederación's Annual General Assembly on 22 February 2012. The 2012 Confederación financial statements have not yet been approved by the General Assembly. However, the Confederación's Board of Directors considers that they will be approved without any material changes.

1.2. Basis of presentation of the financial statements

The Confederación financial statements for 2012 were authorized for issue by the Confederación's directors at the Board of Directors meeting held on 23 January 2013.

The Confederación financial statements are presented in accordance with International Financial Reporting Standards as adopted by the European Union at 31 December 2012 ("IFRSs"), taking into account Bank of Spain Circular 4/2004, of 22 December, on public and confidential financial reporting rules and financial statement formats for credit institutions and as amended thereafter. This Bank of Spain Circular 4/2004 implements and adapts for the Spanish credit institution industry the International Financial Reporting Standards approved by the European Union.

The Confederación financial statements for 2012 were prepared taking into account all the mandatory accounting policies and rules and measurement bases with a material effect on the financial statements and, accordingly, they present fairly the Confederación equity and financial position at 31 December 2012, and the Confederación results of its operations, the Confederación statement of recognized income and expense and the cash flows in the year then ended, in accordance with the financial information's regulatory framework to be applied in this case, particularly with the accounting policies and measurement bases contained in the document mentioned in the previous paragraph.

As explained above, the Confederación is the parent of a group of companies of various kinds, the detail of which at 31 December 2012 is included in Appendices I and II. Pursuant to Spanish corporate and commercial law, the Confederación's directors prepared, at the same time as the Confederación's separate financial statements for 2012, the consolidated financial statements of the Confederación Española de Cajas de Ahorros Group for that year. Per the content of the aforementioned consolidated financial statements, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union, the total assets and consolidated equity of the Confederación Española de Cajas de Ahorros Group at 2012 year-end amounted to EUR 15,021,526 thousand and EUR 771,857 thousand, respectively, and the consolidated net profit for 2012 attributable to the Group was EUR 40,953 thousand.

The principal accounting policies and measurement bases applied in preparing the Confederación financial statements for 2012 are summarized in Note 2.

1.3. Information relating to 2011

As indicated above, with effect from 1 January 2012 for accounting purposes, there was a significant change in the nature, size and activity of the Confederación as a result of the asset and liability spin-off process to Cecabank, S.A. (see Note 1.1).

The Confederación's separate financial statements for 2011 were prepared prior to the spin-off process. Its activity as a credit institution began as a result of its ownership interest in Cecabank, S.A., which gave rise to the situation and size of activity reflected in these 2012 financial statements of the Confederación.

As a result, the figures for 2011 that are presented for comparison purposes in the financial statements and the notes to these financial statements for 2012 may not be considered comparable with the figures relating to the Confederación for 2012.

Therefore, although the Confederación's directors opted to present this information with regard to the Confederación in relation to 2011 (that does not constitute its 2011 financial statements) as comparative information from 2011, they note that these 2011 figures may not be considered comparable with the figures for 2012 presented in these financial statements.

1.4. Responsibility for the information and use of estimates

The information in these financial statements is the responsibility of the Confederación's Directors.

In the preparation of the Confederación's financial statements for 2012 estimates were made by the Confederación's Directors in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The impairment losses on certain assets (see Notes 2.3, 2.13, 2.14 and 2.16).
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and obligations and other long-term obligations to employees (see Note 2.11).
- The calculation of any provisions required for contingent liabilities (see Notes 2.10 and 2.15).
- The useful life of the tangible and intangible assets (see Notes 2.13 and 2.14); and
- The fair value of certain unquoted assets (see Note 2.2.3).

Although these estimates were made on the basis of the best information available at 31 December 2012 and at the date on which these financial statements were authorized for issue on the events analyzed, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Any required changes in accounting estimates would be applied prospectively in accordance with the applicable standards, recognizing the effects of the change in estimates in the income statements for the years in question.

1.5. Agency agreements

Neither at 2012 nor 2011 year-end nor at any other time during those years did the Confederación have any agency agreements in force, as defined in Article 22 of Royal Decree- Law 1245/1995, of 14 July.

1.6. Investments in the share capital of credit institutions

Note 11 details the investments held by the Confederación at 31 December 2012 in the share capital of other Spanish and foreign credit institutions, representing 5% or more of their share capital or voting power

At December 2011, the Confederación did not hold any ownership interests of 5% or more in the share capital or voting power of any Spanish or foreign credit institutions.

1.7. Environmental impact

In view of the business activities carried on by the Confederación, it does not have a significant impact on the environment. Therefore, the Confederación financial statements for 2012 do not contain any disclosures on environmental issues.

1.8. Capital management objectives, policies and processes

Bank of Spain Circular 3/2008 ("Circular 3/2008" or "Solvency Circular"), of 22th of May, on the calculation and control of minimum capital requirements, and as amended thereafter, regulates the minimum capital requirements for Spanish credit institutions -both as individual entities and as consolidated groups- and how to calculate them, as well as the various internal capital adequacy assessment processes the entities should have in place and the information they should disclose to the market in this connection. Bank of Spain Circular 3/2008 adapts Spanish legislation on capital requirements to the Community Directives, which in turn stem from the Basel Capital Accord (Basel II), structured around three core pillars: minimum capital requirements (Pillar I), the internal capital adequacy assessment process (Pillar II) and market disclosures (Pillar III).

Bank of Spain Circular 7/2012, of 30 November, to credit institutions on minimum principal capital requirements was published on 11 December 2012. It introduced the amendments established by Law 9/2012, of 14 November, on restructuring and resolution of credit institutions, to Royal Decree-Law 24/2012, of 31 August, on restructuring and resolution of credit institutions, which established amendments to the principal capital requirements that must be met by consolidated groups of credit institutions and by credit institutions not forming part of a consolidated group of credit institutions, which can raise refundable funds from the public (these requirements had been established by Royal Decree-Law 2/2011, of 18 February, for the strengthening of the financial sector). In this regard, Law 9/2012, of 14 November, converted the principal capital requirements -the general requirement of 8% and the 10% requirement for entities with difficult access to the capital markets and for which wholesale financing is a significant source of funding- into a single requirement of 9% that must be met by the aforementioned entities and groups as from 1 January 2013.

The strategic capital management objectives set by the Confederación management are as follows:

- To comply, at all times, both at individual and at consolidated level, with the applicable regulations on minimum capital requirements.
- To seek maximum capital management efficiency so that, together with other profitability and risk variables, the use of capital is considered as a key variable in any analysis related to the Confederación's investment decisions.

In order to meet these objectives, the Confederación has in place a series of capital management policies and processes, the main cornerstones of which are as follows:

- In the Confederación's strategic and operational planning, the impact of decisions on the Confederación's eligible capital and the use-profitability-risk relationship is considered to be a key decision-making factor.
- As part of its organizational structure the Confederación has monitoring and control units which at all times analyze the level of compliance with the Bank of Spain regulations on capital, with alerts in place to guarantee compliance with the applicable regulations. Therefore, in the spin-off process of the assets and liabilities and the indirectly carry on of its activity, performed in 2012 by Cecabank (see Note 1.1), all the proceeding of risk evaluation, measurement and control that develop the general risk management policies defined by the Confederación Board, have been defined by Cecabank and must be applied by all the Group.
- Circular 3/2008, establishes the elements that are eligible for inclusion in capital for the purpose of compliance with the minimum capital requirements set forth therein. Under this Circular, capital must be classified into Tier 1 and Tier 2 capital. The capital calculated for the purposes of the Circular differs from the capital calculated in accordance with accounting standards, since the Circular considers certain items as capital and establishes certain mandatory deductions from capital in respect of items which are not considered to be part of capital under accounting standards. In accordance with the aforementioned Circular 3/2008, the Confederación's capital is managed and calculated at the level of its consolidable group of credit institutions, as defined in the Circular. The consolidable group of credit institutions, of which the Confederación is the head, differs from the economic group of which it is the parent (see Note 1.2), basically with respect to the consolidation or measurement methods applied to the Group entities which are not considered consolidable entities due to their activity (non-financial entities).

The Confederación's management of its capital, as regards conceptual definitions, is in keeping with Circular 3/2008. In this connection, the Confederación considers eligible capital to be that specified in Rule Eight of Circular 3/2008, with the deductions and limits stated in Rules Nine to Eleven of the Circular.

The minimum capital requirements established by the aforementioned Circular are calculated by reference to the Confederación's exposure to credit and dilution risk (on the basis of assets, obligations and other memorandum items that present these risks, depending on their amounts, characteristics, counterparties, guarantees, etc.), to counterparty risk and position and settlement risk in the trading book, to foreign exchange and gold position risk (on the basis of the overall net foreign currency position and of the net gold position) and to operational risk. Additionally, the Confederación is subject to compliance with the risk concentration limits and the requirements concerning internal corporate governance, capital adequacy assessment, interest rate risk measurement and disclosure of information to the market, also established in Circular 3/2008. With a view to guaranteeing compliance with the aforementioned objectives, the Confederación performs an integrated management of these risks, in accordance with the policies and processes indicated above.

Following is a detail, classified into Tier 1 and Tier 2 capital, of the Confederación Española de Cajas de Ahorros capital at 31 December 2012 and 2011 calculated in accordance with Circular 3/2008:

	THOUSANDS OF EUROS	
	2012	2011
Tier 1 capital	703,961	694,007
Tier 2 capital	8,653	61,031
Total eligible capital	712,614	755,038
Minimum Tier capital	304,696	372,959

Tier 1 capital in the above table basically includes the sum of the Group's reserves from retained earnings, participation certificates, non-controlling interests and the portion of consolidated profit for 2012 which the Group companies proposed be allocated to unrestricted reserves, less the balance of the intangible assets owned by the Group.

Tier 2 capital in the above table basically comprises the revaluation reserves relating to tangible assets set up in prior years pursuant to applicable legislation and the percentages established in Circular 3/2008 applied to the carrying amounts of the unrealized gains on available-for-sale financial assets recognized under “Valuation Adjustments” in Group equity and the part of the allowance that is computed as such according to the current legislation.

At 31 December 2012 and 2011 and throughout these years, the Group’s eligible capital exceeded the minimum capital requirements under the applicable legislation.

1.9. Minimum reserve ratio

At 31 December 2012, as a result of the spin-off process performed in 2012 (see Note 1.1), the Confederación did not hold any balances in eligible liabilities for these purposes and, as a consequence, it did not hold any balances at the Bank of Spain at that date. For its part, at 31 December 2011, the Confederación met the minimum reserve ratio required by the applicable Spanish legislation.

At 31 December 2011 the Confederación’s cash balance with Bank of Spain for these purposes amounted to EUR 35,950 thousand. This ratio is calculated on the basis of the daily ending balance held by the Confederación in this account during the required period.

1.10. Deposit guarantee fund

In 2011 the following regulations amending the Deposit Guarantee Fund contribution system were issued:

- Royal Decree-Law 16/2011, of 14 October, creating the Deposit Guarantee Fund for Credit Institutions, which unifies the three previously existing deposit guarantee schemes (the Deposit Guarantee Fund for Savings Banks, the Deposit Guarantee Fund for Banks and the Deposit Guarantee Fund for Credit Cooperatives) into a single scheme. Whilst retaining the function of guaranteeing deposits at credit institutions, which was already performed by the three previous funds, the unified scheme seeks to strengthen the second function of the system: namely to bolster the solvency and functioning of credit institutions, also known as the “resolution” function, with a view to ensuring the flexibility of the actions of the new unified Fund.
- Royal Decree-Law 19/2011, of 2 December, amending Royal Decree-Law 16/2011, of 14 October, which created the Deposit Guarantee Fund for Credit Institutions. This Royal Decree-Law completes and reinforces the reform of the system undertaken through Royal Decree-Law 16/2011. It revises the legally stipulated maximum annual contribution that entities must make to the Fund, raising it from 2 per mil to 3 per mil to guarantee the maximum operating capability of the Fund. It also expressly repeals the ministerial orders which, pursuant to the legislation previously in force, had granted powers to temporarily reduce the entities’ contributions, including Ministry of Economy and Finance Order EHA/3515/2009, of 29 December, which had set the Confederación’s contributions at 1 per mil of the base of the deposits covered by the guarantee. The result of these changes is the establishment, in a rule that has the status of a law, of a ceiling on the contributions of 3 per mil of guaranteed deposits and the establishment of an actual contribution of 2 per mil instead of the aforementioned figures.

> Additionally, Royal Decree 771/2011 was introduced on 4 June 2011 and amended, among others, Royal Decree 2606/1996 governing deposit guarantee funds at credit institutions. The new regulation created a new system of additional contributions to the funds based on remuneration from the deposits themselves.

2012 saw the publication of Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector, whereby (by virtue of the provisions contained in Royal Decree-Law 19/2011, of 2 December, which amended Royal Decree-Law 16/2011, of 14 October, creating the Deposit Guarantee Fund for Credit Institutions, on the performance of the measures required to restore the balance of the aforementioned Fund to a sufficient level) on 30 July 2012 the Managing Committee of the Deposit Guarantee Fund for Credit Institutions resolved that a supplementary payment was to be made by the entities participating in the Fund, which would be estimated on the basis of their contributions at 31 December 2011 and payable in equal annual installments over the following ten years.

Also, Law 9/2012, of 14 November 2012, on restructuring and resolution of credit institutions was published in 2012. This law requires the Deposit Guarantee Fund, subject to a prior ruling from the Bank of Spain, to reimburse the amounts of guaranteed deposits in the event of failure to repay the deposits when past due and payable, unless the initiation of a process for the resolution of the entity has been agreed upon. In this regard, the Fund may adopt measures to support the resolution of a credit institution, such as granting guarantees, loans or credits, acquiring assets or assuming liabilities, and may manage the institution itself or engage a third party to do so.

As indicated in Note 1.1, the Confederación contributed all its financial business to another entity and, as a result, it did not contribute any amounts to the Deposit Guarantee Fund in 2012. The contributions made to this scheme amounted to approximately EUR 105 thousand in 2011, and the related expense was recognized under "Other Operating Expenses" in the accompanying 2011 income statement (see Note 38).

1.11. Changes in accounting policies

In 2012 there were no significant in the accounting policies applied by the Confederación financial statements in 2011.

1.12. Main regulatory changes during the period from 1 January to 31 December 2012

Bank of Spain Circular 2/2012 of 29 February, which modifies Bank of Spain Circular 4/2004, of 22 December, to credit institutions about public and confidential financial information standards and Financial Statements samples.

On 6 March 2012, the Bank of Spain published Circular 2/2012, of 29 February, amending Bank of Spain Circular 4/2004, of 22 December, to credit institutions, on public and confidential financial reporting rules and formats, the main aim of which was to adapt Circular 4/2004 to the provisions of Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector.

Specifically the main changes of this circular are:

> Adaptations were made to the rules governing coverage (allowances) for financing and assets foreclosed or received in payment of debts relating to land for property development and to property construction or development, corresponding to credit institutions' transactions in Spain, both those existing at 31 December 2011 and those arising from the refinancing thereof at a later date, in line with the provisions of the aforementioned Royal Decree-Law on the clean-up of the financial sector.

> Amendments were made to the general rules governing the accounting recognition of assets foreclosed or received in payment of debts, determining the value at which these property assets must be recognized both initially and subsequently, which is the lower of:

a) the carrying amount of the financial assets applied (debt), taking into consideration the estimated impairment and, in all cases, a minimum of 10%; and

b) the market appraisal value of the asset received in its current condition less estimated costs to sell, which in no case may be less than 10% of this value.

For the purposes of subsequent measurement, the coverage percentage of a) above increases to 20%, 30% and 40% depending on the time that has elapsed since the asset was included in the balance sheet (more than one, two and three years, respectively).

The measures established in Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector, and developed in this Circular must be complied with generally before 31 December 2012, except in the case of entities involved in an integration process, which will have a further 12 months in which to register their compliance. In this regard, in view of the activity carried on by the Confederación, this does not have any impact on its financial statements.

Bank of Spain Circular 6/2012, of 28 September, amending Bank of Spain Circular 4/2004, of 22 December, to credit institutions on public and confidential financial reporting rules and formats

On 2 October 2012, the Bank of Spain published Circular 6/2012, of 28 September, amending Bank of Spain Circular 4/2004, of 22 December, to credit institutions on public and confidential financial reporting rules and formats, the main aim of which was to adapt Circular 4/2004 to the provisions of Royal Decree-Law 18/2012, of 11 May, on the clean-up and sale of property assets of the financial sector.

Specifically the main changes of this circular are:

- It establishes certain additional provisioning requirements on assets connected with the property sector, supplementary to those already provided for in Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector, whereby, for loans connected with the property sector classified as “standard risk”, provisions must be recognized on the outstanding balance at 31 December 2011, as stipulated in the aforementioned Royal Decree-Law. Furthermore, the requirements for transparency in credit institutions’ financial statements were completed, and disclosures must now include a description of any companies that the credit institutions may have incorporated to manage these assets or any investments made by the credit institutions in companies whose activity is the management of assets of this kind, with data on the cumulative amount of the assets transferred to these companies and the financial assets received in return, indicating the impact on the income statement and the data relating to the financing lines granted to these companies.

- It also establishes the disclosure and presentation of quantitative information in financial statements in relation to refinancing, refinanced and restructured transactions, and requires a brief summary of the policy for refinancing and restructuring transactions, including an explanation of the criteria used for assessing the sustainability of the measures applied. It also requires disclosures in the financial statements on the detail of loans and advances to customers by activity, indicating the type of guarantee and the purpose associated with these transactions, and information relating to risk concentration by geographical area of operations and business segment.
- It also adapts the special accounting register for mortgage loans to the amendments introduced by the aforementioned Royal Decree-Law.

In view of the activity carried on by the Confederación, it did not record at 31 December 2012 or at 31 December 2011, or during the years then ended, any construction or property development financing transactions or any assets acquired in payment of debts. The only home purchase financing transactions were those granted to its employees (see Note 22.11).

Bank of Spain Circular 7/2012, of 30 November, to credit institutions on minimum principal capital requirements.

Bank of Spain Circular 7/2012, of 30 November, to credit institutions on minimum principal capital requirements was published on 11 December 2012. Its main objective was to introduce the amendments established by Law 9/2012, of 14 November, on restructuring and resolution of credit institutions, to Royal Decree-Law 24/2012, of 31 August, on restructuring and resolution of credit institutions, which established amendments to the principal capital requirements that must be met by consolidated groups of credit institutions and by credit institutions not forming part of a consolidated group of credit institutions, which can raise refundable funds from the public (these requirements had been established by Royal Decree-Law 2/2011, of 18 February, for the strengthening of the financial sector). In this regard, Law 9/2012, of 14 November, converted the principal capital requirements -the general requirement of 8% and the 10% requirement for entities with difficult access to the capital markets and for which wholesale financing is a significant source of funding- into a single requirement of 9% that must be met by the aforementioned entities and groups as from 1 January 2013.

This Circular also amends the definition of principal capital in order to adapt it to the definition used by the European Banking Authority, with regard to the eligible components and the applicable deductions, in accordance with its Recommendation EBA/REC/2011/1. To this end, this Circular details the eligible instruments to be included in the definition of principal capital, and defines the way in which they must be calculated, the requirements for their issuance and, in particular, the requirements for mandatorily convertible debt instruments.

It also determines how risk-weighted exposures can be adjusted to ensure that the capital requirement for each risk exposure does not exceed the value of the exposure itself and that there is consistency between the value of the exposures and the components of principal capital.

Note 1.8 above contains information on the Group's principal capital requirements.

2. Accounting policies and measurement bases

The accounting policies and measurement bases applied in preparing the Confederación's financial statements for 2012 were as follows:

2.1. Investments

2.1.1. Subsidiaries

"Subsidiaries" are defined as entities over which the Confederación has the capacity to exercise control; control is, in general but not exclusively, presumed to exist when the Confederación owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when there are other circumstances or agreements that give the Confederación control.

The investments in Group companies were recognized in these financial statements under “Investments - Subsidiaries” in the balance sheet and were measured at acquisition cost, net of any impairment losses on these investments, which are estimated and recognized, if any, as described in Note 2.3.4.

Dividends accrued in the year on these investments are recognized under “Income from Equity Instruments” in the income statement.

In application of the criteria indicated above, the Confederación considers Cecabank, S.A., in which it holds an ownership interest of 89% of its share capital at 31 December 2012, as a subsidiary of the Group of which it is the head.

Caja Activa, S.A. and CEA Trade Services Limited, in which it held ownership interests of 99.99% and 100%, respectively at 31 December 2011, were spun off to Cecabank, S.A. as part of the spin-off process performed in 2012 (see Note 1.1).

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

2.1.2. Jointly controlled entities

“Jointly controlled entities” are deemed to be ventures that are not subsidiaries but which are jointly controlled by the Confederación and by one or more other entities, either individually or in conjunction with the other entities of the group to which they belong.

Interests in jointly controlled entities are presented in these financial statements recorded under the heading “Investments - Jointly controlled entities” of the balance sheet and valued at cost of acquisition, net of any impairment that they may have suffered, which are estimated and recorded in appropriate, as explained in Note 2.3.4.

Dividends accrued in the year on these investments are recognized under “Income from Equity Instruments” in the income statement.

At 31 December 2012 and 2011, in accordance with the aforementioned rules, only Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A., in which the Confederación owned a 50% holding in 2012 and 2011, was considered to be a jointly controlled entity. Appendix II to these notes to the financial statements contains significant information on this entity, as part of the spin-off process performed in 2012 this ownership interest were spun off to Cecabank, S.A. (see Note 1.1).

2.1.3. Associates

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

Investments in associates, if there are any, are recognized under "Non-Current Assets Held for Sale - Equity Instruments" in the balance sheet and are measured by it acquisition price minus the impairments they may have suffered or that are estimated and registered, in accordance with Note 2.3.4.

At 31 December 2012 and 2011, in accordance with the aforementioned criteria, the Confederación did not hold any ownership interests in companies considered to be associates.

At 31 December 2012 and 2011, the Confederación owned 20% of the share capital of Tevea International, S.A. (formerly, Euro - Tevea S.A.). This investee was neither at 2011 nor 2012 year-end classified as an associate, as although the Confederación owns more than 20% of its voting rights, it does not exercise significant influence over it. As a result, this investment is recognized in the financial statements under "Available-for-Sale Financial Assets - Other Equity Instruments" in the balance sheet at those dates and is measured at cost, in accordance with the criteria explained in Note 2.2.4.

At 31 December 2012, the Confederación owns 22.49% of the share capital of Eufiserv Payments, S.C.R.L. (31 December 2011: 22.49%). At 31 December 2012 and 2011 this investment was not considered an associate since, in spite of owning 22.49% of the voting power; the Confederación does not exercise significant influence over this company. Therefore, this investment is recognized in these financial statements under "Available-for-Sale Financial Assets - Equity Instruments" in the balance sheet at that date and is measured at cost in accordance with the criteria explained in Note 2.2.4.

As part of the spin-off process performed in 2012, these investments were spun off to Cecabank, S.A. (see Note 1.1).

2.2. Financial instruments - Initial recognition, derecognition, definitions of fair value and amortized cost and classification categories and measurement of financial assets and liabilities

2.2.1. Initial recognition of financial instruments

Financial instruments are initially recognized in the balance sheet when the Confederación becomes a party to the contract originating them in accordance with the terms and conditions thereof. Specifically, debt instruments, such as loans and cash deposits, are recognized from the date on which the legal right to receive or the legal obligation to pay cash arises. Derivative financial instruments are generally recognized from the trade date.

A regular way purchase or sale of financial assets, defined as one in which the parties' reciprocal obligations must be discharged within a time frame established by regulation or convention in the marketplace and that may not be settled net, such as stock market and forward currency purchase and sale contracts, is recognized on the date from which the rewards, risks, rights and duties attaching to all owners are for the purchaser, which, depending on the type of financial asset purchased or sold, may be the trade date or the settlement or delivery date. In particular, transactions performed in the spot currency market are recognized on the settlement date; equity instruments traded in Spanish secondary securities markets are recognized on the trade date and debt instruments traded in these markets are recognized on the settlement date.

2.2.2. Derecognition of financial instruments

A financial asset is derecognized when:

> The contractual rights to the cash flows from the financial asset expire; or

> The financial asset is transferred and substantially all its risks and rewards are transferred or, although these are not substantially transferred or retained, control over the financial asset is transferred (see Note 2.4).

Also, a financial liability is derecognized when the obligations it generates have been extinguished or when it is purchased by the Confederación, with the intention either to re-sell it or to cancel it.

2.2.3. Fair value and amortized cost of financial 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 parties in an arm's length transaction. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an organized, transparent and deep market ("quoted price" or "market price").

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

Specifically, the fair value of financial derivatives included in the portfolios of financial assets or liabilities held for trading which are traded in organized, transparent and deep markets is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price at a given date cannot be determined, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives or derivatives traded in scantly deep or transparent organized markets 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 recognized by the financial markets: "net present value" (NPV), option pricing models, etc.

Amortized cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal and interest repayments and the cumulative amortization (taken to the income statement), calculated using the effective interest method, of the difference between the initial cost and the maturity amount of such financial instruments. In the case of financial assets, amortized cost furthermore includes any reductions for impairment or uncollectibility.

At 31 December 2011, the Group had entered into various reverse repurchase agreements (see Note 6.2.1) and upon maturity of these agreements the Group had to return title to the securities used as collateral to the borrower. At 31 December 2011, the fair value of the securities received as collateral in these reverse repurchase agreements did not differ significantly from their carrying amount.

The effective interest rate is the discount rate that exactly matches the initial amount of a financial instrument to the present value of all its estimated cash flows of all kinds during its remaining life, disregarding future losses from credit risk. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition or arrangement date adjusted, where applicable, for the fees, premiums, discounts and transaction costs that, pursuant to the applicable standards, must be included in the calculation of the effective interest rate. In the case of floating rate financial instruments, the effective interest rate is determined using a method similar to that for fixed rate transactions and is recalculated on each contractual interest reset date, taking into account any changes in the future cash flows.

2.2.4. Classification and measurement of financial assets and liabilities

Financial instruments are classified in the Confederación 's balance sheet as follows:

> Financial assets and liabilities at fair value through profit or loss: pursuant to current legislation, this category includes financial instruments classified as held for trading and other financial assets and liabilities classified at fair value through profit or loss:

- Financial assets held for trading include those acquired for the purpose of selling them in the near term or those which are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking and derivatives not designated as hedging instruments, including those separated from hybrid financial instruments pursuant to the applicable standards.

- Financial liabilities held for trading include those that have been issued with an intention to repurchase them in the near term or that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking; short positions arising from sales of financial assets acquired under non-optional resale agreements or borrowed securities, and financial derivatives not designated as hedging instruments, including those separated from hybrid financial instruments pursuant to the applicable standards.

- Other financial assets at fair value through profit or loss are financial assets designated as such from their initial recognition, whose fair value may be estimated reliably and that meet any of the following requirements:

- In the case of hybrid financial instruments for which it is compulsory to separate the embedded derivative(s) from the host contract, the fair value of the embedded derivative(s) cannot be estimated reliably.

- In the case of hybrid financial instruments for which it is mandatory to separate the embedded derivative(s), the Confederación elected from their initial recognition to classify the entire hybrid financial instrument under this category, since the requirements established by current regulations were met in the sense that the embedded derivative(s) significantly alter the cash flows that the host contract would have had if it had been considered separately from the embedded derivative(s) and that there is an obligation to separate for accounting purposes the embedded derivative(s) from the host contract.

- As a result of classifying a financial asset in this category, more relevant information is obtained because such designation eliminates or significantly reduces inconsistencies in recognition or measurement (also known as accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognizing the related gains or losses on different bases or because the gain value basis reflects management's investment management or assessment strategy, as established in the applicable regulations. Note 6 contains details on the financial instruments classified in this category.

Other financial liabilities at fair value through profit or loss are financial liabilities designated as such from their initial recognition, whose fair value may be estimated reliably and that meet any of the following requirements:

- In the case of hybrid financial instruments for which it is compulsory to separate the embedded derivative(s) from the host contract, the fair value of the embedded derivative(s) cannot be estimated reliably.
- In the case of hybrid financial instruments for which it is mandatory to separate the embedded derivative(s), the Confederación elected from their initial recognition, to classify the entire hybrid financial instrument under this category, since the requirements established by current regulations were met in the sense that the embedded derivative(s) significantly alter the cash flows that the host contract would have had if it had been considered separately from the embedded derivative(s) and that there is an obligation to separate for accounting purposes the embedded derivative(s) from the host contract.
- As a result of classifying a financial liability in this category, more relevant information is obtained because such designation eliminates or significantly reduces inconsistencies in recognition or measurement (also known as accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognizing the related gains or losses on different bases or because the fair value basis reflects management's investment management or assessment strategy, as established in the applicable regulations. Note 6 contains details on the financial instruments classified in this category.

Only financial instruments which, from their initial recognition, would have been classified as financial assets and liabilities at fair value through profit or loss are included in this category.

Financial instruments at fair value through profit or loss are initially measured at fair value. Subsequent to acquisition, financial instruments classified in this category continue to be measured at fair value at the reporting date and any changes in the fair value are recognized under “Gains/Losses on Financial Assets and Liabilities (Net)” in the income statement, except for the fair value changes due to accrued returns on financial instruments other than trading derivatives, which are recognized under “Interest and Similar Income”, “Interest Expense and Similar Charges” or “Income from Equity Instruments” in the income statement, depending on their nature. The accrued returns on debt instruments included in this category are calculated using the effective interest method.

Notwithstanding the foregoing, financial derivatives that have as their underlyings equity instruments whose fair value cannot be determined in a sufficiently objective manner and are settled by delivery of those instruments are measured, where appropriate, at cost.

> Loans and receivables: pursuant to current legislation, this category includes unquoted debt instruments, financing granted to third parties in connection with ordinary lending activities carried out by the Confederación (other than those classified at fair value through profit or loss) and receivables from users of services.

The financial assets included in this category are initially measured at fair value adjusted by the amount of the fees and commissions and transaction costs that are directly attributable to the acquisition or arrangement of the financial asset and which, in accordance with Circular 4/2004, must be allocated to the income statement by the effective interest method through maturity. Subsequent to acquisition, assets included in this category are measured at amortized cost.

Assets acquired at a discount are measured at the cash amount paid and the difference between their repayment value and the amount paid is recognized as finance income using the effective interest method during the remaining term to maturity.

The Confederación generally intends to hold the loans and credits included in this category granted by it until their final maturity and, therefore, they are presented in the balance sheet at their amortized cost.

The interest accrued on these assets, which is calculated using the effective interest method, is recognized under "Interest and Similar Income" in the income statement. Exchange differences on assets included in this portfolio denominated in currencies other than the euro are recognized as set forth in Note 2.7. Any impairment losses on these assets are recognized as explained in Note 2.3.

- Available-for-sale financial assets: this category includes debt instruments not classified as held-to-maturity investments, as loans and receivables or as financial assets at fair value through profit or loss and equity instruments owned by the Confederación relating to entities other than subsidiaries, jointly controlled entities or associates that are not classified at fair value through profit or loss.

The instruments included in this category are initially recognized at fair value adjusted by the amount of the transaction costs that are directly attributable to the acquisition of the financial asset, which are recognized in the income statement by the effective interest method, except for those relating to financial assets with no fixed maturity, which are recognized in the income statement when the assets become impaired or are derecognized. Subsequent to acquisition, financial assets included in this category are measured at fair value at each reporting date.

However, equity instruments whose fair value cannot be determined in a sufficiently objective manner are measured in these financial statements at cost, net of any impairment loss, calculated as detailed in Note 2.3.

Changes in the fair value of available-for-sale financial assets relating to accrued interest or dividends are recognized under "Interest and Similar Income" (calculated using the effective interest method) and "Income from Equity Instruments" in the income statement, respectively. Any impairment losses on these instruments are recognized as described in Note 2.3. Exchange differences on financial assets denominated in currencies other than the euro are recognized as explained in Note 2.7.

Other changes in the fair value of available-for-sale financial assets from the acquisition date are recognized in equity under "Valuation Adjustments - Available-for-Sale Financial Assets" until the financial asset is derecognized, when the balance recorded under this item is recognized under "Gains/Losses on Financial Assets and Liabilities (net)" in the income statement, or in the case of equity instruments considered to be strategic investments for the Confederación, they are recognized under "Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations".

- Held-to-maturity investments: pursuant to current legislation, this category includes debt instruments traded on organized markets with fixed maturity and with fixed or determinable cash flows that, from inception and at any subsequent date, are held with the positive intention and financial ability to hold to maturity.

Debt instruments included in this category are initially measured at fair value adjusted by the amount of the transaction costs that are directly attributable to the acquisition of the financial asset, which are recognized in the income statement by the effective interest method as defined in Circular 4/2004. They are subsequently measured at amortized cost calculated using the effective interest method.

The interest accrued on these securities, which is calculated using the effective interest method, is recognized under "Interest and Similar Income" in the income statement. Exchange differences on assets included in this portfolio denominated in currencies other than the euro are recognized as set forth in Note 2.7. Any impairment losses on these securities are recognized as explained in Note 2.3.

At 31 December 2012 and 2011 and throughout those years the Confederación did not have any financial instruments classified in this category.

> Financial liabilities at amortized cost: this category includes the Confederación's financial liabilities not included in any other category.

The financial liabilities included in this category are initially measured at fair value adjusted by the amount of the transaction costs that are directly attributable to the issue or arrangement of the financial liability, which are recognized in the income statement by the effective interest method (as defined by Bank of Spain Circular 4/2004) through maturity.

Subsequently, these financial liabilities are measured at amortized cost calculated using the effective interest method as defined in Bank of Spain Circular 4/2004.

The interest accrued on these liabilities, which is calculated using the effective interest method, is recognized under "Interest Expense and Similar Charges" in the income statement. Exchange differences on securities included in this category denominated in currencies other than the euro are recognized as set forth in Note 2.7.

2.3. Impairment of financial assets

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 income statement for the year in which the impairment becomes evident, and the reversal, if any, of previously recognized impairment losses is recognised in the income statement for the year in which the impairment is reversed or reduced, with the exception of any recovery of previously recognised impairment losses relating to equity instruments classified as available for sale, which are not recognised in the income statement but rather in the balance sheet, under "Valuation Adjustments - Available-for-Sale Financial Assets".

When the recovery of any recognized amount is considered unlikely, the amount is written off ("written-off asset"), without prejudice to any actions that the Confederación 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 criteria applied by the Confederación to determine possible impairment losses in each of the various financial instrument categories and the method used to recognize such impairment losses are as follows:

2.3.1. Debt instruments carried at amortized cost

The amount of an impairment loss incurred on a debt instrument carried at amortized cost is equal to the positive difference between its carrying amount and the present value of its estimated future cash flows. The market value of quoted debt instruments is deemed to be a reliable estimate of the present value of their future cash flows.

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

- All the amounts that are expected to be obtained over the remaining life of the instrument, including, where appropriate, those which may result from the collateral provided for the instrument (less the costs for obtaining and subsequently selling the collateral).
- The 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 materialization of the insolvency risk of the obligors (credit risk), a debt instrument is impaired due to insolvency:

> When there is evidence of a deterioration of the obligor's ability to pay, either because it is in arrears or for other reasons, and/or;

> When country risk materializes: country risk is defined as the risk that is associated with debtors resident in a given country due to circumstances other than normal commercial risk.

Impairment losses on these assets resulting from materialization of the insolvency risk of the obligors (credit risk) 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 sector and geographical location, type of guarantee or collateral, age of past-due amounts receivable, etc.

> Collectively: the Confederación classifies transactions on the basis of the nature of the obligors, the conditions of the countries in which they reside, transaction status and type of collateral or guarantee, age of past-due amounts, etc. For each risk group it establishes the impairment losses ("identified losses"), which must be recognized in the financial statements, applying the parameters established by the Bank of Spain. Impairment losses are estimated taking into account the possibility of collection of the interest accrued on these impaired assets.

> In addition, the Confederación recognizes an overall impairment loss on risks in relation to which specific losses have not been identified. This loss is quantified by application of the parameters established by the Bank of Spain based on experience and on the information available to it on the Spanish banking industry.

The amount of the impairment losses on debt instruments at amortized cost or, as the case may be, their subsequent reversal, estimated in accordance with the criteria described above, are recognized under "Impairment Losses on Financial Assets (net) - Loans and Receivables" and "Impairment Losses on Financial Assets (net) - Other Financial Assets Not Measured at Fair Value Through Profit or Loss", depending on the category of financial instrument in which the debt instruments are classified (see Note 2.2).

Pursuant to Circular 4/2004, the Confederación suspends interest accrual for debt instruments individually classified as impaired, and for those for which impairment losses have been assessed collectively (transactions with identified losses) because they have payments more than three months past due.

2.3.2. Debt instruments classified as available for sale

The amount of the impairment losses on debt instruments included in the available-for-sale financial asset portfolio is the positive difference between their acquisition cost (net of any principal repayment or amortization) and their fair value less any impairment loss previously recognized in the income statement.

In the case of impairment losses arising due to the insolvency of the issuer of the debt instruments classified as available for sale, the procedure followed by the Confederación for calculating such losses is the same as the method used for debt instruments carried at amortized cost explained in section 2.3.1 above.

When there is objective evidence that the losses arising on measurement of these assets are due to impairment, they are removed from the equity item "Valuation Adjustments - Available-for-Sale Financial Assets" and are recognized, for their cumulative amount, in the income statement under "Impairment Losses (net) - Other Financial Instruments Not Measured at Fair Value Through Profit or Loss". If all or part of the impairment losses are subsequently reversed, the reversed amount would be recognized in the income statement for the period in which the reversal occurred under "Impairment Losses on Financial Assets (net) - Other Financial Assets Not Measured at Fair Value Through Profit or Loss".

Similarly, the impairment losses arising on measurement of debt instruments classified as "non-current assets held for sale" which are recognized in the Confederación's equity are considered to be realized and, therefore, are recognized in the d income statement when the assets are classified as "non-current assets held for sale".

2.3.3. Equity instruments classified as available for sale

The impairment losses on equity instruments included in the available-for-sale financial asset portfolio are the positive difference between their acquisition cost (net of any principal repayment or amortization) and their fair value less any impairment loss previously recognized in the income statement.

The criteria for recognizing impairment losses on equity instruments classified as available for sale are similar to those for debt instruments classified as available for sale (as explained in Note 2.3.2), with the exception that any reversal of these losses is recognized in equity under "Valuation Adjustments - Available-for-Sale Financial Assets" rather than in the income statement.

2.3.4. Investments in Group companies, jointly controlled entities and associates

The impairment losses on investments in Group companies, jointly controlled entities and associates which, for the purpose of preparation of these financial statements are not deemed to be financial instruments, are estimated and recognised as follows: when, pursuant to Circular 4/2004, there is evidence of impairment of these investments, the amount of the impairment loss is estimated as the negative difference between their recoverable amount (calculated as the higher of fair value of the investment less costs to sell and value in use; value in use is defined as the present value of the cash flows expected to be received from the investment in the form of dividends and the cash flows relating to its sale or other disposal) and their carrying amount. Impairment losses on these investments and possible reversals of impairment losses are charged and credited, respectively, to "Impairment Losses on Other Assets (Net) - Other Assets" in the income statement. 2.3.5. Equity instruments carried at cost.

2.3.5. Equity instruments carried at cost

The amount of the impairment losses on equity instruments carried at cost is the positive difference between their 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 recognized in the 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.

2.4. Transfers and 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 Confederación transfers substantially all the risks and rewards of the transferred assets to third parties -unconditional sale of financial assets, sale of financial assets with a repurchase agreement at its fair value at the repurchase date, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitization of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to new holders and other similar cases-, the transferred financial asset is derecognized and any rights or obligations retained or created in the transfer are recognized simultaneously.

It is considered that the Confederación transfers substantially all the risks and rewards if the transferred risks and rewards represent most of the total risks and rewards of the transferred assets.

> If the Confederación 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, securitization of financial assets in which a subordinated debt or another type of credit enhancement is retained that absorbs substantially all the expected credit losses on the securitized assets, and other similar cases-, the transferred financial asset is not derecognized and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognized, without offsetting:

- An associated financial liability, for an amount equal to the consideration received; this liability is subsequently measured at amortized cost, or, if the aforementioned requirements for classification of other financial liabilities at fair value through profit or loss are met, at fair value, in accordance with the aforementioned criteria for this type of financial liability. (See Note 2.2.4).
- The income from the transferred financial asset not derecognized and any expense incurred on the new financial liability.

> If the Confederación 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, securitization of financial assets in which the transferor retains a subordinated debt or another 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, the transferred financial asset is derecognized and any right or obligation retained or created in the transfer is recognized.
- If the transferor retains control, it continues to recognize the transferred financial asset in the balance sheet for an amount equal to its exposure to changes in value and recognizes a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortized cost of the rights and obligations retained, if the transferred asset is measured at amortized 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 derecognized when the cash flows they generate have been extinguished or when substantially all the significant inherent risks and rewards have been transferred to third parties.

Notes 28.2 and 28.5 contain a summary of the main circumstances of the principal transfers of assets outstanding at 2012 and 2011 year-end which did not lead to the derecognition of the related assets (securities lending transactions and sales of asset under non-optional repurchase agreements). After the spin-off process performed in 2012, (see Note 1.1), the Confederación did not carry out any asset transfer transaction as described above.

2.5. Reclassification between financial instrument portfolios

Reclassifications between financial instrument portfolios can only be made, where appropriate, as follows:

a) Except in the circumstances indicated in paragraph d) below, financial instruments classified as "at fair value through profit or loss" cannot be reclassified into or out of this financial instrument category once they have been acquired, issued or assumed.

b) If, as a result of a change in intention or financial ability of an entity, it is no longer appropriate to classify a financial asset as held to maturity, it is reclassified into the "available-for-sale financial assets" category. In this case, the same treatment shall be applied to all the financial instruments classified as held-to-maturity investments, unless the reclassification is made in any of the circumstances permitted under the applicable regulations (sales very close to maturity, substantially all of the financial asset's original principal has been collected, etc.).

In 2012 and 2011, the Confederación did not hold any securities classified as held-to-maturity investments and, therefore, it did not perform any reclassifications of the type described in the preceding paragraph.

c) If there is a change in the Confederación's intention or financial ability, or if the two penalty financial years established by the regulations applicable to the sale of financial assets classified in the held-to-maturity investment category (see paragraph b) above) have passed, the financial assets (debt instruments) included in the "available-for-sale financial assets" category can be reclassified into the "held-to-maturity investments" category. In this case, the fair value of these financial instruments on the date of reclassification becomes their new amortized cost and the difference between this amount and the redemption value is allocated to the income statement over the remaining life of the instrument using the effective interest method.

No reclassifications of the type described in the preceding paragraph were made in 2012 or 2011.

d) With the entry into force of Circular 6/2008, from July 1st of 2008, a non-derivative financial asset may be reclassified out of the held-for-trading category if it is no longer held for the purpose of selling or repurchasing it in the near term, provided that one of the following circumstances occurs:

a. In rare or exceptional circumstances, unless the assets could have been included in the loans and receivables category. For these purposes, rare and exceptional circumstances are those arising from a particular event, which is unusual and highly unlikely to recur in the foreseeable future.

b. When the entity has the intention and financial ability to hold the financial asset for the foreseeable future or until maturity, provided that the asset had met the definition of loans and receivables at initial recognition.

In these circumstances, the financial asset is reclassified at its fair value on the date of reclassification, any gain or loss already recognized in profit or loss is not reversed, and this fair value becomes its amortized cost. The financial assets so reclassified can in no case be reclassified again into the held-for-trading category.

No reclassifications of the type described in the preceding paragraph were made during 2012 and 2011.

2.6. Hedge accounting and mitigation of risk

The Confederación uses financial derivatives as part of its strategy to reduce its exposure to interest rate, foreign currency and other risks. When these transactions meet the requirements with current regulations, they qualify for hedge accounting.

When the Confederación designates a transaction as a hedge it does so upon initial recognition of the transactions or instruments included in the hedge, and the hedging transaction is documented appropriately. The hedge accounting documentation includes identification of the hedged item(s) and the hedging instrument(s), the nature of the risk to be hedged and the criteria or methods used by the Confederación to assess the effectiveness of the hedge over its entire life, taking into account the risk to be hedged.

The Confederación only applies hedge accounting for hedges that are considered highly effective over their entire lives. A hedge is considered to be highly effective if, during its expected life, the changes in fair value or cash flows of the hedged item that are attributable to the risk hedged in the hedging of the financial instrument(s) are almost fully offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument(s).

To measure the effectiveness of hedges defined as such, the Confederación analyses whether, from the beginning to the end of the term defined for the hedge, the Confederación can expect, prospectively, that the changes in fair value or cash flows of the hedged item that are attributable to the hedged risk will be almost fully offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument and, retrospectively, that the actual results of the hedge are within a range of 80% to 125% of the results of the hedged item.

In 2011 the Confederación had recognised various transactions qualifying for hedge accounting, in accordance with the criteria indicated above, which, pursuant to current legislation, are considered fair value hedges, since their purpose is protect the fair value of certain balance sheet positions that can change in the event of interest rate fluctuations (see Note 9). As a result of the spin-off process performed in 2012 (see Note 1.1), these transactions were spun off to Cecabank, S.A.

In fair value hedges, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognised directly under “Gains (Losses) on Financial Assets and Liabilities (Net)” in the income statement (see Note 34).

When the hedged item is measured at amortised cost, its carrying amount is adjusted by the amount of the gain or loss recognised in the income statement as a result of the hedge. Once this item ceases to be hedged against the changes in its fair value, the amount of this adjustment is amortised to profit or loss using the effective interest rate recalculated as at the date of hedge discontinuation. The adjustment must be fully amortised at the date of maturity of the hedged item.

In cash flow hedges, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in equity under “Valuation Adjustments - Cash Flow Hedges” and are taken to the income statement in the years in which the designated hedged items affect the income statement. Financial instruments hedged in this type of hedging transaction are recognised as explained in Note 2.2, with no change being made in the recognition criteria due to their consideration as hedged items. At 31 December 2012 and 2011, and throughout those years, there were no transactions meeting the requirements for hedge accounting in accordance with the criteria indicated above.

The Confederación discontinues hedge accounting when the hedging instrument expires or is sold, when the hedge no longer meets the requirements for hedge accounting or the designation as a hedge is revoked.

2.7. Foreign currency transactions

2.7.1. Functional currency

The functional and reporting currency of the Confederación is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in “foreign currency”.

Following the spin-off process performed in 2012, there were no balances recognised in foreign currency at 31 December 2012.

The detail, by currency and item, of the equivalent value in thousands of euros of the main asset and liability balances denominated in foreign currencies in the balance sheets at 31 December 2011 is as follows:

Nature of Foreign Currency Balances:	EQUIVALENT VALUE IN THOUSANDS OF EUROS (*)			
	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Balances in US dollars				
Cash and balances with central banks	-	-	20,160	-
Financial assets and liabilities held for trading	-	-	360,005	399,696
Loans and receivables	-	-	130,036	-
Financial liabilities at amortized cost	-	-	-	819,097
Other financial liabilities at fair value through profit or loss	-	-	-	930,794
Other	-	-	417	417
	-	-	510,618	2,150,004
Balances in Japanese yen				
Cash and balances with central banks	-	-	964	-
Loans and receivables	-	-	77,639	-
Financial liabilities at amortized cost	-	-	-	3,257
	-	-	78,603	3,257
Balances in pounds sterling				
Cash and balances with central banks	-	-	13,323	-
Financial assets and liabilities held for trading	-	-	3,387	1,433
Available-for-sale financial assets	-	-	-	-
Loans and receivables	-	-	61,933	-
Tangible assets	-	-	-	-
Financial liabilities at amortized cost	-	-	-	180,312
Other	-	-	100	356
	-	-	78,743	182,101

(*) Equivalent value calculated by applying the exchange rates at 31 December 2012 and 2011, respectively.

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Nature of Foreign Currency Balances:	EQUIVALENT VALUE IN THOUSANDS OF EUROS (*) 2012		2011	
	Assets	Liabilities	Assets	Liabilities
Balances in Swiss francs				
Cash and balances with central banks	-	-	1,992	-
Loans and receivables	-	-	90,752	-
Financial liabilities at amortized cost	-	-	-	19,924
	-	-	92,744	19,924
Balances in Norwegian krone				
Cash and balances with central banks	-	-	985	-
Loans and receivables	-	-	3,280	-
Financial liabilities at amortized cost	-	-	-	3,777
	-	-	4,265	3,777
Balances in Swedish krone				
Cash and balances with central banks	-	-	550	-
Loans and receivables	-	-	3,793	-
Financial liabilities at amortized cost	-	-	-	2,757
Other	-	-	-	-
	-	-	4,343	2,757
Balances in other currencies				
Cash and balances with central banks	-	-	8,954	-
Loans and receivables	-	-	19,822	-
Financial liabilities at amortized cost	-	-	-	17,438
Other	-	-	-	-
	-	-	28,776	17,438
Total balances denominated in foreign currencies	-	-	798,092	2,379,258

(*) Equivalent value calculated by applying the exchange rates at 31 December 2012 and 2011, respectively.

In addition to the currency positions recognized in the balance sheets at 31 December 2011 shown in the preceding table, the Confederación recognized various currency derivatives and forward foreign currency contracts which are used to manage the exchange rate risk to which it is exposed and which should be considered together with the balance sheet positions for a correct understanding of the Confederación's exposure to such risks (see Note 23).

2.7.2. Translation of foreign currency balances

Foreign currency transactions performed by Confederación are initially recognized in the financial statements at the equivalent value in their functional currencies, translated using the exchange rates prevailing at the transaction date. Subsequently, the following rules are applied:

1. Monetary assets and liabilities are translated at the closing rate, which is taken to be the average spot exchange rate at the date of the financial statements.
2. Non-monetary items measured at historical cost are translated to the functional currency at the exchange rate at the date of acquisition.
3. Non-monetary items measured at fair value are translated to the functional currency at the exchange rate at the date when the fair value was determined.
4. Income and expenses are translated at the exchange rate prevailing at the transaction date.

2.7.3. Exchange rates

The exchange rates used by the Confederación in translating the foreign currency balances to euros for the purpose of preparing the financial statements, taking into account the methods mentioned above, were those published by the European Central Bank.

2.7.4. Registro de las diferencias de cambio

The exchange differences arising on the translation of foreign currency balances (using the aforementioned translation methods) to the functional currency of the Confederación are generally recognized at their net amount under "Exchange Differences (net)" in the income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognized under "Gains/Losses on Financial Assets and Liabilities (net)" in the income statement, without distinguishing them from other changes in their fair value.

However, exchange differences arising on non-monetary items measured at fair value through equity and exchange differences arising on the translation to euros of the financial statements which are not denominated in euros are recognized in equity under "Valuation Adjustments - Exchange Differences" in the balance sheet until they are realized. Exchange differences recognized in equity are taken to the income statement when realized.

2.8. Recognition of income and expenses

The most significant accounting criteria used by the Confederación to recognize its income and expenses are summarized as follows:

2.8.1. Interest income, interest expenses, dividends and similar items

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

2.8.2. Commissions, fees and similar items

Fee and commission income and expenses that are not to be included in the calculation of the effective interest rate of transactions and/or are not included in the acquisition cost of financial assets or liabilities other than those classified as at fair value through profit or loss are recognized in the income statement using criteria that vary according to their nature. The main criteria are as follows:

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

2.8.3. Non-finance income and expenses

These are recognized for accounting purposes on an accrual basis.

2.8.4. Deferred collections and payments

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

2.9. Offsetting

Asset and liability balances are offset, i.e. reported in the balance sheet at their net amount, when, and only when, they arise from transactions in which a contractual or legal right of set-off exists and the Confederación intends to settle them on a net basis, or to realize the asset and settle the liability simultaneously.

2.10. Financial guarantees and provisions for 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, irrevocable documentary credits issued or confirmed by the Confederación, etc.

In accordance with Bank of Spain Circular 4/2004, the financial guarantees provided by the Confederación are treated as financial instruments.

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 amortized cost (described in Note 2.3.1 above).

The provisions for financial guarantees are recognized under "Provisions - Provisions for Contingent Liabilities and Commitments" on the liability side of the balance sheet (see Note 16). These provisions are recognized and reversed with a charge or credit, respectively, to "Provisions (Net)" in the income statement.

2.11. Staff costs

As part of the spin-off process performed in 2012 (see Note 1.1), Cecabank, S.A. succeeded to the Confederación and, with effect from 1 January 2012, was subrogated to all the commitments that the Confederación held with current and former employees who, as a result of the spin-off, began to render their services at Cecabank, S.A.

2.11.1. Pension obligations

Under the Collective Labour Agreement currently in force, the Confederación is required to supplement the social security benefits accruing to its employees or their beneficiary right holders in the event of retirement, disability, death of spouse or death of parent.

The Confederación's post-employment obligations to its employees are deemed to be "defined contribution plans" when the Confederación 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".

The actuarial gains and losses on the measurement of defined benefit plans are recognized in the income statement by the Confederación in the year in which they arise.

The Confederación had set up an external fund known as the "CECA Employees' Pension Plan" and had taken out insurance policies to cover its pension obligations to its employees. The external fund, in turn, comprised three subplans: a defined benefit plan (for employees hired by the entity prior to 30 May 1986 who opted not to convert their benefits into defined contribution benefits and for early retirees) and two defined contribution retirement benefit subplans (for employees hired by the entity prior to 30 May 1986 who opted to convert their benefits into defined contribution benefits, as described below, and for employees hired by the entity after 29 May 1986, respectively). The pension plan also included the obligations to the beneficiaries of the benefits.

In 2003 the defined benefit pension subplan was converted into a defined contribution scheme for most current employees for whom this possibility was envisaged in the Collective Company Agreement on Early Retirement and Supplementary Employee Welfare Benefits ("the Agreement") entered into by the entity and representatives of its Workers' Committee and Workplace Trade Union Branch on 2 April 2001.

In 2011, the Control Committee of the CECA Employees' Pension Plan, pursuant to the obligations previously acquired, resolved to take out an insurance policy to cover the supplementary vested pension income payable to the beneficiaries of the pension plan. The policy is in line with the benefits payable to the group of beneficiaries of the pension plan in order to ensure these obligations are met.

In 2011, the accrued expense for the contributions to be made to the external pension fund, relating to defined contribution plans, amounted to EUR 772 thousand, which are recognized under "Administrative Expenses - Staff Costs" in the income statement (see Note 36).

Pursuant to the aforementioned Agreement, in 2003 the Confederación decided to insure contributions to the pension plan in excess of the current legal and tax ceilings by arranging two insurance policies with Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. ("Caser"). In 2004 the Confederación converted one of these policies into a single-premium policy. The premiums on these policies and on other insurance policies covering pension obligations and other obligations to employees totaled EUR 4,203 thousand in 2012,and this amount was recognized under "Administrative Expenses - Staff Costs" in the income statement (see Note 36).

At 31 December 2011, the total pension obligations to current and retired employees amounted to EUR 166,042 thousand. Of this amount, EUR 159,922 thousand were covered by the aforementioned external pension fund and insurance policies and EUR 6,119 thousand by an internal provision recognized under "Provisions - Provisions for Pensions and Similar Obligations" in the balance sheet (see Note 16) that had not yet been transferred to the external pension fund at 31 December 2011.

The actuarial assumptions used in calculating these obligations were: PERM 2000-P mortality tables; a discount rate of 4.27% for the obligations covered by the external pension plan and the interest rate guaranteed in the insurance policies for the obligations covered by them; an adjustable pension increase rate of 1.5%; an adjustable salary increase rate of 2.68%; an expected rate of return on pension plan assets of 4.27%; and estimated increase rates ranging from 2.50% to 4.75% for the obligations covered by insurance policies, based on the characteristics thereof.

As a result of the spin-off process performed in 2012 (see Note 1.1), Cecabank, S.A. subrogated to all the commitments that the Confederación held, and have been aforementioned.

2.11.2. Other long-term benefits

2.11.2.1. Early retirements

The aforementioned Agreement entered into by the Confederación, the Workplace Trade Union Branch and the representatives of the Workers' Committee envisaged the possibility of voluntary early retirement for certain Confederación employees who met specific age requirements on the date the Agreement came into force in the form of several non-discriminatory offers, which ended on 31 December 2003. Employees who did not accept early retirement during the offer period were excluded from further offers in subsequent years.

On 7 April 2011, an agreement was entered into between the entity, the Workplace Trade Union Branch and the representatives of the Workers' Committee, under which a Pre-Retirement Plan was established for all employees who at 31 December 2011 were at least 55 years of age and had been in the entity's employ for at least ten years. The general registration period for employees wishing to participate in this plan ended on 13 May 2011.

At 31 December 2011, the obligations in respect of future salaries, future social security costs and incentives relating to early retirees, as well as the obligations for future contributions to the Pension Plan (all of which were considered as defined benefit obligations) were covered by an internal provision amounting to EUR 59,348 thousand, which was recognized under "Provisions - Provisions for Pensions and Similar Obligations" in the balance sheet (see Note 16) and related to early retirement obligations incurred as a result of the aforementioned Agreement dated 7 April 2011. At 31 December 2011 this provision covered the full amount of the entity's early retirement obligations at those dates.

The obligations covered by this internal provision were calculated by an independent actuary, using: a discount rate of 1.896%, PERM/F 2000-P, 1.5% increase in adjustable pre-retirement salaries.

As a result of the spin-off process performed in 2012 (see Note 1.1), Cecabank, S.A. subrogated to all the commitments that the Confederación held, and have been aforementioned.

2.11.2.2. Death and disability

The commitments for death or disability of current employees are included in the benefits covered by the aforementioned pension fund, and as a result of the spin-off process performed in 2012 (see Note 1.1) Cecabank, S.A. subrogated to this commitments.

2.11.2.3. Long-service bonuses

The Confederación has undertaken to pay a bonus to employees reaching 25 years of service at the entity.

The amounts paid in this connection at 2011 year-end totaled approximately EUR 265 thousand, approximately. In 2012, no balance had been recognised in this item, after the spin-off process performed in 2012.

2.11.3. Termination benefits

Under current legislation, Cecabank, S.A. is required to pay termination benefits to employees terminated without just cause.

The Confederación recognised EUR 3,116 thousand in this connection in 2011.

These expenses were recognised under "Administrative Expenses - Staff Costs" in the 2011 income statement (see Note 36). No balance had been recognised in this item in 2012.

Also, the Confederación had agreements with some of its executives and/or directors to pay them certain benefits in the event that they are terminated without just cause. The amount of the benefit, which in any case would not have a material effect on the Confederación, would be charged to the income statement when the decision to terminate the employment of the executive or director concerned was made.

2.11.4. Loans to employees

Under the collective labour agreement in force and the additional agreements entered into in 2004 with Confederación's employees, employees are entitled to apply for mortgage loans from the Confederación for a maximum period of 40 years at an interest rate of 70% of Euribor with lower and upper limits for 2011 of 1.50% and 5.25%, respectively.

Under the applicable industry collective labour agreement and pursuant to collective agreements reached by the Confederación implementing it, employees of the Confederación may, in specific cases, apply for interest free advances and other "welfare" loans or loans for the expansion of their residence, with a repayment period of 10 and 15 years, respectively, at the Euribor interest rate.

In the event of exceptional circumstances requiring an employee of the Confederación. to apply for a type of loan that does not fully or partially comply with the regulations stipulated in the industry collective labour agreement, or its implementing regulations, the employee may apply for the loan through the ALCO, indicating the exceptional circumstances.

These loans are recognized at amortized cost under "Loans and Receivables - Loans and Advances to Customers" in the balance sheet.

2.12. Income tax

The income tax expense is recognized in the income statement, except when it results from a transaction recognized directly in the Confederación's equity, in which case the income tax is also recognized in the Confederación's equity.

The current income tax expense is calculated as the tax payable with respect to the taxable profit for the year, adjusted by the amount of the changes in the year in the assets and liabilities (deferred taxes) recognized as a result of temporary differences and tax credit and tax loss carry forwards (see Note 20).

The Confederación considers that there is a temporary difference when there is a difference between the carrying amount of an asset or liability and its tax base. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. A taxable temporary difference is one that will generate a future obligation for the Confederación to make a payment to the related tax authorities. A deductible temporary difference is one that will generate a right for the Confederación to a refund or a reduction in its tax charge in the future.

Tax credit and tax loss carry forwards are amounts that, after performance of the activity or obtainment of the profit or loss giving entitlement to them, are not used for tax purposes in the related tax return until the conditions for doing so established in the tax regulations are met and the Confederación considers it probable that they will be used in future periods.

Current tax assets and liabilities are the taxes that are expected to be recoverable from or payable to the related tax authorities within 12 months from the balance sheet date. Deferred tax assets and liabilities are the taxes that are expected to be recoverable from or payable to the related tax authorities in over 12 months from the balance sheet date.

Deferred tax liabilities are recognized for all taxable temporary differences. However, deferred tax liabilities arising from the initial recognition of goodwill are not recognized.

The Confederación only recognizes deferred tax assets arising from deductible temporary differences and from tax credit and for tax loss carry forwards when the following conditions are met:

> If it is considered probable that the Confederación will obtain sufficient future taxable profit against which the deferred tax assets can be utilized; and

> In the case of deferred tax assets arising from tax loss carry forwards, the tax losses result from identifiable causes which are unlikely to recur.

No deferred tax assets or liabilities are recognized if they arise from the initial recognition of an asset or liability (except in the case of a business combination) that at the time of recognition affects neither accounting profit nor taxable profit.

The deferred tax assets and liabilities recognized are reassessed at each balance sheet 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.

2.13. Tangible assets

2.13.1. Property, plant and equipment for own use

Property, plant and equipment for own use includes the assets that are held by the Confederación for present or future administrative purposes other than those of welfare projects, or for the production or supply of goods and services and which are expected to be used for more than one year. Property, plant and equipment for own use is recognized at acquisition cost in the balance sheet as defined in the Circular 4/2004, less:

> The related accumulated depreciation, and

> Any estimated impairment losses (net carrying amount higher than recoverable amount).

In accordance with current regulations, as a result of the entry into force of Circular 4/2004, with effect from 1 January 2004, the Confederación measured certain items of property, plant and equipment for own use at fair value at that date and this fair value was deemed to be their new acquisition cost for all purposes.

Depreciation is calculated by 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 tangible asset depreciation charge is recognized under "Depreciation and Amortization" in the income statement and is calculated basically using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	ANNUAL RATE
Property	2% to 4%
Furniture and office equipment	10% to 15%
Computer hardware	15% to 25%
Fixtures	8% to 12%
Transport equipment	16%

The Confederación assesses at the reporting date whether there is any internal or external 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 must be re-estimated). When necessary, the carrying amount of property, plant and equipment for own use is reduced with a charge to "Impairment Losses on Other Assets (Net) - Other Assets" in the income statement.

Similarly, if there is an indication of a recovery in the value of a previously impaired tangible asset, the Confederación recognizes the reversal of the impairment loss recognized in prior periods with the related credit to "Impairment Losses on Other Assets (Net) - Other Assets" in the income statement and adjusts 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 recognized in prior years.

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

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognized as an expense under "Administrative Expenses - Other General Administrative Expenses" in the income statement in the year in which they are incurred.

2.13.2. Property, plant and equipment assigned to welfare projects

"Tangible Assets - Property, Plant and Equipment Assigned to Welfare Projects" in the balance sheet includes the carrying amounts of the tangible assets assigned to the Confederación's welfare projects.

The criteria used to recognize the acquisition cost of assets assigned to welfare projects, to calculate their depreciation and their respective estimated useful lives and to recognize any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use (see Note 2.13.1), the only exception being that the depreciation charges and the recognition and reversal of any impairment losses on these assets are not recognized in the income statement but rather under “Welfare Fund” on the liability side of the balance sheet (see Note 27).

At 31 December 2012 and 2011, and throughout those years, there were no tangible assets assigned to welfare projects.

2.13.3. Investment property

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

The criteria used to recognize the acquisition cost of investment property, to calculate its depreciation and its estimated useful life and to recognize any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use (see Note 2.13.1).

2.14. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which arise as a result of a legal transaction or which are developed internally by the Confederación. Only intangible assets whose cost can be estimated reasonably objectively and from which the Confederación considers it probable that future economic benefits will be generated are recognized.

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

2.14.1. Other intangible assets

Intangible assets other than goodwill are recognized in the balance sheet at acquisition or production cost, less the related accumulated amortization and any accumulated impairment losses.

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 Confederación- or a finite useful life, in all other cases.

Intangible assets with indefinite useful lives are not amortized, but rather at the end of each reporting period the Confederación reviews 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. At 31 December 2012 and 2011, and throughout these years, there were no intangible assets with indefinite useful lives.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives, which range from three to five years depending on the class of asset. The period amortization charge for intangible assets with finite useful lives is recognized under "Depreciation and Amortization" in the income statement.

For intangible assets other than goodwill with indefinite useful lives and with finite useful lives, the Confederación recognizes any impairment loss on the carrying amount of these assets, and any reversal of previously recognized impairment losses, with a charge or credit, as appropriate, to "Impairment Losses on Other Assets (net) - Goodwill and Other Intangible Assets" in the income statement. The criteria used to recognize the impairment losses on these assets and, where applicable, the reversal of impairment losses recognized in prior years are similar to those used for property, plant and equipment for own use (see Note 2.13.1), except that in no circumstances may any impairment recognized for goodwill in the balance sheet be reversed.

2.15. Provisions and contingent liabilities

When preparing the financial statements, the directors made a distinction between:

- Provisions: credit balances covering present obligations at the balance sheet date arising from past events which could give rise to a loss for the 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
- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Confederación.

The Confederación's financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognized in the financial statements, but rather are disclosed, as required by the applicable standards.

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 recognized. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

The provisions considered necessary pursuant to the foregoing criteria and their eventual reversal, should the reasons for their recognition disappear, are recognized with a charge or credit, respectively, to "Provisions (net)" in the income statement.

2.15.1. Litigation and/ or claims in process

At 2012 year-end, there were no litigation or claims in process.

At the end of 2011 certain litigation and claims were in process against the Confederación arising from the ordinary course of its operations. The Confederación's legal advisers and directors consider that the outcome of litigation and claims will not have a material effect on the financial statements for the years in which they are settled.

2.16. Non-current assets held for sale

"Non-Current Assets Held for Sale" in the balance sheet includes the carrying amount of items -individual items, disposal groups or items forming part of a business unit earmarked for disposal ("discontinued operations")- which, because of their nature, are estimated to have a realization or recovery period exceeding one year, but are earmarked for disposal by the Confederación and whose sale in their present condition is highly probable to be completed within one year from the date of the financial statements.

Investments in associates that meet the requirements set forth in the foregoing paragraph are also considered to be non-current assets held for sale.

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 rather than from continuing use.

Specifically, property or other non-current assets received by the Confederación as total or partial settlement of its debtors' payment obligations to it are deemed to be non-current assets held for sale, unless the entities has decided classified as property, plant and equipment for own use, investment property or inventories on the basis of their nature and intended use (see Note 2.13.3).

These assets are initially recognized at cost, which is taken to be the carrying amount of the debts giving rise to them, calculated in accordance with the regulations applicable to the Confederación. Subsequently, these assets are measured as indicated in this Note.

Symmetrically, "Liabilities Associated with Non - Current Assets Held for Sale" in the balance sheet includes the balances payable, if any, associated with disposal groups and the Confederación's discontinued operations.

In general, non-current assets held for sale are measured at the lower of their carrying amount calculated as at the classification date and their fair value less estimated costs to sell. Tangible and intangible assets that are depreciable and amortizable by nature are not depreciated or amortized during the time they remain classified in this category.

If the carrying amount of the assets exceeds their fair value less costs to sell, the Confederación adjusts the carrying amount of the assets by the amount of the excess with a charge to "Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations" in the income statement. If the fair value of such assets subsequently increases, the Confederación reverses the losses previously recognized and increases the carrying amount of the assets without exceeding the carrying amount prior to the impairment, with a credit to "Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations" in the income statement.

Despite the foregoing, financial assets, assets arising from remuneration to employees and any deferred tax assets that are part of a disposal group or of a discontinued operation are not measured as described in the preceding paragraphs, but rather in accordance with the accounting policies and rules applicable to these items, which were explained in previous sections of Note 2.

2.17. Welfare Fund

The Confederación's Welfare Fund is recognized under "Welfare Fund" on the liability side of the balance sheet (see Note 27).

Transfers to the welfare fund are recorded as an appropriation of the Confederación's profit. Welfare project expenses are presented in the balance sheet as deductions from the welfare fund and in no case may they be recognized in the income statement. Tangible assets and liabilities assigned to welfare projects, if any, are included in separate asset and liability items in the balance sheet.

2.18. Cash flow statements

The following terms are used in the cash flow statements 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. Operating activities also include interest paid on any financing received, even if this financing is considered to be financing activity. Activities performed with the various financial instrument categories detailed in Note 2.2.4 above are classified, for the purpose of this statement, as operating activities.
- Investing activities: the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents, such as tangible assets, intangible assets, investments, non-current assets held for sale and associated liabilities, equity instruments classified as available for sale which are strategic investments and debt instruments included in held-to-maturity investments.
- Financing activities: includes the cash flows from activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

For cash flow statement preparation purposes, the balance of “Cash and Balances with Central Banks” on the asset side of the balance sheet, disregarding any impairment losses, was considered to be “cash and cash equivalents”.

2.19. Statements of changes in Equity

The statement of changes in equity presented in these financial statements shows the total changes therein in equity during the year. This information is disclosed to turn in two statements: the statement of comprehensive income and the statement of changes in equity. The following explains the main features of the information contained in both parts of the statement:

2.19.1. Statement of recognized income and expense

The statement of recognized income and expense presents the income and expenses generated by the Confederación as a result of its business activity in the year, and a distinction is made between the income and expenses recognized in the income statement for the year and the other income and expenses recognized, in accordance with current regulations, directly in equity.

Accordingly, this statement presents:

a) Profit for the year.

b) The net amount of the income and expenses recognized temporarily in equity under “Valuation Adjustments”.

c) The net amount of the income and expenses recognized definitively in equity during the year and other items that are recognized directly and definitively in equity, if any.

d) The income tax incurred in respect of the items indicated in b) and c) above.

e) The total recognized income and expenses, calculated as the sum of a) and d) above.

The changes in income and expenses recognized in 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, recognized directly in equity. The amounts recognized in the year under “Valuation Adjustments” are recorded in this line item, even though they are transferred in the same year to the income statement, to the initial value of other assets or liabilities, or are reclassified into another line item.

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

c) Amount transferred to the initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognized in equity, albeit in the same year, which are recognized 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.

The amounts of these items are presented gross and the related tax effect is recognized in this statement under “Income Tax”.

2.19.2. Statement of changes in total equity

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

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

b) Recognized income and expense: includes the total recognized income and expenses reported in the statement of recognized income and expense.

c) Other changes in equity: includes the remaining items recognized in equity, including, inter alia, distribution of Confederación profit, transfers between equity items and any other increases or decreases in equity.

3. Distribution of the Confederación's profit

The distribution of the Confederación's net profit for 2012 that the Board of Directors will propose for approval by the General Assembly (the figures for 2011 are presented for comparison purposes only) is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Reserves	1,339	33,374
Transfer to welfare fund (Note 27)	8,000	3,715
Return on participation certificates (Note 18)	-	1,667
Net profit for the year	9,339	38,756

4. Remuneration of directors and senior executives

4.1. Remuneration of directors

The members of the Board of Directors of the Confederación, receive an attendance fee for attendance of meetings. The detail for 2012 and 2011 is shown in the table below.

	THOUSANDS OF EUROS	
	2012	2011
Alzamora Carbonell, Fernando	4	17
Ambrosio Orizaola, Enrique Manuel	2	-
Arvelo Hernández, Álvaro	2	17
Beltrán Aparicio, Fernando	-	6
Bravo Cañadas, Victor Manuel	2	17
Cifré Rodríguez, Josep	16	-
Crespo Martínez Modesto	-	29
De Rato Figadero, Rodrigo	12	35
Del Canto Canto, Evaristo	20	12
Egea Krauel, Carlos	34	43
Fainé Casas, Isidro	35	43
Fernández-Velilla Hernández, Juan	2	8
Fernández Gayoso, Julio	2	12
Fernández Pelaz, Mario	19	-
Franco Lahoz, Amado	42	43
García Peña, Francisco Manuel	2	17
Goñí Beltrán de Garizurieta, Enrique	-	9
Hernández Pérez, Lucas	-	5

	THOUSANDS OF EUROS	
	2012	2011
Iturbe Otaegui, Xabier	3	17
Mata Tarragó, Enric	-	5
Medel Cámara, Braulio	30	38
Mestre González, Jordi	5	12
Olavarrieta Arcos, José Antonio	-	11
Olivas Martínez, José Luis	2	15
Pemán Gavín, Juan María	15	-
Pulido Gutiérrez, Antonio	20	17
Soriano Cairols, Rafael	17	-
Todó Rovira, Adolfo	-	17
Total	286	445

In 2012, the directors were paid fees for attending Standing Committee meetings and representing the Board amounting to EUR 243 thousand (2011: EUR 22 thousand). Note 41 details the Confederación's other balances with its directors and entities or individuals related to them.

4.2. Remuneration of senior executives and of members of the Board of Directors in their capacity as Confederación executives

As a result of the spin-off process performed in 2012 (see Note 1.1), the Confederación's employees began to render their services at Cecabank, S.A.

In this regard, for the purposes of the preparation of these financial statements, the senior executives of the Confederación in 2012 were considered to be the CEO, the Deputy Manager of the Association Area, the General Secretary - Manager of Legal Counsel, the Manager of Tax Advisory Services, and the Head of the Planning and Control Division of Cecabank, S.A., who provide services to the Confederación on a part-time basis. (In 2011 the Confederación's senior executives were considered to be the 13 members of the Management Committee.).

In 2012 none of the members of the Board of Directors worked in an executive capacity and, as a result, no remuneration was earned in this connection. The senior executives' short-term remuneration in the year amounted to EUR 549 thousand (2011: 4,812 thousand, an amount that, at that date, included senior executives, of which, EUR 4,018 thousand related to short-term remuneration and EUR 794 thousand related to post-employment obligations).

No additional remuneration was earned by senior executives in 2012 and 2011 in connection with other long-term benefits, or share-based payments as defined by Circular 4/2004.

In 2012, no consolidated pension rights were recognised either for the senior executives or for the members of the Board of Directors in their capacity as executives of the Confederación. This amount stood at EUR 2,737 thousand in 2011.

In 2012 and 2011, no additional remuneration was earned in connection with the post-employment obligations of the Confederación's directors and senior executives.

5. Cash and balances with central banks

After the spin-off process performed in 2012, (see Note 1.1). no balance had been recognised in this item in the balance sheet at 31 December 2012. The detail of "Cash and Balances with Central Banks" at 31 December 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Cash	-	56,438
Balances with the Bank of Spain	-	435,950
	-	492,388
Valuation adjustments:		
Of which-		
Other valuation adjustments	-	6
	-	492,394

Note 21 includes information on the fair value of these instruments at 31 December 2012 and 2011. Note 24 provides information on the liquidity risk associated with financial instruments, including information on the maturities of these assets.

The balance of "Cash and Balances with Central Banks" at 31 December 2012 and 2011 represents the maximum exposure to credit risk assumed by the Confederación in relation to these instruments.

At 31 December 2012 and 2011, there were no assets with uncollected past-due amounts or impaired classified under "Cash and Balances with Central Banks".

6. Financial instruments through profit or loss

6.1. Financial assets and liabilities held for trading

6.1.1. Financial assets and liabilities held for trading - Breakdown

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). Following is a detail of the balances of "Financial Assets/Liabilities Held for Trading" in the balance sheet at 31 December 2011.

THOUSANDS OF EUROS

	Financial Assets Held for Trading		Financial Liabilities Held for Trading	
	2012	2011	2012	2011
Debt instruments	-	664,492	-	-
Equity instruments	-	39,284	-	-
Trading derivatives-				
Derivatives traded in organized markets	-	-	-	38
OTC derivatives	-	5,078,006	-	5,017,255
Short positions	-	-	-	343,354
	-	5,781,782	-	5,360,647

Note 22 discloses information on the credit risk assumed by the Confederación in relation to the financial assets, other than equity instruments, included in this category. In addition, Notes 23 and 24 include information on the market and liquidity risks, respectively, associated with the financial instruments included in this category.

Note 21 provides information on the fair value of the financial instruments included in this category. Note 26 includes information on the concentration of risk relating to the financial assets held for trading. Note 25 shows information on the exposure to interest rate risk.

6.1.2. Financial assets and liabilities held for trading - Trading derivatives

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). Following is a breakdown, by type of risk, of the fair value of the trading derivatives arranged by the Confederación and of their notional amount (on the basis of which the future payments and collections on these derivatives are calculated) at 31 December 2011:

THOUSANDS OF EUROS

	2012			2011		
	Fair Value		Notional Amount	Fair Value		Notional Amount
	Asset Balances	Liability Balances		Asset Balances	Liability Balances	
Interest rate risk	-	-	-	4,997,181	4,963,919	136,526,220
Foreign currency risk	-	-	-	80,493	47,359	4,359,361
Share price risk	-	-	-	332	337	119,417
Credit risk	-	-	-	-	5,678	45,000
	-	-	-	5,078,006	5,017,293	141,049,998

The notional amount of the contracts entered into does not reflect the actual risk assumed by the Confederación for these contracts, since the net position in these financial instruments is the result of offsetting and/or combining them and of offsetting and/or combining them with other asset or liability positions.

6.1.3. Financial liabilities held for trading - Short positions

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). The detail, by type of transaction, of the balance of this item in the balance sheets at 31 December 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Classification:		
Borrowed securities-		
Equity instruments	-	-
Short sales-		
Debt instruments	-	343,354
	-	343,354

"Short Positions - Short Sales - Debt Instruments" in the foregoing table includes the fair value of the Confederación's debt instruments purchased under reverse repurchase agreements and, therefore, as such not recognized on the asset side of the balance sheet, which have been sold and will be repurchased by the Confederación before maturity of the reverse repurchase agreement in which they are used as collateral, in order for the Confederación to return them at the maturity date.

6.2. Other financial instruments at fair value through profit or loss

6.2.1. Other financial assets at fair value through profit or loss

This heading includes reverse repurchase agreements arranged by the Confederación which are managed jointly with repurchase agreements relating to financial assets classified in "Other Financial Liabilities at Fair Value Through Profit or Loss" and with interest rate derivatives and financial instruments classified as held for trading and other available-for-sale financial assets.

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). The detail, by nature, of the financial assets included in "Other Financial Assets at Fair Value Through Profit or Loss" in the balance sheets at 31 December 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Loans and advances to credit institutions-		
Reverse repurchase agreements	-	493,166
Valuation adjustments-		
Accrued interest	-	236
Revaluation gains	-	188
	-	424
	-	493,590
Loans and advances to customers-		
Reverse repurchase agreements	-	506,351
Valuation adjustments-		
Accrued interest	-	122
Revaluation gains	-	(186)
	-	(64)
	-	506,287
	-	999,877

Note 22 includes information on the Confederación's exposure to credit risk at 31 December 2011 associated with these financial instruments.

Note 21 discloses information on the fair value of these financial instruments at 31 December 2011. Note 23 provides information on the exposure to market risk of these financial instruments. Note 25 shows information on the Confederación's exposure to interest rate risk.

Note 24 contains information on the liquidity risk associated with the financial instruments owned by the Confederación at 31 December 2011, including information on the terms to maturity at those dates of the financial assets included in this category.

Note 26 includes information on the concentration risk relating to these financial instruments at 31 December 2011.

In view of the characteristics of the transactions included in this category (reverse repurchase agreements), the counterparties and collateral provided, it is estimated that substantially all the changes in the fair value of these financial instruments in 2012 recognized in the income statement are attributable to market risk and, more specifically, to interest rate risk. . The fair value of these assets was estimated by calculating the present value of their cash flows.

6.2.2. Other financial liabilities at fair value through profit or loss

This heading includes repurchase agreements arranged by the Confederación which are managed jointly with reverse repurchase agreements relating to financial assets classified in "Other Financial Assets at Fair Value Through Profit or Loss" and with interest rate derivatives and financial instruments classified as held for trading and other available-for-sale financial assets.

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). The detail, by nature, of the financial liabilities included in "Other Financial Liabilities at Fair Value Through Profit or Loss" in the balance sheets at 31 December 2011 is as follows:

	THOUSANDS OF EUROS 2012	THOUSANDS OF EUROS 2011
Deposits from central banks-		
Repurchase agreements with the European Central Bank	-	930,504
Valuation adjustments-		
Accrued interest	-	222
Revaluation gains	-	114
	-	336
	-	930,840
Deposits from credit institutions-		
Repurchase agreements with credit institutions	-	352,757
Valuation adjustments-		
Accrued interest	-	6
Revaluation gains	-	(13)
	-	(7)
	-	352,750

	THOUSANDS OF EUROS 2012	THOUSANDS OF EUROS 2011
Customer deposits-		
Repurchase agreements with the Public Treasury	-	-
Repurchase agreements to entities with central counterparties	-	987,673
Repurchase agreements with other resident sectors in Spain	-	46,391
Repurchase agreements with other non-resident sectors in Spain	-	-
Valuation adjustments-		
Accrued interest	-	4,635
Revaluation gains	-	2,435
	-	7,070
	-	1,041,134
	-	2,324,724

In view of the characteristics of these financial liabilities (sales of assets under non-optional repurchase agreements arranged by the Confederación), the significant changes in the fair value of these financial instruments in at 31 December 2011 are attributable to market risk (mainly interest rate risk) rather than credit risk. The fair value of these financial liabilities is deemed to be a reliable estimate of the present value of their future cash flows.

The amounts shown in the above table, net of their related valuation adjustments for "Revaluation Gains", represent the amortized cost of these liabilities at 31 December 2011, which does not differ significantly from the amount that would be payable by the Confederación if they matured at that date.

Note 21 discloses information on the fair value of the financial liabilities included in this category at 31 December 2011. Note 24 provides information on the liquidity risk associated with these financial liabilities.

Note 23 shows certain information on the market risk associated with these financial liabilities and Note 25 contains information on interest rate risk.

7. Available-for-sale financial assets

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). Following is a detail of the balances of "Available-for-Sale Financial Assets" in the balance sheets at 31 December 2011:

	THOUSANDS OF EUROS	
	2012	2011
Debt instruments-		
Values of Spanish Central Governments	-	2,869,089
Of which:		
Treasury bills	-	2,026,369
Government debt securities	-	842,720
Other securities	-	14,979
Securities of other Public institutions	-	638,738
	-	3,522,806
Valuation adjustments-		
Accrued interest	-	19,325
Revaluation losses	-	(51,268)
Impairment losses	-	(2,130)
	-	(34,073)
	-	3,488,733

	THOUSANDS OF EUROS	
	2012	2011
Equity instruments-		
Shares quoted on secondary organized markets	-	51,215
Shares not quoted on organized markets	-	32,246
	-	83,461
Valuation adjustments-		
Revaluation gains	-	42,338
Impairment losses	-	(6,226)
	-	36,112
	-	119,573
	-	3,608,306

Note 21 contains certain information on the fair value of the financial instruments included in this category.

Note 22 includes information on the credit risk to which the debt instruments included in this financial instrument category are subject.

Note 23 shows certain information on the market risk to which the Confederación is exposed in relation to these financial assets. Note 25 shows information on the exposure to interest rate risk.

Note 24 discloses certain information on the Confederación's liquidity risk, including information on the terms to maturity of these financial assets at 31 December 2011. Note 26 includes information on the concentration risk associated to these financial assets.

8. Loans and receivables

8.1. Breakdown

Following is a detail of the financial assets included in "Loans and Receivables" in the balance sheets at 31 December 2012 and 2011:

	THOUSANDS OF EUROS	
	2012	2011
Loans and advances to credit institutions-		
Time deposits	-	811,789
Other accounts	13,542	1,288,775
Securities lending (*)	-	293,629
Other financial assets	-	7,929
	13,542	2,402,122
Valuation adjustments-		
Impairment losses	-	(5)
Accrued interest	-	1,300
	-	1,295
	13,542	2,403,417
Loans and advances to customers-		
Deposits for futures transactions and other guarantees given	-	97,778
Unsettled stock exchange transactions	-	42,938
Mortgage secured loans	-	49,576
Unsecured credits and loans	-	69,575
Secured credit and loans	-	200,000
Other assets	-	456
Doubtful assets	-	41
	-	460,364
Valuation adjustments-		
Impairment losses	-	(1,996)
Accrued interest	-	222
	-	(1,774)
	-	458,590
Debt instruments-		
Issued by Spanish Public Administrations	-	-
Issued by non-residents in Spain	-	101,168
Issued by residents in Spain	-	2,366,564
Doubtful assets	-	99,388
Valuation adjustments-		
Impairment losses	-	(129,452)
Other valuation adjustments (micro-hedge)	-	4,972
	-	2,442,640
	13,542	5,304,647

(*) Relates to the amount delivered by the Confederación. as security for securities lending transactions (see Note 28.5)

At, 31 December 2012 the balance of "Loans and Receivables" includes a current account held with Cecabank, S.A. (see Note 41).

Note 22 discloses certain relevant information on the credit risk relating to the financial assets included in this financial instrument category at 31 December 2011. Note 21 provides information on the fair value at 31 December 2011 of the financial assets included in this category.

Note 23 includes information on the market risk associated with these financial assets at 31 December 2011.

Note 24 contains information on the liquidity risk associated with the Confederación's financial instruments at 31 December 2011, including information on the terms to maturity at those dates of the financial assets included in this category.

Note 25 shows information on the exposure to interest rate risk. Note 26 includes information on the concentration risk associated with the financial assets included in this category at 31 December 2011.

9. Hedging derivatives

Fair value hedges

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). As of 31 December 2011, the Confederación entered into financial derivatives transactions with various counterparties of recognized creditworthiness which are considered fair value hedges of certain balance sheet positions against fluctuations in market interest rates.

The Confederación's hedged balance sheet positions relate to fixed-rate debt instruments (guaranteed issues, government bonds and treasury bills). These securities are issued by the Spanish government, Spanish private sector financial institutions and other resident sectors.

Given that the positions giving rise to the risk are long-term transactions tied to a fixed interest rate, the main aim of the hedge is to change the returns of the hedged items from fixed to floating and, accordingly, their performance to changes in market interest rates. To this end, the Confederación uses OTC interest rate derivatives (basically swaps such as call money swaps).

The Confederación used call money swaps to hedge each group of debt instruments, which were grouped on the basis of their sensitivity to changes in interest rates, and documents the related efficiency analyses of the hedges to verify that, at inception and throughout the life of these hedges, the Confederación can expect, prospectively, that the changes in fair value of the hedged items attributable to the hedged risk will be almost fully offset by changes in the fair value of the hedging instruments and, retrospectively, that the actual results of the hedge are within a range of 80% to 125% of the results of the hedged item. The aforementioned hedges are highly effective.

Following is a detail of the fair value of the hedging instruments at 31 December 2011:

THOUSANDS OF EUROS

	Fair value of hedging instruments			
	2012		2011	
	Asset balances	Liability balances	Asset balances	Liability balances
Hedged instrument				
Loans and receivables	-	-	10	18,097
Available-for-sale assets	-	-	-	7,662
	-	-	10	25,759

Gains/losses on hedging instruments and hedged items are recognized under "Gains/Losses on Financial Assets and Liabilities (Net)" in the income statement of the Confederación (see Note 34).

10. Non-current assets held for sale

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). The breakdown of the balance of "Non-Current Assets Held for Sale" in the balance sheets at 31 December 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Tangible assets -		
Foreclosed residential assets	-	-
Other residential assets	-	84
Equity instruments -		
Investments in associates	-	-
Impairment losses	-	-
	-	84

The only change recognized in this balance sheet line item in 2011 was the sale for EUR 1,050 thousand of a residential asset, the carrying amount of which was EUR 77 thousand. The gain obtained on this sale, EUR 945 thousand, was recognized with a credit to "Gains (Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations" in the income statement.

11. Investments

The detail of the investments held by the Confederación in Group companies and jointly controlled entities at 31 December 2012 and 2011 is as follows:

entity	Location	PROPORTION OF OWNERSHIP INTEREST (%) 2012	2011	CARRYING VALUE (THOUSAND OF EUROS) 2012	2011
Subsidiaries:					
Cecabank, S.A.	Madrid	89	-	648,817	-
Caja Activa, S.A.	Madrid	-	99.9	-	60
CEA Trade Services Limited	Hong Kong	-	100	-	4
				648,817	64
Jointly controlled entities:					
Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A.	Madrid	-	50	-	451
				648,817	515

The changes in "Investments" in the Confederación's balance sheet in 2012 arose from the spin-off process performed in that year, whereby the Confederación spun off to Cecabank, S.A., inter alia, the investments held in the share capital of Caja Activa, S.A., CEA Trade Services Limited and Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A. The only investment it held on its balance sheet at 31 December 2012 was the 89% ownership interest in the share capital of Cecabank, S.A. (see Note 1.1). At 31 December 2011 the Confederación did not have any investments classified as "Associates".

12. Tangible assets

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). The changes in 2012 and 2011 in "Tangible Assets" in the balance sheets were as follows:

	THOUSANDS OF EUROS				
	Property, Plant and Equipment for Own Use				
	Land and Buildings	Furniture, Fixtures and Vehicles	IT Equipment and Related Fixtures	Investment Property	Total
Cost:					
Balance at 1 January 2011	121,668	46,219	22,065	1,333	191,285
Additions	-	555	970	-	1,525
Disposals	-	(1,437)	(6,131)	-	(7,568)
Transfers	(1,770)	1,770	-	-	-
Other	-	(314)	(167)	-	(481)
Balance at 31 December 2011	119,898	46,793	16,737	1,333	184,761
Spin-off effect (Note 1.1)	(119,898)	(46,793)	(16,737)	(1,333)	(184,761)
Additions					
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
Other	-	-	-	-	-
Balance at 31 December 2012	-	-	-	-	-

	THOUSANDS OF EUROS				
	Property, Plant and Equipment for Own Use				
	Land and Buildings	Furniture, Fixtures and Vehicles	IT Equipment and Related Fixtures	Investment Property	Total
Accumulated depreciation:					
Balance at 1 January 2011	(32,407)	(35,845)	(19,200)	(165)	(87,617)
Charge for the year (Note 40)	(2,051)	(3,177)	(1,512)	(36)	(6,776)
Disposals	-	1,437	6,131	-	7,568
Transfers	277	(277)	-	-	-
Other	-	327	151	-	478
Balance at 31 December 2011	(34,181)	(37,535)	(14,430)	(201)	(86,347)
Spin-off effect (Note 1.1)	34,181	37,535	14,430	201	86,347
Charge for the year (Note 40)					
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
Other	-	-	-	-	-
Balance at 31 December 2012	-	-	-	-	-
Tangible assets, net:					
Net balance at 31 December 2011	85,717	9,258	2,307	1,132	98,414
Net balance at 31 December 2012	-	-	-	-	-

At 31 December 2011, property, plant and equipment for own use totaling (gross) approximately EUR 36,886 thousand had been depreciated in full.

At 31 December 2011, the tangible assets owned by the Confederación were not impaired and there were no changes in this connection in those years.

The rental income earned from investment property owned by the Confederación amounted to approximately EUR 808 thousand in 2011 (see Note 35).

13. Intangible assets

13.1. Intangible assets - Other intangible assets

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). The balance of "Other Intangible Assets" relates in full to computer software, developed mainly by the Confederación, which is amortized by the straight-line method on the basis of its estimated useful life over a period of three to five years, The breakdown of the balance of "Other Intangible Assets" in the balance sheets at 31 December 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Intangible assets with finite useful life	-	5,492
Less:		
Accumulated amortization	-	(3,046)
Impairment losses		-
TOTAL NET	-	2,446

At 31 December 2011, the intangible assets owned by the Confederación were not impaired and there were no changes in this connection in those years.

At 31 December 2011 the balance of fully amortized intangible assets in use was EUR 1,022 thousand.

The changes in 2012 and 2011 in “Other Intangible Assets” in the balance sheets were as follows:

	THOUSANDS OF EUROS
Cost:	
Balance at 1 January 2011	5,056
Additions	436
Disposals	-
Balance at 31 December 2011	5,492
Spin-off effect (Note 1.1.)	(5,492)
Additions	-
Disposals	-
Balance at 31 December 2012	-
Accumulated amortization:	
Balance at 1 January 2011	(2,256)
Charge for the year (Note 40)	(790)
Disposals	-
Balance at 31 December 2011	(3,046)
Spin-off effect (Note 1.1.)	3,046
Charge for the year (Note 40)	-
Disposals	-
Balance at 31 December 2012	-
Intangible assets, net:	
Net balance at 31 December 2011	2,446
Net balance at 31 December 2012	-

14. Other assets and liabilities

The breakdown of the balance of “Other Assets” and “Other Liabilities” in the balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Other assets		
Prepayments and accrued income		
Fees and commissions receivable	-	5.958
Commissions for guarantees received	-	13.129
Prepayments	24	100
Other assets-	-	5.865
Transactions in transit	-	5.029
Other	-	11.950
	24	42.031

	THOUSANDS OF EUROS	
	2012	2011
Other liabilities		
Accrued expenses and deferred income		
Fees and commissions payable	-	2,747
Accrued expenses	126	55,113
Accrued revenues	-	254
Other liabilities-		
Transactions in transit	-	698,575
Other	-	6,446
	126	763.135

“Prepayments and Accrued Income - Fees and Commissions Receivable” includes the accrued commissions receivable by the Confederación in relation to various services provided, basically in relation to the payment methods business and the custody business for collective investment undertakings and pension funds.

“Other Assets - Transactions in Transit” and “Other liabilities - Transactions in Transit” mainly include temporary balances which relate basically to securities underwriting transactions and other unsettled OTC transactions within the Securities Clearing and Settlement Service.

15. Financial liabilities at amortized cost

15.1. Breakdown

The detail of the items composing the balance of “Financial Liabilities at Amortized Cost” in the balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Deposits from central banks	-	344,711
Deposits from credit institutions	-	2,915,765
Customer deposits	-	3,440,188
Other financial liabilities	101	290,745
	101	6,991,409
Valuation adjustments	-	8,905
	101	7,000,314

15.2. Financial liabilities at amortized cost - Deposits from central banks

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). The breakdown of the balance of this item in the balance sheets at 31 December 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Deposits from Bank of Spain	-	344,711
Deposits from other central banks	-	-
Valuation adjustments	-	134
	-	344,845

15.3. Financial liabilities at amortized cost - Deposits from credit institutions

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). The breakdown, by geographical area of residence of the counterparty and type of instrument, of the balance of this item in the balance sheets at 31 December 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
By geographical location:		
Spain	-	2,078,865
Other EMU countries	-	530,704
Rest of the world	-	307,446
	-	2,917,015
By type of instrument:		
Demand deposits and other-		
Other accounts	-	1,943,385
Time deposits-		
Time deposits	-	685,626
Repurchase agreements	-	286,754
	-	2,915,765
Valuation adjustments:	-	1,250
	-	2,917,015

15.4. Financial liabilities at amortized cost - Customer deposits

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). The breakdown, by geographical area of residence of the counterparty, type of instrument and type of counterparty, of the balance of this item in the balance sheets at 31 December 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
By geographical location:		
Spain	-	2,587,027
Other EMU countries	-	858,175
Rest of the world	-	2,507
	-	3,447,709
By counterparty:		
Resident public sector	-	194,470
Non-resident public sector	-	1,484
Other resident sectors	-	2,386,729
Other non-resident sectors	-	21,368
Central counterparties	-	836,137
	-	3,440,188
Valuation adjustments	-	7,521
	-	3,447,709
By type of instrument:		
Current accounts	-	2,532,722
Other demand deposits	-	24,044
Fixed-term deposits	-	24,044
Repurchase agreements	-	247,285
	-	3,440,188
Valuation adjustments	-	7,521
	-	3,447,709

15.5. Financial liabilities at amortized cost - Other financial liabilities

The breakdown of the balance of this item in the balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Payment obligations	45	9,023
Collateral received	-	20,076
Tax collection accounts	56	6,676
Special accounts	-	35,362
Other	-	219,608
	101	290,745

The balance of "Special Accounts" in the foregoing table includes, among other items, unsettled securities underwriting transactions and other unsettled transactions performed in organized markets totaling EUR 35,203 thousand at 31 December 2011.

The balance of "Other" in the above table includes EUR 162,900 thousand at 31 December 2011 relating the means of payments operating procedures of certain credit institutions done through the Bank. The related balances are transitory and are settled on the first business day following the date on which they arose.

16. Provisions

16.1. Provisions (net)

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). The detail, according to the purpose of the net provisions recognized, of this item in the income statements for 2011 is as follows:

	THOUSANDS OF EUROS	
	NET ADDITIONS/ (REVERSALS)	
	2012	2011
Additions to/(Reversal of) provisions for pensions and similar obligations (Note 16.2)	-	58,504
Additions to/ (Reversal of) provisions for contingent liabilities and commitments (Note 16.3)	-	3
Additions to/ (Reversal of) other provisions (Note 16.3)	-	74,268
	-	132,775

16.2. Provisions - Provisions for pensions and similar obligations

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). The breakdown of this item in the balance sheets at 31 December 2012 and 2011 and the changes therein in 2012 and 2011, are as follows:

	THOUSANDS OF EUROS		
	PENSION OBLIGATIONS (NOTE 2.11.1)	OTHER LONG-TERM BENEFITS (NOTE 2.11.2.1)	TOTAL
Balances at 1 January 2011	9,453	-	9,453
Net addition/(reversal) charged/(credited) to income (Note 16.1)	(3,744)	62,248	58,504
Payments to early retirees and contributions to the external pension plan	-	(3,470)	(3,470)
Current service cost (Note 36)	59	-	59
Financial cost (Note 30)	351	570	921
Balances at 31 December 2011	6,119	59,348	65,467
Spin-off effect (Note 1.1)	(6,119)	(59,348)	(65,467)
Net addition/(reversal) charged/(credited) to income (Note 16.1)	-	-	-
Payments to early retirees and contributions to the external pension plan	-	-	-
Current service cost (Note 36)	-	-	-
Financial cost (Note 30)	-	-	-
Balances at 31 December 2012	-	-	-

16.3. Provisions - Provisions for contingent liabilities and commitments and other provisions

The changes in 2012 and 2011 in the balances of these items in the balance sheets at 31 December 2012 and 2011 were as follows:

	THOUSANDS OF EUROS	
	PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS (NOTES 2.10 AND 22)	OTHER PROVISIONS
Balances at 1 January 2011	14	66,559
Net addition/(reversal) charged/(credited) to income (Note 16.1)	3	74,268
Amounts used	-	(9)
Balances at 31 December 2011	17	140,818
Spin-off effect (Note 1.1.)	(17)	(140,818)
Net addition/ (reversal) charged/(credited) to income (Note 16.1)	-	-
Amounts used	-	-
lances at 31 December 2012	-	-

At 31 December 2011, the balance of “Other Provisions” in the foregoing table included the amounts allocated by the Confederación to cover certain liabilities and contingencies arising from its business activities.

17. Valuation adjustments

17.1. Valuation adjustments - Available-for-sale financial assets

This item in the balance sheets at 31 December 2011 includes the amount, net of the related tax effect, of changes in the fair value of assets classified as available-for-sale assets (see Note 7) which, as stated in Note 2, should be recognized in the Confederación's equity; these changes are recognized in the income statements when the assets which gave rise to them are sold or when these assets become impaired. The accompanying statements of recognized income and expense show the changes in 2012 and 2011 in this item in the balance sheets at 31 December 2012 and 2011.

18. Non-voting equity units and associated funds

"Equity - Other Equity Instruments - Non-Voting Equity Units and Associated Funds" in the balance sheets at 31 December 2011 included EUR 30,051 thousand, which corresponded to the carrying value of the 5,000 participation certificates of EUR 6,010.12 face value each, issued by the Confederación and fully subscribed and paid by the federated member savings banks. These certificates, which were deemed to be equity, can only be transferred between federated savings banks.

As part of the spin-off process (see Note 1.1), on 13 November 2012, the Confederación repurchased the non-voting equity units issued in 1988 which were recognized in equity in its balance sheet at 31 December 2011. It made an offer to the holders of these non-voting equity units, the acceptance of which would give rise to a simultaneous, irrevocable commitment to subscribe ordinary shares of Cecabank, S.A. for a cash amount equal to that of the repurchased non-voting equity units. As previously stated, in the Note 1.1 the Confederación had developed its activities indirectly through Cecabank. The repurchase offer amounted to EUR 81,089 thousand, i.e. EUR 16,217.83 per non-voting equity unit.

Since most of the holders of the non-voting equity units accepted this offer and, as a result, became shareholders of Cecabank, S.A., the amount recognized under "Own Funds - Other Equity Instruments - Non-Voting Equity Units and Associated Funds" in the Confederación's equity at 31 December 2012 was EUR 799 thousand, relating to the non-voting equity units that had not been redeemed. These non-voting equity units are transferable between the savings banks and the entities that form part of a single group of savings banks.

According to the Confederación's bylaws, each year the General Assembly, at the proposal of the Board of Directors, will set the remuneration on the non-voting equity units depending on the balance of the income statement. If the balance were zero or negative, there would be no remuneration agreement.

19. Reserves

The breakdown of "Reserves - Accumulated Reserves (Losses)" in the balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Reserves attributed to the Confederación's:		
Voluntary reserves	653,175	630,387
Asset revaluation reserves	-	39,094
	653,175	669,481

At, 31 December 2011 the balance of "Asset Revaluation Reserves" in the foregoing table includes the net reserves that arose on the revaluation of certain tangible assets on the date of first-time application of Bank of Spain Circular 4/2004 (1 January 2004). The difference in the amount recognized in this connection at 31 December 2012 and 2011 relates to the amount transferred to unrestricted reserves under the spin-off process undergone in 2012 (see Note 1.1).

20. Tax matters

The Confederación is the parent company of the Tax Consolidation Group number 508/12, Cecabank, S.A. being the only subsidiary.

The Confederación file individual income tax returns in accordance with the applicable tax regulations.

20.1. Years open for review by the tax authorities

Pursuant to current legislation, tax settlements cannot be deemed to be definitive until they have been reviewed by the tax authorities or until the related statute-of-limitations period has expired.

Accordingly, at 31 December 2012, the Confederación had open for review by the tax authorities the taxes to which their business activities are subject, and for which at that date, had not passed within four years from the end of his term voluntary declaration.

Because of the varying interpretations that can be made of the tax legislation, the outcome of any reviews of the open years by the tax authorities might give rise to tax liabilities which cannot be objectively quantified at the present time. However, the tax advisers and directors of the Confederación consider that the possibility of material liabilities arising in this connection additional to those already recognized is remote.

In any event, in this regard it is important to take into consideration that, as a result of the spin-off described in Note 1.1, Cecabank, S.A. became the successor entity to the Confederación and assumed, in accordance with Article 90 of the Spanish Corporation Tax Law ("the TRLIS"), approved by Legislative Royal Decree 4/2004, of 5 March, all tax rights and obligations in relation to the assets and rights transferred by the Confederación, and the obligation of satisfying the requirements arising from the tax incentives held by the transferor insofar as they refer to the transferred assets and rights.

In 2012 the Confederación was involved in a corporate restructuring subject to the special tax neutrality regime regulated by Title VII, Chapter VIII of the TRLIS approved by Legislative Royal Decree 4/2004, of 5 March (see Note 1.1).

In order to comply with the provisions of Article 93 of the TRLIS with regard to the spin-off performed by the Confederación to Cecabank, S.A., it is hereby stated that the carrying amount of the spun-off assets and liabilities is the same as that of the shares of Cecabank, S.A. obtained as a result of this transaction.

20.2. Income tax

The detail of "Income Tax" in the income statements for 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Income tax expense for the year	(926)	11,020
Prior years' and other adjustments	-	(776)
	(926)	10,244

20.3. Reconciliation of accounting profit to taxable profit

The reconciliation of the income tax expense recognized for 2012 and 2011 to the accounting profit before tax multiplied by the tax rate applicable to the Confederación, and the income tax charge recognized at 31 December 2012 and 2011 are as follows:

	THOUSANDS OF EUROS	
	2012	2011
Accounting profit before tax	8,413	49,000
Tax rate	30%	30%
	2,524	14,700
Permanent differences:		
Increases	150	36
Decreases	(2,400)	(1,144)
Total	274	13,592
(Tax credits)/(Tax relief)	(1,200)	(2,572)
Income tax expense for the year	(926)	11,020
Temporary differences:		
Increases	-	51,392
Decreases	-	(15,165)
Tax withholdings and prepayments	(390)	(38,804)
Income tax charge for the year (1)	(1,316)	8,443

(1) This amount is recognized under "Tax assets - Current" and "Tax Liabilities - Current" in the balance sheets at 31 December 2012 and 2011.

The permanent decreases in the taxable profit in the foregoing table include, among other items, the deduction of EUR 8,000 thousand relating to the amounts the Confederación assigned to welfare projects in 2012 (2011: EUR 3,715 thousand) (see Note 3).

"Tax Credits/Tax Relief" in the foregoing table includes, inter alia, tax credits for double taxation of dividends regulated by the Spanish Corporation Tax Law.

20.4. Tax recognized in equity

The income tax expense recognized directly in the Confederación's equity gave rise to a net credit of EUR 2,067 thousand in 2012 and a net charge of EUR 150 thousand in 2011 to "Valuation Adjustments".

20.5. Deferred taxes

After the spin-off process performed in 2012 (see Note 1.1), no balance had been recognised in this item in the balance sheet at 31 December 2012.

Pursuant to the tax legislation in force, in 2011 and previous years certain temporary differences arose that must be taken into account when quantifying the related income tax expense. The deferred taxes recognized in the balance sheet at 31 December 2011 was as follows:

	THOUSANDS OF EUROS	
	2012	2011
Deferred tax assets arising from:		
Additions and contributions to pension provisions and funds and other long-term obligations to employees	-	31,035
Additions to provisions	-	41,664
Impairment losses	-	33,377
Available-for-sale debt instruments	-	19,309
Available-for sale equity instruments portfolio	-	1,197
Other	-	1,760
	-	128,342

	THOUSANDS OF EUROS	
	2012	2011
Deferred tax liabilities arising from:		
Revaluation of property	-	18,044
Available-for-sale equity instruments	-	13,899
Available-for-sale debt instruments	-	4,540
	-	36,483

20.6. Tax credit for reinvestment of extraordinary benefits

The amount of the income qualifying for the reinvestment tax credit and deductions for each year is as follows:

	THOUSANDS OF EUROS		
YEAR	INCOME QUALIFYING	RENT ACCREDITED	TAX CREDIT
2010	10,681	4,448	534
2011	846	1,820	218
	11,527	6,268	752

21. Fair value

21.1. Fair value of financial assets and liabilities

The fair value of the Confederación's financial instruments at 31 December 2011 is broken down, by class of financial asset and liability, into the following levels in these financial statements.

- LEVEL 1: financial instruments whose fair value was determined by reference to their quoted price in active markets, without making any change to these assets.
- LEVEL 2: financial instruments whose fair value is estimated by reference to quoted prices in organized markets for similar instruments or using other valuation techniques in which all the significant inputs are based on directly or indirectly observable market data.
- LEVEL 3: instruments whose fair value is estimated using valuation techniques in which certain significant inputs are not based on observable market data.

For the purposes of Levels 2 and 3, the prices were obtained using standard quantitative models fed by market data, which are either directly observable or can be calibrated or calculated using observable data. The most widely used models are the Black, Libor Market and Hull-White models for interest rates, the Black&Scholes model for equities and foreign currency, and the Jarrow-Turnbull and LHP models for credit products; the most common observable data are the interest rate, exchange rate and certain implied volatilities, and the most widely used non-observable data are implied correlations, certain implied volatilities and issuer curve spreads.

The fair value of the Confederación's financial instruments at 31 December 2012 and 2011, broken down as indicated above, is as follows:

Financial assets - fair value at 31 December 2012-

THOUSANDS OF EUROS

	CASH AND BALANCES WITH CENTRAL BANKS (NOTE 5)		FINANCIAL ASSETS HELD FOR TRADING (NOTE 6)		OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (NOTE 6)		AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 7)		LOANS AND RECEIVABLES (NOTE 8)		HEDGING DERIVATIVES (NOTE 9)	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Level 1:												
Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-
Level 2:												
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	-	-	-	-	-	-	-	-	13,542	13,542	-	-
Loans and advances to customers	-	-	-	-	-	-	-	-	-	-	-	-
Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Trading derivatives	-	-	-	-	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	13,542	13,542	-	-
Level 3:												
Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
Equity instruments carried at cost	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	13,542	13,542	-	-

Financial liabilities - fair value at 31 December 2012-

	THOUSANDS OF EUROS							
	FINANCIAL LIABILITIES HELD FOR TRADING (NOTE 6)		OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (NOTE 6)		FINANCIAL LIABILITIES AT AMORTIZED COST (NOTE 15)		HEDGING DERIVATIVES (NOTE 9)	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Level 1:								
Trading derivatives	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Level 2:								
Deposits from central banks	-	-	-	-	-	-	-	-
Deposits from credit institutions	-	-	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-	-	-
Trading derivatives	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	101	101	-	-
Hedging derivatives	-	-	-	-	-	-	-	-
	-	-	-	-	101	101	-	-
Level 3:								
Deposits from credit institutions	-	-	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-	-	-
Trading derivatives	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	101	101	-	-

Financial assets - fair value at 31 December 2011-

THOUSANDS OF EUROS

	CASH AND BALANCES WITH CENTRAL BANKS (NOTE 5)		FINANCIAL ASSETS HELD FOR TRADING (NOTE 6)		OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (NOTE 6)		AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 7)		LOANS AND RECEIVABLES (NOTE 8)		HEDGING DERIVATIVES (NOTE 9)	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Level 1:												
Debt instruments	-	-	659,571	659,571	-	-	3,332,492	3,332,492	1,704,087	1,690,155	-	-
Equity instruments	-	-	39,284	39,284	-	-	42,029	42,029	-	-	-	-
Derivatives	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	698,855	698,855	-	-	3,374,521	3,374,521	1,704,087	1,690,155	-	-
Level 2:												
Cash and balances with central banks	492,394	492,394	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	-	-	-	-	493,590	493,590	-	-	2,403,417	2,403,417	-	-
Loans and advances to customers	-	-	-	-	506,287	506,287	-	-	458,590	458,590	-	-
Debt instruments	-	-	4,921	4,921	-	-	156,241	156,241	738,553	776,299	-	-
Equity instruments	-	-	-	-	-	-	77,544	77,544	-	-	-	-
Trading derivatives	-	-	5,078,006	5,078,006	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-	-	-	10	10
	492,394	492,394	5,082,927	5,082,927	999,877	999,877	233,785	233,785	3,600,560	3,638,306	10	10
Level 3:												
Debt instruments	-	-	-	-	-	-	-	-	-	35	-	-
Equity instruments carried at cost	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	35	-	-
	492,394	492,394	5,781,782	5,781,782	999,877	999,877	3,608,306	3,608,306	5,304,647	5,328,496	10	10

Financial liabilities - fair value at 31 December 2011-

	THOUSANDS OF EUROS							
	FINANCIAL LIABILITIES HELD FOR TRADING (NOTE 6)		OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (NOTE 6)		FINANCIAL LIABILITIES AT AMORTIZED COST (NOTE 15)		HEDGING DERIVATIVES (NOTE 9)	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Level 1:								
Trading derivatives	38	38	-	-	-	-	-	-
Short positions	343,354	343,354	-	-	-	-	-	-
	343,392	343,392	-	-	-	-	-	-
Level 2:								
Deposits from central banks	-	-	930,840	930,840	344,845	344,845	-	-
Deposits from credit institutions	-	-	352,750	352,750	2,917,015	2,917,015	-	-
Customer deposits	-	-	1,041,134	1,041,134	3,447,709	3,447,709	-	-
Trading derivatives	5,017,255	5,017,255	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	290,745	290,745	-	-
Hedging derivatives	-	-	-	-	-	-	25,759	25,759
	5,017,255	5,017,255	2,324,724	2,324,724	7,000,314	7,000,314	25,759	25,759
Level 3:								
Deposits from credit institutions	-	-	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-	-	-
Trading derivatives	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	5,360,647	5,360,647	2,324,724	2,324,724	7,000,314	7,000,314	25,759	25,759

It should be mentioned, with respect to the fair values included in the foregoing tables, that:

- The fair value of the loans and advances to credit institutions and the loans and advances to customers classified under “Loans and Receivables” in the foregoing tables is the same as their carrying amount since, in view of their features (counterparties, interest rates and maturities), their fair value is not significantly different from their amortized cost.
- The fair value of the asset balances relating to cash and balances with central banks shown in the foregoing tables was estimated to be the same as their carrying amount, since it was considered that the fair value of these items was not significantly different from their carrying amount.
- The fair value of the liabilities classified as financial liabilities at amortized cost in the foregoing tables was the same as their carrying amount, since it was considered that, in view of the maturities and interest rates of these liabilities, their fair value was not significantly different from their amortized cost.

At 31 December 2012, the fair value of the financial assets and liabilities recognised in the Confederación’s balance sheet was not significantly different from their carrying amount.

Following is a detail of the changes in fair value of the Confederación’s financial instruments in respect of unrealized gains and losses at 31 December 2011 which were recognized in the financial statements for 2011. The fair value of these financial instruments is calculated applying a valuation technique in which variables are obtained from observable market data (Level 2) or using valuation techniques in which certain significant inputs are not based on observable market data (Level 3):

	THOUSANDS OF EUROS	
	NET GAIN/ (LOSS)	
	2012	2011
Level 2		
Financial assets held for trading		
Derivatives	-	1,086,899
Debt instruments	-	102
Other financial assets at fair value through profit or loss		
Loans and advances to credit institutions	-	539
Loans and advances to customers	-	855
Financial liabilities held for trading		
Derivatives	-	(1,040,071)
Hedging derivatives (asset balances)	-	(159)
Hedging derivatives (liability balances)	-	(21,182)
Other financial liabilities at fair value through profit or loss		
Deposits from central banks	-	(117)
Deposits from credit institutions	-	29
Customer deposits	-	(11,934)
Loans and receivables		
Debt instruments	-	-
Available-for-sale financial assets		
Debt instruments	-	-
Equity instruments	-	-
	-	14,961
Level 3		
Financial assets held for trading		
Debt instruments	-	-
	-	14,961

21.2. Fair value of tangible assets

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). The only tangible assets owned by the Confederación whose carrying amount differs significantly from their fair value are the properties owned by it. At 31 December 2011, the carrying amount of these properties amounted to EUR 86,849 thousand and their estimated fair value at that date was EUR 145,106 thousand.

The aforementioned fair value was estimated by Tinsa, S.A. using generally accepted valuation techniques.

22. Exposure to credit risk associated with financial instruments

22.1. Credit risk management objectives, policies and processes

Credit risk is defined as the risk that affects, or might affect, results or capital as a result of non-compliance by a borrower with its contractual obligations, or of the borrower failing to act as agreed. This category includes:

- Principal risk: the risk of loss of the principal delivered.
- Replacement cost or counterparty risk: this relates to the counterparty's ability and intention to meet its contractual obligations on maturity. Credit risk exists throughout the term of the transaction, but it can vary from one day to the next due to the settlement mechanisms involved and to changes in the marking to market.
- Issuer risk: this risk arises when trading the financial assets of an issuer as a result of a change in the market perception of the issuer's economic and financial strength.

- **Settlement or delivery risk:** the risk that one of the parties to the transaction fails to deliver the agreed-upon consideration.
- **Country risk:** it is the credit risk associated with debts held by debtors in a given country due to circumstances other than normal commercial risk. It may take the form of transfer risk, sovereign risk or other risks arising from international financial activity.
- **Concentration risk:** measures the extent of the concentration of credit risk exposure to a specific geographical area/country, economic sector, product and customer group.
- **Residual risk:** includes risk derived from hedging strategies, credit risk mitigation techniques, securitization, etc.

After the spin-off process performed in 2012, the Confederación spun off its financial activity to Cecabank, S.A. and, accordingly, at 31 December 2012, the Confederación's directors consider that it does not have any credit risk exposure (see Note 1.1), since the only financial asset it had recognised in its balance sheet is the current/demand account held with Cecabank, S.A.

22.2. Maximum credit risk exposure level

After the spin-off process performed in 2012 (see Note 1.1) , the Confederación's maximum level of credit risk exposure relates to the amount recognised under "Loans and Receivables - Loans and Advances to Credit Institutions", which relates to the current/demand account held with Cecabank, S.A . The following tables show the maximum level of exposure to credit risk assumed by the Confederación at 31 December 2011 by class and category of financial instrument, without deducting the collateral or other guarantees received by the Confederación to ensure debtors meet their obligations:

31 December 2011:

	THOUSANDS OF EURO						
	ASSETS						
	FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS						
	FINANCIAL ASSET HELD FOR TRADING (NOTE 6.1) (1)	OTHER ASSETS (NOTE 6.2)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 7)	LOANS AND RECEIVABLES (NOTE 8)	HEDGING DERIVATIVES (NOTE 9)	MEMORANDUM ITEMS	TOTAL
1. Debt instruments							
1.1. Loans and advances to credit institutions	-	493,166	-	2,402,122	-	-	2,895,288
Reverse repurchase agreements	-	493,166	-	-	-	-	493,166
Time deposits	-	-	-	811,789	-	-	811,789
Guarantee deposits on securities lending transactions	-	-	-	293,629	-	-	293,629
Doubtful assets	-	-	-	-	-	-	-
Other accounts and other	-	-	-	1,296,704	-	-	1,296,704
1.2. Debt instruments	664,492	-	3,522,806	2,567,120	-	-	6,754,418
Government debt securities	623,043	-	842,720	-	-	-	1,465,763
Treasury bills	-	-	2,026,369	-	-	-	2,026,369
Other public institutions	-	-	14,979	-	-	-	14,979
Spanish credit institutions	22,359	-	170,166	1,916,195	-	-	2,108,720
Non-resident credit institutions	-	-	110,070	-	-	-	110,070
Private sector (Spain)	19,090	-	332,330	450,369	-	-	801,789
Private sector (rest of the world)	-	-	26,172	101,168	-	-	127,340
Doubtful assets	-	-	-	99,388	-	-	99,388

(1) The maximum credit risk exposure of the instruments included in the foregoing table was taken to be their fair value at 31 December 2011.

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	THOUSANDS OF EURO						
	ASSETS						
	FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS						
	FINANCIAL ASSET HELD FOR TRADING (NOTE 6.1) (1)	OTHER ASSETS (NOTE 6.2)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 7)	LOANS AND RECEIVABLES (NOTE 8)	HEDGING DERIVATIVES (NOTE 9)	MEMORANDUM ITEMS	TOTAL
1.3. Loans and advances to customers	-	506,351	-	460,364	-	-	966,715
Reverse repurchase agreements	-	506,351	-	-	-	-	506,351
Mortgage loans	-	-	-	49,576	-	-	49,576
Guarantee deposits on securities lending transactions	-	-	-	-	-	-	-
Other loans and credits	-	-	-	269,575	-	-	269,575
Doubtful assets	-	-	-	41	-	-	41
Other assets	-	-	-	141,172	-	-	141,172
Total debt instruments	664,492	999,517	3,522,806	5,429,606	-	-	10,616,421
2. Contingent liabilities							
Financial guarantees (Note 28.1)	-	-	-	-	-	68,445	68,445
Documentary credits (Note 28.1)	-	-	-	-	-	6,072	6,072
Total contingent liabilities	-	-	-	-	-	74,517	74,517
3.Other exposures							
Derivatives	5,078,006	-	-	-	10	-	5,078,016
Contingent commitments (Note 28.3)	-	-	-	-	-	1,260,860	1,260,860
Total other exposures	5,078,006	-	-	-	10	1,260,860	6,338,876

(1) The maximum credit risk exposure of the instruments included in the foregoing table was taken to be their fair value at 31 December 2011.

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	THOUSANDS OF EURO						
	ASSETS						
	FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS						
	FINANCIAL ASSET HELD FOR TRADING (NOTE 6.1) (1)	OTHER ASSETS (NOTE 6.2)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 7)	LOANS AND RECEIVABLES (NOTE 8)	HEDGING DERIVATIVES (NOTE 9)	MEMORANDUM ITEMS	TOTAL
4. Less: recognized impairment losses	-	-	(2,130)	(131,453)	-	(17)	(133,600)
Maximum credit risk exposure level (1+2+3+4)	5,742,498	999,517	3,520,676	5,298,153	10	1,335,360	16,896,214
Valuation adjustments	-	360	(31,943)	6,494	-	-	(25,089)
Total accounting balance	5,742,498	999,877	3,488,733	5,304,647	10	1,335,360	16,871,125

(1) The maximum credit risk exposure of the instruments included in the foregoing table was taken to be their fair value at 31 December 2011.

With respect to the credit derivatives arranged by the Confederación, the foregoing tables include only the fair value thereof at 31 December 2011.

The contingent liabilities are presented at the maximum amount guaranteed by the Confederación. In general, it is considered that most of these balances will expire without any actual financing obligation arising for the Confederación. The collateral on these transactions must also be taken into account (see Note 22.3 below). The (drawable) balances of the contingent liabilities are presented at the maximum amounts drawable by the counterparties.

22.3. Collateral received and other credit enhancements

Contractual netting and financial guarantee or collateral agreements

The Confederación's policy with regard to the arrangement of transactions involving financial derivative products, repos, sell/buy backs and securities lending is to enter into contractual netting agreements drafted by national or international associations. These agreements enable the transactions performed thereunder to be terminated and settled early in the event of default by the counterparty in such a way that the parties can only claim the net balance resulting from the settlement of such transactions.

Derivative financial instruments are arranged using ISDA Master Agreements, which are subject to the laws of England and Wales or the State of New York, or the Framework Agreement for Financial Transactions (CMOF) which is subject to Spanish law, depending on the counterparty. Financial guarantee agreements, namely the Credit Support Annex for ISDA Master Agreements and Appendix III for CMOFs, are entered into to hedge derivative financial instruments exceeding certain risk levels.

Standard Global Master Repurchase Agreements (GMRA) are entered into for repo and sell/buy back transactions, while standard European Master Agreement (EMA) or Global Master Securities Lending Agreements (GMSLA) are used for securities lending transactions. The clauses of these types of contractual netting agreements include regulations on the financial guarantees or spreads on the transactions.

Following is a detail of the Confederación's maximum credit risk exposure to each financial instrument class secured by collateral or other credit enhancements in addition to the personal guarantee of the borrower, disregarding recognized impairment losses, at 31 December 2011:

31 December 2011:

	THOUSANDS OF EURO								
	GOVERNMENT-BACKED	SECURED BY SPANISH GOVERNMENT DEBT SECURITIES	SECURED BY OTHER FIXED-INCOME SECURITIES	SECURED BY SHARES	NETTING AGREEMENTS	SECURED BY MORTGAGE	SECURED BY CASH DEPOSITS	GUARANTEED BY CREDIT INSTITUTIONS	TOTAL
1. Debt instruments									
1.1. Loans and advances to credit institutions	-	229,313	263,853	293,629	-	-	-	-	786,795
Reverse repurchase agreements	-	229,313	263,853	-	-	-	-	-	493,166
Guarantee deposits on securities lending transactions	-	-	-	293,629	-	-	-	-	293,629
Time deposits	-	-	-	-	-	-	-	-	-
1.2. Debt instruments	2,618,242	-	-	-	-	-	-	-	2,618,242
1.3. Loans and advances to customers	-	403,004	303,347	-	-	49,576	-	-	755,927
Reverse repurchase agreements	-	403,004	103,347	-	-	-	-	-	506,351
Mortgage loans	-	-	-	-	-	49,576	-	-	49,576
Guarantee deposits on securities lending transactions	-	-	200,000	-	-	-	-	-	200,000
Total debt instruments	2,618,242	632,317	567,200	293,629	-	49,576	-	-	4,160,964
2. Contingent liabilities									
Financial bank guarantees	-	68,445	-	-	-	-	-	-	68,445
Documentary credits	-	-	-	-	-	-	-	6,072	6,072
Total contingent liabilities	-	68,445	-	-	-	-	-	6,072	74,517
3. Other exposures									
Derivatives	-	-	-	-	2,341,089	-	-	-	2,341,089
Total other exposures	-	-	-	-	2,341,089	-	-	-	2,341,089
Total amount covered	2,618,242	700,762	567,200	293,629	2,341,089	49,576	-	6,072	6,576,570

22.4. Credit quality of unimpaired, non-past-due financial assets

22.4.1. Analysis of credit risk exposure by credit rating

At 31 December 2011, 65% of the exposure had been rated by a credit rating agency recognized by the Bank of Spain.

The distribution, by rating, of the rated exposure is as follows:

LEVEL	RATING (*)	PERCENTAGE
1	AAA-AA	4.6%
2	A	26.6%
3	BBB	44.6%
4	BB	18.6%
5	B	0%
6	CCC and below	5.6%
	TOTAL	100%

(*) The exposures were classified taking the most conservative of the ratings granted by the three rating agencies used to manage the Confederación's risk: Fitch, Moody's and S&P.

The table shows that, at 31 December 2011, Levels 2 and 3 accounted for 71% of rated exposure, of which the savings banks represented 44%, since most Spanish savings banks were in these categories.

After the spin-off process performed in 2012 (see Note 1.1.), the credit risk exposure is not presented by credit rating, since the only financial asset held by the Confederación in its balance sheet at 31 December 2012 is a current/demand account it holds with Cecabank, S.A .

22.4.2. Classification of credit risk exposure by counterparty

As indicated above in Note 15, the only financial asset held by the Confederación in its balance sheet at 31 December 2012 is a current/demand account held with Cecabank, S.A., which was recognised under "Loans and Receivables - Loans and Advances to Credit Institutions ".

Following is a detail, by counterparty, of the maximum credit risk exposure (disregarding recognized impairment losses) in connection with financial assets not past-due or impaired at 31 December 2011:

31 December 2011:

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	THOUSANDS OF EUROS							
	RESIDENT PUBLIC SECTOR	RESIDENT CREDIT INSTITUTIONS	OTHER RESIDENT ENTITIES	OTHER RESIDENTS	NON-RESIDENT PUBLIC SECTOR	NON-RESIDENT CREDIT INSTITUTIONS	OTHER NON-RESIDENT SECTORS	TOTAL
1. Debt instruments								
1.1. Loans and advances to credit institutions	-	2,671,632	-	-	-	223,656	-	2,895,288
Reverse repurchase agreements	-	493,166	-	-	-	-	-	493,166
Time deposits	-	746,351	-	-	-	65,438	-	811,789
Guarantee deposits on securities lending transactions	-	289,659	-	-	-	3,970	-	293,629
Other accounts	-	1,134,947	-	-	-	153,828	-	1,288,775
Other	-	7,509	-	-	-	420	-	7,929
1.2. Debt instruments	3,507,102	2,108,720	801,789	-	9	110,070	127,340	6,655,030
1.3. Loans and advances to customers	308	-	617,395	118,740	13	-	230,218	966,674
Reverse repurchase agreements	-	-	506,351	-	-	-	-	506,351
Guarantee deposits on securities lending transactions	-	-	-	-	-	-	-	-
Other loans and credits	308	-	-	69,146	13	-	200,090	269,575
Mortgage loans	-	-	-	49,576	-	-	-	49,576
Other assets	-	-	111,044	-	-	-	30,128	141,172
Total debt instruments	3,507,410	4,780,352	1,419,184	118,740	22	333,726	357,558	10,516,992

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31 December 2011:

	THOUSANDS OF EUROS							
	RESIDENT PUBLIC SECTOR	RESIDENT CREDIT INSTITUTIONS	OTHER RESIDENT ENTITIES	OTHER RESIDENTS	NON-RESIDENT PUBLIC SECTOR	NON-RESIDENT CREDIT INSTITUTIONS	OTHER NON-RESIDENT SECTORS	TOTAL
2. Contingent liabilities								
Financial bank guarantees	-	68,445	-	-	-	-	-	68,445
Documentary credits	-	-	6,072	-	-	-	-	6,072
Total contingent liabilities	-	68,445	6,072	-	-	-	-	74,517
3. Other exposures								
Derivatives	-	2,970,390	1,604,141	-	-	503,485	-	5,078,016
Contingent commitments	875,550	26,761	358,249	-	-	-	300	1,260,860
Total other exposures	875,550	2,997,151	1,962,390	-	-	503,485	300	6,338,876
Total	4,382,960	7,845,948	3,387,646	118,740	22	837,211	357,858	16,930,385

22.5. Information on non-performing loans ratios

After the spin-off process performed in 2012 (see Note 1.1), the Confederación had not recognised any doubtful assets in its balance sheet at 31 December 2012. In view of the activities carried on by the Confederación and the risk profile assumed by it, its non-performing loans ratios, measured as doubtful assets as a percentage of total credit risk, was 0.59% at 31 December 2011.

22.6. Financial assets renegotiated in the year

It is worth mentioning that during 2012 and 2011, given activities carried on by the Confederación and the risk profile assumed by it, no financial instruments had their original financial terms and conditions significantly renegotiated.

22.7. Impaired assets

After the spin-off process performed in 2012 (see Note 1.1), the Confederación had not recognised any impaired assets in its balance sheet at 31 December 2012. Following is a detail, by method used to calculate impairment losses, of the financial assets considered to be impaired due to credit risk at 31 December 2011:

	THOUSANDS OF EUROS					
	31 DECEMBER 2012			31 DECEMBER 2011		
	FINANCIAL ASSETS INDIVIDUALLY ASSESSED AS IMPAIRED	FINANCIAL ASSETS COLLECTIVELY ASSESSED AS IMPAIRED	TOTAL IMPAIRED ASSETS	FINANCIAL ASSETS INDIVIDUALLY ASSESSED AS IMPAIRED	FINANCIAL ASSETS COLLECTIVELY ASSESSED AS IMPAIRED	TOTAL IMPAIRED ASSETS
1. Debt instruments						
1.1. Loans and advances to credit institutions	-	-	-	-	-	-
1.2. Debt instruments	-	-	-	99,388	-	99,388
1.3. Loans and advances to customers	-	-	-	41	-	41
Total debt instruments	-	-	-	99,429	-	99,429
2. Contingent liabilities						
2.1. Financial bank guarantees	-	-	-	-	-	-
2.2. Documentary credits	-	-	-	-	-	-
Total contingent liabilities	-	-	-	-	-	-
3. Other exposures						
3.1. Derivatives	-	-	-	-	-	-
3.2. Contingent commitments	-	-	-	-	-	-
Total other exposures	-	-	-	-	-	-
Total	-	-	-	99,429	-	99,429

Assets (secured loans) presented by the Confederación in the foregoing table as "individually impaired" at 31 December 2011 were classified on the basis of an analysis of each such transaction, taking into account factors such as the financial position and solvency of the debtors, adverse changes in the fair value of the assets, gave rise to impairment, and other evidence justifying their classification as individually impaired under current legislation.

In connection with the information provided in the foregoing tables, it should be noted that financial assets classified as at fair value through profit or loss which might be impaired due to credit risk were not included, since when such assets are measured at fair value, any impairment losses are recognized as an adjustment to fair value in the Confederación's financial statements.

All the transactions considered by the Confederación to be impaired at 31 December 2011 were classified under the "Loans and Receivables" category.

22.8. Changes in impairment losses

After the spin-off process performed in 2012 (see Note 1.1), no balance had been recognised in this item in the balance sheet at 31 December 2012. Following are the changes in the impairment losses due to credit risk recognized by the Confederación in 2012 and 2011:

2012:

	THOUSANDS OF EUROS					
	BALANCE AT 31 DECEMBER 2011	SPIN-OFF EFFECT 1 JANUARY2012 (NOTE 1.1)	NET ADDITIONS (REVERSALS) CHARGED (CREDITED) TO INCOME	TRANSFERS BETWEEN ITEMS	AMOUNTS USED IN THE YEAR	BALANCE AT 31 DECEMBER 2012
1. Impairment losses not specifically identified						
1.1. Debt instruments						
Loans and advances to credit institutions	5	(5)	-	-	-	-
Debt instruments	2,130	(2,130)	-	-	-	-
Loans and advances to customers	1,962	(1,962)	-	-	-	-
Total debt instruments	4,097	(4,097)	-	-	-	-
1.2. Contingent liabilities						
Financial bank guarantees	17	(17)	-	-	-	-
Total contingent liabilities	17	(17)	-	-	-	-
1.3. Other exposures-	-	-	-	-	-	-
TOTAL	4,114	(4,114)	-	-	-	-
2. Specifically identified impairment losses						
2.1. Debt instruments						
Loans and advances to credit institutions	-	-	-	-	-	-
Debt instruments	129,452	(129,452)	-	-	-	-
Loans and advances to customers	34	(34)	-	-	-	-
Total debt instruments	129,486	(129,486)	-	-	-	-
2.2. Contingent liabilities	-	-	-	-	-	-
Total contingent liabilities	-	-	-	-	-	-
2.3. Other exposures	-	-	-	-	-	-
TOTAL	129,486	(129,486)	-	-	-	-
Total impairment losses (1+2)	133,600	(133,600)	-	-	-	-

2011:

	THOUSANDS OF EUROS					
	BALANCE AT 1 JANUARY 2011	NET ADDITIONS (REVERSALS) CHARGED (CREDITED) TO INCOME (**)	TRANSFERS BETWEEN ITEMS	AMOUNTS USED IN THE YEAR	OTHER CHANGES (*)	BALANCE AT 31 DECEMBER 2011
1. Impairment losses not specifically identified						
1.1. Debt instruments						
Loans and advances to credit institutions	59	(54)	-	-	-	5
Debt instruments	2,819	(689)	-	-	-	2,130
Loans and advances to customers	1,127	835	-	-	-	1,962
Total debt instruments	4,005	92	-	-	-	4,097
1.2. Contingent liabilities						
Financial bank guarantees	14	3	-	-	-	17
Total contingent liabilities	14	3	-	-	-	17
1.3. Other exposures	-	-	-	-	-	-
TOTAL	4,019	95	-	-	-	4,114
2. Specifically identified impairment losses						
2.1. Debt instruments						
Loans and advances to credit institutions	-	-	-	-	-	-
Debt instruments (***)	142,969	(10,526)	-	(3,858)	867	129,452
Loans and advances to customers	24	10	-	-	-	34
Total debt instruments	142,993	(10,516)	-	(3,858)	867	129,486
2.2. Contingent liabilities	-	-	-	-	-	-
Total contingent liabilities	-	-	-	-	-	-
2.3. Other exposures	-	-	-	-	-	-
TOTAL	142,993	(10,516)	-	(3,858)	867	129,486
Total impairment losses (1+2)	147,012	(10,421)	-	(3,858)	867	133,600

(*) Basically includes adjustments for differences in change.

(**) Of the total, EUR 10,424 thousand are recognized under “Impairment of financial assets (net) (see Note 39) and 3 thousand Euros under “ Provisions (net) (see Note 16.1) in the income statement for the year 2011.

(***) Of the total of EUR 129,452 thousand of impairment losses specifically identified debt securities, 30,065 thousand relate to providing substandard.

After the spin-off process performed in 2012 (see Note 1.1), no balance had been recognised in this item in the income statement at 31 December 2012. Following is a detail, by financial instrument category, of the impairment losses recognized by the Confederación due to credit risk at 31 December 2011:

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31 December 2011:

	AVAILABLE-FOR-SALE FINANCIAL ASSETS	LOANS AND RECEIVABLES	PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS (NOTE 16.3)	TOTAL
1. Impairment losses not specifically identified				
1.1. Debt instruments				
Loans and advances to credit institutions	-	5	-	5
Debt instruments	2,130	-	-	2,130
Loans and advances to customers	-	1,962	-	1,962
Total debt instruments	2,130	1,967	-	4,097
1.2. Contingent liabilities				
Financial bank guarantees	-	-	17	17
Total contingent liabilities	-	-	17	17
1.3. Other exposures	-	-	-	-
TOTAL	2,130	1,967	17	4,114

	AVAILABLE-FOR-SALE FINANCIAL ASSETS	LOANS AND RECEIVABLES	PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS (NOTE 16.3)	TOTAL
2. Specifically identified impairment losses				
2.1. Debt instruments				
Loans and advances to credit institutions	-	-	-	-
Debt instruments	-	129,452	-	129,452
Loans and advances to customers	-	34	-	34
Total debt instruments	-	129,486	-	129,486
2.2. Contingent liabilities	-	-	-	-
2.3. Other exposures	-	-	-	-
TOTAL	-	129,486	-	129,486
Total impairment losses (1+2)	2,130	131,453	17	133,600

As previously stated, pursuant to the applicable legislation, the Confederación does not calculate impairment losses due to credit risk on equity instruments owned by the Confederación (impairment losses on these financial assets are calculated as set forth in Note 2.3) and on debt instruments classified at fair value through profit or loss since, because they are carried at fair value, any changes in fair value due to credit risk are recognized immediately in the income statement. Accordingly, these impairment losses are not included in the foregoing tables.

22.9. Past-due but not impaired assets

At 31 December 2012 and 2011 the Confederación had not recognized any material past-due but not impaired assets in its financial statements.

22.10. Write-off of impaired financial assets

At 31 December 2012 and 2011 the Confederación did not have any material financial assets that, pursuant to the criteria set forth in Note 2, had been written off due to credit risk, and there were no significant changes in this connection in 2012 and 2011.

22.11. Exposure to real estate risk

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). The only operations granted by the Confederación concerning real state exposure are those loans intended to be used for housing acquisition, which are granted to its employees. Following is a detail of the loans and credits, with or without mortgage to households for house purchase included in this the balance sheet as of 31 December 2011:

	THOUSANDS OF EUROS	
	GROSS AMOUNT	FROM WHICH: DOUBTFUL
Credit for house purchase		
Without mortgage guarantee	1,991	23
With mortgage guarantee	49,576	-
	51,567	23

Following is the breakdown of credit with mortgage guarantee to households for house purchase, according to the percentage represented by the total risk over the amount of the last available valuation (loan to value) of 31 December 2011:

	THOUSANDS OF EUROS					
	RISK OVER THE AMOUNT OF THE LAST AVAILABLE VALUATION					
	LESS OR EQUAL THAN 40%	MORE THAN 40% AND LESS OR EQUAL THAN 60%	MORE THAN 60% AND LESS OR EQUAL THAN 80%	MORE THAN 80% AND LESS OR EQUAL THAN 100%	MORE THAN 100%	TOTAL
Gross amount	18,951	7,940	16,519	6,166	-	49,576
From which: Doubtful	-	-	-	-	-	-

22.12. Other disclosures on credit risk

At 31 December 2012 and 2011 the amount of accrued uncollected past-due receivables on impaired financial assets was not material. In 2012 and 2011 no guarantees associated with financial assets owned by the Confederación were executed in order to guarantee the collection thereof.

23. Exposure to market risk

23.1. Market risk management

Market risk is defined as the risk that affects results or capital as a result of adverse changes in the prices of bonds, securities and commodities and in the exchange rates of transactions recognized in the trading book. This risk arises in market making and trading activities and the taking of positions in bonds, securities, foreign currencies, commodities and derivatives (on bonds, securities, currencies and commodities). This risk includes foreign currency risk, which is defined as the actual or potential risk that affects results or capital as a result of adverse changes in exchange rates in the banking book.

After the spin-off process performed in 2012 (see Note 1.1), the Confederación spun off its financial activity to Cecabank, S.A. and, accordingly, its exposure to this risk at 31 December 2012 was considered insignificant.

Interest rate risk

Interest rate risk is the exposure to market fluctuations due to changes in the general level of interest rates. The exposure to interest rate risk can be divided into the following two elements:

> Directional, slope and basis risk

Directional risk is the sensitivity of income to parallel shifts in the interest rate curve, while interest rate curve risk is the sensitivity of gains to changes in the structure of the rate curve, due to a change either in the slope or the shape of the curve.

Basis risk is the potential loss arising from unexpected changes in the spreads between the various interest rate curves with respect to which portfolio positions are held. Liquidity conditions in markets and the perception of the specific risk usually trigger this type of fluctuation, although other factors can also play a part.

> Spread risk

Spread risk arises from holding corporate bond positions (and credit derivatives) and is defined as the exposure to the specific risk of each issuer.

Certain circumstances relating to the market and/or the issue itself can widen the spreads due to the liquidity premium.

> Foreign exchange risk

Foreign exchange risk arises on the net positions of one currency against the euro or one currency against another. Therefore, foreign exchange risk is the potential fluctuation in spot exchange rates affecting the value of positions.

> Interest rate spread risk

Net interest rate spread risk arises from the difference between interest rates in two different currencies and its effect on forward foreign currency positions.

> Equity risk

This represents the risk of incurring losses as a result of changes in share prices.

At 31 December 2012, the Confederación did not hold any positions on its balance sheet subject to the risks described above and, therefore, the exposure to these risks is considered insignificant.

24. Liquidity risk

24.1. Liquidity risk management

The aim of the Confederación as regards liquidity risk is to have in place at all times the instruments and processes to enable it to meet payment commitments, so that it has available to it the instruments to enable it to maintain sufficient levels of liquidity to meet its payment commitments without significantly compromising the Confederación's results, and to maintain the mechanisms to enable it to meet its payment commitments in the event of various eventualities.

Liquidity risk

Liquidity risk is defined as:

- The uncertainty regarding the availability, at reasonable prices, of funds to enable the Confederación to meet its commitments when recourse to external financing is difficult for a particular period of time.
- The maintenance or generation of levels of liquidity required to finance future business growth.

In other words, this risk reflects the probability of incurring losses or having to reject new business or growth in current business as a result of being unable to meet commitments normally when they fall due or being unable to finance additional needs at market rates. In order to mitigate this risk, the Confederación periodically monitors its liquidity conditions and assesses any action that may be required. Furthermore, the Confederación has planned measures to enable it to restore the Confederación's overall financial equilibrium in the event of a possible shortfall in liquidity.

24.2. Analysis of the liquidity gap

The liquidity gap is the profile of maturities and settlements by risk type (assets and liabilities classified by residual maturity plus the interest flows arising from all the balance sheet aggregates) and shows the mismatch structure in the balance sheet in terms of cash inflows and outflows. Its purpose is to measure the net funding required or the net excess of funds for various time horizons. Accordingly, it reflects the liquidity level maintained under normal market conditions. This measure provides information on contractual and non-contractual cash inflows and outflows (pursuant to historical-behavior based assumptions to which statistical analyses are applied).

After the spin-off process performed in 2012 (see Note 1.1), since, at 31 December 2012, the Confederación held available-for-sale financial assets that exceeded the financial liabilities due to mature, its exposure to this risk was considered. Following is a detail at 31 December 2011 of the Confederación's main financial assets and liabilities (other than derivatives) at those dates, classified by residual maturity and estimated on the basis of their contractual conditions, excluding the related valuation adjustments:

At 31 December 2011

	THOUSANDS OF EUROS						
	ON DEMAND	LESS THAN 1 MONTH	1 TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	AFTER 5 YEARS	TOTAL
Assets:							
Cash and balances with central banks	92,388	400,000	-	-	-	-	492,388
Financial assets held for trading - Debt instruments	-	1,172	55,315	233,762	210,702	163,541	664,492
Financial assets held for trading - Other equity instruments	-	-	-	-	-	39,284	39,284
Other financial assets at fair value through profit or loss - Loans and advances to credit institutions	-	443,616	49,550	-	-	-	493,166
Other financial assets at fair value through profit or loss - Loans and advances to customers	-	410,955	-	95,396	-	-	506,351
Available-for-sale financial assets - Debt instruments (*)	-	-	438,640	2,270,366	416,222	365,635	3,490,863
Available-for-sale financial assets - Other equity instruments (**)	-	-	-	-	-	119,573	119,573
Loans and receivables - Loans and advances to credit institutions	592,437	1,672,051	105,539	31,275	700	120	2,402,122
Loans and receivables - Loans and advances to customers	162,439	240,854	4	261	3,367	53,439	460,364
Loans and receivables - Debt instruments	-	-	52,918	2,102,966	233,096	178,140	2,567,120
Total at 31 December 2011	847,264	3,168,648	701,966	4,734,026	864,087	919,732	11,235,723

(*) Including valuation adjustments relating to accrued interest and valuation gains or losses.

(**) Presented at fair value.

At 31 December 2011

	THOUSANDS OF EUROS						
	ON DEMAND	LESS THAN 1 MONTH	1 TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	AFTER 5 YEARS	TOTAL
Liabilities:							
Financial liabilities held for trading - short positions	-	343,354	-	-	-	-	343,354
Other financial liabilities at fair value through profit or loss - Deposits from central banks	-	613,351	317,153	-	-	-	930,504
Other financial liabilities at fair value through profit or loss - Deposits from credit institutions	-	352,757	-	-	-	-	352,757
Other financial liabilities at fair value through profit or loss - Customer deposits	-	573,358	123,103	337,603	-	-	1,034,064
Financial liabilities at amortised cost - Deposits from central banks	-	4,935	339,776	-	-	-	344,711
Financial liabilities at amortised cost - Deposits from credit institutions	1,070,326	1,775,929	21,057	48,453	-	-	2,915,765
Financial liabilities at amortised cost - Customer deposits	2,556,765	41,107	916	836,717	1,725	2,958	3,440,188
Total at 31 December 2011	3.627.091	3.704.791	802.005	1.222.773	1.725	2.958	9.361.343
Assets minus liabilities at 31 December 2011	(2.779.827)	(536.143)	(100.039)	3.511.253	862.362	916.774	1.874.380

With a view to the correct interpretation of the information contained in the foregoing tables, it should be stated that the assets and liabilities were classified therein in accordance with their contractual terms and conditions and, accordingly, there are liabilities, such as current accounts on the liability side of the balance sheet, which are more stable and more permanent than “on demand” (the criteria used to classify them in the foregoing tables). Also, the assets classified as financial assets held for trading will generally be realized earlier than their respective maturity dates (the criterion used to classify them in the foregoing tables).

Following is a summary of the main assumptions used to construct the liquidity gap:

- For demand deposits (without contractual maturities) and non-sensitive assets, a settlement assumption is performed on the basis of a quantitative model which analyses the performance of the historical balances for the last two years.
- For transactions related to securitizations, early repayment and default assumptions based on the historical behavior of the portfolio using information provided by the securitizations vehicle are used.
- Dividends from equity securities and investees are included in the gap on the assumption that they are paid at year-end and that their amount is at least equal to the yield on a one-year deposit.

25. On-balace-sheet interest rate risk management

On-balance-sheet structural interest rate risk can be defined as the exposure of the economic and financial position -resulting from the varying maturity and repricing dates of balance sheet items- to adverse fluctuations in interest rates. This risk is a substantial part of the banking business and can considerably affect the net interest margin and the economic value of capital. Consequently, interest rate risk management that keeps this risk at prudent levels is essential to the security and strength of the Confederación. (See Notes 2.6 and 9).

After the spin-off process performed in 2012, (see Note 1.1), the Confederación were spun off to Cecabank, S.A its financial activity. therefore, at 31 December 2012 the exposure to these risks is considered little significant.

26. Risk concentration

26.1. Risk concentration by activity and geographical area

After the spin-off process performed in 2012, (see Note 1.1), the only financial asset held by the Confederación is a current account held with Cecabank, S.A., which was recognised under "Loans and Receivables - Loans and Advances to Credit Institutions" and was therefore classified in terms of activity as a financial institution resident in Spain. Following is a detail, by geographical area of residence of the counterparty, and type and category of financial instrument, of the carrying amount of the Confederación's most significant financial assets at 31 December 2011:

31 December 2011:

	THOUSANDS OF EUROS			
	SPAIN	OTHER EMU COUNTRIES	REST OF THE WORLD	TOTAL
By type of financial instrument				
Loans and advances to credit institutions	2,672,702	132,730	91,580	2,897,012
Loans and advances to customers	625,837	338,628	2,374	966,839
Debt instruments	6,315,353	265,781	16,861	6,597,995
Equity instruments	138,064	20,793	-	158,857
Trading derivatives	4,574,532	249,846	253,628	5,078,006
	14,326,488	1,007,778	364,443	15,698,709
By financial instrument category-				
Financial assets held for trading	5,277,763	250,390	253,629	5,781,782
Other financial assets at fair value through profit or loss	889,327	110,550	-	999,877
Available-for-sale financial assets (1)	3,473,536	136,900	-	3,610,436
Loans and receivables (2)	4,685,862	509,938	110,814	5,306,614
	14,326,488	1,007,778	364,443	15,698,709

(1) Excluding impairment losses on debt instruments.
(2) Excluding not specifically identified impairment losses on debt instruments and loans and advances to customers included in this category.

26.2. Concentration of equity instruments

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). Following is a detail, by type of market listing, if any, and issuer, of the equity instruments held by the Confederación at 31 December 2011:

31 December 2011:

	THOUSANDS OF EUROS		
	FINANCIAL ASSETS HELD FOR TRADING (NOTE 6.1)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 7)	TOTAL
By market listing			
Shares listed in the Spanish secondary market	38,749	22,671	61,420
Shares listed in secondary markets in the rest of the world	535	19,360	19,895
Unlisted shares	-	77,542	77,542
	39,284	119,573	158,857
By issuer type			
Spanish financial institutions	12,737	7,974	20,711
Other Spanish companies	26,011	91,282	117,293
Other foreign companies	536	20,317	20,853
	39,284	119,573	158,857

27. Welfare fund

Confederación Española de Cajas de Ahorros, within the framework of its welfare projects, finances Fundación de las Cajas de Ahorros (FUNCAS), a private not-for-profit organisation that engages in activities that benefit Spanish society, promote saving, and contribute to the raising of public awareness of savings banks by facilitating the service provided by them to society.

In particular, the objectives of the Fundación are:

> the promotion of economic and social studies and research

> the organisation of public events, and

> cultural dissemination in the broadest sense of the term and the fostering of all activities leading to a heightened awareness of the Spanish economy and society, thus encouraging useful recommendations regarding economic and social policy.

At 31 December 2012 and 2011 and throughout those years, the Confederación's Welfare fund was not invested in any tangible or intangible assets.

The changes in 2012 and 2011 in the balance of "Welfare Fund" on the liability side of the balance sheets are as follows:

	THOUSANDS OF EUROS	
	2012	2011
Beginning balance before distribution of profit	215	266
Transfer charged to prior period profit (Note 3)	3,715	3,995
Maintenance expenses for the year:		
Depreciation/amortization of assets assigned to welfare projects	-	-
Budgeted current expenses for the year	(3,715)	(4,046)
Other expenses from previous years	-	-
Ending balance before distribution of profit	215	215

28. Other significant disclosures

28.1. Contingent liabilities

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). The breakdown of the balance of "Memorandum Items – Contingent Liabilities" in the balance sheet at 31 December 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Financial guarantees provided		
Financial bank guarantees	-	68,445
Documentary credits	-	6,072
	-	74,517
Other bank guarantees and indemnities	-	63,085
	-	137,602

"Financial Guarantees Provided" are defined as the amounts that would be payable by the Confederación on behalf of third parties as a result of the commitments assumed by the Confederación in the course of its ordinary business, if the parties who are originally liable to pay fail to do so. Note 22 includes information on the credit risk assumed by the Confederación in relation to financial guarantees provided.

A significant portion of these guarantees will expire without any payment obligation materializing for the Confederación 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 Confederación to third parties.

The fee and commission income from these financial guarantees is recognized under "Fee and Commission Income" in the income statement (see Note 32).

The provisions made to cater for the financial guarantees provided, which were calculated using criteria similar to those applied in the calculation of the impairment of financial assets measured at amortized cost, were recognized under "Provisions - Provisions for Contingent Liabilities and Commitments" in the balance sheet (see Note 16).

28.2. Assets delivered as security

After the spin-off process performed in 2012, no balance had been recognised At 31 December 2011 in this ítem. At 31 December 2011, assets owned by the Confederación had been provided as security for transactions performed by it or by third parties, as well as for various liabilities and contingent liabilities assumed by the Confederación. The nominal amount, of the financial assets delivered as security for these liabilities, contingent liabilities and similar items at 31 December 2011 was as follows:

	THOUSANDS OF EUROS	
	2012	2011
Spanish government debt securities classified as available-for-sale financial assets	-	20,000
Other securities classified as available-for-sale financial assets	-	1,071,782
	-	1,091,782

At 31 December 2011, the Confederación had securities with a face value of EUR 1,091,782 thousand as security for the performance of the Confederación's obligations relating to transactions with the clearing and settlement services.

In addition, at 31 December 2011, the Confederación had entered into repurchase agreements for securities in its portfolio and reverse repurchase agreements for a total amount of EUR 3,037,368 thousand.

"Memorandum Item: Loaned or Advanced as Collateral", which is shown in each of the Confederación's financial asset categories in the balance sheets at 31 December 2011, includes the amount of financial assets transferred, lent out or delivered as security in which the assignee is entitled, contractually or by custom, to retransfer them or pledge them as security, such as securities lending transactions or sales of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest.

28.3. Contingent commitments

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). The breakdown of the balance of "Contingent Commitments" at 31 December 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Drawable by third parties (Note 22):		
Public sector - Spain	-	875,550
Credit institutions	-	26,761
Other resident sectors	-	358,249
Non-resident sectors	-	300
	-	1,260,860
Financial asset forward purchase commitments	-	4,944
Regular way financial asset purchase contracts	-	954,852
Other contingent commitments	-	77,014
	-	2,297,670

28.4. Transactions for the account of third parties

After the spin-off process performed in 2012, no balance had been recognised in this item in the balance sheet (see Note 1.1). The breakdown of the most significant transactions for the account of third parties at 31 December 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Financial instruments entrusted by third parties	-	98,542,046
Conditional bills and other securities received for collection	-	2,211,084
Borrowed securities (Note 28.5)	-	317,547
	-	101,070,677

28.5. Financial assets lent and borrowed

Pursuant to current legislation, the securities received by the Confederación in securities lending transactions are not recognized in the balance sheet unless the Confederación sells these securities in short sales transactions, in which case they are recognized as financial liabilities under "Financial Liabilities Held For Trading - Short Positions" on the liability side of the balance sheet (see Note 6).

Similarly, securities lending transactions in which the Confederación lends securities to third parties are not recognized in the balance sheet. The securities lent can be securities previously lent to the Confederación or securities owned by it, and in the latter case these are not derecognized.

Deposits provided or received as security or guarantee for the securities received or lent by the Confederación, respectively, are accounted for as a financial asset or a financial liability, respectively, and the interest associated therewith is recognized as interest and similar income or as interest expense and similar charges, respectively, in the income statement, by applying the corresponding effective interest rate.

After the spin-off process performed in 2012, (see Note 1.1). no balance had been recognised in this item in the Profit and Loss account Following is a detail of the fair value of the financial assets borrowed and lent by Confederación in securities lending transactions at 31 December 2011:

	THOUSANDS OF EUROS	
	2012	2011
Securities lent by the Confederación		
Equity instruments-		
Issued by credit institutions	-	56,923
Issued by other resident sectors	-	63,960
Issued by other non-resident sectors	-	168,618
Debt instruments		
Issued by credit institutions	-	203,969
Issued by other resident sectors	-	35,019
Issued by Public Spanish Administrations	-	53,232
Issued by non-resident Spanish Public sector	-	20,689
	-	602,410
Securities borrowed by the Confederación (Note 28.4)		
Equity instruments		
Issued by credit institutions	-	55,834
Issued by other resident sectors	-	74,620
Issued by other non-resident sectors	-	175,313
Debt instruments		
Issued by Public sector - Spain	-	11,780
	-	317,547

Finance income recognized by the Confederación in 2011 in relation to securities lent totaled EUR 37,446 thousand and is recognized under "Interest and Similar Income" in the income statement for 2011 (see Note 29).

In 2011, finance costs relating to securities borrowed amounted to EUR 89,735 thousand and were recognized under "Interest Expense and Similar Charges" in the income statement for 2011 (see Note 30).

28.6. The Confederación's Customer Care Service

Following is a summary of the complaints and claims received by the Confederación.'s Customer Care Service in 2011. Claims made to the service which were not admitted for consideration in 2011 relate to claims affecting entities other than the Confederación.

	2011
Number of complaints and claims received	50
Number of complaints and claims admitted for consideration	-
Number of complaints and claims resolved	-
Number of complaints and claims resolved in favour of the complainant	-
Number of complaints and claims resolved against the claimant	-
Compensation paid to claimants	-
Number of complaints and claims outstanding	-

29. Interest and similar income

The breakdown of the most important interest and similar income earned by the Confederación in 2012 and 2011, by type of instrument giving rise to it, is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Balances with central banks	-	927
Loans and advances to credit institutions	3,008	63,882
Loans and advances to customers		
Non-resident public sector	-	10
Money market operations through counterparties	-	7,984
Other resident sectors	-	5,959
Other non-resident sectors	-	259
Debt instruments	-	191,344
Finance income from securities lending transactions (Note 28.5)	-	37,446
Other interest	-	3,177
Rectification of income as result of hedging transactions	-	12,067
	3,008	323,055

Additionally, the breakdown of the amounts recognized under "Interest and Similar Income" in the income statements for 2012 and 2011, by type of financial instrument category giving rise to them, is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Balances with central banks	-	927
Financial assets held for trading	-	45,227
Available-for-sale financial assets	-	96,859
Other financial assets at fair value through profit or loss	-	55,248
Loans and receivables	3,008	75,281
Securities lending transactions (Note 28.5)	-	37,446
Rectification of income as result of hedging transactions	-	12,067
	3,008	323,055

30. Interest expense and similar charges

After the spin-off process performed in 2012, (see Note 1.1) no balance had been recognised in this item in the Profit and Loss account The detail of the balance of "Interest Expense and Similar Charges" in the income statements for 2011, by type of instrument giving rise to them, is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Bank of Spain	-	134
Other central banks	-	247
Deposits from credit institutions	-	33,390
Customer deposits	-	30,774
Money market operations through counterparties	-	53,261
Cost attributable to pension funds (Note 16.2)	-	921
Finance costs attributable to securities lending transactions (Note 28.5)	-	89,735
Other interest	-	1
	-	208,463

After the spin-off process performed in 2012, no balance had been recognised in this item in the Profit and Loss account (see Note 1.1). The breakdown of the amounts recognized under "Interest Expense and Similar Charges" in the income statements for 2011, by type of financial instrument category giving rise to them, is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Financial liabilities held for trading - Short positions	-	12,200
Financial liabilities at amortized cost	-	51,711
Securities lending (Note 28.5)	-	89,735
Other financial liabilities at fair value through profit or loss	-	53,895
Other liabilities	-	922
	-	208,463

31. Income from equity instruments

The detail of "Income from Equity Instruments" in the income statements for 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Dividends on investments in Group companies and jointly controlled entities (Note 41)	4,000	2,250
Other dividends	-	112,755
	4,000	115,005

"Dividends on Investments in Group Companies and Jointly Controlled entities" in the foregoing table relates to the dividends generated by the investment in the share capital of Cecabank, S.A. (see Note 11).

At 31 December 2011, "Other Dividends" included, inter alia, dividends on securities classified as held for trading and dividends received from securities received on loan by the Confederación.

32. Fee and commission income

After the spin-off process performed in 2012, no balance had been recognised in this item in the Profit and Loss account (see Note 1.1). Following is a detail of the fee and commission income earned in 2011, classified on the basis of the main items giving rise thereto:

	THOUSANDS OF EUROS	
	2012	2011
Fee and commission income -		
Fees and commissions arising from contingent liabilities (Note 28.1)	-	10,415
Fees and commissions arising from contingent commitments	-	2,171
Fees and commissions arising from collection and payment services	-	58,114
Fees and commissions arising from securities services (*)	-	24,836
Fees and commissions arising from foreign currency and foreign banknote exchange	-	501
Other fees and commissions	-	7,817
	-	103,854

(*) In 2011, this item included, EUR 18,207 thousand relating to custody services in connection with securities of third parties deposited at the Confederation.

33. Fee and commission expense

After the spin-off process performed in 2012, no balance had been recognised in this item in the Profit and Loss account (see Note 1.1). Following is a detail of the fee and commission expense incurred in 2011, classified on the basis of the main items giving rise thereto:

	THOUSANDS OF EUROS	
	2012	2011
Fee and commission expense -		
Fees and commissions assigned to other entities and correspondents	-	23,493
Fee and commission expenses on securities transactions	-	9,217
	-	32,710

34. Net gains/losses on financial assets and liabilities

After the spin-off process performed in 2012, no balance had been recognised in this item in the Profit and Loss account (see Note 1.1). The breakdown of the balance of “Gains/Losses on Financial Assets and Liabilities” in the income statements for 2011, by type of financial instrument giving rise to them, is as follows:

	THOUSANDS OF EUROS	
	INCOME/(EXPENSES)	
	2012	2011
Financial assets and liabilities held for trading	-	(35,004)
Trading derivatives	-	(972)
Debt instruments	-	24,137
Equity instruments	-	(51,301)
Short positions	-	(6,868)
Other financial instruments at fair value through profit or loss	-	(10,577)
Reverse repurchase agreements	-	1,402
Deposits of the Bank of Spain	-	-
Repurchase agreements	-	(11,979)
Available-for-sale financial assets	-	(1,888)
Loans and receivables	-	964
Results of hedging instruments	-	(21,341)
Results of hedged items	-	17,122
	-	(50,724)

35. Other operating income

The breakdown of the balance of "Other Operating Income" in the income statements for 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Rental income (Note 12)	-	808
Costs recovered through their inclusion in the cost of intangible assets	-	511
Income from Confederación membership dues	13,429	14,389
Costs passed on to savings banks	-	17,451
Other income	-	41,210
	13,429	74,369

The balance of "Income from Confederación Membership Dues" in the foregoing table includes the dues collected from federated savings banks under the agreements between the latter and the Confederación (see Note 1). The balance of "Other Income" includes various items, most notably the income from various projects among federated savings banks.

36. Administrative expenses – Staff costs

The detail of "Administrative Expenses - Staff Costs" in the income statements for 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Wages and salaries	549	64,921
Social security costs	29	9,275
Insurance premiums (Note 2.11.1)	-	4,203
Termination Benefits (Note 2.11.3)	-	3,116
Contributions to defined contribution plans (Note 2.11.1)	-	772
Normal cost for the year of defined benefit obligations (Note 16.2)	-	59
Income from insurance policies	-	(1,551)
Training expenses	-	143
Other staff costs	-	796
	578	81,734

After the spin-off process performed in 2012, (see Note 1.1) all the Confederación's employees became employees of Cecabank, S.A., except a small number of employees who are also part-time employees of Confederación and work on the development of:

- support activities for the association and institutional representation functions performed by the Confederación and,
- the daily management of the Confederación and, in particular, the indirect performance of its business through Cecabank, S.A.

In 2011, the average number of employees at the Confederación, by level, was as follows:

LEVEL	2011
1 - LEVEL I	11
1 - LEVEL II	22
1 - LEVEL III	37
1 - LEVEL IV	82
1 - LEVEL V	67
1 - LEVEL VI	190
1 - LEVEL VII	76
1 - LEVEL VIII	119
1 - LEVEL IX	41
1 - LEVEL X	27
1 - LEVEL XI	53
1 - LEVEL XII	31
1 - LEVEL XIII	2

LEVEL	2011
2 - LEVEL I	1
2 - LEVEL II	11
2 - LEVEL III	-
2 - LEVEL IV	2
2 – LEVEL V	1
OTHER	24
TOTAL	797

At 31 December 2011 the total number of employees was 700, of which 361 were men and 339 women, representing 51.57% and 48.43%, respectively.

37. Administrative expenses - Other general administrative expenses

The detail of the balance of "Administrative Expenses - Other General Administrative Expenses" in the income statements for 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012 (*)	2011
Property, fixtures and supplies	-	5,115
IT equipment	-	39,330
Communications	-	4,114
Advertising and publicity	-	485
Technical reports	267	2,566
Surveillance and cash courier services	-	5,346
Insurance and self-insurance premiums	-	214
Governing and control bodies	867	1,420
Outsourced administrative services	9,137	10,683
Levies and taxes	-	909
Entertainment and travel expenses	184	1,728
Association membership fees	991	2,062
External personnel	-	2,145
Subscriptions and publications	-	4,689
Other administrative expenses	-	2,120
	11,446	82,926

(*) Of which, in 2012, EUR 9,049 thousand related to the expenses incurred by the Confederación for the services rendered by Cecabank, S.A. (see Note 41).

The balance of "Technical Reports" includes the fees paid for the audit of the financial statements and other non-attest services, the detail being as follows:

	THOUSANDS OF EUROS	
	2012	2011
Audits of the companies audited by firms belonging to the Deloitte world-wide organization and other reports related with the audit	61	128
Other reports reviewed by firms belonging to the Deloitte worldwide organization	169	155
	230	283
Other services (other than audits) conducted by firms belonging to the Deloitte worldwide organization	569	308
Total Services	799	591

The amount of the entity's audit, which related to the fees for the Confederación's audit, was recognised under "Technical Reports" in the foregoing table. The other items relate to the billings made to the Confederación prior to the spin-off that were transferred as a result of the spin-off to Cecabank, S.A.

Additional Provision Three. "Disclosure obligation" provided for in Law 15/2010, of 5 July

Pursuant to Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, on combating late payment in commercial transactions, which was implemented by the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 December 2010, on disclosures to be included in the notes to financial statements with regard to the payment periods to suppliers in commercial transactions, it is hereby stated that:

> The information presented in this Note on payment periods relates exclusively to payments to suppliers for the provision of sundry services and supplies to the Confederación, other than payments to depositors, which were made in all cases in strict compliance with the contractual and legal terms established for each of them, whether they were liabilities payable on demand or with deferred payment. Neither does this Note include information on payments to suppliers excluded from the scope of this disclosure obligation pursuant to the aforementioned ICAC Resolution, such as payments to non-current asset suppliers that are not considered to be trade creditors.

> With regard to the disclosures required by Law 15/2010, of 5 July, relating to trade suppliers and the suppliers of services to the Confederación, and considering the stipulations of Transitional Provision Two of the ICAC Resolution of 29 December 2010, set forth below is the information required by the aforementioned law, with the scope defined in the preceding paragraph.

In 2012:

	THOUSANDS OF EUROS	
	PAYMENTS DURING 2012 AND PAYABLE PAYMENTS AT YEAR ENDED 2012	
	AMOUNT	% (1)
Within maximum legal period (2)	3,677	100
Other	-	-
Total 2012	3,677	100
Exceeded weighted average terms of payments (as days)	-	-
Deferrals that exceed maximum legal period at year ended 2012	-	-

(1) Percentage of the total.

(2) The maximum payment period is, in each case, that corresponding to the nature of the goods or services received by the Confederación in accordance with Law 3/2004, of 29 December, on combating late payment in commercial transactions.

2011:

	THOUSANDS OF EUROS	
	PAYMENTS DURING 2011 AND PAYABLE PAYMENTS AT YEAR ENDED 2011	
	AMOUNT	% (1)
Within maximum legal period (2)	106,638	100
Other	-	-
Total 2011	106,638	100
Exceeded weighted average terms of payments (as days)	-	-
Deferrals that exceed maximum legal period at year ended 2011	-	-

(1) Percentage of the total.

(2) The maximum payment period is, in each case, that corresponding to the nature of the goods or services received by the Confederación in accordance with Law 3/2004, of 29 December, on combating late payment in commercial transactions.

38. Other operating expenses

After the spin-off process performed in 2012, no balance had been recognised in this item in the Profit and Loss account (see Note 1.1). The breakdown of the balance of "Other Operating Expenses" in the income statements for 2011 was as follows:

	THOUSANDS OF EUROS
	2011
Contribution to the Deposit Guarantee Fund (Note 1.10)	105
Investment Real Estate Operating Expenses	97
Other	2,940
	3,142

39. Impairment losses on financial assets (net)

After the spin-off process performed in 2012, no balance had been recognised in this item in the Profit and Loss account (see Note 1.1). The breakdown of the balance of "Impairment Losses on Financial Assets (net)" in the income statements for 2011 was as follows:

	THOUSANDS OF EUROS
	NET (ADDITIONS)/ REVERSALS (CHARGED)/ CREDITED TO INCOME
	2011
Debt instruments (Note 22.8)	
Available-for-sale financial assets	689
Loans and receivables	9,735
	10,424
Equity instruments-	
Available-for-sale equity instruments	(5,626)
	(5,626)
	4,798

40. Depreciation and amortization

After the spin-off process performed in 2012, no balance had been recognised in this item in the Profit and Loss account (see Note 1.1). The detail of "Depreciation and Amortization" in the income statements for 2011 was as follows:

	THOUSANDS OF EUROS
	2011
Depreciation of tangible assets (Note 12)	6,776
Amortization of intangible assets (Note 13)	790
	7,566

41. Related party transactions

Internal relationship memorandum of understanding between the Confederación Española de Cajas de Ahorros and Cecabank, S.A.

As part of the process to incorporate Cecabank, S.A. and the spin-off carried out by the Confederación to this entity in 2012 (see Note 1.1), an "Internal relationship memorandum of understanding between the Confederación Española de Cajas de Ahorros and Cecabank, S.A." was established. This memorandum of understanding identifies the services that Cecabank provides to the Confederación and sets the general criteria for intra-Group transactions and for the rendering of intra-Group services on an arm's-length basis, which are summarized below:

- Associative Services
- Compliance Services
- Communication, Institutional Relations, Protocol, Corporate Image Management, Publishing and Contract Depository
- Reporting and regulatory Services
- Technical Area Services

- General Secretary and Legal and Tax Advisory Services
- Monitoring of risk profile
- Planning and Control
- Human and estate Resources and
- Internal Audit Services

The expenses incurred by the Confederación for these services rendered by Cecabank, S.A., which amounted to EUR 9,049 thousand in 2012, were recognised under "Administrative Expenses - Other General Administrative Expenses" in the 2012 income statement (see Note 37).

At 31 December 2011, the demand deposits held by the Confederación's senior executives, the members of its Board of Directors and related entities and individuals totaled EUR 467 thousand, and the loans granted to them amounted to EUR 792 thousand. These amounts bore interest of EUR 13 thousand and EUR 4 thousand, which were recognized under "Interest and Similar Income" and "Interest Expense and Similar Charges", respectively. At 31 December 2011 the Confederación had not provided any guarantees for related parties, as defined in Bank of Spain Circular 4/2004, of 22 December.

As mentioned in Note 4, there were no senior executives at 31 December 2012 or in 2012 who rendered their services full time at the Confederación and, accordingly, there was no balance in this connection on the balance sheet.

At 31 December 2012 and 2011, there were no balances in relation to the Board of Directors or to persons related thereto.

The breakdown of the balances arising from transactions with jointly controlled entities recognized in the balance sheets at 31 December 2012 and 2011 and in the income statements for 2012 and 2011 is as follows (Note 2.1):

	THOUSANDS OF EUROS			
	2012		2011	
	SUBSIDIARIES	JOINTLY CONTROLLED ENTITIES	SUBSIDIARIES	JOINTLY CONTROLLED ENTITIES
Asset:				
Loans and receivables (Note 8)	13,542	-	-	38
Liablities:				
Financial liabilities at amortized cost (Note 15)	101	-	194	2,413
Income statement:				
Interest and Similar Income (Note 29)	3,008	-	-	-
Income from Equity Instruments (Note 31)	4,000	-	-	2,250
Other general administrative esxpenses (Note 37)	9,049	-	64	-
Other general administrative expenses	-	-	126	485

42. Events after the balance sheet date

From the balance sheet date to the date on which these financial statements were authorized for issue there were no events significantly affecting them.

43. Explanation added for translation to English

These financial statements are presented on the basis of the Bank of Spain Circular 4/2004. Certain accounting practices applied by the Bank that conform with the Circular may not conform with other generally accepted accounting principles.

Appendix I

Subsidiaries included in the Group at 31 December 2012

			PROPORTION OF OWNERSHIP INTEREST (%)			THOUSANDS OF EUROS - ENTITY DATA AT 31 DECEMBER 2012 (*)			
ENTITY	LOCATION	LINE OF BUSINESS	DIRECT	INDIRECT	TOTAL	ASSETS	LIABILITIES	EQUITY	PROFIT FOR THE YEAR
Cecabank, S.A.	Madrid	Credit Institution	89	-	89	15,015,995	14,261,603	754,392	34,654

(*) These companies' financial statements at 31 December 2012 have not yet been approved by their shareholders at the respective Annual General Meetings.

Subsidiaries included in the Group at 31 December 2011

			PROPORTION OF OWNERSHIP INTEREST (%)			MILES DE EUROS - ENTITY DATA AT 31 DECEMBER 2011			
ENTITY	LOCATION	LINE OF BUSINESS	DIRECT	INDIRECT	TOTAL	ASSETS	LIABILITIES	EQUITY	PROFIT FOR THE YEAR
Caja Activa, S.A.	Madrid	IT	99.99	-	99.99	267	31	236	34
CEA Trade Services Limited	Hong Kong	Foreign trade	100	-	100	18	14	4	-

Appendix II

Jointly controlled entities at 31 December 2011

			PROPORTION OF OWNERSHIP INTEREST (%)			THOUSANDS OF EUROS ENTITY DATA AT 31 DECEMBER 2011			
ENTITY	LOCATION	LINE OF BUSINESS	DIRECT	INDIRECT	TOTAL	ASSETS	LIABILITIES	EQUITY	PROFIT FOR THE YEAR
Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A.	Madrid	Securitization SPV management	50	-	50	14.770	10.177	4.593	3.010

External Audit Report

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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. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the General Assembly of Confederación Española de Cajas de Ahorros:

1. We have audited the financial statements of Confederación Española de Cajas de Ahorros ("the Confederación") ,which comprise the balance sheet at 31 December 2012 and the related income statement, statement of recognised income and expense, statement of changes in total equity, statement of cash flows and notes to the financial statements for the year then ended. The directors are responsible for the preparation of the financial statements in accordance with the regulatory financial reporting framework applicable to the Confederación (identified in Note 1.2 to the accompanying financial statements) and, in particular, with the accounting principles and rules contained therein. Our responsibility is to express an opinion on the 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 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.

2. In our opinion, the accompanying financial statements for 2012 present fairly, in all material respects, the equity and financial position of the Confederación at 31 December 2012, and the results of its operations and its cash flows for the year then ended, in conformity with the regulatory financial reporting framework applicable to the Confederación and, in particular, with the accounting principles and rules contained therein.

3. Without qualifying our audit opinion, we draw attention to the disclosures made by the directors in Note 1.1 to the accompanying financial statements, in which they indicate that on 25 July 2012, the Extraordinary General Assembly of the Confederación approved the Spin-Off Plan whereby the Confederación contributed all of its financial business to Cecabank, S.A. in the terms provided for in Article 5 of Royal Decree-Law 11/2010, of 9 July, on governing bodies and other aspects of the legal regime of savings banks.

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

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

Francisco Celma
24 January 2013

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[Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.]

Balance sheets and accounts Cecabank

BALANCE SHEET AT 31 DECEMBER 2012 (THOUSANDS OF EUROS)

Page 1 of 3

ASSETS	2012
1. Cash and balances with central banks (Note 5)	463,115
2. Financial assets held for trading (Note 6.1)	6,128,285
2.1 Loans and advances to credit institutions	-
2.2 Loans and advances to customers	-
2.3 Debt instruments	872,410
2.4 Equity instruments	51,905
2.5 Trading derivatives	5,203,970
Memorandum item: Loaned or advanced as collateral	539,993
3. Other financial assets at fair value through profit or loss (Note 6.2)	2,588,042
3.1 Loans and advances to credit institution	1,798,113
3.2 Loans and advances to customers	789,929
3.3 Debt instruments	-
3.4 Equity instruments	-
Memorandum item: Loaned or advanced as collateral	1,170,479
4. Available-for-sale financial assets (Note 7)	3,623,218
4.1 Debt instruments	3,540,084
4.2 Equity instruments	83,134
Memorandum item: Loaned or advanced as collateral	1,181,784

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the balance sheet at 31 December 2012.

BALANCE SHEET AT 31 DECEMBER 2012 (THOUSANDS OF EUROS)

ASSETS	2012
5. Loans and receivables (Note 8)	1,910,629
5.1 Loans and advances to credit institutions	1,282,139
5.2 Loans and advances to customers	370,838
5.3 Debt instruments	257,652
Memorandum item: Loaned or advanced as collateral	3,034
6. Held-to-maturity investments	-
Memorandum item: Loaned or advanced as collateral	-
7. Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-
8. Hedging derivatives (Note 9)	-
9. Non-current assets held for sale (Note 10)	84
10. Investments (Note 11)	515
10.1 Associates	-
10.2 Jointly controlled entities	451
10.3 Subsidiaries	64
11. Insurance contracts linked to pensions	-

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the balance sheet at 31 December 2012.

BALANCE SHEET AT 31 DECEMBER 2012 (THOUSANDS OF EUROS)

ASSETS	2012
13. Tangible assets (Note 12)	94,046
13.1 Property, plant and equipment	92,950
13.1.1 For own use	92,950
13.1.2 Leased out under an operating lease	-
13.1.3 Assigned to welfare projects	-
13.2 Investment property	1,096
Memorandum item: Acquired under a finance lease	-
14. Intangible assets (Note 13)	50,819
14.1 Goodwill	-
14.2 Other intangible assets	50,819
15. Tax assets	125,069
15.1 Current	9,690
15.2 Deferred (Note 20)	115,379
16. Other assets (Note 14)	32,173
TOTAL ASSETS	15,015,995

MEMORANDUM ITEMS	
1. Contingent liabilities (Note 27.1)	64,853
2. Contingent commitments (Note 27.3)	886,556

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the balance sheet at 31 December 2012.

BALANCE SHEET AT 31 DECEMBER 2012 (THOUSANDS OF EUROS)

LIABILITIES AND EQUITY	2012
LIABILITIES	
1. Financial liabilities held for trading (Note 6.1)	5,592,180
1.1 Deposits from central banks	-
1.2 Deposits from credit institutions	-
1.3 Customer deposits	-
1.4 Marketable debt securities	-
1.5 Trading derivatives	5,158,066
1.6 Short positions	434,114
1.7 Other financial liabilities	-
2. Other financial liabilities at fair value through profit or loss (Note 6.2)	2,887,600
2.1 Deposits from central banks	-
2.2 Deposits from credit institutions	1,824,376
2.3 Customer deposits	1,063,224
2.4 Marketable debt securities	-
2.5 Subordinated liabilities	-
2.6 Other financial liabilities	-

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the balance sheet at 31 December 2012.

BALANCE SHEET AT 31 DECEMBER 2012 (THOUSANDS OF EUROS)

LIABILITIES AND EQUITY	2012
LIABILITIES	
3.Financial liabilities at amortised cost (Note 15)	5,067,628
3.1 Deposits from central banks	1,309,497
3.2 Deposits from credit institutions	2.039.539
3.3 Customer deposits	1.532.248
3.4 Marketable debt securities	-
3.5 Subordinated liabilities	-
3.6 Other financial liabilities	186,344
4. Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-
5. Hedging derivatives (Note 9)	16,845
6. Liabilities associated with non-current assets held for sale	-
8. Provisions (Note 16)	238,336
8.1 Provisions for pensions and similar obligations	93,569
8.2 Provisions for taxes and other legal contingencies	-
8.3 Provisions for contingent liabilities and commitments	54,758
8.4 Other provisions	90,009
9. Tax liabilities (Note 20)	26,165
9.1 Current	2,757
9.2 Deferred	23,408

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the balance sheet at 31 December 2012.

BALANCE SHEET AT 31 DECEMBER 2012 (THOUSANDS OF EUROS)

LIABILITIES AND EQUITY	2012
LIABILITIES	
11. Other liabilities (Note 14)	432,849
12. Other liabilities Capital repayable an demand	-
TOTAL LIABILITIES	14.261.603
EQUITY	
1. Own funds	757,914
1.1 Endowment fund	112,257
1.1.1 Registered capital (Note 18)	112,257
1.1.2 Less: Uncalled capital	-
1.2 Share premium (Note 18)	615,493
1.3 Reserves (Note 19)	-
1.4 Other equity instruments	-
1.4.1 Equity component of compound financial instruments	-
1.4.2 Non-voting equity units and associated funds (Note 20)	-
1.4.3 Other equity instruments	-
1.5 Less: Treasury shares	-
1.6 Profit for the year	34,654
1.7 Less: Dividends and remuneration	(4,490)

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the balance sheet at 31 December 2012.

BALANCE SHEET AT 31 DECEMBER 2012 (THOUSANDS OF EUROS)

LIABILITIES AND EQUITY	2012
EQUITY	
2. Valuation adjustments	(3,522)
2.1 Available-for-sale financial assets (Note 17)	(1,325)
2.2 Cash flow hedges (Note 17)	(2,197)
2.3 Hedges of net investments in foreign operations	-
2.4 Exchange differences	-
2.5 Non-current assets held for sale	-
2.6 Entities accounted for using the equity method	-
2.7 Other valuation adjustments	-
TOTAL EQUITY	754,392
TOTAL LIABILITIES AND EQUITY	15,015,995

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the balance sheet at 31 December 2012.

[Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.]

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012 (THOUSANDS OF EUROS)

	INCOME / (EXPENSE)
	2012
1. Interest and similar income (Note 28)	186,315
2. Interest expense and similar charges (Note 29)	(61,149)
3. Remuneration of capital having the nature of a financial liability	-
A. NET INTEREST INCOME	125,166
4. Income from equity instruments (Note 30)	19,001
5. Share of results of entities accounted for using the equity method (Note 31)	111,378
6. Fee and commission income (Note 32)	(33,189)
8. Gains/losses on financial assets and liabilities (net) (Note 33)	6,928
8.1 Held for trading	(7,683)
8.2 Other financial instruments at fair value through profit or loss	2,991
8.3 Financial instruments not measured at fair value through profit or loss	5,250
8.4 Other	6,370
9. Exchange differences (net)	37,845
10. Other operating income (Note 34)	61,668
11. Other operating expenses (Note 37)	(1,074)

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the income statement for 2012.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012 (THOUSANDS OF EUROS)

	INCOME / (EXPENSE)
	2012
B. GROSS INCOME	327.723
12. Administrative expenses	(128,051)
12.1 Staff costs (Note 35)	(56,730)
12.2 Other general administrative expenses (Note 36)	(71,321)
13. Depreciation and amortisation (Note 39)	(14,359)
14. Provisions (net) (Note 16)	(41,340)
15. Impairment losses on financial assets (net) (Notes 22 and 38)	(52,700)
15.1 Loans and receivables	(11,638)
15.2 Other financial instruments not measured at fair value through profit or loss	(41,062)
C. PROFIT FROM OPERATIONS	91.273
16. Impairment losses on other assets (net)	(44,810)
16.1 Goodwill and other intangible assets (Note 13)	(44,810)
16.2 Other assets	-
17. Gains (losses) on disposal of assets not classified as non-current assets held for sale	(8)
18. Negative goodwill on business combinations	-
19. Gains (losses) on non-current assets held for sale not classified as discontinued operations (Note 10)	-

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the income statement for 2012.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012 (THOUSANDS OF EUROS)

	INCOME / (EXPENSE)
	2012
D. PROFIT BEFORE TAX	46,455
20. Income tax (Note 20)	(11,801)
21. Mandatory transfer to welfare projects and funds	-
E. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	34,654
22. Profit/Loss from discontinued operations (net)	-
E. PROFIT FOR THE YEAR	34,654

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the income statement for 2012.

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STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2012 (THOUSANDS OF EUROS)

	INCOME / (EXPENSE)
	2012
A. CONSOLIDATED PROFIT FOR THE YEAR	34,654
B. OTHER RECOGNISED INCOME AND EXPENSE	(3,522)
1. Available-for-sale financial assets	(1,892)
1.1 Revaluation gains (losses)	(37,723)
1.2 Amounts transferred to income statement	35,831
1.3 Other reclassifications	-
2. Cash flow hedge	(3,139)
2.1 Revaluation gains (losses)	(3,797)
2.2 Amounts transferred to income statement (Note 29)	658
2.3 Amounts transferred to the initial carrying amount of hedged items	-
2.4 Other reclassifications	-
3. Hedges of net investments in foreign operations	-
3.1 Revaluation gains (losses)	-
3.2 Amounts transferred to income statement	-
3.3 Other reclassifications	-

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the statement of recognised income and expense for 2012.

STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2012 (THOUSANDS OF EUROS)

	INCOME / (EXPENSE)
	2012
4. Exchange differences	-
4.1 Revaluation gains (losses)	-
4.2 Amounts transferred to income statement	-
4.3 Other reclassifications	-
5. Non-current assets held for sale	-
5.1 Revaluation gains (losses)	-
5.2 Amounts transferred to income statement	-
5.3 Other reclassifications	-
6. Actuarial gains (losses) on pension plans	
7. Entities accounted for using the equity method	
7.1. Revaluation gains (losses)	
7.2. Amounts transferred to income statement	
7.3. Other reclassifications	-
8. Other recognised income and expense	-
9. Income tax	1,509
C. TOTAL RECOGNISED INCOME AND EXPENSE (A+B)	31,132

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the statement of recognised income and expense for 2012.

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STATEMENT OF CHANGES IN TOTAL EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012 (THOUSANDS OF EUROS)

	OWN FUNDS										
	ENDOWMENT FUND (Note 18)	SHARE PREMIUM (Note 18)	RESERVES (Note 19)	RESERVES (LOSSES) OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	OTHER EQUITY INSTRUMENTS (Note 20)	LESS: TREASURY SHARES	PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT (Note 3)	LESS: DIVIDENDS AND REMUNERATION	TOTAL OWN FUNDS	VALUATION ADJUSTMENTS (Note 17)	TOTAL EQUITY
1. Starting balance at 01/01/12	100,000	548,817	-	-	-	-	-	-	648,817	-	648,817
1.1. Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
1.2. Adjustments made to correct errors	-	-	-	-	-	-	-	-	-	-	-
2. Adjusted beginning balance	100,000	548,817	-	-	-	-	-	-	648,817	-	648,817
3. Total recognised income and expense	-	-	-	-	-	-	34,654	-	34,654	(3,522)	31,132
4. Other changes in equity	12,257	66,675	-	-	-	-	-	(4,490)	74,442	-	74,442
4.1. Increases in endowment fund	12,257	66,675	-	-	-	-	-	-	78,932	-	78,932
4.2. Reductions of endowment fund	-	-	-	-	-	-	-	-	-	-	-
4.3. Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-
4.4. Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-	-
4.5. Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-
4.6. Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-
4.7. Remuneration of shareholders	-	-	-	-	-	-	-	(4,490)	(4,490)	-	(4,490)
4.8. Transactions involving own equity instruments	-	-	-	-	-	-	-	-	-	-	-
4.9. Transfers between equity items	-	-	-	-	-	-	-	-	-	-	-
4.10. Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-
4.11. Discretionary transfer to welfare projects and funds	-	-	-	-	-	-	-	-	-	-	-
4.12. Equity-instrument-based payments	-	-	-	-	-	-	-	-	-	-	-
4.13. Other increases (decreases) in equity	-	-	-	-	-	-	-	-	-	-	-
5. Ending balance at 31/12/12	**112,257**	**615,492**	**-**	**-**	**-**	**-**	**34,654**	**(4,490)**	**757,913**	**(3,522)**	**754,391**

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the statement of changes in total equity for 2012.

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012 (THOUSANDS OF EUROS)

	2012
A) CASH FLOWS FROM OPERATING ACTIVITIES (Note 2.17)	89,168
1. Consolidated profit for the year	34,654
2. Adjustments made to obtain the cash flows from operating activities	105,776
2.1 Depreciation and amortisation	14,359
2.3 Other adjustments	91,417
3. Net (increase)/decrease in operating assets	1,441,840
3.1 Financial assets held for trading	(311,233)
3.2 Other financial assets at fair value through profit or loss	(1,585,174)
3.3 Available-for-sale financial assets	(21,269)
3.4 Loans and receivables	3,351,007
3.5 Other operating assets	8,509
4. Net (increase)/decrease in operating liabilities	(1,466,366)
4.1 Financial liabilities held for trading	231,533
4.2 Other financial liabilities at fair value through profit or loss	562,876
4.3 Financial liabilities at amortised cost	(1,932,686)
4.4 Other operating liabilities	(328,089)
5. Collections/(Payments) of income tax	(26,736)

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the consolidated cash flow statement for 2012.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012 (THOUSANDS OF EUROS)

	2012
B. CASH FLOWS FROM INVESTING ACTIVITIES (Note 2.17)	(103,174)
6. Payments	(103,174)
6.1. Tangible assets	(1,235)
6.2. Intangible assets	(101,939)
6.3. Investments	-
6.4. Other business units	-
6.5. Non-current assets held for sale and associated liabilities	-
6.6. Held-to-maturity investments	-
6.7. Other payments related to investing activities	-
7. Collections	-
7.1. Tangible assets	-
7.2. Intangible assets	-
7.3. Investments	-
7.4. Other business units	-
7.5. Non-current assets held for sale and associated liabilities	-
7.6. Held-to-maturity investments	-
7.7. Other payments related to investing activities	-

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the consolidated cash flow statement for 2012.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012 (THOUSANDS OF EUROS)

	2012
C) CASH FLOWS FROM FINANCING ACTIVITIES (Note 2.17)	74,442
8. Payments	(4,490)
8.1. Dividends	(4,490)
8.2. Subordinated liabilities	-
8.3. Redemption of own equity instruments	-
8.4. Acquisition of own equity instruments	-
8.5. Other payments related to financing activities	-
9. Collections	78,932
9.1. Subordinated liabilities	-
9.2. Issuance of own equity instruments	12,257
9.3. Disposal of equity instruments	-
9.4. Other collections related to financing activities	66,675
D) EFFECT OF CHANGES IN EXCHANGE RATES	-
E) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	60,436
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	402,679

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the consolidated cash flow statement for 2012.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012 (THOUSANDS OF EUROS)

	2012
G) CASH AND CASH EQUIVALENTS AT END OF YEAR	463,115
MEMORANDUM ITEMS	
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR	
1.1. Cash	44,083
1.2. Cash equivalents at central banks	419,032
1.3. Other financial assets	-
1.4. Less: Bank overdrafts refundable on demand	-
Total cash and cash equivalents at end of year (Note 5)	

The accompanying Notes 1 to 42 and Appendixes I and II are an integral part of the consolidated cash flow statement for 2012.

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

1.1. Introduction

Cecabank, S.A. (the "Bank" or the "Entity") is a financial institution established on October 17 2012 by public deed before the Notary Mr. Manuel Richi Alberti. The Bank is registered in the Commercial Register since 12 November 2012 and the Register of financial institutions of Bank of Spain with the code 2000, the latter entity to whose supervision the Bank is subject as a credit institution.

The Bank's headquarters is located in Madrid, at Calle Alcalá, 27. Either in this address or on its website (www.ceca.es) the Bank's bylaws are available along with other relevant legal information.

Cecabank, S.A. comes from the creation of the bank through which the Confederación Española de Cajas de Ahorros (the "Confederación") operates as a credit institution indirectly, in accordance with the provisions of Article 5 of Royal Decree - Law 11/2010, of July 9 and in the bylaws of the Confederación.

The Bank's bylaws define the activities that it may conduct constituting its object:

a) The carrying out of any activities, operations and services of the banking business in general or relating directly or indirectly to it and which are permitted by law, including the provision of investment and additional services and conducting insurance mediation activities;

b) the providing of technological, administrative and advice to government, and any other public or private entity, and insurance mediation activities;

c) the acquisition, holding, use and disposal of all types of securities

Here are the most important dates in the process of creation of the Bank during the year 2012 whose origin as stated above, has taken place in the decisions taken by the governing bodies of the Confederación of exercising its activity indirectly and which culminated in the creation of the new bank called Cecabank, SA:

- On 21 March 2012, the Board of Directors of the Confederación resolved to change the entity's regime in order to carry on its financial activity indirectly, in accordance with the Article 5 of Royal Decree-Law 11/2010, of 9 July, on governing bodies and other aspects of the legal regime of savings banks. In this regard, the Board of Directors approved the Spin-Off Plan whereby all the Confederación's assets and liabilities except certain items relating to charitable and social work were spun off to a Cecabank, S.A., which was subrogated to all the rights and obligations intrinsic to the spun-off assets and liabilities.
- On 25 July 2012, the Spin-Off Plan was approved at the Extraordinary General Assembly, together with the spin-off balance sheet and the agreement to spin off the Confederación's business to Cecabank, S.A.
- Lastly, on 12 November 2012, the Confederación spin-off deed was registered at the Mercantile Registry, following authorization by the Ministry of Economy and Finance. The spin-off involved the creation of Cecabank, S.A., to which the Confederación's assets and liabilities were spun off and through which the Confederación carries on its activity as a credit institution indirectly, having subrogated to all rights and obligations inherent to the spun-off assets and liabilities.

According to this, the current annual report constitutes the first annual accounts for the Bank.

In relation to the segregated equity elements to the Bank, they are as detailed below:

	THOUSANDS OF EUROS
ASSETS	1 January 2012 (*)
Cash and balances with central banks	402,679
Financial assets held for trading	5,781,782
Other financial assets designated at fair value through profit or loss	999,877
Available-for-sale financial assets	3,608,306
Loans and receivables	5,304,647
Hedging derivatives	10
Non-current assets held for sale	84
Investments	515
Tangible assets	98,414
Intangible assets	2,446
Tax assets	128,981
Other assets	42,031
TOTAL ASSETS	16,369,772

(*) Non-audited figures.

	THOUSANDS OF EUROS
LIABILITIES	1 January 2012 (*)
Financial liabilities held for trading	5,360,647
Other financial liabilities at fair value through Profit or loss	2,324,724
Financial liabilities at amortized cost	7,000,314
Hedging derivatives	25,759
Provisions	206,302
Tax liabilities	44,926
Welfare funds	-
Other liabilities	763,106
TOTAL LIABILITIES	15,725,778
TOTAL EQUITY	643,994
TOTAL LIABILITIES AND EQUITY	16,369,772

(*) Non-audited figures.

As stated in the applicable regulations, the Bank has recorded segregated assets and liabilities at book value with effect 1 January 2012.

At the moment of the creation of the Bank, the Confederación carried out, through the spin-off of its assets and liabilities, a non-monetary contribution to this entity's share capital, of which it was the sole shareholder at that time, with a balancing entry of the same amount recognized as an increase in the balance of "Investments - Subsidiaries" on the asset side of the balance sheet at that date. To the extent that the Bank was fully owned at the time of its creation by the Confederación, this spin-off filed for simplified special scheme provided for in Article 49.1 of Law 3/2009, of 3 April, on structural changes Commercial Companies

On 13 November 2012, following the resolution of its directors at the Board meeting held on 21 March 2012 and following authorization by the Bank of Spain, the Confederación repurchased the non-voting equity units ("cuotas participativas de asociación") it had issued in 1988. For this purpose, a Repurchase Offer by the holders of the non-voting equity units was carried out conditional on the simultaneous, irrevocable undertaking to subscribe ordinary shares of Cecabank for a cash amount equal to that of the repurchased non-voting equity units.

Subsequently, Cecabank, S.A. performed a capital increase amounting to EUR 78,932,117.60 through the issue of 12,256,540 new shares, with the same voting and dividend rights as the existing shares, of EUR 1 par value each and a share premium of EUR 5.44 per share. These shares were fully subscribed and paid by the former holders of the non-voting equity units, following acceptance of the aforementioned Repurchase Offer and the Confederación's waiver of its pre-emptive subscription right. Accordingly, at 31 December 2012, the Confederación held an 89% ownership interest in the share capital of Cecabank, S.A., being the remaining 11% owned by the former holders of the non-voting equity units who accepted the Repurchase Agreement.

Therefore, the Bank is part of the group of which the Confederación Española de Cajas de Ahorros is parent, with whom it made a significant volume of transactions and with whom it maintains relevant balances as of 31 December 2012 as detailed in Note 40.

At 31 December 2012, the Bank is parent a group of companies that integrates not only the Bank, but also CEA Trade Services Limited and Caja Activa, S.A. According to the provisions of the exemptions included in Norma Tercera of the Bank of Spain Circular 4/2004, the Bank has not made in the 2012 exercise, consolidated financial statements of the Group from which it is the parent company, because it is an entity partially owned by the Confederación Española de Cajas de Ahorros and have no opposition by the other owners. The Group Confederación Española de Cajas de Ahorros prepares consolidated financial statements which include all those mentioned companies, applying the full consolidation method. No entity in the subset of credit entities that makes consolidations, and from which the Bank is the parent, is a securities issuer on a regulated market in the European Union.

1.2. Basis of presentation of the financial statements

The Bank's financial statements for the year 2012 were authorized for issue by its directors at the Board of Directors meeting held on 23 January 2013 and are subject to approval by the Annual General Meeting, expected to be approved without modifications.

The Bank's financial statements for the year 2012 are presented in accordance with the provisions of Bank of Spain Circular 4/2004 of 22 December, (hereinafter, the "Circular 4/2004") and subsequent amendments. This Circular of the Bank of Spain constitutes the development and adaptation to the Spanish credit institutions of the International Financial Reporting Standards adopted by the European Union.

The Bank's financial statements for the year 2012 have been prepared taking into account all the principles, accounting standards and valuation criteria of mandatory application, so that they present fairly the equity and financial position of the Bank as of 31 December 2012 and of the results of its operations and cash flows that have occurred in the financial year then ended, in accordance with the financial reporting framework that is applicable and, in particular, with the principles and accounting criteria contained therein to which reference has been made in the previous paragraph.

Note 2 summarizes the accounting principles and policies and most important valuation criteria, applied in preparing the financial statements of the Bank for the year 2012.

1.3. Information relating to 2011

Since the Bank was established in 2012, there is no information presented for comparison from year 2011.

1.4. Responsibility for the information and use of estimates

The information in these financial statements is the responsibility of the Bank's Directors.

In the preparation of the Bank's financial statements for 2012 estimates were made by its Directors in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The impairment losses on certain assets (see Notes 2.3, 2.13, 2.14 and 2.16).
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and obligations and other long-term obligations to employees (see Note 2.11).
- The calculation of any provisions required for contingent liabilities (see Notes 2.10 and 2.15).
- The useful life of the tangible and intangible assets (see Notes 2.13 and 2.14); and
- The fair value of certain unquoted assets (see Note 2.2.3).

Although these estimates were made on the basis of the best information available at 31 December 2012 and at the date on which these financial statements were authorized for issue on the events analyzed, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Any required changes in accounting estimates would be applied prospectively in accordance with the applicable standards, recognizing the effects of the change in estimates in the income statements for the years in question.

1.5. Agency agreements

Neither at 2012 year-end nor at any other time during that year did the Bank have any agency agreements in force, as defined in Article 22 of Royal Decree 1245/1995, of 14 July.

1.6. Investments in the share capital of credit institutions

At of 31 December 2012 the Bank did not hold any ownership interests of 5% or more in the share capital or voting power of any Spanish or foreign credit institutions.

1.7. Environmental impact

In view of the business activities carried on by the Bank, it does not have a significant impact on the environment. Therefore, the Bank's financial statements for 2012 do not contain any disclosures on environmental issues.

1.8. Capital management objectives, policies and processes

Bank of Spain Circular 3/2008 ("Circular 3/2008" or "Solvency Circular"), of 22th of May, on the calculation and control of minimum capital requirements, and as amended thereafter, regulates the minimum capital requirements for Spanish credit institutions –both as individual entities and as consolidated groups– and how to calculate them, as well as the various internal capital adequacy assessment processes the entities should have in place and the information they should disclose to the market in this connection. Bank of Spain Circular 3/2008 adapts Spanish legislation on capital requirements to the Community Directives, which in turn stem from the Basel Capital Accord (Basel II), structured around three core pillars: minimum capital requirements (Pillar I), the internal capital adequacy assessment process (Pillar II) and market disclosures (Pillar III).

Bank of Spain Circular 7/2012, of 30 November, to credit institutions on minimum principal capital requirements was published on 11 December 2012. It introduced the amendments established by Law 9/2012, of 14 November, on restructuring and resolution of credit institutions, to Royal Decree-Law 24/2012, of 31 August, on restructuring and resolution of credit institutions, which established amendments to the principal capital requirements that must be met by consolidated groups of credit institutions and by credit institutions not forming part of a consolidated group of credit institutions, which can raise refundable funds from the public (these requirements had been established by Royal Decree-Law 2/2011, of 18 February, for the strengthening of the financial sector). In this regard, Law 9/2012, of 14 November, converted the principal capital requirements -the general requirement of 8% and the 10% requirement for entities with difficult access to the capital markets and for which wholesale financing is a significant source of funding- into a single requirement of 9% that must be met by the aforementioned entities and groups as from 1 January 2013.

The strategic capital management objectives set by Bank management are as follows:

> To comply, at all times. with the applicable regulations on minimum capital requirements.

> To seek maximum capital management efficiency so that, together with other profitability and risk variables, the use of capital is considered as a key variable in any analysis related to the Bank's investment decisions.

In order to meet these objectives, the Bank has in place a series of capital management policies and processes, the main cornerstones of which are as follows:

> In the Bank's strategic and operational planning, and in the analysis and follow-up of the operations of the Group to which it belongs, the impact of decisions on the Bank's eligible capital and the use-profitability-risk relationship is considered to be a key decision-making factor.

> As part of its organizational structure the Bank has monitoring and control units which at all times analyzes the level of compliance with the Bank of Spain regulations on capital, with alerts in place to guarantee compliance with the applicable regulations.

Circular 3/2008, establishes the elements that are eligible for inclusion in capital for the purpose of compliance with the minimum capital requirements set forth therein. Under this Circular, capital must be classified into Tier 1 and Tier 2 capital. The capital calculated for the purposes of the Circular 4/2004 differs from the capital calculated in accordance with accounting standards, since the Circular 4/2004 considers certain items as capital and establishes certain mandatory deductions from capital in respect of items which are not considered to be part of capital under accounting standards. In accordance with the aforementioned Circular 3/2008, the Bank's capital is managed and calculated at the level of its consolidable group of credit institutions, as defined in the Circular. The consolidable group of credit institutions, of which the Bank is part of, differs from the economic group of which it is a part of, basically with respect to the consolidation or measurement methods applied to the Group entities which are not considered consolidable entities due to their activity (non-financial entities).

The Bank's management of its capital, as regards conceptual definitions, is in keeping with Circular 3/2008. In this connection, the Bank considers eligible capital to be that specified in Rule Eight of Circular 3/2008, with the deductions and limits stated in Rules Nine to Eleven of the Circular.

The minimum capital requirements established by the aforementioned Circular are calculated by reference to the exposure to credit and dilution risk (on the basis of assets, obligations and other memorandum items that present these risks, depending on their amounts, characteristics, counterparties, guarantees, etc.), to counterparty risk and position and settlement risk in the trading book, to foreign exchange and gold position risk (on the basis of the overall net foreign currency position and of the net gold position) and to operational risk. Additionally, the Bank is subject to compliance with the risk concentration limits and the requirements concerning internal corporate governance, capital adequacy assessment, interest rate risk measurement and disclosure of information to the market, also established in Circular 3/2008. With a view to guaranteeing compliance with the aforementioned objectives, the Bank performs an integrated management of these risks, in accordance with the policies and processes indicated above.

Following is a detail, classified into Tier 1 and Tier 2 capital, of the Confederación Española de Cajas de Ahorros Group's capital at 31 December 2012 calculated in accordance with Circular 3/2008:

	THOUSANDS OF EUROS
	2012
Tier 1 capital	703,961
Tier 2 capital	8,653
Total eligible capital	712,614
Minimum Tier capital	304,696

Tier 1 capital in the above table basically includes the sum of the Group's reserves from retained earnings, participation certificates, non-controlling interests and the portion of consolidated profit for 2012 which the Group companies proposed be allocated to unrestricted reserves, less the balance of the intangible assets owned by the Group.

Tier 2 capital in the above table basically comprises the revaluation reserves relating to tangible assets set up in prior years pursuant to applicable legislation and the percentages established in Circular 3/2008 applied to the carrying amounts of the unrealized gains on available-for-sale financial assets recognized under "Valuation Adjustments" in Group equity and the part of the allowance that is computed as such according to the current legislation.

At 31 December 2012 and throughout that year, the Group's eligible capital exceeded the minimum capital requirements under the applicable legislation.

1.9. Minimum reserve ratio

At 31 December 2012 and throughout 2012, the Bank met the minimum reserve ratio required by the applicable legislation.

At 31 December 2012 the Bank's cash balance with Bank of Spain for these purposes amounted to EUR 419,032 thousand. This ratio is calculated on the basis of the daily ending balance held by the Bank in this account during the required period.

1.10. Deposit guarantee fund

In 2011 the following regulations amending the Deposit Guarantee Fund contribution system were issued:

- Royal Decree-Law 16/2011, of 14 October, creating the Deposit Guarantee Fund for Credit Institutions, which unifies the three previously existing deposit guarantee schemes (the Deposit Guarantee Fund for Savings Banks, the Deposit Guarantee Fund for Banks and the Deposit Guarantee Fund for Credit Cooperatives) into a single scheme. Whilst retaining the function of guaranteeing deposits at credit institutions, which was already performed by the three previous funds, the unified scheme seeks to strengthen the second function of the system: namely to bolster the solvency and functioning of credit institutions, also known as the "resolution" function, with a view to ensuring the flexibility of the actions of the new unified Fund.
- Royal Decree-Law 19/2011, of 2 December, amending Royal Decree-Law 16/2011, of 14 October, which created the Deposit Guarantee Fund for Credit Institutions. This Royal Decree-Law completes and reinforces the reform of the system undertaken through Royal Decree-Law 16/2011. It revises the legally stipulated maximum annual contribution that entities must make to the Fund, raising it from 2 per mil to 3 per mil to guarantee the maximum operating capability of the Fund. It also expressly repeals the ministerial orders which, pursuant to the legislation previously in force, had granted powers to temporarily reduce the entities' contributions, including Ministry of Economy and Finance Order EHA/3515/2009, of 29 December, which had set the Confederación's contributions at 1 per mil of the base of the deposits covered by the guarantee. The result of these changes is the establishment, in a rule that has the status of a law, of a ceiling on the contributions of 3 per mil of guaranteed deposits and the establishment of an actual contribution of 2 per mil instead of the aforementioned figures.

> Additionally, Royal Decree 771/2011 was introduced on 4 June 2011 and amended, among others, Royal Decree 2606/1996 governing deposit guarantee funds at credit institutions. The new regulation created a new system of additional contributions to the funds based on remuneration from the deposits themselves.

2012 saw the publication of Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector, whereby (by virtue of the provisions contained in Royal Decree-Law 19/2011, of 2 December, which amended Royal Decree-Law 16/2011, of 14 October, creating the Deposit Guarantee Fund for Credit Institutions, on the performance of the measures required to restore the balance of the aforementioned Fund to a sufficient level) on 30 July 2012 the Managing Committee of the Deposit Guarantee Fund for Credit Institutions resolved that a supplementary payment was to be made by the entities participating in the Fund, which would be estimated on the basis of their contributions at 31 December 2011 and would be payable in equal annual installments over the following ten years.

Also, Law 9/2012, of 14 November 2012, on restructuring and resolution of credit institutions was published in 2012. This law requires the Deposit Guarantee Fund, subject to a prior ruling from the Bank of Spain, to reimburse the amounts of guaranteed deposits in the event of failure to repay the deposits when past due and payable, unless the initiation of a process for the resolution of the entity has been agreed upon. In this regard, the Fund may adopt measures to support the resolution of a credit institution, such as granting guarantees, loans or credits, acquiring assets or assuming liabilities, and may manage the institution itself or engage a third party to do so.

In 2012, the contributions made to this Fund amounted to approximately EUR 241 thousand, and the related expense was recognized under "Other Operating Expenses" in the accompanying income statement for 2012 (see Note 37).

1.11. Main regulatory changes during the period from 1 January to 31 December 2012

Bank of Spain Circular 2/2012 of 29 February, which modifies Bank of Spain Circular 4/2004, of 22 December, to credit institutions about public and confidential financial information standards and Financial Statements samples.

On 6 March 2012, the Bank of Spain published Circular 2/2012, of 29 February, amending Bank of Spain Circular 4/2004, of 22 December, to credit institutions, on public and confidential financial reporting rules and formats, the main aim of which was to adapt Circular 4/2004 to the provisions of Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector.

Specifically the main changes of this circular are:

> Adaptations were made to the rules governing coverage (allowances) for financing and assets foreclosed or received in payment of debts relating to land for property development and to property construction or development, corresponding to credit institutions' transactions in Spain, both those existing at 31 December 2011 and those arising from the refinancing thereof at a later date, in line with the provisions of the aforementioned Royal Decree-Law on the clean-up of the financial sector.

> Amendments were made to the general rules governing the accounting recognition of assets foreclosed or received in payment of debts, determining the value at which these property assets must be recognized both initially and subsequently, which is the lower of:

a) the carrying amount of the financial assets applied (debt), taking into consideration the estimated impairment and, in all cases, a minimum of 10%; and

b) the market appraisal value of the asset received in its current condition less estimated costs to sell, which in no case may be less than 10% of this value.

For the purposes of subsequent measurement, the coverage percentage of a) above increases to 20%, 30% and 40% depending on the time that has elapsed since the asset was included in the balance sheet (more than one, two and three years, respectively).

The measures established in Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector, and developed in this Circular must be complied with generally before 31 December 2012, except in the case of entities involved in an integration process, which will have a further 12 months in which to register their compliance. In this regard, in view of the activity carried on by the Confederación, this does not have any impact on its financial statements.

Bank of Spain Circular 6/2012, of 28 September, amending Bank of Spain Circular 4/2004, of 22 December, to credit institutions on public and confidential financial reporting rules and formats.

On 2 October 2012, the Bank of Spain published Circular 6/2012, of 28 September, amending Bank of Spain Circular 4/2004, of 22 December, to credit institutions on public and confidential financial reporting rules and formats, the main aim of which was to adapt Circular 4/2004 to the provisions of Royal Decree-Law 18/2012, of 11 May, on the clean-up and sale of property assets of the financial sector.

Specifically the main changes of this circular are:

> It establishes certain additional provisioning requirements on assets connected with the property sector, supplementary to those already provided for in Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector, whereby, for loans connected with the property sector classified as "standard risk", provisions must be recognized on the outstanding balance at 31 December 2011, as stipulated in the aforementioned Royal Decree-Law. Furthermore, the requirements for transparency in credit institutions' financial statements were completed, and disclosures must now include a description of any companies that the credit institutions may have incorporated to manage these assets or any investments made by the credit institutions in companies whose activity is the management of assets of this kind, with data on the cumulative amount of the assets transferred to these companies and the financial assets received in return, indicating the impact on the income statement and the data relating to the financing lines granted to these companies.

- It also establishes the disclosure and presentation of quantitative information in financial statements in relation to refinancing, refinanced and restructured transactions, and requires a brief summary of the policy for refinancing and restructuring transactions, including an explanation of the criteria used for assessing the sustainability of the measures applied. It also requires disclosures in the financial statements on the detail of loans and advances to customers by activity, indicating the type of guarantee and the purpose associated with these transactions, and information relating to risk concentration by geographical area of operations and business segment.
- It also adapts the special accounting register for mortgage loans to the amendments introduced by the aforementioned Royal Decree-Law.

In view of the activity carried on by the Bank, it did not record at 31 December 2012, or during the year then ended, any construction or property development financing transactions or any assets acquired in payment of debts. The only home purchase financing transactions were those granted to its employees (see Note 22.11).

Bank of Spain Circular 7/2012, of 30 November, to credit institutions on minimum principal capital requirements.

Bank of Spain Circular 7/2012, of 30 November, to credit institutions on minimum principal capital requirements was published on 11 December 2012. Its main objective was to introduce the amendments established by Law 9/2012, of 14 November, on restructuring and resolution of credit institutions, to Royal Decree-Law 24/2012, of 31 August, on restructuring and resolution of credit institutions, which established amendments to the principal capital requirements that must be met by consolidated groups of credit institutions and by credit institutions not forming part of a consolidated group of credit institutions, which can raise refundable funds from the public (these requirements had been established by Royal Decree-Law 2/2011, of 18 February, for the strengthening of the financial sector). In this regard, Law 9/2012, of 14 November, converted the principal capital requirements -the general requirement of 8% and the 10% requirement for entities with difficult access to the capital markets and for which wholesale financing is a significant source of funding- into a single requirement of 9% that must be met by the aforementioned entities and groups as from 1 January 2013.

This Circular also amends the definition of principal capital in order to adapt it to the definition used by the European Banking Authority, with regard to the eligible components and the applicable deductions, in accordance with its Recommendation EBA/REC/2011/1. To this end, this Circular details the eligible instruments to be included in the definition of principal capital, and defines the way in which they must be calculated, the requirements for their issuance and, in particular, the requirements for mandatorily convertible debt instruments.

It also determines how risk-weighted exposures can be adjusted to ensure that the capital requirement for each risk exposure does not exceed the value of the exposure itself and that there is consistency between the value of the exposures and the components of principal capital. Note 1.8 above contains information on the Group's principal capital requirements.

2. Accounting policies and measurement bases

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

2.1. Investments

2.1.1. 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 Bank owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when there are other circumstances or agreements that give the Bank control.

Participations in subsidiaries are presented in these financial statements recorded under the heading "Investments - Subsidiaries" of the balance sheet and valued at cost of acquisition, net of any impairment that they may have suffered, which are estimated and recorded, if any, in accordance with Note 2.3.4

Dividends accrued in the year on these investments are recognized under "Income from Equity Instruments" in the income statement.

At 31 December 2012, in accordance with the aforementioned bases, the Bank considered Caja Activa, S.A., in which it held a 99.99% in 2012 ownership interest, and CEA Trade Services Limited, a wholly-owned investee in 2012, to be subsidiaries of the Group of which it is part of. Appendix I to these notes to the financial statements contains relevant information on these companies.

2.1.2. Jointly controlled entities

"Jointly controlled entities" are deemed to be ventures that are not subsidiaries but which are jointly controlled by the Bank and by one or more other entities, either individually or in conjunction with the other entities of the group to which they belong.

Interests in jointly controlled entities are presented in these financial statements recorded under the heading "Investments - Jointly controlled entities" of the balance sheet and valued at cost of acquisition, net of any impairment that they may have suffered, which are estimated and recorded in appropriate, as explained in Note 2.3.4

Dividends paid in the year by these investments are recorded, if any, under the heading "Income from equity instruments" in the income statement.

At 31 December 2012, in accordance with the aforementioned rules, only Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A., in which the Bank owned a 50% holding in 2012, was considered to be a jointly controlled entity. Appendix II to these notes to the financial statements contains significant information on this entity.

2.1.3. Associates

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

Investments in associates, if there are any, are recognized under "Non-Current Assets Held for Sale - Equity Instruments" in the balance sheet and are measured by it acquisition price minus the impairments they may have suffered or that are estimated and registered, in accordance with Note 2.3.4.

At 31 December 2012, in accordance with the aforementioned criteria, the Bank did not hold any ownership interests in companies considered to be associates.

At 31 December 2012, the Bank owned 20% of the share capital of Tevea International, S.A. (formerly, Euro - Tevea S.A.). This investee was not considered an associate at 2012, as although the Bank owns more than 20% of its voting rights, it does not exercise significant influence over it. As a result, this investment is recognized in these financial statements under "Available – for - Sale Financial Assets - Other Equity Instruments" in the balance sheet at those dates and is measured at cost, in accordance with the criteria explained in Note 2.2.4.

At 31 December 2012, the Bank owns 22.49% of the share capital of Eufiserv Payments, S.C.R.L. At 31 December 2012 this investment was not considered an associate since, in spite of owning 22.49% of the voting power, the Bank does not exercise significant influence over this company. Therefore, this investment is recognized in these financial statements under "Available – for - Sale Financial Assets - Equity Instruments" in the balance sheet at that date and is measured at cost in accordance with the criteria explained in Note 2.2.4.

2.2. Financial instruments - Initial recognition, derecognition, definitions of fair value and amortized cost and classification categories and measurement of financial assets and liabilities

2.2.1. Initial recognition of financial instruments

Financial instruments are initially recognized in the balance sheet when the Bank becomes a party to the contract originating them in accordance with the terms and conditions thereof. Specifically, debt instruments, such as loans and cash deposits, are recognized from the date on which the legal right to receive or the legal obligation to pay cash arises. Derivative financial instruments are generally recognized from the trade date.

A regular way purchase or sale of financial assets, defined as one in which the parties' reciprocal obligations must be discharged within a time frame established by regulation or convention in the marketplace and that may not be settled net, such as stock market and forward currency purchase and sale contracts, is recognized on the date from which the rewards, risks, rights and duties attaching to all owners are for the purchaser, which, depending on the type of financial asset purchased or sold, may be the trade date or the settlement or delivery date. In particular, transactions performed in the spot currency market are recognized on the settlement date; equity instruments traded in Spanish secondary securities markets are recognized on the trade date and debt instruments traded in these markets are recognized on the settlement date.

2.2.2. Derecognition of financial instruments

A financial asset is derecognized when:

> The contractual rights to the cash flows from the financial asset expire; or

> The financial asset is transferred and substantially all its risks and rewards are transferred or, although these are not substantially transferred or retained, control over the financial asset is transferred (see Note 2.4).

Also, a financial liability is derecognized when the obligations it generates have been extinguished or when it is purchased by the Bank, with the intention either to re-sell it or to cancel it.

2.2.3. Fair value and amortized cost of financial 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 parties in an arm's length transaction. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an organized, transparent and deep market ("quoted price" or "market price").

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

Specifically, the fair value of financial derivatives included in the portfolios of financial assets or liabilities held for trading which are traded in organized, transparent and deep markets is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price at a given date cannot be determined, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives or derivatives traded in scantly deep or transparent organized markets 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 recognized by the financial markets: "net present value" (NPV), option pricing models, etc.

Amortized cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal and interest repayments and the cumulative amortization (taken to the income statement), calculated using the effective interest method, of the difference between the initial cost and the maturity amount of such financial instruments. In the case of financial assets, amortized cost furthermore includes any reductions for impairment or uncollectibility.

The Bank has contracted at 31 December 2012 various operations of repurchase agreements (see Note 6.2.1), at which expiration, it must give the debtor back the ownership of the securities that constitute its guarantee. At 31 December 2012 the fair value of the securities received as collateral in these transactions repos does not differ significantly from the carrying value of these operations

The effective interest rate is the discount rate that exactly matches the initial amount of a financial instrument to the present value of all its estimated cash flows of all kinds during its remaining life, disregarding future losses from credit risk. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition or arrangement date adjusted, where applicable, for the fees, premiums, discounts and transaction costs that, pursuant to the Circular 4/2004, must be included in the calculation of the effective interest rate. In the case of floating rate financial instruments, the effective interest rate is determined using a method similar to that for fixed rate transactions and is recalculated on each contractual interest reset date, taking into account any changes in the future cash flows.

2.2.4. Classification and measurement of financial assets and liabilities

Financial instruments are classified in the Bank's balance sheet as follows:

> Financial assets and liabilities at fair value through profit or loss: pursuant to current legislation, this category includes financial instruments classified as held for trading and other financial assets and liabilities classified at fair value through profit or loss:

- Financial assets held for trading include those acquired for the purpose of selling them in the near term or those which are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking and derivatives not designated as hedging instruments, including those separated from hybrid financial instruments pursuant to the Circular 4/2004.

- Financial liabilities held for trading include those that have been issued with an intention to repurchase them in the near term or that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking; short positions arising from sales of financial assets acquired under non-optional resale agreements or borrowed securities, and financial derivatives not designated as hedging instruments, including those separated from hybrid financial instruments pursuant to the Circular 4/2004.

- Other financial assets at fair value through profit or loss are financial assets designated as such from their initial recognition, whose fair value may be estimated reliably and that meet any of the following requirements:

  - In the case of hybrid financial instruments for which it is compulsory to separate the embedded derivative(s) from the host contract, the fair value of the embedded derivative(s) cannot be estimated reliably.

  - In the case of hybrid financial instruments for which it is mandatory to separate the embedded derivative(s), the Bank elected from their initial recognition to classify the entire hybrid financial instrument under this category, since the requirements established by current regulations were met in the sense that the embedded derivative(s) significantly alter the cash flows that the host contract would have had if it had been considered separately from the embedded derivative(s) and that there is an obligation to separate for accounting purposes the embedded derivative(s) from the host contract.

  - As a result of classifying a financial asset in this category, more relevant information is obtained because such designation eliminates or significantly reduces inconsistencies in recognition or measurement (also known as accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognizing the related gains or losses on different bases or because the gain value basis reflects management's investment management or assessment strategy, as established in the Circular 4/2004. Note 6 contains details on the financial instruments classified in this category.

- Other financial liabilities at fair value through profit or loss are financial liabilities designated as such from their initial recognition, whose fair value may be estimated reliably and that meet any of the following requirements:

  - In the case of hybrid financial instruments for which it is compulsory to separate the embedded derivative(s) from the host contract, the fair value of the embedded derivative(s) cannot be estimated reliably.

  - In the case of hybrid financial instruments for which it is mandatory to separate the embedded derivative(s), the Group elected from their initial recognition, to classify the entire hybrid financial instrument under this category, since the requirements established by current regulations were met in the sense that the embedded derivative(s) significantly alter the cash flows that the host contract would have had if it had been considered separately from the embedded derivative(s) and that there is an obligation to separate for accounting purposes the embedded derivative(s) from the host contract.

  - As a result of classifying a financial liability in this category, more relevant information is obtained because such designation eliminates or significantly reduces inconsistencies in recognition or measurement (also known as accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognizing the related gains or losses on different bases or because the fair value basis reflects management's investment management or assessment strategy, as established in the Circular 4/2004. Note 6 contains details on the financial instruments classified in this category.

Only financial instruments which, from their initial recognition, would have been classified as financial assets and liabilities at fair value through profit or loss are included in this category.

Financial instruments at fair value through profit or loss are initially measured at fair value. Subsequent to acquisition, financial instruments classified in this category continue to be measured at fair value at the reporting date and any changes in the fair value are recognized under "Gains/Losses on Financial Assets and Liabilities (Net)" in the income statement, except for the fair value changes due to accrued returns on financial instruments other than trading derivatives, which are recognized under "Interest and Similar Income", "Interest Expense and Similar Charges" or "Income from Equity Instruments" in the income statement, depending on their nature. The accrued returns on debt instruments included in this category are calculated using the effective interest method.

Notwithstanding the foregoing, financial derivatives that have as their underlying equity instruments whose fair value cannot be determined in a sufficiently objective manner and are settled by delivery of those instruments are measured, where appropriate, at cost.

> **Loans and receivables:** pursuant to current legislation, this category includes unquoted debt instruments, financing granted to third parties in connection with ordinary lending activities carried out by the Bank (other than those classified at fair value through profit or loss) and receivables from users of services.

The financial assets included in this category are initially measured at fair value adjusted by the amount of the fees and commissions and transaction costs that are directly attributable to the acquisition or arrangement of the financial asset and which, in accordance with the Circular 4/2004, must be allocated to the income statement by the effective interest method through maturity. Subsequent to acquisition, assets included in this category are measured at amortized cost.

Assets acquired at a discount are measured at the cash amount paid and the difference between their repayment value and the amount paid is recognized as finance income using the effective interest method during the remaining term to maturity.

The Bank generally intends to hold the loans and credits included in this category granted by it until their final maturity and, therefore, they are presented in the balance sheet at their amortized cost.

The interest accrued on these assets, which is calculated using the effective interest method, is recognized under "Interest and Similar Income" in the income statement. Exchange differences on assets included in this portfolio denominated in currencies other than the euro are recognized as set forth in Note 2.7. Any impairment losses on these assets are recognized as explained in Note 2.3.

> Available-for-sale financial assets: this category includes debt instruments not classified as held-to-maturity investments, as loans and receivables or as financial assets at fair value through profit or loss and equity instruments owned by the Bank relating to entities other than subsidiaries, jointly controlled entities or associates that are not classified at fair value through profit or loss.

The instruments included in this category are initially recognized at fair value adjusted by the amount of the transaction costs that are directly attributable to the acquisition of the financial asset, which are recognized in the income statement by the effective interest method, except for those relating to financial assets with no fixed maturity, which are recognized in the income statement when the assets become impaired or are derecognized. Subsequent to acquisition, financial assets included in this category are measured at fair value at each reporting date.

However, equity instruments whose fair value cannot be determined in a sufficiently objective manner are measured in these financial statements at cost, net of any impairment loss, calculated as detailed in Note 2.3.

Changes in the fair value of available-for-sale financial assets relating to accrued interest or dividends are recognized under "Interest and Similar Income" (calculated using the effective interest method) and "Income from Equity Instruments" in the income statement, respectively. Any impairment losses on these instruments are recognized as described in Note 2.3. Exchange differences on financial assets denominated in currencies other than the euro are recognized as explained in Note 2.7.

Other changes in the fair value of available-for-sale financial assets from the acquisition date are recognized in equity under "Valuation Adjustments - Available-for-Sale Financial Assets" until the financial asset is derecognized, when the balance recorded under this item is recognized under "Gains/Losses on Financial Assets and Liabilities (net)" in the income statement, or in the case of equity instruments considered to be strategic investments for the Bank, they are recognized under "Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations".

> Held-to-maturity investments: pursuant to current legislation, this category includes debt instruments traded on organized markets with fixed maturity and with fixed or determinable cash flows that, from inception and at any subsequent date, are held with the positive intention and financial ability to hold to maturity.

Debt instruments included in this category are initially measured at fair value adjusted by the amount of the transaction costs that are directly attributable to the acquisition of the financial asset, which are recognized in the income statement by the effective interest method as defined in Circular 4/2004. They are subsequently measured at amortized cost calculated using the effective interest method.

The interest accrued on these securities, which is calculated using the effective interest method, is recognized under "Interest and Similar Income" in the income statement. Exchange differences on assets included in this portfolio denominated in currencies other than the euro are recognized as set forth in Note 2.7. Any impairment losses on these securities are recognized as explained in Note 2.3.

At 31 December 2012 and throughout this year the Bank did not have any financial instruments classified in this category.

> Financial liabilities at amortized cost: this category includes the Bank's financial liabilities not included in any other category.

The financial liabilities included in this category are initially measured at fair value adjusted by the amount of the transaction costs that are directly attributable to the issue or arrangement of the financial liability, which are recognized in the income statement by the effective interest method (as defined by Circular 4/2004) through maturity. Subsequently, these financial liabilities are measured at amortized cost calculated using the effective interest method as defined in Circular 4/2004.

The interest accrued on these values, which is calculated using the effective interest method, is recognized under "Interest Expense and Similar Charges" in the income statement. Exchange differences on securities included in this category denominated in currencies other than the euro are recognized as set forth in Note 2.7.

2.3. Impairment of financial assets

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 income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognized impairment losses is recognized in the income statement for the period in which the impairment is reversed or reduced, except for any recovery in the income statement previously registered corresponding to equity instruments classified as available for sale, which are not recognized in the income statement under the heading "Valuation Adjustments- Available for sale assets" of the balance sheet.

When the recovery of any recognized amount is considered unlikely, the amount is written off ("written-off asset"), without prejudice to any actions that the Bank 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 criteria applied by the Bank to determine possible impairment losses in each of the various financial instrument categories and the method used to recognize such impairment losses are as follows:

2.3.1. Debt instruments carried at amortized cost

The amount of an impairment loss incurred on a debt instrument carried at amortized cost is equal to the positive difference between its carrying amount and the present value of its estimated future cash flows. The market value of quoted debt instruments is deemed to be a reliable estimate of the present value of their future cash flows.

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

> All the amounts that are expected to be obtained over the remaining life of the instrument, including, where appropriate, those which may result from the collateral provided for the instrument (less the costs for obtaining and subsequently selling the collateral).

> The 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 materialization of the insolvency risk of the obligors (credit risk), a debt instrument is impaired due to insolvency:

> When there is evidence of a deterioration of the obligor's ability to pay, either because it is in arrears or for other reasons, and/or;

> When country risk materializes: country risk is defined as the risk that is associated with debtors resident in a given country due to circumstances other than normal commercial risk.

Impairment losses on these assets resulting from materialization of the insolvency risk of the obligors (credit risk) 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 sector and geographical location, type of guarantee or collateral, age of past-due amounts receivable, etc.

> Collectively: the Bank classifies transactions on the basis of the nature of the obligors, the conditions of the countries in which they reside, transaction status and type of collateral or guarantee, age of past-due amounts, etc. For each risk group it establishes the impairment losses ("identified losses"), which must be recognized in the financial statements, applying the parameters established by the Bank of Spain. Impairment losses are estimated taking into account the possibility of collection of the interest accrued on these impaired assets.

In addition, the Bank recognizes an overall impairment loss on risks in relation to which specific losses have not been identified. This loss is quantified by application of the parameters established by the Bank of Spain based on experience and on the information available to it on the Spanish banking industry.

The amount of the impairment losses on debt instruments at amortized cost or, as the case may be, their subsequent reversal, estimated in accordance with the criteria described above, are recognized under "Impairment Losses on Financial Assets (net) - Loans and Receivables" and "Impairment Losses on Financial Assets (net) - Other Financial Assets Not Measured at Fair Value Through Profit or Loss", depending on the category of financial instrument in which the debt instruments are classified (see Note 2.2).

According to the Circular 4/2004, the Bank discontinues recognition of interests in the profit and loss account of those debt instruments individually classified as impaired and for those for which they had collectively estimated impairment losses (operations with identified losses) on amounts due for more than 3 months.

2.3.2. Debt instruments classified as available for sale

The amount of the impairment losses on debt instruments included in the available-for-sale financial asset portfolio is the positive difference between their acquisition cost (net of any principal repayment or amortization) and their fair value less any impairment loss previously recognized in the income statement.

In the case of impairment losses arising due to the insolvency of the issuer of the debt instruments classified as available for sale, the procedure followed by the Bank for calculating such losses is the same as the method used for debt instruments carried at amortized cost explained in section 2.9.1 above.

When there is objective evidence that the losses arising on measurement of these assets are due to impairment, they are removed from the equity item “Valuation Adjustments - Available-for-Sale Financial Assets” and are recognized, for their cumulative amount, in the income statement under “Impairment Losses (net) - Other Financial Instruments Not Measured at Fair Value Through Profit or Loss”. If all or part of the impairment losses are subsequently reversed, the reversed amount would be recognized in the income statement for the period in which the reversal occurred under “Impairment Losses on Financial Assets (net) - Other Financial Assets Not Measured at Fair Value Through Profit or Loss”.

Similarly, the impairment losses arising on measurement of debt instruments classified as “non-current assets held for sale” which are recognized in the Bank’s equity are considered to be realized and, therefore, are recognized in the income statement when the assets are classified as “non-current assets held for sale”.

2.3.3. Equity instruments classified as available for sale

The impairment losses on equity instruments included in the available-for-sale financial asset portfolio are the positive difference between their acquisition cost (net of any principal repayment or amortization) and their fair value less any impairment loss previously recognized in the income statement.

The criteria for recognizing impairment losses on equity instruments classified as available for sale are similar to those for debt instruments classified as available for sale (as explained in Note 2.3.2), with the exception that any reversal of these losses is recognized in equity under "Valuation Adjustments - Available-for-Sale Financial Assets" rather than in the income statement.

2.3.4. Equity instruments carried at cost

The estimation and accounting of impairment losses on investments in group companies, joint ventures and associates, which, for the purposes of the preparation of these financial statements, are not considered "financial instruments", is performed as follows : when according to Circular 4/2004, there is evidence of impairment of the aforementioned holdings, the amount of such impairment is estimated as the negative difference between the recoverable amount (calculated as the greater of the fair value of the participation as less estimated costs necessary to sell and its value in use is defined as the present value of the flows to be received from participation in dividends and related to its sale or disposal by other means) and book value. Impairment losses on these investments and any reversals of such losses are recorded as a charge or credit, respectively, under the heading "Impairment losses on other assets (net) - Other assets" in the income statement.

2.3.5. Equity instruments carried at cost

The amount of the impairment losses on equity instruments carried at cost is the positive difference between their 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 recognized in the 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.

2.4. Transfers of financial assets

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

It is considered that the Bank substantially transfers the risks and benefits if the transferred risks and benefits represent the majority of the total risk of the transferred assets.

- If the Bank 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, securitization of financial assets in which a subordinated debt or another type of credit enhancement is retained that absorbs substantially all the expected credit losses on the securitized assets, and other similar cases-, the transferred financial asset is not derecognized and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognized, without offsetting:
  - An associated financial liability, for an amount equal to the consideration received; this liability is subsequently measured at amortized cost, or, if the aforementioned requirements for classification of other financial liabilities at fair value through profit or loss are met, at fair value, in accordance with the aforementioned criteria for this type of financial liability.
  - The income from the transferred financial asset not derecognized and any expense incurred on the new financial liability.
- If the Bank 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, securitization of financial assets in which the transferor retains a subordinated debt or another 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, the transferred financial asset is derecognized and any right or obligation retained or created in the transfer is recognized.
  - If the transferor retains control, it continues to recognize the transferred financial asset in the balance sheet for an amount equal to its exposure to changes in value and recognizes a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortized cost of the rights and obligations retained, if the transferred asset is measured at amortized 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 derecognized when the cash flows they generate have been extinguished or when substantially all the significant inherent risks and rewards have been transferred to third parties.

Notes 27.2 and 27.5 contain a summary of the main circumstances of the principal transfers of assets outstanding at 2012 year-end which did not lead to the derecognition of the related assets (securities lending transactions and sales of asset under non-optional repurchase agreements).

2.5. Reclassification between financial instrument portfolios

Reclassifications between financial instrument portfolios can only be made, where appropriate, as follows:

a) Except in the circumstances indicated in paragraph d) below, financial instruments classified as “at fair value through profit or loss” cannot be reclassified into or out of this financial instrument category once they have been acquired, issued or assumed.

b) If, as a result of a change in intention or financial ability of an entity, it is no longer appropriate to classify a financial asset as held to maturity, it is reclassified into the “available-for-sale financial assets” category. In this case, the same treatment shall be applied to all the financial instruments classified as held-to-maturity investments, unless the reclassification is made in any of the circumstances permitted under the applicable regulations (sales very close to maturity, substantially all of the financial asset’s original principal has been collected, etc.).

In 2012, the Bank did not hold any securities classified as held-to-maturity investments and, therefore, it did not perform any reclassifications of the type described in the preceding paragraph.

c) If there is a change in the Bank's intention or financial ability, or if the two penalty financial years established by the regulations applicable to the sale of financial assets classified in the held-to-maturity investment category (see paragraph b) above) have passed, the financial assets (debt instruments) included in the "available-for-sale financial assets" category can be reclassified into the "held-to-maturity investments" category. In this case, the fair value of these financial instruments on the date of reclassification becomes their new amortized cost and the difference between this amount and the redemption value is allocated to the income statement over the remaining life of the instrument using the effective interest method.

   No reclassifications of the type described in the preceding paragraph were made in 2012.

d) With the introduction of the Circular 6/2008, of 1 July 2008, a non-derivative financial asset may be reclassified out of the held-for-trading category if it is no longer held for the purpose of selling or repurchasing it in the near term, provided that one of the following circumstances occurs:

   a. In rare or exceptional circumstances, unless the assets could have been included in the loans and receivables category. For these purposes, rare and exceptional circumstances are those arising from a particular event, which is unusual and highly unlikely to recur in the foreseeable future.

   b. When the entity has the intention and financial ability to hold the financial asset for the foreseeable future or until maturity, provided that the asset had met the definition of loans and receivables at initial recognition.

   In these circumstances, the financial asset is reclassified at its fair value on the date of reclassification, any gain or loss already recognized in profit or loss is not reversed, and this fair value becomes its amortized cost. The financial assets so reclassified can in no case be reclassified again into the held-for-trading category.

   No reclassifications of the type described in the preceding paragraph were made during 2012.

2.6. Hedge accounting and mitigation of risk

The Bank uses financial derivatives as part of its strategy to reduce its exposure to interest rate, foreign currency, credit and other risks. When these transactions meet the requirements stipulated in the regulation, they qualify for hedge accounting.

When the Bank designates a transaction as a hedge it does so upon initial recognition of the transactions and documents it appropriately. The hedge accounting documentation includes identification of the hedged item(s) and the hedging instrument(s), the nature of the risk to be hedged and the criteria or methods used by the Bank to assess the effectiveness of the hedge over its entire life, taking into account the risk to be hedged.

The Bank only applies hedge accounting for hedges that are considered highly effective over their entire lives. A hedge is considered to be highly effective if, during its expected life, the changes in fair value or cash flows of the hedged item that are attributable to the risk hedged in the hedging of the financial instrument(s) are almost fully offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument(s).

To measure the effectiveness of hedges defined as such, the Bank analyses whether, from the beginning to the end of the term defined for the hedge, the Bank can expect, prospectively, that the changes in fair value or cash flows of the hedged item that are attributable to the hedged risk will be almost fully offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument and, retrospectively, that the actual results of the hedge are within a range of 80% to 125% of the results of the hedged item.

Hedging transactions performed by the Bank are classified as follows:

- Fair value hedges: hedge the exposure to changes in fair value of financial assets or liabilities or unrecognized firm commitments, or of an identified portion of such assets, liabilities or firm commitments, that is attributable to a particular risk, provided that it affects the income statement.
- Cash flow hedges: hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a financial asset or liability or a highly probable forecast transaction, provided that it affects the income statement.

In relation to financial instruments designated as hedged items or qualifying for hedge accounting, gains and losses are recognized as follows:

> In fair value hedges, the changes in the fair value of the derivative and the hedged item attributable to the hedged risk are recognized under the heading "Net gains (losses) on financial assets and liabilities" in the income statement (See Note 33).

> In cash flow hedges, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognized temporarily in equity under "Valuation Adjustments - Cash Flow Hedges" (see Note 17.2) and are taken to the income statement in the years in which the designated hedged items affect the income statement. Financial instruments hedged in this type of hedging transactions are recognized as explained in Note 2.2, with no change being made in the recognition criteria due to their consideration as hedged items.

Generally, in cash flow hedges, the gains or losses arising on the effective portion of the hedging instruments are not recognized in the income statement until the gains or losses on the hedged item are recognized in income or, in the case of a hedge relating to a highly probable forecast transaction that results in the recognition of a non-financial asset or liability, they are recognized as part of the acquisition or issue cost when the asset is acquired or the liability assumed. In cash flow hedges, any gains or losses on the ineffective portion of the hedging instruments are recognized directly under "Gains/Losses on Financial Assets and Liabilities (Net)" in the income statement. In 2012 no amounts were recognized in the income statement in relation to ineffective hedges.

The Bank discontinues hedge accounting when the hedging instrument expires or is sold, when the hedge no longer meets the requirements for hedge accounting or the designation as a hedge is revoked.

When, as explained in the preceding paragraph, hedge accounting is discontinued for a fair value hedge, in the case of hedged items carried at amortized cost, the value adjustments made as a result of the hedge accounting described above are recognized in the income statement through maturity of the hedged items, using the effective interest rate recalculated as at the date of discontinuation of hedge accounting.

If hedge accounting is discontinued for a cash flow hedge, the cumulative gain or loss on the hedging instrument recognized in "Equity - Valuation Adjustments" in the balance sheet shall continue to be recognized under this line item until the forecast transaction occurs, when it will be reclassified into the income statement; or it will adjust the acquisition cost of the asset or liability to be recorded, if the hedged item is a forecast transaction that results in the recognition of a non-financial asset or liability.

Note 9 details the nature of the main positions hedged by the Bank and the financial hedging instruments used.

2.7. Foreign currency transactions

2.7.1.Functional currency

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

The detail, by currency and item, of the equivalent value in thousands of euros of the main asset and liability balances denominated in foreign currencies in the balance sheets at 31 December 2012 is as follows:

Nature of Foreign Currency Balances:	EQUIVALENT VALUE IN THOUSANDS OF EUROS (*)	
	2012	
	Assets	Liabilities
Balances in US dollars-		
Cash and balances with central banks	16,597	-
Financial assets and liabilities held for trading	6,369	29,504
Loans and receivables	22,533	-
Financial liabilities at amortized cost	-	167,440
Other	409	409
	45,908	197,353
Balances in Japanese yen-		
Cash and balances with central banks	457	-
Loans and receivables	5,174	-
Financial liabilities at amortized cost	-	14,079
	5,631	14,079
Balances in pounds sterling-		
Cash and balances with central banks	11,225	-
Financial assets and liabilities held for trading	3,204	1,512
Available-for-sale financial assets	-	-
Loans and receivables	26,895	-
Tangible assets	-	-
Financial liabilities at amortized cost	-	59,503
Other	118	192
	41,442	61,207

(*) Equivalent value calculated by applying the exchange rates at 31 December 2012.

Nature of Foreign Currency Balances:	EQUIVALENT VALUE IN THOUSANDS OF EUROS (*) 2012	
	Assets	Liabilities
Balances in Swiss francs-		
Cash and balances with central banks	1,888	-
Loans and receivables	5,440	-
Financial liabilities at amortized cost	-	16,784
	7,328	16,784
Balances in Norwegian krone-		
Cash and balances with central banks	891	-
Loans and receivables	4,722	-
Financial liabilities at amortized cost	-	5,306
	5,613	5,306
Balances in Swedish krone-		
Cash and balances with central banks	593	-
Loans and receivables	3,151	-
Financial liabilities at amortized cost	-	3,692
	3,744	3,692
Balances in other currencies-		
Cash and balances with central banks	6,472	-
Loans and receivables	17,478	-
Financial liabilities at amortized cost	-	22,121
Other	90	-
	24,040	22,121
Total balances denominated in foreign currencies	**133,706**	**320,542**

(*) Equivalent value calculated by applying the exchange rates at 31 December 2012.

In addition to the currency positions recognized in the balance sheets at 31 December 2012 shown in the preceding table, the Bank recognized various currency derivatives and forward foreign currency contracts which are used to manage the exchange rate risk to which it is exposed and which should be considered together with the balance sheet positions for a correct understanding of the Bank's exposure to such risks (see Note 23).

2.7.2. Translation of foreign currency balances

Translation of foreign currency to the functional currency: foreign currency transactions performed by Bank companies are initially recognized in the financial statements at the equivalent value in their functional currencies, translated using the exchange rates prevailing at the transaction date. Subsequently, the following rules are applied:

> Monetary assets and liabilities are translated at the closing rate, which is taken to be the average spot exchange rate at the date of the financial statements.

> 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 to the functional currency at the exchange rate at the date when the fair value was determined.

> Income and expenses are translated at the exchange rate prevailing at the transaction date.

2.7.3. Exchange rates

The exchange rates used by the Bank in translating the foreign currency balances to euros for the purpose of preparing the financial statements, taking into account the methods mentioned above, were those published by the European Central Bank.

2.7.4. Recognition of exchange differences

The exchange differences arising on the translation of foreign currency balances (using the aforementioned translation methods) to the functional currency of the Bank are generally recognized at their net amount under "Exchange Differences (net)" in the income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognized under "Gains/Losses on Financial Assets and Liabilities (net)" in the income statement, without distinguishing them from other changes in their fair value.

However, exchange differences arising on non-monetary items measured at fair value through equity and exchange differences arising on the translation to euros of the financial statements of entities which are not denominated in euros are recognized in equity under "Valuation Adjustments - Exchange Differences" in the balance sheet until they are realized. Exchange differences recognized in equity are taken to the income statement when realized.

2.8. Recognition of income and expenses

The most significant accounting criteria used by the Bank to recognize its income and expenses are summarized as follows:

2.8.1. Interest income, interest expenses, dividends and similar items

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

2.8.2. Commissions, fees and similar items

Fee and commission income and expenses that are not to be included in the calculation of the effective interest rate of transactions and/or are not included in the acquisition cost of financial assets or liabilities other than those classified as at fair value through profit or loss are recognized in the income statement using criteria that vary according to their nature. The main criteria are as follows:

- The ones relating to the acquisition of financial assets and liabilities measured at fair value through profit or loss are recognized in the income statement when collected or paid.
- Those arising from transactions or services that are performed over a period of time are recognized in the income statement over the life of these transactions or services.
- Those relating to a single act are recognized in the income statement when the single act is carried out.

2.8.3. Non-finance income and expenses

These are recognized for accounting purposes on an accrual basis.

2.8.4. Deferred collections and payments

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

2.9. Offsetting

Asset and liability balances are offset, i.e. reported in the balance sheet at their net amount, when, and only when, they arise from transactions in which a contractual or legal right of set-off exists and the Bank intends to settle them on a net basis, or to realize the asset and settle the liability simultaneously.

2.10. Financial guarantees and provisions for 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, irrevocable documentary credits issued or confirmed by the Bank, etc.

In accordance with the Circular 4/2004, the financial guarantees provided by the Bank are treated as financial instruments.

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 amortized cost (described in Note 2.3.1 above).

The provisions for financial guarantees are recognized under "Provisions - Provisions for Contingent Liabilities and Commitments" on the liability side of the balance sheet (see Note 16). These provisions are recognized and reversed with a charge or credit, respectively, to "Provisions (Net)" in the income statement.

2.11. Staff costs

As part of the incorporation process of the Bank, which arose from the spin-off carried out by the Confederación (see Note 1.1), with effect from 1 January 2012, the Bank. subrogated to all the commitments that the Confederación held with its current and former employees, since these employees began to render their services at the Bank.

2.11.1. Pension obligations

Under the Collective Labour Agreement currently in force, the Bank is required to supplement the social security benefits accruing to its employees or their beneficiary right holders in the event of retirement, disability, death of spouse or death of parent.

The Bank's post-employment obligations to its employees are deemed to be "defined contribution plans" when the Bank 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".

The actuarial gains and losses on the measurement of defined benefit plans are recognized in the income statement by the Bank in the year in which they arise.

The Bank has set up an external fund known as the "CECA Employees' Pension Plan" and has taken out insurance policies to cover its pension obligations to its employees. The external fund, in turn, comprises three subplans: a defined benefit plan (for employees hired by the Entity prior to 30 May 1986 who opted not to convert their benefits into defined contribution benefits and for early retirees) and two defined contribution retirement benefit subplans (for employees hired by the Entity prior to 30 May 1986 who opted to convert their benefits into defined contribution benefits, as described below, for employees hired by the Entity after 29 May 1986, and for early retirees). The pension plan also includes the obligations to the beneficiaries of the benefits.

In 2003 the defined benefit pension subplan was converted into a defined contribution scheme for most current employees for whom this possibility was envisaged in the Collective Company Agreement on Early Retirement and Supplementary Employee Welfare Benefits ("the Agreement") entered into by the Bank and representatives of its Workers' Committee and Workplace Trade Union Branch on 2 April 2001.

In 2011, the Control Committee of the CECA Employees' Pension Plan, pursuant to the obligations previously acquired, resolved to take out an insurance policy to cover the supplementary vested pension income payable to the beneficiaries of the pension plan. The policy is in line with the benefits payable to the group of beneficiaries of the pension plan in order to ensure these obligations are met.

In 2012 the accrued expense for the contributions to be made to the external pension fund, relating to defined contribution plans, amounted to EUR 348 thousand which are recognized under "Administrative Expenses – Staff Costs" in the income statement (see Note 35).

Pursuant to the aforementioned Agreement, in 2003 the Entity decided to insure contributions to the pension plan in excess of the current legal and tax ceilings by arranging two insurance policies with Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. ("Caser"). In 2004 the Entity converted one of these policies into a single-premium policy. The premiums on these policies and on other insurance policies covering pension obligations and other obligations to employees totaled EUR 740 thousand in 2012, and this amount was recognized under "Administrative Expenses – Staff Costs" in the income statement (see Note 35).

At 31 December 2012, the total pension obligations to current and retired employees amounted to EUR 158,550 thousand. Of this amount, EUR 154,078 thousand are covered by the aforementioned external pension fund and insurance policies, and EUR 4,472 thousand by an internal provision recognized under "Provisions - Provisions for Pensions and Similar Obligations" in the balance sheet (31 December 2011: EUR 6,119 thousand) (see Note 16) that had not yet been transferred to the external pension fund at 31 December 2012.

The actuarial assumptions used in calculating these obligations were:

- PERM 2000-P mortality tables
- Discount rate:
  - 4.27% for the obligations covered by the external pension plan
  - 4.75% for the obligations covered in the insurance policies of the pension plan
  - 2.35% for the differential between the 1.5% growth, and the one covered by the policy.
- Adjustable pension increase rate of 1.5%
- Adjustable salary increase rate of 2.68%
- Expected rate of return on pension plan assets
  - Expected rate of return on pension plan assets of 4.27%
  - Expected increase rates of 4.75% for the obligations covered by insurance policies,.

The method employed to determine the discount rate is based upon Spanish regulation for insured obligations and/or insurance policies. Likewise, for the commitments held in the internal fund, a market discount rate has been applied.

2.11.2. Other long-term benefits

2.11.2.1. Early retirements

The aforementioned Agreement entered into by the Bank, the Workplace Trade Union Branch and the representatives of the Workers' Committee envisaged the possibility of voluntary early retirement for certain Bank employees who met specific age requirements on the date the Agreement came into force in the form of several non-discriminatory offers, which ended on 31 December 2003. Employees who did not accept early retirement during the offer period were excluded from further offers in subsequent years.

On 7 April 2011, an agreement was entered into between the Entity, the Workplace Trade Union Branch and the representatives of the Workers' Committee, under which a Pre-Retirement Plan was established for all employees who at 31 December 2011 were at least 55 years of age and had been in the Entity's employ for at least ten years. The general registration period for employees wishing to participate in this plan ended on 13 May 2011.

Also, on 25 June 2012, an agreement additional to the one mentioned in the previous paragraph was entered into between the entity, the Workplace Trade Union Branch and the representatives of the Works Council, under which a Pre-Retirement Plan was established for all employees who at 31 December 2012 were at least 53 years of age and had been in the entity's employ for at least ten years. The general registration period for employees wishing to participate in this plan ended on 20 July 2012. This agreement also includes other measures such as termination benefits for the group of employees not included in the pre-retirement plans mentioned above (for which the deadline for participating was 30 September 2012), unpaid leave and reduced working hours (the deadline for participating was 30 October 2012).

At 31 December 2012, the obligations in respect of future salaries, future social security costs and incentives relating to early retirees, as well as the obligations for future contributions to the Pension Plan (all of which were considered as defined benefit obligations) were covered by an internal provision amounting to EUR 89,097 thousand, which was recognized under “Provisions - Provisions for Pensions and Similar Obligations” in the balance sheet (see Note 16) and related to early retirement obligations incurred as a result of the aforementioned Agreement dated 7 April 2011 and 25 June 2012. At 31 December 2012 this provision covered the full amount of the Bank’s early retirement obligations at those dates.

The obligations covered by this internal provision were calculated by an independent actuary, using the following hypothesis:

> PRM-2000P mortality tables

> Discount rate of 1.00%

> Growth

- 1.5% increase in adjustable pre-retirement salaries for 2011.
- 0.00% increase in adjustable pre-retirement salaries for 2012.

The method employed to determine the discount rate is based upon Spanish regulation for insured obligations and/or insurance policies. Likewise, for the commitments held in the internal fund, a market discount rate has been applied.

2.11.2.2. Death and disability

The commitments assumed by the Bank for death or disability of current employees for the period they remain active are included in the benefits covered by the aforementioned pension fund.

2.11.2.3. Long-service bonuses

The Bank has undertaken to pay a bonus to employees reaching 25 years of service at the Bank.

The amounts paid in this connection at 2012 year-end totaled approximately EUR 94 thousand.

2.11.3. Termination benefits

Under current legislation, the Bank is required to pay termination benefits to employees terminated without just cause.

As mentioned above in Note 2.11.2, the agreement entered into in 2012 included, inter alia, termination benefits for the group of employees not included in the pre-retirement plans. In this regard, an amount was recognized by the Bank in this connection under "Provisions (Net)" in the accompanying income statement. Furthermore, in 2012 adjustments were made to the provisions recognized in previous years amounting to EUR 3,114 thousand (see Note 35), and EUR 2,790 thousand were paid in this connection.

Also, the Bank has agreements with some of its executives and/or directors to pay them certain benefits in the event that they are terminated without just cause. The amount of the benefit, which in any case would not have a material effect on the Bank, would be charged to the income statement when the decision to terminate the employment of the executive or director was made.

2.11.4. Loans to employees

Under the collective labour agreement in force and the additional agreements entered into in 2004 with the Bank's employees, employees are entitled to apply for mortgage loans from the Bank for a maximum period of 40 years at an interest rate of 70% of Euribor, with an upper and lower limit of 1.50% and 1.25% respectively.

Under the applicable industry collective labour agreement and pursuant to collective agreements reached by the Bank implementing it, employees of the Bank may, in specific cases, apply for interest free advances and other "welfare" loans or loans for the expansion of their residence, with a repayment period of 10 and 15 years, respectively, at the Euribor interest rate.

In the event of exceptional circumstances requiring an employee of the Bank to apply for a type of loan that does not fully or partially comply with the regulations stipulated in the industry collective labour agreement, or its implementing regulations, the employee may apply for the loan through the ALCO, indicating the exceptional circumstances.

These loans are recognized at amortized cost under "Loans and Receivables - Loans and Advances to Customers" in the balance sheet.

2.12. Income tax

The income tax expense is recognized in the income statement, except when it results from a transaction recognized directly in the equity, in which case the income tax is also recognized in the Bank's equity.

The current income tax expense is calculated as the tax payable with respect to the taxable profit for the year, adjusted by the amount of the changes in the year in the assets and liabilities (deferred taxes) recognized as a result of temporary differences and tax credit and tax loss carry forwards (see Note 20).

The Bank considers that there is a temporary difference when there is a difference between the carrying amount of an asset or liability and its tax base. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. A taxable temporary difference is one that will generate a future obligation for the Bank to make a payment to the related tax authorities. A deductible temporary difference is one that will generate a right for the Bank to a refund or a reduction in its tax charge in the future.

Tax credit and tax loss carry forwards are amounts that, after performance of the activity or obtainment of the profit or loss giving entitlement to them, are not used for tax purposes in the related tax return until the conditions for doing so established in the tax regulations are met and the Bank considers it probable that they will be used in future periods.

Current tax assets and liabilities are the taxes that are expected to be recoverable from or payable to the related tax authorities within 12 months from the balance sheet date. Deferred tax assets and liabilities are the taxes that are expected to be recoverable from or payable to the related tax authorities in over 12 months from the balance sheet date.

Deferred tax liabilities are recognized for all taxable temporary differences. However, deferred tax liabilities arising from the initial recognition of goodwill are not recognized.

The Bank only recognizes deferred tax assets arising from deductible temporary differences and from tax credit and for tax loss carry forwards when the following conditions are met:

> If it is considered probable that the Bank will obtain sufficient future taxable profit against which the deferred tax assets can be utilized; and

> In the case of deferred tax assets arising from tax loss carry forwards, the tax losses result from identifiable causes which are unlikely to recur.

No deferred tax assets or liabilities are recognized if they arise from the initial recognition of an asset or liability (except in the case of a business combination) that at the time of recognition affects neither accounting profit nor taxable profit.

The deferred tax assets and liabilities recognized are reassessed at each balance sheet 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.

2.13. Tangible assets

2.13.1. Property, plant and equipment for own use

Property, plant and equipment for own use includes the assets that are held by the Bank for present or future administrative purposes other than those of welfare projects, or for the production or supply of goods and services and which are expected to be used for more than one year. Property, plant and equipment for own use is recognized at acquisition cost in the balance sheet as it is defined in the Circular 4/2004, less:

> The related accumulated depreciation, and

> Any estimated impairment losses (net carrying amount higher than recoverable amount).

Depreciation is calculated by 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 tangible asset depreciation charge is recognized under "Depreciation and Amortization" in the income statement and is calculated basically using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	ANNUAL RATE
Property	2% to 4%
Furniture and office equipment	10% to 15%
Computer hardware	15% to 25%
Fixtures	8% to 12%
Transport equipment	16%

The Bank assesses at the reporting date whether there is any internal or external 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 must be re-estimated). When necessary, the carrying amount of property, plant and equipment for own use is reduced with a charge to "Impairment Losses on Other Assets (Net) - Other Assets" in the income statement.

Similarly, if there is an indication of a recovery in the value of a previously impaired tangible asset, the Bank recognizes the reversal of the impairment loss recognized in prior periods with the related credit to "Impairment Losses on Other Assets (Net) - Other Assets" in the income statement and adjusts 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 recognized in prior years.

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

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognized as an expense under "Administrative Expenses – Other General Administrative Expenses" in the income statement in the year in which they are incurred.

2.13.2. Investment property

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

The criteria used to recognize the acquisition cost of investment property, to calculate its depreciation and its estimated useful life and to recognize any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use (see Note 2.13.1).

2.14. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which arise as a result of a legal transaction or which are developed internally by the Bank. Only intangible assets whose cost can be estimated reasonably objectively and from which the Bank considers it probable that future economic benefits will be generated are recognized.

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

2.14.1. Other intangible assets

Intangible assets other than goodwill are recognized in the balance sheet at acquisition or production cost, less the related accumulated amortization and any accumulated impairment losses.

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 Bank- or a finite useful life, in all other cases.

Intangible assets with indefinite useful lives are not amortized, but rather at the end of each reporting period the Bankreviews 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. At 31 December 2012 and throughout this year, there were no intangible assets with indefinite useful lives.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives, which range from three to five years depending on the class of asset. The period amortization charge for intangible assets with finite useful lives is recognized under "Depreciation and Amortization" in the income statement.

For intangible assets other than goodwill with indefinite useful lives and with finite useful lives, the Bank recognizes any impairment loss on the carrying amount of these assets, and any reversal of previously recognized impairment losses, with a charge or credit, as appropriate, to "Impairment Losses on Other Assets (net) – Goodwill and Other Intangible Assets" in the income statement. The criteria used to recognize the impairment losses on these assets and, where applicable, the reversal of impairment losses recognized in prior years are similar to those used for property, plant and equipment for own use (see Note 2.13.1), except that in no circumstances may any impairment recognized for goodwill in the balance sheet be reversed.

2.15. Provisions and contingent liabilities

When preparing the financial statements, the directors made a distinction between:

- Provisions: credit balances covering present obligations at the balance sheet date arising from past events which could give rise to a loss for the, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing; and
- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Bank.

The Bank's financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognized in the financial statements, but rather are disclosed, as required by the applicable standards.

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 recognized. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

The provisions considered necessary pursuant to the foregoing criteria and their eventual reversal, should the reasons for their recognition disappear, are recognized with a charge or credit, respectively, to "Provisions (net)" in the income statement.

2.15.1. Litigation and/or claims in process

At the end of 2012 certain litigation and claims were in process against the Bank arising from the ordinary course of its operations. The Bank's legal advisers and directors consider that the outcome of the litigation and claims will not have a material effect on the financial statements for the years in which they are settled.

2.16. Non-current assets held for sale

"Non-Current Assets Held for Sale" in the balance sheet includes the carrying amount of items - individual items, disposal groups or items forming part of a business unit earmarked for disposal ("discontinued operations") - which, because of their nature, are estimated to have a realization or recovery period exceeding one year, but are earmarked for disposal by the Bank and whose sale in their present condition is highly probable to be completed within one year from the date of the financial statements.

Investments in associates that meet the requirements set forth in the foregoing paragraph are also considered to be non-current assets held for sale.

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 rather than from continuing use.

Specifically, property or other non-current assets received by the Bank as total or partial settlement of its debtors' payment obligations to it are deemed to be non-current assets held for sale, unless the Bank has decided use them and classify them as investment property (see Note 2.13.2).

Symmetrically, "Liabilities Associated with Non-Current Assets Held for Sale" in the balance sheet includes the balances payable, if any, associated with disposal groups and the Bank's discontinued operations.

In general, non-current assets held for sale are measured at the lower of their carrying amount calculated as at the classification date and their fair value less estimated costs to sell. Tangible and intangible assets that are depreciable and amortizable by nature are not depreciated or amortized during the time they remain classified in this category.

If the carrying amount of the assets exceeds their fair value less costs to sell, the Bank adjusts the carrying amount of the assets by the amount of the excess with a charge to "Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations" in the income statement. If the fair value of such assets subsequently increases, the Bank reverses the losses previously recognized and increases the carrying amount of the assets without exceeding the carrying amount prior to the impairment, with a credit to "Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations" in the income statement.

Despite the foregoing, financial assets, assets arising from remuneration to employees and any deferred tax assets that are part of a disposal group or of a discontinued operation are not measured as described in the preceding paragraphs, but rather in accordance with the accounting policies and rules applicable to these items, which were explained in previous sections of Note 2.

2.17. Cash flow statements

The following terms are used in the cash flow statements 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. Operating activities also include interest paid on any financing received, even if this financing is considered to be financing activity. Activities performed with the various financial instrument categories detailed in Note 2.2.4 above are classified, for the purpose of this statement, as operating activities.
- Investing activities: the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents, such as tangible assets, intangible assets, investments, non-current assets held for sale and associated liabilities, equity instruments classified as available for sale which are strategic investments and debt instruments included in held-to-maturity investments.
- Financing activities: includes the cash flows from activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

For cash flow statement preparation purposes, the balance of "Cash and Balances with Central Banks" on the asset side of the balance sheet, disregarding any impairment losses, was considered to be "cash and cash equivalents".

2.18. Statement of changes in equity

The statement of changes in equity presented in these financial statements shows the total changes therein in equity during the year. This information is disclosed to turn in two statements: the statement of comprehensive income and the statement of changes in equity. The following explains the main features of the information contained in both parts of the statement:

2.18.1. Statement of recognized income and expense

The statement of recognized income and expense presents the income and expenses generated by the Bank as a result of its business activity in the year, and a distinction is made between the income and expenses recognized in the income statement for the year and the other income and expenses recognized, in accordance with current regulations, directly in equity.

Accordingly, this statement presents:

a) Profit for the year.

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

c) The net amount of the income and expenses recognized definitively in equity during the year and other items that are recognized directly and definitively in equity, if any.

d) The income tax incurred in respect of the items indicated in b) and c) above.

e) The total recognized income and expenses, calculated as the sum of a) and d) above.

The changes in income and expenses recognized in 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, recognized directly in equity. The amounts recognized in the year under "Valuation Adjustments" are recorded in this line item, even though they are transferred in the same year to the income statement, to the initial value of other assets or liabilities, or are reclassified into another line item.

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

c) **Amount transferred to the initial carrying amount of hedged items:** includes the amount of the revaluation gains and losses previously recognized in equity, albeit in the same year, which are recognized 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.

The amounts of these items are presented gross and the related tax effect is recognized in this statement under "Income Tax".

2.18.2. Statement of changes in total equity

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

a) **Adjustments due to changes in accounting policies and adjustments made to correct errors:** include significant changes in equity arising as a result of the retrospective restatement of the balances in the financial statements due to changes in accounting policies or to the correction of errors.

b) **Recognized income and expense:** includes the total recognized income and expenses reported in the statement of recognized income and expense.

c) **Other changes in equity:** includes the remaining items recognized in equity, including, inter alia, distribution of Bank's profit, transfers between equity items and any other increases or decreases in equity.

3. 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 General Assembly is as follows:

	THOUSANDS OF EUROS
	2012
Legal Reserve	3,465
Voluntary Reserve	15,595
Dividends	15,594
Net profit for the year	34,654

The Bank's Board of Directors, in the meeting held on 18 December 2012, approved the distribution of an interim dividend for 2012 result for EUR 4,490 thousands. Following is the liquidity status formulated by the Board according to the Article 277 of the Spanish Corporation Tax Law ("the TRLIS") in which it is stated the evidence of the existence of the sufficient liquidity to proceed to the payment of the interim dividend mentioned in the previous paragraph:

	THOUSANDS OF EUROS
Net Income at 30 November 2012	30,647
(-) Minus:	
Estimated dotation to the legal reserve	(3,065)
Maximum amount for distribution	27,582
Interim Dividend	4,490
Available balance at 30 November 2012	38,802

4. Remuneration of directors and senior executives

4.1. Remuneration of the Board of Directors

In 2012, no fees were paid to the Board members nor did they receive any payment for their work as Counselors or for performing management roles or Bank employee roles. Note 40 details the balances with Directors and entities or individuals related to them.

4.2. Remuneration of senior executives and of members of the Board of Directors

For the purposes of the preparation of these financial statements, the members of the Bank' s Management Committee were considered to be senior executives of the Bank, constituted by 10 members at 31 December 2012.

The remuneration earned in 2012 by senior executives and by the Board members in their capacity as executives of the Bank amounted to EUR 4,150 thousand, of which EUR 3,508 thousand were related to short-term remuneration earned in 2012, EUR 257 thousand related to post-employment benefits and EUR 385 thousand related to layoffs.

At 31 December 2012, the vested pension rights of the senior executives and Board members in their capacity as executives of the Bank amounted to EUR 2,902 thousand.

In relation to former members of the Board of Directors and Senior Management of the Bank, during the year 2012 have received 361 thousand euros for early retirement benefits (3 people). These amounts are the result of a commitment made by the Bank employees who, during the years 2012 and 2011, took up early retirement plans offered to those in the workforce who met certain objective conditions (see Note 2.11.2.1).

4.3. Transparency obligations

In accordance with the declarations made by the members of the Board of Directors of the Bank in 2012, pursuant to Article 229 of Legislative Royal Decree 1/2010, of 2 July, approving the Spanish Limited Liability Companies Law, no situations of conflict of interest arose.

Furthermore, in accordance with the aforementioned legislation, following is a detail of the activities performed by the members of the Board of Directors in 2012, as independent professionals or as employees, that are identical, similar or complementary to the activity that constitutes the company object of the Bank, based on the declarations made by them in compliance with the aforementioned Article 229 of Legislative Royal Decree 1/2010:

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Name	Entity	Position / Role
Mr. Isidro Fainé Casas	Grupo Caixa D'estalvis I Pensións De Barcelona	President
	CaixaBank, S.A.	President
	Banco Portugués de Investimento	Counselor
	The Bank of East Asia Limited	Non-executive Counselor
Mr. Adolf Todó Rovira	Catalunya Banc, S.A.	Executive President
Mr. Mario Fernández Pelaz	Kutxabank, S.A.	Executive President of the Board of Directors
	Bilbao Bizkaia Kutxa	Executive President of the Board of Directors
Mr. Carlos Egea Krauel	BMN, S.A.	President
	Caja de Ahorros de Murcia	President
	Ahorro Corporación, S.A.	Second Vice-President
Mr. José Mª Castellano Ríos	NCG Banco, S.A.	President
Mr. Manuel Menéndez Menéndez	Liberbank, S.A.,	President
	Caja de Ahorros de Asturias	President
	Banco de Castilla-La Mancha, S.A.	President
Mr. Amado Franco Lahoz	Ibercaja Banco, S.A.U.	President
	Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (Ibercaja)	President

Nombre	Sociedad	Cargo / Funciones
Mr. Evaristo del Canto Canto	Caja España de Inversiones, Salamanca y Soria, CAMP	President of the Board of Directors
	Banco de Caja España de Inversiones, Salamanca y Soria, S.A.	President of the Board of Directors
Mr. Braulio Medel Cámara	Monte de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga, Antequera y Jaén	President
	Unicaja Banco, S.A.U.	President
	Alteria Corporación Unicaja, S.L.	Physical Representative of Unicaja Banco, S.A.U.'s Counselor
	Ahorro Corporación, S.A.	Physical Representative of Unicaja Banco, S.A.U.'s Counselor
Mr. José Ignacio Goirigolzarri Tellaeche	Bankia, S.A.	President
	Banco Financiero y de Ahorros, S.A.	President

5. Cash and balances with central banks

The breakdown of the balance of "Cash and Balances with Central Banks" in the balance sheet at 31 December 2012 is as follows:

	THOUSANDS OF EUROS
	2012
Cash	44,083
Balances with the Bank of Spain	419,032
	463,115
Valuation adjustments:	
Of which-	
Other valuation adjustments	-
	-
	463,115

Note 21 includes information on the fair value of these instruments at 31 December 2012. Note 24 provides information on the liquidity risk associated with financial instruments, including information on the maturities of these assets.

The balance of "Cash and Balances with Central Banks" at 31 December 2012 represents the maximum exposure to credit risk assumed by the Bank in relation to these instruments.

At 31 December 2012, there were no assets with uncollected past-due amounts or impaired classified under "Cash and Balances with Central Banks".

6.Financial instruments through profit or loss

6.1. Financial assets and liabilities held for trading

6.1.1. Financial assets and liabilities held for trading - Breakdown

Following is a detail of the balances of "Financial Assets/Liabilities Held for Trading" in the balance sheets at 31 December 2012:

	THOUSANDS OF EUROS	
	2012	
	Financial Assets Held for Trading	Financial Liabilities Held for Trading
Debt instruments	872,410	-
Equity instruments	51,905	-
Trading derivatives-		
Derivatives traded in organized markets	-	-
OTC derivatives	5,203,970	5,158,066
Short positions	-	434,114
	6,128,285	5,592,180

Note 22 discloses information on the credit risk assumed by the Bank in relation to the financial assets, other than equity instruments, included in this category. In addition, Notes 23 and 24 include information on the market and liquidity risks, respectively, associated with the financial instruments included in this category.

Note 21 provides information on the fair value of the financial instruments included in this category. Note 26 includes information on the concentration of risk relating to the financial assets held for trading. Note 25 shows information on the exposure to interest rate risk.

6.1.2. Financial assets and liabilities held for trading - Trading derivatives

Following is a breakdown, by type of risk, of the fair value of the trading derivatives arranged by the Bank and of their notional amount (on the basis of which the future payments and collections on these derivatives are calculated) at 31 December 2012:

	THOUSANDS OF EUROS		
	2012		
	Fair Value		
	Asset Balances	Liability Balances	Notional Balances
Interest rate risk	5,119,998	5,058,266	119,041,144
Foreign currency risk	83,942	97,436	3,159,273
Share price risk	30	95	70,963
Credit risk	-	2,269	45,000
	5,203,970	5,158,066	122,316,380

The notional amount of the contracts entered into does not reflect the actual risk assumed by the Bank for these contracts, since the net position in these financial instruments is the result of offsetting and/or combining them and of offsetting and/or combining them with other asset or liability positions.

6.1.3. Financial liabilities held for trading - Short positions

The detail, by type of transaction, of the balance of this item in the balance sheet at 31 December 2012:

	THOUSANDS OF EUROS
	2012
Classification:	
Borrowed securities-	
Equity instruments	3,804
Short sales-	
Debt instruments	430,310
	434,114

"Short Positions - Short Sales – Debt Instruments" in the foregoing table includes the fair value of the Bank's debt instruments purchased under reverse repurchase agreements and, therefore, as such not recognized on the asset side of the balance sheet, which have been sold and will be repurchased by the Bank before maturity of the reverse repurchase agreement in which they are used as collateral, in order for the Bank to return them at the maturity date.

6.2. Other financial instruments at fair value through profit or loss

6.2.1. Other financial assets at fair value through profit or loss

This heading includes reverse repurchase agreements arranged by the Bank which are managed jointly with repurchase agreements relating to financial assets classified in "Other Financial Liabilities at Fair Value Through Profit or Loss" and with interest rate derivatives and financial instruments classified as held for trading and other available-for-sale financial assets.

The detail, by nature, of the financial assets included in "Other Financial Assets at Fair Value Through Profit or Loss" in the balance sheet at 31 December 2012 is as follows:

THOUSANDS OF EUROS

	2012
Loans and advances to credit institutions-	
Reverse repurchase agreements	1,797,736
Valuation adjustments-	
Accrued interest	251
Revaluation gains	126
	377
	1,798,113
Loans and advances to customers-	
Reverse repurchase agreements	789,395
Valuation adjustments-	
Accrued interest	130
Revaluation gains	404
	534
	789,929
	2,588,042

Note 22 includes information on the Group's exposure to credit risk at 31 December 2012 associated with these financial instruments.

Note 21 discloses information on the fair value of these financial instruments at 31 December 2012. Note 23 provides information on the exposure to market risk of these financial instruments. Note 25 includes information about the exposure to interest rates.

Note 24 contains information on the liquidity risk associated with the financial instruments owned by the Bank at 31 December 2012, including information on the terms to maturity at those dates of the financial assets included in this category.

Note 26 includes information on the concentration risk relating to these financial instruments at 31 December 2012.

In view of the characteristics of the transactions included in this category (reverse repurchase agreements), the counterparties and collateral provided, it is estimated that substantially all the changes in the fair value of these financial instruments in 2012 recognized in the income statement are attributable to market risk and, more specifically, to interest rate risk. The fair value of these assets has been estimated using the current value of their cash flows.

6.2.2. Other financial liabilities at fair value through profit or loss

This heading includes repurchase agreements arranged by the Bank which are managed jointly with reverse repurchase agreements relating to financial assets classified in “Other Financial Assets at Fair Value Through Profit or Loss” and with interest rate derivatives and financial instruments classified as held for trading and available-for-sale financial assets

The detail, by nature, of the financial liabilities included in “Other Financial Liabilities at Fair Value Through Profit or Loss” in the balance sheet at 31 December 2012 is as follows:

	THOUSANDS OF EUROS 2012
Deposits from credit institutions-	
Repurchase agreements with credit institutions	1,824,274
Valuation adjustments-	
Accrued interest	47
Revaluation gains	55
	102
	1,824,376
Customer deposits-	
Repurchase agreements with the Public Treasury	779,999
Repurchase agreements to entities with central counterparties	197,100
Repurchase agreements with other resident sectors in Spain	86,106
Repurchase agreements with other non-resident sectors in Spain	-
Valuation adjustments-	
Accrued interest	11
Revaluation losses	8
	19
	1,063,224
	2,887,600

In view of the characteristics of these financial liabilities (sales of assets under non-optional repurchase agreements arranged by the Bank), the significant changes in the fair value of these financial instruments in 31 December 2012 are attributable to market risk (mainly interest rate risk) rather than credit risk. The fair value of these assets has been estimated using the current value of their cash flows.

The amounts shown in the above table, net of their related valuation adjustments for "Revaluation Gains", represent the amortized cost of these liabilities at 31 December 2012, which does not differ significantly from the amount that would be payable by the Bank if they matured at that date.

Note 21 discloses information on the fair value of the financial liabilities included in this category at 31 December 2012. Note 24 provides information on the liquidity risk associated with these financial liabilities.

Note 23 shows certain information on the market risk associated with these financial liabilities and Note 25 contains information on interest rate risk.

7. Available-for-sale financial assets

Following is a detail of the balances of "Available-for-Sale Financial Assets" in the balance sheets at 31 December 2012:

	THOUSANDS OF EUROS 2012
Debt instruments-	
Values of Spanish Central Governments	2,809,714
Of which:	
Treasury bills	2,157,502
Government debt securities	652,212
Other securities	140,885
Securities of other Public institutions	596,591
	3,547,190
Valuation adjustments-	
Accrued interest	26,851
Revaluation losses	(28,446)
Impairment losses	(5,511)
	(7,106)
	3,540,084
Equity instruments-	
Shares quoted on secondary organized markets	54,603
Shares not quoted on organized markets	34,974
	89.577
Valuation adjustments-	
Revaluation gains	8,320
Impairment losses	(14,763)
	(6.443)
	83.134
	3,623,218

Note 21 contains certain information on the fair value of the financial instruments included in this category.

Note 22 includes information on the credit risk to which the debt instruments included in this financial instrument category are subject.

Note 23 shows certain information on the market risk to which the Bank is exposed in relation to these financial assets. Note 25 discloses certain information on interest rate risk, including information on the terms to maturity of these financial assets at 31 December 2012.

Note 24 shows information on the exposure to liquidity risk, which includes information on the term maturity of these financial assets at 31 December 2012. Note 26 includes information on the concentration risk associated to these financial assets.

8. Loans and receivables

8.1. Breakdown

Following is a detail of the financial assets included in "Loans and Receivables" in the balance sheets at 31 December 2012:

	THOUSANDS OF EUROS 2012
Loans and advances to credit institutions-	
Time deposits	111,912
Other accounts	917,782
Securities lending (*)	6,580
Other financial assets	245,768
	1,282,042
Valuation adjustments-	
Impairment losses	(18)
Accrued interest	115
	97
	1,282,139
Loans and advances to customers-	
Deposits for futures transactions and other guarantees given	130,154
Unsettled stock exchange transactions	39,134
Mortgage secured loans	49,294
Unsecured credits and loans	40,488
Secured credit and loans	100,000
Other assets	691
Doubtful assets	16,512
	376,273

(*) Relates to the amount delivered by the Bank. as security for securities lending transactions (see Note 27.5)

Valuation adjustments-	
Impairment losses	(5,617)
Accrued interest	182
	(5,435)
	370,838
Debt instruments-	
Issued by Spanish Public Administrations	8,287
Issued by non-residents in Spain	70,368
Issued by residents in Spain	191,055
Doubtful assets	122,623
	392,333
Valuation adjustments-	
Impairment losses	(135,980)
Other valuation adjustments (micro-hedge)	1,299
	257,652
	1,910,629

Note 22 provides information on the fair value at 31 December 2012 of the financial assets included in this category. In Note 21 there is information about the fair value of included in this category of financial assets at 31 December 2012.

Note 23 discloses certain relevant information on the market risk relating to the financial assets included in this financial instrument category at 31 December 2012.

Note 24 contains information on the liquidity risk associated with the Bank's financial instruments at 31 December 2012, including information on the terms to maturity at those dates of the financial assets included in this category.

Note 25 includes information on the interest rate risk associated with these financial assets at 31 December 2012. Note 26 includes information on the concentration risk associated with the financial assets included in this category at 31 December 2012.

9. Hedging derivatives

Fair value hedges

The Bank has entered into financial derivatives transactions with various counterparties of recognized creditworthiness which are considered fair value and cash flow hedges of certain balance sheet positions against fluctuations in market interest rates.

The Bank's hedged balance sheet positions relate to fixed-rate debt instruments (guaranteed issues, government bonds and treasury bills). These securities are issued by the Spanish government, Spanish private sector financial institutions and other resident sectors.

Given that the positions giving rise to the risk are long-term transactions tied to a fixed interest rate, the main aim of the hedge is to change the returns of the hedged items from fixed to floating and, accordingly, their performance to changes in market interest rates. To this end, the Bank uses OTC interest rate derivatives (basically swaps such as call money swaps).

The Bank uses call money swaps to hedge each group of debt instruments, which are grouped on the basis of their sensitivity to changes in interest rates, and documents the related efficiency analyses of the hedges to verify that, at inception and throughout the life of these hedges, the Bank can expect, prospectively, that the changes in fair value of the hedged items attributable to the hedged risk will be almost fully offset by changes in the fair value of the hedging instruments and, retrospectively, that the actual results of the hedge are within a range of 80% to 125% of the results of the hedged item. The aforementioned hedges are highly effective.

Following is a detail of the fair value of the hedging instruments at 31 December 2012:

	THOUSANDS OF EUROS	
	Fair value of hedging instruments	
	Asset balances	Liability balances
Hedged instrument		
Loans and receivables	-	2,747
Available-for-sale assets	-	10,594
	-	13,341

Gains/losses on hedging instruments and hedged items are recognized under "Gains/Losses on Financial Assets and Liabilities (Net)" in the income statement of the Bank (see Note 33).

Cash Flow Hedges

The balance sheet items hedged by this type of hedging transaction are floating-rate deposits received from financial institutions. The Bank used interest rate swaps as hedges, with the aim of hedging changes in cash flows associated with the interest rate risk of these financial liabilities that affect the income statement.

Following is a detail of the Bank's derivatives hedging cash flows as of 31 December 2012:

	2012			
	Debit balances		Credit balances	
	Fair value	Notional	Fair value	Notional
Other operations on interest rates:				
Interest Rates Swaps (IRS)	-	-	3,504	77,573
	-	-	3,504	77,573

Following are the expected cash flows for the next years for the coverages described in the balance sheet as of 31 December 2012:

THOUSANDS OF EUROS

	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
Cash flows	7,757	15,515	15,515	38,786
Total	7,757	15,515	15,515	38,786

10. Non-current assets held for sale

The breakdown of the balance of "Non-Current Assets Held for Sale" in the balance sheets at 31 December 2012 is as follows:

THOUSANDS OF EUROS

	2012
Tangible assets -	
Foreclosed residential assets	-
Other residential assets	84
	84

The only change recognized in this balance sheet line item in 2012 was the spin-off of the Confederación in favour of the Bank (see Note 1.1).

11. Investments

Following is a detail of the investments held by the Bank in subsidiaries and jointly controlled entities at 31 December 2012:

		2012	
Entity	Location	Ownership Percentage	Book Value (Thousands of Euros)
Subsidiaries:			
Caja Activa, S.A.	Madrid	99.9	60
CEA Trade Services Limited	Hong Kong	100	4
			64
Jointly Controlled entities:			
Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A.	Madrid	50	451
			515

During 2012 there was no change in this heading of the balance sheet.

12. Tangible assets

The changes in 2012 in “Tangible Assets” in the balance sheets were as follows:

	THOUSANDS OF EUROS				
	Property, Plant and Equipment for Own Use				
	Land and Buildings	Furniture, Fixtures and Vehicles	IT Equipment and Related Fixtures	Investment Property	Total
Cost:					
Balance at 1 January 2012	119,898	46,793	16,737	1,333	184,761
Additions	-	947	288	-	1,235
Disposals	-	(260)	(2,464)	-	(2,724)
Transfers	-	-	-	-	-
Other	-	-	-	-	-
Balance at 31 December 2012	119,898	47,480	14,561	1,333	183,272
Accumulated depreciation:					
Balance at 1 January 2012	(34,181)	(37,535)	(14,430)	(201)	(86,347)
Charge for the year (Note 39)	(2,049)	(2,358)	(1,160)	(36)	(5,603)
Disposals	-	260	2,464	-	2,724
Transfers	-	-	-	-	-
Other	-	-	-	-	-
Balance at 31 December 2012	(36,230)	(39,633)	(13,126)	(237)	(89,226)
Tangible assets, net:					
Net balance at 31 December 2012	83,668	7,847	1,435	1,096	94,046

At 31 December 2012, property, plant and equipment for own use totaling (gross) approximately EUR 44,844 thousand had been depreciated in full.

At 31 December 2012, the tangible assets owned by the Bank were not impaired and there were no changes in this connection in those years.

The rental income earned from investment property owned by the Bank amounted to approximately EUR 867 thousand in 2012 (see Note 34).

13. Intangible assets

13.1. Other intangible assets

The balance of "Other Intangible Assets" relates in full to computer software, developed mainly by the Bank, which is amortized by the straight-line method on the basis of its estimated useful life over a period of three to five years, The breakdown of the balance of "Other Intangible Assets" in the balance sheets at 31 December 2012 is as follows:

	THOUSANDS OF EUROS
	2012
Intangible assets with finite useful life	107,431
Less:	
Accumulated amortization	(11,802)
Impairment losses	(44,810)
Total net	50,819

At 31 December 2012 the balance of fully amortized intangible assets in use was EUR 3,280 thousand.

The changes in 2012 in the balance sheets were as follows:

	THOUSANDS OF EUROS 2012
Cost:	
Balance at 1 January 2012	5,492
Additions	101,939
Disposals	-
Balance at 31 December 2012	107,431
Accumulated amortization:	
Balance at 1 January 2012	(3,046)
Charge for the year (Note 39)	(8,756)
Disposals	-
Balance at 31 December 2012	(11,802)
Impairment Losses:	
Balance at 1 January 2012	-
Charge for the year (*)	(44,810)
Balance at 31 December 2012	(44,810)
Intangible assets, net:	
Net balance at 31 December 2012	50,819

(*) This amount is collected under the heading of the Income Statement of 31 December 2012 “Impairment losses on other assets (net) - Goodwill and other intangible assets”.

14. Other assets and liabilities

The breakdown of the balance of “Other Assets” and “Other Liabilities” in the balance sheet at 31 December 2012 is as follows:

	THOUSANDS OF EUROS 2012
Other assets	
Prepayments and accrued income	
Fees and commissions receivable	6,750
Commissions for guarantees received	8,395
Prepayments	109
Other assets-	201
Transactions in transit	5,433
Other	11,285
	32,173
Other liabilities	
Accrued expenses and deferred income	
Fees and commissions payable	2,809
Accrued expenses	46,000
Accrued revenues	121
Other liabilities-	
Transactions in transit	366,203
Other	17,716
	432,849

"Prepayments and Accrued Income – Fees and Commissions Receivable" includes the accrued commissions receivable by the Bank in relation to various services provided, basically in relation to the payment methods business and the custody business for collective investment undertakings and pension funds.

"Other Assets - Transactions in Transit" and "Other liabilities – Transactions in Transit" mainly include temporary balances which relate basically to securities underwriting transactions and other unsettled OTC transactions within the Securities Clearing and Settlement Service.

15. Financial liabilities at amortized cost

15.1. Breakdown

The detail of the items composing the balance of "Financial Liabilities at Amortized Cost" in the balance sheet at 31 December 2012 is as follows:

	THOUSANDS OF EUROS
	2012
Deposits from central banks	1,300,000
Deposits from credit institutions	2,039,577
Customer deposits	1,529,797
Other financial liabilities	186,344
	5,055,718
Valuation adjustments	11,910
	5,067,628

15.2. Financial liabilities at amortized cost - Deposits from central banks

The breakdown of the balance of this item in the balance sheet at 31 December 2012 is as follows:

	THOUSANDS OF EUROS
	2012
Deposits from Bank of Spain	1,300,000
Valuation adjustments	9,497
	1,309,497

15.3. Financial liabilities at amortized cost - Deposits from credit institutions

The breakdown, by geographical area of residence of the counterparty and type of instrument, of the balance of this item in the balance sheets at 31 December 2012 is as follows:

	THOUSANDS OF EUROS 2012
By geographical location:	
Spain	1,857,772
Other EMU countries	174,542
Rest of the world	7,225
	2,039,539
By type of instrument:	
Demand deposits and other-	
Other accounts	1,932,601
Time deposits-	
Time deposits	100,895
Repurchase agreements	6,081
	2,039,577
Valuation adjustments:	(38)
	2,039,539

15.4. Financial liabilities at amortized cost - Customer deposits

The breakdown, by geographical area of residence of the counterparty, type of instrument and type of counterparty, of the balance of this item in the balance sheet at 31 December 2012 is as follows:

THOUSANDS OF EUROS

	2012
By geographical location:	
Spain	1,382,436
Other EMU countries	149,812
Rest of the world	-
	1,532,248
By counterparty:	
Resident public sector	107,251
Non-resident public sector	1,171
Other resident sectors	1,273,068
Other non-resident sectors	48,307
Central counterparties	100,000
	1,529,797
Valuation adjustments	2,451
	1,532,248
By type of instrument:	
Current accounts	1,276,770
Other demand deposits	61,259
Fixed-term deposits	191,099
Repurchase agreements	669
	1,529,797
Valuation adjustments	2,451
	1,532,248

15.5. Financial liabilities at amortized cost - Other financial liabilities

The breakdown of the balance of this item in the balance sheet at 31 December 2012 is as follows:

THOUSANDS OF EUROS	2012
Payment obligations	7,036
Collateral received	247
Tax collection accounts	9,359
Special accounts	27,675
Other	142,027
	186,344

The balance of "Special Accounts" in the foregoing table includes, among other items, unsettled securities underwriting transactions and other unsettled transactions performed in organized markets totaling EUR 27,662 thousand at 31 December 2012.

The balance of "Other" in the above table includes EUR 74,538 thousand at 31 December 2012 relating the means of payments operating procedures of certain credit institutions done through the Bank. The related balances are transitory and are settled on the first business day following the date on which they arose.

16. Provisions

16.1. Provisions (net)

The detail, according to the purpose of the net provisions recognized, of this item in the income statement for 2012 is as follows:

	THOUSANDS OF EUROS NET ADDITIONS/ (REVERSALS) 2012
Additions to/ (Reversal of) provisions for pensions and similar obligations (Note 16.2)	37,407
Additions to/ (Reversal of) provisions for contingent liabilities and commitments (Note 16.3)	54,741
Additions to/ (Reversal of) other provisions (Note 16.3)	(50,808)
	41,340

16.2. Provisions - Provisions for pensions and similar obligations

The breakdown of this item in the balance sheet at 31 December 2012 and the changes therein in 2012, are as follows:

	THOUSANDS OF EUROS		
	PENSION OBLIGATIONS (NOTE 2.11.1)	OTHER LONG-TERM BENEFITS (NOTE 2.11.2.1)	TOTAL
Balances at 1 January 2012	6,119	59,348	65,467
Net addition/ (reversal) charged/(credited) to income (Note 16.1)	(1,962)	39,369	37,407
Payments to early retirees and contributions to the external pension plan	-	(10,856)	(10,856)
Current service cost (Note 35)	53	-	53
Financial cost (Note 29)	262	1,236	1,498
Balances at 31 December 2012	4,472	89,097	93,569

16.3. Provisions - Provisions for contingent liabilities and commitments and other provisions

The changes in 2012 in the balances of these items in the balance sheet at 31 December 2012 were as follows:

	THOUSANDS OF EUROS	
	PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS (NOTES 2.10 AND 22)	OTHER PROVISIONS
Balances at 1 January 2012	17	140,818
Net addition/ (reversal) charged/ (credited) to income (Note 16.1)	54,741	(58,808)
Amounts used	-	(1)
Balances at 31 December 2012	54,758	90,009

The balance of “Other Provisions” in the foregoing table includes the amounts allocated by the Bank to cover certain liabilities and contingencies arising from its business activities.

17. Valuation adjustments

17.1. Valuation adjustments - Available-for-sale financial assets

This item in the balance sheet at 31 December 2012 includes the amount, net of the related tax effect, of changes in the fair value of assets classified as available-for-sale assets (see Note 7) which, as stated in Note 2, should be recognized in the Bank's equity; these changes are recognized in the income statements when the assets which gave rise to them are sold or when these assets become impaired. The accompanying statements of recognized income and expense show the changes in 2012 in this item in the balance sheet at 31 December 2012.

17.2. Valuation adjustments – Cash flow hedges

This item in the balance sheet 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 2). The statement of changes in equity includes the changes in the balances recognized in this balance sheet line item in 2012.

18. Capital and Share Premium

18.1. Capital

In the framework of the constitution of the Bank (see Note 1.1), effective 1 January 2012 the Bank's share capital amounted to EUR 100,000,000, represented by 100,000,000 shares of nominal value of 1 euro, being the Confederación its sole shareholder at the time of the constitution.

On 13 November 2012, under the spin-off process conducted by the Confederación in favor of the Bank (see Note 1.1), a capital increase amounting to EUR 78,932,117.60 by issuing 12,256,540 new shares with the same political and economic rights of the existing nominal value of 1 euro and 5.44 euro per share premium, was conducted. These shares were fully subscribed and paid by the previous owners of the non-voting equity units that were part of the equity of Confederación, following acceptance of the aforementioned Repurchase Offer and the Confederación's waiver of its pre-emptive subscription right, thus, the Confederación at 31 December 2012 held 89% participation in the share capital of the Bank, with the remaining 11% being owned by the entities that were holders of the non-voting equity units and the Confederación that accepted the Repurchase Offer.

In this sense, to 31 December 2012, the Bank's share capital was EUR 112,256,540, represented by 112,256,540 shares of EUR 1 par value, fully subscribed and paid, all with the same economic and political rights.

The Bank made a significant volume of transactions with its major shareholder and the Group in which it forms part (see Note 40).

18.2. Share Premium

According to the Spanish Limited Liability Companies Law, it is explicitly permitted the use of the balance of this reserve to increase capital and it establishes no specific restrictions as to its use. The balance of the share premium at 31 December 2012 amounted to 615,493 thousand euros.

19. Own funds

19.1. Legal Reserve

According to the Spanish Limited Liability Companies Law, companies that obtain economic benefits, should allocate at least 10% of them to the constitution of the legal reserve. These transfers must be made until the reserve reaches 20% of capital. The legal reserve can be used to increase share capital by the amount of the balance that exceeds 10% of the already increased share capital amount. Except for this purpose, it can only be used to offset losses, and provided that there are no other sufficient reserves available for this purpose. Since the Bank has started its activity in 2012, there is still no balance in this heading as of 31 December 2012.

19.2. Voluntary Reserves

These reserves are freely available to the Bank, since there is an absence of legal or statutory restrictions about its use. Since the Bank has started its activities in the year 2012, there is still no balance in this heading of the balance sheet at 31 December 2012.

20. Tax matters

The Bank is part of the Tax Consolidation Group number 508/12 established on 1 January 2012, being the Confederación Española de Cajas de Ahorros the parent company.

The Bank presents its tax returns, according to the tax legislation.

20.1. Years open for review by the tax authorities

Pursuant to current legislation, tax settlements cannot be deemed to be definitive until they have been reviewed by the tax authorities or until the related statute-of-limitations period has expired.

Accordingly, at 31 December 2012, the Bank had open for review by the tax authorities the taxes to which their business activities are subject, and for which at that date, had not passed within four years from the end of his term voluntary declaration.

Because of the varying interpretations that can be made of the tax legislation, the outcome of any reviews of the open years by the tax authorities might give rise to tax liabilities which cannot be objectively quantified at the present time. However, the tax advisers and directors of the Bank consider that the possibility of material liabilities arising in this connection additional to those already recognized is remote.

In any event, in this regard it is important to take into consideration that, as a result of the spin-off described in Note 1.1, Cecabank, S.A. became the successor entity to the Confederación and assumed, in accordance with Article 90 of the Spanish Corporation Tax Law ("the TRLIS"), approved by Legislative Royal Decree 4/2004, of 5 March, all tax rights and obligations in relation to the assets and rights transferred by the Confederación, and the obligation of satisfying the requirements arising from the tax incentives held by the transferor insofar as they refer to the transferred assets and rights.

20.2. Income tax

The detail of "Income Tax" in the income statement for 2012 is as follows:

	THOUSANDS OF EUROS 2012
Income tax expense for the year	12,346
Prior years' and other adjustments	(545)
	11,801

20.3. Reconciliation of accounting profit to taxable profit

The reconciliation of the income tax expense recognized for 2012 to the accounting profit before tax multiplied by the tax rate applicable to the Bank, and the income tax charge recognized at 31 December 2012 are as follows:

	THOUSANDS OF EUROS
	2012
Accounting profit before tax	46,455
Tax rate	30%
	13,936
Permanent differences:	
Increases	32
Decreases	-
Total	13,968
(Tax credits)/(Tax relief)	(1,622)
Income tax expense for the year	12,346
Temporary differences:	
Increases	53,957
Decreases	(36,810)
Tax withholdings and prepayments	(26,736)
Income tax charge for the year (1)	2,757

(1) This amount is recognized under “Tax Liabilities - Current” in the balance sheet at 31 December 2012.

The permanent decreases in the taxable profit in the foregoing table include, among other items, the deduction relating to the amounts received by the Bank as dividends, regulated in the Spanish Corporation Tax Law.

20.4. Tax recognized in equity

The income tax expense recognized directly in the Bank's equity gave rise to a net credit of EUR 1,509 thousand in 2012 to "Valuation Adjustments".

20.5. Deferred taxes

Pursuant to the tax legislation in force, in 2012 certain temporary differences arose that must be taken into account when quantifying the related income tax expense. The deferred taxes recognized in the balance sheet at 31 December 2012 were as follows:

	THOUSANDS OF EUROS 2012
Deferred tax assets arising from:	
Additions and contributions to pension provisions and funds and other long-term obligations to employees	12,108
Additions to provisions	26,421
Impairment losses	67,614
Available-for-sale debt instruments	4,007
Available-for sale equity instruments portfolio	322
Tax effect of losses in hedging derivatives	2,871
Other	2,036
	115,379

	THOUSANDS OF EUROS 2012
Deferred tax liabilities arising from:	
Revaluation of property	17,718
Available-for-sale equity instruments	2,818
Available-for-sale debt instruments	2,872
	23,408

20.6. Operations performed in prior years under Chapter VIII of Title VII of the Corporation Tax Law approved by Royal Decree-Law 4/2004, of 5 March

The Bank has been involved in corporate restructuring transactions subject to special tax neutrality regime regulated in Chapter VIII of Title VII of the Corporation Tax Law approved by Royal Decree-Law 4/2004, of March 5.

In order to comply with the provisions of Article 93 of TRLIS regarding the contribution of industry on the part of the Confederación Española de Cajas de Ahorros to the Bank (Cecabank, S.A.) as described in Note 1.1. then provides the following information

> Last balance sheet by the transferor (Confederación Española de Cajas de Ahorros) at 31 December 2011:

THOUSANDS OF EUROS

ASSETS	31/12/2011
Cash and balances with central banks	492,394
Financial assets held for trading	5,781,782
Other financial assets designated at fair value through profit or loss	999,877
Available-for-sale financial assets	3,608,306
Loans and receivables	5,304,647
Hedging derivatives	10
Non-current assets held for sale	84
Investments	515
Tangible assets	98,414
Intangible assets	2,446
Tax assets	128,981
Other assets	42,031
TOTAL ASSETS	16,459,487

	THOUSANDS OF EUROS
LIABILITIES AND EQUITY	31/12/2011
LIABILITIES	
Financial liabilities held for trading	5,360,647
Other financial liabilities at fair value through	
Profit or loss	2,324,724
Financial liabilities at amortized cost	7,000,314
Hedging derivatives	25,759
Provisions	206,302
Tax liabilities	44,926
Welfare funds	215
Other liabilities	763,135
TOTAL LIABILITIES	15,726,022
EQUITY	
Own Funds	
Cuotas participativas y fondos asociados	30,051
Reserves	669,481
Result	38,756
Valuation Adjustments	
Available for sale assets	(4,823)
TOTAL EQUITY	733,465
TOTAL LIABILITIES AND EQUITY	16,459,487

> All property acquired by the Company under this operation have been incorporated into its books by the same value contained in the accounts of the transferor to match these values with those recorded in the Group's consolidated financial statements

Under Article 90 of the TRLIS, the Bank is subrogated regarding the timeliness of maintenance of the assets that have materialized in deductions for reinvestment accredited by the Confederación

In any case, it has access to individualized information for each of the assets acquired by the Bank for the purposes of complying with the obligation under Article 93 of the TRLIS quoted.

20.7. Tax credit for reinvestment of extraordinary benefits

The amount of the income qualifying for the reinvestment tax credit and deductions for each year is as follows:

	THOUSANDS OF EUROS		
YEAR	INCOME QUALIFYING	RENT ACCREDITED	TAX CREDIT
2010 (*)	10,681	4,448	534
2011 (*)	846	1,820	218
2012	-	5,259	631
	11,527	11,527	1,383

(*) Income generated and reinvestments accredited by the Confederación Española de Cajas de Ahorros, before the spin-off performed in 2012.

21. Fair value

21.1. Fair value of financial assets and liabilities

The fair value of the Bank's financial instruments at 31 December 2012 is broken down, by class of financial asset and liability, into the following levels in these financial statements:

- LEVEL 1: financial instruments whose fair value was determined by reference to their quoted price in active markets, without making any change to these assets.
- LEVEL 2: financial instruments whose fair value is estimated by reference to quoted prices in organized markets for similar instruments or using other valuation techniques in which all the significant inputs are based on directly or indirectly observable market data.
- LEVEL 3: instruments whose fair value is estimated using valuation techniques in which certain significant inputs are not based on observable market data.

For the purposes of Levels 2 and 3, the prices were obtained using standard quantitative models fed by market data, which are either directly observable or can be calibrated or calculated using observable data. The most widely used models are the Black, Libor Market and Hull-White models for interest rates, the Black&Scholes model for equities and foreign currency, and the Jarrow-Turnbull and LHP models for credit products; the most common observable data are the interest rate, exchange rate and certain implied volatilities, and the most widely used non-observable data are implied correlations, certain implied volatilities and issuer curve spreads.

The fair value of the Bank's financial instruments at 31 December 2012, broken down as indicated above, is as follows:

Financial assets – fair value at 31 December 2012-

	THOUSANDS OF EUROS											
	CASH AND BALANCES WITH CENTRAL BANKS (NOTE 5)		FINANCIAL ASSETS HELD FOR TRADING (NOTE 6.1)		OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (NOTE 6.2)		AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 7)		LOANS AND RECEIVABLES (NOTE 8)		HEDGING DERIVATIVES (NOTE 9)	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Level 1:												
Debt instruments	-	-	870,528	870,528	-	-	3,343,759	3,343,759	-	-	-	-
Equity instruments	-	-	51,905	51,905	-	-	39,827	39,827	-	-	-	-
Derivatives	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	922,433	922,433	-	-	3,383,586	3,383,586	-	-	-	-
Level 2:												
Cash and balances with central banks	463,115	463,115	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	-	-	-	-	1,798,113	1,798,113	-	-	1,282,139	1,282,139	-	-
Loans and advances to customers	-	-	-	-	789,929	789,929	-	-	370,838	370,838	-	-
Debt instruments	-	-	1,882	1,882	-	-	196,325	196,325	257,652	336,110	-	-
Equity instruments	-	-	-	-	-	-	43,307	43,307	-	-	-	-
Trading derivatives	-	-	5,203,970	5,203,970	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-	-	-	-	-
	463,115	463,115	5,205,852	5,205,852	2,588,042	2,588,042	239,632	239,632	1,910,629	1,989,087	-	-
Level 3:												
Debt instruments	-	-	-	-	-	-	-	-	-	11	-	-
Equity instruments carried at cost	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	11	-	-
	463,115	463,115	6,128,285	6,128,285	2,588,042	2,588,042	3,623,218	3,623,218	1,910,629	1,989,098	-	-

Financial liabilities – fair value at 31 December 2012-

	THOUSANDS OF EUROS							
	FINANCIAL LIABILITIES HELD FOR TRADING (NOTE 6.1)		OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (NOTE 6.2)		FINANCIAL LIABILITIES AT AMORTIZED COST (NOTE 15)		HEDGING DERIVATIVES (NOTE 9)	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Level 1:								
Trading derivatives	-	-	-	-	-	-	-	-
Short positions	434,114	434,114	-	-	-	-	-	-
	434,114	434,114	-	-	-	-	-	-
Level 2:								
Deposits from central banks	-	-	-	-	1,309,497	1,309,497	-	-
Deposits from credit institutions	-	-	1,824,376	1,824,376	2,039,539	2,039,539	-	-
Customer deposits	-	-	1,063,224	1,063,224	1,532,248	1,532,248	-	-
Trading derivatives	5,158,066	5,158,066	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	186,344	186,344	-	-
Hedging derivatives	-	-	-	-	-	-	16,845	16,845
	5,158,066	5,158,066	2,887,600	2,887,600	5,067,628	5,067,628	16,845	16,845
Level 3:								
Deposits from credit institutions	-	-	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-	-	-
Trading derivatives	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	5,592,180	5,592,180	2,887,600	2,887,600	5,067,628	5,067,628	16,845	16,845

It should be mentioned, with respect to the fair values included in the foregoing tables, that:

> The fair value of the loans and advances to credit institutions and the loans and advances to customers classified under “Loans and Receivables” in the foregoing tables is the same as their carrying amount since, in view of their features (counterparties, interest rates and maturities), their fair value is not significantly different from their amortized cost.

> The fair value of the asset balances relating to cash and balances with central banks shown in the foregoing tables was estimated to be the same as their carrying amount, since it was considered that the fair value of these items was not significantly different from their carrying amount.

> The fair value of the liabilities classified as financial liabilities at amortized cost in the foregoing tables was the same as their carrying amount, since it was considered that, in view of the maturities and interest rates of these liabilities, their fair value was not significantly different from their amortized cost.

Following is a detail of the changes in fair value of the Bank’s financial instruments in respect of unrealized gains and losses at 31 December 2012 which were recognized in the financial statements for 2012. The fair value of these financial instruments is calculated applying a valuation technique in which variables are obtained from observable market data (Level 2) or using valuation techniques in which certain significant inputs are not based on observable market data (Level 3):

	THOUSANDS OF EUROS
	NET GAIN/ (LOSS)
	2012
Level 2	
Financial assets held for trading-	
Derivatives	125,964
Debt instruments	19
Other financial assets at fair value through profit or loss	
Loans and advances to credit institutions	(62)
Loans and advances to customers	589
Financial liabilities held for trading	
Derivatives	(140,811)
Hedging derivatives (asset balances)	-
Hedging derivatives (liability balances)	8,036
Other financial liabilities at fair value through profit or loss	
Deposits from central banks	-
Deposits from credit institutions	(68)
Customer deposits	2,428
Loans and receivables	
Debt instruments	-
Available-for-sale financial assets	
Debt instruments	-
Equity instruments	-
	(3,905)
Level 3	
Financial assets held for trading-	
Debt instruments	-
	(3,905)

21.2. Fair value of tangible assets

The only tangible assets owned by the Bank whose carrying amount differs significantly from their fair value are the properties owned by it. At 31 December 2012, the carrying amount of these properties amounted to EUR 84,764 thousand and their estimated fair value at that date was EUR 145,106 thousand.

The aforementioned fair value was estimated by Tinsa, S.A. using generally accepted valuation techniques.

22. Exposure to credit risk associated with financial instruments

22.1. Credit risk management objectives, policies and processes

Credit risk is defined as the risk that affects, or might affect, results or capital as a result of non-compliance by a borrower with its contractual obligations, or of the borrower failing to act as agreed. This category includes:

- Principal risk: the risk of loss of the principal delivered.
- Replacement cost or counterparty risk: this relates to the counterparty's ability and intention to meet its contractual obligations on maturity. Credit risk exists throughout the term of the transaction, but it can vary from one day to the next due to the settlement mechanisms involved and to changes in the marking to market.
- Issuer risk: this risk arises when trading the financial assets of an issuer as a result of a change in the market perception of the issuer's economic and financial strength.
- Settlement or delivery risk: the risk that one of the parties to the transaction fails to deliver the agreed-upon consideration.
- Country risk: it is the credit risk associated with debts held by debtors in a given country due to circumstances other than normal commercial risk. It may take the form of transfer risk, sovereign risk or other risks arising from international financial activity.
- Concentration risk: measures the extent of the concentration of credit risk exposure to a specific geographical area/country, economic sector, product and customer group.

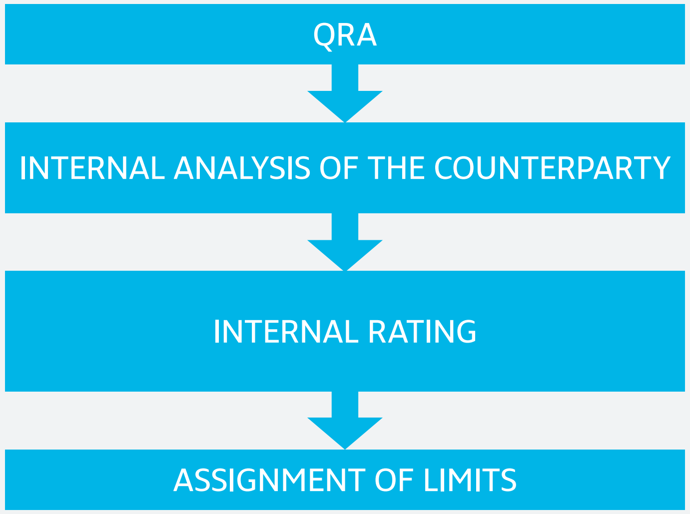
- Residual risk: includes risk derived from hedging strategies, credit risk mitigation techniques, securitization, etc.

The Bank has established certain procedures for the correct management of credit risk, the main features of which are as follows:

Credit risk analysis

At the Bank, the process of assessing the credit quality of counterparties is closely linked with the assignment of limits. Thus, the Bank assigns internal ratings to the various potential counterparties. This internal rating, together with the external agencies' ratings, contributes to the establishment of the maximum risk to be assumed with each entity. It also constitutes the basis for the acceptance and monitoring of risk.

The following diagram represents the Bank's process of assigning ratings and limits:



The rating is the result of an analysis of various quantitative and qualitative factors which are assessed independently and receive a specific weighting for the calculating of the final rating. The final rating results from an independent assessment performed by the Bank's analysts, which brings together the perception of the credit quality of the entities with which the Bank wishes to transact business.

Credit risk monitoring and control

Credit risk is monitored through active portfolio management. The main aim is to detect, sufficiently in advance, any counterparties whose creditworthiness might be deteriorating. Systematic monitoring allows the whole of the portfolio to be classified into standard risk counterparties and counterparties under special surveillance. All the counterparties belonging to the latter category are assigned a specific policy regarding the action to be taken, which ranges from simply reviewing any changes in their creditworthiness to ceasing all transactions with this counterparty, and a period for the reviewing the assigned policy.

As in risk analysis, ratings constitute another element for the risk monitoring process together with other variables including the country and type of business, among others.

In addition, as part of the monitoring of the credit risk assumed in market operations, the adequacy of the contractual documentation supporting these operations is actively managed and monitored in conjunction with the Legal Department.

The control process comprises all the activities relating to the permanent checking of compliance with the established credit, counterparty and settlement risk limits, the management and reporting of overruns and the maintenance and update of parameterizations of products, customers, countries, economic groups, ratings, contractual offsetting agreements and financial guarantees in the control tools.

Risk limit structure

The Bank’s general credit risk limit structure is divided into two major groups.

On one hand, there are the limits individually assigned to a counterparty.

There are also a series of limits associated with certain activities, among others, as country risk limits and operating limits for private-sector fixed-income securities and equity securities.

Credit Risk Measurement Methodology

Cecabank calculates credit risk exposure by applying the standardized approach provided in current regulations. As a general rule, it is calculated as the sum of the current exposure or market value (mark-to market) plus an add-on to reflect potential future exposure.

The management tools provide real-time information on the utilization of credit risk limits for each counterparty and economic group, thus facilitating the ongoing monitoring of any change and/or overrun of these limits.

In accordance with current legislation, the existence of guarantees and collateral reduces the credit risk of transactions for which they are provided.

Concentration risk

With regard to credit risk, concentration risk is an essential management tool. The Bank constantly monitors the extent of its credit risk concentration under various salient classifications: country, rating, sector, economic group, guaranties, etc.

The Bank uses conservative risk criteria for the management of concentration risk which enable it to manage the available limits sufficiently comfortably with respect to the legally established concentration limits.

At 31 December 2012, all of the Bank's most significant risk exposure was at very low levels with a ratio of 1.06. Moreover, 22.25% of the large exposures are classified as investment grade by the rating agencies, all of them being classified as level 3. This distribution is limited by levels of agency ratings of the Spanish Financial System.

The highest exposure is in Spain (78.35%) followed by the other euro-zone countries (11.45%), and rest of Europe (5.71%). Exposure in North America accounts for 2.7% of the total.

Regarding the high level of industry concentration, it is due to the Bank's focus and the conducting of many activities, operations and services within the banking business in general, or indirectly related to it. Also, the risks in the financial services industry account for more than 90% of the total risk exposure, although when evaluating this level of industry concentration it should be taken into account that this exposure is to a highly regulated and supervised segment.

22.2. Maximum credit risk exposure level

The following table show the maximum level of exposure to credit risk assumed by the Bank at 31 December 2012 by class and category of financial instrument, without deducting the collateral or other guarantees received by the Bank to ensure debtors meet their obligations:

Page 1 of 3

31 December 2012:

	THOUSANDS OF EUROS						
	ASSETS						
	FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS						
	FINANCIAL ASSET HELD FOR TRADING (NOTE 6.1) (1)	OTHER ASSETS (NOTA 6.2)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 7)	LOANS AND RECEIVABLES (NOTE 8)	HEDGING DERIVATIVES (NOTE 9)	MEMORANDUM ITEMS	TOTAL
1. Debt instruments-							
1.1 Loans and advances to credit institutions	-	1,797,736	-	1,282,042	-	-	3,079,778
Reverse repurchase agreements	-	1,797,736	-	-	-	-	1,797,736
Time deposits	-	-	-	111,912	-	-	111,912
Guarantee deposits on securities lending transactions	-	-	-	6,580	-	-	6,580
Doubtful assets	-	-	-	-	-	-	-
Other accounts and other	-	-	-	1,163,550	-	-	1,163,550
1.2 Debt instruments	872,410	-	3,547,190	392,333	-	-	4,811,933
Government debt securities	811,267	-	652,212	8,287	-	-	1,471,766
Treasury bills	-	-	2,157,502	-	-	-	2,157,502
Other public institutions	26,377	-	140,885	-	-	-	167,262
Spanish credit institutions	33,238	-	280,004	191,055	-	-	504,297
Non-resident credit institutions	-	-	-	-	-	-	-
Private sector (Spain)	1,528	-	307,639	70,368	-	-	379,535
Private sector (rest of the world)	-	-	8,948	-	-	-	8,948
Doubtful assets	-	-	-	122,623	-	-	122,623

(1) The maximum credit risk exposure of the instruments included in the foregoing table was taken to be their fair value at 31 December 2012.

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31 December 2012:

	THOUSANDS OF EUROS						
	ASSETS						
	FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS						
	FINANCIAL ASSET HELD FOR TRADING (NOTE 6.1) (1)	OTHER ASSETS (NOTA 6.2)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 7)	LOANS AND RECEIVABLES (NOTE 8)	HEDGING DERIVATIVES (NOTE 9)	MEMORANDUM ITEMS	TOTAL
1.3. Loans and advances to customers	-	789,395	-	376,273	-	-	1,165,668
Reverse repurchase agreements	-	789,395	-	-	-	-	789,395
Mortgage loans	-	-	-	49,294	-	-	49,294
Guarantee deposits on securities lending transactions	-	-	-	-	-	-	-
Other loans and credits	-	-	-	140,488	-	-	140,488
Doubtful assets	-	-	-	16,512	-	-	16,512
Other assets	-	-	-	169,979	-	-	169,979
Total debt instruments	872,410	2,587,131	3,547,190	2,050,648	-	-	9,057,379
2. Contingent liabilities -							
Financial guarantees (Note 27.1)	-	-	-	-	-	15,094	15,094
Documentary credits (Note 27.1)	-	-	-	-	-	1,477	1,477
Total contingent liabilities	-	-	-	-	-	16,571	16,571
3. Other exposures -							
Derivatives	5,203,970	-	-	-	-	-	5,203,970
Contingent commitments (Note 27.3)	-	-	-	-	-	617,710	617,710
Total other exposures	5,203,970	-	-	-	-	617,710	5,821,680

(1) The maximum credit risk exposure of the instruments included in the foregoing table was taken to be their fair value at 31 December 2012.

31 December 2012:

	THOUSANDS OF EUROS						
	ASSETS						
	FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS						
	FINANCIAL ASSET HELD FOR TRADING (NOTE 6.1) (1)	OTHER ASSETS (NOTA 6.2)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 7)	LOANS AND RECEIVABLES (NOTE 8)	HEDGING DERIVATIVES (NOTE 9)	MEMORANDUM ITEMS	TOTAL
4. Less: recognized impairment losses	-	-	(5,511)	(141,615)	-	(54,758)	(201,884)
Maximum credit risk exposure level (1+2+3+4)	6,076,380	2,587,131	3,541,679	1,909,033	-	579,523	14,693,746
Valuation adjustments	-	911	(1,595)	1,596	-	-	912
Total accounting balance	6,076,380	2,588,042	3,540,084	1,910,629	-	579,523	14,694,658

(1) The maximum credit risk exposure of the instruments included in the foregoing table was taken to be their fair value at 31 December 2012.

With respect to the credit derivatives arranged by the Bank, the foregoing table include only the fair value thereof at 31 December 2012.

The contingent liabilities are presented at the maximum amount guaranteed by the Bank. In general, it is considered that most of these balances will expire without any actual financing obligation arising for the Bank. The collateral on these transactions must also be taken into account (see Note 22.3 below).

The drawable balances of the contingent liabilities are presented at the maximum amounts drawable by the counterparties.

22.3. Collateral received and other credit enhancements

Contractual netting and financial guarantee or collateral agreements

The Bank's policy with regard to the arrangement of transactions involving financial derivative products, repos, sell/buy backs and securities lending is to enter into contractual netting agreements drafted by national or international associations. These agreements enable the transactions performed thereunder to be terminated and settled early in the event of default by the counterparty in such a way that the parties can only claim the net balance resulting from the settlement of such transactions.

Derivative financial instruments are arranged using ISDA Master Agreements, which are subject to the laws of England and Wales or the State of New York, or the Framework Agreement for Financial Transactions (CMOF) which is subject to Spanish law, depending on the counterparty. Financial guarantee agreements, namely the Credit Support Annex for ISDA Master Agreements and Appendix III for CMOFs, are entered into to hedge derivative financial instruments exceeding certain risk levels.

Standard Global Master Repurchase Agreements (GMRA) are entered into for repo and sell/buy back transactions, while standard European Master Agreement (EMA) or Global Master Securities Lending Agreements (GMSLA) are used for securities lending transactions. The clauses of these types of contractual netting agreements include regulations on the financial guarantees or spreads on the transactions.

Following is a detail of the Bank's maximum credit risk exposure to each financial instrument class secured by collateral or other credit enhancements in addition to the personal guarantee of the borrower, disregarding recognized impairment losses, at 31 December 2012:

31 December 2012:

THOUSANDS OF EUROS

	GOVERNMENT-BACKED	SECURED BY SPANISH GOVERNMENT DEBT SECURITIES	SECURED BY OTHER FIXED-INCOME SECURITIES	SECURED BY SHARES	NETTING AGREEMENTS	SECURED BY MORTGAGE	SECURED BY CASH DEPOSITS	GUARANTEED BY CREDIT INSTITUTIONS	TOTAL
1. Debt instruments-									
1.1 Loans and advances to credit institutions	-	1,784,326	13,410	6,580	-	-	-	-	1,804,316
Reverse repurchase agreements	-	1,784,326	13,410	-	-	-	-	-	1,797,736
Guarantee deposits on securities lending transactions	-	-	-	6,580	-	-	-	-	6,580
Time deposits	-	-	-	-	-	-	-	-	-
1.2 Debt instruments	481,756	-	-	-	-	-	-	-	481,756
1.3 Loans and advances to customers	-	789,395	100,000	-	-	49,294	-	-	938,689
Reverse repurchase agreements	-	789,395	-	-	-	-	-	-	789,395
Mortgage loans	-	-	-	-	-	49,294	-	-	49,294
Guarantee deposits on securities lending transactions	-	-	-	-	-	-	-	-	-
Other real guarantees	-	-	100,000	-	-	-	-	-	100,000
Total debt instruments	481,756	2,573,721	113,410	6,580	-	49,294	-	-	3,224,761
2. Contingent liabilities-									
Financial bank guarantees	-	15,094	-	-	-	-	-	-	15,094
Documentary credits	-	-	-	-	-	-	-	1,477	1,477
Total contingent liabilities	-	15,094	-	-	-	-	-	1,477	16,571
3. Other exposures-									
Derivatives	-	-	-	-	3,082,292	-	-	-	3,082,292
Total other exposures	-	-	-	-	3,082,292	-	-	-	3,082,292
Total amount covered	481,756	2,588,815	113,410	6,580	3,082,292	49,294	-	1,477	6,323,624

22.4. Credit quality of unimpaired, non-past-due financial assets

22.4.1. Analysis of credit risk exposure by credit rating

At 31 December 2012, 75.3% of the exposure had been rated by a credit rating agency recognized by the Bank of Spain. The distribution, by rating, of the rated exposure is as follows:

LEVEL	RATING (*)	PERCENTAGE
1	AAA-AA	1.1%
2	A	12.3%
3	BBB	27.0%
4	BB	34.2%
5	B	20.3%
6	CCC and below	5.1%
	TOTAL	100%

(*) The exposures were classified taking the most conservative of the ratings granted by the three rating agencies used to manage the Bank's risk: Fitch, Moody's and S&P.

22.4.2. Classification of credit risk exposure by counterparty

Following is a detail, by counterparty, of the maximum credit risk exposure (disregarding recognized impairment losses) in connection with financial assets not past-due or impaired at 31 December 2012:

31 December 2012

	THOUSANDS OF EUROS							
	RESIDENT PUBLIC SECTOR	RESIDENT CREDIT INSTITUTIONS	OTHER RESIDENT ENTITIES	OTHER RESIDENTS	NON-RESIDENT PUBLIC SECTOR	NON-RESIDENT CREDIT INSTITUTIONS	OTHER NON-RESIDENT SECTORS	TOTAL
1. Debt instruments-								
1.1 Loans and advances to credit institutions	-	2,529,070	-	-	-	550,708	-	3,079,778
Reverse repurchase agreements	-	1,797,736	-	-	-	-	-	1,797,736
Time deposits	-	111,912	-	-	-	-	-	111,912
Guarantee deposits on securities lending transactions	-	2,644	-	-	-	3,936	-	6,580
Other accounts	-	607,779	-	-	-	310,003	-	917,782
Other	-	8,999	-	-	-	236,769	-	245,768
1.2 Debt instruments	3,796,530	504,297	379,535	-	-	-	8,948	4,689,310
1.3 Loans and advances to customers	1,187	789,395	32,458	217,638	25	7,915	100,538	1,149,156
Reverse repurchase agreements	-	789,395	-	-	-	-	-	789,395
Guarantee deposits on securities lending transactions	-	-	-	-	-	-	-	-
Other loans and credits	1,187	-	32,458	6,280	25	-	100,538	140,488
Mortgage loans	-	-	-	49,294	-	-	-	49,294
Other assets	-	-	-	162,064	-	7,915	-	169,979
Total debt instruments	3,797,717	3,822,762	411,993	217,638	25	558,623	109,486	8,918,244

31 December 2012

	THOUSANDS OF EUROS							
	RESIDENT PUBLIC SECTOR	RESIDENT CREDIT INSTITUTIONS	OTHER RESIDENT ENTITIES	OTHER RESIDENTS	NON-RESIDENT PUBLIC SECTOR	NON-RESIDENT CREDIT INSTITUTIONS	OTHER NON-RESIDENT SECTORS	TOTAL
2. Contingent liabilities-								
Financial bank guarantees	-	15,094	-	-	-	-	-	15,094
Documentary credits	-	-	1,477	-	-	-	-	1,477
Total contingent liabilities	-	15,094	1,477	-	-	-	-	16,571
3. Other exposures-								
Derivatives	-	3,558,646	951,561	-	-	693,763	-	5,203,970
Contingent commitments	383,572	7,246	226,592	-	-	-	300	617,710
Total other exposures	383,572	3,565,892	1,178,153	-	-	693,763	300	5,821,680
Total	4,181,289	7,403,748	1,591,623	217,638	25	1,252,386	109,786	14,756,495

Also, as stated in the applicable legislation, presented below is the distribution of the loans to customers by type of activity (book value) as of 31 December 2012:

	THOUSANDS OF EUROS							
				CREDIT WITH REAL ESTATE COLLATERAL. *LOAN TO VALUE*				
	TOTAL	OF WHICH: REAL ESTATE COLLATERAL	OF WHICH: OTHER REAL GUARANTEES	LESS 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%
Public Administrations	1,263	-	-	-	-	-	-	-
Other financial institutions	1,096,221	-	100,000	-	-	-	100,000	-
Non-financial entities and individual entrepreneurs	8,526	-	-	-	-	-	-	-
Construction and property development	-	-	-	-	-	-	-	-
Construction of civil works	-	-	-	-	-	-	-	-
Other purposes	8,526	-	-	-	-	-	-	-
Big enterprises	4,116	-	-	-	-	-	-	-
SMEs and individual entrepreneurs	4,410	-	-	-	-	-	-	-
Rest of households and NPISHs	56,238	49,294	-	16,936	9,812	15,655	6,891	-
Houses	51,258	49,294	-	16,936	9,812	15,655	6,891	-
Consumption	4,924	-	-	-	-	-	-	-
Other purposes	56	-	-	-	-	-	-	-
Subtotal	1,162,248	49,294	100,000	16,936	9,812	15,655	106,891	-
Minus: Value adjustments for impairment of assets not attributable to specific operations	(1,481)	-	-	-	-	-	-	-
Total	1,160,767	-	-	-	-	-	-	-
Memorandum Item								
Refinancing operations, refinanced and restructured	12,375	-	-	-	-	-	-	-

22.5. Information on non-performing loans ratios

In view of the activities carried on by the Bank and the risk profile assumed by it, its non-performing loans ratios, measured as doubtful assets as a percentage of total credit risk, were 0.94% at 31 December 2012.

22.6. Financial assets renegotiated in the year

Following is a detail by counterparties, classification of NPL's and type of warranties, existing balances of restructurings and refinancings carried on by the Bank.

	THOUSANDS OF EUROS						
	NORMAL						
	FULL REAL ESTATE MORTGAGE		OTHER COLLATERAL		WITHOUT COLLATERAL		
	NUMBER OF OPERATIONS	GROSS AMOUNT	NUMBER OF OPERATIONS	GROSS AMOUNT	NUMBER OF OPERATIONS	GROSS AMOUNT	SPECIFIC COVERAGE
Public Administrations	-	-	-	-	-	-	-
Other legal entities and individual entrepreneurs	-	-	-	-	-	-	-
Of which: Construction and property development financing	-	-	-	-	-	-	-
Other individuals	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

	THOUSANDS OF EUROS						
	SUBSTANDARD						
	FULL REAL ESTATE MORTGAGE		OTHER COLLATERAL		WITHOUT COLLATERAL		
	NUMBER OF OPERATIONS	GROSS AMOUNT	NUMBER OF OPERATIONS	GROSS AMOUNT	NUMBER OF OPERATIONS	GROSS AMOUNT	SPECIFIC COVERAGE
Public Administrations	-	-	-	-	-	-	-
Other legal entities and individual entrepreneurs	-	-	-	-	-	-	-
Of which: Construction and property development financing	-	-	-	-	-	-	-
Other individuals	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

	THOUSANDS OF EUROS						
	DOUBTFUL						
	FULL REAL ESTATE MORTGAGE		OTHER COLLATERAL		WITHOUT COLLATERAL		
	NUMBER OF OPERATIONS	GROSS AMOUNT	NUMBER OF OPERATIONS	GROSS AMOUNT	NUMBER OF OPERATIONS	GROSS AMOUNT	SPECIFIC COVERAGE
Public Administrations	-	-	-	-	-	-	-
Other legal entities and individual entrepreneurs	-	-	-	-	1	16,500	4,125
Of which: Construction and property development financing	-	-	-	-	-	-	-
Other individuals	-	-	-	-	-	-	-
Total	-	-	-	-	1	16,500	4,125

	THOUSANDS OF EUROS						
	TOTAL						
	FULL REAL ESTATE MORTGAGE		OTHER COLLATERAL		WITHOUT COLLATERAL		
	NUMBER OF OPERATIONS	GROSS AMOUNT	NUMBER OF OPERATIONS	GROSS AMOUNT	NUMBER OF OPERATIONS	GROSS AMOUNT	SPECIFIC COVERAGE
Public Administrations	-	-	-	-	-	-	-
Other legal entities and individual entrepreneurs	-	-	-	-	1	16,500	4,125
Of which: Construction and property development financing	-	-	-	-	-	-	-
Other individuals	-	-	-	-	-	-	-
Total	-	-	-	-	1	16,500	4,125

22.7. Impaired assets

Following is a detail, by method used to calculate impairment losses, of the financial assets considered to be impaired due to credit risk at 31 December 2012:

	THOUSANDS OF EUROS		
	31 DECEMBER 2012		
	FINANCIAL ASSETS INDIVIDUALLY ASSESSED AS IMPAIRED	FINANCIAL ASSETS COLLECTIVELY ASSESSED AS IMPAIRED	TOTAL IMPAIRED ASSETS
1. Debt instruments-			
1.1 Loans and advances to credit institutions	-	-	-
1.2 Debt instruments	122,623	-	122,623
1.3 Loans and advances to customers	16,512	-	16,512
Total debt instruments	139,135	-	139,135
2.Contingent liabilities-			
2.1 Financial bank guarantees	-	-	-
2.2 Documentary credits	-	-	-
Total contingent liabilities	-	-	-
3. Other exposures-			
3.1 Derivatives	-	-	-
3.2 Contingent commitments	54,743	-	54,743
Total other exposures	54,743	-	54,743
Total	193,878	-	193,878

Assets (secured loans) presented by the Bank in the foregoing table as "individually impaired" at 31 December 2012 were classified on the basis of an analysis of each such transaction, taking into account factors such as the financial position and solvency of the debtors, adverse changes in the fair value of the assets, giving rise to impairment, and other evidence justifying their classification as individually impaired under current legislation.

In connection with the information provided in the foregoing tables, it should be noted that financial assets classified as at fair value through profit or loss which might be impaired due to credit risk were not included, since when such assets are measured at fair value, any impairment losses are recognized as an adjustment to fair value in the Bank's financial statements.

All the transactions considered by the Bank to be impaired at 31 December 2012 were classified under the "Loans and Receivables" category for EUR 139,135 thousand and in "Contingent Commitments" for EUR 54,743 thousand as of 31 December 2012.

22.8. Changes in impairment losses

Following are the changes in the impairment losses due to credit risk recognized by the Bank in 2012:

2012:

	THOUSANDS OF EUROS					
	BALANCE AT 1 JANUARY 2012 (*)	NET ADDITIONS (REVERSALS) CHARGED (CREDITED) TO INCOME (**)	TRANSFERS BETWEEN ITEMS	AMOUNTS USED IN THE YEAR	OTHER CHANGES	BALANCE AT 31 DECEMBER 2012
1. Impairment losses not specifically identified						
1.1 Debt instruments-						
Loans and advances to credit institutions	5	13	-	-	-	18
Debt instruments	2,130	3,381	-	-	-	5,511
Loans and advances to customers	1,962	(481)	-	-	-	1,481
Total debt instruments	4,097	2,913	-	-	-	7,010
1.2 Contingent liabilities-						
Financial bank guarantees	17	(2)	-	-	-	15
Total contingent liabilities	17	(2)	-	-	-	15
1.3 Other exposures-	-					
Total	4,114	2,911	-	-	-	7,025
2. Specifically identified impairment losses						
2.1 Debt instruments-						
Loans and advances to credit institutions	-	-	-	-	-	-
Debt instruments (***)	129,452	35,703	-	(28,765)	(410)	135,980
Loans and advances to customers	34	4,103	-	-	(1)	4,136
Total debt instruments	129,486	39,806	-	(28,765)	(411)	140,116
2.2 Contingent liabilities-	-	-	-	-	-	-
Total contingent liabilities	-	-	-	-	-	-
2.3 Other exposures-	-	54,743	-	-	-	54,743
Total	129,486	94,549	-	(28,765)	(411)	194,859
Total impairment losses (1+2)	133,600	97,460	-	(28,765)	(411)	201,884

(*) Includes the effect of the spin-off process (see Note 1.1).

(**) Of the total, 97,460 thousand Euros, 42,719 thousand Euros are recognized under "Impairment of financial assets (net) (see Note 38) and 54.741 thousand Euros under " Provisions (net) (see Note 16.1) in the income statement for the year 2012.

(***) Of the total of 135,980 thousand Euros of impairment losses specifically identified debt securities, 17,567 thousand relate to providing substandard.

Following is a detail, by financial instrument category, of the impairment losses recognized by the Bank due to credit risk at 31 December 2012:

31 December 2012:

	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 7)	LOANS AND RECEIVABLES (NOTE 8)	PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS (NOTE 16.3)	TOTAL
1. Impairment losses not specifically identified				
1.1 Debt instruments-				
Loans and advances to credit institutions	-	18	-	18
Debt instruments	5,511	-	-	5,511
Loans and advances to customers	-	1,481	-	1,481
Total debt instruments	5,511	1,499	-	7,010
1.2 Contingent liabilities-				
Financial bank guarantees	-	-	15	15
Total contingent liabilities	-	-	15	15
1.3 Other exposures-	-	-	-	-
Total	5,511	1,499	15	7,025

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	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 7)	LOANS AND RECEIVABLES (NOTE 8)	PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS (NOTE 16.3)	TOTAL
2. Specifically identified impairment losses				
2.1 Debt instruments-				
Loans and advances to credit institutions	-	-	-	-
Debt instruments	-	135,980	-	135,980
Loans and advances to customers	-	4,136	-	4,136
Total debt instruments	-	140,116	-	140,116
2.2 Contingent liabilities-	-	-	-	-
2.3 Other exposures-	-	-	54,743	54,743
Total	-	140,116	54,743	194,859
Total impairment losses (1+2)	5,511	141,615	54,758	201,884

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As previously stated, pursuant to the applicable legislation, the Bank does not calculate impairment losses due to credit risk on equity instruments owned by the Bank (impairment losses on these financial assets are calculated as set forth in Note 2.3) and on debt instruments classified at fair value through profit or loss since, because they are carried at fair value, any changes in fair value due to credit risk are recognized immediately in the income statement. Accordingly, these impairment losses are not included in the foregoing table.

22.9. Past-due but not impaired assets

At 31 December 2012 the Bank had not recognized any material past-due but not impaired assets in its financial statements.

22.10. Write-off of impaired financial assets

At 31 December 2012 the Bank did not have any material financial assets that, pursuant to the criteria set forth in Note 2, had been written off due to credit risk, and there were no significant changes in this connection in 2012.

22.11. Exposure to real estate risk

The only operations granted by the Bank at 31 December 2012 concerning real state exposure are those loans intended to be used for housing acquisition, which are granted to its employees. Following is a detail of the latter:

	THOUSANDS OF EUROS	
	GROSS AMOUNT	FROM WHICH: DOUBTFUL
Credit for house purchase		
Without mortgage guarantee	1,964	-
With mortgage guarantee	49,294	-
	51,258	-

Following is the breakdown of credit with mortgage guarantee to households for house purchase, according to the percentage represented by the total risk over the amount of the last available valuation (loan to value) included in this balance sheet heading as of 31 December 2012:

THOUSANDS OF EUROS

	RISK OVER THE AMOUNT OF THE LAST AVAILABLE VALUATION					
	LESS OR EQUAL THAN 40%	MORE THAN 40% AND LESS THAN 60%	MORE THAN 60% AND LESS OR EQUAL THAN 80%	MORE THAN 80% AND LESS OR EQUAL THAN 100%	MORE THAN 100%	TOTAL
Gross amount	16,936	9,812	15,655	6,891	-	49,294
From which: Doubtful	-	-	-	-	-	-

22.12. Other disclosures on credit risk

At 31 December 2012 the amount of accrued uncollected past-due receivables on impaired financial assets was not material.

In 2012 no guarantees associated with financial assets owned by the Bank were executed in order to guarantee the collection thereof.

23. Exposure to market risk

23.1. Market risk management objectives, policies and processes

Market risk is defined as the risk that affects results or capital as a result of adverse changes in the prices of bonds, securities and commodities and in the exchange rates of transactions recognized in the trading book. This risk arises in market making and trading activities and the taking of positions in bonds, securities, foreign currencies, commodities and derivatives (on bonds, securities, currencies and commodities). This risk includes foreign currency risk, which is defined as the actual or potential risk that affects results or capital as a result of adverse changes in exchange rates in the banking book.

The Bank's exposure to market risk arises from several financial factors affecting market prices. These factors include mainly, but not only, the following:

> Interest rates in each country and product type.

> Spreads of each instrument over the risk-free interest rate curve (including credit and liquidity spreads).

> Market liquidity levels.

> Price levels.

> Exchange rates.

> Levels of volatility of the above factors.

Value at Risk ("VaR") provides an integrated measure of market risk and encompasses the basic elements thereof: interest rate risk, foreign currency risk, equity risk and the risk of volatility of the foregoing factors.

Interest rate risk

Interest rate risk is the exposure to market fluctuations due to changes in the general level of interest rates. The exposure to interest rate risk can be divided into the following two elements:

> Directional, slope and basis risk

Directional risk is the sensitivity of income to parallel shifts in the interest rate curve, while interest rate curve risk is the sensitivity of gains to changes in the structure of the rate curve, due to a change either in the slope or the shape of the curve.

Basis risk is the potential loss arising from unexpected changes in the spreads between the various interest rate curves with respect to which portfolio positions are held. Liquidity conditions in markets and the perception of the specific risk usually trigger this type of fluctuation, although other factors can also play a part.

The Bank controls all the interest rate risks described above using VaR, which includes all the factors relevant to the measurement thereof, covering the maturity spectrum and all the relevant curves (including specific industry curves by rating).

> Spread risk

Spread risk arises from holding corporate bond positions (and credit derivatives) and is defined as the exposure to the specific risk of each issuer.

Certain circumstances relating to the market and/or the issue itself can widen the spreads due to the liquidity premium.

Foreign currencies

In view of its foreign currency and international capital markets operations, the Bank is exposed to the following two types of foreign currency risk:

> Foreign exchange risk

Foreign exchange risk arises on the net positions of one currency against the euro or one currency against another. Therefore, foreign exchange risk is the potential fluctuation in spot exchange rates affecting the value of positions.

> Interest rate spread risk

Net interest rate spread risk arises from the difference between interest rates in two different currencies and its effect on forward foreign currency positions.

The Bank measures both of these risks using VaR and includes exchange rates and currency yield curves as risk factors.

Equity risk

This represents the risk of incurring losses as a result of changes in share prices.

Volatility risk

As part of its portfolio management activities, the Bank arranges options on various underlying assets on a habitual basis.

The most immediate way of measuring the risk of these options is through their delta, a parameter that proxies the risk of an option as an equivalent position in another simpler (linear) instrument.

But the non-linear nature of the value of options makes it advisable, in the case of complex options, basically to perform additional monitoring of the other parameters affecting the value of the option, which are as follows:

> Delta risk

Delta measures the change in the value of the option arising from a one-point change in the price of the underlying asset. Accordingly, delta risk is the exposure to unexpected changes in the value of the option portfolio as a result of changes in the prices of the underlying instruments.

> Gamma risk

The gamma of an option measures the sensitivity of its delta to a one-point change in the price of the underlying asset. It represents the risk that the delta of an option portfolio may vary as a result of a change in the prices of the underlying assets.

> Vega risk

Vega is a measure of the sensitivity of the value of an option to a one-point change in the volatility of the price of the underlying asset.

> Theta risk

Theta risk relates to the decline in the value of option positions as a consequence of the passage of time.

The Bank measures delta and vega risk through the parametric VaR and measures options risks using historical simulation VaR, since this methodology is based on the complete revaluation of options.

For transactions with certain complex exotic options which are particularly complicated to manage and measure, the Bank's general policy is to eliminate this risk from the portfolio by arranging back-to-back transactions in the market.

23.2. Market risk measurement

The methodology used to measure market risk is as follows.

VaR is calculated and monitored in the same way for available-for-sale and investment securities as it is for the trading book, although at present market risk limits have not been set for these portfolios.

Value at Risk

As stated above, VaR is the indicator used to monitor market risk exposure limits. It provides a unique measure of market risk by bringing together the following basic aspects:

> Interest rate risk.

> Credit spread risk.

> Foreign currency risk.

> Equity risk.

> Volatility risk (for optionalities).

> Liquidity risk.

Parametric VaR

The VaR measure used to monitor the limits described above is parametric VaR with the following features:

> Time horizon: 1 day

> Confidence interval: 99%

> Decay factor: 0.97

> Depth of the series: 250 trading days

It is calculated daily and the base currency is the euro.

In addition to the total VaR of the Treasury Room, VaR is also obtained for the different operating levels and units in the Financial Department.

The distribution of the VaR of the trading book by desk at 31 December 2012 is as follows:

	THOUSANDS OF EUROS 2012
Money and currency markets	1,271
Fixed-income and equities trading	458
Loan trading	182
Derivatives and structured products	259

Every day an analytical measure derived from VaR known as the Component VaR of market risk, which enables the total risk contributed by each position and market risk factor (risk concentration) to be known and the sensitivity of VaR to changes in portfolio positions to be proxied, is calculated and reported.

Component VaR can be obtained at a higher level of disaggregation and is reported by:

> Product

> Risk vertex

Historical simulation VaR

In addition, parametric VaR is calculated and daily, and historical simulation VaR is reported to test the risk estimate obtained using the parametric VaR methodology.

Historical simulation VaR uses historical data to calculate the changes in market risk factors, which are applied to current values to generate simulated gain and loss distributions without making any a priori assumptions regarding the form thereof, since only the actual distribution is used.

The parameters used regarding confidence levels, time decay factors, data series and time horizon of the estimate as those used to calculate parametric VaR.

Management results

Starting with risk tools, management results for the trading portfolios are calculated daily.

The method used is mark-to-market for positions with directly observable market prices (debt, Treasury bills, futures, exchange-traded options) and mark-to-model (theoretical valuation) with market inputs for transactions without quoted prices (deposits, OTC derivatives, etc.).

Sensitivity measures

Although limits are structured with respect to the VaR measure that combines all types of risks and portfolios in a single indicator, there is a series of supplementary measures to monitor exposure to market risk, which are quantified and reported daily. The sensitivity measures performed are as follows:

> Total delta

Sensitivity of net present value (NPV) to parallel shifts in the interest rate curve.

> Curve risk

Sensitivity of NPV to changes in the maturity structure of the interest rate curve due to changes in the slope or the shape of the curve in particular tranches.

> Spread risk

Measurement of the specific risk assumed to bond issuers.

Liquidity risk is also quantified taking into account the nature of portfolio positions and the situation in the financial markets.

> Exchange rate sensitivity

Sensitivity of the NPV of foreign currency positions in the portfolio to changes in exchange rates.

> Price sensitivity

Sensitivity of the NPV of equity positions in the portfolio to changes in the prices of the securities held.

> Volatility sensitivity

Sensitivity of the NPV of option positions in the portfolio to changes in the volatility of the underlyings (vega risk).

> Stress testing

The purpose of stress tests is to estimate the effects, in terms of losses, of an extreme movement in the market on the current portfolio. To this end, one or more worst case scenarios of price and interest rate fluctuations are defined based on real situations observed in the past or other situations that might arise.

The inclusion of the results of the stress tests in reporting systems enables traders and managers to be informed of the losses that might be incurred in extreme scenarios and facilitates the identification of the portfolio’s risk profile in such situations.

23.3. Market risk limits

The market risk of the trading book is measured through VaR, using both the parametric and historical simulation methodologies (for the purposes of usage of limits, the former is currently used), including diversification and risk correlation (diversification benefits) criteria.

The general limit structure is determined by the following guidelines:

> The Board of Directors established the global limits and approves the ALCO proposal, the implementation plans and the management processes.

> The ALCO establishes a general framework of limits for the measurement of market risk and the limits distribution among the desks.

> The Board of Directors approves and reviews changes to limits proposed by the ALCO.

> The Deputy General Manager of the Finance Division will, in all cases, be responsible for the use of the overall limit and delegated limits, and any overrun of these limits must be authorized by the ALCO.

The Risk Department is responsible for monitoring and compliance of the limits and reporting the consumption to the ALCO

There are two limit structures to control the market risk of Treasury activities:

- VaR limits measure the maximum authorized potential loss for a one-day time horizon based on the size and composition of the portfolio's risk exposure at the close of each day.
- Stop loss limits set the maximum authorized actual losses for both the Treasury Room and the various desks composing it, and include the results of intraday transactions. There are monthly and annual limits, as well as a monthly references and a 22 calendar day reference.

The stop loss limits are reviewed periodically and the review takes place at the same time as the review of VaR limits.

24. Liquidity risk

24.1. Liquidity risk management objectives, policies and processes

The aim of the Bank as regards liquidity risk is to have in place at all times the instruments and processes to enable it to meet payment commitments, so that it has available to it the instruments to enable it to maintain sufficient levels of liquidity to meet its payment commitments without compromising significantly the Bank's profits and to have mechanisms that allow it to meet its payments in a timely manner.

Traditionally, the Bank has generally had several ways of obtaining liquidity, including attracting customer deposits, the availability of various cash facilities at official agencies and raising liquidity through the interbank market.

In this connection, it is worth mentioning that the financial crisis continued to affect financial markets in 2012, particularly with regard to the debt of peripheral EU countries, including Spain, thereby prolonging the significant reduction in the various sources of financing of national and international financial institutions. As a result, the obtainment of financing through the intra-bank market, and especially through the use of Spanish government debt as collateral, continues to be severely hampered.

Due to the situation in the financial markets, in 2012 certain decisions were taken with a view to adapting the Bank to the new situation and ensuring that it has the liquidity required to enable it to meet its payment commitments on a timely basis and attain its strategic and operating investment and growth targets. Mention must be made of the adoption by the Bank of a series of specific measures in 2012 to protect it from the systemic crisis, pursuant to a previously established plan.

Liquidity risk

Liquidity risk is defined as:

- The uncertainty regarding the availability, at reasonable prices, of funds to enable Cecabank to meet its commitments when recourse to external financing is difficult for a particular period of time.
- The maintenance or generation of levels of liquidity required to finance future business growth.

In other words, this risk reflects the probability of incurring losses or having to reject new business or growth in current business as a result of being unable to meet commitments normally when they fall due or being unable to finance additional needs at market rates. In order to mitigate this risk, the Bank periodically monitors its liquidity conditions and assesses any action that may be required. Furthermore, the Bank has planned measures to enable it to restore the Bank's overall financial equilibrium in the event of a possible shortfall in liquidity.

24.2. Liquidity risk measurement

Following is a detail the measures employed by the Market, Balance-Sheet and Liquidity Risk Division to measure liquidity risk.

Liquidity gap

The liquidity gap is the profile of maturities and settlements by risk type (assets and liabilities classified by residual maturity plus the interest flows arising therefrom) and shows the mismatch structure in the Bank's balance sheet in terms of cash inflows and outflows.

It reflects the liquidity level maintained under normal market conditions and provides information on contractual and non-contractual cash inflows and outflows for a given period under certain assumptions regarding behaviour.

It is calculated fortnightly.

Liquidity inventory

At least twice a day, a list is made to enable monitoring of available liquid assets in order to identify possible available sources of liquidity in the event of a liquidity contingency.

Liquidity ratios

The purpose of liquidity ratios is to value and measure the Bank's on-balance-sheet liquidity fortnight, as follows:

- Short-term liquidity ratio: this ratio estimates the Bank's potential capacity to generate liquidity in a period of seven, fifteen and thirty days in order to cater for a liquidity eventuality and evaluate the sufficiency of the proportion of demand deposits obtained held as liquid assets.
- Structural liquidity ratio: the purpose of this ratio is to identify the Bank's funding mismatch, showing the liquidity generation structure and funding/lending structure by maturity.
- Stress scenarios, in which the unavailability of various sources of funding is combined with scenarios of the immediate withdrawal by customers of positions classified as stable, are also analyzed, as well as other market conditions.
- Survival ratio: this ratio estimates the period of time for which the Bank can meet its liquidity commitments for a thirty-day period in the event of a lack of access to the interbank market or alternative sources of funding. Scenarios of the unavailability of sources of funding envisaged in the calculation are combined with scenarios of the immediate withdrawal by customers of positions classified as stable.

Additionally, a daily monitoring of a series of alert indicators and intensity of the liquidity crisis is carried out, as wells as a detailed inventory which is refreshed permanently of the liquation capacity of the assets in the balance sheet.

24.3. Liquidity risk limits

As part of its function of monitoring the Bank, the Board of Directors establishes a framework of liquidity risk limits based on monitoring the Bank's short-term liquidity position.

In particular, limits were established on the following indicators:

Short-term liquidity ratio:

This ratio estimates the Bank's potential capacity to generate liquidity to meet its payment commitments over a given period of time on the assumption that recourse cannot be had to the interbank market.

Capability to generate liquidity includes:

> Collections from the current portfolio.

> Capability to continue to discount eligible paper.

> Potential liquidity, which is all cashable assets except repurchase agreements.

Also, in order to provide complete information to facilitate optimum liquidity management, additional stress scenarios are included which envisage an immediate withdrawal of stable funding, activation of contingent commitments, lowering ratings, losses in the bankable portfolio, etc.

Liquidity gap at one month with respect to stable funding:

This ratio measures the net refinancing requirement at one month with respect to the amount of financing considered not to be volatile (i.e. the number of times by which the net refinancing requirement at one month exceeds the Bank's stable funding). Thus, a limit can be placed on the level of concentration of the net lending position at very short term in relation to the amount of stable funding in an attempt to ensure that the term structure of the Bank's funding is as balanced as possible.

Any overrun of these limits must be authorized by the ALCO and, when it overruns any of them, such overruns must be reported to the Board of Directors together with an action plan to correct the situation.

24.4. Analysis of the liquidity gap

The liquidity gap is the profile of maturities and settlements by risk type (assets and liabilities classified by residual maturity plus the interest flows arising from all the balance sheet aggregates) and shows the mismatch structure in the balance sheet in terms of cash inflows and outflows. Its purpose is to measure the net funding required or the net excess of funds for various time horizons. Accordingly, it reflects the liquidity level maintained under normal market conditions. This measure provides information on contractual and non-contractual cash inflows and outflows (pursuant to historical-behaviour based assumptions to which statistical analyses are applied).

Following is a detail at 31 December 2012 of the Bank's main financial assets and liabilities (other than derivatives) at those dates, classified by residual maturity and estimated on the basis of their contractual conditions, excluding the related valuation adjustments:

At 31 December 2012:

	THOUSANDS OF EUROS						
	ON DEMAND	LESS THAN 1 MONTH	1 TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	AFTER 5 YEARS	TOTAL
Assets:							
Cash and balances with central banks	463,115	-	-	-	-	-	463,115
Financial assets held for trading - Debt instruments	-	255,554	76,377	164,708	239,329	136,442	872,410
Financial assets held for trading - Other equity instruments	-	-	-	-	-	51,905	51,905
Other financial assets at fair value through profit or loss - Loans and advances to credit institutions	-	1,797,736	-	-	-	-	1,797,736
Other financial assets at fair value through profit or loss - Loans and advances to customers	-	669,168	120,227	-	-	-	789,395
Available-for-sale financial assets - Debt instruments (*)	-	250,281	732,900	1,268,593	888,544	405,277	3,545,595
Available-for-sale financial assets - Other equity instruments (**)	-	-	-	-	-	83,134	83,134
Loans and receivables - Loans and advances to credit institutions	144,558	1,133,328	3,875	281	-	-	1,282,042
Loans and receivables - Loans and advances to customers	101,146	102,514	100,013	355	2,787	69,458	376,273
Loans and receivables - Debt instruments	-	-	-	166,177	54,115	172,041	392,333
Total at 31 December 2012	**708,819**	**4,208,581**	**1,033,392**	**1,600,114**	**1,184,775**	**918,257**	**9,653,938**

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(*) Including valuation adjustments relating to accrued interest and valuation gains or losses.

(**) Presented at fair value.

At 31 December 2012:

	THOUSANDS OF EUROS						
	ON DEMAND	LESS THAN 1 MONTH	1 TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	AFTER 5 YEARS	TOTAL
Liabilities:							
Financial liabilities held for trading - short positions	-	434,114	-	-	-	-	434,114
Other financial liabilities at fair value through profit or loss - Deposits from credit institutions	-	1,824,274	-	-	-	-	1,824,274
Other financial liabilities at fair value through profit or loss - Customer deposits	-	1,063,205	-	-	-	-	1,063,205
Financial liabilities at amortized cost - Deposits from central banks	-	-	-	-	1,300,000	-	1,300,000
Financial liabilities at amortized cost - Deposits from credit institutions	1,044,268	913,361	1,410	2,965	-	77,573	2,039,577
Financial liabilities at amortized cost - Customer deposits	1,338,029	88,615	100,885	140	572	1,556	1,529,797
Total at 31 December 2012	2,382,297	4,323,569	102,295	3,105	1,300,572	79,129	8,190,967
Assets minus liabilities at 31 December 2012	(1,673,478)	(114,988)	931,097	1,597,009	(115,797)	839,128	1,462,971

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With a view to the correct interpretation of the information contained in the foregoing tables, it should be stated that the assets and liabilities were classified therein in accordance with their contractual terms and conditions and, accordingly, there are liabilities, such as current accounts on the liability side of the balance sheet, which are more stable and more permanent than "on demand" (the criteria used to classify them in the foregoing tables). Also, the assets classified as financial assets held for trading will generally be realized earlier than their respective maturity dates (the criterion used to classify them in the foregoing table).

Following is a summary of the main assumptions used to construct the liquidity gap:

> For demand deposits (without contractual maturities) and non-sensitive assets, a settlement assumption is performed on the basis of a quantitative model which analyses the performance of the historical balances for the last two years.

> For transactions related to securitizations, early repayment and default assumptions based on the historical behaviour of the portfolio using information provided by the securitizations vehicle are used.

> Dividends from equity securities and investees are included in the gap on the assumption that they are paid at year-end and that their amount is at least equal to the yield on a one-year deposit.

25. Interest rate risk

25.1. On-balance-sheet interest rate risk management objectives, policies and processes

The Bank's on-balance-sheet interest rate risk management objectives are as follows:

> To establish appropriate mechanisms to avoid unexpected losses from the impact of changes in interest rates by protecting the net interest margin and the economic value of capital.

> To adopt lending and hedging strategies that offset the financial impact of changes in interest rates at short term (net interest margin) and at long term (economic value of capital).

> To execute lending and hedging strategies that boost the generation of earnings under approved risk limits.

To attain the objectives described above the Bank has created an on-balance-sheet structural risk limit structure to guarantee that risk exposure levels are within the tolerance level set by senior management.

The Board of Directors defines the general framework for the management of the balance sheet and approves the risk limits based on its risk tolerance. Structural risks are managed at short, medium and long term using limits that are approved by the Board itself and monitored on a monthly basis.

Senior management is actively involved in on-balance-sheet risk management through the Asset-Liability Committee (ALCO). This committee is responsible for taking the action required to correct any possible on-balance-sheet risk imbalances.

The Market, Balance, and Liquidity Risk Division is responsible for ensuring that the Bank's exposure to fluctuations in interest rates remains within the levels approved by the Board, and for measuring, analyzing and monitoring the on-balance-sheet structural risk management performed by the Finance Division.

On-balance-sheet structural interest rate risk can be defined as the exposure of the economic and financial position -resulting from the varying maturity and repricing dates of balance sheet items- to adverse fluctuations in interest rates. This risk is a substantial part of the banking business and can considerably affect the net interest margin and the economic value of capital. Consequently, interest rate risk management that keeps this risk at prudent levels is essential to the security and strength of the Bank. (See Notes 2.6 and 9).

25.2. On-balance-sheet interest rate risk measurement

Analysis of the repricing gap

The objective of gap analysis is to measure the excess or shortfall in the volume of sensitive assets over sensitive liabilities, which is the unmatched (and therefore unhedged) volume subject to possible changes in interest rates. Thus, risk exposure is identified by studying the concentration of aggregates with repricing risk for significant time periods.

The interest rate gap reflects the Bank 's interest rate risk exposure based on the maturity and/or repricing structure of its positions. This indicator enables the Bank to be aware of its interest rate risk exposures over the various maturities and thus attempt to ascertain where potential impacts might affect net interest margin and the market value of equity.

The interest rate gap is constructed by distributing by term the sensitive on-balance-sheet and off-balance-sheet "Banking Book" positions and balances. Items having no set maturity or repricing dates are allocated on the basis of historical-behaviour assumptions.

The interest rate risk gap at 2012 year-end, at aggregate level, is as follows:

TOTAL INTEREST	0<=1M	1<=2M	2<=3M	3<=4M	4<=5M	5<=6M	6<=12M	1<=2Y	2<=5Y	5<=10Y	10<=20Y	20<=30Y
1 ASSETS	995,477	502,774	399,940	247,348	487,966	309,085	502,221	206,107	652,326	339,300	40,900	(2,947)
1.1 CASH AND BALANCES WITH CENTRAL BANKS	502,634	-	-	-	-	-	-	-	-	-	-	-
1.2 LOANS AND ADVANCES TO CREDIT INSTITUTIONS	-	-	-	-	-	-	-	-	-	-	-	-
1.3 LOANS AND ADVANCES TO CUSTOMER	20,781	784	747	8,017	10,291	7,229	25,236	1,857	-	-	-	-
1.4 DEBT INSTRUMENTS	408,091	501,990	351,216	239,331	477,675	301,856	445,000	204,250	652,326	339,300	40,900	38,300
1.5 OTHER EQUITY INSTRUMENTS	-	-	-	-	-	-	-	-	-	-	-	132,544
1.6 NON-CURRENT ASSETS AND OTHER NON-SENSITIVE ASSETS	63,970	-	47,978	-	-	-	31,985	-	-	-	(173,791)	-
2 LIABILITIES	3,694,991	36,528	36,528	-	-	6,101	-	6,416	112,357	43,718	-	-
2.1 DEPOSITS FROM CREDIT INSTITUTIONS	1,534,861	-	-	-	-	6,101	-	6,416	21,338	43,718	-	-
2.2 REPURCHASE AGREEMENTS	-	-	-	-	-	-	-	-		-	-	-
2.3 CUSTOMER DEPOSITS	2,160,130	36,528	36,528	-	-	-	-	-	91,019	-	-	-
2.4 MARKETABLE DEBT SECURITIES	-	-	-	-	-	-	-	-	-	-	-	-
2.5 SHORT POSITIONS	-	-	-	-	-	-	-	-	-	-	-	-
3 Derivatives	1,464,918	(169,463)	(85,845)	(155,356)	(196,475)	(50,000)	(50,000)	(120,000)	(632,385)	(5,393)	-	-
Gap	(1,234,597)	296,782	277,567	91,992	291,491	252,984	452,221	79,692	(92,416)	290,189	40,900	(2,947)
Cumulative GAP	(1,234,597)	(937,814)	(660,247)	(568,256)	(276,764)	(23,780)	428,441	508,133	415,717	705,906	746,806	743,858

Simulation of the net interest margin

In order to include a dynamic analysis of the balance sheet to various interest rate scenarios, the Bank performs simulations of the performance of the net interest margin over a time horizon of one year. This enables it to analyze the effect of changes due to fluctuations in interest rates based on the repricing gaps of the various balance sheet items.

The scenarios not only are the market implied forward rates, but they include different advanced movements and the stress curves and scenarios.

Sensitivity of the economic value of capital

In order to analyze the sensitivity of the fair value the Bank analyses the impact of the use of stressed interest rate curves on the Net Present Value (NPV) calculated using data from the zero coupon curve.

To complete these sensitivity measures, a methodology which is similar to Market VaR is applied to allow the economic value of the capital at risk to be calculated for a one-month time horizon with a confidence level of 99%, taking into account all the risk factors which affect the balance sheet.

Interest rate risk limits

As part of its function of monitoring the Bank, the Board of Directors establishes interest rate risk limits in terms of the sensitivity of both the net interest income and economic value to changes in market interest rates.

26. Risk concentration

26.1 Risk concentration by activity and geographical area

Following is a detail, by geographical area of residence of the counterparty, type and category of financial instrument, of the distribution of the carrying amount of the Bank 's financial assets at 31 December 2012:

Risk Concentration by activity and geographical area. Total activity (book value):

31 December 2012	THOUSANDS OF EUROS				
	TOTAL	SPAIN	REST OF THE EUROPEAN UNION	AMERICA	REST OF THE WORLD
Credit Institutions	7,916,073	6,578,961	1,208,247	106,528	22,337
Public Administrations	3,829,296	3,829,271	25	-	-
Central Administration	3,554,117	3,554,117	-	-	-
Other	275,179	275,154	25	-	-
Other Credit Institutions	2,441,043	2,272,170	168,869	-	4
Non- financial societies and individual entrepreneurs	79,733	61,489	18,244	-	-
Construction and property development	-	-	-	-	-
Construction of Civil Works	-	-	-	-	-
Other purposes	79,733	61,489	18,244	-	-
Large companies	4,313	4,313	-	-	-
SMEs and Individual entrepreneurs	75,420	57,176	18,244	-	-
Rest of households and NPISHs	56,390	56,390	-	-	-
Houses	51,258	51,258	-	-	-
Consumption	4,924	4,924	-	-	-
Other purposes	208	208	-	-	-
Subtotal	14,322,535	12,798,281	1,395,385	106,528	22,341
Minus: Value adjustments for impairment of assets not attributable to specific operations	(6,993)	-	-	-	-
Total	14,315,542	-	-	-	-

Risk Concentration by activity and geographical area. Activity in Spain (book value):

31 December 2012

	THOUSANDS OF EUROS									
		AUTONOMOUS COMMUNITIES								
	TOTAL	ANDALUCÍA	ARAGÓN	ASTURIAS	BALEARES	CANARIAS	CANTABRIA	CASTILLA - LA MANCHA	CASTILLA LEÓN	CATALUÑA
Credit Institutions	6,578,961	146,745	30,004	-	20,480	-	210,031	15,169	-	584,125
Public Administrations	3.829,271	6,568	4,922	-	-	-	8,288	-	29,602	-
Central Administration	3,554,117	-	-	-	-	-	-	-	-	-
Other	275,154	6,568	4,922	-	-	-	8,288	-	29,602	-
Other Credit Institutions	2,272,170	-	148,194	-	-	-	-	-	102,425	730,344
Non- financial societies and individual entrepreneurs	61,489	-	-	-	29	-	-	-	-	2,305
Construction and property development	-	-	-	-	-	-	-	-	-	-
Construction of Civil Works	-	-	-	-	-	-	-	-	-	-
Other purposes	61,489	-	-	-	29	-	-	-	-	2,305
Large companies	4,313	-	-	-	-	-	-	-	-	-
SMEs and Individual entrepreneurs	57,176	-	-	-	29	-	-	-	-	2,305

	THOUSANDS OF EUROS									
		AUTONOMOUS COMMUNITIES								
	TOTAL	ANDALUCÍA	ARAGÓN	ASTURIAS	BALEARES	CANARIAS	CANTABRIA	CASTILLA - LA MANCHA	CASTILLA LEÓN	CATALUÑA
Rest of households and NPISHs	56,390	-	-	-	-	-	-	-	-	-
Houses	51,258	-	-	-	-	-	-	-	-	-
Consumption	4,924	-	-	-	-	-	-	-	-	-
Other purposes	208	-	-	-	-	-	-	-	-	-
Subtotal	12,798,281	153,313	183,120	-	20,509	-	218,319	15,169	132,027	1,316,774
Minus: Value adjustments for impairment of assets not attributable to specific operations	(6,777)	-	-	-	-	-	-	-	-	-
Total	12,791,504	-	-	-	-	-	-	-	-	-

	THOUSANDS OF EUROS								
	AUTONOMOUS COMMUNITIES								
	EXTREMADURA	GALICIA	MADRID	MURCIA	NAVARRA	COM. VALENCIANA	PAÍS VASCO	LA RIOJA	CEUTA Y MELILLA
Credit Institutions	-	380,405	1,739,280	-	-	3,399,867	52,855	-	-
Public Administrations	-	44,518	175,300	5,956	-	-	-	-	-
Central Administration	-	-	-	-	-	-	-	-	-
Other	-	44,518	175,300	5,956	-	-	-	-	-
Other Credit Institutions	-	29,644	1,181,595	-	-	28,050	51,918	-	-
Non- financial societies and individual entrepreneurs	-	4,503	51,201	-	230	218	2,949	54	-
Construction and property development	-	-	-	-	-	-	-	-	-
Construction of Civil Works	-	-	-	-	-	-	-	-	-
Other purposes	-	4,503	51,201	-	230	218	2,949	54	-
Large companies	-	-	4,192	-	-	121	-	-	-
SMEs and Individual entrepreneurs	-	4,503	47,009	-	230	97	2,949	54	-

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	THOUSANDS OF EUROS								
	AUTONOMOUS COMMUNITIES								
	EXTREMADURA	GALICIA	MADRID	MURCIA	NAVARRA	COM. VALENCIANA	PAÍS VASCO	LA RIOJA	CEUTA Y MELILLA
Rest of households and NPISHs	-	-	56,390	-	-	-	-	-	-
Houses	-	-	51,258	-	-	-	-	-	-
Consumption	-	-	4,924	-	-	-	-	-	-
Other purposes	-	-	208	-	-	-	-	-	-
Subtotal	-	459,070	3,203,766	5,956	230	3,428,135	107,722	54	-
Minus: Value adjustments for impairment of assets not attributable to specific operations	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-

26.2. Concentration of equity instruments

Following is a detail, by type of market listing, if any, and issuer, of the equity instruments held by the Bank at 31 December 2012:

31 December 2012:

	THOUSANDS OF EUROS		
	FINANCIAL ASSETS HELD FOR TRADING (NOTE 6.1)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 7)	TOTAL
By market listing-			
Shares listed in the Spanish secondary market	51,440	14,783	66,223
Shares listed in secondary markets in the rest of the world	465	25,043	25,508
Unlisted shares	-	43,308	43,308
	51,905	83,134	135,039
By issuer type-			
Spanish financial institutions	27,615	11,548	39,163
Other Spanish companies	23,825	45,300	69,125
Other foreign companies	465	26,286	26,751
	51,905	83,134	135,039

27. Other significant disclosures

27.1 Contingent liabilities

The breakdown of the balance of "Memorandum Items – Contingent Liabilities" in the balance sheet at 31 December 2012 is as follows:

	THOUSANDS OF EUROS
	2012
Financial guarantees provided-	
Financial bank guarantees	15,094
Documentary credits	1,477
	16,571
Other bank guarantees and indemnities	48,282
	64,853

"Financial Guarantees Provided" are defined as the amounts that would be payable by the Bank on behalf of third parties as a result of the commitments assumed by the Bank in the course of its ordinary business, if the parties who are originally liable to pay fail to do so. Note 22 includes information on the credit risk assumed by the Bank in relation to financial guarantees provided.

A significant portion of these guarantees will expire without any payment obligation materializing for the Bank 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 Bank to third parties.

The fee and commission income from these financial guarantees is recognized under "Fee and Commission Income" in the income statement (see Note 31).

The provisions made to cater for the financial guarantees provided, which were calculated using criteria similar to those applied in the calculation of the impairment of financial assets measured at amortized cost, were recognized under "Provisions - Provisions for Contingent Liabilities and Commitments" in the balance sheet (see Note 16).

27.2. Assets delivered as security

At 31 December 2012, assets owned by the Bank had been provided as security for transactions performed by it or by third parties, as well as for various liabilities and contingent liabilities assumed by the Bank. The nominal amount, of the financial assets delivered as security for these liabilities, contingent liabilities and similar items at 31 December 2012 was as follows:

	THOUSANDS OF EUROS 2012
Spanish government debt securities classified as available-for-sale financial assets	1,071,772
Other securities classified as available-for-sale financial assets	747,200
	1,818,972

At 31 December 2012, the Bank had securities with a face value of EUR 1,818,972 thousand as security for the performance of the Bank's obligations relating to transactions with the clearing and settlement services.

In addition, at 31 December 2012, the Bank had entered into repurchase agreements for securities in its portfolio and reverse repurchase agreements for a total amount of EUR 2,895,290 thousand.

"Memorandum Item: Loaned or Advanced as Collateral", which is shown in each of the Bank's financial asset categories in the balance sheets at 31 December 2012, includes the amount of financial assets transferred, lent out or delivered as security in which the assignee is entitled, contractually or by custom, to retransfer them or pledge them as security, such as securities lending transactions or sales of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest.

27.3. Contingent commitments

The breakdown of the balance of "Contingent Commitments" at 31 December 2012 is as follows:

	THOUSANDS OF EUROS 2012
Drawable by third parties (Note 22):	
Public sector - Spain	383,572
Credit institutions	7,246
Other resident sectors	226,592
Non-resident sectors	300
	617,710
Financial asset forward purchase commitments	3,966
Regular way financial asset purchase contracts	52,618
Other contingent commitments	212,262
From which:	
Doubtful	54,743
	886.556

27.4. Transactions for the account of third parties

The breakdown of the most significant transactions for the account of third parties at 31 December 2012 is as follows:

	THOUSANDS OF EUROS 2012
Financial instruments entrusted by third parties	112,612,221
Conditional bills and other securities received for collection	92,298
Borrowed securities (Note 27.5)	12,296
	112,716,815

27.5 Financial assets lent and borrowed

Pursuant to current legislation, the securities received by the Bank in securities lending transactions are not recognized in the balance sheet unless the Bank sells these securities in short sales transactions, in which case they are recognized as financial liabilities under “Financial Liabilities Held For Trading - Short Positions” on the liability side of the balance sheet (see Note 6).

Similarly, securities lending transactions in which the Bank lends securities to third parties are not recognized in the balance sheet. The securities lent can be securities previously lent to the Bank or securities owned by it, and in the latter case these are not derecognized.

Deposits provided or received as security or guarantee for the securities received or lent by the Bank, respectively, are accounted for as a financial asset or a financial liability, respectively, and the interest associated therewith is recognized as interest and similar income or as interest expense and similar charges, respectively, in the income statement, by applying the corresponding effective interest rate.

Following is a detail of the fair value of the financial assets borrowed and lent by Bank in securities lending transactions at 31 December 2012:

	THOUSANDS OF EUROS 2012
Securities lent by the Bank-	
Equity instruments-	
Issued by credit institutions	2,037
Issued by other resident sectors	3,175
Issued by other non-resident sectors	1,618
	6,830
Securities borrowed by the Bank- (Note 27.4)	
Equity instruments-	
Issued by credit institutions	4,926
Issued by other resident sectors	-
Issued by other non-resident sectors	1,300
Debt instruments	
Issued by Public sector - Spain	6,070
	12,296

Finance income recognized by the Bank in 2012 in relation to securities lent totaled EUR 3,231 thousand and is recognized under “Interest and Similar Income” in the income statement for 2012 (see Note 28).

In 2012, finance costs relating to securities borrowed amounted to EUR 4,121 thousand and were recognized under “Interest Expense and Similar Charges” in the income statement for 2012 (see Note 29).

27.6 The Bank’s Customer Care Service

Following is a summary of the complaints and claims received by the Bank’s Customer Care Service in 2012. Claims made to the service, which were not admitted for consideration in 2012 relate to claims affecting entities other than the Cecabank.

	2012
Number of complaints and claims received	54
Number of complaints and claims admitted for consideration	-
Number of complaints and claims resolved	-
Number of complaints and claims resolved in favour of the complainant	-
Number of complaints and claims resolved against the claimant	-
Compensation paid to claimants	-
Number of complaints and claims outstanding	-

28. Interest and similar income

The breakdown of the most important interest and similar income earned by the Bank in 2012, by type of instrument giving rise to it, is as follows:

	THOUSANDS OF EUROS 2012
Balances with central banks	944
Loans and advances to credit institutions	11,337
Loans and advances to customers	
Money market operations through counterparties	1,621
Other resident sectors	4,597
Other non-resident sectors	182
Debt instruments	182,745
Finance income from securities lending transactions (Note 27.5)	3,231
Other interest	829
Rectification of income as result of hedging transactions	(19,171)
	186,315

Additionally, the breakdown of the amounts recognized under "Interest and Similar Income" in the income statement for 2012, by type of financial instrument category giving rise to them, is as follows:

	THOUSANDS OF EUROS 2012
Balances with central banks	944
Financial assets held for trading	24,394
Available-for-sale financial assets	134,953
Other financial assets at fair value through profit or loss	7,863
Loans and receivables	34,101
Securities lending transactions (Note 27.5)	3,231
Rectification of income as result of hedging transactions	(19,171)
	186,315

29. Interest expense and similar charges

The detail of the balance of "Interest Expense and Similar Charges" in the income statement for 2012, by type of instrument giving rise to them, is as follows:

	THOUSANDS OF EUROS
	2012
Bank of Spain	11,778
Other central banks	338
Deposits from credit institutions	23,280
Customer deposits	5,019
Money market operations through counterparties	11,188
Cost attributable to pension funds (Note 16.2)	1,498
Finance costs attributable to securities lending transactions (Note 27.5)	4,121
Other interest	3,269
Rectification of income as result of hedging transactions	658
	61,149

The breakdown of the amounts recognized under "Interest Expense and Similar Charges" in the income statement for 2012, by type of financial instrument category giving rise to them, is as follows:

	THOUSANDS OF EUROS
	2012
Financial liabilities held for trading - Short positions	5,866
Financial liabilities at amortized cost	32,277
Securities lending (Note 27.5)	4,121
Other financial liabilities at fair value through profit or loss	13,460
Other liabilities	4,767
Rectification of income as result of hedging transactions	658
	61.149

30. Income from equity instruments

Below is a breakdown of this caption in the income statement for 2012:

	THOUSANDS OF EUROS 2012
Dividends from jointly controlled entities	450
Other dividends	18,551
	19,001

The heading "Other dividends" at 31 December 2012 is made up of, among others, dividends from the financial assets held for trading and dividends received from borrowed securities.

31. Fee and commission income

Following is a detail of the fee and commission income earned in 2012, classified on the basis of the main items giving rise thereto:

	THOUSANDS OF EUROS 2012
Fee and commission income -	
Fees and commissions arising from contingent liabilities (Note 27.1)	15,674
Fees and commissions arising from contingent commitments	1,504
Fees and commissions arising from collection and payment services	51,757
Fees and commissions arising from securities services (*)	36,734
Fees and commissions arising from foreign currency and foreign banknote exchange	519
Other fees and commissions	5,190
	111,378

(*) In 2012, this item included, EUR 30,593 thousand relating to custody services in connection with securities of third parties deposited at the Bank .

32. Fee and commission expense

Following is a detail of the fee and commission expense incurred in 2012, classified on the basis of the main items giving rise thereto:

	THOUSANDS OF EUROS
	2012
Fee and commission expense -	
Fees and commissions assigned to other entities and correspondents	25,266
Fee and commission expenses on securities transactions	7,923
	33,189

33. Net gains/losses on financial assets and liabilities

The breakdown of the balance of "Gains/Losses on Financial Assets and Liabilities" in the income statement for 2012, by type of financial instrument giving rise to them, is as follows:

	THOUSANDS OF EUROS
	Income/(Expenses)
	2012
Financial assets and liabilities held for trading	(7,683)
Trading derivatives	(4,302)
Debt instruments	9,337
Equity instruments	(12,195)
Short positions	(523)
Other financial instruments at fair value through profit or loss	2,991
Reverse repurchase agreements	518
Deposits of the Bank of Spain	-
Repurchase agreements	2,473
Available-for-sale financial assets	1,850
Loans and receivables	3,400
Results of hedging instruments	8,036
Results of hedged items	(1,666)
	6,928

34. Other operating income

The breakdown of the balance of “Other Operating Income” in the income statement for 2012 is as follows:

THOUSANDS OF EUROS	2012
Rental income (Note 12)	867
Costs recovered through their inclusion in the cost of intangible assets	249
Costs passed on to savings banks	18,712
Other income	41,840
	61,668

The balance of “Other income” in the foregoing table includes the dues collected from the services given to the Confederación Española de Cajas de Ahorros, which amounts EUR 8,819 thousand (see Note 40).

35. Administrative expenses - Staff costs

The detail of “Administrative Expenses - Staff Costs” in the income statement for 2012 is as follows:

THOUSANDS OF EUROS	2012
Wages and salaries	50,073
Social security costs	7,911
Insurance premiums (Note 2.11.1)	740
Termination Benefits (Note 2.11.3)	(3,114)
Contributions to defined contribution plans (Note 2.11.1)	348
Normal cost for the year of defined benefit obligations (Note 16.2)	53
Income from insurance policies	(30)
Training expenses	112
Other staff costs	637
	56,730

The amount included in "Termination Benefits" in the previous table is the amount the Bank had provisioned and that according to its Managers, will not be used.

In 2012, the average number of employees at the Bank, by level, was as follows:

LEVELS	2012
1 - LEVEL I	6
1 - LEVEL II	22
1 - LEVEL III	31
1 - LEVEL IV	53
1 - LEVEL V	60
1 - LEVEL VI	140
1 - LEVEL VII	63
1 - LEVEL VIII	114
1 - LEVEL IX	32
1 - LEVEL X	27
1 - LEVEL XI	47
1 - LEVEL XII	11
1 - LEVEL XIII	-

LEVELS	2012
2 - LEVEL I	-
2 - LEVEL II	6
2 - LEVEL III	-
2 - LEVEL IV	2
2 – LEVEL V	-
OTHER	24
TOTAL	638

At 31 December 2012 the total number of employees was 607, of which 294 were men and 313 women, representing 48% and 52%, respectively.

36. Administrative expenses - Other general administrative expenses

The detail of the balance of "Administrative Expenses - Other General Administrative Expenses" in the income statement for 2012 is as follows:

	THOUSANDS OF EUROS 2012
Property, fixtures and supplies	4,634
IT equipment	37,182
Communications	3,273
Advertising and publicity	334
Technical reports	1,632
Surveillance and cash courier services	5,588
Insurance and self-insurance premiums	220
Outsourced administrative services	9,016
Levies and taxes	1,050
Entertainment and travel expenses	771
Association membership fees	919
External personnel	1,163
Subscriptions and publications	3,993
Other administrative expenses	1,546
	71,321

The balance of "Technical Reports" in 2012 includes the fees paid for the audit of the financial statements of the Bank and other non-attest services, the detail being as follows:

	THOUSANDS OF EUROS 2012
Audits of the companies audited by firms belonging to the Deloitte worldwide organization and other reports related with the audit	177
Other reports reviewed by firms belonging to the Deloitte worldwide organization	-
	177
Other services (other than audits) conducted by firms belonging to the Deloitte worldwide organization	138
Total Services	315

Information on deferred payments to suppliers. Additional Provision Three. "Disclosure obligation" provided for in Law 15/2010, of 5 July

Pursuant to Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, on combating late payment in commercial transactions, which was implemented by the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 December 2010, on disclosures to be included in the notes to financial statements with regard to the payment periods to suppliers in commercial transactions, it is hereby stated that:

> Given the activity carried on by the Bank (financial business), the information presented in this Note on payment periods relates exclusively to payments to suppliers for the provision of sundry services and supplies to the Bank, other than payments to depositors, which were made in all cases in strict compliance with the contractual and legal terms established for each of them, whether they were liabilities payable on demand or with deferred payment. Neither does this Note include information on payments to suppliers excluded from the scope of this disclosure obligation pursuant to the aforementioned ICAC Resolution, such as payments to non-current asset suppliers that are not considered to be trade creditors.

> With regard to the disclosures required by Law 15/2010, of 5 July, relating to trade suppliers and the suppliers of services to the Bank, and considering the stipulations of Transitional Provision Two of the ICAC Resolution of 29 December 2010, set forth below is the information required by the aforementioned law, with the scope defined in the preceding paragraph

	THOUSANDS OF EUROS	
	PAYMENTS DURING 2012 AND PAYABLE PAYMENTS AT YEAR ENDED 2012	
	AMOUNT	% (1)
Within maximum legal period (2)	98,695	100%
Other	-	-
Total 2012	98,695	100%
Exceeded weighted average terms of payments (as days)	-	-
Deferrals that exceed maximum legal period at year ended 2012	-	-

(1) Percentage of the total.

(2) The maximum payment period is, in each case, that corresponding to the nature of the goods or services received by the Bank in accordance with Law 3/2004, of 29 December, on combating late payment in commercial transactions.

37. Other operating expenses

The breakdown of the balance of "Other Operating Expenses" in the income statement for 2012 is as follows:

	THOUSANDS OF EUROS 2012
Contribution to the Deposit Guarantee Fund (Note 1.10)	241
Other	833
	1,074

38. Impairment losses on financial assets (net)

The breakdown of the balance of "Impairment Losses on Financial Assets (net)" in the income statement for 2012 is as follows:

	THOUSANDS OF EUROS NET (ADDITIONS)/ REVERSALS (CHARGED)/ CREDITED TO INCOME 2012
Debt instruments (Note 22.8)-	
Available-for-sale financial assets	(31,081)
Loans and receivables	(11,638)
	(42,719)
Equity instruments-	(9,981)
Available-for-sale equity instruments	(9,981)
	(52,700)

39. Depreciation and amortization

The detail of “Depreciation and Amortization” in the income statement for 2012 is as follows:

	THOUSANDS OF EUROS
	2012
Depreciation of tangible assets (Note 12)	5,603
Amortization of intangible assets (Note 13)	8,756
	14,359

40. Related party transactions

Internal relationship memorandum of understanding between the Confederación Española de Cajas de Ahorros and Cecabank, S.A.

As part of the process to incorporate Cecabank, S.A. and the spin-off carried out by the Confederación to this entity in 2012 (see Note 1.1), an “Internal relationship memorandum of understanding between the Confederación Española de Cajas de Ahorros and Cecabank, S.A.” was established. This memorandum of understanding identifies the services that Cecabank provides to the Confederación and sets the general criteria for intra-group transactions and for the rendering of intra-group services on an arm's-length basis, which are summarized below:

- Associative Services
- Compliance Services
- Communication, Institutional Relations, Protocol, Corporate Image Management, Publishing and Contract Depository
- Reporting and regulatory Services
- Technical Area Services
- General Secretary and Legal and Tax Advisory Services
- Monitoring of risk profile
- Planning and Control
- Human and estate Resources and
- Internal Audit Services

Income received by the Bank for these services, which amounted to EUR 8,819 thousand in 2012, are recognized under “Other operating income” in the income statement for the year 2012 (see Note 34).

Similarly, interest on the account to view the Confederación Española de Cajas de Ahorro are included under Interest expense totaling EUR 3,008 thousand at 31 December 2012.

At 31 December 2012, the demand deposits held by the Bank's senior executives, the members of its Board of Directors and related entities and individuals totaled EUR 523 thousand, and the loans granted to them amounted to EUR 673 thousand. These amounts bore interest of EUR 16 thousand and EUR 1 thousand, which were recognized under "Interest and Similar Income" and "Interest Expense and Similar Charges", respectively, in the income statement for 2012. At 31 December 2012 the Bank had not provided any guarantees for related parties, as defined in Bank of Spain Circular 4/2004, of 22 December.

The breakdown of the balances arising from transactions with jointly controlled entities recognized in the balance sheets at 31 December 2012 and 2011 and in the income statements for 2012 and 2011 is as follows (Note 2.1):

	THOUSANDS OF EUROS	
	2012	
	SUBSIDIARIES	JOINTLY CONTROLLED ENTITIES
Assets:		
Loans and receivables	-	70
Other assets	89	-
Liabilities:		
Financial liabilities at amortized cost	171	3,210
Income statement:		
Performance of equity instruments	-	450
Other operating expenses	48	62
Other general administrative expenses	258	492

41. Events after the balance sheet date

From the balance sheet date to the date on which these financial statements were authorized for issue there were no events significantly affecting them.

42. Explanation added for translation to English

These financial statements are presented on the basis of the Bank of Spain Circular 4/2004. Certain accounting practices applied by the Bank that conform with the Circular may not conform with other generally accepted accounting principles.

Appendix I

Subsidiaries included in the Group at 31 December 2012

						THOUSANDS OF EUROS			
			PROPORTION OF OWNERSHIP INTEREST (%)			ENTITY DATA AT 31 DECEMBER 2012 (*)			
ENTITY	LOCATION	LINE OF BUSINESS	DIRECT	INDIRECT	TOTAL	ASSETS	LIABILITIES	EQUITY	PROFIT FOR THE YEAR
Caja Activa, S.A.	Madrid	IT	99.99	-	99.99	249	11	238	2
CEA Trade Services Limited	Hong Kong	Foreing Trade	100	-	100	94	90	4	-

(*) These companies' financial statements at 31 December 2012 have not yet been approved by their shareholders at the respective Annual General Meetings.

Appendix II

Jointly controlled entities at 31 December 2012

						THOUSANDS OF EUROS			
			PROPORTION OF OWNERSHIP INTEREST (%)			ENTITY DATA AT 31 DECEMBER 2012 (*)			
ENTITY	LOCATION	LINE OF BUSINESS	DIRECT	INDIRECT	TOTAL	ASSETS	LIABILITIES	EQUITY	PROFIT FOR THE YEAR
Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A.	Madrid	Securitization SPV management	50	-	50	14,244	7,747	6,497	2,804

(*) The company's financial statements at 31 December 2012 have not yet been approved by its shareholders at the Annual General Meeting.

External Audit Report

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. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Shareholders of Cecabank, S.A.:

1. We have audited the financial statements of Cecabank, S.A. ("Cecabank" or "the Bank"), which comprise the balance sheet at 31 December 2012 and the related income statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended. The directors are responsible for the preparation of Cecabank's financial statements in accordance with the regulatory financial reporting framework applicable to Cecabank (identified in Note 1.2 to the accompanying financial statements) and, in particular, with the accounting principles and rules contained therein. Our responsibility is to express an opinion on the 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 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.

2. In our opinion, the accompanying financial statements for 2012 present fairly, in all material respects, the equity and financial position of Cecabank at 31 December 2012, and the results of its operations and its cash flows for the year then ended, in conformity with the regulatory financial reporting framework applicable to the Bank and, in particular, with the accounting principles and rules contained therein.

3. Without qualifying our audit opinion, we draw attention to the disclosures made by the directors in Note 1.1 to the accompanying financial statements, in which they indicate that on 25 July 2012, the Extraordinary General Assembly of the Confederación Española de Cajas de Ahorros approved the Spin-Off Plan whereby the Confederación contributed all of its financial business to Cecabank, S.A. in the terms provided for in Article 5 of Royal Decree-Law 11/2010, of 9 July, on governing bodies and other aspects of the legal regime of savings banks. Accordingly, as stated in Note 1.1 to the financial statements, the accompanying financial statements constitute the Bank's first public financial information.

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

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

Francisco Celma
24 January 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.

[Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.]

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS AND SUBSIDIARIES COMPOSING THE CECA GROUP

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

Page 1 of 3

ASSETS	2012	2011 (*)
1. Cash and balances with central banks (Note 7)	463,115	492,394
2. Financial assets held for trading (Note 8.1)	6,128,285	5,781,782
2.1 Loans and advances to credit institutions	-	-
2.2 Loans and advances to customers	-	-
2.3 Debt instruments	872,410	664,492
2.4 Equity instruments	51,905	39,284
2.5 Trading derivatives	5,203,970	5,078,006
Memorandum item: Loaned or advanced as collateral	539,993	328,709
3. Other financial assets at fair value through profit or loss (Note 8.2)	2,588,042	999,877
3.1 Loans and advances to credit institutions	1,798,113	493,590
3.2 Loans and advances to customers	789,929	506,287
3.3 Debt instruments	-	-
3.4 Equity instruments	-	-
Memorandum item: Loaned or advanced as collateral	1,170,479	169,324
4. Available-for-sale financial assets (Note 9)	3,623,218	3,608,306
4.1 Debt instruments	3,540,084	3,488,733
4.2 Equity instruments	83,134	119,573
Memorandum item: Loaned or advanced as collateral	1,181,784	1,928,145

(*) Presented for comparison purposes only. The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated balance sheet at 31 December 2012.

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

ASSETS	2012	2011 (*)
5. Loans and receivables (Note 10)	1,915,993	5,310,632
5.1 Loans and advances to credit institutions	1,287,234	2,403,461
5.2 Loans and advances to customers	371,107	464,531
5.3 Debt instruments	257,652	2,442,640
Memorandum item: Loaned or advanced as collateral	3,034	611,190
6. Held-to-maturity investments	-	-
Memorandum item: Loaned or advanced as collateral	-	-
7. Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
8. Hedging derivatives (Note 11)	-	10
9. Non-current assets held for sale (Note 12)	84	84
10. Investments (Note 13)	-	-
10.1 Associates	-	-
10.2 Jointly controlled entities	-	-
11. Insurance contracts linked to pensions	-	-
12. Reinsurance assets	-	-

(*) Presented for comparison purposes only. The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated balance sheet at 31 December 2012.

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

ASSETS	2012	2011 (*)
13. Tangible assets (Note 14)	94,137	98,529
13.1. Property, plant and equipment	93,041	97,397
13.1.1 For own use	93,041	97,397
13.1.2 Leased out under an operating lease	-	-
13.1.3 Assigned to welfare projects	-	-
13.2 Investment property	1,096	1,132
Memorandum item: Acquired under a finance lease	-	-
14. Intangible assets (Note 15)	50,863	2,518
14.1 Goodwill	-	-
14.2 Other intangible assets	50,863	2,518
15. Tax assets	125,625	128,998
15.1 Current	10,246	656
15.2 Deferred (Note 22)	115,379	128,342
16. Other assets (Note 16)	32,164	42,080
16.1 Inventories	-	-
16.2 Other	32,164	42,080
TOTAL ASSETS	15,021,526	16,465,210
MEMORANDUM ITEMS		
1. Contingent liabilities (Note 30.1)	83,279	177,594
2. Contingent commitments (Note 30.3)	886,556	2,297,670

(*) Presented for comparison purposes only. The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated balance sheet at 31 December 2012.

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

LIABILITIES AND EQUITY	2012	2011 (*)
LIABILITIES		
1. Financial liabilities held for trading (Note 8.1)	5,592,180	5,360,647
1.1 Deposits from central banks	-	-
1.2 Deposits from credit institutions	-	-
1.3 Customer deposits	-	-
1.4 Marketable debt securities	-	-
1.5 Trading derivatives	5,158,066	5,017,293
1.6 Short positions	434,114	343,354
1.7 Other financial liabilities	-	-
2. Other financial liabilities at fair value through profit or loss (Note 8.2)	2,887,600	2.324,724
2.1 Deposits from central banks	-	930,840
2.2 Deposits from credit institutions	1,824,376	352,750
2.3 Customer deposits	1,063,224	1,041,134
2.4 Marketable debt securities	-	-
2.5 Subordinated liabilities	-	-
2.6 Other financial liabilities	-	-

(*) Presented for comparison purposes only. The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated balance sheet at 31 December 2012.

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

LIABILITIES AND EQUITY	2012	2011 (*)
LIABILITIES		
3. Financial liabilities at amortised cost (Note 17)	5,053,882	7,001,837
3.1 Deposits from central banks	1,309,497	344,845
3.2 Deposits from credit institutions	2,025,997	2.917,015
3.3 Customer deposits	1,530,579	3,446,337
3.4 Marketable debt securities	-	-
3.5 Subordinated liabilities	-	-
3.6 Other financial liabilities	187,809	293,640
4. Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
5. Hedging derivatives (Note 11)	16,845	25,759
6. Liabilities associated with non-current assets held for sale	-	-
7. Liabilities under insurance contracts	-	-
8. Provisions (Note 18)	238,336	206,302
8.1 Provisions for pensions and similar obligations	93,569	65,467
8.2 Provisions for taxes and other legal contingencies	-	-
8.3 Provisions for contingent liabilities and commitments	54,758	17
8.4 Other provisions	90,009	140,818
9. Tax liabilities (Note 22)	25,442	45,128
9.1 Current	2,034	8,645
9.2 Deferred	23,408	36,483

(*) Presented for comparison purposes only. The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated balance sheet at 31 December 2012.

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

LIABILITIES AND EQUITY	2012	2011 (*)
LIABILITIES		
10. Welfare fund (Note 29)	215	215
11. Other liabilities (Note 16)	435,169	765,123
TOTAL LIABILITIES	14,249,669	15,729,735
EQUITY		
1. Own funds	693,048	740,298
1.1 Endowment fund	-	-
1.1.1 Registered capital	-	-
1.1.2 Less: Uncalled capital	-	-
1.2 Share premium	-	-
1.3 Reserves	655,185	672,194
1.3.1 Accumulated reserves (losses) (Note 21)	655,185	672,194
1.3.2 Reserves (losses) of entities accounted for using the equity method	-	-
1.4 Other equity instruments	799	30,051
1.4.1 Equity component of compound financial instruments	-	-
1.4.2 Non-voting equity units and associated funds (Note 20)	799	30,051
1.4.3 Other equity instruments	-	-
1.5 Less: Treasury shares	-	-

(*) Presented for comparison purposes only. The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated balance sheet at 31 December 2012.

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

LIABILITIES AND EQUITY	2012	2011 (*)
EQUITY		
1.6 Profit for the year	37,064	38,053
1.7 Less: Dividends and remuneration	-	-
2. Valuation adjustments	(3,522)	(4,823)
2.1 Available-for-sale financial assets (Note 19)	(1,325)	(4,823)
2.2 Cash flow hedges	(2,197)	-
2.3 Hedges of net investments in foreign operations	-	-
2.4 Exchange differences	-	-
2.5 Non-current assets held for sale	-	-
2.6 Entities accounted for using the equity method	-	-
2.7 Other valuation adjustments	-	-
3. Minority interests	82,331	-
3.1 Valuation adjustments	-	-
3.2 Other	82,331	-
TOTAL EQUITY	771,857	735,475
TOTAL LIABILITIES AND EQUITY	15,021,526	16,465,210

(*) Presented for comparison purposes only. The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated balance sheet at 31 December 2012.

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

Page 1 of 3

	INCOME / (EXPENSE)	
	2012	2011 (*)
1. Interest and similar income (Note 31)	186,391	323,130
2. Interest expense and similar charges (Note 32)	(58,141)	(208,463)
3. Remuneration of capital having the nature of a financial liability		
A. NET INTEREST INCOME	128,250	114,667
4. Income from equity instruments (Note 33)	18,551	112,755
5. Share of results of entities accounted for using the equity method	-	-
6. Fee and commission income (Note 34)	111,800	104,509
7. Fee and commission expense (Note 35)	(33,421)	(33,306)
8. Gains/losses on financial assets and liabilities (net) (Note 36)	6,928	(50,724)
8.1 Held for trading	(7,683)	(35,004)
8.2 Other financial instruments at fair value through profit or loss	2,991	(10,577)
8.3 Financial instruments not measured at fair value through profit or loss	5,250	(924)
8.4 Other	6,370	(4,219)
9. Exchange differences (net)	37,845	27,021
10. Other operating income (Note 37)	71,872	82,618
10.1 Income from insurance and reinsurance contracts issued	-	-
10.2 Sales and income from the provision of non-financial services	1,185	860
10.3 Other operating income	70,687	81,758

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated income statement for 2012.

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

	INCOME / (EXPENSE)	
	2012	2011 (*)
11. Other operating expenses (Note 40)	(1,074)	(3,142)
11.1 Insurance and reinsurance contract expenses	-	-
11.2 Changes in inventories	(811)	(401)
11.3 Other operating expenses	(263)	(2,741)
B. GROSS INCOME	340,751	354,398
12. Administrative expenses	(134,972)	(170,804)
12.1 Staff costs (Note 38)	(58,576)	(82,981)
12.2 Other general administrative expenses (Note 39)	(76,396)	(87,823)
13. Depreciation and amortisation (Note 42)	(14,430)	(7,636)
14. Provisions (net) (Note 18)	(41,340)	(132,775)
15. Impairment losses on financial assets (net) (Notes 24 and 41)	(52,694)	4,806
15.1 Loans and receivables	(11,632)	9,743
15.2 Other financial instruments not measured at fair value through profit or loss	(41,062)	(4,937)
C. PROFIT FROM OPERATIONS	97,315	47,989
16. Impairment losses on other assets (net)	(44,810)	-
16.1 Goodwill and other intangible assets	(44,810)	-
16.2 Other assets	-	-

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated income statement for 2012.

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

	INCOME / (EXPENSE)	
	2012	2011 (*)
17. Gains (losses) on disposal of assets not classified as non-current assets held for sale	(9)	(7)
18. Negative goodwill on business combinations	-	-
19. Gains (losses) on non-current assets held for sale not classified as discontinued operations (Note 12)	-	945
D. PROFIT BEFORE TAX	52,496	48,927
20. Income tax (Note 22)	(11,543)	(10,874)
21. Mandatory transfer to welfare projects and funds	-	-
E. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	40,953	38,053
22. Profit/Loss from discontinued operations (net)	-	-
F. CONSOLIDATED PROFIT FOR THE YEAR	40,953	38,053
F.1 Profit attributable to the Parent	37,064	38,053
F.2 Profit attributable to minority interests	3,889	-

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated income statement for 2012.

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

	INCOME / (EXPENSE)	
	2012	2011 (*)
A. CONSOLIDATED PROFIT FOR THE YEAR	40,953	38,053
B. OTHER RECOGNISED INCOME AND EXPENSE	1,301	349
1. Available-for-sale financial assets	4,997	499
1.1 Revaluation gains (losses)	(30,834)	(1,389)
1.2 Amounts transferred to income statement (Note 36)	35,831	1,888
1.3 Other reclassifications	-	-
2. Cash flow hedges	(3,139)	-
2.1 Revaluation gains (losses)	(3,797)	-
2.2 Amounts transferred to income statement	658	-
2.3 Amounts transferred to the initial carrying amount of hedged items	-	-
2.4 Other reclassifications	-	-
3. Hedges of net investments in foreign operations	-	-
3.1 Revaluation gains (losses)	-	-
3.2 Amounts transferred to income statement	-	-
3.3 Other reclassifications	-	-

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated statement of recognised income and expense for 2012.

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

Page 2 of 2

	INCOME / (EXPENSE)	
	2012	**2011 (*)**
4. Exchange differences	-	-
4.1 Revaluation gains (losses)	-	-
4.2 Amounts transferred to income statement	-	-
4.3 Other reclassifications	-	-
5. Non-current assets held for sale	-	-
5.1 Revaluation gains (losses)	-	-
5.2 Amounts transferred to income statement	-	-
5.3 Other reclassifications	-	-
6. Actuarial gains (losses) on pension plans	-	-
7. Entities accounted for using the equity method	-	-
7.1 Revaluation gains (losses)	-	-
7.2 Amounts transferred to income statement	-	-
7.3 Other reclassifications	-	
8. Other recognised income and expense	-	-
9. Income tax	(557)	(150)
C. TOTAL RECOGNISED INCOME AND EXPENSE (A+B)	42,254	38,402
C 1. Attributable to the Parent	38,365	38,402
C 2. Attributable to minority interests	3,889	-

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated statement of recognised income and expense for 2012.

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

(THOUSANDS OF EUROS)

Page 1 of 2

	OWN FUNDS												
	ENDOWMENT FUND	SHARE PREMIUM	RESERVES (NOTE 21)	RESERVES (LOSSES) OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	OTHER EQUITY INSTRUMENTS (NOTE 20)	LESS: TREASURY SHARES	PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT	LESS: DIVIDENDS AND REMUNERATION	TOTAL OWN FUNDS	VALUATION ADJUSTMENTS (NOTE 19)	TOTAL	MINORITY INTEREST	TOTAL EQUITY
1. Ending balance at 31/12/11	-	-	672,194	-	30,051	-	38,053	-	740,298	(4,823)	735,475	-	735,475
1.1. Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. Adjustments made to correct errors	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Adjusted beginning balance	-	-	672,194	-	30,051	-	38,053	-	740,298	(4,823)	735,475	-	735,475
3. Total recognised income and expense	-	-	-	-	-	-	37,064	-	37,064	1,301	38,365	3,889	42,254
4. Other changes in equity	-	-	(17,009)	-	(29,252)	-	(38,053)	-	(84,314)	-	(84,314)	78,442	(5,872)
4.1. Increases in endowment fund	-	-	-	-	-	-	-	-	-	-	-	78,932	78,932
4.2. Reductions of endowment fund	-	-	-	-	(29,252)	-	-	-	(29,252)	-	(29,252)	-	(29,252)
4.3. Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4.4. Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.5. Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.6. Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
4.7. Remuneration of shareholders	-	-	-	-	-	-	(1,667)	-	(1,667)	-	(1,667)	(490)	(2,157)
4.8. Transactions involving own equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.9. Transfers between equity items	-	-	32,671	-	-	-	(32,671)	-	-	-	-	-	-
4.10. Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-
4.11. Discretionary transfer to welfare projects and funds	-	-	-	-	-	-	(3,715)	-	(3,715)	-	(3,715)	-	(3,715)
4.12. Equity-instrument-based payments	-	-	-	-	-	-	-	-	-	-	-	-	
4.13. Other increases (decreases) in equity	-	-	(49,680)	-	-	-	-	-	(49,680)	-	(49,680)	-	(49,680)
5. Ending balance at 31/12/12	**-**	**-**	**655,185**	**-**	**799**	**-**	**37,064**	**-**	**693,048**	**(3,522)**	**689,526**	**82,331**	**771,857**

(*) Presented for comparison purposes only. The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated statement of changes in total equity for 2012.

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

(THOUSANDS OF EUROS)

	OWN FUNDS												
	ENDOWMENT FUND	SHARE PREMIUM	RESERVES	RESERVES (LOSSES) OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	OTHER QUITY INSTRUMENTS	LESS: TREASURY SHARES	PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT	LESS: DIVIDENDS AND REMUNERATION	TOTAL OWN FUNDS	VALUATION ADJUSTMENTS	TOTAL	MINORITY INTERESTS	TOTAL EQUITY (*)
1. Ending balance at 31/12/10	-	-	625,627	-	30,051	-	52,970	-	708,648	(5,172)	703,476	-	703,476
1.1. Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. Adjustments made to correct errors	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Adjusted beginning balance	-	-	625,627	-	30,051	-	52,970	-	708,648	(5,172)	703,476	-	703,476
3. Total recognised income and expense	-	-	-	-	-	-	38,053	-	38,053	349	38,402	-	38,402
4. Other changes in equity	-	-	46,567	-	-	-	(52,970)	-	(6,403)	-	(6,403)	-	(6,403)
4.1. Increases in endowment fund	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2. Reductions of endowment fund	-	-	-	-	-	-	-	-	-	-	-	-	-
4.3. Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4.4. Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.5. Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.6. Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
4.7. Remuneration of shareholders	-	-	-	-	-	-	(2,408)	-	(2,408)	-	(2,408)	-	(2,408)
4.8. Transactions involving own equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.9. Transfers between equity items	-	-	46,567	-	-	-	(46,567)	-	-	-	-	-	-
4.10. Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-
4.11. Discretionary transfer to welfare projects and funds	-	-	-	-	-	-	(3,995)	-	(3,995)	-	(3,995)	-	(3,995)
4.12. Equity-instrument-based payments	-	-	-	-	-	-	-	-	-	-	-	-	
4.13. Other increases (decreases) in equity	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Ending balance at 31/12/11	**-**	**-**	**672,194**	**-**	**30,051**	**-**	**38,053**	**-**	**740,298**	**(4,823)**	**735,475**	**-**	**735,475**

(*) Presented for comparison purposes only. The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated statement of changes in total equity for 2012.

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

	2012	2011 (*)
A. CASH FLOWS FROM OPERATING ACTIVITIES	155,003	368,744
1. Consolidated profit for the year	40,953	38,053
2. Adjustments made to obtain the cash flows from operating activities	189,070	52,863
2.1 Depreciation and amortisation	14,430	7,636
2.3 Other adjustments	174,640	45,227
3. Net (increase)/decrease in operating assets	1,441,985	4,360,435
3.1 Financial assets held for trading	(311,233)	(149,798)
3.2 Other financial assets at fair value through profit or loss	(1,585,174)	3,712,697
3.3 Available-for-sale financial assets	(21,269)	199,317
3.4 Loans and receivables	3,351,633	638,543
3.5 Other operating assets	8,028	(40,324)
4. Net (increase)/decrease in operating liabilities	(1,489,602)	(4,033,963)
4.1 Financial liabilities held for trading	231,533	1,101,664
4.2 Other financial liabilities at fair value through profit or loss	562,876	(6,398,150)
4.3 Financial liabilities at amortised cost	(1,947,955)	471,906
4.4 Other operating liabilities	(336,056)	790,617
5. Collections/(Payments) of income tax	(27,403)	(48,644)

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated cash flow statement for 2012.

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

	2012	2011 (*)
B. CASH FLOWS FROM INVESTING ACTIVITIES	(103,193)	(949)
6. Payments	(103,193)	(1,999)
6.1 Tangible assets	(1,240)	(1,528)
6.2 Intangible assets	(101,953)	(471)
6.3 Investments	-	-
6.4 Other business units	-	-
6.5 Non-current assets held for sale and associated liabilities	-	-
6.6 Held-to-maturity investments	-	-
6.7 Other payments related to investing activities	-	-
7. Collections	-	1,050
7.1 Tangible assets	-	-
7.2 Intangible assets	-	-
7.3 Investments	-	-
7.4 Other business units	-	-
7.5 Non-current assets held for sale and associated liabilities	-	1,050
7.6 Held-to-maturity investments	-	-
7.7 Other payments related to investing activities	-	-

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated cash flow statement for 2012.

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

	2012	2011 (*)
C. CASH FLOWS FROM FINANCING ACTIVITIES	(81,089)	(2,408)
8. Payments	(81,089)	(2,408)
8.1 Dividends	(2,157)	(2,408)
8.2 Subordinated liabilities	-	-
8.3 Redemption of own equity instruments	(29,252)	-
8.4 Acquisition of own equity instruments	-	-
8.5 Other payments related to financing activities	(49,680)	-
9. Collections	-	-
9.1 Subordinated liabilities	-	-
9.2 Issuance of own equity instruments	-	-
9.3 Disposal of equity instruments	-	-
9.4 Other collections related to financing activities	-	-
D. EFFECT OF CHANGES IN EXCHANGE RATES	-	-
E. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	(29,279)	365,387
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	492,394	127,007

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated cash flow statement for 2012.

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

	2012	2011 (*)
G. CASH AND CASH EQUIVALENTS AT END OF YEAR	463,115	492,394
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
1.1. Cash	44,083	56,438
1.2. Cash equivalents at central banks	419,032	435,956
1.3. Other financial assets	-	-
1.4. Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year (Note 7)	463,115	492,394
of which: held by consolidated entities but not drawable by the Group	-	-

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 45 and Appendixes I and II are an integral part of the consolidated cash flow statement for 2012.

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

1.1. Introduction

Confederación Española de Cajas de Ahorros ("the Confederación") is an entity subject to the rules and regulations applicable to credit institutions operating in Spain. The Confederación operates mainly in Spain. Its registered office is at calle Alcalá, 27, Madrid. Public information on the Confederación can be consulted both on the Confederación's official website (www.ceca.es) and at its registered office.

The Confederación is the National Association of all member, or potential member, popular savings banks, whether or not they are grouped together in Federations, and provides them with financial services. Membership of the Confederación, with the same rights and obligations, is also open to entities which, in accordance with current legislation, carry on the financial activity of one or several savings banks and, in particular, to those for which certain circumstances prevail, including:

a. The central entities of Institutional Protection Schemes that include savings banks, as provided for by Article 8.3 d) of Law 13/1985, of 25 May, on the investment ratios, capital and reporting requirements of financial intermediaries.

b. The instrumental financial institutions through which one or several savings banks carry on their business activity indirectly, as provided for by Article 5 of Royal Decree-Law 11/2010, of 9 July, on governing bodies and other aspects of the legal regime of savings banks.

It is a community welfare institution governed by current legislation and regulations in this connection and, particularly, by its bylaws.

The Confederación carries on the activities relating to its object through a newly-created bank named Cecabank, S.A. to which it transferred all its financial business in 2012 and almost all the non-financial assets and liabilities attached thereto, in the terms provided for in Article 5 of Royal Decree-Law 11/2010, of 9 July, on governing bodies and other aspects of the legal regime of savings banks. Cecabank, S.A. has a branch in London.

In addition to the operations carried on directly and indirectly through Cecabank, S.A., the Confederación is the head of a group of subsidiaries through Cecabank, S.A. that engage in various business activities and which compose, together with it, the Confederación Española de Cajas de Ahorros Group ("the Group"). Therefore, the Confederación is obliged to prepare, in addition to its own individual financial statements, the Group's consolidated financial statements, which also include the interests in joint ventures (jointly controlled entities) and the investments in associates, if any.

Spin-off process from the Confederación to Cecabank, S.A.

The most significant dates in the spin-off process involving the Confederación in 2012 and in the creation of the new bank named Cecabank, S.A. are as follows:

- On 21 March 2012, the Board of Directors of the Confederación resolved to change the entity's regime in order to carry on its financial activity indirectly, in accordance with the aforementioned current legislation. In this regard, the Board of Directors approved the Spin-Off Plan whereby all the Confederación's assets and liabilities except certain items relating to charitable and social work were spun off to a newly-created bank named Cecabank, S.A., which was subrogated to all the rights and obligations intrinsic to the spun-off assets and liabilities.
- On 25 July 2012, the Spin-Off Plan was approved at the Extraordinary General Assembly, together with the spin-off balance sheet and the agreement to spin off the Confederación's business to Cecabank, S.A.
- Lastly, on 12 November 2012, the Confederación spin-off deed was registered at the Mercantile Registry, following authorization by the Ministry of Economy and Finance. The spin-off involved the creation of the new credit institution named "Cecabank, S.A.", to which the Confederación's assets and liabilities were spun off and through which the Confederación carries on its activity as a credit institution indirectly.

The table below includes a comparison of the Confederación's balance sheet at 31 December 2011, which was considered the spin-off balance sheet and forms part of the Confederación's separate financial statements for the year then ended, and the balance sheet at 1 January 2012 after including the effects arising from the spin-off process which resulted in the transfer of the financial assets and liabilities relating to its financial activity to Cecabank, S.A., with the exceptions mentioned above:

(THOUSANDS OF EUROS)

ASSETS	31/12/2011	Spin-off Perimeter	01/01/2012 (1)
Cash and balances with central banks	492,394	402,679	89,715
Financial assets held for trading	5,781,782	5,781,782	-
Other financial assets designated at fair value through profit or loss	999,877	999,877	-
Available-for-sale financial assets	3,608,306	3,608,306	-
Loans and receivables	5,304,647	5,304,647	-
Hedging derivatives	10	10	-
Non-current assets held for sale	84	84	-
Investments	515	515	648,817
Tangible assets	98,414	98,414	-
Intangible assets	2,446	2,446	-
Tax assets	128,981	128,981	-
Other assets	42,031	42,031	-
TOTAL ASSETS	16,459,487	16,369,772	738,532

LIABILITIES AND EQUITY	31/12/2011	Spin-off Perimeter	01/01/2012 (1)
			(THOUSANDS OF EUROS)
Financial liabilities held for trading	5,360,647	5,360,647	-
Other financial liabilities at fair value through Profit or loss	2,324,724	2,324,724	-
Financial liabilities at amortized cost	7,000,314	7,000,314	-
Hedging derivatives	25,759	25,759	-
Provisions	206,302	206,302	-
Tax liabilities	44,926	44,926	-
Welfare funds	215	-	215
Other liabilities	763,135	763,106	29
TOTAL LIABILITIES	15,726,022	15,725,778	244
TOTAL EQUITY	733,465	643,994	738,288
TOTAL LIABILITIES AND EQUITY	16,459,487	16,369,772	738,532

(1) Non-audited figures with the effect of the Spin-off Project.

As part of the process to create the new entity named Cecabank, S.A., the Confederación carried out, through the spin-off of its assets and liabilities, a non-monetary contribution to this entity's share capital, of which it was the sole shareholder at that time, with a balancing entry of the same amount recognized as an increase in the balance of "Investments - Subsidiaries" on the asset side of the balance sheet at that date.

On 13 November 2012, following the resolution of its directors at the Board meeting held on 21 March 2012 and following authorization by the Bank of Spain, the Confederación repurchased the non-voting equity units ("cuotas participativas de asociación") it had issued in 1988 and which were recognized in equity in its balance sheet at 31 December 2011, through an offer to the holders of these securities under the following terms and conditions:

- Acceptance of the Repurchase Offer by the holders of the non-voting equity units was conditional on the simultaneous, irrevocable undertaking to subscribe ordinary shares of Cecabank for a cash amount equal to that of the repurchased non-voting equity units. The price of the repurchase was EUR 16,217.83 per non-voting equity unit and, as a result, the Repurchase Offer amounted to EUR 81,089 thousand in total.
- Substantially all the holders of the non-voting equity units accepted the offer. As a result, the amount recognized under "Equity - Own Funds - Other Equity Instruments - Non-Voting Equity Units and Associated Funds" in the Confederación's balance sheet at 31 December 2012 was EUR 799 thousand (see Note 20).

Subsequently, Cecabank, S.A. performed a capital increase amounting to EUR 78,932,117.60 through the issue of 12,256,540 new shares, with the same voting and dividend rights as the existing shares, of EUR 1 par value each and a share premium of EUR 5.44 per share. These shares were fully subscribed and paid by the former holders of the non-voting equity units, following acceptance of the aforementioned Repurchase Offer and the Confederación's waiver of its pre-emptive subscription right. Accordingly, at 31 December 2012, the Confederación held an 89% ownership interest in the share capital of Cecabank, S.A.

This way, the Confederación Española de Cajas de Ahorros Group comprised the following companies at 31 December 2012:

Subsidiaries

- Cecabank, S.A., established in 2012 with the purpose of developing the Confederación's activity, as previously explained.
- Caja Activa, S.A., incorporated in 1997 to facilitate the access of savings bank customers to new technologies.
- Cea Trade Services Limited, incorporated in 2004 to encourage the provision of foreign trade services to savings banks.

Jointly controlled entity

- Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A., incorporated in 1993 in order to establish, manage and legally represent asset-backed bond SPVs and mortgage-backed security SPVs.

At 31 December 2012, the Group did not have any ownership interests in companies which, in accordance with applicable legislation, should be considered as associates.

The accompanying Appendixes I and II include salient financial information relating to these companies. Also, Note 3 contains the Confederación's summarized financial statements for 2012, including comparative information for 2011, and details the percentage that its assets and profit represent in relation to those of the Group.

The Group's consolidated financial statements for 2011 were approved at the Confederación's Annual General Assembly on 22 February 2012. The 2012 consolidated financial statements of the Group and of the Confederación have not yet been approved by the General Assembly. However, the Confederación's Board of Directors considers that they will be approved without any material changes.

1.2. Basis of presentation of the consolidated financial statements

The Group's consolidated financial statements for 2012 were authorized for issue by the Confederación's directors at the Board of Directors meeting held on 23 January 2013.

The Group's consolidated financial statements are presented in accordance with International Financial Reporting Standards as adopted by the European Union at 31 December 2012 ("IFRSs"), taking into account Bank of Spain Circular 4/2004, of 22 December, on public and confidential financial reporting rules and financial statement formats for credit institutions and as amended thereafter. This Bank of Spain Circular 4/2004 implements and adapts for the Spanish credit institution industry the International Financial Reporting Standards approved by the European Union.

The Group's consolidated financial statements for 2012 were prepared taking into account all the mandatory accounting policies and rules and measurement bases with a material effect on the consolidated financial statements and, accordingly, they present fairly the Group's consolidated equity and financial position at 31 December 2012, and the consolidated results of its operations, the consolidated statement of recognized income and expense and the consolidated cash flows in the year then ended, in accordance with the financial information's regulatory framework to be applied in this case, particularly with the accounting policies and measurement bases contained in the document mentioned in the previous paragraph.

The principal accounting policies and measurement bases applied in preparing the Group's consolidated financial statements for 2012 are summarized in Note 2.

The consolidated financial statements were prepared from the accounting records kept by the Confederación and by the other Group entities. However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2012 may differ from those used by certain Group entities, the required adjustments and reclassifications were made on consolidation to unify such policies and bases and to make them compliant with the EU-IFRSs used by the Confederación in the preparation of its consolidated financial statements.

1.3. Responsibility for the information and use of estimates

The information in these consolidated financial statements is the responsibility of the Confederación's Directors.

In the preparation of the Group's consolidated financial statements for 2012 estimates were made by the Group's Directors in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The impairment losses on certain assets (see Notes 2.9, 2.13, 2.14 and 2.17).
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and obligations and other long-term obligations to employees (see Note 2.11).
- The calculation of any provisions required for contingent liabilities (see Notes 2.10 and 2.15).
- The useful life of the tangible and intangible assets (see Notes 2.13 and 2.14); and
- The fair value of certain unquoted assets (see Note 2.2.3).

Although these estimates were made on the basis of the best information available at 31 December 2012 and at the date on which these consolidated financial statements were authorized for issue on the events analyzed, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Any required changes in accounting estimates would be applied prospectively in accordance with the applicable standards, recognizing the effects of the change in estimates in the consolidated income statements for the years in question.

1.4. Information relating to 2011

As required by IAS 1, 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 does not constitute the Group's statutory consolidated financial statements for 2011.

1.5. Agency agreements

Neither at 2012 nor 2011 year-end nor at any other time during those years did the Group have any agency agreements in force, as defined in Article 22 of Royal Decree 1245/1995, of 14 July.

1.6. Investments in the share capital of credit institutions

Note 2.1 details the investments held by the Group at 31 December 2012 in the share capital of other Spanish and foreign credit institutions, representing 5% or more of their share capital or voting power. These are the only investments held by the Group entities in the share capital of other credit institutions exceeding this percentage.

At December 2011, the Group did not hold any ownership interests of 5% or more in the share capital or voting power of any Spanish or foreign credit institutions.

1.7. Environmental impact

In view of the business activities carried on by the Group, it does not have a significant impact on the environment. Therefore, the Group's consolidated financial statements for 2012 do not contain any disclosures on environmental issues.

1.8. Capital management objectives, policies and processes

Bank of Spain Circular 3/2008 ("Circular 3/2008" or "Solvency Circular"), of 22th of May, on the calculation and control of minimum capital requirements, and as amended thereafter, regulates the minimum capital requirements for Spanish credit institutions -both as individual entities and as consolidated groups- and how to calculate them, as well as the various internal capital adequacy assessment processes the entities should have in place and the information they should disclose to the market in this connection. Bank of Spain Circular 3/2008 adapts Spanish legislation on capital requirements to the Community Directives, which in turn stem from the Basel Capital Accord (Basel II), structured around three core pillars: minimum capital requirements (Pillar I), the internal capital adequacy assessment process (Pillar II) and market disclosures (Pillar III).

Bank of Spain Circular 7/2012, of 30 November, to credit institutions on minimum principal capital requirements was published on 11 December 2012. It introduced the amendments established by Law 9/2012, of 14 November, on restructuring and resolution of credit institutions, to Royal Decree-Law 24/2012, of 31 August, on restructuring and resolution of credit institutions, which established amendments to the principal capital requirements that must be met by consolidated groups of credit institutions and by credit institutions not forming part of a consolidated group of credit institutions, which can raise refundable funds from the public (these requirements had been established by Royal Decree-Law 2/2011, of 18 February, for the strengthening of the financial sector). In this regard, Law 9/2012, of 14 November, converted the principal capital requirements -the general requirement of 8% and the 10% requirement for entities with difficult access to the capital markets and for which wholesale financing is a significant source of funding- into a single requirement of 9% that must be met by the aforementioned entities and groups as from 1 January 2013.

The strategic capital management objectives set by Group management are as follows:

> To comply, at all times, both at individual and at consolidated level, with the applicable regulations on minimum capital requirements.

> To seek maximum capital management efficiency so that, together with other profitability and risk variables, the use of capital is considered as a key variable in any analysis related to the Group's investment decisions.

In order to meet these objectives, the Group has in place a series of capital management policies and processes, the main cornerstones of which are as follows:

> In the Group's strategic and operational planning, the impact of decisions on the Group's eligible capital and the use-profitability-risk relationship is considered to be a key decision-making factor.

> As part of its organizational structure the Group has monitoring and control units which at all times analyze the level of compliance with the Bank of Spain regulations on capital, with alerts in place to guarantee compliance with the applicable regulations.

Circular 3/2008, establishes the elements that are eligible for inclusion in capital for the purpose of compliance with the minimum capital requirements set forth therein. Under this Circular, capital must be classified into Tier 1 and Tier 2 capital. The capital calculated for the purposes of the Circular differs from the capital calculated in accordance with accounting standards, since the Circular considers certain items as capital and establishes certain mandatory deductions from capital in respect of items which are not considered to be part of capital under accounting standards. In accordance with the aforementioned Circular 3/2008, the Group's capital is managed and calculated at the level of its consolidable group of credit institutions, as defined in the Circular. The consolidable group of credit institutions, of which the Confederación is the head, differs from the economic group of which it is the parent (see Note 1.1), basically with respect to the consolidation or measurement methods applied to the Group entities which are not considered consolidable entities due to their activity (non-financial entities).

The Group's management of its capital, as regards conceptual definitions, is in keeping with Circular 3/2008. In this connection, the Group considers eligible capital to be that specified in Rule Eight of Circular 3/2008, with the deductions and limits stated in Rules Nine to Eleven of the Circular.

The minimum capital requirements established by the aforementioned Circular are calculated by reference to the Group's exposure to credit and dilution risk (on the basis of assets, obligations and other memorandum items that present these risks, depending on their amounts, characteristics, counterparties, guarantees, etc.), to counterparty risk and position and settlement risk in the trading book, to foreign exchange and gold position risk (on the basis of the overall net foreign currency position and of the net gold position) and to operational risk. Additionally, the Group is subject to compliance with the risk concentration limits and the requirements concerning internal corporate governance, capital adequacy assessment, interest rate risk measurement and disclosure of information to the market, also established in Circular 3/2008. With a view to guaranteeing compliance with the aforementioned objectives, the Group performs an integrated management of these risks, in accordance with the policies and processes indicated above.

Following is a detail, classified into Tier 1 and Tier 2 capital, of the Confederación Española de Cajas de Ahorros Group's capital at 31 December 2012 and 2011 calculated in accordance with Circular 3/2008:

	THOUSANDS OF EUROS	
	2012	2011
Tier 1 capital	703,961	694,007
Tier 2 capital	8,653	61,031
Total eligible capital	712,614	755,038
Minimum Tier capital	304,696	372,959

Tier 1 capital in the above table basically includes the sum of the Group's reserves from retained earnings, participation certificates, non-controlling interests and the portion of consolidated profit for 2012 which the Group companies proposed be allocated to unrestricted reserves, less the balance of the intangible assets owned by the Group.

Tier 2 capital in the above table basically comprises the revaluation reserves relating to tangible assets set up in prior years pursuant to applicable legislation and the percentages established in Circular 3/2008 applied to the carrying amounts of the unrealized gains on available-for-sale financial assets recognized under "Valuation Adjustments" in Group equity and the part of the allowance that is computed as such according to the current legislation.

At 31 December 2012 and 2011 and throughout these years, the Group's eligible capital exceeded the minimum capital requirements under the applicable legislation.

1.9. Minimum reserve ratio

At 31 December 2012 and 2011, and throughout 2012 and 2011, Cecabank, S.A., the only Group company to which the ratio is applicable, met the minimum reserve ratio required by the applicable legislation.

At 31 December 2012 and 2011 the Group's cash balance with Bank of Spain for these purposes amounted to EUR 419,032 thousand (2011: EUR 35,950 thousand). This ratio is calculated on the basis of the daily ending balance held by the Group in this account during the required period.

1.10. Deposit guarantee fund

In 2011 the following regulations amending the Deposit Guarantee Fund contribution system were issued:

- Royal Decree-Law 16/2011, of 14 October, creating the Deposit Guarantee Fund for Credit Institutions, which unifies the three previously existing deposit guarantee schemes (the Deposit Guarantee Fund for Savings Banks, the Deposit Guarantee Fund for Banks and the Deposit Guarantee Fund for Credit Cooperatives) into a single scheme. Whilst retaining the function of guaranteeing deposits at credit institutions, which was already performed by the three previous funds, the unified scheme seeks to strengthen the second function of the system: namely to bolster the solvency and functioning of credit institutions, also known as the "resolution" function, with a view to ensuring the flexibility of the actions of the new unified Fund.

- Royal Decree-Law 19/2011, of 2 December, amending Royal Decree-Law 16/2011, of 14 October, which created the Deposit Guarantee Fund for Credit Institutions. This Royal Decree-Law completes and reinforces the reform of the system undertaken through Royal Decree-Law 16/2011. It revises the legally stipulated maximum annual contribution that entities must make to the Fund, raising it from 2 per mil to 3 per mil to guarantee the maximum operating capability of the Fund. It also expressly repeals the ministerial orders which, pursuant to the legislation previously in force, had granted powers to temporarily reduce the entities' contributions, including Ministry of Economy and Finance Order EHA/3515/2009, of 29 December, which had set the Confederación's contributions at 1 per mil of the base of the deposits covered by the guarantee. The result of these changes is the establishment, in a rule that has the status of a law, of a ceiling on the contributions of 3 per mil of guaranteed deposits and the establishment of an actual contribution of 2 per mil instead of the aforementioned figures.
- Additionally, Royal Decree 771/2011 was introduced on 4 June 2011 and amended, among others, Royal Decree 2606/1996 governing deposit guarantee funds at credit institutions. The new regulation created a new system of additional contributions to the funds based on remuneration from the deposits themselves.

2012 saw the publication of Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector, whereby (by virtue of the provisions contained in Royal Decree-Law 19/2011, of 2 December, which amended Royal Decree-Law 16/2011, of 14 October, creating the Deposit Guarantee Fund for Credit Institutions, on the performance of the measures required to restore the balance of the aforementioned Fund to a sufficient level) on 30 July 2012 the Managing Committee of the Deposit Guarantee Fund for Credit Institutions resolved that a supplementary payment was to be made by the entities participating in the Fund, which would be estimated on the basis of their contributions at 31 December 2011 and payable in equal annual instalments over the following ten years.

Also, Law 9/2012, of 14 November 2012, on restructuring and resolution of credit institutions was published in 2012. This law requires the Deposit Guarantee Fund, subject to a prior ruling from the Bank of Spain, to reimburse the amounts of guaranteed deposits in the event of failure to repay the deposits when past due and payable, unless the initiation of a process for the resolution of the entity has been agreed upon. In this regard, the Fund may adopt measures to support the resolution of a credit institution, such as granting guarantees, loans or credits, acquiring assets or assuming liabilities, and may manage the institution itself or engage a third party to do so.

In 2012, the contributions made to this Fund amounted to approximately EUR 241 thousand (2011: EUR 105 thousand), and the related expense was recognized under "Other Operating Expenses" in the accompanying consolidated income statement for 2012 (see Note 40).

1.11. Changes in accounting policies

In 2012 there were no significant in the accounting policies applied by the Group in the consolidated financial statements in 2011.

1.12. Main regulatory changes during the period from 1 January to 31 December 2012

1.12.1. New Bank of Spain's Circulars

Bank of Spain Circular 2/2012 of 29 February, which modifies Bank of Spain Circular 4/2004, of 22 December, to credit institutions about public and confidential financial information standards and Financial Statements samples.

On 6 March 2012, the Bank of Spain published Circular 2/2012, of 29 February, amending Bank of Spain Circular 4/2004, of 22 December, to credit institutions, on public and confidential financial reporting rules and formats, the main aim of which was to adapt Circular 4/2004 to the provisions of Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector.

Specifically the main changes of this circular are:

> Adaptations were made to the rules governing coverage (allowances) for financing and assets foreclosed or received in payment of debts relating to land for property development and to property construction or development, corresponding to credit institutions' transactions in Spain, both those existing at 31 December 2011 and those arising from the refinancing thereof at a later date, in line with the provisions of the aforementioned Royal Decree-Law on the clean-up of the financial sector.

> Amendments were made to the general rules governing the accounting recognition of assets foreclosed or received in payment of debts, determining the value at which these property assets must be recognized both initially and subsequently, which is the lower of:

a) the carrying amount of the financial assets applied (debt), taking into consideration the estimated impairment and, in all cases, a minimum of 10%; and

b) the market appraisal value of the asset received in its current condition less estimated costs to sell, which in no case may be less than 10% of this value.

For the purposes of subsequent measurement, the coverage percentage of a) above increases to 20%, 30% and 40% depending on the time that has elapsed since the asset was included in the balance sheet (more than one, two and three years, respectively).

The measures established in Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector, and developed in this Circular must be complied with generally before 31 December 2012, except in the case of entities involved in an integration process, which will have a further 12 months in which to register their compliance. In this regard, in view of the activity carried on by the Confederación, this does not have any impact on its financial statements.

Bank of Spain Circular 6/2012, of 28 September, amending Bank of Spain Circular 4/2004, of 22 December, to credit institutions on public and confidential financial reporting rules and formats

On 2 October 2012, the Bank of Spain published Circular 6/2012, of 28 September, amending Bank of Spain Circular 4/2004, of 22 December, to credit institutions on public and confidential financial reporting rules and formats, the main aim of which was to adapt Circular 4/2004 to the provisions of Royal Decree-Law 18/2012, of 11 May, on the clean-up and sale of property assets of the financial sector.

Specifically the main changes of this circular are:

- It establishes certain additional provisioning requirements on assets connected with the property sector, supplementary to those already provided for in Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector, whereby, for loans connected with the property sector classified as "standard risk", provisions must be recognized on the outstanding balance at 31 December 2011, as stipulated in the aforementioned Royal Decree-Law. Furthermore, the requirements for transparency in credit institutions' financial statements were completed, and disclosures must now include a description of any companies that the credit institutions may have incorporated to manage these assets or any investments made by the credit institutions in companies whose activity is the management of assets of this kind, with data on the cumulative amount of the assets transferred to these companies and the financial assets received in return, indicating the impact on the income statement and the data relating to the financing lines granted to these companies.
- It also establishes the disclosure and presentation of quantitative information in financial statements in relation to refinancing, refinanced and restructured transactions, and requires a brief summary of the policy for refinancing and restructuring transactions, including an explanation of the criteria used for assessing the sustainability of the measures applied. It also requires disclosures in the financial statements on the detail of loans and advances to customers by activity, indicating the type of guarantee and the purpose associated with these transactions, and information relating to risk concentration by geographical area of operations and business segment.
- It also adapts the special accounting register for mortgage loans to the amendments introduced by the aforementioned Royal Decree-Law.

In view of the activity carried on by the Group, it did not record at 31 December 2012 or at 31 December 2011, or during the years then ended, any construction or property development financing transactions or any assets acquired in payment of debts. The only home purchase financing transactions were those granted to its employees (see Note 24.11).

Bank of Spain Circular 7/2012, of 30 November, to credit institutions on minimum principal capital requirements.

Bank of Spain Circular 7/2012, of 30 November, to credit institutions on minimum principal capital requirements was published on 11 December 2012. Its main objective was to introduce the amendments established by Law 9/2012, of 14 November, on restructuring and resolution of credit institutions, to Royal Decree-Law 24/2012, of 31 August, on restructuring and resolution of credit institutions, which established amendments to the principal capital requirements that must be met by consolidated groups of credit institutions and by credit institutions not forming part of a consolidated group of credit institutions, which can raise refundable funds from the public (these requirements had been established by Royal Decree-Law 2/2011, of 18 February, for the strengthening of the financial sector). In this regard, Law 9/2012, of 14 November, converted the principal capital requirements -the general requirement of 8% and the 10% requirement for entities with difficult access to the capital markets and for which wholesale financing is a significant source of funding- into a single requirement of 9% that must be met by the aforementioned entities and groups as from 1 January 2013.

This Circular also amends the definition of principal capital in order to adapt it to the definition used by the European Banking Authority, with regard to the eligible components and the applicable deductions, in accordance with its Recommendation EBA/REC/2011/1. To this end, this Circular details the eligible instruments to be included in the definition of principal capital, and defines the way in which they must be calculated, the requirements for their issuance and, in particular, the requirements for mandatorily convertible debt instruments.

It also determines how risk-weighted exposures can be adjusted to ensure that the capital requirement for each risk exposure does not exceed the value of the exposure itself and that there is consistency between the value of the exposures and the components of principal capital.

Note 1.8 above contains information on the Group's principal capital requirements.

1.12.2. Modifications to International Financial Reporting Standards

The main standards or amendments to IFRSs adopted by the EU that came into force and became mandatory in the year beginning 1 January 2012, the effects of which, if any, were included in these condensed interim consolidated financial statements, were as follows:

A) New standards, amendments and interpretations mandatorily applicable in the calendar year that began on 1 January 2012

The following standards were applied in these consolidated financial statements but did not have any material impacts on the amounts reported, on the presentation of the consolidated financial statements or on the disclosures here in:

> Amendments to IFRS 7, Financial Instruments: Disclosures - Transfer of Financial Assets

These amendments have significantly increased the disclosure requirements relating to transfers of financial assets where the transferor retains some form of continuing involvement in the transferred asset.

> Amendments to IAS 12, Income Taxes - Deferred Taxes Arising from Investment Property

The main change introduced by these amendments is an exception to the general principles of IAS 12 which affects deferred taxes arising from investment property that is measured by the Group using the fair value model in IAS 40, Investment Property; there is now a rebuttable presumption in relation to the measurement of the deferred taxes that the carrying amount of the investment property will be recovered entirely through sale.

B) New standards, amendments and interpretations mandatorily applicable in the periods beginning after the calendar year that began on 1 January 2012 (applicable from 2013), approved by the European Union

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

> Amendments to IAS 19, Employee Benefits

[These will enter into force in reporting periods beginning on or after 1 January 2013. Early application is permitted]

The main change introduced by these amendments to IAS 19 will affect the accounting treatment of defined benefit plans since it eliminates the "corridor" under which companies are currently permitted to opt for deferred recognition of a given portion of actuarial gains and losses. When the amendments come into effect, all actuarial gains and losses must be recognized immediately in other comprehensive income. The amendments also include changes in the presentation of cost components in the statement of comprehensive income, which will be aggregated and presented in a different way.

The Group will apply these amendments as from 2013, in accordance with the provisions of Commission Regulation (EU) No 475/2012.

> Amendments to IAS 1, Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income

[These will enter into force in reporting periods beginning on or after 1 July 2012. Early application is permitted]

The objective of these amendments to IAS 1 is to clarify the presentation of the growing number of items of other comprehensive income and to make it easier for users of financial statements to distinguish between items that may be reclassified subsequently to profit and loss and those which may not.

The Group will apply these amendments as from 2013, in accordance with the provisions of Commission Regulation (EU) No 475/2012.

C) New standards, amendments and interpretations mandatorily applicable in the periods beginning after the calendar year that began on 1 January 2012 (applicable from 2013), not yet approved by the European Union

Set forth below are the main standards, amendments and interpretations issued by the International Accounting Standards Board ("IASB") that had not yet been approved by the European Union and which, therefore, were not applied in preparing these consolidated financial statements:

> IFRS 9 "Financial instruments"

[Applicable to financial periods starting on or after 1 January 2015, after the deferral proposed by the IASB, and with early application allowed]

This is the first of three standards that are to replace the current IAS 39. The first new standard amends the criteria for classifying and measuring financial instruments.

At the reporting date these amendments had not yet been definitively approved. IFRS 9 will in the future replace the current part of IAS 39 relating to classification and measurement. There are very significant differences with respect to the current standard, in relation to financial assets, including the approval of a new classification model based on only two categories, namely instruments measured at amortized 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 amortized cost and the non-separation of embedded derivatives in financial asset contracts.

In relation to financial liabilities, the classification categories proposed by IFRS 9 are similar to those currently contained in IAS 39 and, therefore, there should not be any very significant differences, except, in the case of the fair value option for financial liabilities, for the requirement to recognize changes in fair value attributable to own credit risk as a component of equity.

> IFRS 10 "Consolidated Financial Statements"

[Applicable for financial periods starting on or after 1 January 2014, with early application allowed]

This standard, which replaces SIC 12 "Consolidation - Special Purpose Entities" and certain sections of IAS 27 "Consolidated and Separate Financial Statements," establishes the concept of control for the purposes of ascertaining whether an entity ought to be included in the consolidated financial statements of the parent, and also issues guidelines to be used in certain cases where measurement proves difficult. 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"

[Applicable for financial periods starting on or after 1 January 2014, with early application allowed]

This standard, which replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly-Controlled Entities - Non-Monetary Contributions by Venturers," analyses the incoherencies of reporting in relation to joint ventures and establishes a single method to account for investments or stakes in jointly-controlled entities. 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"

[Applicable for financial periods starting on or after 1 January 2014, with early application allowed]

IFRS 12 is a standard that groups the disclosure requirements referring to all forms of investment in other entities (them beings subsidiaries, associates, jointly controlled entities, or any other related parties) including new disclosure requirements.

> IFRS 13 "Fair Value Measurement"

[Applicable for financial periods starting on or after 1 January 2013, with early application allowed]

IFRS 13, issued by the IASB in May 2011, established to be the only standard for fair value measurement of assets and liabilities valued by this method according to the requirement by other financial reporting standards. IFRS 13 changes the current definition of fair value and introduces new nuances to consider, and broadens the requirements in this matter.

> Amendment to IAS 27 "Consolidated and Separate Financial Statements"

[Applicable for financial periods starting on or after 1 January 2014, with early application allowed]

This amendment modifies the earlier IAS 27 "Consolidated and Separate Financial Statements," whereby IFRS 10 "Consolidated Financial Statements," the origin of this amendment, referred to above, becomes applicable to consolidated financial statements, with the current guidance of IAS 27 being applicable to separate financial statements.

> Amendment to IAS 28 "Investments in Associates and Joint Ventures"

[Applicable for in financial periods starting on or after 1 January 2014, with early application allowed]

This amends the earlier IAS 28 "Accounting for Investments in Associates," pursuant to the changes made through issuance of IFRS 10 and IFRS 11 mentioned above. The standard specifically establishes, subject to certain requirements, that the equity method shall be applied for investments in both associates and in joint ventures.

> Amendments to IAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities and amendments to IFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

[These will enter into force in reporting periods beginning on or after 1 January 2014 and 1 January 2013, respectively. Early application is permitted]

The amendments to IAS 32 introduce certain additional clarifications to the application guidance on the requirements of the standard for being able to offset a financial asset and a financial liability in the balance sheet, since the standard indicates that a financial asset and a financial liability may only be offset when an entity currently has a legally enforceable right to set off the recognized amounts. The amended implementation guidance states, inter alia, that in order to meet this criterion, the right of set-off must not be contingent on a future event, and must be legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties.

The parallel amendments to IFRS 7 introduce a specific section of new disclosures required for all recognized financial assets and financial liabilities that are set off; these disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

> Fourth annual “Improvements to IFRSs” project (2009-2011 cycle)

[These will enter into force in reporting periods beginning on or after 1 January 2013. Early application is permitted]

This document is a collection of amendments to IFRSs in response to six issues dealt with in the 2009-2011 cycle. The IASB uses the annual improvement process to make non-urgent but necessary amendments to IFRSs that will not be included in any other project. The most significant amendments affect IAS 1, IAS 16, IAS 32 and IAS 34.

> Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)

[Applicable to financial periods beginning on or after 1 January 2013. Early application is permitted]

The amendments clarify the transition guidance in IFRS 10, Consolidated Financial Statements. The amendments also provide additional transition relief in IFRS 10, IFRS 11, Joint Arrangements and IFRS 12, Disclosure of Interests in Other Entities, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The effective date of the amendments is for annual periods beginning on or after 1 January 2013, which is in line with the effective date of IFRSs 10, 11 and 12.

Although in certain cases early application of the standards described above in sections "B" and "C" is permitted, once they have been adopted by the European Union, the Group has opted to not apply them in these consolidated financial statements. In any event, while some of these standards are not expected to have a significant effect once applied by the Group, the related potential impact is currently being analyzed by Group management and, accordingly, at present it is not possible to offer a reliable estimate of their potential impact, which will depend on both the content of the text that the European Union eventually approves and the composition of the Group and its assets and liabilities at the date of application.

2. Accounting policies and measurement bases

The accounting policies and measurement bases applied in preparing the Group's consolidated financial statements for 2012 were as follows:

2.1. Investments

2.1.1. Subsidiaries

"Subsidiaries" are defined as entities over which the Group has the capacity to exercise control; control is, in general but not exclusively, presumed to exist when the Confederación owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when there are other circumstances or agreements that give the Confederación control.

In accordance with IAS 27, control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Dividends accrued in the year on these investments are recognized under "Income from Equity Instruments" in the consolidated income statement.

At 31 December 2012 and 2011, in accordance with the aforementioned bases, the Group considered Cecabank, S.A. in which it held a 89% as a result of the spin-off process undergone by the Confederación in 2012 (see Note 1.1), Caja Activa, S.A., in which it held a 99.99% in 2012 and 2011 ownership interest, and CEA Trade Services Limited, a wholly-owned investee in 2012 and 2011, to be subsidiaries of the Group of which it is the parent. Appendix I to these notes to the consolidated financial statements contains relevant information on these companies.

The financial statements of the subsidiaries are consolidated with those of the Group using the full consolidation method as defined in the applicable regulations. Accordingly, all material balances of the transactions between consolidated entities are eliminated on consolidation.

2.1.2. Jointly controlled entities

"Jointly controlled entities" are deemed to be ventures that are not subsidiaries but which are jointly controlled by the Confederación and by one or more other entities, either individually or in conjunction with the other entities of the group to which they belong.

The financial statements of investees classified as jointly controlled entities are proportionately consolidated with those of the Confederación, as stipulated in the current regulations. Therefore, the aggregation of balances in the consolidated balance sheet and consolidated income statement and subsequent eliminations of the balances and effects of intra-Group transactions are only made in proportion to the Group's ownership interest in the capital of these entities.

At 31 December 2012 and 2011, in accordance with the aforementioned rules, only Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A., in which the Group owned a 50% holding in 2012 and 2011, was considered to be a jointly controlled entity. Appendix II to these notes to the consolidated financial statements contains significant information on this entity.

2.1.3. Associates

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

In general, investments in associates are accounted for using the equity method, as defined in the applicable regulations. However, investments in associates that qualify for classification as non-current assets held for sale are recognized under "Non-Current Assets Held for Sale - Equity Instruments" in the consolidated balance sheet and are measured in accordance with the policies applicable to these assets (see Note 2.17).

At 31 December 2012 and 2011, in accordance with the aforementioned criteria, the Confederación did not hold any ownership interests in companies considered to be associates.

At 31 December 2012 and 2011, the Group owned 20% of the share capital of Tevea International, S.A. (formerly, Euro - Tevea S.A.). This investee was neither at 2011 nor 2012 year-end classified as an associate, as although the Group owns more than 20% of its voting rights, it does not exercise significant influence over it. As a result, this investment is recognized in these consolidated financial statements under "Available – for - Sale Financial Assets - Other Equity Instruments" in the consolidated balance sheet at those dates and is measured at cost, in accordance with the criteria explained in Note 2.2.4.

At 31 December 2012, the Group owns 22.49% of the share capital of Eufiserv Payments, S.C.R.L. (31 December 2011: 22.49%). At 31 December 2012 and 2011 this investment was not considered an associate since, in spite of owning 22.49% of the voting power, the Confederación does not exercise significant influence over this company. Therefore, this investment is recognized in these consolidated financial statements under "Available – for - Sale Financial Assets - Equity Instruments" in the consolidated balance sheet at that date and is measured at cost in accordance with the criteria explained in Note 2.2.4.

2.2. Financial instruments - Initial recognition, derecognition, definitions of fair value and amortized cost and classification categories and measurement of financial assets and liabilities

2.2.1. Initial recognition of financial instruments

Financial instruments are initially recognized in the consolidated balance sheet when the Group becomes a party to the contract originating them in accordance with the terms and conditions thereof. Specifically, debt instruments, such as loans and cash deposits, are recognized from the date on which the legal right to receive or the legal obligation to pay cash arises. Derivative financial instruments are generally recognized from the trade date.

A regular way purchase or sale of financial assets, defined as one in which the parties' reciprocal obligations must be discharged within a time frame established by regulation or convention in the marketplace and that may not be settled net, such as stock market and forward currency purchase and sale contracts, is recognized on the date from which the rewards, risks, rights and duties attaching to all owners are for the purchaser, which, depending on the type of financial asset purchased or sold, may be the trade date or the settlement or delivery date. In particular, transactions performed in the spot currency market are recognized on the settlement date; equity instruments traded in Spanish secondary securities markets are recognized on the trade date and debt instruments traded in these markets are recognized on the settlement date.

2.2.2. Derecognition of financial instruments

A financial asset is derecognized when:

> The contractual rights to the cash flows from the financial asset expire; or

> The financial asset is transferred and substantially all its risks and rewards are transferred or, although these are not substantially transferred or retained, control over the financial asset is transferred (see Note 2.8).

Also, a financial liability is derecognized when the obligations it generates have been extinguished or when it is purchased by the Group, with the intention either to re-sell it or to cancel it.

2.2.3. Fair value and amortized cost of financial 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 parties in an arm's length transaction. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an organized, transparent and deep market ("quoted price" or "market price").

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

Specifically, the fair value of financial derivatives included in the portfolios of financial assets or liabilities held for trading which are traded in organized, transparent and deep markets is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price at a given date cannot be determined, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives or derivatives traded in scantly deep or transparent organized markets 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 recognized by the financial markets: "net present value" (NPV), option pricing models, etc.

Amortized cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal and interest repayments and the cumulative amortization (taken to the income statement), calculated using the effective interest method, of the difference between the initial cost and the maturity amount of such financial instruments. In the case of financial assets, amortized cost furthermore includes any reductions for impairment or uncollectibility.

The effective interest rate is the discount rate that exactly matches the initial amount of a financial instrument to the present value of all its estimated cash flows of all kinds during its remaining life, disregarding future losses from credit risk. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition or arrangement date adjusted, where applicable, for the fees, premiums, discounts and transaction costs that, pursuant to the applicable standards, must be included in the calculation of the effective interest rate. In the case of floating rate financial instruments, the effective interest rate is determined using a method similar to that for fixed rate transactions and is recalculated on each contractual interest reset date, taking into account any changes in the future cash flows.

2.2.4. Classification and measurement of financial assets and liabilities

Financial instruments are classified in the Group's consolidated balance sheet as follows:

- Financial assets and liabilities at fair value through profit or loss: pursuant to current legislation, this category includes financial instruments classified as held for trading and other financial assets and liabilities classified at fair value through profit or loss:
    - **Financial assets held for trading** include those acquired for the purpose of selling them in the near term or those which are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking and derivatives not designated as hedging instruments, including those separated from hybrid financial instruments pursuant to the applicable standards.

- **Financial liabilities held for trading** include those that have been issued with an intention to repurchase them in the near term or that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking; short positions arising from sales of financial assets acquired under non-optional resale agreements or borrowed securities, and financial derivatives not designated as hedging instruments, including those separated from hybrid financial instruments pursuant to the applicable standards.

- **Other financial assets at fair value through profit or loss** are financial assets designated as such from their initial recognition, whose fair value may be estimated reliably and that meet any of the following requirements:

  - In the case of **hybrid financial instruments** for which it is compulsory to separate the embedded derivative(s) from the host contract, the fair value of the embedded derivative(s) cannot be estimated reliably.

  - In the case of **hybrid financial instruments** for which it is mandatory to separate the embedded derivative(s), the Group elected from their initial recognition to classify the entire hybrid financial instrument under this category, since the requirements established by current regulations were met in the sense that the embedded derivative(s) significantly alter the cash flows that the host contract would have had if it had been considered separately from the embedded derivative(s) and that there is an obligation to separate for accounting purposes the embedded derivative(s) from the host contract.

  - As a result of classifying a financial asset in this category, **more relevant information is obtained** because such designation eliminates or significantly reduces inconsistencies in recognition or measurement (also known as accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognizing the related gains or losses on different bases or because the gain value basis reflects management's investment management or assessment strategy, as established in the applicable regulations. Note 8 contains details on the financial instruments classified in this category.

- **Other financial liabilities at fair value through profit or loss** are financial liabilities designated as such from their initial recognition, whose fair value may be estimated reliably and that meet any of the following requirements:
  - In the case of **hybrid financial instruments** for which it is compulsory to separate the embedded derivative(s) from the host contract, the fair value of the embedded derivative(s) cannot be estimated reliably.
  - In the case of **hybrid financial instruments** for which it is mandatory to separate the embedded derivative(s), the Group elected from their initial recognition, to classify the entire hybrid financial instrument under this category, since the requirements established by current regulations were met in the sense that the embedded derivative(s) significantly alter the cash flows that the host contract would have had if it had been considered separately from the embedded derivative(s) and that there is an obligation to separate for accounting purposes the embedded derivative(s) from the host contract.
  - As a result of classifying a financial liability in this category, **more relevant information is obtained** because such designation eliminates or significantly reduces inconsistencies in recognition or measurement (also known as accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognizing the related gains or losses on different bases or because the fair value basis reflects management's investment management or assessment strategy, as established in the applicable regulations. Note 8 contains details on the financial instruments classified in this category.

Only financial instruments which, from their initial recognition, would have been classified as financial assets and liabilities at fair value through profit or loss are included in this category.

Financial instruments at fair value through profit or loss are initially measured at fair value. Subsequent to acquisition, financial instruments classified in this category continue to be measured at fair value at the reporting date and any changes in the fair value are recognized under "Gains/Losses on Financial Assets and Liabilities (Net)" in the consolidated income statement, except for the fair value changes due to accrued returns on financial instruments other than trading derivatives, which are recognized under "Interest and Similar Income", "Interest Expense and Similar Charges" or "Income from Equity Instruments" in the consolidated income statement, depending on their nature. The accrued returns on debt instruments included in this category are calculated using the effective interest method.

Notwithstanding the foregoing, financial derivatives that have as their underlyings equity instruments whose fair value cannot be determined in a sufficiently objective manner and are settled by delivery of those instruments are measured, where appropriate, at cost.

- Loans and receivables: pursuant to current legislation, this category includes unquoted debt instruments, financing granted to third parties in connection with ordinary lending activities carried out by the Group (other than those classified at fair value through profit or loss) and receivables from users of services.

  The financial assets included in this category are initially measured at fair value adjusted by the amount of the fees and commissions and transaction costs that are directly attributable to the acquisition or arrangement of the financial asset and which, in accordance with IAS 39, must be allocated to the consolidated income statement by the effective interest method through maturity. Subsequent to acquisition, assets included in this category are measured at amortized cost.

Assets acquired at a discount are measured at the cash amount paid and the difference between their repayment value and the amount paid is recognized as finance income using the effective interest method during the remaining term to maturity.

The Group generally intends to hold the loans and credits included in this category granted by it until their final maturity and, therefore, they are presented in the consolidated balance sheet at their amortized cost.

The interest accrued on these assets, which is calculated using the effective interest method, is recognized under "Interest and Similar Income" in the consolidated income statement. Exchange differences on assets included in this portfolio denominated in currencies other than the euro are recognized as set forth in Note 2.5. Any impairment losses on these assets are recognized as explained in Note 2.9.

- Available-for-sale financial assets: this category includes debt instruments not classified as held-to-maturity investments, as loans and receivables or as financial assets at fair value through profit or loss and equity instruments owned by the Group relating to entities other than subsidiaries, jointly controlled entities or associates that are not classified at fair value through profit or loss.

  The instruments included in this category are initially recognized at fair value adjusted by the amount of the transaction costs that are directly attributable to the acquisition of the financial asset, which are recognized in the consolidated income statement by the effective interest method, except for those relating to financial assets with no fixed maturity, which are recognized in the consolidated income statement when the assets become impaired or are derecognized. Subsequent to acquisition, financial assets included in this category are measured at fair value at each reporting date.

However, equity instruments whose fair value cannot be determined in a sufficiently objective manner are measured in these consolidated financial statements at cost, net of any impairment loss, calculated as detailed in Note 2.9.

Changes in the fair value of available-for-sale financial assets relating to accrued interest or dividends are recognized under "Interest and Similar Income" (calculated using the effective interest method) and "Income from Equity Instruments" in the consolidated income statement, respectively. Any impairment losses on these instruments are recognized as described in Note 2.9. Exchange differences on financial assets denominated in currencies other than the euro are recognized as explained in Note 2.5.

Other changes in the fair value of available-for-sale financial assets from the acquisition date are recognized in equity under "Valuation Adjustments - Available-for-Sale Financial Assets" until the financial asset is derecognized, when the balance recorded under this item is recognized under "Gains/Losses on Financial Assets and Liabilities (net)" in the consolidated income statement, or in the case of equity instruments considered to be strategic investments for the Group, they are recognized under "Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations".

- Held-to-maturity investments: pursuant to current legislation, this category includes debt instruments traded on organized markets with fixed maturity and with fixed or determinable cash flows that, from inception and at any subsequent date, are held with the positive intention and financial ability to hold to maturity.

  Debt instruments included in this category are initially measured at fair value adjusted by the amount of the transaction costs that are directly attributable to the acquisition of the financial asset, which are recognized in the consolidated income statement by the effective interest method as defined in IAS 39. They are subsequently measured at amortized cost calculated using the effective interest method.

  The interest accrued on these securities, which is calculated using the effective interest method, is recognized under "Interest and Similar Income" in the consolidated income statement. Exchange differences on assets included in this portfolio denominated in currencies other than the euro are recognized as set forth in Note 2.5. Any impairment losses on these securities are recognized as explained in Note 2.9.

  At 31 December 2012 and 2011 and throughout those years the Group did not have any financial instruments classified in this category.

> Financial liabilities at amortized cost: this category includes the Group's financial liabilities not included in any other category.

The financial liabilities included in this category are initially measured at fair value adjusted by the amount of the transaction costs that are directly attributable to the issue or arrangement of the financial liability, which are recognized in the consolidated income statement by the effective interest method (as defined by IAS 39) through maturity. Subsequently, these financial liabilities are measured at amortized cost calculated using the effective interest method as defined in IAS 39.

The interest accrued on these liabilities, which is calculated using the effective interest method, is recognized under "Interest Expense and Similar Charges" in the consolidated income statement. Exchange differences on securities included in this category denominated in currencies other than the euro are recognized as set forth in Note 2.5.

2.3 Reclassification between financial instrument portfolios

Reclassifications between financial instrument portfolios can only be made, where appropriate, as follows:

a) Except in the circumstances indicated in paragraph d) below, financial instruments classified as "at fair value through profit or loss" cannot be reclassified into or out of this financial instrument category once they have been acquired, issued or assumed.

b) If, as a result of a change in intention or financial ability of an entity, it is no longer appropriate to classify a financial asset as held to maturity, it is reclassified into the "available-for-sale financial assets" category. In this case, the same treatment shall be applied to all the financial instruments classified as held-to-maturity investments, unless the reclassification is made in any of the circumstances permitted under the applicable regulations (sales very close to maturity, substantially all of the financial asset's original principal has been collected, etc.).

In 2012 and 2011, the Group did not hold any securities classified as held-to-maturity investments and, therefore, it did not perform any reclassifications of the type described in the preceding paragraph.

c) If there is a change in the Group's intention or financial ability, or if the two penalty financial years established by the regulations applicable to the sale of financial assets classified in the held-to-maturity investment category (see paragraph b) above) have passed, the financial assets (debt instruments) included in the "available-for-sale financial assets" category can be reclassified into the "held-to-maturity investments" category. In this case, the fair value of these financial instruments on the date of reclassification becomes their new amortized cost and the difference between this amount and the redemption value is allocated to the consolidated income statement over the remaining life of the instrument using the effective interest method.

No reclassifications of the type described in the preceding paragraph were made in 2012 or 2011.

d) In accordance with the amendments to IAS 39 introduced in 2008 and adopted by the European Union, a non-derivative financial asset may be reclassified out of the held-for-trading category if it is no longer held for the purpose of selling or repurchasing it in the near term, provided that one of the following circumstances occurs:

a. In rare or exceptional circumstances, unless the assets could have been included in the loans and receivables category. For these purposes, rare and exceptional circumstances are those arising from a particular event, which is unusual and highly unlikely to recur in the foreseeable future.

b. When the entity has the intention and financial ability to hold the financial asset for the foreseeable future or until maturity, provided that the asset had met the definition of loans and receivables at initial recognition.

In these circumstances, the financial asset is reclassified at its fair value on the date of reclassification, any gain or loss already recognized in profit or loss is not reversed, and this fair value becomes its amortized cost. The financial assets so reclassified can in no case be reclassified again into the held-for-trading category.

No reclassifications of the type described in the preceding paragraph were made during 2012 and 2011.

2.4 Hedge accounting and mitigation of risk

The Group uses financial derivatives as part of its strategy to reduce its exposure to interest rate, foreign currency and other risks. When these transactions meet the requirements stipulated in IAS 39, they qualify for hedge accounting.

When the Group designates a transaction as a hedge it does so upon initial recognition of the transactions or instruments included in the hedge, and the hedging transaction is documented appropriately. The hedge accounting documentation includes identification of the hedged item(s) and the hedging instrument(s), the nature of the risk to be hedged and the criteria or methods used by the Group to assess the effectiveness of the hedge over its entire life, taking into account the risk to be hedged.

The Group only applies hedge accounting for hedges that are considered highly effective over their entire lives. A hedge is considered to be highly effective if, during its expected life, the changes in fair value or cash flows of the hedged item that are attributable to the risk hedged in the hedging of the financial instrument(s) are almost fully offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument(s).

To measure the effectiveness of hedges defined as such, the Group analyses whether, from the beginning to the end of the term defined for the hedge, the Group can expect, prospectively, that the changes in fair value or cash flows of the hedged item that are attributable to the hedged risk will be almost fully offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument and, retrospectively, that the actual results of the hedge are within a range of 80% to 125% of the results of the hedged item.

Hedging transactions performed by the Group are classified as follows:

- Fair value hedges: hedge the exposure to changes in fair value of financial assets or liabilities or unrecognized firm commitments, or of an identified portion of such assets, liabilities or firm commitments, that is attributable to a particular risk, provided that it affects the income statement.
- Cash flow hedges: hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a financial asset or liability or a highly probable forecast transaction, provided that it affects the income statement.

In relation to financial instruments designated as hedged items or qualifying for hedge accounting, gains and losses are recognized as follows:

- In **fair value hedges,** the changes in the fair value of the derivative and the hedged item attributable to the hedged risk are recognized under the heading "Net gains (losses) on financial assets and liabilities" in the consolidated income statement (See Note 36).
- In **cash flow hedges,** the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognized temporarily in equity under "Valuation Adjustments - Cash Flow Hedges" (see Note 19.2) and are taken to the income statement in the years in which the designated hedged items affect the income statement. Financial instruments hedged in this type of hedging transactions are recognized as explained in Note 2.2, with no change being made in the recognition criteria due to their consideration as hedged items.

Generally, in cash flow hedges, the gains or losses arising on the effective portion of the hedging instruments are not recognized in the income statement until the gains or losses on the hedged item are recognized in income or, in the case of a hedge relating to a highly probable forecast transaction that results in the recognition of a non-financial asset or liability, they are recognized as part of the acquisition or issue cost when the asset is acquired or the liability assumed. In cash flow hedges, any gains or losses on the ineffective portion of the hedging instruments are recognized directly under “Gains/Losses on Financial Assets and Liabilities (Net)” in the income statement. In 2012 no amounts were recognized in the income statement in relation to ineffective hedges.

The Group discontinues hedge accounting when the hedging instrument expires or is sold, when the hedge no longer meets the requirements for hedge accounting or the designation as a hedge is revoked.

When, as explained in the preceding paragraph, hedge accounting is discontinued for a fair value hedge, in the case of hedged items carried at amortized cost, the value adjustments made as a result of the hedge accounting described above are recognized in the income statement through maturity of the hedged items, using the effective interest rate recalculated as at the date of discontinuation of hedge accounting.

If hedge accounting is discontinued for a cash flow hedge, the cumulative gain or loss on the hedging instrument recognized in “Equity - Valuation Adjustments” in the consolidated balance sheet shall continue to be recognized under this line item until the forecast transaction occurs, when it will be reclassified into the income statement; or it will adjust the acquisition cost of the asset or liability to be recorded, if the hedged item is a forecast transaction that results in the recognition of a non-financial asset or liability.

Note 11 details the nature of the main positions hedged by the Group and the financial hedging instruments used.

2.5. Foreign currency transactions

2.5.1. Functional currency

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

The detail, by currency and item, of the equivalent value in thousands of euros of the main asset and liability balances denominated in foreign currencies in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

Nature of Foreign Currency Balances:	EQUIVALENT VALUE IN THOUSANDS OF EUROS (*)			
	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Balances in US dollars				
Cash and balances with central banks	16,597	-	20,160	-
Financial assets and liabilities held for trading	6,369	29,504	360,005	399,696
Loans and receivables	22,533	-	130,036	-
Financial liabilities at amortized cost	-	167,440	-	819,097
Other financial liabilities at fair value through profit or loss	-	-	-	930,794
Other	409	409	417	417
	45,908	197,353	510,618	2,150,004
Balances in Japanese yen				
Cash and balances with central banks	457	-	964	-
Loans and receivables	5,174	-	77,639	-
Financial liabilities at amortized cost	-	14,079	-	3,257
	5,631	14,079	78,603	3,257
Balances in pounds sterling				
Cash and balances with central banks	11,225	-	13,323	-
Financial assets and liabilities held for trading	3,204	1,512	3,387	1,433
Available-for-sale financial assets	-	-	-	-
Loans and receivables	26,895	-	61,933	-
Tangible assets	-	-	-	-
Financial liabilities at amortized cost	-	59,503	-	180,312
Other	118	192	100	356
	41,442	61,207	78,743	182,101

(*) Equivalent value calculated by applying the exchange rates at 31 December 2012 and 2011, respectively.

Nature of Foreign Currency Balances:	EQUIVALENT VALUE IN THOUSANDS OF EUROS (*)			
	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Balances in Swiss francs				
Cash and balances with central banks	1,888	-	1,992	-
Loans and receivables	5,440	-	90,752	-
Financial liabilities at amortized cost	-	16,784	-	19,924
	7,328	16,784	92,744	19,924
Balances in Norwegian krone				
Cash and balances with central banks	891	-	985	-
Loans and receivables	4,722	-	3,280	-
Financial liabilities at amortized cost	-	5,306	-	3,777
	5,613	5,306	4,265	3,777
Balances in Swedish krone				
Cash and balances with central banks	593	-	550	-
Loans and receivables	3,151	-	3,793	-
Financial liabilities at amortized cost	-	3,692	-	2,757
	3,744	3,692	4,343	2,757
Balances in other currencies				
Cash and balances with central banks	6,472	-	8,954	-
Loans and receivables	17,483	-	19,827	-
Financial liabilities at amortized cost	-	22,122	-	17,439
Other	91	-	-	-
	24,046	22,122	28,781	17,439
Total balances denominated in foreign currencies	133,712	320,543	798,097	2,379,259

(*) Equivalent value calculated by applying the exchange rates at 31 December 2012 and 2011, respectively.

In addition to the currency positions recognized in the consolidated balance sheets at 31 December 2012 and 2011 shown in the preceding table, the Group recognized various currency derivatives and forward foreign currency contracts which are used to manage the exchange rate risk to which it is exposed and which should be considered together with the balance sheet positions for a correct understanding of the Group's exposure to such risks (see Note 25).

2.5.2. Translation of foreign currency balances

Foreign currency balances are translated to euros in two consecutive stages:

- Translation of foreign currency to the functional currency of each of the Group entities and joint ventures.
- Translation to euros of the balances of consolidated companies whose reporting currency is not the euro.

Translation of foreign currency to the functional currency: foreign currency transactions performed by Group companies are initially recognized in the financial statements at the equivalent value in their functional currencies, translated using the exchange rates prevailing at the transaction date. Subsequently, the following rules are applied:

1. Monetary assets and liabilities are translated at the closing rate, which is taken to be the average spot exchange rate at the date of the financial statements.
2. Non-monetary items measured at historical cost are translated to the functional currency at the exchange rate at the date of acquisition.
3. Non-monetary items measured at fair value are translated to the functional currency at the exchange rate at the date when the fair value was determined.
4. Income and expenses are translated at the exchange rate prevailing at the transaction date.

Entities whose reporting currency is not the euro: the balances in the financial statements of consolidated entities whose functional currency is not the euro are translated to euros as follows:

1. Assets and liabilities, at the closing rates.
2. Income and expenses and cash flows, at the average exchange rate for the year.
3. Equity items, at the historical exchange rates.

2.5.3. Exchange rates

The exchange rates used by the Group in translating the foreign currency balances to euros for the purpose of preparing the consolidated financial statements, taking into account the methods mentioned above, were those published by the European Central Bank.

2.5.4. Recognition of exchange differences

The exchange differences arising on the translation of foreign currency balances (using the aforementioned translation methods) to the functional currency of the Group are generally recognized at their net amount under "Exchange Differences (net)" in the consolidated income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognized under "Gains/Losses on Financial Assets and Liabilities (net)" in the consolidated income statement, without distinguishing them from other changes in their fair value.

However, exchange differences arising on non-monetary items measured at fair value through equity and exchange differences arising on the translation to euros of the financial statements of consolidated entities which are not denominated in euros are recognized in consolidated equity under "Valuation Adjustments - Exchange Differences" in the consolidated balance sheet until they are realized. Exchange differences recognized in consolidated equity are taken to the consolidated income statement when realized.

2.6. Recognition of income and expenses

The most significant accounting criteria used by the Group to recognize its income and expenses are summarized as follows:

2.6.1. Interest income, interest expenses, dividends and similar items

Interest income, interest expenses, dividends and similar items are generally recognized on an accrual basis using the effective interest method. Dividends received from other companies, other than those received from Group companies, jointly controlled entities or associates, as the case may be, are recognized as income when the Group's right to receive them arises.

2.6.2. Commissions, fees and similar items

Fee and commission income and expenses that are not to be included in the calculation of the effective interest rate of transactions and/or are not included in the acquisition cost of financial assets or liabilities other than those classified as at fair value through profit or loss are recognized 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 the acquisition of financial assets and liabilities measured at fair value through profit or loss are recognized in the consolidated income statement when collected or paid.
- Those arising from transactions or services that are performed over a period of time are recognized in the consolidated income statement over the life of these transactions or services.
- Those relating to services provided in a single act are recognized in the consolidated income statement when the single act is carried out.

2.6.3. Non-finance income and expenses

These are recognized for accounting purposes on an accrual basis.

2.6.4. Deferred collections and payments

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

2.7. Offsetting

Asset and liability balances are offset, i.e. reported in the consolidated balance sheet at their net amount, when, and only when, they arise from transactions in which a contractual or legal right of set-off exists and the Group intends to settle them on a net basis, or to realize the asset and settle the liability simultaneously.

In this regard, the presentation required by the applicable legislation in these consolidated financial statements in respect of the financial assets subject to valuation adjustments for decline in value or impairment, i.e. net of these adjustments, is not deemed to be "offsetting".

2.8. Transfers of financial assets

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 of the transferred assets to third parties -unconditional sale of financial assets, sale of financial assets with a repurchase agreement at its fair value at the repurchase date, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitization of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to new holders and other similar cases-, the transferred financial asset is derecognized and any rights or obligations retained or created in the transfer are recognized 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, securitization of financial assets in which a subordinated debt or another type of credit enhancement is retained that absorbs substantially all the expected credit losses on the securitized assets, and other similar cases-, the transferred financial asset is not derecognized and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognized, without offsetting:

- An associated financial liability, for an amount equal to the consideration received; this liability is subsequently measured at amortized cost, or, if the aforementioned requirements for classification of other financial liabilities at fair value through profit or loss are met, at fair value, in accordance with the aforementioned criteria for this type of financial liability.
- The income from the transferred financial asset not derecognized 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, securitization of financial assets in which the transferor retains a subordinated debt or another 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, the transferred financial asset is derecognized and any right or obligation retained or created in the transfer is recognized.

- If the transferor retains control, it continues to recognize the transferred financial asset in the consolidated balance sheet for an amount equal to its exposure to changes in value and recognizes a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortized cost of the rights and obligations retained, if the transferred asset is measured at amortized 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 derecognized when the cash flows they generate have been extinguished or when substantially all the significant inherent risks and rewards have been transferred to third parties.

Notes 30.2 and 30.5 contain a summary of the main circumstances of the principal transfers of assets outstanding at 2012 and 2011 year-end which did not lead to the derecognition of the related assets (securities lending transactions and sales of asset under non-optional repurchase agreements).

2.9. Impairment of financial assets

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.

In this connection, the situations whose occurrence is considered by the Group as objective evidence that a financial instrument might be impaired, and which give rise to a specific analysis of these financial instruments in order to determine the amount of their possible impairment, include those indicated in IAS 39.59 and, in particular with regard to debt instruments, those indicated in Annex IX of Bank of Spain Circular 4/2004. The situations that constitute objective evidence for the Group of the possible impairment of a financial instrument include the following:

a) significant financial difficulty of the issuer or obligor;

b) breach of the contract, such as default on or delayed payments of interest or principal;

c) when the Group, for economic or legal reasons relating to financial difficulties of the borrower, grants the borrower concessions or advantages that it would not otherwise have granted, in conformity with the requirements established in the legislation applicable to the Group at all times;

d) when it is considered probable that the borrower will be declared bankrupt or undergo any other form of financial reorganization relating to difficulties to meet its payment obligations;

e) when an active market for the financial asset in question ceases to exist due to financial difficulties of the debtor or of the counterparty of the risk assumed by the Group;

f) when observable data evidence a decrease in the estimated future cash flows in a homogenous group of financial assets since their initial recognition, even though the decrease cannot yet be identified with individual assets in the group. These data include:

   i) adverse changes in the ability to pay of the borrowers in the group, such as a growing number of delayed payments, debtors that display an inadequate financial structure or any other type of difficulty in meeting their payment obligations, or

   ii) changes in local or domestic economic conditions that correlate with defaults on the assets in the group, such as an increase in the unemployment rate in the geographical area of the borrowers or adverse changes in industry conditions that affect the parties borrowing from the Group.

g) for equity instruments, information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, as well as the specific situations affecting the entities invested in and which indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment, although it requires an analysis by the Group in order to ascertain whether this decrease actually relates to impairment of the investment thus allowing the Group to conclude that the amount invested by it will not be recovered.

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

When the recovery of any recognized amount is considered unlikely, the amount is written off ("written-off asset"), without prejudice to any actions that the Group 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 criteria applied by the Group to determine possible impairment losses in each of the various financial instrument categories and the method used to recognize such impairment losses are as follows:

2.9.1. Debt instruments carried at amortized cost

The amount of an impairment loss incurred on a debt instrument carried at amortized cost is equal to the positive difference between its carrying amount and the present value of its estimated future cash flows. The market value of quoted debt instruments is deemed to be a reliable estimate of the present value of their future cash flows.

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

- All the amounts that are expected to be obtained over the remaining life of the instrument, including, where appropriate, those which may result from the collateral provided for the instrument (less the costs for obtaining and subsequently selling the collateral).
- The 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 materialization of the insolvency risk of the obligors (credit risk), a debt instrument is impaired due to insolvency:

- When there is evidence of a deterioration of the obligor's ability to pay, either because it is in arrears or for other reasons, and/or;
- When country risk materializes: country risk is defined as the risk that is associated with debtors resident in a given country due to circumstances other than normal commercial risk.

Impairment losses on these assets resulting from materialization of the insolvency risk of the obligors (credit risk) 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 sector and geographical location, type of guarantee or collateral, age of past-due amounts receivable, etc.
- Collectively: the Group classifies transactions on the basis of the nature of the obligors, the conditions of the countries in which they reside, transaction status and type of collateral or guarantee, age of past-due amounts, etc. For each risk group it establishes the impairment losses ("identified losses"), which must be recognized in the financial statements consolidated, applying the parameters established by the Bank of Spain. Impairment losses are estimated taking into account the possibility of collection of the interest accrued on these impaired assets.

In addition, the Group recognizes an overall impairment loss on risks in relation to which specific losses have not been identified. This loss is quantified by application of the parameters established by the Bank of Spain based on experience and on the information available to it on the Spanish banking industry.

The amount of the impairment losses on debt instruments at amortized cost or, as the case may be, their subsequent reversal, estimated in accordance with the criteria described above, are recognized under "Impairment Losses on Financial Assets (net) - Loans and Receivables" and "Impairment Losses on Financial Assets (net) - Other Financial Assets Not Measured at Fair Value Through Profit or Loss", depending on the category of financial instrument in which the debt instruments are classified (see Note 2.2).

2.9.2. Debt instruments classified as available for sale

The amount of the impairment losses on debt instruments included in the available-for-sale financial asset portfolio is the positive difference between their acquisition cost (net of any principal repayment or amortization) and their fair value less any impairment loss previously recognized in the consolidated income statement.

In the case of impairment losses arising due to the insolvency of the issuer of the debt instruments classified as available for sale, the procedure followed by the Group for calculating such losses is the same as the method used for debt instruments carried at amortized cost explained in section 2.9.1 above.

When there is objective evidence that the losses arising on measurement of these assets are due to impairment, they are removed from the consolidated equity item "Valuation Adjustments - Available-for-Sale Financial Assets" and are recognized, for their cumulative amount, in the consolidated income statement under "Impairment Losses (net) - Other Financial Instruments Not Measured at Fair Value Through Profit or Loss". If all or part of the impairment losses are subsequently reversed, the reversed amount would be recognized in the consolidated income statement for the period in which the reversal occurred under "Impairment Losses on Financial Assets (net) -Other Financial Assets Not Measured at Fair Value Through Profit or Loss".

Similarly, the impairment losses arising on measurement of debt instruments classified as "non-current assets held for sale" which are recognized in the Group's consolidated equity are considered to be realized and, therefore, are recognized in the consolidated income statement when the assets are classified as "non-current assets held for sale".

2.9.3. Equity instruments classified as available for sale

The impairment losses on equity instruments included in the available-for-sale financial asset portfolio are the positive difference between their acquisition cost (net of any principal repayment or amortization) and their fair value less any impairment loss previously recognized in the consolidated income statement.

The criteria for recognizing impairment losses on equity instruments classified as available for sale are similar to those for debt instruments classified as available for sale (as explained in Note 2.9.2), with the exception that any reversal of these losses is recognized in consolidated equity under “Valuation Adjustments - Available-for-Sale Financial Assets” rather than in the consolidated income statement.

2.9.4. Equity instruments carried at cost

The amount of the impairment losses on equity instruments carried at cost is the positive difference between their 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 recognized 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.

2.10. Financial guarantees and provisions for 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, irrevocable documentary credits issued or confirmed by the Group, etc.

In accordance with EU-IFRSs, the financial guarantees provided by the Group are treated as financial instruments.

> 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 amortized cost (described in Note 2.9.1 above).

> The provisions for financial guarantees are recognized under "Provisions - Provisions for Contingent Liabilities and Commitments" on the liability side of the consolidated balance sheet (see Note 18). These provisions are recognized and reversed with a charge or credit, respectively, to "Provisions (Net)" in the consolidated income statement.

2.11. Staff costs

As part of the incorporation process of Cecabank, S.A., which arose from the spin-off carried out by the Confederación (see Note 1.1), with effect from 1 January 2012, Cecabank, S.A. subrogated to all the commitments that the Confederación held with its current and former employees, since these employees began to render their services at Cecabank, S.A.

2.11.1. Pension obligations

Under the Collective Labour Agreement currently in force, Cecabank, S.A. is required to supplement the social security benefits accruing to its employees or their beneficiary right holders in the event of retirement, disability, death of spouse or death of parent.

Cecabank, S.A.'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".

The actuarial gains and losses on the measurement of defined benefit plans are recognized in the consolidated income statement by Cecabank, S.A. in the year in which they arise.

The Confederación has set up an external fund known as the "CECA Employees' Pension Plan" and has taken out insurance policies to cover its pension obligations to its employees. The external fund, in turn, comprises three subplans: a defined benefit plan (for employees hired by the Entity prior to 30 May 1986 who opted not to convert their benefits into defined contribution benefits and for early retirees) and two defined contribution retirement benefit subplans (for employees hired by the Entity prior to 30 May 1986 who opted to convert their benefits into defined contribution benefits, as described below, and for employees hired by the Entity after 29 May 1986, respectively). The pension plan also includes the obligations to the beneficiaries of the benefits.

In 2003 the defined benefit pension subplan was converted into a defined contribution scheme for most current employees for whom this possibility was envisaged in the Collective Company Agreement on Early Retirement and Supplementary Employee Welfare Benefits ("the Agreement") entered into by the Entity and representatives of its Workers' Committee and Workplace Trade Union Branch on 2 April 2001.

In 2011, the Control Committee of the CECA Employees' Pension Plan, pursuant to the obligations previously acquired, resolved to take out an insurance policy to cover the supplementary vested pension income payable to the beneficiaries of the pension plan. The policy is in line with the benefits payable to the group of beneficiaries of the pension plan in order to ensure these obligations are met.

In 2012 the accrued expense for the contributions to be made to the external pension fund, relating to defined contribution plans, amounted to EUR 348 thousand (2011: EUR 772 thousand) which are recognized under "Administrative Expenses – Staff Costs" in the consolidated income statement (see Note 38).

Pursuant to the aforementioned Agreement, in 2003 the Confederación decided to insure contributions to the pension plan in excess of the current legal and tax ceilings by arranging two insurance policies with Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. ("Caser"). In 2004 the Confederación converted one of these policies into a single-premium policy. The premiums on these policies and on other insurance policies covering pension obligations and other obligations to employees totaled EUR 740 thousand in 2012 (2011: EUR 4,203 thousand), and this amount was recognized under "Administrative Expenses – Staff Costs" in the consolidated income statement (see Note 38).

At 31 December 2012, the total pension obligations to current and retired employees amounted to EUR 158,550 thousand (31 December 2011: EUR 166,042 thousand). Of this amount, EUR 154,078 thousand were covered by the aforementioned external pension fund and insurance policies (31 December 2011: EUR 159,922 thousand), and EUR 4,472 thousand by an internal provision recognized under "Provisions - Provisions for Pensions and Similar Obligations" in the consolidated balance sheet (31 December 2011: EUR 6,119 thousand) (see Note 18) that had not yet been transferred to the external pension fund at 31 December 2012.

The actuarial assumptions used in calculating these obligations were:

> PERM 2000-P mortality tables

> Discount rate:

- 4.27% for the obligations covered by the external pension plan
- 4.75% for the obligations covered in the insurance policies of the pension plan
- 2.35% for the differential between the 1,5% growth, and the one covered by the policy.

> Adjustable pension increase rate of 1.5%

> Adjustable salary increase rate of 2.68%

> Expected rate of return on pension plan assets

- Expected rate of return on pension plan assets of 4.27%
- Expected increase rates of 4.75% for the obligations covered by insurance policies

The method employed to determine the discount rate is based upon Spanish regulation for insured obligations and/or insurance policies. Likewise, for the commitments held in the internal fund, a market discount rate has been applied.

2.11.2. Other long-term benefits

2.11.2.1. Early retirements

The aforementioned Agreement entered into by the Cecabank, S.A., the Workplace Trade Union Branch and the representatives of the Workers' Committee envisaged the possibility of voluntary early retirement for certain Cecabank, S.A. employees who met specific age requirements on the date the Agreement came into force in the form of several non-discriminatory offers, which ended on 31 December 2003. Employees who did not accept early retirement during the offer period were excluded from further offers in subsequent years.

On 7 April 2011, an agreement was entered into between the Entity, the Workplace Trade Union Branch and the representatives of the Workers' Committee, under which a Pre-Retirement Plan was established for all employees who at 31 December 2011 were at least 55 years of age and had been in the Entity's employ for at least ten years. The general registration period for employees wishing to participate in this plan ended on 13 May 2011.

Also, on 25 June 2012, an agreement additional to the one mentioned in the previous paragraph was entered into between the entity, the Workplace Trade Union Branch and the representatives of the Works Council, under which a Pre-Retirement Plan was established for all employees who at 31 December 2012 were at least 53 years of age and had been in the entity's employ for at least ten years. The general registration period for employees wishing to participate in this plan ended on 20 July 2012. This agreement also includes other measures such as termination benefits for the group of employees not included in the pre-retirement plans mentioned above (for which the deadline for participating was 30 September 2012), unpaid leave and reduced working hours (the deadline for participating was 30 October 2012).

At 31 December 2012, the obligations in respect of future salaries, future social security costs and incentives relating to early retirees, as well as the obligations for future contributions to the Pension Plan (all of which were considered as defined benefit obligations) were covered by an internal provision amounting to EUR 89,097 thousand, which was recognized under "Provisions - Provisions for Pensions and Similar Obligations" in the balance sheet (see Note 18) and related to early retirement obligations incurred as a result of the aforementioned Agreement dated 7 April 2011 and 25 June 2012. At 31 December 2012 this provision covered the full amount of the Entity's early retirement obligations at those dates.

The obligations covered by this internal provision were calculated by an independent actuary, using the following hypothesis:

- PERM/F 2000-P mortality tables
- Discount rate of 1.00%
- Growth
  - 1.5% increase in adjustable pre-retirement salaries for 2011.
  - 0.00% increase in adjustable pre-retirement salaries for 2012.

The method employed to determine the discount rate is based upon Spanish regulation for insured obligations and/or insurance policies. Likewise, for the commitments held in the internal fund, a market discount rate has been applied.

2.11.2.2. Death and disability

The commitments for death or disability of current employees are included in the benefits covered by the aforementioned pension fund.

2.11.2.3. Long-service bonuses

The Group has undertaken to pay a bonus to employees reaching 25 years of service at the Entity.

The amounts paid in this connection at 2012 and 2011 year-end totaled approximately EUR 94 thousand and EUR 265 thousand, respectively.

2.11.3. Termination benefits

Under current legislation, Cecabank, S.A. is required to pay termination benefits to employees terminated without just cause.

As mentioned above in Note 2.11.2, the agreement entered into in 2012 included, inter alia, termination benefits for the group of employees not included in the pre-retirement plans. In this regard, an amount was recognized by Cecabank, S.A. in this connection under “Provisions (Net)” in the accompanying income statement. Furthermore, in 2012 adjustments were made to the provisions recognized in previous years amounting to EUR 3,114 thousand (see Note 38), and EUR 2,790 thousand were paid in this connection.

Also, Cecabank, S.A. has agreements with some of its executives and/or directors to pay them certain benefits in the event that they are terminated without just cause. The amount of the benefit, which in any case would not have a material effect on the Group, would be charged to the income statement when the decision to terminate the employment of the executive or director concerned was made.

2.11.4. Loans to employees

Under the collective labour agreement in force and the additional agreements entered into in 2004 with Cecabank's employees, employees are entitled to apply for mortgage loans from the Cecabank, S.A. for a maximum period of 40 years at an interest rate of 70% of Euribor with lower and upper limits for 2012 of 1.50% and 5.25%, respectively.

Under the applicable industry collective labour agreement and pursuant to collective agreements reached by the Cecabank, S.A. implementing it, employees of the Cecabank, S.A. may, in specific cases, apply for interest free advances and other "welfare" loans or loans for the expansion of their residence, with a repayment period of 10 and 15 years, respectively, at the Euribor interest rate.

In the event of exceptional circumstances requiring an employee of the Cecabank, S.A. to apply for a type of loan that does not fully or partially comply with the regulations stipulated in the industry collective labour agreement, or its implementing regulations, the employee may apply for the loan through the ALCO, indicating the exceptional circumstances.

These loans are recognized at amortized cost under "Loans and Receivables - Loans and Advances to Customers" in the consolidated balance sheet.

2.12. Income tax

The income tax expense is recognized in the consolidated income statement, except when it results from a transaction recognized directly in the Group's equity, in which case the income tax is also recognized in the Group's equity.

The current income tax expense is calculated as the tax payable with respect to the taxable profit for the year, adjusted by the amount of the changes in the year in the assets and liabilities (deferred taxes) recognized as a result of temporary differences and tax credit and tax loss carry forwards (see Note 22).

The Group considers that there is a temporary difference when there is a difference between the carrying amount of an asset or liability and its tax base. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. A taxable temporary difference is one that will generate a future obligation for the Group to make a payment to the related tax authorities. A deductible temporary difference is one that will generate a right for the Group to a refund or a reduction in its tax charge in the future.

Tax credit and tax loss carry forwards are amounts that, after performance of the activity or obtainment of the profit or loss giving entitlement to them, are not used for tax purposes in the related tax return until the conditions for doing so established in the tax regulations are met and the Group considers it probable that they will be used in future periods.

Current tax assets and liabilities are the taxes that are expected to be recoverable from or payable to the related tax authorities within 12 months from the balance sheet date. Deferred tax assets and liabilities are the taxes that are expected to be recoverable from or payable to the related tax authorities in over 12 months from the balance sheet date.

Deferred tax liabilities are recognized for all taxable temporary differences. However, deferred tax liabilities arising from the initial recognition of goodwill are not recognized.

The Group only recognizes deferred tax assets arising from deductible temporary differences and from tax credit and for tax loss carry forwards when the following conditions are met:

- If it is considered probable that the Group will obtain sufficient future taxable profit against which the deferred tax assets can be utilized; and
- In the case of deferred tax assets arising from tax loss carry forwards, the tax losses result from identifiable causes which are unlikely to recur.

No deferred tax assets or liabilities are recognized if they arise from the initial recognition of an asset or liability (except in the case of a business combination) that at the time of recognition affects neither accounting profit nor taxable profit.

The deferred tax assets and liabilities recognized are reassessed at each balance sheet 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.

2.13. Tangible assets

2.13.1. Property, plant and equipment for own use

Property, plant and equipment for own use includes the assets that are held by the Group for present or future administrative purposes other than those of welfare projects, or for the production or supply of goods and services and which are expected to be used for more than one year. Property, plant and equipment for own use is recognized at acquisition cost in the consolidated balance sheet, less:

- The related accumulated depreciation, and
- Any estimated impairment losses (net carrying amount higher than recoverable amount).

In accordance with current regulations, with effect from 1 January 2004, the Group measured certain items of property, plant and equipment for own use at fair value at that date and this fair value was deemed to be their new acquisition cost for all purposes.

Depreciation is calculated by 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 tangible asset depreciation charge is recognized under "Depreciation and Amortization" in the consolidated income statement and is calculated basically using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	ANNUAL RATE
Property	2% to 4%
Furniture and office equipment	10% to 15%
Computer hardware	15% to 25%
Fixtures	8% to 12%
Transport equipment	16%

The Group assesses at the reporting date whether there is any internal or external 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 must be re-estimated). When necessary, the carrying amount of property, plant and equipment for own use is reduced with a charge to "Impairment Losses on Other Assets (Net) - Other Assets" in the consolidated income statement.

Similarly, if there is an indication of a recovery in the value of a previously impaired tangible asset, the Group recognizes the reversal of the impairment loss recognized in prior periods with the related credit to "Impairment Losses on Other Assets (Net) - Other Assets" in the consolidated income statement and adjusts 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 recognized in prior years.

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

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognized as an expense under "Administrative Expenses – Other General Administrative Expenses" in the consolidated income statement in the year in which they are incurred.

2.13.2. Property, plant and equipment assigned to welfare projects

"Tangible Assets - Property, Plant and Equipment Assigned to Welfare Projects" in the consolidated balance sheet includes the carrying amounts of the tangible assets assigned to the Confederación's welfare projects.

The criteria used to recognize the acquisition cost of assets assigned to welfare projects, to calculate their depreciation and their respective estimated useful lives and to recognize any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use (see Note 2.13.1), the only exception being that the depreciation charges and the recognition and reversal of any impairment losses on these assets are not recognized in the consolidated income statement but rather under "Welfare Fund" on the liability side of the consolidated balance sheet (see Note 29).

At 31 December 2012 and 2011, and throughout those years, there were no tangible assets assigned to welfare projects.

2.13.3. Investment property

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

The criteria used to recognize the acquisition cost of investment property, to calculate its depreciation and its estimated useful life and to recognize any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use (see Note 2.13.1).

2.14. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which arise as a result of a legal transaction or which are developed internally by the Group. Only intangible assets whose cost can be estimated reasonably objectively and from which the Group considers it probable that future economic benefits will be generated are recognized.

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

2.14.1. Other intangible assets

Intangible assets other than goodwill are recognized in the consolidated balance sheet at acquisition or production cost, less the related accumulated amortization and any accumulated impairment losses.

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 Group- or a finite useful life, in all other cases.

Intangible assets with indefinite useful lives are not amortized, but rather at the end of each reporting period the Group reviews 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. At 31 December 2012 and 2011, and throughout these years, there were no intangible assets with indefinite useful lives.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives, which range from three to five years depending on the class of asset. The period amortization charge for intangible assets with finite useful lives is recognized under “Depreciation and Amortization” in the consolidated income statement.

For intangible assets other than goodwill with indefinite useful lives and with finite useful lives, the Group recognizes any impairment loss on the carrying amount of these assets, and any reversal of previously recognized impairment losses, with a charge or credit, as appropriate, to “Impairment Losses on Other Assets (net) - Goodwill and Other Intangible Assets” in the consolidated income statement. The criteria used to recognize the impairment losses on these assets and, where applicable, the reversal of impairment losses recognized in prior years are similar to those used for property, plant and equipment for own use (see Note 2.13.1), except that in no circumstances may any impairment recognized for goodwill in the consolidated balance sheet be reversed.

2.15. Provisions and contingent liabilities

When preparing the consolidated financial statements, the directors made a distinction between:

- **Provisions:** credit balances covering present obligations at the balance sheet consolidated 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
- **Contingent liabilities:** possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated entities.

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. Contingent liabilities are not recognized in the consolidated financial statements, but rather are disclosed, as required by the applicable standards.

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 recognized. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

The provisions considered necessary pursuant to the foregoing criteria and their eventual reversal, should the reasons for their recognition disappear, are recognized with a charge or credit, respectively, to "Provisions (net)" in the consolidated income statement.

2.15.1. Litigation and/or claims in process

At the end of 2012 certain litigation and claims were in process against the Group arising from the ordinary course of its operations. The Group's legal advisers and directors consider that the outcome of the litigation and claims will not have a material effect on the consolidated financial statements for the years in which they are settled.

2.16. Consolidated cash flow statements

The following terms are used in the consolidated cash flow statements 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. Operating activities also include interest paid on any financing received, even if this financing is considered to be financing activity. Activities performed with the various financial instrument categories detailed in Note 2.2.4 above are classified, for the purpose of this statement, as operating activities.
- Investing activities: the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents, such as tangible assets, intangible assets, investments, non-current assets held for sale and associated liabilities, equity instruments classified as available for sale which are strategic investments and debt instruments included in held-to-maturity investments.
- Financing activities: includes the cash flows from activities that result in changes in the size and composition of the consolidated equity and liabilities that are not operating activities.

For cash flow statement preparation purposes, the balance of “Cash and Balances with Central Banks” on the asset side of the consolidated balance sheet, disregarding any impairment losses, was considered to be “cash and cash equivalents”.

2.17. Non-current assets held for sale

"Non-Current Assets Held for Sale" in the consolidated balance sheet includes the carrying amount of items - individual items, disposal groups or items forming part of a business unit earmarked for disposal ("discontinued operations") - which, because of their nature, are estimated to have a realization or recovery period exceeding one year, but are earmarked for disposal by the Group and whose sale in their present condition is highly probable to be completed within one year from the date of the consolidated financial statements.

Investments in associates that meet the requirements set forth in the foregoing paragraph are also considered to be non-current assets held for sale.

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 rather than from continuing use.

Specifically, property or other non-current assets received by the consolidated entities as total or partial settlement of its debtors' payment obligations to it are deemed to be non-current assets held for sale, unless the consolidated entities has decided classified as property, plant and equipment for own use, investment property or inventories on the basis of their nature and intended use. These assets are initially recognized at cost, which is taken to be the carrying amount of the debts giving rise to them, calculated in accordance with the regulations applicable to the Group. Subsequently, these assets are measured as indicated in this Note.

Symmetrically, "Liabilities Associated with Non-Current Assets Held for Sale" in the consolidated balance sheet includes the balances payable, if any, associated with disposal groups and the Group's discontinued operations.

In general, non-current assets held for sale are measured at the lower of their carrying amount calculated as at the classification date and their fair value less estimated costs to sell. Tangible and intangible assets that are depreciable and amortizable by nature are not depreciated or amortized during the time they remain classified in this category.

If the carrying amount of the assets exceeds their fair value less costs to sell, the Group adjusts the carrying amount of the assets by the amount of the excess with a charge to “Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations” in the consolidated income statement. If the fair value of such assets subsequently increases, the Group reverses the losses previously recognized and increases the carrying amount of the assets without exceeding the carrying amount prior to the impairment, with a credit to “Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations” in the consolidated income statement.

Despite the foregoing, financial assets, assets arising from remuneration to employees and any deferred tax assets that are part of a disposal group or of a discontinued operation are not measured as described in the preceding paragraphs, but rather in accordance with the accounting policies and rules applicable to these items, which were explained in previous sections of Note 2.

2.18. Welfare Fund

The Confederación’s Welfare Fund is recognized under “Welfare Fund” on the liability side of the consolidated balance sheet (see Note 29).

Transfers to the welfare fund are recorded as an appropriation of the Confederación’s profit. Welfare project expenses are presented in the consolidated balance sheet as deductions from the welfare fund and in no case may they be recognized in the consolidated income statement. Tangible assets and liabilities assigned to welfare projects, if any, are included in separate asset and liability items in the consolidated balance sheet.

2.19. Consolidated statement of recognized income and expense

The consolidated statement of recognized income and expense 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 recognized in the consolidated income statement for the year and the other income and expenses recognized, 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 recognized temporarily in consolidated equity under "Valuation Adjustments".

c) The net amount of the income and expenses recognized definitively in consolidated equity during the year and other items that are recognized directly and definitively in consolidated equity, if any.

d) The income tax incurred in respect of the items indicated in b) and c) above.

e) The total recognized consolidated income and expenses, calculated as the sum of a) and d) above.

The changes in income and expenses recognized 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, recognized directly in consolidated equity. The amounts recognized in the year under "Valuation Adjustments" are recorded in this line item, even though they are transferred in the same year to the consolidated income statement, to the initial value of other assets or liabilities, or are reclassified into another line item.

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

c) Amount transferred to the initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognized in consolidated equity, albeit in the same year, which are recognized 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.

The amounts of these items are presented gross and the related tax effect is recognized in this statement under "Income Tax".

2.20. Consolidated statement of changes in total equity

The consolidated statement of changes in total equity 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 in the year are grouped together on the basis of their nature into the following items:

a) Adjustments due to changes in accounting policies and adjustments made to correct errors: include significant 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) Recognized income and expense: includes the total recognized income and expenses reported in the consolidated statement of recognized income and expense.

c) Other changes in equity: includes the remaining items recognized in consolidated equity, including, inter alia, distribution of Group profit, transfers between consolidated equity items and any other increases or decreases in consolidated equity.

2.21. Reserves

The balance of "Reserves - Accumulated Reserves (Losses)" in the consolidated balance sheets at 31 December 2012 and 2011 includes, by type:

- Asset revaluation reserves: reserves generated in previous years to recognize the adjustment performed by the Group on the date of first-time application of EU-IFRSs in order to recognize certain items of property, plant and equipment at their fair value at that date.
- Unrestricted reserves from retained earnings generated by various Group entities in prior years.

Note 20 includes information relating to the Group's reserves at 31 December 2012 and 2011.

3. Confederación Española de Cajas de Ahorros Group

Confederación Española de Cajas de Ahorros (CECA) is the Group's Parent. Its individual financial statements are prepared by applying the accounting principles and standards included in Bank of Spain Circular 4/2004, of 22 December, for credit institutions on public and confidential financial reporting rules and financial statement formats.

Following are the financial statements of Confederación Española de Cajas de Ahorros at 31 December 2012 and 2011 and for the years then ended:

3.1. Confederación Española de Cajas de Ahorros

BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

Page 1 of 3

ASSETS	2012	2011
1. Cash and balances with central banks	-	492,394
2. Financial assets held for trading	-	5,781,782
2.1 Loans and advances to credit institutions	-	-
2.2 Loans and advances to customers	-	-
2.3 Debt instruments	-	664,492
2.4 Equity instruments	-	39,284
2.5 Trading derivatives	-	5,078,006
Memorandum item: Loaned or advanced as collateral	-	328,709
3. Other financial assets at fair value through profit or loss	-	999,877
3.1 Loans and advances to credit institutions	-	493,590
3.2 Loans and advances to customers	-	506,287
3.3 Debt instruments	-	-
3.4 Equity instruments	-	-
Memorandum item: Loaned or advanced as collateral	-	169,324
4. Available-for-sale financial assets	-	3,608,306
4.1 Debt instruments	-	3,488,733
4.2 Equity instruments	-	119,573
Memorandum item: Loaned or advanced as collateral	-	1,928,145

BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

ASSETS	2012	2011
5. Loans and receivables	13,542	5,304,647
5.1 Loans and advances to credit institutions	13,542	2,403,417
5.2 Loans and advances to customers	-	458,590
5.3 Debt instruments	-	2,442,640
Memorandum item: Loaned or advanced as collateral	-	611,190
6. Held-to-maturity investments	-	-
Memorandum item: Loaned or advanced as collateral	-	-
7. Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
8. Hedging derivatives	-	10
9. Non-current assets held for sale	-	84
10. Investments	648,817	515
10.1 Associates	-	-
10.2 Jointly controlled entities	-	451
10.3 Subsidiares	648,817	64
11. Insurance contracts linked to pensions	-	-

BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

ASSETS	2012	2011
13. Tangible assets	-	98,414
13.1 Property, plant and equipment	-	97,282
13.1.1 For own use	-	97,282
13.1.2 Leased out under an operating lease	-	-
13.1.3 Assigned to welfare projects	-	-
13.2 Investment property	-	1,132
Memorandum item: Acquired under a finance lease	-	-
14. Intangible assets	-	2,446
14.1 Goodwill	-	-
14.2 Other intangible assets	-	2,446
15. Tax assets	1,372	128,981
15.1 Current	1,372	639
15.2 Deferred	-	128,342
16. Total assets	24	42,031
TOTAL ASSETS	663,755	16,459,487
MEMORANDUM ITEMS		
1. Contingent liabilities	-	137,602
2. Contingent commitments	-	2,297,670

BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

LIABILITIES AND EQUITY	2012	2011
LIABILITIES		
1. Financial liabilities held for trading	-	5,360,647
1.1 Deposits from central banks	-	-
1.2 Deposits from credit institutions	-	-
1.3 Customer deposits	-	-
1.4 Marketable debt securities	-	-
1.5 Trading derivatives	-	5,017,293
1.6 Short positions	-	343,354
1.7 Other financial liabilities	-	-
2. Other financial liabilities at fair value through profit or loss	-	2,324,724
2.1 Deposits from central banks	-	930,840
2.2 Deposits from credit institutions	-	352,750
2.3 Customer deposits	-	1,041,134
2.4 Marketable debt securities	-	-
2.5 Subordinated liabilities	-	-
2.6 Other financial liabilities	-	-

BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

Page 2 of 4

LIABILITIES AND EQUITY	2012	2011
LIABILITIES		
3. Financial liabilities at amortised cost	101	7,000,314
3.1 Deposits from central banks	-	344,845
3.2 Deposits from credit institutions	-	2,917,015
3.3 Customer deposits	-	3,447,709
3.4 Marketable debt securities	-	-
3.5 Subordinated liabilities	-	-
3.6 Other financial liabilities	101	290,745
4. Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
5. Hedging derivatives	-	25,759
6. Liabilities associated with non-current assets held for sale	-	-
8. Provisions	-	206,302
8.1 Provisions for pensions and similar obligations	-	65,467
8.2 Provisions for taxes and other legal contingencies	-	-
8.3 Provisions for contingent liabilities and commitments	-	17
8.4 Other provisions	-	140,818
9. Tax liabilities	-	44,926
9.1 Current	-	8,443
9.2 Deferred	-	36,483

BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

LIABILITIES AND EQUITY	2012	2011
LIABILITIES		
10. Welfare fund	215	215
11. Other liabilities	126	763.135
12. Capital repayable an demand	-	-
TOTAL LIABILITIES	442	15.726.022
EQUITY		
1. Own funds	663,313	738,288
1.1 Endowment fund	-	-
1.1.1 Registered capital	-	-
1.1.2 Less: Uncalled capital	-	-
1.2 Share premium	-	-
1.3 Reserves	653,175	669,481
1.4 Other equity instruments	799	30,051
1.4.1 Equity component of compound financial instruments	-	-
1.4.2 Non-voting equity units and associated funds	799	30,051
1.4.3 Other equity instruments	-	-
1.5 Less: Treasury shares	-	-
1.6 Profit for the year	9,339	38,756
1.7 Less: Dividends and remuneration	-	-

BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (THOUSANDS OF EUROS)

LIABILITIES AND EQUITY	2012	2011
EQUITY		
2. Valuation adjustments	-	(4,823)
2.1 Available-for-sale financial assets	-	(4,823)
2.2 Cash flow hedges	-	-
2.3 Hedges of net investments in foreign operations	-	-
2.4 Exchange differences	-	-
2.5 Non-current assets held for sale	-	-
2.7 Other valuation adjustments	-	-
TOTAL EQUITY	663,313	733,465
TOTAL LIABILITIES AND EQUITY	663,755	16,459,487

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

	INCOME / (EXPENSE)	
	2012	2011
1. Interest and similar income	3,008	323,055
2. Interest expense and similar charges	-	(208,463)
3. Return of equity refundable on demand	-	-
A. NET INTEREST INCOME	3,008	114,592
4. Income from equity instruments	4,000	115,005
5. Fee and commission income	-	103,854
6. Fee and commission expense	-	(32,710)
8. Gains/losses on financial assets and liabilities (net)	-	(50,724)
8.1 Held for trading	-	(35,004)
8.2 Other financial instruments at fair value through profit or loss	-	(10,577)
8.3 Financial instruments not measured at fair value through profit or loss	-	(924)
8.4 Other	-	(4,219)
9. Exchange differences (net)	-	27,021
10. Other operating income	13,429	74,369
11. Other operating expenses	-	(3,142)

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011
(THOUSANDS OF EUROS)

Page 2 of 3

	INCOME / (EXPENSE)	
	2012	2011
B. GROSS INCOME	20,437	348,265
12. Administrative expenses	(12,024)	(164,660)
12.1 Staff costs	(578)	(81,734)
12.2 Other general administrative expenses	(11,446)	(82,926)
13. Depreciation and amortisation	-	(7,566)
14. Provisions (net)	-	(132,775)
15. Impairment losses on financial assets (net)	-	4,798
15.1 Loans and receivables	-	9,735
15.2 Other financial instruments not measured at fair value through profit or loss	-	(4,937)
C. PROFIT FROM OPERATIONS	8,413	48,062
16. Impairment losses on other assets (net)	-	-
16.1 Goodwill and other intangible assets	-	-
16.2 Other assets	-	-
17. Gains (losses) on disposal of assets not classified as non-current assets held for sale	-	(7)
18. Negative goodwill on business combinations	-	-
19. Gains (losses) on non-current assets held for sale not classified as discontinued operations	-	945

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

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	INCOME / (EXPENSE)	
	2012	2011
D. PROFIT BEFORE TAX	8,413	49,000
20. Income tax	926	(10,244)
21. Mandatory transfer to welfare projects and funds	-	-
E. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	9,339	38,756
22. Profit/Loss from discontinued operations (net)	-	-
E. PROFIT FOR THE YEAR	9,339	38,756

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

	2012	2011
A. PROFIT FOR THE YEAR	9,339	38,756
B. OTHER RECOGNISED INCOME AND EXPENSE	4,823	349
1. Available-for-sale financial assets	6,890	499
1.1 Revaluation gains (losses)	-	(1,389)
1.2 Amounts transferred to income statement	-	1,888
1.3 Other reclassifications	6,890	-
2. Cash flow hedges	-	-
2.1 Revaluation gains (losses)	-	-
2.2 Amounts transferred to income statement	-	-
2.3 Amounts transferred to the initial carrying amount of hedged items	-	-
2.4 Other reclassifications	-	-
3. Hedges of net investments in foreign operations	-	-
3.1 Revaluation gains (losses)	-	-
3.2 Amounts transferred to income statement	-	-
3.3 Other reclassifications	-	-

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

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	2012	2011
4. Exchange differences	-	-
4.1 Revaluation gains (losses)	-	-
4.2 Amounts transferred to income statement	-	-
4.3 Other reclassifications	-	-
5. Non-current assets held for sale	-	-
5.1 Revaluation gains (losses)	-	-
5.2 Amounts transferred to income statement	-	-
5.3 Other reclassifications	-	-
6. Actuarial gains (losses) on pension plans	-	-
8. Other recognised income and expense	-	-
9. Income tax	(2,067)	(150)
C. TOTAL RECOGNISED INCOME AND EXPENSE (A+B)	14,162	39,105

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

(THOUSANDS OF EUROS)

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	OWN FUNDS									
	ENDOWMENT FUND	SHARE PREMIUM	RESERVES	OTHER EQUITY INSTRUMENTS	LESS: TREASURY SHARES	PROFIT FOR THE YEAR	LESS: DIVIDENDS AND REMUNERATION	TOTAL OWN FUNDS	VALUATION ADJUSTMENTS	TOTAL EQUITY
1. Ending balance at 01/01/12	-	-	669,481	30,051	-	38,756	-	738,288	(4,823)	733,465
1.1. Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-
1.2. Adjustments made to correct errors	-	-	-	-	-	-	-	-	-	-
2. Adjusted beginning balance	-	-	669,481	30,051	-	38,756	-	738,288	(4,823)	733,465
3. Total recognised income and expense	-	-	-	-	-	9,339	-	9,339	4,823	14,162
4. Other changes in equity	-	-	-	(29,252)	-	(38,756)	-	(84,314)	-	(84,314)
4.1. Increases in endowment fund	-	-	-	-	-	-	-	-	-	-
4.2. Capital reductions	-	-	-	(29,252)	-	-	-	(29,252)	-	(29,252)
4.3. Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-
4.4. Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-
4.5. Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-
4.6. Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-
4.7. Distribution of dividends / Remuneration of shareholders	-	-	-	-	-	(1,667)	-	(1,667)	-	(1,667)
4.8. Transactions involving own equity instruments	-	-	-	-	-	-	-	-	-	-
4.9. Transfers between equity items	-	-	33,374	-	-	(33,374)	-	-	-	-
4.10. Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-
4.11. Discretionary transfer to welfare projects and funds	-	-	-	-	-	(3,715)	-	(3,715)	-	(3,715)
4.12. Equity-instrument-based payments	-	-	-	-	-	-	-	-	-	-
4.13. Other increases (decreases) in equity	-	-	(49,680)	-	-	-	-	(49,680)	-	(49,680)
5. Ending balance at 31/12/12	**-**	**-**	**653,175**	**799**	**-**	**9,339**	**-**	**663,313**	**-**	**663,313**

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

(THOUSANDS OF EUROS)

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	OWN FUNDS									
	ENDOWMENT FUND	SHARE PREMIUM	RESERVES	OTHER EQUITY INSTRUMENTS	LESS: TREASURY SHARES	PROFIT FOR THE YEAR	LESS: DIVIDENDS AND REMUNERATION	TOTAL OWN FUNDS	VALUATION ADJUSTMENTS	TOTAL EQUITY
1. Ending balance at 01/01/11	-	-	623,547	30,051	-	52,337	-	705,935	(5,172)	700,763
1.1. Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-
1.2. Adjustments made to correct errors	-	-	-	-	-	-	-	-	-	-
2. Adjusted beginning balance	-	-	623,547	30,051	-	52,337	-	705,935	(5,172)	700,763
3. Total recognised income and expense	-	-	-	-	-	38,756	-	38,756	349	39,105
4. Other changes in equity	-	-	45,934	-	-	(52,337)	-	(6,403)	-	(6,403)
4.1. Increases in endowment fund	-	-	-	-	-	-	-	-	-	-
4.2. Capital reductions	-	-	-	-	-	-	-	-	-	-
4.3. Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-
4.4. Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-
4.5. Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-
4.6. Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-
4.7. Distribution of dividends / Remuneration of shareholders	-	-	-	-	-	(2,408)	-	(2,408)	-	(2,408)
4.8. Transactions involving own equity instruments	-	-	-	-	-	-	-	-	-	-
4.9. Transfers between equity items	-	-	45,934	-	-	(45,934)	-	-	-	-
4.10. Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-
4.11. Discretionary transfer to welfare projects and funds	-	-	-	-	-	(3,995)	-	(3,995)	-	(3,995)
4.12. Equity-instrument-based payments	-	-	-	-	-	-	-	-	-	-
4.13. Other increases (decreases) in equity	-	-	-	-	-	-	-	-	-	-
5. Ending balance at 31/12/11	**-**	**-**	**669,481**	**30,051**	**-**	**38,756**	**-**	**738,288**	**(4,823)**	**733,465**

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

	2012	2011
A. CASH FLOWS FROM OPERATING ACTIVITIES	4,426	368,706
1. Profit for the year	9,339	38,756
2. Adjustments made to obtain the cash flows from operating activities	(926)	51,496
2.1 Depreciation and amortisation	-	7,566
2.3 Other adjustments	(926)	43,930
3. Net (increase)/decrease in operating assets	(80)	4,358,545
3.1 Financial assets held for trading	-	(149,798)
3.2 Other financial assets at fair value through profit or loss	-	3,712,697
3.3 Available-for-sale financial assets	-	199,317
3.4 Loans and receivables	-	636,604
3.5 Other operating assets	(80)	(40,275)
4. Net (increase)/decrease in operating liabilities	(3,517)	(4,032,124)
4.1 Financial liabilities held for trading	-	1,101,664
4.2 Other financial liabilities at fair value through profit or loss	-	(6,398,150)
4.3 Financial liabilities at amortised cost	101	472,859
4.4 Other operating liabilities	(3,618)	791,503

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

Page 2 of 4

	2012	2011
5. Collections/(Payments) of income tax	(390)	(47,967)
B. CASH FLOWS FROM INVESTING ACTIVITIES	-	(911)
6. Payments	-	(1,961)
6.1 Tangible assets	-	(1,525)
6.2 Intangible assets	-	(436)
6.3 Investments	-	-
6.4 Other business units	-	-
6.5 Non-current assets held for sale and associated liabilities	-	-
6.6 Held-to-maturity investments	-	-
6.7 Other payments related to investing activities	-	-
7. Collections	-	1,050
7.1 Tangible assets	-	-
7.2 Intangible assets	-	-
7.3 Investments	-	-
7.4 Other business units	-	-
7.5 Non-current assets held for sale and associated liabilities	-	1,050
7.6 Held-to-maturity investments	-	-
7.7 Other payments related to investing activities	-	-

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

	2012	2011
C. CASH FLOWS FROM FINANCING ACTIVITIES	(80,599)	(2,408)
8. Payments	(80,599)	(2,408)
8.1 Dividends	(1,667)	(2,408)
8.2 Subordinated liabilities	-	-
8.3 Redemption of own equity instruments	(29,252)	-
8.4 Acquisition of own equity instruments	-	-
8.5 Other payments related to financing activities	(49,680)	-
9. Collections	-	-
9.1 Subordinated liabilities	-	-
9.2 Issuance of own equity instruments	-	-
9.3 Disposal of equity instruments	-	-
9.4 Other collections related to financing activities	-	-
D. EFFECT OF CHANGES IN EXCHANGE RATES	-	-
E. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	(76,173)	365,387
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	89,715	127,007

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(THOUSANDS OF EUROS)

	2012	2011
G. CASH AND CASH EQUIVALENTS AT END OF YEAR	13,542	492,394
MEMORANDUM ITEMS COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
1.1. Cash	-	56,438
1.2. Cash equivalents at central banks	-	435,956
1.3. Other financial assets	13,542	-
1.4. Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year	13,542	492,394

4. Distribution of the Confederación's profit

The distribution of the Confederación's net profit for 2012 that the Board of Directors will propose for approval by the General Assembly (the figures for 2011 are presented for comparison purposes only) is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Reserves	1,339	33,374
Transfer to welfare fund (Note 29)	8,000	3,715
Return on participation certificates (Note 20)	-	1,667
Net profit for the year	9,339	38,756

5. Business segment

Cecabank, S.A.'s wholesale business, which is carried on in Spain, represents substantially all the Group's activities, of which the retail business accounts for less than 1%. For this reason the Group's non-current assets are located in Spain.

The following information is a detail of the revenue from external customers in 2012 and 2011 divided by geographical areas.

2012:

	THOUSANDS OF EUROS			
	SPAIN	REST OF EUROPE	REST OF THE WORLD	TOTAL
Interest and similar income (Note 31)	186,388	3	-	186,391
Fee and commission income (Note 34)	111,006	371	423	111,800
Gains/losses on financial assets and liabilities (net) (Note 36)	6,934	(6)	-	6,928
Other operating income (Note 37)	71,799	73	-	71,872

2011:

	THOUSANDS OF EUROS			
	SPAIN	REST OF EUROPE	REST OF THE WORLD	TOTAL
Interest and similar income (Note 31)	319,433	3,697	-	323,130
Fee and commission income (Note 34)	102,625	1.229	655	104,509
Gains/losses on financial assets and liabilities (net) (Note 36)	(50,726)	2	-	(50,724)
Other operating income (Note 37)	82,532	86	-	82,618

Note 28 contains information on geographical distribution, by counterparty, of the Group's main activities.

At 31 December 2012 and 2011 and in those years, the Group did not have any single customer which individually accounted for 10% or more of its revenue.

6. Remuneration of directors and senior executives

6.1. Remuneration of directors

The members of the Board of Directors of the Confederación (Parent of the Group) receive an attendance fee for attendance of meetings. The detail for 2012 and 2011 is shown in the table below.

	THOUSANDS OF EUROS	
	2012	2011
Alzamora Carbonell, Fernando	4	17
Ambrosio Orizaola, Enrique Manuel	2	-
Arvelo Hernández, Álvaro	2	17
Beltrán Aparicio, Fernando	-	6
Bravo Cañadas, Victor Manuel	2	17
Cifré Rodríguez, Josep	16	-
Crespo Martínez Modesto	-	29
De Rato Figadero, Rodrigo	12	35
Del Canto Canto, Evaristo	20	12
Egea Krauel, Carlos	34	43
Fainé Casas, Isidro	35	43
Fernández-Velilla Hernández, Juan	2	8
Fernández Gayoso, Julio	2	12
Fernández Pelaz, Mario	19	-
Franco Lahoz, Amado	42	43
García Peña, Francisco Manuel	2	17
Goñí Beltrán de Garizurieta, Enrique	-	9
Hernández Pérez, Lucas	-	5
Iturbe Otaegui, Xabier	3	17
Mata Tarragó, Enric	-	5
Medel Cámara, Braulio	30	38
Mestre González, Jordi	5	12
Olavarrieta Arcos, José Antonio	-	11
Olivas Martínez, José Luis	2	15
Pemán Gavín, Juan María	15	-
Pulido Gutiérrez, Antonio	20	17
Soriano Cairols, Rafael	17	-
Todó Rovira, Adolfo	-	17
Total	286	445

In 2012, the directors were paid fees for attending Standing Committee meetings and representing the Board amounting to EUR 243 thousand (2011: EUR 22 thousand). Note 43 details the Group's other balances with its directors and entities or individuals related to them.

6.2. Remuneration of senior executives and of members of the Board of Directors in their capacity as Group executives

For the purposes of the preparation of these financial statements, the members of the Group' s Management Committee were considered to be senior executives of Cecabank, S.A. as well as the Director of Tax Advice and the Chief of the Planning and Control Division of the Confederación. At 31 December 2012 there were 12 Committee members (31 December 2011: 13 executives).

The remuneration earned in 2012 by senior executives and by the Board members in their capacity as executives of the Confederación amounted to EUR 4,712 thousand (2011: EUR 4,825 thousand) of which EUR 4,070 thousand were related to short-term remuneration earned in 2012 (2011: EUR 4,031 thousand), EUR 257 thousand related to post-employment benefits (2011: EUR 794 thousand) and EUR 385 thousand related to layoffs.

No additional remuneration was earned by senior executives in 2012 and 2011 in connection with other long-term benefits, or share-based payments as defined by Circular 4/2004.

At 31 December 2012, the vested pension rights of the senior executives and Board members in their capacity as executives of the Confederación amounted to EUR 2,902 thousand (31 December 2011: EUR 2,737 thousand).

As for to the former members of the Board of Directors of the Confederación and the Management Committee, during 2012 they received EUR 361 thousand related to Early Retirement Benefits (3 people). These amounts are a consequence of the commitment acquired by the Group with employees that accepted the Collective Company Agreement on Early Retirement and Supplementary Employee Welfare Benefits of 2012 and 2011 offered to those employees who met the requirements aforementioned in Note 2.11.2.1.

6.3. Transparency obligations

In accordance with the declarations made by the members of the Board of Directors of Cecabank, S.A. in 2012, pursuant to Article 229 of Legislative Royal Decree 1/2010, of 2 July, approving the Consolidated Spanish Limited Liability Companies Law, no situations of conflict of interest arose.

Furthermore, in accordance with the aforementioned legislation, following is a detail of the activities performed by the members of the Board of Directors in 2012, as independent professionals or as employees, that are identical, similar or complementary to the activity that constitutes the company object of the Group, based on the declarations made by them in compliance with the aforementioned Article 229 of Legislative Royal Decree 1/2010:

NAME	ENTITY	POSITION / ROLE
Mr. Isidro Fainé Casas	Grupo Caixa d' estalvis I Pensións de Barcelona	President
	CaixaBank, S.A.	President
	Banco Portugués de Investimento	Counselor
	The Bank of East Asia Limited	Non-executive Counselor
Mr. Adolf Todó Rovira	Catalunya Banc, S.A.	Executive President
Mr. Mario Fernández Pelaz	Kutxabank, S.A.	Executive President of the Board of Directors
	Bilbao Bizkaia Kutxa	Executive President of the Board of Directors
Mr. Carlos Egea Krauel	BMN, S.A.	President
	Caja de Ahorros de Murcia	President
	Ahorro Corporación, S.A.	Second Vice-President
Mr. José Mª Castellano Ríos	NCG Banco, S.A.	President
Mr. Manuel Menéndez Menéndez	Liberbank, S.A.,	President
	Caja de Ahorros de Asturias	President
	Banco de Castilla-La Mancha, S.A.	President
Mr. Amado Franco Lahoz	Ibercaja Banco, S.A.U.	President
	Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (Ibercaja)	President
Mr. Evaristo del Canto Canto	Caja España de Inversiones , Salamanca y Soria, CAMP	President of the Board of Directors
	Banco de Caja España de Inversiones, Salamanca y Soria, S.A.	President of the Board of Directors
Mr. Braulio Medel Cámara	Monte de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga, Antequera y Jaén	President
	Unicaja Banco, S.A.U.	President
	Alteria Corporación Unicaja, S.L.	Physical Representative of Unicaja Banco, S.A.U.'s Counselor
	Ahorro Corporación, S.A.	Physical Representative of Unicaja Banco, S.A.U.'s Counselor
Mr. J. Ignacio Goirigolzarri Tellaeche	Bankia, S.A.	President
	Banco Financiero y de Ahorros, S.A.	President

7. Cash and balances with central banks

The breakdown of the balance of "Cash and Balances with Central Banks" in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Cash	44,083	56,438
Balances with the Bank of Spain	419,032	435,950
	463,115	492,388
Valuation adjustments:		
Of which-		
Other valuation adjustments	-	6
	-	6
	463,115	492,394

Note 23 includes information on the fair value of these instruments at 31 December 2012 and 2011. Note 26 provides information on the liquidity risk associated with financial instruments, including information on the maturities of these assets.

The balance of "Cash and Balances with Central Banks" at 31 December 2012 and 2011 represents the maximum exposure to credit risk assumed by the Group in relation to these instruments.

At 31 December 2012 and 2011, there were no assets with uncollected past-due amounts or impaired classified under "Cash and Balances with Central Banks".

8. Financial instruments through profit or loss

8.1. Financial assets and liabilities held for trading

8.1.1. Financial assets and liabilities held for trading - Breakdown

Following is a detail of the balances of "Financial Assets/ Liabilities Held for Trading" in the consolidated balance sheets at 31 December 2012 and 2011:

	THOUSANDS OF EUROS			
	Financial Assets Held for Trading		Financial Liabilities Held for Trading	
	2012	2011	2012	2011
Debt instruments	872,410	664,492	-	-
Equity instruments	51,905	39,284	-	-
Trading derivatives-				
Derivatives traded in organized markets	-	-	-	38
OTC derivatives	5,203,970	5,078,006	5,158,066	5,017,255
Short positions	-	-	434,114	343,354
	6,128,285	5,781,782	5,592,180	5,360,647

Note 24 discloses information on the credit risk assumed by the Group in relation to the financial assets, other than equity instruments, included in this category. In addition, Notes 25 and 26 include information on the market and liquidity risks, respectively, associated with the financial instruments included in this category. Note 23 provides information on the fair value of the financial instruments included in this category. Note 28 includes information on the concentration of risk relating to the financial assets held for trading. Note 27 shows information on the exposure to interest rate risk.

8.1.2. Financial assets and liabilities held for trading - Trading derivatives

Following is a breakdown, by type of risk, of the fair value of the trading derivatives arranged by the Group and of their notional amount (on the basis of which the future payments and collections on these derivatives are calculated) at 31 December 2012 and 2011:

THOUSANDS OF EUROS

	2012			2011		
	Fair Value			Fair Value		
	Asset Balances	Liability Balances	Notional Amount	Asset Balances	Liability Balances	Notional Amount
Interest rate risk	5,119,998	5,058,266	119,041,144	4,997,181	4,963,919	136,526,220
Foreign currency risk	83,942	97,436	3,159,273	80,493	47,359	4,359,361
Share price risk	30	95	70,963	332	337	119,417
Credit risk	-	2,269	45,000	-	5,678	45,000
	5,203,970	5,158,066	122,316,380	5,078,006	5,017,293	141,049,998

The notional amount of the contracts entered into does not reflect the actual risk assumed by the Group for these contracts, since the net position in these financial instruments is the result of offsetting and/or combining them and of offsetting and/or combining them with other asset or liability positions.

8.1.3. Financial liabilities held for trading - Short positions

The detail, by type of transaction, of the balance of this item in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Classification:		
Borrowed securities-		
Equity instruments	3,804	-
Short sales-		
Debt instruments	430,310	343,354
	434,114	343,354

"Short Positions - Short Sales - Debt Instruments" in the foregoing table includes the fair value of the Group's debt instruments purchased under reverse repurchase agreements and, therefore, as such not recognized on the asset side of the consolidated balance sheet, which have been sold and will be repurchased by the Group before maturity of the reverse repurchase agreement in which they are used as collateral, in order for the Group to return them at the maturity date.

8.2. Other financial instruments at fair value through profit or loss

8.2.1. Other financial assets at fair value through profit or loss

This heading includes reverse repurchase agreements arranged by the Group which are managed jointly with repurchase agreements relating to financial assets classified in "Other Financial Liabilities at Fair Value Through Profit or Loss" and with interest rate derivatives and financial instruments classified as held for trading and other available-for-sale financial assets.

The detail, by nature, of the financial assets included in "Other Financial Assets at Fair Value Through Profit or Loss" in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Loans and advances to credit institutions-		
Reverse repurchase agreements	1,797,736	493,166
Valuation adjustments-		
Accrued interest	251	236
Revaluation gains	126	188
	377	424
	1,798,113	493,590
Loans and advances to customers-		
Reverse repurchase agreements	789,395	506,351
Valuation adjustments-		
Accrued interest	130	122
Revaluation gains	404	(186)
	534	(64)
	789,929	506,287
	2,588,042	999,877

Note 24 includes information on the Group's exposure to credit risk at 31 December 2012 and 2011 associated with these financial instruments.

Note 23 discloses information on the fair value of these financial instruments at 31 December 2012 and 2011. Note 25 provides information on the exposure to market risk of these financial instruments.

Note 26 contains information on the liquidity risk associated with the financial instruments owned by the Group at 31 December 2012 and 2011, including information on the terms to maturity at those dates of the financial assets included in this category.

Note 28 includes information on the concentration risk relating to these financial instruments at 31 December 2012 and 2011. Note 27 shows information on the Group's exposure to interest rate risk.

In view of the characteristics of the transactions included in this category (reverse repurchase agreements), the counterparties and collateral provided, it is estimated that substantially all the changes in the fair value of these financial instruments in 2012 recognized in the consolidated income statement are attributable to market risk and, more specifically, to interest rate risk.

8.2.2. Other financial liabilities at fair value through profit or loss

This heading includes repurchase agreements arranged by the Group which are managed jointly with reverse repurchase agreements relating to financial assets classified in "Other Financial Assets at Fair Value Through Profit or Loss" and with interest rate derivatives and financial instruments classified as held for trading and other available-for-sale financial assets

The detail, by nature, of the financial liabilities included in "Other Financial Liabilities at Fair Value Through Profit or Loss" in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS 2012	THOUSANDS OF EUROS 2011
Deposits from central banks-		
Repurchase agreements with the European Central Bank	-	930,504
Valuation adjustments-	-	
Accrued interest	-	222
Revaluation gains	-	114
	-	336
	-	930,840
Deposits from credit institutions-		
Repurchase agreements with credit institutions	1,824,274	352,757
Valuation adjustments-		
Accrued interest	47	6
Revaluation gains	55	(13)
	102	(7)
	1,824,376	352,750

	THOUSANDS OF EUROS 2012	THOUSANDS OF EUROS 2011
Customer deposits-		
Repurchase agreements with the Public Treasury	779,999	-
Repurchase agreements to entities with central counterparties	197,100	987,673
Repurchase agreements with other resident sectors in Spain	86,106	46,391
Repurchase agreements with other non-resident sectors in Spain	-	-
Valuation adjustments-		
Accrued interest	11	4,635
Revaluation gains	8	2,435
	19	7,070
	1,063,224	1,041,134
	2,887,600	2,324,724

In view of the characteristics of these financial liabilities (sales of assets under non-optional repurchase agreements arranged by the Group), the significant changes in the fair value of these financial instruments in 2011 and accumulated at 31 December 2012 are attributable to market risk (mainly interest rate risk) rather than credit risk.

The amounts shown in the above table, net of their related valuation adjustments for “Revaluation Gains”, represent the amortized cost of these liabilities at 31 December 2012, which does not differ significantly from the amount that would be payable by the Group if they matured at that date.

Note 23 discloses information on the fair value of the financial liabilities included in this category at 31 December 2012 and 2011. Note 26 provides information on the liquidity risk associated with these financial liabilities.

Note 25 shows certain information on the market risk associated with these financial liabilities and Note 27 contains information on interest rate risk.

9. Available-for-sale financial assets

Following is a detail of the balances of “Available-for-Sale Financial Assets” in the consolidated balance sheets at 31 December 2012 and 2011:

	THOUSANDS OF EUROS	
	2012	2011
Debt instruments-		
Values of Spanish Central Governments	2,809,714	2,869,089
Of which:		
Treasury bills	2,157,502	2,026,369
Government debt securities	652,212	842,720
Other securities	140,885	14,979
Securities of other Public institutions	596,591	638,738
	3,547,190	3,522,806
Valuation adjustments-		
Accrued interest	26,851	19,325
Revaluation losses	(28,446)	(51,268)
Impairment losses	(5,511)	(2,130)
	(7,106)	(34,073)
	3,540,084	3,488,733

	THOUSANDS OF EUROS	
	2012	2011
Equity instruments-		
Shares quoted on secondary organized markets	54,603	51,215
Shares not quoted on organized markets	34,974	32,246
	89,577	83,461
Valuation adjustments-		
Revaluation gains	8,320	42,338
Impairment losses	(14,763)	(6,226)
	(6,443)	36,112
	83,134	119,573
	3,623,218	3,608,306

Note 23 contains certain information on the fair value of the financial instruments included in this category. Note 24 includes information on the credit risk to which the debt instruments included in this financial instrument category are subject.

Note 25 shows certain information on the market risk to which the Group is exposed in relation to these financial assets. Note 26 discloses certain information on the Group's liquidity risk, including information on the terms to maturity of these financial assets at 31 December 2012 and 2011.

Note 27 shows information on the exposure to interest rate risk. Note 28 includes information on the concentration risk associated to these financial assets.

10. Loans and receivables

10.1. Breakdown

Following is a detail of the financial assets included in "Loans and Receivables" in the consolidated balance sheets at 31 December 2012 and 2011:

	THOUSANDS OF EUROS 2012	THOUSANDS OF EUROS 2011
Loans and advances to credit institutions-		
Time deposits	116,912	811,789
Other accounts	917,871	1,288,819
Securities lending (*)	6,580	293,629
Other financial assets	245,768	7,929
	1,287,131	2,402,166
Valuation adjustments-		
Impairment losses	(18)	(5)
Accrued interest	121	1,300
	103	1,295
	1,287,234	2,403,461
Loans and advances to customers-		
Deposits for futures transactions and other guarantees given	130,154	97,778
Unsettled stock exchange transactions	39,134	42,938
Mortgage secured loans	49,294	49,576
Unsecured credits and loans	40,763	69,558
Secured credit and loans	100,000	200,000
Other assets	691	456
Reverse repurchase agreements	-	5,970
Doubtful assets	16,512	41
	376,548	466,317

	THOUSANDS OF EUROS 2012	THOUSANDS OF EUROS 2011
Valuation adjustments-		
Impairment losses	(5,623)	(2,008)
Accrued interest	182	222
	(5,441)	(1,786)
	371,107	464,531
Debt instruments-		
Issued by Spanish Public Administrations	8,287	-
Issued by non-residents in Spain	70,368	101,168
Issued by residents in Spain	191,055	2,366,564
Doubtful assets	122,623	99,388
	392,333	2,557,120
Valuation adjustments-		
Impairment losses	(135,980)	(129,452)
Other valuation adjustments (micro-hedge)	1,299	4,972
	257,652	2,442,640
	1,915,993	5,310,632

(*) Relates to the amount delivered by Cecabank, S.A. as security for securities lending transactions (see Note 30.5)

Note 23 provides information on the fair value at 31 December 2012 and 2011 of the financial assets included in this category. Note 24 discloses certain relevant information on the credit risk relating to the financial assets included in this financial instrument category at 31 December 2012 and 2011.

Note 25 includes information on the market risk associated with these financial assets at 31 December 2012 and 2011. Note 26 contains information on the liquidity risk associated with the Group's financial instruments at 31 December 2012 and 2011, including information on the terms to maturity at those dates of the financial assets included in this category.

Note 28 includes information on the concentration risk associated with the financial assets included in this category at 31 December 2012 and 2011. Note 27 shows information on the exposure to interest rate risk.

11. Hedging derivatives

Fair value hedges

The Group has entered into financial derivatives transactions with various counterparties of recognized creditworthiness which are considered fair value hedges of certain balance sheet positions against fluctuations in market interest rates.

The Group's hedged consolidated balance sheet positions relate to fixed-rate debt instruments (guaranteed issues, government bonds and treasury bills). These securities are issued by the Spanish government, Spanish private sector financial institutions and other resident sectors.

Given that the positions giving rise to the risk are long-term transactions tied to a fixed interest rate, the main aim of the hedge is to change the returns of the hedged items from fixed to floating and, accordingly, their performance to changes in market interest rates. To this end, the Group uses OTC interest rate derivatives (basically swaps such as call money swaps).

The Group uses call money swaps to hedge each group of debt instruments, which are grouped on the basis of their sensitivity to changes in interest rates, and documents the related efficiency analyses of the hedges to verify that, at inception and throughout the life of these hedges, the Group can expect, prospectively, that the changes in fair value of the hedged items attributable to the hedged risk will be almost fully offset by changes in the fair value of the hedging instruments and, retrospectively, that the actual results of the hedge are within a range of 80% to 125% of the results of the hedged item. The aforementioned hedges are highly effective.

Following is a detail of the fair value of the hedging instruments at 31 December 2012 and 2011:

THOUSANDS OF EUROS

	FAIR VALUE OF HEDGING INSTRUMENTS			
	2012		2011	
	ASSET BALANCES	LIABILITY BALANCES	ASSET BALANCES	LIABILITY BALANCES
Hedged instrument				
Loans and receivables	-	2,747	10	18,097
Available-for-sale assets	-	10,594	-	7,662
	-	13,341	10	25,759

Gains/losses on hedging instruments and hedged items are recognized under "Gains/Losses on Financial Assets and Liabilities (Net)" in the consolidated income statement of the Group (see Note 36).

Cash flow hedges

The balance sheet items hedged by this type of hedging transaction are floating-rate deposits received from financial institutions. The Group used interest rate swaps as hedges, with the aim of hedging changes in cash flows associated with the interest rate risk of these financial liabilities that affect the income statement.

Following is a detail of the Group's derivatives hedging cashflows as of 31 December 2012:

	THOUSANDS OF EUROS			
	2012			
	DEBIT BALANCES		CREDIT BALANCES	
	FAIR VALUE	NOTIONAL	FAIR VALUE	NOTIONAL
Other operations on interest				
Interest Rates Swaps (IRS)	-	-	3,504	77,573
	-	-	3,504	77,573

Following are the expected cashflows for the next years for the coverages described in the consolidated balance sheet as of 31 December 2012:

	THOUSANDS OF EUROS			
	LESS THAN 1 YEAR	BETWEEN 1 AND 3 YEARS	BETWEEN 3 AND 5 YEARS	MORE THAN 5 YEARS
Cashflows	7,757	15,515	15,515	38,786
Total	7,757	15,515	15,515	38,786

The Group did not have registered cash flow hedges as of 31 December 2011 or during 2011.

12. Non-current assets held for sale

The breakdown of the balance of "Non-Current Assets Held for Sale" in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Tangible assets -		
Foreclosed residential assets	-	-
Other residential assets	84	84
Equity instruments -		
Investments in associates	-	-
Impairment losses	-	-
	84	84

There has been no change during 2012 in this balance sheet heading.

The only change recognized in this consolidated balance sheet line item in 2011 was the sale for EUR 1,050 thousand of a residential asset, the carrying amount of which was EUR 77 thousand. The gain obtained on this sale, EUR 945 thousand, was recognized with a credit to "Gains (Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations" in the consolidated income statement.

13. Investments

At 31 December 2012 and 2011 the Group did not have any investments classified as "Associates". There were no changes in this heading of the consolidated balance sheets in 2012 and 2011.

14. Tangible assets

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

THOUSANDS OF EUROS

	Property, Plant and Equipment for Own Use				
	Land and Buildings	Furniture, Fixtures and Vehicles	IT Equipment and Related Fixtures	Investment Property	Total
Cost:					
Balance at 1 January 2011	121,668	46,621	22,141	1,333	191,763
Additions	-	558	970	-	1,528
Disposals	-	(1,437)	(6,131)	-	(7,568)
Transfers	(1,770)	1,770	-	-	-
Other	-	(314)	(167)	-	(481)
Balance at 31 December 2011	119,898	47,198	16,813	1,333	185,242
Additions	-	952	288	-	1,240
Disposals	-	(265)	(2,509)	-	(2,774)
Transfers	-	-	-	-	-
Other	-	-	-	-	-
Balance at 31 December 2012	119,898	47,885	14,592	1,333	183,708

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	THOUSANDS OF EUROS				
	Property, Plant and Equipment for Own Use				
	Land and Buildings	Furniture, Fixtures and Vehicles	IT Equipment and Related Fixtures	Investment Property	Total
Accumulated depreciation:					
Balance at 1 January 2011	(32,407)	(36,113)	(19,266)	(165)	(87,951)
Charge for the year (Note 42)	(2,051)	(3,206)	(1,516)	(36)	(6,809)
Disposals	-	1,438	6,131	-	7,569
Transfers	277	(277)	-	-	-
Other	-	327	151	-	478
Balance at 31 December 2011	(34,181)	(37,831)	(14,500)	(201)	(86,713)
Charge for the year (Note 42)	(2,049)	(2,384)	(1,163)	(36)	(5,632)
Disposals	-	265	2,509	-	2,774
Transfers	-	-	-	-	-
Other	-	-	-	-	-
Balance at 31 December 2012	(36,230)	(39,950)	(13,154)	(237)	(89,571)
Tangible assets, net:					
Net balance at 31 December 2011	85,717	9,367	2,313	1,132	98,529
Net balance at 31 December 2012	83,668	7,935	1,438	1,096	94,137

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At 31 December 2012, property, plant and equipment for own use totaling (gross) approximately EUR 44,886 thousand (EUR 36,906 thousand at 31 December 2011) had been depreciated in full.

At 31 December 2012 and 2011, the tangible assets owned by the Group were not impaired and there were no changes in this connection in those years.

The rental income earned from investment property owned by the Group amounted to approximately EUR 867 thousand in 2012 and EUR 808 thousand in 2011 (see Note 37).

15. Intangible assets

15.1. Intangible assets - Other intangible assets

The balance of "Other Intangible Assets" relates in full to computer software, developed mainly by the Group, which is amortized by the straight-line method on the basis of its estimated useful life over a period of three to five years, The breakdown of the balance of "Other Intangible Assets" in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Intangible assets with finite useful life	107,745	5,808
Less:		
Accumulated amortization	(12,072)	(3,290)
Impairment losses	(44,810)	-
Total net	50,863	2,518

At 31 December 2012 and 2011, the intangible assets owned by the Group were not impaired and there were no changes in this connection in those years.

At 31 December 2012 the balance of fully amortized intangible assets in use was EUR 3,703 thousand (31 December 2011: EUR 1,269 thousand).

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

	THOUSANDS OF EUROS
Cost:	
Balance at 1 January 2011	5,429
Additions	471
Disposals	(92)
Balance at 31 December 2011	5,808
Additions	101,953
Disposals	(16)
Balance at 31 December 2012	107,745

	THOUSANDS OF EUROS
Accumulated amortization:	
Balance at 1 January 2011	(2,555)
Charge for the year (Note 42)	(827)
Disposals	92
Balance at 31 December 2011	(3,290)
Charge for the year (Note 42)	(8,798)
Disposals	16
Balance at 31 December 2012	(12,072)
Impairment Losses:	
Balance at 1 January 2011	-
Charge for the year (*)	(44,810)
Balance at 31 December 2012	(44,810)
Intangible assets, net:	
Net balance at 31 December 2011	2,518
Net balance at 31 December 2012	50,863

(*) This amount is collected under the heading of the Income Statement of 31 December 2012 "Impairment losses on other assets (net) - Goodwill and other intangible assets".

16. Other assets and liabilities

The breakdown of the balance of “Other Assets” and “Other Liabilities” in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Other assets		
Prepayments and accrued income		
Fees and commissions receivable	6,750	5,958
Commissions for guarantees received	8,395	13,129
Prepayments	100	149
Other assets-	201	5,865
Transactions in transit	5,433	5,029
Other	11,285	11,950
	32,164	42,080

	THOUSANDS OF EUROS	
	2012	2011
Other liabilities		
Accrued expenses and deferred income		
Fees and commissions payable	2,809	2,747
Accrued expenses	48,320	57,101
Accrued revenues	121	254
Other liabilities-		
Transactions in transit	366,203	698,575
Other	17,716	6,446
	435,169	765,123

"Prepayments and Accrued Income - Fees and Commissions Receivable" includes the accrued commissions receivable by the Group in relation to various services provided, basically in relation to the payment methods business and the custody business for collective investment undertakings and pension funds.

"Other Assets - Transactions in Transit" and "Other liabilities - Transactions in Transit" mainly include temporary balances which relate basically to securities underwriting transactions and other unsettled OTC transactions within the Securities Clearing and Settlement Service.

17. Financial liabilities at amortized cost

17.1. Breakdown

The detail of the items composing the balance of "Financial Liabilities at Amortized Cost" in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Deposits from central banks	1,300,000	344,711
Deposits from credit institutions	2,026,035	2,915,765
Customer deposits	1,528,128	3,438,816
Other financial liabilities	187,809	293,640
	5,041,972	6,992,932
Valuation adjustments	11,910	8,905
	5,053,882	7,001,837

17.2. Financial liabilities at amortized cost - Deposits from central banks

The breakdown of the balance of this item in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Deposits from Bank of Spain	1,300,000	344,711
Deposits from other central banks	-	-
Valuation adjustments	9,497	134
	1,309,497	344,845

17.3. Financial liabilities at amortized cost - Deposits from credit institutions

The breakdown, by geographical area of residence of the counterparty and type of instrument, of the balance of this item in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
By geographical location:		
Spain	1,844,230	2,078,865
Other EMU countries	174,542	530,704
Rest of the world	7,225	307,446
	2,025,997	2,917,015
By type of instrument:		
Demand deposits and other-		
Other accounts	1,919,059	1,943,385
Time deposits-		
Time deposits	100,895	685,626
Repurchase agreements	6,081	286,754
	2,026,035	2,915,765
Valuation adjustments:	(38)	1,250
	2,025,997	2,917,015

17.4. Financial liabilities at amortized cost - Customer deposits

The breakdown, by geographical area of residence of the counterparty, type of instrument and type of counterparty, of the balance of this item in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
By geographical location:		
Spain	1,380,767	2,585,655
Other EMU countries	149,812	858,175
Rest of the world	-	2,507
	1,530,579	3,446,337
By counterparty:		
Resident public sector	107,251	194,470
Non-resident public sector	1,171	1,484
Other resident sectors	1,271,399	2,385,357
Other non-resident sectors	48,307	21,368
Central counterparties	100,000	836,137
	1,528,128	3,438,816
Valuation adjustments	2,451	7,521
	1,530,579	3,446,337
By type of instrument:		
Current accounts	1,275,101	2,531,350
Other demand deposits	61,259	24,044
Fixed-term deposits	191,099	247,285
Repurchase agreements	669	636,137
	1,528,128	3,438,816
Valuation adjustments	2,451	7,521
	1,530,579	3,446,337

17.5. Financial liabilities at amortized cost - Other financial liabilities

The breakdown of the balance of this item in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Payment obligations	8,390	11,867
Collateral received	234	20,063
Tax collection accounts	9,483	6,740
Special accounts	27,675	35,362
Other	142,027	219,608
	187,809	293,640

The balance of "Special Accounts" in the foregoing table includes, among other items, unsettled securities underwriting transactions and other unsettled transactions performed in organized markets totaling EUR 27,662 thousand at 31 December 2012 (31 December 2011: EUR 35,203 thousand).

The balance of "Other" in the above table includes EUR 74,538 thousand at 31 December 2012 (31 December 2011: EUR 162,900 thousand) relating the means of payments operating procedures of certain credit institutions done through the Bank. The related balances are transitory and are settled on the first business day following the date on which they arose.

18. Provisions

18.1. Provisions (net)

The detail, according to the purpose of the net provisions recognized, of this item in the consolidated income statements for 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	NET ADDITIONS/ (REVERSALS)	
	2012	2011
Additions to/ (Reversal of) provisions for pensions and similar obligations (Note 18.2)	37,407	58,504
Additions to/ (Reversal of) provisions for contingent liabilities and commitments (Note 18.3)	54,741	3
Additions to/ (Reversal of) other provisions (Note 18.3)	(50,808)	74,268
	41,340	132,775

18.2. Provisions - Provisions for pensions and similar obligations

The breakdown of this item in the consolidated balance sheets at 31 December 2012 and 2011 and the changes therein in 2012 and 2011, are as follows:

	THOUSANDS OF EUROS		
	PENSION OBLIGATIONS (NOTE 2.11.1)	OTHER LONG-TERM BENEFITS (NOTE 2.11.2.1)	TOTAL
Balances at 1 January 2011	9,453	-	9,453
Net addition/ (reversal) charged/(credited) to income (Note 18.1)	(3,744)	62,248	58,504
Payments to early retirees and contributions to the external pension plan	-	(3,470)	(3,470)
Current service cost (Note 38)	59	-	59
Financial cost (Note 32)	351	570	921
Balances at 31 December 2011	6,119	59,348	65,467
Net addition/ (reversal) charged/(credited) to income (Note 18.1)	(1,962)	39,369	37,407
Payments to early retirees and contributions to the external pension plan	-	(10,856)	(10,856)
Current service cost (Note 38)	53	-	53
Financial cost (Note 32)	262	1,236	1,498
Balances at 31 December 2012	4,472	89,097	93,569

18.3. Provisions - Provisions for contingent liabilities and commitments and other provisions

The changes in 2012 and 2011 in the balances of these items in the consolidated balance sheets at 31 December 2012 and 2011 were as follows:

	THOUSANDS OF EUROS	
	PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS (NOTES 2.10 AND 24)	OTHER PROVISIONS
Balances at 1 January 2011	14	66,559
Net addition/ (reversal) charged/(credited) to income (Note 18.1)	3	74,268
Amounts used	-	(9)
Balances at 31 December 2011	17	140,818
Net addition/ (reversal) charged/(credited) to income (Note 18.1)	54,741	(50,808)
Amounts used	-	(1)
Balances at 31 December 2012	54,758	90,009

The balance of "Other Provisions" in the foregoing table includes the amounts allocated by the Group to cover certain liabilities and contingencies arising from its business activities.

19. Valuation adjustments

19.1. Valuation adjustments - Available-for-sale financial assets

This item in the consolidated balance sheets at 31 December 2012 and 2011 includes the amount, net of the related tax effect, of changes in the fair value of assets classified as available-for-sale assets (see Note 9) which, as stated in Note 2, should be recognized in the Group's consolidated equity; these changes are recognized in the consolidated income statements when the assets which gave rise to them are sold or when these assets become impaired. The accompanying consolidated statements of recognized income and expense show the changes in 2012 and 2011 in this item in the consolidated balance sheets at 31 December 2012 and 2011.

19.2. Valuation adjustments - Cash flow hedges

This item in the balance sheet 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 2). The statement of changes in equity includes the changes in the balances recognized in this balance sheet line item in 2012.

20. Own funds

20.1. Non-voting equity units and associated funds

"Equity - Other Equity Instruments - Non-Voting Equity Units and Associated Funds" in the consolidated balance sheets at 31 December 2011 included EUR 30,051 thousand, which corresponded to the carrying value of the 5,000 participation certificates of EUR 6,010.12 face value each, issued by the Confederación and fully subscribed and paid by the federated member savings banks. These certificates, which were deemed to be equity, can only be transferred between federated savings banks.

As part of the spin-off process (see Note 1.1), on 13 November 2012, the Confederación repurchased the non-voting equity units issued in 1988 which were recognized in equity in its balance sheet at 31 December 2011. It made an offer to the holders of these non-voting equity units, the acceptance of which would give rise to a simultaneous, irrevocable commitment to subscribe ordinary shares of Cecabank, S.A. for a cash amount equal to that of the repurchased non-voting equity units. The repurchase offer amounted to EUR 81,089 thousand, i.e. EUR 16,217.83 per non-voting equity unit. Since most of the holders of the non-voting equity units accepted this offer and, as a result, became shareholders of Cecabank, S.A., the amount recognized under "Own Funds - Other Equity Instruments - Non-Voting Equity Units and Associated Funds" in the Confederación's consolidated equity at 31 December 2012 was EUR 799 thousand, relating to the non-voting equity units that had not been redeemed. These non-voting equity units are transferable between the savings banks and the entities that form part of a single group of savings banks.

According to the Confederación's bylaws, each year the General Assembly, at the proposal of the Board of Directors, will set the remuneration on the non-voting equity units depending on the balance of the income statement. If the balance were zero or negative, there would be no remuneration agreement.

20.2. Reserves - Accumulated reserves (losses)

The breakdown of "Reserves - Accumulated Reserves (Losses)" in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Reserves attributed to the Confederación's Group:		
Voluntary reserves	655,185	633,100
Asset revaluation reserves	-	39,094
	655,185	672,194

Asset revaluation reserve

At, 31 December 2011 the balance of "Asset Revaluation Reserves" in the foregoing table includes the net reserves that arose on the revaluation of certain tangible assets on the date of first-time application of EU-IFRSs and Bank of Spain Circular 4/2004 (1 January 2004). The difference in the amount recognized in this connection at 31 December 2012 and 2011 relates to the amount transferred to unrestricted reserves under the spin-off process undergone in 2012 (see Note 1.1).

Reserves (losses) of fully and proportionately consolidated entities

The detail, by entity, of the balances of "Accumulated Reserves (Losses)" relating to fully and proportionately consolidated entities in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Confederación	653,613	670,711
Caja Activa, S.A.	176	142
CEA Trade Services Limited	-	-
Reserves at subsidiaries	176	142
Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A.	1,396	1,341
Reserves at jointly controlled entities	1,396	1,341
Accumulated reserves (losses)	655,185	672,194

21. Non-controlling interest

The detail by company of the heading of the consolidated balance sheet of 31 December 2012 and 2011, "Non-controlling interest" and the profit/loss belonging to the external partners for years 2012 and 2011 is presented below:

	THOUSANDS OF EUROS			
	2012		2011	
	NON-CONTROLLING INTEREST (NOTA 1.8)	PROFIT ATTRIBUTED TO MINORITY	NON-CONTROLLING INTEREST NOTA 1.8)	PROFIT ATTRIBUTED TO MINORITY
Cecabank, S.A.	82,331	3,889	-	-
	82,331	3,889	-	-

The movement that has taken place in this section of the consolidated balance sheet in years 2012 and 2011 is summarized as follows:

	THOUSANDS OF EUROS	
	2012	2011
Beginning balance	-	-
Capital increases	78,932	-
Dividends paid to minority shareholders	(490)	-
Profit or loss	3,889	-
Ending balance	82,331	-

22. Tax matters

The Confederación is the parent company of the Tax Consolidation Group number 508/12, Cecabank, S.A. being the only subsidiary. The remaining Group companies file individual income tax returns in accordance with the applicable tax regulations.

22.1. Years open for review by the tax authorities

Pursuant to current legislation, tax settlements cannot be deemed to be definitive until they have been reviewed by the tax authorities or until the related statute-of-limitations period has expired.

Accordingly, at 31 December 2012, the Group had open for review by the tax authorities the taxes to which their business activities are subject, and for which at that date, had not passed within four years from the end of his term voluntary declaration.

Because of the varying interpretations that can be made of the tax legislation, the outcome of any reviews of the open years by the tax authorities might give rise to tax liabilities which cannot be objectively quantified at the present time. However, the tax advisers and directors of the Group consider that the possibility of material liabilities arising in this connection additional to those already recognized is remote.

In any event, in this regard it is important to take into consideration that, as a result of the spin-off described in Note 1.1, Cecabank, S.A. became the successor entity to the Confederación and assumed, in accordance with Article 90 of the Consolidated Spanish Corporation Tax Law ("the TRLIS"), approved by Legislative Royal Decree 4/2004, of 5 March, all tax rights and obligations in relation to the assets and rights transferred by the Confederación, and the obligation of satisfying the requirements arising from the tax incentives held by the transferor insofar as they refer to the transferred assets and rights.

In 2012 the Confederación was involved in a corporate restructuring subject to the special tax neutrality regime regulated by Title VII, Chapter VIII of the TRLIS approved by Legislative Royal Decree 4/2004, of 5 March (see Note 1.1).

In order to comply with the provisions of Article 93 of the TRLIS with regard to the spin-off performed by the Confederación to Cecabank, S.A., it is hereby stated that the carrying amount of the spun-off assets and liabilities is the same as that of the shares of Cecabank, S.A. obtained as a result of this transaction.

22.2. Income tax

The detail of "Income Tax" in the consolidated income statements for 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Income tax expense for the year	12,072	11,612
Prior years' and other adjustments	(529)	(738)
	11,543	10,874

22.3. Reconciliation of accounting profit to taxable profit

The reconciliation of the income tax expense recognized for 2012 and 2011 to the consolidated accounting profit before tax multiplied by the tax rate applicable to the Group, and the income tax charge recognized at 31 December 2012 and 2011 are as follows:

	THOUSANDS OF EUROS	
	2012	2011
Accounting profit before tax	52,496	48,927
Tax rate	30%	30%
	15,749	14,678
Permanent differences:		
Increases	195	650
Decreases	(2,250)	(1,144)
Total	13,694	14,184
(Tax credits)/(Tax relief)	(1,622)	(2,572)
Income tax expense for the year	12,072	11,612
Temporary differences:		
Increases	53,957	51,392
Decreases	(36,810)	(15,165)
Tax withholdings and prepayments	(27,185)	(39,194)
Income tax charge for the year (1)	2,034	8,645

(1) This amount is recognized under "Tax Liabilities - Current" in the consolidated balance sheets at 31 December 2012 and 2011.

The permanent decreases in the taxable profit in the foregoing table include, among other items, the deduction of EUR 8,000 thousand relating to the amounts the Confederación assigned to welfare projects in 2012 (2011: EUR 3,715 thousand) (see Note 4).

"Tax Credits/Tax Relief" in the foregoing table includes, inter alia, tax credits for double taxation of dividends regulated by the Consolidated Spanish Corporation Tax Law.

22.4. Tax recognized in equity

The income tax expense recognized directly in the Group's equity gave rise to a net credit of EUR 1,509 thousand in 2012 and a net charge of EUR 150 thousand in 2011 to "Valuation Adjustments".

22.5. Deferred taxes

Pursuant to the tax legislation in force, in 2012 and 2011 and previous years certain temporary differences arose that must be taken into account when quantifying the related income tax expense. The deferred taxes recognized in the consolidated balance sheets at 31 December 2012 and 2011 were as follows:

	THOUSANDS OF EUROS	
	2012	2011
Deferred tax assets arising from:		
Additions and contributions to pension provisions and funds and other long-term obligations to employees	12,108	31,035
Additions to provisions	26,421	41,664
Impairment losses	67,614	33,377
Available-for-sale debt instruments	4,007	19,309
Available-for sale equity instruments portfolio	322	1,197
Tax effect of losses in hedging derivatives	2,871	-
Other	2,036	1,760
	115,379	128,342

	THOUSANDS OF EUROS	
	2012	2011
Deferred tax liabilities arising from:		
Revaluation of property	17,718	18,044
Available-for-sale equity instruments	2,818	13,899
Available-for-sale debt instruments	2,872	4,540
	23,408	36,483

22.6. Tax credit for reinvestment of extraordinary benefits

The amount of the income qualifying for the reinvestment tax credit and deductions for each year is as follows:

	THOUSANDS OF EUROS		
YEAR	INCOME QUALIFYING	RENT ACCREDITED	TAX CREDIT
2010	10,681	4,448	534
2011	846	1,820	218
2012	-	5,259	631
	11,527	11,527	1,383

23. Fair value

23.1. Fair value of financial assets and liabilities

The fair value of the Group's financial instruments at 31 December 2012 and 2011 is broken down, by class of financial asset and liability, into the following levels in these consolidated financial statements.

- LEVEL 1: financial instruments whose fair value was determined by reference to their quoted price in active markets, without making any change to these assets.
- LEVEL 2: financial instruments whose fair value is estimated by reference to quoted prices in organized markets for similar instruments or using other valuation techniques in which all the significant inputs are based on directly or indirectly observable market data.
- LEVEL 3: instruments whose fair value is estimated using valuation techniques in which certain significant inputs are not based on observable market data.

For the purposes of Levels 2 and 3, the prices were obtained using standard quantitative models fed by market data, which are either directly observable or can be calibrated or calculated using observable data. The most widely used models are the Black, Libor Market and Hull-White models for interest rates, the Black&Scholes model for equities and foreign currency, and the Jarrow-Turnbull and LHP models for credit products; the most common observable data are the interest rate, exchange rate and certain implied volatilities, and the most widely used non-observable data are implied correlations, certain implied volatilities and issuer curve spreads.

The aforementioned level of fair value hierarchy (Level 1, 2 and 3) which includes the valuation of each of the Group's financial instruments, is determined on the basis of the lowest relevant level variable used to estimate their fair value.

The fair value of the Group's financial instruments at 31 December 2012 and 2011, broken down as indicated above, is as follows:

Financial assets - fair value at 31 December 2012

THOUSANDS OF EUROS

	CASH AND BALANCES WITH CENTRAL BANKS (NOTE 7)		FINANCIAL ASSETS HELD FOR TRADING (NOTE 8.1)		OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (NOTE 8.2)		AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 9)		LOANS AND RECEIVABLES (NOTE 10)		HEDGING DERIVATIVES (NOTE 11)	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Level 1:												
Debt instruments	-	-	870,528	870,528	-	-	3,343,759	3,343,759	-	-	-	-
Equity instruments	-	-	51,905	51,905	-	-	39,827	39,827	-	-	-	-
Derivatives	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	922,433	922,433	-	-	3,383,586	3,383,586	-	-	-	-
Level 2:												
Cash and balances with central banks	463,115	463,115	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	-	-	-	-	1,798,113	1,798,113	-	-	1,287,234	1,287,234	-	-
Loans and advances to customers	-	-	-	-	789,929	789,929	-	-	371,107	371,107	-	-
Debt instruments	-	-	1,882	1,882	-	-	196,325	196,325	257,652	336,110	-	-
Equity instruments	-	-	-	-	-	-	43,307	43,307	-	-	-	-
Trading derivatives	-	-	5,203,970	5,203,970	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-	-	-	-	-
	463,115	463,115	5,205,852	5,205,852	2,588,042	2,588,042	239,632	239,632	1,915,993	1,994,451	-	-
Level 3:												
Debt instruments	-	-	-	-	-	-	-	-	-	11	-	-
Equity instruments carried at cost	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	11	-	-
	463,115	463,115	6,128,285	6,128,285	2,588,042	2,588,042	3,623,218	3,623,218	1,915,993	1,994,462	-	-

Financial liabilities - fair value at 31 December 2012

THOUSANDS OF EUROS

	FINANCIAL LIABILITIES HELD FOR TRADING (NOTE 8.1)		OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (NOTE 8.2)		FINANCIAL LIABILITIES AT AMORTIZED COST (NOTE 17)		HEDGING DERIVATIVES (NOTE 11)	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Level 1:								
Trading derivatives	-	-	-	-	-	-	-	-
Short positions	434,114	434,114	-	-	-	-	-	-
	434,114	434,114	-	-	-	-	-	-
Level 2:								
Deposits from central banks	-	-	-	-	1,309,497	1,309,497	-	-
Deposits from credit institutions	-	-	1,824,376	1,824,376	2,025,997	2,025,997	-	-
Customer deposits	-	-	1,063,224	1,063,224	1,530,579	1,530,579	-	-
Trading derivatives	5,158,066	5,158,066	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	187,809	187,809	-	-
Hedging derivatives	-	-	-	-	-	-	16,845	16,845
	5,158,066	5,158,066	2,887,600	2,887,600	5,053,882	5,053,882	16,845	16,845
Level 3:								
Deposits from credit institutions	-	-	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-	-	-
Trading derivatives	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
TOTAL	5,592,180	5,592,180	2,887,600	2,887,600	5,053,882	5,053,882	16,845	16,845

Financial assets - fair value at 31 December 2011

THOUSANDS OF EUROS

	CASH AND BALANCES WITH CENTRAL BANKS (NOTE 7)		FINANCIAL ASSETS HELD FOR TRADING (NOTE 8.1)		OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (NOTE 8.2)		AVAILABLE-FOR-SAL FINANCIAL ASSETS (NOTE 9)		LOANS AND RECEIVABLES (NOTE 10)		HEDGING DERIVATIVES (NOTE 11)	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Level 1:												
Debt instruments	-	-	659,571	659,571	-	-	3,332,492	3,332,492	1,704,087	1,690,155	-	-
Equity instruments	-	-	39,284	39,284	-	-	42,029	42,029	-	-	-	-
Derivatives	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	698,855	698,855	-	-	3,374,521	3,374,521	1,704,087	1,690,155	-	-
Level 2:												
Cash and balances with central banks	492,394	492,394	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	-	-	-	-	493,590	493,590	-	-	2,403,461	2,403,461	-	-
Loans and advances to customers	-	-	-	-	506,287	506,287	-	-	464,531	464,531	-	-
Debt instruments	-	-	4,921	4,921	-	-	156,241	156,241	738,553	776,299	-	-
Equity instruments	-	-	-	-	-	-	77,544	77,544	-	-	-	-
Trading derivatives	-	-	5,078,006	5,078,006	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-	-	-	10	10
	492,394	492,394	5,082,927	5,082,927	999,877	999,877	233,785	233,785	3,606,545	3,644,291	10	10
Level 3:												
Debt instruments	-	-	-	-	-	-	-	-	-	35	-	-
Equity instruments carried at cost	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	35	-	-
	492,394	492,394	5,781,782	5,781,782	999,877	999,877	3,608,306	3,608,306	5,310,632	5,334,481	10	10

Financial liabilities - fair value at 31 December 2011

THOUSANDS OF EUROS

	FINANCIAL LIABILITIES HELD FOR TRADING (NOTE 8.1)		OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (NOTE 8.2)		FINANCIAL LIABILITIES AT AMORTIZED COST (NOTE 17)		HEDGING DERIVATIVES (NOTE 11)	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Level 1:								
Trading derivatives	38	38	-	-	-	-	-	-
Short positions	343,354	343,354	-	-	-	-	-	-
	343,392	343,392	-	-	-	-	-	-
Level 2:								
Deposits from central banks	-	-	930,840	930,840	344,845	344,845	-	-
Deposits from credit institutions	-	-	352,750	352,750	2,917,015	2,917,015	-	-
Customer deposits	-	-	1,041,134	1,041,134	3,446,337	3,446,337	-	-
Trading derivatives	5,017,255	5,017,255	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	293,640	293,640	-	-
Hedging derivatives	-	-	-	-	-	-	25,759	25,759
	5,017,255	5,017,255	2,324,724	2,324,724	7,001,837	7,001,837	25,759	25,759
Level 3:								
Deposits from credit institutions	-	-	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-	-	-
Trading derivatives	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
TOTAL	5,360,647	5,360,647	2,324,724	2,324,724	7,001,837	7,001,837	25,759	25,759

It should be mentioned, with respect to the fair values included in the foregoing tables, that:

> The fair value of the loans and advances to credit institutions and the loans and advances to customers classified under "Loans and Receivables" in the foregoing tables is the same as their carrying amount since, in view of their features (counterparties, interest rates and maturities), their fair value is not significantly different from their amortized cost.

> The fair value of the asset balances relating to cash and balances with central banks shown in the foregoing tables was estimated to be the same as their carrying amount, since it was considered that the fair value of these items was not significantly different from their carrying amount.

> The fair value of the liabilities classified as financial liabilities at amortized cost in the foregoing tables was the same as their carrying amount, since it was considered that, in view of the maturities and interest rates of these liabilities, their fair value was not significantly different from their amortized cost.

Following is a detail of the changes in fair value of the Group's financial instruments in respect of unrealized gains and losses at 31 December 2012 and 2011 which were recognized in the consolidated financial statements for 2012 and 2011. The fair value of these financial instruments is calculated applying a valuation technique in which variables are obtained from observable market data (Level 2) or using valuation techniques in which certain significant inputs are not based on observable market data (Level 3):

	THOUSANDS OF EUROS	
	NET GAIN/ (LOSS)	
	2012	2011
Level 2		
Financial assets held for trading		
Derivatives	125,964	1,086,899
Debt instruments	19	102
Other financial assets at fair value through profit or loss		
Loans and advances to credit institutions	(62)	539
Loans and advances to customers	589	855
Financial liabilities held for trading		
Derivatives	(140,811)	(1,040,071)
Hedging derivatives (asset balances)	-	(159)
Hedging derivatives (liability balances)	8,036	(21,182)
Other financial liabilities at fair value through profit or loss		
Deposits from central banks	-	(117)
Deposits from credit institutions	(68)	29
Customer deposits	2,428	(11,934)
Loans and receivables		
Debt instruments	-	-
Available-for-sale financial assets		
Debt instruments	-	-
Equity instruments	-	-
	(3,905)	14,961
Level 3		
Financial assets held for trading		
Debt instruments	-	-
	(3,905)	14,961

At 31 December 2012 and 2011 the Group had entered into various reverse repurchase agreements (see Notes 8.2.1 and 10) and upon maturity of these agreements the Group must return title to the securities used as collateral to the borrower. At 31 December 2012 and 2011 the fair value of the securities received as collateral in these reverse repurchase agreements does not differ significantly from their carrying amount.

23.2. Fair value of tangible assets

The only tangible assets owned by the Group whose carrying amount differs significantly from their fair value are the properties owned by it. At 31 December 2012, the carrying amount of these properties amounted to EUR 84,764 thousand (31 December 2011: EUR 86,849 thousand) and their estimated fair value at that date was EUR 145,106 (31 December 2011: EUR 145,106 thousand).

The aforementioned fair value was estimated by Tinsa, S.A. using generally accepted valuation techniques.

24. Exposure to credit risk associated with financial instruments

24.1. Credit risk management objectives, policies and processes

Credit risk is defined as the risk that affects, or might affect, results or capital as a result of non-compliance by a borrower with its contractual obligations, or of the borrower failing to act as agreed. This category includes:

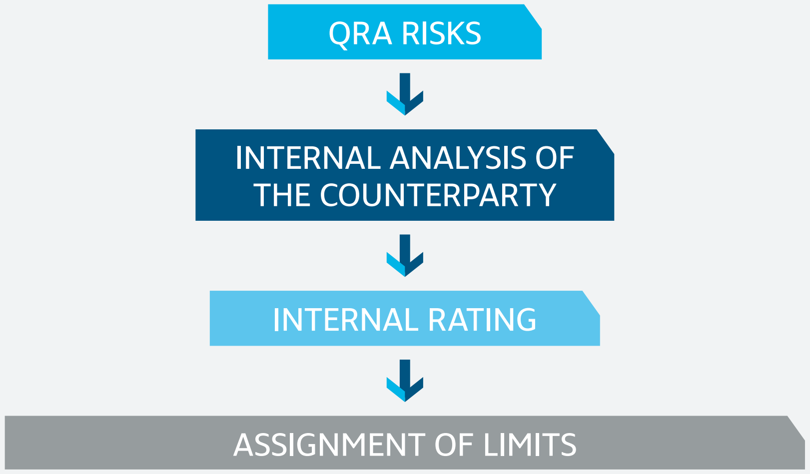
- Principal risk: the risk of loss of the principal delivered.
- Replacement cost or counterparty risk: this relates to the counterparty's ability and intention to meet its contractual obligations on maturity. Credit risk exists throughout the term of the transaction, but it can vary from one day to the next due to the settlement mechanisms involved and to changes in the marking to market.
- Issuer risk: this risk arises when trading the financial assets of an issuer as a result of a change in the market perception of the issuer's economic and financial strength.

- **Settlement or delivery risk:** the risk that one of the parties to the transaction fails to deliver the agreed-upon consideration.
- **Country risk:** it is the credit risk associated with debts held by debtors in a given country due to circumstances other than normal commercial risk. It may take the form of transfer risk, sovereign risk or other risks arising from international financial activity.
- **Concentration risk:** measures the extent of the concentration of credit risk exposure to a specific geographical area/country, economic sector, product and customer group.
- **Residual risk:** includes risk derived from hedging strategies, credit risk mitigation techniques, securitization, etc.

The Group has established certain procedures for the correct management of credit risk, the main features of which are as follows:

Credit risk analysis

At the Group, the process of assessing the credit quality of counterparties is closely linked with the assignment of limits. Thus, the Group assigns internal ratings to the various potential counterparties. This internal rating, together with the external agencies' ratings, contributes to the establishment of the maximum risk to be assumed with each entity. It also constitutes the basis for the acceptance and monitoring of risk.



The rating is the result of an analysis of various quantitative and qualitative factors which are assessed independently and receive a specific weighting for the calculating of the final rating. The final rating results from an independent assessment performed by the Group's analysts, which brings together the perception of the credit quality of the entities with which the Group wishes to transact business.

Credit risk monitoring and control

Credit risk is monitored through active portfolio management The main aim is to detect, sufficiently in advance, any counterparties whose creditworthiness might be deteriorating. Systematic monitoring allows the whole of the portfolio to be classified into standard risk counterparties and counterparties under special surveillance. All the counterparties belonging to the latter category are assigned a specific policy regarding the action to be taken, which ranges from simply reviewing any changes in their creditworthiness to ceasing all transactions with this counterparty, and a period for the reviewing the assigned policy.

As in risk analysis, ratings constitute the primary basis for the risk monitoring process together with other variables including the country and type of business, among others.

In addition, as part of the monitoring of the credit risk assumed in market operations, the adequacy of the contractual documentation supporting these operations is actively managed and monitored in conjunction with the Legal Department.

The control process comprises all the activities relating to the permanent checking of compliance with the established credit, counterparty and settlement risk limits, the management and reporting of overruns and the maintenance and update of parameterizations of products, customers, countries, economic groups, ratings, contractual offsetting agreements and financial guarantees in the control tools.

Risk limit structure

The Group's general credit risk limit structure is divided into two major groups.

On one hand, there are the limits individually assigned to a counterparty.

There are also a series of limits associated with certain activities, among others, as country risk limits and operating limits for private-sector fixed-income securities and equity securities.

Credit Risk Measurement Methodology

The Group calculates credit risk exposure by applying the standardized approach provided in current regulations. As a general rule, it is calculated as the sum of the current exposure or market value (mark-to market) plus an add-on to reflect potential future exposure.

The management tools provide real-time information on the utilization of credit risk limits for each counterparty and economic group, thus facilitating the ongoing monitoring of any change and/or overrun of these limits.

In accordance with current legislation, the existence of guarantees and collateral reduces the credit risk of transactions for which they are provided.

Concentration risk

With regard to credit risk, concentration risk is an essential management tool. The Group constantly monitors the extent of its credit risk concentration under various salient classifications: country, rating, sector, economic group, guaranties, etc.

The Group uses a conservative risk criteria for the management of concentration risk which enable it to manage the available limits sufficiently comfortably with respect to the legally established concentration limits.

At 31 December 2012, all of the Group's most significant risk exposure was at very low levels with a ratio of 1.06. Moreover, 22.25%% of the large exposures are classified as investment grade by the rating agencies, all of them being classified as level 3. This distribution is limited by levels of agency ratings of the Spanish Financial System.

The highest exposure is in Spain (78.35%) followed by the other euro-zone countries (11.45%), and rest of Europe (5.71%). Exposure in North America accounts for 2.7% of the total.

Regarding the high level of industry concentration, it is due to the Group's focus and the conducting of many activities, operations and services within the banking business in general, or indirectly related to it. Also, the risks in the financial services industry account for more than 90% of the total risk exposure, although when evaluating this level of industry concentration it should be taken into account that this exposure is to a highly regulated and supervised segment.

24.2. Maximum credit risk exposure level

The following tables show the maximum level of exposure to credit risk assumed by the Group at 31 December 2012 and 2011 by class and category of financial instrument, without deducting the collateral or other guarantees received by the Group to ensure debtors meet their obligations:

31 December 2012:

	THOUSANDS OF EUROS						
	ASSETS						
	FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS						
	FINANCIAL ASSET HELD FOR TRADING (NOTE 8.1) (1)	OTHER ASSETS (NOTE 8.2)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 9)	LOANS AND RECEIVABLES (NOTE 10)	HEDGING DERIVATIVES (NOTE 11)	MEMORANDUM ITEMS	TOTAL
1. Debt instruments-							
1.1. Loans and advances to credit institutions	-	1,797,736	-	1,287,131	-	-	3,084,867
Reverse repurchase agreements	-	1,797,736	-	-	-	-	1,797,736
Time deposits	-	-	-	116,912	-	-	116,912
Guarantee deposits on securities lending transactions	-	-	-	6,580	-	-	6,580
Doubtful assets	-	-	-	-	-	-	-
Other accounts and other	-	-	-	1,163,639	-	-	1,163,639
1.2. Debt instruments	872,410	-	3,547,190	392,333	-	-	4,811,933
Government debt securities	811,267	-	652,212	8,287	-	-	1,471,766
Treasury bills	-	-	2,157,502	-	-	-	2,157,502
Other public institutions	26,377	-	140,885	-	-	-	167,262
Spanish credit institutions	33,238	-	280,004	191,055	-	-	504,297
Non-resident credit institutions	-	-	-	-	-	-	-
Private sector (Spain)	1,528	-	307,639	70,368	-	-	379,535
Private sector (rest of the world)	-	-	8,948	-	-	-	8,948
Doubtful assets	-	-	-	122,623	-	-	122,623

(1) The maximum credit risk exposure of the instruments included in the foregoing table was taken to be their fair value at 31 December 2012.

	THOUSANDS OF EUROS						
	ASSETS						
	FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS						
	FINANCIAL ASSET HELD FOR TRADING (NOTE 8.1) (1)	OTHER ASSETS (NOTE 8.2)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 9)	LOANS AND RECEIVABLES (NOTE 10)	HEDGING DERIVATIVES (NOTE 11)	MEMORANDUM ITEMS	TOTAL
1.3. Loans and advances to customers	-	789,395	-	376,548	-	-	1,165,943
Reverse repurchase agreements	-	789,395	-	-	-	-	789,395
Mortgage loans	-	-	-	49,294	-	-	49,294
Guarantee deposits on securities lending transactions	-	-	-	-	-	-	-
Other loans and credits	-	-	-	140,763	-	-	140,763
Doubtful assets	-	-	-	16,512	-	-	16,512
Other assets	-	-	-	169,979	-	-	169,979
Total debt instruments	872,410	2,587,131	3,547,190	2,056,012	-	-	9,062,743
2. Contingent liabilities							
Financial guarantees (Note 30.1)	-	-	-	-	-	15,094	15,094
Documentary credits (Note 30.1)	-	-	-	-	-	19,903	19,903
Total contingent liabilities	-	-	-	-	-	34,997	34,997
3. Other exposures							
Derivatives	5,203,970	-	-	-	-	-	5,203,970
Contingent commitments (Note 30.3)	-	-	-	-	-	617,710	617,710
Total other exposures	5,203,970	-	-	-	-	617,710	5,821,680

(1) The maximum credit risk exposure of the instruments included in the foregoing table was taken to be their fair value at 31 December 2012.

	THOUSANDS OF EUROS						
	ASSETS						
	FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS						
	FINANCIAL ASSET HELD FOR TRADING (NOTE 8.1) (1)	OTHER ASSETS (NOTE 8.2)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 9)	LOANS AND RECEIVABLES (NOTE 10)	HEDGING DERIVATIVES (NOTE 11)	MEMORANDUM ITEMS	TOTAL
4. Less: recognized impairment losses	-	-	(5,511)	(141,621)	-	(54,758)	(201,890)
Maximum credit risk exposure level (1+2+3+4)	6,076,380	2,587,131	3,541,679	1,914,391	-	597,949	14,717,530
Valuation adjustments	-	911	(1,595)	1,602	-	-	918
Total accounting balance	6,076,380	2,588,042	3,540,084	1,915,993	-	597,949	14,718,448

(1) The maximum credit risk exposure of the instruments included in the foregoing table was taken to be their fair value at 31 December 2012.

31 December 2011:

	THOUSANDS OF EUROS						
	ASSETS						
	FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS						
	FINANCIAL ASSET HELD FOR TRADING (NOTE 8.1) (1)	OTHER ASSETS (NOTE 8.2)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 9)	LOANS AND RECEIVABLES (NOTE 10)	HEDGING DERIVATIVES (NOTE 11)	MEMORANDUM ITEMS	TOTAL
1. Debt instruments							
1.1. Loans and advances to credit institutions	-	493,166	-	2,402,166	-	-	2,895,332
Reverse repurchase agreements	-	493,166	-	-	-	-	493,166
Time deposits	-	-	-	811,789	-	-	811,789
Guarantee deposits on securities lending transactions	-	-	-	293,629	-	-	293,629
Doubtful assets	-	-	-	-	-	-	-
Other accounts and other	-	-	-	1,296,748	-	-	1,296,748
1.2. Debt instruments	664,492	-	3,522,806	2,567,120	-	-	6,754,418
Government debt securities	623,043	-	842,720	-	-	-	1,465,763
Treasury bills	-	-	2,026,369	-	-	-	2,026,369
Other public institutions	-	-	14,979	-	-	-	14,979
Spanish credit institutions	22,359	-	170,166	1,916,195	-	-	2,108,720
Non-resident credit institutions	-	-	110,070	-	-	-	110,070
Private sector (Spain)	19,090	-	332,330	450,369	-	-	801,789
Private sector (rest of the world)	-	-	26,172	101,168	-	-	127,340
Doubtful assets	-	-	-	99,388	-	-	99,388

(1) The maximum credit risk exposure of the instruments included in the foregoing table was taken to be their fair value at 31 December 2011.

	THOUSANDS OF EUROS						
	ASSETS						
	FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS						
	FINANCIAL ASSET HELD FOR TRADING (NOTE 8.1) (1)	OTHER ASSETS (NOTE 8.2)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 9)	LOANS AND RECEIVABLES (NOTE 10)	HEDGING DERIVATIVES (NOTE 11)	MEMORANDUM ITEMS	TOTAL
1.3. Loans and advances to customers	-	506,351	-	466,317	-	-	972,668
Reverse repurchase agreements	-	506,351	-	5,970	-	-	512,321
Mortgage loans	-	-	-	49,576	-	-	49,576
Guarantee deposits on securities lending transactions	-	-	-	-	-	-	-
Other loans and credits	-	-	-	269,558	-	-	269,558
Doubtful assets	-	-	-	41	-	-	41
Other assets	-	-	-	141,172	-	-	141,172
Total debt instruments	664,492	999,517	3,522,806	5,435,603	-	-	10,622,418
2. Contingent liabilities							
Financial guarantees (Note 30.1)	-	-	-	-	-	68,445	68,445
Documentary credits (Note 30.1)	-	-	-	-	-	46,064	46,064
Total contingent liabilities	-	-	-	-	-	114,509	114,509
3. Other exposures							
Derivatives	5,078,006	-	-	-	10	-	5,078,016
Contingent commitments (Note 30.3)	-	-	-	-	-	1,260,860	1,260,860
Total other exposures	5,078,006	-	-	-	10	1,260,860	6,338,876

(1) The maximum credit risk exposure of the instruments included in the foregoing table was taken to be their fair value at 31 December 2011.

	THOUSANDS OF EUROS						
	ASSETS						
	FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS						
	FINANCIAL ASSET HELD FOR TRADING (NOTE 8.1) (1)	OTHER ASSETS (NOTE 8.2)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 9)	LOANS AND RECEIVABLES (NOTE 10)	HEDGING DERIVATIVES (NOTE 11)	MEMORANDUM ITEMS	TOTAL
4. Less: recognized impairment losses	-	-	(2,130)	(131,465)	-	(17)	(133,612)
Maximum credit risk exposure level (1+2+3+4)	5,742,498	999,517	3,520,676	5,304,138	10	1,375,352	16,942,191
Valuation adjustments	-	360	(31,943)	6,494	-	-	(25,089)
Total accounting balance	5,742,498	999,877	3,488,733	5,310,632	10	1,375,352	16,917,102

(1) The maximum credit risk exposure of the instruments included in the foregoing table was taken to be their fair value at 31 December 2011.

With respect to the credit derivatives arranged by the Group, the foregoing tables include only the fair value thereof at 31 December 2012 and 2011, respectively.

The contingent liabilities are presented at the maximum amount guaranteed by the Group. In general, it is considered that most of these balances will expire without any actual financing obligation arising for the Group. The collateral on these transactions must also be taken into account (see Note 24.3 below). The (drawable) balances of the contingent liabilities are presented at the maximum amounts drawable by the counterparties.

24.3. Collateral received and other credit enhancements

Contractual netting and financial guarantee or collateral agreements

The Group's policy with regard to the arrangement of transactions involving financial derivative products, repos, sell/buy backs and securities lending is to enter into contractual netting agreements drafted by national or international associations. These agreements enable the transactions performed thereunder to be terminated and settled early in the event of default by the counterparty in such a way that the parties can only claim the net balance resulting from the settlement of such transactions.

Derivative financial instruments are arranged using ISDA Master Agreements, which are subject to the laws of England and Wales or the State of New York, or the Framework Agreement for Financial Transactions (CMOF) which is subject to Spanish law, depending on the counterparty. Financial guarantee agreements, namely the Credit Support Annex for ISDA Master Agreements and Appendix III for CMOFs, are entered into to hedge derivative financial instruments exceeding certain risk levels.

Standard Global Master Repurchase Agreements (GMRA) are entered into for repo and sell/buy back transactions, while standard European Master Agreement (EMA) or Global Master Securities Lending Agreements (GMSLA) are used for securities lending transactions. The clauses of these types of contractual netting agreements include regulations on the financial guarantees or spreads on the transactions.

Following is a detail of the Group's maximum credit risk exposure to each financial instrument class secured by collateral or other credit enhancements in addition to the personal guarantee of the borrower, disregarding recognized impairment losses, at 31 December 2012 and 2011:

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31 December 2012:

	THOUSANDS OF EUROS								
	GOVERNMENT-BACKED	SECURED BY SPANISH GOVERNMENT DEBT SECURITIES	SECURED BY OTHER FIXED-INCOME SECURITIES	SECURED BY SHARES	NETTING AGREEMENTS	SECURED BY MORTGAGE	SECURED BY CASH DEPOSITS	GUARANTEED BY CREDIT INSTITUTIONS	TOTAL
1. Debt instruments									
1.1. Loans and advances to credit institutions	-	1,784,326	13,410	6,580	-	-	-	-	1,804,316
Reverse repurchase agreements	-	1,784,326	13,410	-	-	-	-	-	1,797,736
Guarantee deposits on securities lending transactions	-	-	-	6,580	-	-	-	-	6,580
Time deposits	-	-	-	-	-	-	-	-	-
1.2. Debt instruments	481,756	-	-	-	-	-	-	-	481,756
1.3. Loans and advances to customers	-	789,395	100,000	-	-	49,294	-	-	938,689
Reverse repurchase agreements	-	789,395	-	-	-	-	-	-	789,395
Mortgage loans	-	-	-	-	-	49,294	-	-	49,294
Guarantee deposits on securities lending transactions	-	-	-	-	-	-	-	-	-
Real guarantees	-	-	100,000	-	-	-	-	-	100,000
Total debt instruments	481,756	2,573,721	113,410	6,580	-	49,294	-	-	3,224,761
2. Contingent liabilities									
Financial bank guarantees	-	15,094	-	-	-	-	-	-	15,094
Documentary credits	-	-	-	-	-	-	-	19,903	19,903
Total contingent liabilities	-	15,094	-	-	-	-	-	19,903	34,997
3. Other exposures									
Derivatives	-	-	-	-	3,082,292	-	-	-	3,082,292
Total other exposures	-	-	-	-	3,082,292	-	-	-	3,082,292
Total amount covered	481,756	2,588,815	113,410	6,580	3,082,292	49,294	-	19,903	6,342,050

31 December 2011:

	THOUSANDS OF EUROS								
	GOVERNMENT-BACKED	SECURED BY SPANISH GOVERNMENT DEBT SECURITIES	SECURED BY OTHER FIXED-INCOME SECURITIES	SECURED BY SHARES	NETTING AGREEMENTS	SECURED BY MORTGAGE	SECURED BY CASH DEPOSITS	GUARANTEED BY CREDIT INSTITUTIONS	TOTAL
1. Debt instruments									
1.1. Loans and advances to credit institutions	-	229,313	263,853	293,629	-	-	-	-	786,795
Reverse repurchase agreements	-	229,313	263,853	-	-	-	-	-	493,166
Guarantee deposits on securities lending transactions	-	-	-	293,629	-	-	-	-	293,629
Time deposits	-	-	-	-	-	-	-	-	-
1.2. Debt instruments	2,618,242	-	-	-	-	-	-	-	2,618,242
1.3. Loans and advances to customers		408,974	303,347	-	-	49,576	-	-	761,897
Reverse repurchase agreements	-	408,974	103,347	-	-	-	-	-	512,321
Mortgage loans	-	-	-	-	-	49,576	-	-	49,576
Guarantee deposits on securities lending transactions	-	-	200,000	-	-	-	-	-	200,000
Total debt instrument	2,618,242	638,287	567,200	293,629	-	49,576	-	-	4,166,934
2. Contingent liabilities									
Financial bank guarantees	-	68,445	-	-	-	-	-	-	68,445
Documentary credits	-	-	-	-	-	-	-	46,064	46,064
Total contingent liabilities	-	68,445	-	-	-	-	-	46,064	114,509
3. Other exposures									
Derivatives	-	-	-	-	2,341,089	-	-	-	2,341,089
Total other exposures	-	-	-	-	2,341,089	-	-	-	2,341,089
Total amount covered	2,618,242	706,732	567,200	293,629	2,341,089	49,576	-	46,064	6,622,532

24.4. Credit quality of unimpaired, non-past-due financial assets

24.4.1. Analysis of credit risk exposure by credit rating

At 31 December 2012, 75.3% of the exposure had been rated by a credit rating agency recognized by the Bank of Spain. The distribution, by rating, of the rated exposure is as follows:

LEVEL	RATING (*)	PERCENTAGE
1	AAA-AA	1.1%
2	A	12.3%
3	BBB	27.0%
4	BB	34.2%
5	B	20.3%
6	CCC and below	5.1%
	TOTAL	100%

(*) The exposures were classified taking the most conservative of the ratings granted by the three rating agencies used to manage the Confederación's risk: Fitch, Moody's and S&P.

24.4.2. Classification of credit risk exposure by counterparty

Following is a detail, by counterparty, of the maximum credit risk exposure (disregarding recognized impairment losses) in connection with financial assets not past-due or impaired at 31 December 2012 and 2011:

31 December 2012:

	THOUSANDS OF EUROS							
	RESIDENT PUBLIC SECTOR	RESIDENT CREDIT INSTITUTIONS	OTHER RESIDENT ENTITIES	OTHER RESIDENTS	NON-RESIDENT PUBLIC SECTOR	NON-RESIDENT CREDIT INSTITUTIONS	OTHER NON-RESIDENT SECTORS	TOTAL
1. Debt instruments								
1.1. Loans and advances to credit institutions	-	2,534,155	-	-	-	550,712	-	3,084,867
Reverse repurchase agreements	-	1,797,736	-	-	-	-	-	1,797,736
Time deposits	-	116,912	-	-	-	-	-	116,912
Guarantee deposits on securities lending transactions	-	2,644	-	-	-	3,936	-	6,580
Other accounts	-	607,864	-	-	-	310,007	-	917,871
Other	-	8,999	-	-	-	236,769	-	245,768
1.2. Debt instruments	3,796,530	504,297	379,535	-	-	-	8,948	4,689,310

31 December 2012:

	THOUSANDS OF EUROS							
	RESIDENT PUBLIC SECTOR	RESIDENT CREDIT INSTITUTIONS	OTHER RESIDENT ENTITIES	OTHER RESIDENTS	NON-RESIDENT PUBLIC SECTOR	NON-RESIDENT CREDIT INSTITUTIONS	OTHER NON-RESIDENT SECTORS	TOTAL
1.3. Loans and advances to customers	1,187	789,395	32,732	217,638	25	7,915	100,539	1,149,431
Reverse repurchase agreements	-	789,395	-	-	-	-	-	789,395
Guarantee deposits on securities lending transactions	-	-	-	-	-	-	-	-
Other loans and credits	1,187	-	32,732	6,280	25	-	100,539	140,763
Mortgage loans	-	-	-	49,294	-	-	-	49,294
Other assets	-	-	-	162,064	-	7,915	-	169,979
Total debt instruments	3,797,717	3,827,847	412,267	217,638	25	558,627	109,487	8,923,608
2. Contingent liabilities								
Financial bank guarantees	-	15,094	-	-	-	-	-	15,094
Documentary credits	-	-	19,903	-	-	-	-	19,903
Total contingent liabilities	-	15,094	19,903	-	-	-	-	34,997
3. Other exposures								
Derivatives	-	3,558,646	951,561	-	-	693,763	-	5,203,970
Contingent commitments	383,572	7,246	226,592	-	-	-	300	617,710
Total other exposures	383,572	3,565,892	1,178,153	-	-	693,763	300	5,821,680
Total	4,181,289	7,408,833	1,610,323	217,638	25	1,252,390	109,787	14,780,285

31 December 2011:

	THOUSANDS OF EUROS							
	RESIDENT PUBLIC SECTOR	RESIDENT CREDIT INSTITUTIONS	OTHER RESIDENT ENTITIES	OTHER RESIDENTS	NON-RESIDENT PUBLIC SECTOR	NON-RESIDENT CREDIT INSTITUTIONS	OTHER NON-RESIDENT SECTORS	TOTAL
1. Debt instruments								
1.1. Loans and advances to credit institutions	-	2,671,672	-	-	-	223,660	-	2,895,332
Reverse repurchase agreements	-	493,166	-	-	-	-	-	493,166
Time deposits	-	746,351	-	-	-	65,438	-	811,789
Guarantee deposits on securities lending transactions	-	289,659	-	-	-	3,970	-	293,629
Other accounts	-	1,134,987	-	-	-	153,832	-	1,288,819
Other	-	7,509	-	-	-	420	-	7,929
1.2. Debt instruments	3,507,102	2,108,720	801,789	-	9	110,070	127,340	6,655,030
1.3. Loans and advances to customers	308	-	623,365	118,722	13	-	230,219	972,627
Reverse repurchase agreements	-	-	512,321	-	-	-	-	512,321
Guarantee deposits on securities lending transactions	-	-	-	-	-	-	-	-
Other loans and credits	308	-	-	69,146	13	-	200,091	269,558
Mortgage loans	-	-	-	49,576	-	-	-	49,576
Other assets	-	-	111,044	-	-	-	30,128	141,172
Total debt instruments	3,507,410	4,780,392	1,425,154	118,722	22	333,730	357,559	10,522,989

	THOUSANDS OF EUROS							
	RESIDENT PUBLIC SECTOR	RESIDENT CREDIT INSTITUTIONS	OTHER RESIDENT ENTITIES	OTHER RESIDENTS	NON-RESIDENT PUBLIC SECTOR	NON-RESIDENT CREDIT INSTITUTIONS	OTHER NON-RESIDENT SECTORS	TOTAL
2. Contingent liabilities								
Financial bank guarantees	-	68,445	-	-	-	-	-	68,445
Documentary credits	-	-	46,064	-	-	-	-	46,064
Total contingent liabilities	-	68,445	46,064	-	-	-	-	114,509
3. Other exposures								
Derivatives	-	2,970,390	1,604,141	-	-	503,485	-	5,078,016
Contingent commitments	875,550	26,761	358,249	-	-	-	300	1,260,860
Total other exposures	875,550	2,997,151	1,962,390	-	-	503,485	300	6,338,876
Total	4,382,960	7,845,988	3,433,608	118,722	22	837,215	357,859	16,976,374

Also, as stated in the applicable legislation, presented below is the distribution of the loans to customers by type of activity (book value) as of 31 December 2012:

	THOUSANDS OF EUROS							
				CREDIT WITH REAL ESTATE COLLATERAL. LOAN TO VALUE				
	TOTAL	OF WHICH: REAL ESTATE COLLATERAL	OF WHICH: OTHER REAL GUARANTEES	LESS 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%
Public Administrations	1,263	-	-	-	-	-	-	-
Other financial institutions	1,096,221	-	100,000	-	-	-	100,000	-
Non-financial entities and individual entrepreneurs	8,796	-	-	-	-	-	-	-
Construction and property development	-	-	-	-	-	-	-	-
Construction of civil works	-	-	-	-	-	-	-	-
Other purposes	8,796	-	-	-	-	-	-	-
Big enterprises	4,116	-	-	-	-	-	-	-
SMEs and individual entrepreneurs	4,680	-	-	-	-	-	-	-
Rest of households and NPISHs	56,243	49,294	-	16,936	9,812	15,655	6,891	-
Houses	51,258	49,294	-	16,936	9,812	15,655	6,891	-
Consumption	4,924	-	-	-	-	-	-	-
Other purposes	61	-	-	-	-	-	-	-
Subtotal	1,162,523	49,294	100,000	16,936	9,812	15,655	106,891	-
Minus: Value adjustments for impairment of assets not attributable to specific operations	1,487	-	-	-	-	-	-	-
Total	1,161,036	-	-	-	-	-	-	-
Memorandum Item								
Refinancing operations, refinanced and restructured	12,375	-	-	-	-	-	-	-

24.5. Information on non-performing loans ratios

In view of the activities carried on by the Group and the risk profile assumed by it, its non-performing loans ratios, measured as doubtful assets as a percentage of total credit risk, were 0.94% and 0.59% at 31 December 2012 and 2011, respectively.

24.6. Financial assets renegotiated in the year

Following is a detail by counterparties, classification of NPL's and type of warranties, existing balances of restructuring and refinancing carried on by the Group as of 31 December 2012. It is worth mentioning that during 2012, given activities carried on by the Group and the risk profile assumed by it, no financial instruments had their original financial terms and conditions significantly renegotiated.

	THOUSANDS OF EUROS						
	NORMAL						
	FULL REAL ESTATE MORTGAGE		OTHER COLLATERAL		WITHOUT COLLATERAL		
	NUMBER OF OPERATIONS	GROSS AMOUNT	NUMBER OF OPERATIONS	GROSS AMOUNT	NUMBER OF OPERATIONS	GROSS AMOUNT	SPECIFIC COVERAGE
Public Administrations	-	-	-	-	-	-	-
Other legal entities and individual entrepreneurs	-	-	-	-	-	-	-
Of which:							
Construction and property development financing	-	-	-	-	-	-	-
Other individuals	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

THOUSANDS OF EUROS

	SUBSTANDARD						
	FULL REAL ESTATE MORTGAGE		OTHER COLLATERAL		WITHOUT COLLATERAL		
	NUMBER OF OPERATIONS	GROSS AMOUNT	NUMBER OF OPERATIONS	GROSS AMOUNT	NUMBER OF OPERATIONS	GROSS AMOUNT	SPECIFIC COVERAGE
Public Administrations	-	-	-	-	-	-	-
Other legal entities and individual entrepreneurs	-	-	-	-	-	-	-
Of which:							
Construction and property development financing	-	-	-	-	-	-	-
Other individuals	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

THOUSANDS OF EUROS

	DOUBTFUL						
	FULL REAL ESTATE MORTGAGE		OTHER COLLATERAL		WITHOUT COLLATERAL		
	NUMBER OF OPERATIONS	GROSS AMOUNT	NUMBER OF OPERATIONS	GROSS AMOUNT	NUMBER OF OPERATIONS	GROSS AMOUNT	SPECIFIC COVERAGE
Public Administrations	-	-	-	-	-	-	-
Other legal entities and individual entrepreneurs	-	-	-	-	1	16,500	4,125
Of which:							
Construction and property development financing	-	-	-	-	-	-	-
Other individuals	-	-	-	-	-	-	-
Total	-	-	-	-	1	16,500	4,125

	THOUSANDS OF EUROS						
	TOTAL						
	FULL REAL ESTATE MORTGAGE		OTHER COLLATERAL		WITHOUT COLLATERAL		
	NUMBER OF OPERATIONS	GROSS AMOUNT	NUMBER OF OPERATIONS	GROSS AMOUNT	NUMBER OF OPERATIONS	GROSS AMOUNT	SPECIFIC COVERAGE
Public Administrations	-	-	-	-	-	-	-
Other legal entities and individual entrepreneurs	-	-	-	-	1	16,500	4,125
Of which:							
Construction and property development financing	-	-	-	-	-	-	-
Other individuals	-	-	-	-	-	-	-
Total	-	-	-	-	1	16,500	4,125

24.7. Impaired assets

Following is a detail, by method used to calculate impairment losses, of the financial assets considered to be impaired due to credit risk at 31 December 2012 and 2011:

	THOUSANDS OF EUROS					
	31 DECEMBER 2012			31 DECEMBER 2011		
	FINANCIAL ASSETS INDIVIDUALLY ASSESSED AS IMPAIRED	FINANCIAL ASSETS COLLECTIVELY ASSESSED AS IMPAIRED	TOTAL IMPAIRED ASSETS	FINANCIAL ASSETS INDIVIDUALLY ASSESSED AS IMPAIRED	FINANCIAL ASSETS COLLECTIVELY ASSESSED AS IMPAIRED	TOTAL IMPAIRED ASSETS
1. Debt instruments						
1.1. Loans and advances to credit institutions	-	-	-	-	-	-
1.2. Debt instruments	122,623	-	122,623	99,388	-	99,388
1.3. Loans and advances to customers	16,512	-	16,512	41	-	41
Total debt instruments	139,135	-	139,135	99,429	-	99,429
2. Contingent liabilities						
2.1. Financial bank guarantees	-	-	-	-	-	-
2.2. Documentary credits	-	-	-	-	-	-
Total contingent liabilities	-	-	-	-	-	-
3. Other exposures						
3.1. Derivatives	-	-	-	-	-	-
3.2. Contingent commitments	54,743	-	54,743	-	-	-
Total other exposures	54,743	-	54,743	-	-	-
Total	193,878	-	193,878	99,429	-	99,429

Assets (secured loans) presented by the Group in the foregoing table as "individually impaired" at 31 December 2012 and 2011 were classified on the basis of an analysis of each such transaction, taking into account factors such as the financial position and solvency of the debtors, adverse changes in the fair value of the assets, giving rise to impairment, and other evidence justifying their classification as individually impaired under current legislation.

In connection with the information provided in the foregoing tables, it should be noted that financial assets classified as at fair value through profit or loss which might be impaired due to credit risk were not included, since when such assets are measured at fair value, any impairment losses are recognized as an adjustment to fair value in the Group's consolidated financial statements.

All the transactions considered by the Group to be impaired at 31 December 2012 and 2011 were classified under the "Loans and Receivables" category for EUR 139,135 thousand Euros as of 31 December 2012 (EUR 99,429 thousand Euros in 2011) and in "Contingent Commitments" for EUR 54,743 thousand Euros as of 31 December 2012 (at 31 December 2011 it was zero).

24.8. Changes in impairment losses

Following are the changes in the impairment losses due to credit risk recognized by the Group in 2012 and 2011:

2012:

	THOUSANDS OF EUROS					
	BALANCE AT 1 JANUARY 2012	NET ADDITIONS (REVERSALS) CHARGED (CREDITED) TO INCOME (**)	TRANSFERS BETWEEN ITEMS	AMOUNTS USED IN THE YEAR	OTHER CHANGES (*)	BALANCE AT 31 DECEMBER 2012
1. Impairment losses not specifically identified						
1.1. Debt instruments						
Loans and advances to credit institutions	5	13	-	-	-	18
Debt instruments	2,130	3,381	-	-	-	5,511
Loans and advances to customers	1,974	(487)	-	-	-	1,487
Total debt instruments	4,109	2,907	-	-	-	7,016
1.2. Contingent liabilities						
Financial bank guarantees	17	(2)	-	-	-	15
Total contingent liabilities	17	(2)	-	-	-	15
1.3. Other exposures	-	-	-	-	-	-
Total	4,126	2,905	-	-	-	7,031
2. Specifically identified impairment losses						
2.1. Debt instruments						
Loans and advances to credit institutions	-	-	-	-	-	-
Debt instruments (***)	129,452	35,703	-	(28,765)	(410)	135,980
Loans and advances to customers	34	4,103	-	-	(1)	4,136
Total debt instruments	129,486	39,806	-	(28,765)	(411)	140,116
2.2. Contingent liabilities	-	-	-	-	-	-
Total contingent liabilities	-	-	-	-	-	-
2.3. Other exposures	-	54,743	-	-	-	54,743
Total	129,486	94,549	-	(28,765)	(411)	194,859
Total impairment losses (1+2)	133,612	97,454	-	(28,765)	(411)	201,890

(*) Basically includes adjustments for differences in change.

(**) Of the total, 97,454 thousand Euros, 42,713 thousand Euros are recognized under "Impairment of financial assets (net) (see Note 41) and 54.741 thousand Euros under " Provisions (net) (see Note 18.3) in the consolidated income statement for the year 2012.

(***) Of the total of 135,980 thousand Euros of impairment losses specifically identified debt securities, 17,567 thousand relate to providing substandard.

2011:

	THOUSANDS OF EUROS					
	BALANCE AT 1 JANUARY 2011	NET ADDITIONS (REVERSALS) CHARGED (CREDITED) TO INCOME (**)	TRANSFERS BETWEEN ITEMS	AMOUNTS USED IN THE YEAR	OTHER CHANGES (*)	BALANCE AT 31 DECEMBER 2011
1. Impairment losses not specifically identified						
1.1. Debt instruments						
Loans and advances to credit institutions	59	(54)	-	-	-	5
Debt instruments	2,819	(689)	-	-	-	2,130
Loans and advances to customers	1,147	827	-	-	-	1,974
Total debt instruments	4,025	84	-	-	-	4,109
1.2. Contingent liabilities						
Financial bank guarantees	14	3	-	-	-	17
Total contingent liabilities	14	3	-	-	-	17
1.3. Other exposures	-	-	-	-	-	-
Total	4,039	87	-	-	-	4,126
2. Specifically identified impairment losses						
2.1. Debt instruments						
Loans and advances to credit institutions	-	-	-	-	-	-
Debt instruments (***)	142,969	(10,526)	-	(3,858)	867	129,452
Loans and advances to customers	24	10	-	-	-	34
Total debt instruments	142,993	(10,516)	-	(3,858)	867	129,486
2.2. Contingent liabilities	-	-	-	-	-	-
Total contingent liabilities	-	-	-	-	-	-
2.3. Other exposures	-	-	-	-	-	-
Total	142,993	(10,516)	-	(3,858)	867	129,486
Total impairment losses (1+2)	147,032	(10,429)	-	(3,858)	867	133,612

(*) Basically includes adjustments for differences in change.

(**) Of the total, 10,432 thousand Euros are recognized under "Impairment of financial assets (net) (see Note 41) and 3 thousand Euros under" Provisions (net) (see Note 18.3) in the consolidated income statement for the year 2011.

(***) Of the total of 129,452 thousand Euros of impairment losses specifically identified debt securities, 30,065 thousand relate to providing substandard.

Following is a detail, by financial instrument category, of the impairment losses recognized by the Group due to credit risk at 31 December 2012 and 2011:

31 December 2012:

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	AVAILABLE-FOR-SALE FINANCIAL ASSETS	LOANS AND RECEIVABLES	PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS (NOTE 18.3)	TOTAL
1. Impairment losses not specifically identified				
1.1. Debt instruments				
Loans and advances to credit institutions	-	18	-	18
Debt instruments	5,511	-	-	5,511
Loans and advances to customers	-	1,487	-	1,487
Total debt instruments	5,511	1,505	-	7,016
1.2. Contingent liabilities				
Financial bank guarantees	-	-	15	15
Total contingent liabilities	-	-	15	15
1.3. Other exposures-	-	-	-	-
Total	5,511	1,505	15	7,031

	AVAILABLE-FOR-SALE FINANCIAL ASSETS	LOANS AND RECEIVABLES	PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS (NOTE 18.3)	TOTAL
2. Specifically identified impairment losses				
2.1. Debt instruments				
Loans and advances to credit institutions	-	-	-	-
Debt instruments	-	135,980	-	135,980
Loans and advances to customers	-	4,136	-	4,136
Total debt instruments	-	140,116	-	140,116
2.2. Contingent liabilities	-	-	-	-
2.3. Other exposures	-	-	54,743	54,743
Total	-	140,116	54,743	194,859
Total impairment losses (1+2)	5,511	141,621	54,758	201,890

31 December 2011:

	AVAILABLE-FOR-SALE FINANCIAL ASSETS	LOANS AND RECEIVABLES	PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS (NOTE 18.3)	TOTAL
1. Impairment losses not specifically identified				
1.1. Debt instruments				
Loans and advances to credit institutions	-	5	-	5
Debt instruments	2,130	-	-	2,130
Loans and advances to customers	-	1,974	-	1,974
Total debt instruments	2,130	1,979	-	4,109
1.2. Contingent liabilities				
Financial bank guarantees	-	-	17	17
Total contingent liabilities	-	-	17	17
1.3. Other exposures	-	-	-	-
Total	2,130	1,979	17	4,126
2. Specifically identified impairment losses				
2.1. Debt instruments				
Loans and advances to credit institutions	-	-	-	-
Debt instruments	-	129,452	-	129,452
Loans and advances to customers	-	34	-	34
Total debt instruments	-	129,486	-	129,486
2.2. Contingent liabilities	-	-	-	-
2.3. Other exposures	-	-	-	-
Total	-	129,486	-	129,486
Total impairment losses (1+2)	2,130	131,465	17	133,612

As previously stated, pursuant to the applicable legislation, the Group does not calculate impairment losses due to credit risk on equity instruments owned by the Group (impairment losses on these financial assets are calculated as set forth in Note 2.9) and on debt instruments classified at fair value through profit or loss since, because they are carried at fair value, any changes in fair value due to credit risk are recognized immediately in the consolidated income statement. Accordingly, these impairment losses are not included in the foregoing tables.

24.9. Past-due but not impaired assets

At 31 December 2012 and 2011 the Group had not recognized any material past-due but not impaired assets in its consolidated financial statements.

24.10. Write-off of impaired financial assets

At 31 December 2012 and 2011 the Group did not have any material financial assets that, pursuant to the criteria set forth in Note 2, had been written off due to credit risk, and there were no significant changes in this connection in 2012 and 2011.

24.11. Exposure to real estate risk

The only operations granted by the Confederación concerning real state exposure are those loans intended to be used for housing acquisition, which are granted to its employees.

Following is a detail of the loans and credits, with or without mortgage to households for house purchase included in this the balance sheet as of 31 December 2012 and 2011:

31 December 2012:

	THOUSANDS OF EUROS	
	GROSS AMOUNT	FROM WHICH: DOUBTFUL
Credit for house purchase		
Without mortgage guarantee	1,964	-
With mortgage guarantee	49,294	-
	51,258	-

31 December 2011:

	THOUSANDS OF EUROS	
	GROSS AMOUNT	FROM WHICH: DOUBTFUL
Credit for house purchase		
Without mortgage guarantee	1,991	23
With mortgage guarantee	49,576	-
	51,567	23

Following is the breakdown of credit with mortgage guarantee to households for house purchase, according to the percentage represented by the total risk over the amount of the last available valuation (loan to value) included in this balance sheet heading as of 31 December 2012 and 2011:

31 December 2012:

	THOUSANDS OF EUROS					
	RISK OVER THE AMOUNT OF THE LAST AVAILABLE VALUATION					
	LESS OR EQUAL THAN 40%	MORE THAN 40% AND LESS THAN 60%	MORE THAN 60% AND LESS OR EQUAL THAN 80%	MORE THAN 80% AND LESS OR EQUAL THAN 100%	MORE THAN 100%	TOTAL
Gross amount	16,936	9,812	15,655	6,891	-	49,294
From which: Doubtful	-	-	-	-	-	-

31 December 2011:

	THOUSANDS OF EUROS					
	RISK OVER THE AMOUNT OF THE LAST AVAILABLE VALUATION					
	LESS OR EQUAL THAN 40%	MORE THAN 40% AND LESS THAN 60%	MORE THAN 60% AND LESS OR EQUAL THAN 80%	MORE THAN 80% AND LESS OR EQUAL THAN 100%	MORE THAN 100%	TOTAL
Gross amount	18,951	7,940	16,519	6,166	-	49,576
From which: Doubtful	-	-	-	-	-	-

24.12. Other disclosures on credit risk

At 31 December 2012 and 2011 the amount of accrued uncollected past-due receivables on impaired financial assets was not material.

In 2012 and 2011 no guarantees associated with financial assets owned by the Group were executed in order to guarantee the collection thereof.

25. Exposure to market risk

25.1. Market risk management objectives, policies and processes

Market risk is defined as the risk that affects results or capital as a result of adverse changes in the prices of bonds, securities and commodities and in the exchange rates of transactions recognized in the trading book. This risk arises in market making and trading activities and the taking of positions in bonds, securities, foreign currencies, commodities and derivatives (on bonds, securities, currencies and commodities). This risk includes foreign currency risk, which is defined as the actual or potential risk that affects results or capital as a result of adverse changes in exchange rates in the banking book.

The Group's exposure to market risk arises from several financial factors affecting market prices. These factors include mainly, but not only, the following:

- Interest rates in each country and product type.
- Spreads of each instrument over the risk-free interest rate curve (including credit and liquidity spreads).
- Market liquidity levels.
- Price levels.
- Exchange rates.
- Levels of volatility of the above factors.

Value at Risk ("VaR") provides an integrated measure of market risk and encompasses the basic elements thereof: interest rate risk, spread risk, foreign currency risk, equity risk and the risk of volatility of the foregoing factors.

Interest rate risk

Interest rate risk is the exposure to market fluctuations due to changes in the general level of interest rates. The exposure to interest rate risk can be divided into the following two elements:

> Directional, slope and basis risk

Directional risk is the sensitivity of income to parallel shifts in the interest rate curve, while interest rate curve risk is the sensitivity of gains to changes in the structure of the rate curve, due to a change either in the slope or the shape of the curve.

Basis risk is the potential loss arising from unexpected changes in the spreads between the various interest rate curves with respect to which portfolio positions are held. Liquidity conditions in markets and the perception of the specific risk usually trigger this type of fluctuation, although other factors can also play a part.

The Group controls all the interest rate risks described above using VaR, which includes all the factors relevant to the measurement thereof, covering the maturity spectrum and all the relevant curves (including specific industry curves by rating).

> Spread risk

Spread risk arises from holding corporate bond positions (and credit derivatives) and is defined as the exposure to the specific risk of each issuer.

Certain circumstances relating to the market and/or the issue itself can widen the spreads due to the liquidity premium.

Foreign currencies

In view of its foreign currency and international capital markets operations, the Group is exposed to the following two types of foreign currency risk:

> Foreign exchange risk

Foreign exchange risk arises on the net positions of one currency against the euro or one currency against another. Therefore, foreign exchange risk is the potential fluctuation in spot exchange rates affecting the value of positions.

> Interest rate spread risk

Net interest rate spread risk arises from the difference between interest rates in two different currencies and its effect on forward foreign currency positions.

The Group measures both of these risks using VaR and includes exchange rates and currency yield curves as risk factors.

Equity risk

This represents the risk of incurring losses as a result of changes in share prices.

Volatility risk

As part of its portfolio management activities, the Group arranges options on various underlying assets on a habitual basis.

The most immediate way of measuring the risk of these options is through their delta, a parameter that proxies the risk of an option as an equivalent position in another simpler (linear) instrument.

But the non-linear nature of the value of options makes it advisable, in the case of complex options, basically to perform additional monitoring of the other parameters affecting the value of the option, which are as follows:

> Delta risk

Delta measures the change in the value of the option arising from a one-point change in the price of the underlying asset. Accordingly, delta risk is the exposure to unexpected changes in the value of the option portfolio as a result of changes in the prices of the underlying instruments.

> Gamma risk

The gamma of an option measures the sensitivity of its delta to a one-point change in the price of the underlying asset. It represents the risk that the delta of an option portfolio may vary as a result of a change in the prices of the underlying assets.

> Vega risk

Vega is a measure of the sensitivity of the value of an option to a one-point change in the volatility of the price of the underlying asset.

> Theta risk

Theta risk relates to the decline in the value of option positions as a consequence of the passage of time.

The Group measures delta and vega risk through the parametric VaR and measures options risks using historical simulation VaR, since this methodology is based on the complete revaluation of options.

For transactions with certain complex exotic options which are particularly complicated to manage and measure, the Group's general policy is to eliminate this risk from the portfolio by arranging back-to-back transactions in the market.

25.2. Market risk measurement

The methodology used to measure market risk is as follows.

VaR is calculated and monitored in the same way for available-for-sale and investment securities as it is for the trading book, although at present market risk limits have not been set for these portfolios.

Value at Risk

As stated above, VaR is the indicator used to monitor market risk exposure limits. It provides a unique measure of market risk by bringing together the following basic aspects:

- Interest rate risk.
- Credit spread risk.
- Foreign currency risk.
- Equity risk.
- Volatility risk (for optionalities).
- Liquidity risk.

Parametric VaR

The VaR measure used to monitor the limits described above is parametric VaR with the following features:

- Time horizon: 1 day
- Confidence interval: 99%
- Decay factor: 0.97
- Depth of the series: 250 trading days

It is calculated daily and the base currency is the euro.

In addition to the total VaR of the Treasury Room, VaR is also obtained for the different operating levels and units in the Financial Department.

The distribution of the VaR of the trading book by desk at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Money and currency markets	1,271	1,342
Fixed-income and equities trading	458	246
Loan trading	182	125
Derivatives and structured products	259	356

Every day an analytical measure derived from VaR known as the Component VaR of market risk, which enables the total risk contributed by each position and market risk factor (risk concentration) to be known and the sensitivity of VaR to changes in portfolio positions to be proxied, is calculated and reported.

Component VaR can be obtained at a higher level of disaggregation and is reported by:

- Product
- Risk vertex

Historical simulation VaR

In addition, parametric VaR is calculated and daily, and historical simulation VaR is reported to test the risk estimate obtained using the parametric VaR methodology.

Historical simulation VaR uses historical data to calculate the changes in market risk factors, which are applied to current values to generate simulated gain and loss distributions without making any a priori assumptions regarding the form thereof, since only the actual distribution is used.

The parameters used regarding confidence levels, time decay factors, data series and time horizon of the estimate as those used to calculate parametric VaR.

Management results

Starting with risk tools, management results for the trading portfolios are calculated daily.

The method used is mark-to-market for positions with directly observable market prices (debt, Treasury bills, futures, exchange-traded options) and mark-to-model (theoretical valuation) with market inputs for transactions without quoted prices (deposits, OTC derivatives, etc.).

Sensitivity measures

Although limits are structured with respect to the VaR measure that combines all types of risks and portfolios in a single indicator, there is a series of supplementary measures to monitor exposure to market risk, which are quantified and reported daily. The sensitivity measures performed are as follows:

- **Total delta**

  Sensitivity of net present value (NPV) to parallel shifts in the interest rate curve.

- **Curve risk**

  Sensitivity of NPV to changes in the maturity structure of the interest rate curve due to changes in the slope or the shape of the curve in particular tranches.

- **Spread risk**

  Measurement of the specific risk assumed to bond issuers.

  Liquidity risk is also quantified taking into account the nature of portfolio positions and the situation in the financial markets.

- **Exchange rate sensitivity**

  Sensitivity of the NPV of foreign currency positions in the portfolio to changes in exchange rates.

- **Price sensitivity**

  Sensitivity of the NPV of equity positions in the portfolio to changes in the prices of the securities held.

- **Volatility sensitivity**

  Sensitivity of the NPV of option positions in the portfolio to changes in the volatility of the underlying (vega risk).

Stress testing

The purpose of stress tests is to estimate the effects, in terms of losses, of an extreme movement in the market on the current portfolio. To this end, one or more worst case scenarios of price and interest rate fluctuations are defined based on real situations observed in the past or other situations that might arise.

The inclusion of the results of the stress tests in reporting systems enables traders and managers to be informed of the losses that might be incurred in extreme scenarios and facilitates the identification of the portfolio's risk profile in such situations.

25.3. Market risk limits

The market risk of the trading book is measured through VaR, using both the parametric and historical simulation methodologies (for the purposes of usage of limits, the former is currently used), including diversification and risk correlation (diversification benefits) criteria.

The general limit structure is determined by the following guidelines:

- The Board of Directors established the global limits and approves the ALCO proposal, the implementation plans and the management processes.
- The ALCO establishes a general framework of limits for the measurement of market risk and the limits distribution among the desks.
- The Board of Directors approves and reviews changes to limits proposed by the ALCO..
- The Deputy General Manager of the Finance Division will, in all cases, be responsible for the use of the overall limit and delegated limits, and any overrun of these limits must be authorized by the ALCO.

The Risk Department is responsible for monitoring and compliance of the limits and reporting the consumption to the ALCO.

There are two limit structures to control the market risk of Treasury activities:

- VaR limits measure the maximum authorized potential loss for a one-day time horizon based on the size and composition of the portfolio's risk exposure at the close of each day.
- Stop loss limits set the maximum authorized actual losses for both the Treasury Room and the various desks composing it, and include the results of intraday transactions. There are monthly and annual limits, as well as a monthly references and a 22 calendar day reference.

The stop loss limits are reviewed periodically and the review takes place at the same time as the review of VaR limits.

26. Liquidity risk

26.1. Liquidity risk management objectives, policies and processes

The aim of the Group as regards liquidity risk is to have in place at all times the instruments and processes to enable it to meet payment commitments, so that it has available to it the instruments to enable it to maintain sufficient levels of liquidity to meet its payment commitments.

Traditionally, the Group has generally had several ways of obtaining liquidity, including attracting customer deposits, the availability of various cash facilities at official agencies and raising liquidity through the interbank market.

In this connection, it is worth mentioning that the financial crisis continued to affect financial markets in 2012, particularly with regard to the debt of peripheral EU countries, including Spain, thereby prolonging the significant reduction in the various sources of financing of national and international financial institutions. As a result, the obtainment of financing through the intra-bank market, and especially through the use of Spanish government debt as collateral, continues to be severely hampered.

Due to the situation in the financial markets, in 2012 certain decisions were taken with a view to adapting the Group to the new situation and ensuring that it has the liquidity required to enable it to meet its payment commitments on a timely basis and attain its strategic and operating investment and growth targets. Mention must be made of the adoption by the Group of a series of specific measures in 2012 to protect it from the systemic crisis, pursuant to a previously established plan.

Liquidity risk

Liquidity risk is defined as:

- The uncertainty regarding the availability, at reasonable prices, of funds to enable the Confederación to meet its commitments when recourse to external financing is difficult for a particular period of time.
- The maintenance or generation of levels of liquidity required to finance future business growth.

In other words, this risk reflects the probability of incurring losses or having to reject new business or growth in current business as a result of being unable to meet commitments normally when they fall due or being unable to finance additional needs at market rates. In order to mitigate this risk, the Group periodically monitors its liquidity conditions and assesses any action that may be required. Furthermore, the Group has planned measures to enable it to restore the Group's overall financial equilibrium in the event of a possible shortfall in liquidity.

26.2. Liquidity risk measurement

Following is a detail the measures employed by the Market, Balance-Sheet and Liquidity Risk Division to measure liquidity risk.

Liquidity gap

The liquidity gap is the profile of maturities and settlements by risk type (assets and liabilities classified by residual maturity plus the interest flows arising therefrom) and shows the mismatch structure in the Group's balance sheet in terms of cash inflows and outflows.

It reflects the liquidity level maintained under normal market conditions and provides information on contractual and non-contractual cash inflows and outflows for a given period under certain assumptions regarding behavior.

It is calculated fortnightly.

Liquidity inventory

At least twice a day, a list is made to enable monitoring of available liquid assets in order to identify possible available sources of liquidity in the event of a liquidity contingency.

Liquidity ratios

The purpose of liquidity ratios is to value and measure the Group's on-balance-sheet liquidity bimonthly, as follows:

- Structural liquidity ratio: the purpose of this ratio is to identify the Group's funding mismatch, showing the liquidity generation structure and funding/lending structure by maturity.
- Short-term liquidity ratio: this ratio estimates the Group's potential capacity to generate liquidity in a period of seven, fifteen and thirty days in order to cater for a liquidity eventuality and evaluate the sufficiency of the proportion of demand deposits obtained held as liquid assets.

- Stress scenarios, in which the unavailability of various sources of funding is combined with scenarios of the immediate withdrawal by customers of positions classified as stable, are also analyzed, as well as other market conditions.
- Survival ratio: this ratio estimates the period of time for which the Group can meet its liquidity commitments for a thirty-day period in the event of a lack of access to the interbank market or alternative sources of funding. Scenarios of the unavailability of sources of funding envisaged in the calculation are combined with scenarios of the immediate withdrawal by customers of positions classified as stable.

Additionally, a daily monitoring of a series of alert indicators and intensity of the liquidity crisis is carried out, as wells as a detailed inventory which is refreshed permanently of the liquation capacity of the assets in the balance sheet.

26.3. Liquidity risk limits

As part of its function of monitoring the Group, the Board of Directors establishes a framework of liquidity risk limits based on monitoring the Group's short-term liquidity position.

In particular, limits were established on the following indicators:

- Short-term liquidity ratio:

  This ratio estimates the Group's potential capacity to generate liquidity to meet its payment commitments over a given period of time on the assumption that recourse cannot be had to the interbank market.

  Capability to generate liquidity includes:

  - Collections from the current portfolio.
  - Capability to continue to discount eligible paper.
  - Potential liquidity, which is all cashable assets except repurchase agreements.

Also, in order to provide complete information to facilitate optimum liquidity management, additional stress scenarios are included which envisage an immediate withdrawal of stable funding, activation of contingent commitments, lowering ratings, losses in the bankable portfolio, etc.

- **Liquidity gap at one month with respect to stable funding:** This ratio measures the net refinancing requirement at one month with respect to the amount of financing considered not to be volatile (i.e. the number of times by which the net refinancing requirement at one month exceeds the Group's stable funding). Thus, a limit can be placed on the level of concentration of the net lending position at very short term in relation to the amount of stable funding in an attempt to ensure that the term structure of the Group's funding is as balanced as possible.

  Any overrun of these limits must be authorized by the ALCO and, when it is considered necessary, such overruns must be reported to the Board of Directors together with an action plan to correct the situation.

26.4. Analysis of the liquidity gap

The liquidity gap is the profile of maturities and settlements by risk type (assets and liabilities classified by residual maturity plus the interest flows arising from all the balance sheet aggregates) and shows the mismatch structure in the balance sheet in terms of cash inflows and outflows. Its purpose is to measure the net funding required or the net excess of funds for various time horizons. Accordingly, it reflects the liquidity level maintained under normal market conditions. This measure provides information on contractual and non-contractual cash inflows and outflows (pursuant to historical-behavior based assumptions to which statistical analyses are applied).

Following is a detail at 31 December 2012 and 2011 of the Group's main financial assets and liabilities (other than derivatives) at those dates, classified by residual maturity and estimated on the basis of their contractual conditions, excluding the related valuation adjustments:

At 31 December 2012:

	THOUSANDS OF EUROS						
	ON DEMAND	LESS THAN 1 MONTH	1 TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	AFTER 5 YEARS	TOTAL
Assets:							
Cash and balances with central banks	463,115	-	-	-	-	-	463,115
Financial assets held for trading - Debt instruments	-	255,554	76,377	164,708	239,329	136,442	872,410
Financial assets held for trading - Other equity instruments	-	-	-	-	-	51,905	51,905
Other financial assets at fair value through profit or loss - Loans and advances to credit institutions	-	1,797,736	-	-	-	-	1,797,736
Other financial assets at fair value through profit or loss - Loans and advances to customers	-	669,168	120,227	-	-	-	789,395
Available-for-sale financial assets - Debt instruments (*)	-	250,281	732,900	1,268,593	888,544	405,277	3,545,595
Available-for-sale financial assets - Other equity instruments (**)	-	-	-	-	-	83,134	83,134
Loans and receivables - Loans and advances to credit institutions	144,647	1,133,328	3,875	5,281	-	-	1,287,131
Loans and receivables - Loans and advances to customers	101,146	102,789	100,013	355	2,787	69,458	376,548
Loans and receivables - Debt instruments	-	-	-	166,177	54,115	172,041	392,333
Total at 31 December 2012	708,908	4,208,856	1,033,392	1,065,114	1,184,775	918,257	9,659,302

(*) Including valuation adjustments relating to accrued interest and valuation gains or losses.
(**) Presented at fair value.

At 31 December 2012:

	THOUSANDS OF EUROS						
	ON DEMAND	LESS THAN 1 MONTH	1 TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	AFTER 5 YEARS	TOTAL
Liabilities:							
Financial liabilities held for trading - short positions	-	434,114	-	-	-	-	434,114
Other financial liabilities at fair value through profit or loss - Deposits from credit institutions	-	1,824,274	-	-	-	-	1,824,274
Other financial liabilities at fair value through profit or loss - Customer deposits	-	1,063,205	-	-	-	-	1,063,205
Financial liabilities at amortized cost - Deposits from central banks	-	-	-	-	1,300,000	-	1,300,000
Financial liabilities at amortized cost - Deposits from credit institutions	1,030,726	913,361	1,410	2,965	-	77,573	2,026,035
Financial liabilities at amortized cost - Customer deposits	1,336,360	88,615	100,885	140	572	1,556	1,528,128
Total at 31 December 2012	2,367,086	4,323,569	102,295	3,105	1,300,572	79,129	8,175,756
Assets minus liabilities at 31 December 2012	(1,658,178)	(114,713)	931,097	1,602,009	(115,797)	839,128	1,483,546

At 31 December 2011

	THOUSANDS OF EUROS						
	ON DEMAND	LESS THAN 1 MONTH	1 TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	AFTER 5 YEARS	TOTAL
Assets:							
Cash and balances with central banks	92,388	400,000	-	-	-	-	492,388
Financial assets held for trading - Debt instruments	-	1,172	55,315	233,762	210,702	163,541	664,492
Financial assets held for trading - Other equity instruments	-	-	-	-	-	39,284	39,284
Other financial assets at fair value through profit or loss - Loans and advances to credit institutions	-	443,616	49,550	-	-	-	493,166
Other financial assets at fair value through profit or loss - Loans and advances to customers	-	410,955	-	95,396	-	-	506,351
Available-for-sale financial assets - Debt instruments (*)	-	-	438,640	2,270,366	416,222	365,635	3,490,863
Available-for-sale financial assets - Other equity instruments (**)	-	-	-	-	-	119,573	119,573
Loans and receivables - Loans and advances to credit institutions	592,481	1,672,051	105,539	31,275	700	120	2,402,166
Loans and receivables - Loans and advances to customers	162,439	246,807	4	261	3,367	53,439	466,317
Loans and receivables - Debt instruments	-	-	52,918	2,102,966	233,096	178,140	2,567,120
Total at 31 December 2011	847,308	3,174,601	701,966	4,734,026	864,087	919,732	11,241,720

(*) Including valuation adjustments relating to accrued interest and valuation gains or losses.
(**) Presented at fair value.

At 31 December 2011

	THOUSANDS OF EUROS						
	ON DEMAND	LESS THAN 1 MONTH	1 TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	AFTER 5 YEARS	TOTAL
Liabilities:							
Financial liabilities held for trading - short positions	-	343,354	-	-	-	-	343,354
Other financial liabilities at fair value through profit or loss - Deposits from central banks	-	613,351	317,153	-	-	-	930,504
Other financial liabilities at fair value through profit or loss - Deposits from credit institutions	-	352,757	-	-	-	-	352,757
Other financial liabilities at fair value through profit or loss - Customer deposits	-	573,358	123,103	337,603	-	-	1,034,064
Financial liabilities at amortised cost - Deposits from central banks	-	4,935	339,776	-	-	-	344,711
Financial liabilities at amortised cost - Deposits from credit institutions	1,070,326	1,775,929	21,057	48,453	-	-	2,915,765
Financial liabilities at amortised cost - Customer deposits	2,555,393	41,107	916	836,717	1,725	2,958	3,438,816
Total at 31 December 2011	3,625,719	3,704,791	802,005	1,222,773	1,725	2,958	9,359,971
Assets minus liabilities at 31 December 2011	(2,778,411)	(530,190)	(100,039)	3,511,253	862,362	916,774	1,881,749

With a view to the correct interpretation of the information contained in the foregoing tables, it should be stated that the assets and liabilities were classified therein in accordance with their contractual terms and conditions and, accordingly, there are liabilities, such as current accounts on the liability side of the consolidated balance sheet, which are more stable and more permanent than "on demand" (the criteria used to classify them in the foregoing tables). Also, the assets classified as financial assets held for trading will generally be realized earlier than their respective maturity dates (the criterion used to classify them in the foregoing tables).

Following is a summary of the main assumptions used to construct the liquidity gap:

> For demand deposits (without contractual maturities) and non-sensitive assets, a settlement assumption is performed on the basis of a quantitative model which analyses the performance of the historical balances for the last two years.

> For transactions related to securitizations, early repayment and default assumptions based on the historical behavior of the portfolio using information provided by the securitizations vehicle are used.

> Dividends from equity securities and investees are included in the gap on the assumption that they are paid at year-end and that their amount is at least equal to the yield on a one-year deposit.

27. Interest rate risk

27.1. On-balance-sheet interest rate risk management objectives, policies and processes

The Group's on-balance-sheet interest rate risk management objectives are as follows:

> To establish appropriate mechanisms to avoid unexpected losses from the impact of changes in interest rates by protecting the net interest margin and the economic value of capital.

> To adopt lending and hedging strategies that offset the financial impact of changes in interest rates at short term (net interest margin) and at long term (economic value of capital).

> To execute lending and hedging strategies that boost the generation of earnings under approved risk limits.

To attain the objectives described above the Group has created an on-balance-sheet structural risk limit structure to guarantee that risk exposure levels are within the tolerance level set by senior management.

The Board of Directors defines the general framework for the management of the balance sheet and approves the risk limits based on its risk tolerance. Structural risks are managed at short, medium and long term using limits that are approved by the Board itself and monitored on a monthly basis.

Senior management is actively involved in on-balance-sheet risk management through the Asset-Liability Committee (ALCO). This committee is responsible for taking the action required to correct any possible on-balance-sheet risk imbalances.

The Market, Balance, and Liquidity Risk Division is responsible for ensuring that the Group's exposure to fluctuations in interest rates remains within the levels approved by the Board, and for measuring, analyzing and monitoring the on-balance-sheet structural risk management performed by the Finance Division.

On-balance-sheet structural interest rate risk can be defined as the exposure of the economic and financial position -resulting from the varying maturity and repricing dates of balance sheet items- to adverse fluctuations in interest rates. This risk is a substantial part of the banking business and can considerably affect the net interest margin and the economic value of capital. Consequently, interest rate risk management that keeps this risk at prudent levels is essential to the security and strength of the Group. (See Notes 2.4 and 11)

27.2. On-balance-sheet interest rate risk measurement

Analysis of the repricing gap

The objective of gap analysis is to measure the excess or shortfall in the volume of sensitive assets over sensitive liabilities, which is the unmatched (and therefore unhedged) volume subject to possible changes in interest rates. Thus, risk exposure is identified by studying the concentration of aggregates with repricing risk for significant time periods.

The interest rate gap reflects the Group's interest rate risk exposure based on the maturity and/or repricing structure of its positions. This indicator enables the Group to be aware of its interest rate risk exposures over the various maturities and thus attempt to ascertain where potential impacts might affect net interest margin and the market value of equity.

The interest rate gap is constructed by distributing by term the sensitive on-balance-sheet and off-balance-sheet "Banking Book" positions and balances. Items having no set maturity or repricing dates are allocated on the basis of historical-behavior assumptions.

TOTAL INTEREST	0<=1M	1<=2M	2<=3M	3<=4M	4<=5M	5<=6M	6<=12M	1<=2Y	2<=5Y	5<=10Y	10<=20Y	20<=30Y
1. ASSETS	980,266	502,774	399,940	247,348	487,966	309,085	502,221	206,107	652,326	339,300	40,900	(2,947)
1.1. CASH AND BALANCES WITH CENTRAL BANKS	502,672	-	-	-	-	-		-	-	-	-	-
1.2. LOANS AND ADVANCES TO CREDIT INSTITUTIONS	-	-	-	-	-	-		-	-	-	-	-
1.3. LOANS AND ADVANCES TO CUSTOMER	20,781	784	747	8,017	10,291	7,229	25,236	1,857	-	-	-	-
1.4. DEBT INSTRUMENTS	408,091	501,990	351,216	239,331	477,675	301,856	445,000	204,250	652,326	339,300	40,900	38,300
1.5. OTHER EQUITY INSTRUMENTS												132,544
1.6. NON-CURRENT ASSETS AND OTHER NON-SENSITIVE ASSETS	42,721		47,978		-		31,985					(173,791)
2. LIABILITIES	3,679,780	36,528	36,528	-	-	6,101	-	6,416	112,357	43,718	-	-
2.1. DEPOSITS FROM CREDIT INSTITUTIONS	1,521,319	-	-	-	-	6,101	-	6,416	21,338	43,718	-	-
2.2. REPURCHASE AGREEMENTS	-	-	-	-	-	-	-	-		-	-	-
2.3. CUSTOMER DEPOSITS	2,158,461	36,528	36,528	-	-	-	-	-	91,019	-	-	-
2.4. MARKETABLE DEBT SECURITIES	-	-	-	-	-	-	-	-	-	-	-	-
2.5. SHORT POSITIONS	-	-	-	-	-	-	-	-	-	-	-	-
3. DERIVATIVES	1,464,918	(169,463)	(85,845)	(155,356)	(196,475)	(50,000)	(50,000)	(120,000)	(632,385)	(5,393)	-	-
Gap	(1,234,597)	296,782	277,567	91,992	291,491	252,984	452,221	79,692	(92,416)	290,189	40,900	(2,947)
Cumulative GAP	(1,234,597)	(937,814)	(660,247)	(568,256)	(276,764)	(23,780)	428,441	508,133	415,717	705,906	746,806	743,858

The calculation of the gaps for risk management and monitoring purposes and for the calculation of financial ratios includes various assumptions, which are basically as follows:

> Floating-rate items are "mapped" by term to the next repricing date while fixed-rate items are placed according to their residual maturity. In both cases accrued interest is included in the mapping.

> For demand deposits without predefined repricing schedules, repricing assumptions are made based on the analysis of the lives of these items per a study of historical data.

> For transactions related to securitizations, early repayment and default assumptions based on the historical behavior of the portfolio using information provided by the securitizations vehicle are used.

> Dividends from equity securities and investees are included in the gap on the assumption that they are paid at year-end and that their amount is at least equal to the yield on a one-year deposit.

Simulation of the net interest margin

In order to include a dynamic analysis of the balance sheet to various interest rate scenarios, the Group performs simulations of the performance of the net interest margin over a time horizon of one year. This enables it to analyze the effect of changes due to fluctuations in interest rates based on the repricing gaps of the various balance sheet items.

The scenarios not only are the market implied forward rates, but they include different advanced movements and the stress curves and scenarios.

Sensitivity of the economic value of capital

In order to analyze the sensitivity of the fair value the Group analyses the impact of the use of stressed interest rate curves on the Net Present Value (NPV) calculated using data from the zero coupon curve.

To complete these sensitivity measures, a methodology which is similar to Market VaR is applied to allow the economic value of the capital at risk to be calculated for a one-month time horizon with a confidence level of 99%, taking into account all the risk factors which affect the balance sheet.

Interest rate risk limits

As part of its function of monitoring the Group, the Board of Directors establishes interest rate risk limits in terms of the sensitivity of both the net interest income and economic value to changes in market interest rates.

28. Risk concentration

28.1 Risk concentration by activity and geographical area

Following is a detail, by geographical area of residence of the counterparty, type and category of financial instrument, of the distribution of the carrying amount of the Group's financial assets at 31 December 2012 and 2011:

Risk Concentration by activity and geographical area. Total activity (book value):

	THOUSANDS OF EUROS				
	TOTAL	SPAIN	REST OF THE EUROPEAN UNION	AMERICA	REST OF THE WORLD
Credit Institutions	7,939,594	6,602,478	1,208,247	106,528	22,341
Public Administrations	3,829,296	3,829,271	25	-	-
Central Administration	3,554,117	3,554,117	-	-	-
Other	275,179	275,154	25	-	-
Other Credit Institutions	2,440,589	2,271,720	168,869	-	-
Non-financial societies and individual entrepreneurs	79,942	61,697	18,245	-	-
Construction and property development	-	-	-	-	-
Construction of Civil Works	-	-	-	-	-
Other purposes	79,942	61,697	18,245	-	-
- Large companies	4,313	4,313	-	-	-
- SMEs and Individual entrepreneurs	75,629	57,384	18,245	-	-
Rest of households and NPISHs	56,395	56,395	-	-	-
Houses	51,258	51,258	-	-	-
Consumption	4,924	4,924	-	-	-
Other purposes	213	213	-	-	-
Subtotal	14,345,816	12,821,561	1,395,386	106,528	22,341
Minus: Value adjustments for impairment of assets not attributable to specific operations	(6,999)				
Total	14,338,817				

Risk Concentration by activity and geographical area. Activity in Spain (book value):

	THOUSANDS OF EUROS									
		AUTONOMOUS COMMUNITIES								
	TOTAL	ANDALUCÍA	ARAGÓN	ASTURIAS	BALEARES	CANARIAS	CANTABRIA	CASTILLA - LA MANCHA	CASTILLA LEÓN	CATALUÑA
Credit Institutions	6,602,478	146,745	39,294	-	20,480	-	210,031	15,169	-	584,178
Public Administrations	3,829,271	6,568	4,922	-	-	-	8,288	-	29,602	-
Central Administration	3,554,117	-	-	-	-	-	-	-	-	-
Other	275,154	6,568	4,922	-	-	-	8,288	-	29,602	-
Other Credit Institutions	2,271,720	-	148,194	-	-	-	-	-	102,425	730,344
Non-financial societies and individual entrepreneurs	61,697	-	-	-	29	-	-	-	-	2,305
Construction and property development	-	-	-	-	-	-	-	-	-	-
Construction of Civil Works	-	-	-	-	-	-	-	-	-	-
Other purposes	61,697		-	-	29	-	-	-	-	2,305
- Large companies	4,313	-	-	-	-	-	-	-	-	-
- SMEs and Individual entrepreneurs	57,384	-	-	-	29	-	-	-	-	2,305
Rest of households and NPISHs	56,395	-	-	-	-	-	-	-	-	-
Houses	51,258	-	-	-	-	-	-	-	-	-
Consumption	4,924		-	-	-	-	-	-	-	-
Other purposes	213		-	-	-	-	-	-	-	-
Subtotal	12,821,561	153,313	192,410	-	20,509	-	218,319	15,169	132,027	1,316,827
Minus: Value adjustments for impairment of assets not attributable to specific operations	(6,783)									
Total	12,814,778									

	THOUSANDS OF EUROS								
	AUTONOMOUS COMMUNITIES								
	EXTRE-MADURA	GALICIA	MADRID	MURCIA	NAVARRA	COM. VALENCIANA	PAÍS VASCO	LA RIOJA	CEUTA Y MELILLA
Credit Institutions	-	383,611	1,749,120	-	-	3,399,867	53,983	-	-
Public Administrations	-	44,518	175,300	5,956	-	-	-	-	-
Central Administration	-	-	-	-	-	-	-	-	-
Other	-	44,518	175,300	5,956	-	-	-	-	-
Other Credit Institutions	-	29,644	1,181,145	-	-	28,050	51,918	-	-
Non-financial societies and individual entrepreneurs	-	4,503	51,409	-	230	218	2,949	54	-
Construction and property development	-	-	-	-	-	-	-	-	-
Construction of Civil Works	-	-	-	-	-	-	-	-	-
Other purposes	-	4,503	51,409	-	230	218	2,949	54	-
- Large companies	-	-	4,192	-	-	121	-	-	-
- SMEs and Individual entrepreneurs	-	4,503	47,217	-	230	97	2,949	54	-
Rest of households and NPISHs	-	-	56,395	-	-	-	-	-	-
Houses	-	-	51,258	-	-	-	-	-	-
Consumption	-	-	4,924	-	-	-	-	-	-
Other purposes	-	-	213	-	-	-	-	-	-
Subtotal	-	462,276	3,213,369	5,956	230	3,428,135	108,850	54	-
Minus: Value adjustments for impairment of assets not attributable to specific operations									
Total									

As for the information for year 2011, as it was mentioned in the Consolidated Annual Report for this year, practically all the book value of the Group's financial assets are in Spain, there being no difference with 2012 in terms of concentration of financial assets by geographic area in response to the residence of the counterparty.

28.2. Concentration of equity instruments

Following is a detail, by type of market listing, if any, and issuer, of the equity instruments held by the Group at 31 December 2012 and 2011:

31 December 2012:

	THOUSANDS OF EUROS		
	FINANCIAL ASSETS HELD FOR TRADING (NOTE 8.1)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 9)	TOTAL
By market listing-			
Shares listed in the Spanish secondary market	51,440	14,783	66,223
Shares listed in secondary markets in the rest of the world	465	25,043	25,508
Unlisted shares	-	43,308	43,308
	51,905	83,134	135,039
By issuer type-			
Spanish financial institutions	27,615	11,548	39,163
Other Spanish companies	23,825	45,300	69,125
Other foreign companies	465	26,286	26,751
	51,905	83,134	135,039

31 December 2011:

	THOUSANDS OF EUROS		
	FINANCIAL ASSETS HELD FOR TRADING (NOTE 8.1)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (NOTE 9)	TOTAL
By market listing			
Shares listed in the Spanish secondary market	38,749	22,671	61,420
Shares listed in secondary markets in the rest of the world	535	19,360	19,895
Unlisted shares	-	77,542	77,542
	39,284	119,573	158,857
By issuer type			
Spanish financial institutions	12,737	7,974	20,711
Other Spanish companies	26,011	91,282	117,293
Other foreign companies	536	20,317	20,853
	39,284	119,573	158,857

29. Welfare fund

Confederación Española de Cajas de Ahorros, within the framework of its welfare projects, finances Fundación de las Cajas de Ahorros (FUNCAS), a private not-for-profit organisation that engages in activities that benefit Spanish society, promote saving, and contribute to the raising of public awareness of savings banks by facilitating the service provided by them to society.

In particular, the objectives of the Fundación are:

- the promotion of economic and social studies and research
- the organisation of public events, and
- cultural dissemination in the broadest sense of the term and the fostering of all activities leading to a heightened awareness of the Spanish economy and society, thus encouraging useful recommendations regarding economic and social policy.

At 31 December 2012 and 2011 and throughout those years, the Confederación's Welfare fund was not invested in any tangible or intangible assets.

The changes in 2012 and 2011 in the balance of "Welfare Fund" on the liability side of the consolidated balance sheets are as follows:

	THOUSANDS OF EUROS	
	2012	2011
Beginning balance before distribution of profit	215	266
Transfer charged to prior period profit (Note 4)	3,715	3,995
Maintenance expenses for the year:		
Depreciation/amortization of assets assigned to welfare projects	-	-
Budgeted current expenses for the year	(3,715)	(4,046)
Other expenses from previous years	-	-
Ending balance before distribution of profit	215	215

30. Other significant disclosures

30.1. Contingent liabilities

The breakdown of the balance of "Memorandum Items - Contingent Liabilities" in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Financial guarantees provided-		
Financial bank guarantees	15,094	68,445
Documentary credits	19,903	46,064
	34,997	114,509
Other bank guarantees and indemnities	48,282	63,085
	83,279	177,594

"Financial Guarantees Provided" are defined as the amounts that would be payable by the Group on behalf of third parties as a result of the commitments assumed by the Group in the course of its ordinary business, if the parties who are originally liable to pay fail to do so. Note 24 includes information on the credit risk assumed by the Group in relation to financial guarantees provided.

A significant portion of these guarantees will expire without any payment obligation materializing for the Group 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.

The fee and commission income from these financial guarantees is recognized under "Fee and Commission Income" in the consolidated income statement (see Note 34).

The provisions made to cater for the financial guarantees provided, which were calculated using criteria similar to those applied in the calculation of the impairment of financial assets measured at amortized cost, were recognized under "Provisions - Provisions for Contingent Liabilities and Commitments" in the consolidated balance sheet (see Note 18).

30.2. Assets delivered as security

At 31 December 2012 and 2011, assets owned by the Group had been provided as security for transactions performed by it or by third parties, as well as for various liabilities and contingent liabilities assumed by the Group. The nominal amount, of the financial assets delivered as security for these liabilities, contingent liabilities and similar items at 31 December 2012 and 2011 was as follows:

	THOUSANDS OF EUROS	
	2012	2011
Spanish government debt securities classified as available-for-sale financial assets	1,071,772	20,000
Other securities classified as available-for-sale financial assets	747,200	1,071,782
	1,818,972	1,091,782

At 31 December 2012, the Confederación had securities with a face value of EUR 1,818,972 thousand (31 December 2011: EUR 1,091,782 thousand) as security for the performance of the Group's obligations relating to transactions with the clearing and settlement services.

In addition, at 31 December 2012, the Group had entered into repurchase agreements for securities in its portfolio and reverse repurchase agreements for a total amount of EUR 2,895,290 thousand (31 December 2011: EUR 3,037,368 thousand).

"Memorandum Item: Loaned or Advanced as Collateral", which is shown in each of the Group's financial asset categories in the consolidated balance sheets at 31 December 2012 and 2011, includes the amount of financial assets transferred, lent out or delivered as security in which the assignee is entitled, contractually or by custom, to retransfer them or pledge them as security, such as securities lending transactions or sales of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest.

30.3. Contingent commitments

The breakdown of the balance of "Contingent Commitments" at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Drawable by third parties (Note 24):		
Public sector - Spain	383,572	875,550
Credit institutions	7,246	26,761
Other resident sectors	226,592	358,249
Non-resident sectors	300	300
	617,710	1,260,860
Financial asset forward purchase commitments	3,966	4,944
Regular way financial asset purchase contracts	52,618	954,852
Other contingent commitments	212,262	77,014
From which:		
Doubtful	*54,743*	-
	886,556	2,297,670

30.4. Transactions for the account of third parties

The breakdown of the most significant transactions for the account of third parties at 31 December 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Financial instruments entrusted by third parties	112,612,221	98,542,046
Conditional bills and other securities received for collection	92,298	2,211,084
Borrowed securities (Note 30.5)	12,296	317,547
	112,716,815	101,070,677

30.5. Financial assets lent and borrowed

Pursuant to current legislation, the securities received by the Group in securities lending transactions are not recognized in the consolidated balance sheet unless the Group sells these securities in short sales transactions, in which case they are recognized as financial liabilities under "Financial Liabilities Held For Trading - Short Positions" on the liability side of the consolidated balance sheet (see Note 8).

Similarly, securities lending transactions in which the Group lends securities to third parties are not recognized in the consolidated balance sheet. The securities lent can be securities previously lent to the Group or securities owned by it, and in the latter case these are not derecognized.

Deposits provided or received as security or guarantee for the securities received or lent by the Group, respectively, are accounted for as a financial asset or a financial liability, respectively, and the interest associated therewith is recognized as interest and similar income or as interest expense and similar charges, respectively, in the consolidated income statement, by applying the corresponding effective interest rate.

Following is a detail of the fair value of the financial assets borrowed and lent by Group in securities lending transactions at 31 December 2012 and 2011:

	THOUSANDS OF EUROS	
	2012	2011
Securities lent by the Confederación		
Equity instruments-		
Issued by credit institutions	2,037	56,923
Issued by other resident sectors	3,175	63,960
Issued by other non-resident sectors	1,618	168,618
Debt instruments-		
Issued by credit institutions	-	203,969
Issued by other resident sectors	-	35,019
Issued by Public Spanish Administrations	-	53,232
Issued by non-resident Spanish Public sector	-	20,689
	6,830	602,410
Securities borrowed by the Confederación (Note 30.4)		
Equity instruments		
Issued by credit institutions	4,926	55,834
Issued by other resident sectors	-	74,620
Issued by other non-resident sectors	1,300	175,313
Debt instruments		
Issued by Public sector - Spain	6,070	11,780
	12,296	317,547

Finance income recognized by the Group in 2012 in relation to securities lent totaled EUR 3,231 thousand (2011: EUR 37,446 thousand) and is recognized under "Interest and Similar Income" in the consolidated income statement for 2012 (see Note 31).

In 2012, finance costs relating to securities borrowed amounted to EUR 4,121 thousand (2011: EUR 89,735 thousand) and were recognized under "Interest Expense and Similar Charges" in the consolidated income statement for 2012 (see Note 32).

30.6. The Group's Customer Care Service

Following is a summary of the complaints and claims received by the Cecabank, S.A.'s Customer Care Service in 2012 and 2011, Cecabank, S.A. being the only Group entity providing this service, pursuant to the applicable legislation. Claims made to the service which were not admitted for consideration in 2012 and 2011 relate to claims affecting entities other than the Cecabank, S.A.

	2012	2011
Number of complaints and claims received	54	50
Number of complaints and claims admitted for consideration	-	-
Number of complaints and claims resolved	-	-
Number of complaints and claims resolved in favour of the complainant	-	-
Number of complaints and claims resolved against the claimant	-	-
Compensation paid to claimants	-	-
Number of complaints and claims outstanding	-	-

31. Interest and similar income

The breakdown of the most important interest and similar income earned by the Group in 2012 and 2011, by type of instrument giving rise to it, is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Balances with central banks	944	927
Loans and advances to credit institutions	11,405	63,882
Loans and advances to customers		
Non-resident public sector	-	10
Money market operations through counterparties	1,621	7,984
Other resident sectors	4,605	6,034
Other non-resident sectors	182	259
Debt instruments	182,745	191,344
Finance income from securities lending transactions (Note 30.5)	3,231	37,446
Other interest	829	3,177
Rectification of income as result of hedging transactions	(19,171)	12,067
	186,391	323,130

Additionally, the breakdown of the amounts recognized under "Interest and Similar Income" in the consolidated income statements for 2012 and 2011, by type of financial instrument category giving rise to them, is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Balances with central banks	944	927
Financial assets held for trading	24,394	45,227
Available-for-sale financial assets	134,953	96,859
Other financial assets at fair value through profit or loss	7,863	55,248
Loans and receivables	34,177	75,356
Securities lending transactions (Note 30.5)	3,231	37,446
Rectification of income as result of hedging transactions	(19,171)	12,067
	186,391	323,130

Note 5 contains information on the breakdown by geographical areas in which "Interest and Similar Income" is generated.

32. Interest expense and similar charges

The detail of the balance of "Interest Expense and Similar Charges" in the consolidated income statements for 2012 and 2011, by type of instrument giving rise to them, is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Bank of Spain	11,778	134
Other central banks	338	247
Deposits from credit institutions	20,272	33,390
Customer deposits	5,019	30,774
Money market operations through counterparties	11,188	53,261
Cost attributable to pension funds (Note 18.2)	1,498	921
Finance costs attributable to securities lending transactions (Note 30.5)	4,121	89,735
Other interest	3,269	1
Rectification of income as result of hedging transactions	658	-
	58,141	208,463

The breakdown of the amounts recognized under "Interest Expense and Similar Charges" in the consolidated income statements for 2012 and 2011, by type of financial instrument category giving rise to them, is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Financial liabilities held for trading - Short positions	5,866	12,200
Financial liabilities at amortized cost	29,269	51,711
Securities lending (Note 30.5)	4,121	89,735
Other financial liabilities at fair value through profit or loss	13,460	53,895
Other liabilities	4,767	922
Rectification of income as result of hedging transactions	658	-
	58,141	208,463

33. Income from equity instruments

The balance of "Income from Equity Instruments" in the consolidated income statement amounts to EUR 18,551 thousand at 31 December 2012 (31 December 2011: EUR 112,755 thousand). These amounts are mainly related to dividends on assets held for trading and dividends on loans granted by the Group.

34. Fee and commission income

Following is a detail of the fee and commission income earned in 2012 and 2011, classified on the basis of the main items giving rise thereto:

	THOUSANDS OF EUROS	
	2012	2011
Fee and commission income		
Fees and commissions arising from contingent liabilities (Note 30.1)	16,096	11,070
Fees and commissions arising from contingent commitments	1,504	2,171
Fees and commissions arising from collection and payment services	51,757	58,114
Fees and commissions arising from securities services (*)	36,734	24,836
Fees and commissions arising from foreign currency and foreign banknote exchange	519	501
Other fees and commissions	5,190	7,817
	111,800	104,509

(*) In 2012, this item included, EUR 30,593 thousand relating to custody services in connection with securities of third parties deposited at the Confederation (2011: EUR 18,207 thousand).

Note 5 contains information on the breakdown by geographical areas in which "Fee and Commission Income" is generated.

35. Fee and commission expense

Following is a detail of the fee and commission expense incurred in 2012 and 2011, classified on the basis of the main items giving rise thereto:

	THOUSANDS OF EUROS	
	2012	2011
Fee and commission expense		
Fees and commissions assigned to other entities and correspondents	25,498	24,089
Fee and commission expenses on securities transactions	7,923	9,217
	33,421	33,306

36. Net gains/losses on financial assets and liabilities

The breakdown of the balance of "Gains/Losses on Financial Assets and Liabilities" in the consolidated income statements for 2012 and 2011, by type of financial instrument giving rise to them, is as follows:

	THOUSANDS OF EUROS	
	INCOME/(EXPENSES)	
	2012	2011
Financial assets and liabilities held for trading	(7,683)	(35,004)
Trading derivatives	(4,302)	(972)
Debt instruments	9,337	24,137
Equity instruments	(12,195)	(50,056)
Short positions	(523)	(6,868)
Other financial instruments at fair value through profit or loss	2,991	(10,577)
Reverse repurchase agreements	518	1,402
Deposits of the Bank of Spain	-	-
Repurchase agreements	2,473	(11,979)
Available-for-sale financial assets	1,850	(1,888)
Loans and receivables	3,400	964
Results of hedging instruments	8,036	(21,341)
Results of hedged items	(1,666)	17,122
	6,928	(50,724)

Note 5 contains information on the breakdown by geographical areas in which "Financial Operations Income" is generated.

37. Other operating income

The breakdown of the balance of "Other Operating Income" in the consolidated income statements for 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Rental income (Note 14)	867	808
Costs recovered through their inclusion in the cost of intangible assets	249	511
Income from Confederación membership dues	13,429	14,389
Costs passed on to savings banks	18,712	17,451
Other income	38,615	49,459
	71,872	82,618

The balance of "Income from Confederación Membership Dues" in the foregoing table includes the dues collected from federated savings banks under the agreements between the latter and the Confederación (see Note 1).

Note 5 contains information on the breakdown by geographical areas in which "Other operating income" is generated.

38. Administrative expenses - Staff costs

The detail of "Administrative Expenses - Staff Costs" in the consolidated income statements for 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Wages and salaries	51,640	65,928
Social security costs	8,190	9,515
Insurance premiums (Note 2.11.1)	740	4,203
Termination Benefits (Note 2.11.3)	(3,114)	3,116
Contributions to defined contribution plans (Note 2.11.1)	348	772
Normal cost for the year of defined benefit obligations (Note 18.2)	53	59
Income from insurance policies	(30)	(1,551)
Training expenses	112	143
Other staff costs	637	796
	58,576	81,734

The amount included in "Termination Benefits" in the previous table is the amount the Group had provisioned and that according to its Managers, will not be used.

In 2012 and 2011, the average number of employees at the Group, by level, was as follows:

LEVEL	2012	2011
1 - LEVEL I	6	11
1 - LEVEL II	22	22
1 - LEVEL III	31	37
1 - LEVEL IV	53	82
1 - LEVEL V	60	67
1 - LEVEL VI	140	190
1 - LEVEL VII	63	76
1 - LEVEL VIII	114	119
1 - LEVEL IX	32	41
1 - LEVEL X	27	27
1 - LEVEL XI	47	53
1 - LEVEL XII	11	31
1 - LEVEL XIII	-	2

LEVEL	2012	2011
2 - LEVEL I	-	1
2 - LEVEL II	6	11
2 - LEVEL III	-	-
2 - LEVEL IV	2	2
2 – LEVEL V	-	1
OTHER	24	24
TOTAL	638	797

At 31 December 2012 the total number of employees was 607, of which 294 were men and 313 women, representing 48% and 52%, respectively (700, 361, and 339 as of 31 December 2011 respectively).

39. Administrative expenses - Other general administrative expenses

The detail of the balance of "Administrative Expenses - Other General Administrative Expenses" in the consolidated income statements for 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Property, fixtures and supplies	4,778	5,214
IT equipment	37,249	39,400
Communications	3,389	4,263
Advertising and publicity	358	580
Technical reports	3,820	2,920
Surveillance and cash courier services	5,588	5,346
Insurance and self-insurance premiums	242	230
Governing and control bodies	890	1,420
Outsourced administrative services	9,337	10,684
Levies and taxes	1,398	1,522
Entertainment and travel expenses	967	1,744
Association membership fees	1,916	2,069
External personnel	1,168	2,151
Subscriptions and publications	3,996	4,691
Other administrative expenses	1,300	5,589
	76,396	87,823

The balance of "Technical Reports" in 2012 includes the fees paid for the audit of the financial statements of the various Group and jointly controlled entities and other non-attest services, the detail being as follows:

	THOUSANDS OF EUROS	
	2012	2011
Audits of the companies audited by firms belonging to the Deloitte worldwide organization and other reports related with the audit	238	128
Other reports reviewed by firms belonging to the Deloitte worldwide organization	169	155
	407	283
Other services (other than audits) conducted by firms belonging to the Deloitte worldwide organization	712	308
Total Services	1,119	591

Additional Provision Three. "Disclosure obligation" provided for in Law 15/2010, of 5 July

Pursuant to Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, on combating late payment in commercial transactions, which was implemented by the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 December 2010, on disclosures to be included in the notes to financial statements with regard to the payment periods to suppliers in commercial transactions, it is hereby stated that:

> Given the activity carried on by the Group (financial business), the information presented in this Note on payment periods relates exclusively to payments to suppliers for the provision of sundry services and supplies to the Group, other than payments to depositors, which were made in all cases in strict compliance with the contractual and legal terms established for each of them, whether they were liabilities payable on demand or with deferred payment. Neither does this Note include information on payments to suppliers excluded from the scope of this disclosure obligation pursuant to the aforementioned ICAC Resolution, such as payments to non-current asset suppliers that are not considered to be trade creditors.

> With regard to the disclosures required by Law 15/2010, of 5 July, relating to trade suppliers and the suppliers of services to the Group, and considering the stipulations of Transitional Provision Two of the ICAC Resolution of 29 December 2010, set forth below is the information required by the aforementioned law, with the scope defined in the preceding paragraph

2012:

	THOUSANDS OF EUROS	
	PAYMENTS DURING 2012 AND PAYABLE PAYMENTS AT YEAR ENDED 2012	
	AMOUNT	% (1)
Within maximum legal period (2)	106,120	100
Other	-	-
Total 2012	106,120	100
Exceeded weighted average terms of payments (as days)	-	-
Deferrals that exceed maximum legal period at year ended 2012	-	-

(1) Percentage of the total.

(2) The maximum payment period is, in each case, that corresponding to the nature of the goods or services received by the Group in accordance with Law 3/2004, of 29 December, on combating late payment in commercial transactions.

2011:

	THOUSANDS OF EUROS	
	PAYMENTS DURING 2011 AND PAYABLE PAYMENTS AT YEAR ENDED 2011	
	AMOUNT	% (1)
Within maximum legal period (2)	111,678	100
Other	-	-
Total 2011	111,678	100
Exceeded weighted average terms of payments (as days)	-	-
Deferrals that exceed maximum legal period at year ended 2011	-	-

(1) Percentage of the total.

(2) The maximum payment period is, in each case, that corresponding to the nature of the goods or services received by the Group in accordance with Law 3/2004, of 29 December, on combating late payment in commercial transactions.

40. Other operating expenses

The breakdown of the balance of "Other Operating Expenses" in the consolidated income statements for 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Contribution to the Deposit Guarantee Fund (Note 1.10)	241	105
Investment Real Estate Operating Expenses	-	97
Other	833	2,940
	1,074	3,142

41. Impairment losses on financial assets (net)

The breakdown of the balance of "Impairment Losses on Financial Assets (net)" in the consolidated income statements for 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	NET (ADDITIONS)/ REVERSALS (CHARGED)/ CREDITED TO CONSOLIDATED INCOME	
	2012	2011
Debt instruments (Note 24.8)		
Available-for-sale financial assets	(31,081)	689
Loans and receivables	(11,632)	9,743
	(42,713)	10,432
Equity instruments-		
Available-for-sale equity instruments	(9,981)	(5,626)
	(9,981)	(5,626)
	(52,694)	4,806

42. Depreciation and amortization

The detail of "Depreciation and Amortization" in the consolidated income statements for 2012 and 2011 is as follows:

	THOUSANDS OF EUROS	
	2012	2011
Depreciation of tangible assets (Note 14)	5,632	6,809
Amortization of intangible assets (Note 15)	8,798	827
	14,430	7,636

43. Related party transactions

Internal relationship memorandum of understanding between the Confederación Española de Cajas de Ahorros and Cecabank, S.A.

As part of the process to incorporate Cecabank, S.A. and the spin-off carried out by the Confederación to this entity in 2012 (see Note 1.1), an "Internal relationship memorandum of understanding between the Confederación Española de Cajas de Ahorros and Cecabank, S.A." was established. This memorandum of understanding identifies the services that Cecabank provides to the Confederación and sets the general criteria for intra-Group transactions and for the rendering of intra-Group services on an arm's-length basis, which are summarized below:

- Associative Services
- Compliance Services
- Communication, Institutional Relations, Protocol, Corporate Image Management, Publishing and Contract Depository
- Reporting and regulatory Services
- Technical Area Services
- General Secretary and Legal and Tax Advisory Services
- Monitoring of risk profile

- Planning and Control
- Human and estate Resources and
- Internal Audit Services

Other information

At 31 December 2012, the demand deposits held by the Confederación's senior executives, the members of its Board of Directors and related entities and individuals totaled EUR 523 thousand (2011: EUR 467 thousand), and the loans granted to them amounted to EUR 673 thousand (2011: EUR 792 thousand). These amounts bore interest of EUR 16 thousand (2011: EUR 13 thousand) and EUR 1 thousand (2011: EUR 4 thousand), which were recognized under "Interest and Similar Income" and "Interest Expense and Similar Charges", respectively, in the consolidated income statement for 2012. At 31 December 2012 the Confederación had not provided any guarantees for related parties, as defined in Bank of Spain Circular 4/2004, of 22 December.

The breakdown of the balances arising from transactions with jointly controlled entities recognized in the consolidated balance sheets at 31 December 2012 and 2011 and in the consolidated income statements for 2012 and 2011 is as follows (Note 2.1):

	THOUSANDS OF EUROS	
	2012	2011
Asset:		
Loans and receivables	35	19
Liabilities:		
Financial liabilities at amortized cost	1,605	1,207
Income statement:		
Other operating expenses	246	242
Other general administrative expenses	31	-

44. Events after the balance sheet date

From the balance sheet date to the date on which these consolidated financial statements were authorized for issue there were no events significantly affecting them.

45. Explanation added for translation to English

These consolidated financial statements are presented on the basis of IFRSs as adopted by the European Union. Certain accounting practices applied by the Group that conform with IFRSs may not conform with other generally accepted accounting principles.

Appendix I

Subsidiaries included in the Group at 31 December 2012

ENTITY	LOCATION	LINE OF BUSINESS	PROPORTION OF OWNERSHIP INTEREST (%)			THOUSANDS OF EUROS ENTITY DATA AT 31 DECEMBER 2012 (*)			
			DIRECT	INDIRECT	TOTAL	ASSETS	LIABILITIES	EQUITY	PROFIT FOR THE YEAR
Cecabank, S.A.	Madrid	Credit Institution	89	-	89	15,015,995	14,261,603	754,392	34,654
Caja Activa, S.A.	Madrid	IT	99.99	-	99.99	249	11	238	2
CEA Trade Services Limited	Hong Kong	Foreign trade	100	-	100	94	90	4	-

(*) These companies' financial statements at 31 December 2012 have not yet been approved by their shareholders at the respective Annual General Meetings.

Subsidiaries included in the Group at 31 December 2011

ENTITY	LOCATION	LINE OF BUSINESS	PROPORTION OF OWNERSHIP INTEREST (%)			THOUSANDS OF EUROS ENTITY DATA AT 31 DECEMBER 2011			
			DIRECT	INDIRECT	TOTAL	ASSETS	LIABILITIES	EQUITY	PROFIT FOR THE YEAR
Caja Activa, S.A.	Madrid	IT	99.99	-	99.99	267	31	236	34
CEA Trade Services Limited	Hong Kong	Foreign trade	100	-	100	18	14	4	-

Appendix II

Jointly controlled entities at 31 December 2012

			PROPORTION OF OWNERSHIP INTEREST (%)			THOUSANDS OF EUROS ENTITY DATA AT 31 DECEMBER 2012 (*)			
ENTITY	LOCATION	LINE OF BUSINESS	DIRECT	INDIRECT	TOTAL	ASSETS	LIABILITIES	EQUITY	PROFIT FOR THE YEAR
Ahorro y Titulización, Sociedad Gestora de Fondos de titulización, S.A.	Madrid	Securitization SPV management	50	-	50	14,244	7,747	6,497	2,804

(*) The company's financial statements at 31 December 2012 have not yet been approved by its shareholders at the Annual General Meeting.

Jointly controlled entities at 31 December 2011

			PROPORTION OF OWNERSHIP INTEREST (%)			THOUSANDS OF EUROS ENTITY DATA AT 31 DECEMBER 2011			
ENTITY	LOCATION	LINE OF BUSINESS	DIRECT	INDIRECT	TOTAL	ASSETS	LIABILITIES	EQUITY	PROFIT FOR THE YEAR
Ahorro y Titulización, Sociedad Gestora de Fondos de titulización, S.A.	Madrid	Securitization SPV management	50	-	50	14,770	10,177	4,593	3,010

External Audit Report

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 1.2 and 45). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the General Assembly of Confederación Española de Cajas de Ahorros:

1. We have audited the consolidated financial statements of Confederación Española de Cajas de Ahorros ("the Confederación") and Subsidiaries composing, together with the Confederación, the Confederación Española de Cajas de Ahorros 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. The preparation of these consolidated financial statements is the responsibility of the Confederación's Board of Directors in conformity with the financial reporting standars applicable to the Confederación (Note 1.2), and particulary, with the accounting policies and measurement bases of it. 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.

2. 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 Confederación Española de Cajas de Ahorros Group at 31 December 2012 and the consolidated results of its operations and its consolidated cash flows for the year then ended, in conformity with the financial reporting standars applicable to the Confederación, and particulary, with the accounting policies and measurement bases of it.

3. Without qualifying our audit opinion, we draw attention to the disclosures made by the directors in Note 1.1 to the accompanying consolidated financial statements, in which they indicate that on 25 July 2012, the Extraordinary General Assembly of the Confederación approved the Spin-Off Plan whereby the Confederación contributed all of its financial business to Cecabank, S.A. in the terms provided for in Article 5 of Royal Decree-Law 11/2010, of 9 July, on governing bodies and other aspects of the legal regime of savings banks, and in this way the Confederación now carries on its activity indirectly through Cecabank, S.A.

4. The accompanying consolidated directors' report for 2012 contains the explanations which the Confederación's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 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 Confederación Española de Cajas de Ahorros and Subsidiaries.

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

Francisco Celma
24 January 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.

6

CECA'S ASSOCIATION ACTIVITY

- Regulatory activity
- Analysis services
- COAS
- Representational forums

"The regulatory activity has predominated in the organisation's association activity in 2012"

CECA is present in numerous national and international forums, representing its members' interests and based on the goals established in its Articles of Association.

In 2012, the association activity was marked by intense regulatory activity, owing to the substantial changes in the financial sector.

"The MoU and particularly the Savings Banks and Bank Foundations Bill were most prominent within the national regulatory activity"

6.1. Regulatory activity

CECA has been constantly monitoring the most important regulatory initiatives for the financial sector. Within our extensive regulatory agenda for 2012, our activity as regulatory lobby has focused on the following aspects:

6.1.1. National

On a national scale, the most important event was the Spanish Government's request to the Eurogroup for financial assistance, concluded with the signing of the Memorandum of Understanding (MoU) on 23 July 2012. CECA has monitored the calendar of reforms established in that Memorandum, the enactment of the new Savings Banks and Bank Foundations Bill and the creation and start-up of the Management Company of Property Assets from Bank Restructuring: Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (Sareb).

Other important activity during 2012 included the follow-up of several reports issued by the International Monetary Fund and the changes in the regulatory framework in aspects affecting solvency, liquidity and provisions of financial institutions and the appearance of new tax figures, such as the deposit tax and the financial transaction tax.

"The creation of the European Banking Union is undoubtedly the most important international initiative"

6.1.2. International

On an international level, some of the major breakthroughs in 2012 were the publication of the report by the High-level Expert Group on reforming the structure of the EU banking sector ("*Liikanen Report*"), the publication of the Commission's Green Paper on Shadow Banking, the different initiatives for treating systemic risk and the publication of the Single Market Act II.

But the most important international initiative was undoubtedly the creation of the European Banking Union based on three pillars: a Single Supervision Mechanism, a Single Resolution Fund and a pan-European Deposit Guarantee Scheme. The Single Supervision Mechanism, when established, would enable the European Financial Stability Facility to recapitalise banks directly, eliminating the vicious circle between government debt and assistance to financial institutions. At CECA we have followed the daily progress made towards establishing a Single Supervision Mechanism, this year's efforts culminating in the European Council's Memorandum of Understanding on the matter.

"CECA publishes Panorama Regulatorio, summarising the most important aspects of the national and international regulatory agendas"

6.1.3. Regulation Services

Panorama Regulatorio CECA issues a monthly publication, **Panorama Regulatorio,** in which it sums up the most important aspects of the national and international regulatory agendas. Moreover, a web tool for the management, analysis and impact of the regulation on credit institutions, **Regina**, has been developed to assist monitoring of the different initiatives. CECA also allows its members and the public at large to consult its Financial Legislation data base, containing financial laws, regulations, bills and other provisions. It also provides the **Documentation and Consultation Service,** intended to respond to any queries that credit institutions may have regarding international capital requirement standards and their implementation in Spanish law, and prepares monographic reports and studies.

Finally, CECA issues a weekly progress report on the sector restructuring process, which is sent out to the principal national and international players.

With regard to information to be submitted to watchdogs, CECA performs tasks entailing the definition, design, development, marketing, evolution and use of specialised financial reporting tools, which are permanently updated to adapt to new legal requirements. These tools are also used as computer-assisted support systems for sector studies, especially on the evolution of financial reporting by CECA members.

"CECA publishes the public financial statements of all its members"

6.2. Analysis services

CECA compiles and analyses the financial information on the sector and the financial system overall for its members. After being submitted to the necessary screening, aggregation and analysis, this information is disclosed to its members through different regular publications: Economic and Financial Report, Consolidated Earnings Report, Financial Information Flashes and specific Financial Reports on relevant issues such as delinquency, equity, property investments and others.

CECA also publishes the separate and consolidated public financial statements of each and all of its members, which it does through its corporate website.

6.3. COAS

The Committee for Organisation, Automation and Services (COAS) has continued its work of obtaining, exchanging and publicising knowledge on Spanish and foreign best practices and experiences and carrying out studies and projects designed to improve the organisation and operations of savings banks and other member institutions.

COAS' work is structured into 5 different working areas, the main activity in 2012 being:

"The principal task of COAS is to further the exchange and publicising of the best national and international practices"

Operations and Payment Systems

- Representation in national and international interbank forums to handle initiatives for cooperating in operating issues, mainly concerning payments, and fostering relationships with the authorities to defend the interests of the institutions it represents.

- Sharing of information among members for the service of acknowledgement to prove that the powers of attorney of one or several individuals are enough to act for and on behalf of a given legal person in its dealings with the institution.

"The activities of COAS are structured around five different areas"

Public Sector and Regulation

Transparency and Gaming Act

> Assistance to institutions to adapt to the requirements of the ministerial order on transparency.

> Gaming Act: Report on impacts and main actions to be taken by institutions to incorporate online gaming operators as customers.

Short Selling and CDS

> Analysis of impacts of the legislation. Description of the procedures required to calculate the short positions of the institution's and customers' portfolios.

FATCA

> Analysis of impact, including the technological impact, of the Foreign Account Tax Compliance Act (FATCA) on institutions.

> Sector and European lobby positions, search for consensus in the definition and interpretation of ambiguous concepts to transfer to the IRS.

Single Market

> Analysis of the dispersion of the regulatory framework applicable to the financial sector.

Assessment of the suitability of members of the Board of Directors

> Guidelines to assess the suitability of directors and key executives in credit institutions (EBA/CP/2013/03). This project has materialised in the definition of a policy model, selection and assessment tools and a standard training scheme.

"Common criteria were established in 2012 to further harmonisation of the rules applicable for calculating APR"

Efficiency and Productivity

Integral management model

> Balanced scorecard to enable comparison of the institution with the sector and its best practices through 4 levers: efficiency, productivity, headcount and control.

Sales Force Report

> Identification of the workloads and commercial productivity potential in offices and regions in comparison with the sector and best practices.

Optimisation of risk-weighted assets

> Preparation of sector-based document with risk criteria to further harmonisation of the rules applicable for calculating risk-weighted assets.

CORE *Back office*

> Creation of a benchmark back office model based on best practices on the market with a view to pinpointing room for improvement in efficiency, specialisation and control. Individual comparison with the benchmark model.

Customer service and management

Private customer loyalty

> Fifth scorecard for the sector customer loyalty project (with over 12 million private customers), which analyses the addition and departure of customers and those who remain from the points of view of customer segments, products, channels, commercial structure and their economic impact (volume of trade and margin).

"Through the Digitalized Signature Project, over 10 million customers have now signed documents using the new system"

Plans to prevent the departure of customers

> Models for predicting the departure of customer's and/or partial flight of savings (deposits).

> Models for predicting the propensity to consume products (cross sales).

Multi-channelling and mobility

> Quantitative and qualitative comparison of the multi-channel situation of the institution through a strategic segmentation (private customers and SMEs) and commercial migration strategies.

Technology and Innovation

Digitalized Signature

> Technological solution to replace the hand-written signature on paper with a digitalized signature in digitalizing tablets.

> In its fifth year of implementation, over 300 million documents have been created in digital format, the system has been implemented in 35 institutions with over 10,000 branches in production and over 20,000 signature devices installed. More than 10 million customers have already signed documents using the new system.

"The COAS has analysed the cost structure of IT services to establish adequate sizing through integration"

CORE in IT and *Benchmarking* IT

> Analysis of the cost structure of IT services to establish the adequate sizing of IT in the new institutions before, during and after the integrations and the most adequate sourcing models for each service. The second year of benchmarking with the leading institutions in the sector was completed in 2012.

Cloud Computing Services model

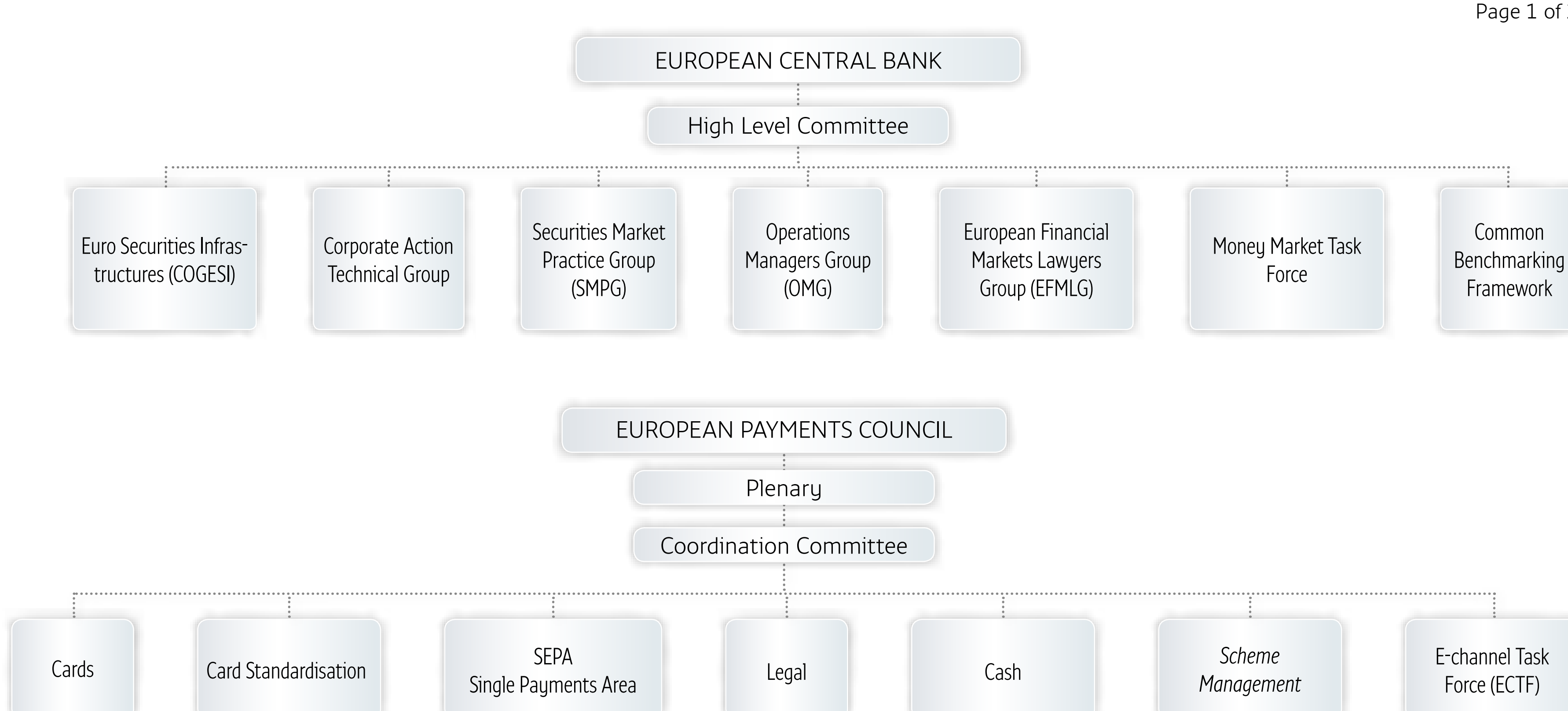
> Detailed analysis of Cloud services provided, analysis of market trends and study of the impact on members' data centres. Identification of cloud-related aspects in laws, regulations and standards.

6.4. Representational Forums

6.4.1 International forums in which CECA represents its members

Official organisations

Page 1 of 2



Only the most important forums and those that were particularly active in 2012 are included here.

Official organisations

Only the most important forums and those that were particularly active in 2012 are included here.

Organisations representing interests

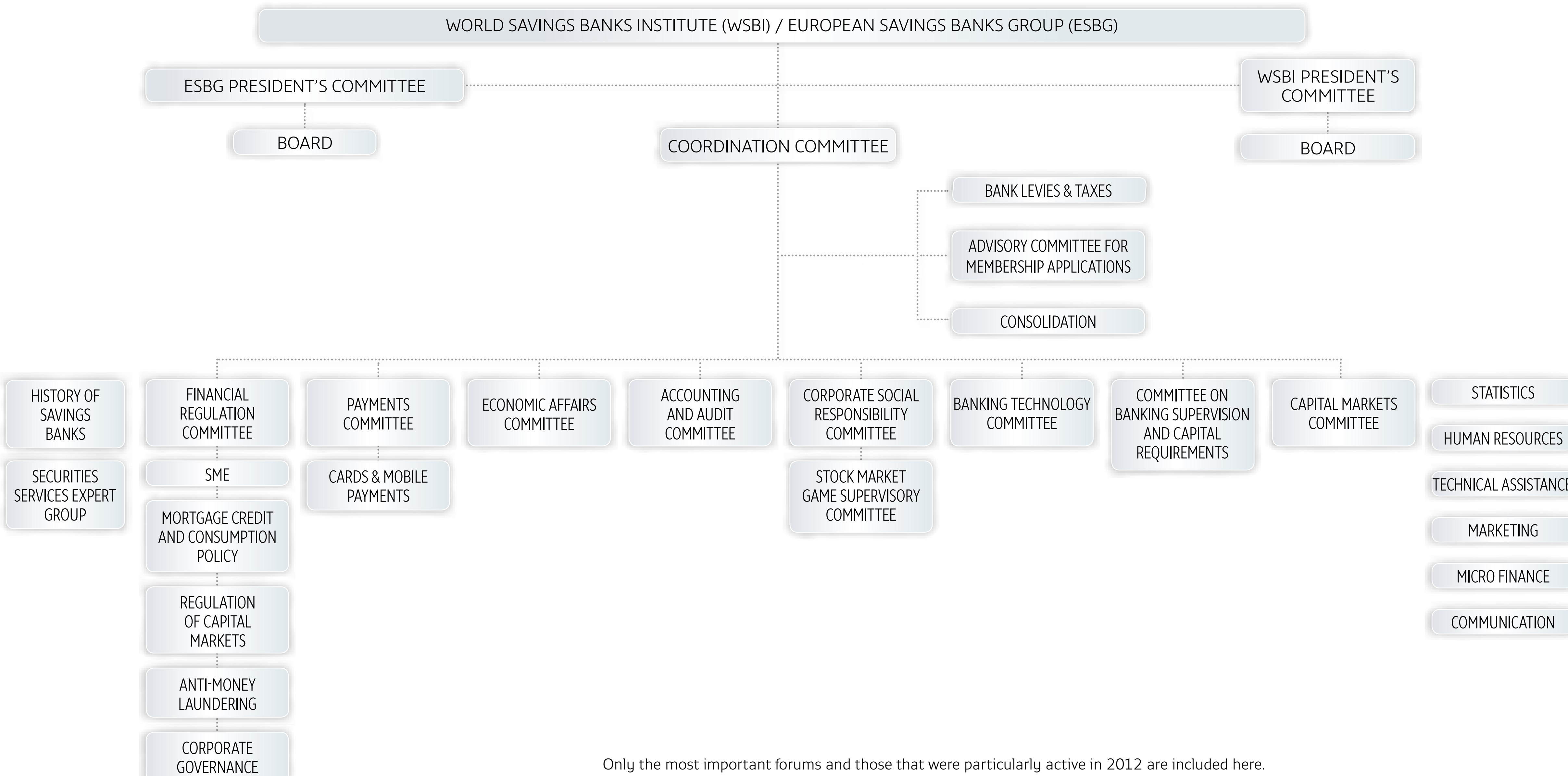
- EUROPEAN BANKING INDUSTRY COMMITTEE (EBIC)
  - Plenary
    - Consumer Credit
    - Capital Adequacy
    - Anti-Money Laundering
    - Integration
    - Mortgage Funding Expert Group

- SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION (SWIFT)
  - Spanish SWIFT Members and Users Association (AMUSE)
    - Spanish Committee of the National Group of SWIFT Users (CGNUSE)

- EURO BANKING ASSOCIATION (EBA)

Only the most important forums and those that were particularly active in 2012 are included here.

Organisations representing interests



Only the most important forums and those that were particularly active in 2012 are included here.

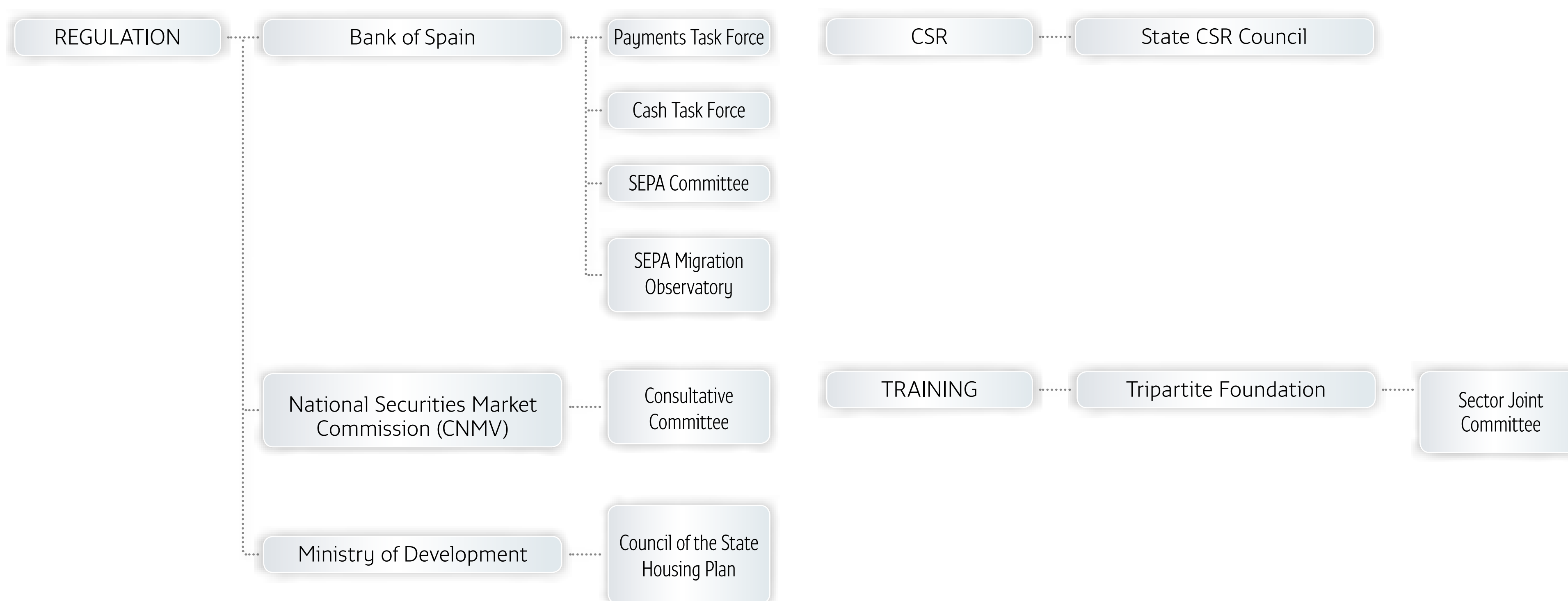
Other forums

Area	Forum	Role
ACCOUNTING	European Financial Reporting Advisory Group (EFRAG)	Member
MARKETS	European Repo Council	Member
	Euribor Steering Committee	ESBG Representative
	Money Market & Liquidity Working	Member
CERTIFICATION	European Committee for Standardisation (CEN)	AFNOR-WORKSHOP XFS/JXFS
	XBRL	Representative
SOCIAL CREDIT	International Association of Pledging and Social Establishments	Member
CSR	Global Reporting Initiatives (GRI)	*Stakeholder Council*
MARKETING	European Financial Management & Marketing Association (EFMA)	Member

Only the most important forums and those that were particularly active in 2012 are included here.

6.4.2. National forums in which CECA represents savings banks and their groups

Official organisations



Only the most important forums and those that were particularly active in 2012 are included here.

Organisations representing interests

Only the most important forums and those that were particularly active in 2012 are included here.

Other forums

ADVERTISING	Spanish Advertisers Association	Member Media Committee
EFFICIENCY	National Property and General Services Committee	Secretary
CSR	Spanish Socially Responsible Investment Forum (SPAINSIF)	Chairman
		Member EUROSIF Council
TELECOMMUNICATIONS	Telecommunications and IT Systems Users Association (AUTELSI)	Member Telecommunications Development Committee
FINANCE	Madrid Financial Centre	Informal Group of Financial Associations (GIAF)
DEPOSITARIES	Depositaries Association (ADEPO)	Member
MARKETS	Association of Financial Markets	Member
BUSINESS	Spanish Business Continuity Consortium (CECON)	Coordination critical sectors and institutions
		Standards and Good Practices
SENIOR MANAGEMENT	Gartner Group	Members of the EXP Forum: Senior Executives

Only the most important forums and those that were particularly active in 2012 are included here.

"The internal forums have concentrated on analysing the impact of the sector restructuring and recapitalisation from different points of view"

6.4.3 Internal forums

The strategic reflection forums in which members participate are:

Public profile forums

Marketing Commission

The Marketing Commission has focused on analysing social networking and its relationship with the banking sector.

Communication Commission

Study on how regulatory changes and the restructuring and recapitalisation processes affect the reputation of the sector.

Customer Service Committee

Analysis and drafting of pleadings to Order ECC/2502/2012 of 16 November regulating the procedure for filing claims with the claims services of the Bank of Spain, the National Securities Market Commission (CNMV) and the Directorate General for Insurance and Pension Funds.

Legal and compliance forums

Legal Advisory Committee

Issues of special legal interest have been discussed during the year at the Legal Advisory Committee meetings and the annual convention, including the monitoring of legal aspects and novelties in the process of integration of savings banks, the legal aspects of indirect performance of financial activities and the restructuring of the financial sector; the legal and arbitration decisions on preferential shares and the problems related with mortgage foreclosures and the protection of insolvent mortgage debtors. Comments and proposals have also been made on the legislation initiatives referring to refinancing and responsible lending.

"The Taxation Committee has studied, inter alia, the tax regime of restructurings and of the transfer of bank assets to the asset management companies (SGA) and Sareb"

Sector Regulation Compliance Committee

Among other topics, this committee has addressed the following issues: the electronic price list for investment services, adaptation of standard-type contracts, the new T16 statement in the supervisory reporting on investment services provided, modification of the 40 FATF recommendations, the new aspects regarding MiFID II, EMIR and the new European regulation on short selling, updating of the transaction reporting guidelines and compliance with the market abuse suspicious transaction reporting obligations.

Taxation Committee

Although a wide variety of issues has been discussed at the meetings of this Committee, the following were particularly important:

- Taxation of credit institution restructurings and transfers of banking assets to asset management companies and Sareb (the "bad bank")
- Regional deposit taxes
- Introduction of a nationwide and EU-wide business transaction tax
- FATCA
- Handling of tax assets in the CRD IV project

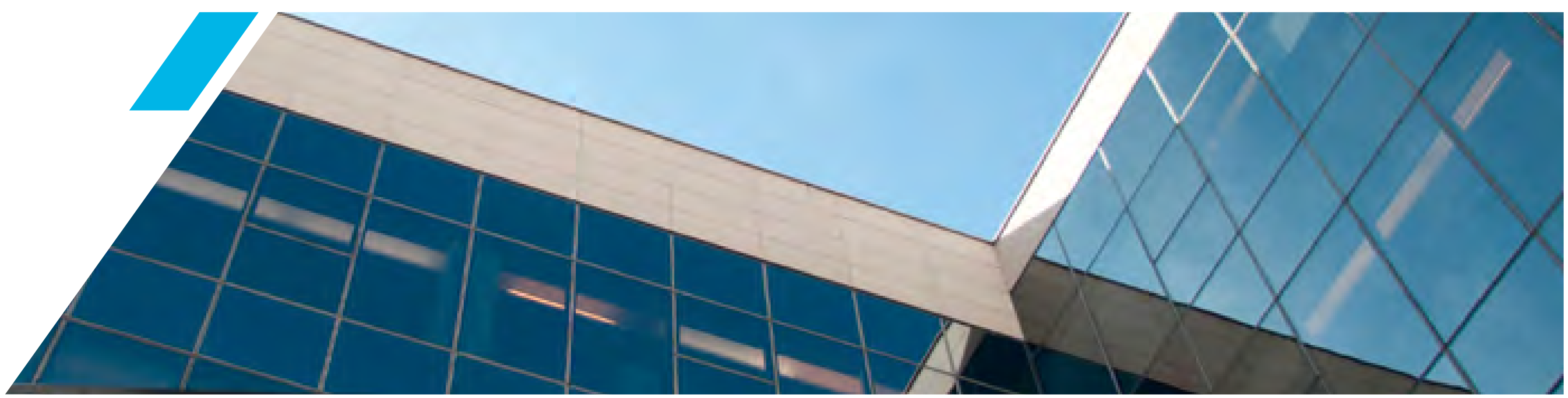
The tax website created and maintained by the CECA Tax Advice Department also contains tax information for members, which is updated daily. It has 2,413 users, all employees of CECA members.

Capital Adequacy Group

This group analysed Bank of Spain Circular 6/2012 of 28 September with a view to adapting the accounting Circular to the provisions of Royal Decree-Law 18/2012, regarding the greater coverage stipulated therein for funding of land, buildings and property developments, corresponding to the business of credit institutions in Spain and which was classified as normal risk at 31 December 2011.

It also analysed Bank of Spain Circular 7/2012 of 30 November, intended to fulfil the powers commissioned to the Bank of Spain under the Credit Institutions (Restructuring and Resolution) Act 9/2012 of 14 November, to enforce the rules on minimum capital requirements established in Royal Decree-Law 2/2011 of 18 February, to strengthen the financial system, in accordance with the amendments introduced by that Act.

"The Capital Adequacy Group analysed Circulars 6/2012 and 7/2012"



"The Mortgage Market Expert Group analysed the urgent protection measures and increased protection established for mortgage debtors"

Mortgage Market Expert Group

The most important projects analysed and monitored by this group during the year were:

- Circular 5/2012, of 27 June, of the Bank of Spain, on transparency of banking services and responsible lending.
- Royal Decree-Law 6/2012, on urgent measures to protect insolvent mortgagors, establishing mechanisms to enable destitute debtors to restructure their mortgage debt and to make mortgage foreclosure more flexible.
- Royal Decree-Law 27/2012, of 15 November on urgent measures to increase the protection of mortgage debtors. The principal measure introduced is the immediate suspension for two years of evictions of families especially exposed to exclusion. The Government is also entrusted, together with the financial institutions, to promote the creation of a social fund of rented housing.

Planning and accounting forums

Planning and Research Committee

Analysis of the economic situation overall and the financial situation and prospects of the sector, and forum for discussing the continuous enhancement of management information sent to institutions. In 2012, this forum was particularly attentive to the impact produced by the new regulation on provisions (Royal Decree-Law 2/2012 and Royal Decree-Law 18/2012) on the business of institutions operating in the sector.

"On an international level, the Accounting Forum studied the new aspects introduced by the new IFRS 9"

Accounting Forum

During 2012 the Accounting Committee debated accounting implications deriving from Royal Decree-Law 2/2012 (restructuring of the financial sector), Royal Decree-Law 18/2012 (write-down and sale of property assets of the financial sector) and 24/2012 (restructuring and resolution of credit institutions). The information on drafts of the future modification of information to be sent to the Bank of Spain Risk Information Centre has also been kept up to date.

On an international level, the most important issues dealt with are the new aspects introduced by the new IFRS 9 in the rules for recognition and measurement of financial assets, currently contemplated in IAS 39 Financial instruments: recognition and measurement. The modifications to the draft IFRS 9 regarding measurement categories, impairment and hedge accounting were also debated. Finally, other issues have been discussed, such as the new IFRS 13 Fair value and its impact on members' portfolios.

Welfare forums

Corporate social responsibility committee

This committee outlined the work to be done over the coming two years and drew up a road map of activities. The most important refer to the participation in consultations and work groups on non-financial reporting led by the GRI *(Global Reporting Initiative)*. The committee participated actively in consultations on the definition of the new G4 Guidelines on XBRL taxonomy and material issues for the financial sector. It also participated in the IIRC (International Integrated Reporting Committee) consultations.

"CECA continues to head the Spanish Financial Education Network, in which it plays an energising role"

The committee collaborated with the National Financial Education Plan, preparing the training programmes of volunteers from certain institutions. CECA has continued to head the Spanish Financial Education Network, with an energising role among the players involved in this area. It also collaborated actively in the Conference on Financial Education organised by the OECD in Madrid in May.

In June it signed a collaboration agreement with the Spanish Fundraising Association (AEF). Our members undertake to facilitate donations in humanitarian or environmental emergency situations and to issue tax allowance certificates for those who donate through our members. The NGOs, meanwhile, undertake to provide more detailed information on the use to which donations made through our members are to be put.

And for the first time in the sector, we bring together our entire commitment to society in a microsite (www.ceca.es/rsc). We provide access to information through this format, making it more accessible, clearer and more user-friendly.

"The Sector Social Work Committee has worked on redefining the social work funding model"

Sector Social Work Committee

The Sector Social Work Committee was particularly active this year in analysing the sector restructuring process and its effect on social work, and the context of new needs and opportunities. Along these lines, on the one hand it has worked on redefining the model for funding social work in the light of the new circumstances existing in the sector. Efforts have focused on the financial sustainability and maintenance of social work programmes and their contribution to social coherence in Spain.

In this regard, Technical Cooperation Office has been defined and presented, with a view to helping with access to European funding facilities, particularly for micro-loans and social entrepreneurship.

Pawnbroking Institutions Committee

The main work of this committee in 2012 was to inform and advise on the implications for Pawnbrokers of the legal and regulatory changes. Apart from technical counselling, the necessary tools are being defined to carry out these changes.

The Pawnbrokers' Online Auction Portal (www.subastasmontes.es) has been operating for three years. This joint initiative brings obvious advantages achieved through economies of scale: overcoming the geographical barriers of their normal local markets, the incorporation of numerous potential clients and increased competition between pawnbrokers, as a result of which service to clients is improved.

"The principal goal of ForoCajas is to create services and develop projects for savings banks and foundations"

National Quality Committee

In 2012 the Customer Satisfaction Benchmarking Project was entirely redesigned, extending the measurement perimeter to include the most representative Spanish financial institutions.

ForoCajas

This cooperation body was set up on 14 February 2012. On 20 June the CECA Board of Directors converted it into a Board Committee. Its principal goal is to create services and develop projects cooperating in the scope of activity of savings banks and foundations as a special group, distinguished from the members of CECA.

7

CECABANK BUSINESS LINES

- Banking services
- Treasury and bank notes
- Payment methods and services
- Consultancy and support services

"The Depositary service grew significantly in 2012, increasing more institutions"

7.1. Banking services

7.1.1. Depositary

This activity increased considerably within the Cecabank business plan, through agreements reached with different institutions. The total capital handled increased from €5,213 million in 2011 to €30,943 million in 2012 and the total number of collective investment undertakings and pension funds rose from 143 in 2011 to 529 in 2012.

Several developments were undertaken during the year to help members improve their performance. The most important actions were:

- Adaptation to the requirements of the new Undertakings for Collective Investment Regulations (Royal Decree 1082/2012 of 13 July, approving the Regulations developing the Undertakings for Collective Investment Act 35/2003 of 4 November).
- Adaptation to CNMV Circular 4/2011 of 16 November, partly amending Circular 4/2008 of 11 September on the contents of the quarterly, half-year and annual reports of collective investment undertakings and their statements of financial position (balance sheets).
- Adaptation to CNMV Circular 1/2012 of 26 July amending Circular 6/2010 of 21 December on derivatives trading and other operating aspects of collective investment undertakings; Circular 4/2008 of 11 September on the contents of the quarterly, half-year and annual reports of collective investment undertakings and their statements of financial position; and Circular 3/2006 of 26 October on prospectuses of undertakings for collective investment.
- Evolution and improvements in parameterisation and management of specific limits.

"The Securities Service broadened the range of clients, including institutions from outside the sector in 2012"

Supplementing these activities, Cecabank is present in the principal national and international forums related with UCI and PF Depositaries, such as the CNMV Consultative Committee, the Depositaries Association (ADEPO) and The European Trustee & Depositary Forum (ETDF), through ADEPO. In particular, it participated actively in 2012 in the definition of the following first and second-level European regulation:

- Alternative Investment Fund Managers Directive (AIFMD).
- UCITS V – UCITS VI.

The capital handled in 2012 rose to practically €31 million, 6 times more than the previous year, while the total number of UCIs and pension funds handled was 529, almost four times those handled in 2011.

7.1.2. Securities

During 2012, the Securities department focused its efforts on three aspects:

- Collaborating with the migration and/or integration processes begun by different institutions.
- Participating actively in all the working groups set up by CNMV, IBERCLEAR and the Bank of Spain to design the operating procedures of both the reform of the Spanish clearing, settlement and registration market and the impact of the *Target 2 Securities* project on the Spanish market.
- Performing intense commercial work, trying to broaden the selection of clients (outside the savings banks sector), offering them the Securities service, incorporating this year Banca March and Banco Finantia-Sofinloc.

7.1.3. Centralised Account Administration

One of the most important activities of Centralised Account Management as manager of central operating services for members is its joint management of the Social Security Treasury accounts to service customers. In the same field, it has continued to provide a service for the joint venture Unión Temporal de Empresas (UTE) formed by 16 savings banks, banks of savings banks and Cecabank for the cash management of the state lotteries entity Loterías y Apuestas del Estado (LAE), with 3,762 accounts opened for LAE, in which Cecabank is sole manager.

7.1.4. Clearing and Discount

Special support and considerable resources have been devoted directly and individually to the numerous business combination processes and access to banking services, fostering the operational integration of the members participating in those processes, while at the same time considerable efforts have been made to broaden the types of customers represented in clearing systems.

"CECA has focused its Clearing and Discount efforts on boosting an orderly transition of its members to SEPA"

The entity has contributed towards the design and adaptation of the Cecabank reporting and payment systems to Bank of Spain Circular 1/2012 of 29 February on rules for reporting overseas transactions, which are binding on payment service providers.

In response to requests from users in their replies to service quality surveys on Integral Discount Management and with a view to increasing the possibilities of access to the data bases kept in Cecabank, the necessary procedures were developed to permit online updating of the date of payment of bills for conditional discount.

Finally, specific efforts have been made to draw up an action plan for migration to SEPA direct debits and transfers in Spain, within the framework of the SEPA Migration Monitoring Committee and endeavouring to have measures adopted systematically to foster an orderly transition to SEPA of the entities we represent and Cecabank itself.

"The Cecabank Cash Department is a forex and public debt market maker"

7.2. Cash management

7.2.1. Markets Room

Once again, the Cecabank Cash Department has been at the vanguard of Spanish entities in the financial products and services it offers, adapting to an increasingly less certain environment. It has complemented its activity as forex and public debt market maker with the quoting of Spanish public sector debt futures on the Spanish financial futures market. The Markets Room has also contributed towards alleviating the liquidity problems of the Spanish financial system through the subscription of bonds intended to create collateral and has been very active informing the counterparties of the transformation of CECA into Cecabank.

7.2.2. Cash and Risk Services Centre

The Cash and Risk Services Centre was set up in 2012 combining the support, maintenance and development of different applications related with the Cash and Risks business.

The integral Collateral Management Centre was also incorporated, managing all kinds of collateral agreements in the finance business (CSA, CMOF, GMRA, GMSLA and EMA) as well as the Suspicious Transaction Reporting Service for identification and control of transactions to be reported to the National Securities Market Commission.

"The Cash support services provide independent, tried and tested tools and methods"

The services provided by the Cash and Risk Services Centre enable access by all sorts of financial institutions to standard computer applications specialising in the different activities of a Cash and Risks Room, developed by leading suppliers on the national and international markets. The corrective and evolutional maintenance service guarantees adaptation of these applications to regulatory changes and to the new products developed on the markets.

7.2.3. Pricing and methodological control

This department centralises the pricing of the financial products managed by the Cash Room for use in accounting, risk measurement and collateral management departments, providing the counterparties of the entity with independent pricing of the products contracted and defining the methods and procedures used to establish the fair value of the financial instruments.

It also provides depositaries with a confirmed pricing of their assets, allowing quality control of the measurements used by managers for the assets included in the liquidating values of the funds they manage and monitoring and checking of the methods used by the managers, with methodological support when required.

7.2.4. Products and Services and International Business Development

The most prominent foreign trade business lines in 2012 included a 58% year-on-year growth in the number of international guarantees and bonds furnished, a true reflection of the present economic situation and the assistance provided by our sector to exports by Spanish undertakings.

During the same period, revenue grew from transactions handled by our members through the Pan-European Direct Debit Service, which covers the handling of these exports to France, Germany, Italy and Portugal.

The handling of import documentary credits issued through the Hong Kong affiliate CEA TSL for more than thirty countries in Asia and Oceania also increased.

Meanwhile, the Doc Express service was consolidated, through which the checking of the documents corresponding to import and export documentary credits is outsourced to Cecabank professionals.

Cecabank increased its market share of the number of foreign financial institutions for which it handles the collection, through the different clearing houses, of bills, receipts and invoices that their customers are due to receive from drawees resident in Spain.

With regard to money transfers, the amounts transferred to Spain by non-resident customers increased by 15% in 2012, while the number of overseas pensions handled grew by 20% year on year, paying out more than €1,157 million.

"The number of international guarantees and bonds furnished grew by more than 58% in 2012"

"Through its Capital Market department, Cecabank has acted as manager, underwriter, payment agent or liquidity counterparty for an overall sum of over €47,000 million"

In its support for internationalisation of business corporations, the overseas network of representative offices offers a broad array of business financing services: searching for trading partners, selecting intermediaries, or actions in respect of trade fairs and commercial missions. It also provides support to boost the international business of our institutions on the financial markets, attracting business and participating as legal agents in debt transactions.

7.2.5. Capital Market

The participation of nine banks of savings banks has been grouped and coordinated in the operation of the Fund for Financing Payments to Suppliers in an overall sum of €2,592 million (at the same time acting as agent for 5 of these banks); and support has continued to help 14 CECA members and six large caps to optimise their liquidity, where Cecabank acted as manager, underwriter, payment agent or liquidity counterparty in 42 government-backed issues and 143 other issues, for an overall sum of €47,373 million.

7.3 Technological means and payment services

7.3.1. Means of payment

"Cecabank has backed immense entities in consolidation processes to adapt to the new operating scenarios"

Within the area of means of payment, 2012 was marked by the services provided to different entities involved in consolidation or business combination processes, helping them to adapt to the new operating environments imposed by the new scenario. In this regard, CaixaBank made an unprecedented decision in this history of means of payment in Spain to combine EURO 6000 and ServiRed in its ATM network.

Another prominent feature was the continued outstanding results in anti-fraud measures. Once again, the entities in the EURO 6000 system are national leaders in the detection and prevention of fraud in transactions made using payment cards, thanks to its Espía system, which incorporated new capacities in 2012.

Means of payment supported several innovation projects during the year, such as those encouraging the use of mobile devices as payment elements ("wallet" -cardholder (tarjetero)- and portable payment terminals) and has carried out several consultancy projects to back the use of cards and devices with maximum security using *Europay Mastercard Visa* (EMV) technology and broaden the product range.

"Mobile electronic banking transactions increased by 300% year on year in 2012"

7.3.2. New channels

The multi-channel electronic banking platform processed just over 800 million important financial transactions in 2012, effected by 1,300,000 users a month, with an availability of 99.94%, weighted according to the actual traffic at any one time. The entities in the BMN Group joined the platform in 2012 and Bankoa commenced its integration process.

The number of attacks in electronic banking registered in the Cecabank anti-fraud service continued to grow in 2012. The New Channels Fraud Monitor has been very important in this area, enabling member institutions to block significant fraud attempts. This Monitor is becoming increasingly more essential as a collective intelligence tool.

In 2012, New Channels processed 98,000 securities deals through internet banking, phone banking, mobile banking and branch terminals, slightly down on the previous year, possibly reflecting the sluggish mood on the investment markets.

The Contact Centre has helped members to integrate their telephone platforms. Just over 450,000 calls were received on the Cecabank platform in 2012, although this quantity is expected to fall off over the coming years as the integration processes advance.

If there is one channel that has smashed expectations, it is the mobile channel, due to the growth of the burgeoning numbers of smartphones together with the greater offer of solutions for this channel provided by banks and savings banks. Cecabank launched this year the mobile applications for the BMN Group, Banco CCM and Ibercaja. The latter was most downloaded application worldwide in the finance section of Apple Store for 6 days. During 2012 some 34 million electronic banking transactions have been made on mobile devices, up 300% year on year. Meanwhile, the SMS service is still used intensely, with approximately 14 million text messages sent, although the use of push notifications is expected to replace those messages, since the cost is much smaller.

The e-invoice platform and the real-estate portal solution have continued incorporating new customers, with a total of 167,000 invoices issued through the former in 2012 and with 2 new real estate portals in the latter.

The *e-marketing 2.0* application has been important in managing communications with customers in their integration processes. A total of 18,871 new contracts were made through this tool during 2012.

In e-commerce, the Cecabank virtual POS terminal solution has been integrated with the Redsys processing platform with over 4 million transactions made during the year.

7.3.3. Management Development

In the management of persons, a new service was started up in 2012 to provide support for entities after spinning off their financial business, adapting to their new management requirements. We have also collaborated with our clients in the complex projects of integrating their data at CECA with the computer platforms of the banks that have consolidated them (Banca Cívica with Caixabank and Banco CAM with Banco de Sabadell).

In expenditure control, huge efforts have been made to secure the migration of Real Estate Management and Invoice Management services to the new environments adopted by the banks in which our customers have been integrated. The services have also been strengthened for the savings banks' foundations and social work, designing with ForoCajas an offer especially adapted to this type of entities.

The Pulso service, in its line of constant improvement, has incorporated the processes of receiving, checking and control of entry data to the Charges Console, which is an online development allowing daily monitoring of data entry processes. All the entities in the BMN Group and Kutxabank were incorporated in the Pulso service during the year.

"Management Development has continued to enhance its services through constant innovation"

Among the services aimed at end customers, the product enCuenta has been further innovated, enabling full control by customers of their payments and receipts. A specific module has been developed to enable customers to control their card transactions online and on their mobiles.

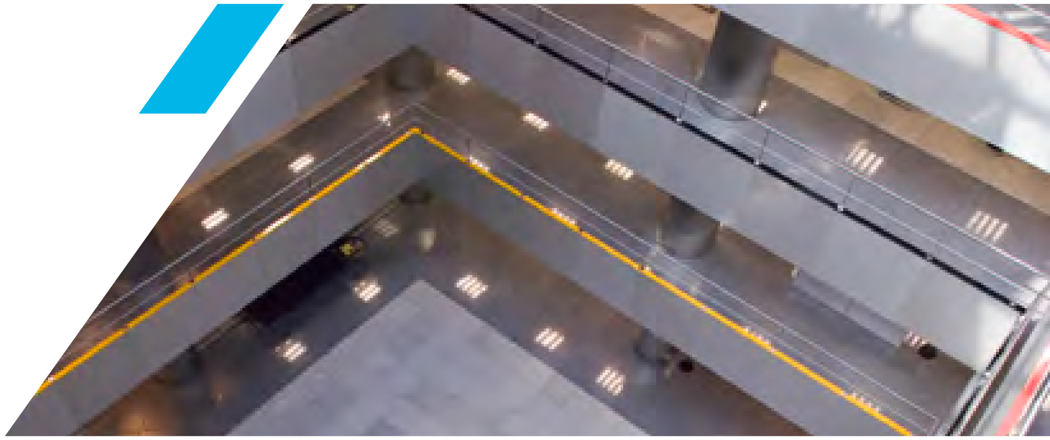
In its support for financial institutions, a new project has been developed, called BIP, which sends branches intelligent information on their customers in scorecard format. It also enables them to see groups (lists of customers) that meet certain criteria and to complete and see the customer file with valuable information on his situation regarding income, insurance, card use, basic direct debits and others. The commercial network thus has key information to tailor its offer of financial products to suit the real needs of each customer.

Within internal support services, the intranets Hidra and Melania have been reengineered and a new collaboration platform has been developed, called Communities. The support for EURO 6000 also continued, with the development of a new payment system called EURO 6000 Wallet.

7.3.4. *Outsourcing Services*

The main activities of the Technological Operation Outsourcing Service in 2012 were:

- Production service for transactions in Z/OS environments and Windows platforms for 9 financial institutions.
- Operation of the private banking and personal banking system for 7 financial institutions.
- Anti-money laundering service.
- Operation of the insurance management system.
- Operation of the Business Continuity Platform for 4 member institutions.
- Infrastructure services such as the hosting of websites, hosting of servers for member institutions, supplying of corporate access to internet, mail servers, etc.
- Provision of distributed systems hardware and software in the form of Cloud Computing.
- Accommodation services for the distributed systems environment. This group of services includes the project for moving and subsequently consolidating and operating 7 data processing centres of a bank into 2 new centres managed by Cecabank.



"The Cecabank Consultancy Unit has continued to collaborate in the integration processes"

7.4. Consultancy and support services

7.4.1. Consultancy

In the international area, contacts with foreign institutions have increased. Representatives were received during the year from financial institutions and associations from Mexico and Peru.

Frequent contacts have been established with financial institutions with a non-conventional structure wishing to strengthen and modernise with a view to broadening their range of products and services for customers.

On a domestic scale, the Cecabank Consultancy Unit participated during the year in the creation of Cecabank, stimulating the implementation of activities contemplated in the master plan, monitoring them and reporting to the Coordination Committee created for the project on their progress.

The Cecabank Consultancy Unit has continued collaborating in the processes of integration and access to banking services of the Spanish savings banks. To be more precise, it has participated in 5 business combination processes, involving more than 10 original institutions.

Different projects have also been developed to assist members in their restructuring processes and analyse business opportunities. These projects included:

- Sizing of the workforce in central services and the branch network, adapted to the size of the new institution.
- Combination/closing of branches, applying a protocol to minimise the impact on customers.
- Design of property asset management and asset pricing models.
- Analysis of business opportunities in the mobility area.

"The ESCA has progressed further in renewing its training offer"

7.4.2. Training Services: the Savings Banks College (ESCA)

The ESCA continued to provide training services during 2012, mainly in the financial and regulation area, for a large number of sector employees, within a context marked by the considerable cutback in training budgets in all member institutions and the search for maximum efficiency and effectiveness in the training given.

The ESCA has progressed in the renewal and expansion of its training offer. Courses considered important on the market, such as the certification of Financial Adviser, Credit Risks and Operational Risk, have been updated and the College has also extended its offer of training to financial institutions and companies from outside our sector. Consequently, our customers now include leading financial institutions such as Bankinter, Caja Laboral, Andbanc and Banco do Brasil.

"The ESCA organised 18 in-person training events in 2012 and had 480 participants"

The ESCA maintains its strength in the sector in respect of mandatory regulatory training (compliance, regulation, occupational hazard prevention, etc.), its offer this year being specialised and almost entirely renovated.

Contacts were also stepped up with universities and training centres with which collaboration agreements are being negotiated for the organisation of joint training activities. Agreements have been reached with ESIC, CUNEF and IL3 (University of Barcelona).

The new *e-learning 2.0* platform was put into operation in February, based on collaborative learning, which includes tools such as forums, chats, social networking, visualisation for mobiles and tablets, etc.

In figures, the year can be summed up with the following details:

In-person training

In total 480 persons attended the 18 events organised. In particular, 12 seminars, 3 long specialist courses and 3 conventions were held.

18 events organised

480 participants

"Online training is still the most popular form of training in the ESCA, with over 32,000 participants"

Online training

Online training is still the most popular form of training in the ESCA. This year more than 32,000 participants have received training, approximately half of them compulsory training, on 150 courses.

Apart from these traditional lines of action, more agreements have been reached to transfer the contents for the training of members' employees through their own platform. This transfer has been supplemented, whenever so requested by members, with management and tutoring of the participants, the issuance of completion reports or the provision of expert lecturers.

+ 32,000
participants
in online training

In-company training

In-company training has also been popular, with almost 60 courses and 1,200 participants.

1,200
participants in
in-company training

Sector certifications

Within the programmes associated with the obtaining of the different sector-based certificates, we have continued certifying more than 200 employees of our members in programmes such as that of Financial Adviser, which confirms its recognition and acceptance on the market.

“The ESCA Technical Secretariat has continued to handle government grants for training”

Technical Secretariat

In the training supply 2011, completed in May 2012, apart from continuing to provide training for members’ employees and complying with the laws and regulations on this matter, training has been given to almost 2,000 unemployed workers subsidised with funds from the Fundación Tripartita.

In training demand, we continue providing a management service, informing Fundación Tripartita on behalf of our members, whom we also advise on any queries or issues they may raise. Through this service, the ESCA helps members to achieve considerable cost cuts and reduce the administrative burden, providing counselling where required.

8

HUMAN CAPITAL

- Personnel
- Development of Human Resources
- Management of Human Resources

8.1. Personnel

On 20 June 2012 the CECA Board of Directors approved the basic terms of the collective bargaining agreement, which was signed on 25 June 2012 between the representatives of CECA and the union representatives, intended among other purposes to regulate the early retirement scheme in order to be able to make an adequate reorganisation of the workforce to achieve the necessary streamlining of services in view of the new sector map produced out of the restructuring process.

"72% of the workforce received training in 2012, 13% more than in 2011"

8.2. Development of Human Resources

8.2.1. Executive development

The second Executive Symposium was held in 2012, promoted by the General Management. The main purpose was to inform on the commencement of operations of Cecabank, its positioning and business lines. Executive support activities, customers' opinions and the strategic reflection of the new institution are also included.

A total of 650 hours were spent on this and 63 executives participated, together with the Executive Committee and General Management.

8.2.2. Training scheme

> The training budget has been adapted to the adjustment in expenditure made by CECA and Cecabank this year.

> In-person training was particularly important this year, when specialised training has been encouraged, tailored to the needs of the different areas of CECA and Cecabank.

> 72% of the workforce received some kind of training during the year, 13 percentage points up on the previous year. A total of 20,578 hours' training have been given. Both ratios have been limited by the budget.

> The investment per employee receiving training was €440.

> The quality of training has improved, leading to a satisfaction ratio of 88%.

8.2.3. Support for training

During 2012, 15 people received training grants for official studies contemplated in the collective agreement.

8.3. Management of Human Resources

Continuing the policy of functional mobility and matching personal profiles with positions to be filled, the management and retaining of talent and adaptation of the organisational structure being strategic objectives for CECA and Cecabank, 88 internal transfers were made during the year and more than 200 jobs were redefined.

The total headcount was 583 (299 men and 284 women).

To favour the incorporation of new university graduates into employment, the policy of "scholarships" awarded through Education Cooperation Agreements with the most important Universities and Business Centres in Madrid has continued. This year a total of 90 candidates participated in the open selection processes. Finally, a total of 16 scholarship holders obtained university employment experience in CECA and Cecabank.

"There are now 583 employees, 299 men and 284 women"

583
Employees

299 men

284 women

9

SOCIAL WORK

Savings Bank Foundation (Funcas)

"For the first time in 2012, Funcas published a journal in English: Spanish Economic and Financial Outlook"

Social Work

During 2012 the Savings Bank Foundation (Funcas) continued its research and studies, promulgating information through numerous publications, while at the same time renovating its work, adjusting it to the social reality in which the work is to be performed through the holding of public events, workshops and conferences.

Eleven research studies were completed during the year and distributed through the different Funcas publications: 5 journals: Papeles de Economía Española (Papers on the Spanish Economy), Perspectivas del Sistema Financiero (Prospects of the Financial System), Cuadernos de Información Económica (Economic Review), Panorama Social (Social Panorama) and Spanish Economic and Financial Outlook; the collection of Funcas books and studies and the series of Working Papers. This major effort to publish works is necessary to offer technically rigorous information on the most important economic and social issues of interest for Spanish society. In this regard, the new journal *Spanish Economic and Financial Outlook,* published in English, broadens the Foundation's field of influence to include agents all over the world who analyse and monitor the Spanish economy.

Apart from its publishing activities, the Foundation also organises and participates in numerous public events, 43 in 2012. The events held this year included the seminar *'Crisis and reforms in the Spanish economy',* held at the Funcas headquarters on 21-22 March; and the *'Workshop on business enterprises in Spain',* on 21 November.

Savings Bank Foundation (Funcas)

"In the cultural area, the prizes were awarded in the XXXVII Concurso Hucha de Oro"

The presentations of our journals were also memorable events, including: the workshop *'The future of the banking sector'* was held on 31 January, presenting edition no. 130 of Papeles de Economía Española; no. 131 of Papeles de Economía Española was presented in Las Palmas de Gran Canaria on 17 April, on *'The economy of shipping and ports';* the round table on Entrepreneurship held in Zaragoza on 4 July, presenting no. 132 of Papeles de Economía Española, entitled 'The company in Spain'; the presentation of the book *La crisis y las autonomías: la sociedad española ante la crisis económica y el sistema de las autonomías (The crisis and autonomous communities: the Spanish society in the economic recession and the system of autonomous communities)* by Víctor Pérez-Díaz, Josu Mezo and Juan Carlos Rodríguez; and finally, within this year's edition of the Enrique Fuentes Quintana Award for Doctoral Theses, the ceremony held on 14 December, with the presentation of the award-winning theses from the 2010-2011 academic year. Funcas also received visits at its head offices from the representatives of several national and international economic bodies and institutions.

In the cultural area, the prizes were awarded in the XXXVII Concurso Hucha de Oro (Golden Piggy Bank Short Stories Competition). This year more than 2,500 short stories were entered. In the area of teaching, the Foundation directed the XI Course of *Experts in Managing Financial Institutions,* in collaboration with the Carolina Foundation.

Savings Bank Foundation (Funcas)

FUNCAS			
SOCIAL AREAS	ACCOUNTS	FUNDS APPLIED (€thou)	%
Culture & Free Time		75,34	1.92
Culture	Stories + conferences + debates	75,34	
Free Time		--	
Medical & Welfare Assistance		40,00	1.02
Welfare Assistance	Fund. Reina Sofía	40,00	
Medical Assistance		--	
Education & Research		3,789,42	96.72
Education	Fund.Carolina+master+courses	159,20	4.07
Research & Development	Rest of budget	3,630,22	92.65
Historic-Artistic Heritage and Natural Environment		13,35	0.34
Historic & Artistic Heritage		--	
Natural Environment	Europarc	13,35	
TOTAL		3,918,11	100,00

10

ANNEXES

- CECA and Cecabank publications
- Funcas publications
- Glossary
- Chronology
- Headquarters, branches and offices

10.1. CECA and Cecabank publications

Digital publications

ANUARIO ESTADÍSTICO DE LAS CAJAS DE AHORROS
ANNUAL
Statistical yearbook containing significant public information on each of the savings banks and statistical series of the sector. Includes the public financial statements of each institution at year end.

BALANCES DEL SECTOR DE CAJAS DE AHORROS
MONTHLY
Public balance sheets of the members of CECA and aggregate balance sheet for the sector.

BOLETÍN FISCAL
DAILY ⚠
Review of tax laws, legal theory and case law relevant to the members of CECA.

BOLETÍN DE TENDENCIAS INTERNACIONALES
MONTHLY ⚠
News and reports on technology, regulation and business in the international financial sector.

BOLETÍN DE BANCA MÓVIL
TWO-MONTHLY
Two-monthly report on news and reports related with the mobile banking environment.

BOLETÍN DE NOVEDADES BIBLIOGRÁFICAS
MONTHLY ⚠
Most representative publications released during the month.

CECA A TRAVÉS DE SU ARCHIVO HISTÓRICO:
FORTNIGHTLY
Publication designed to share with the Cecabank employees historical aspects of CECA since its creation.

⚠ Restricted publication, available exclusively for members.

CUENTAS DE PÉRDIDAS Y GANANCIAS DEL SECTOR DE CAJAS DE AHORROS
QUARTERLY
Public income statements for the members of CECA and the aggregate income statement for the sector.

ESTADOS FINANCIEROS CONSOLIDADOS DEL SECTOR DE CAJAS DE AHORROS
QUARTERLY
Consolidated public balance sheet and income statement for the members of CECA.

FACSÍMILES DE BILLETES EXTRANJEROS
DAILY
Facsimiles of foreign banknotes operative for Cecabank.

INFORME ECONÓMICO Y FINANCIERO
MONTHLY
Summary of national and international economic framework and evolution of the financial activity of deposit institutions.

LEGISLACIÓN DE CAJAS DE AHORROS
ANNUAL
Compilation of laws enacted by the central and regional governments on issue affecting savings banks.

PANORAMA REGULATORIO
MONTHLY
Abstract of the highlights of the domestic and international agenda.

RESULTADOS DE LOS GRUPOS CONSOLIDADOS DE LAS CAJAS DE AHORROS
QUARTERLY
Analysis of the aggregate earnings of the financial groups of savings banks.

REVISTA “AHORRO”
MONTHLY
Savings bank sector journal. Issues published in 2012 (480 - 483).

Restricted publication, available exclusively for members.

10.2. Funcas publications

PAPERS ON THE SPANISH ECONOMY

April 2012: La economía del transporte maritimo y los puertos; (2012), no. 131.

July 2012: La empresa en España; (2012), no. 132.

November 2012: Crisis y reformas de la economía española; (2012), no. 133.

PROSPECTS OF THE FINANCIAL SYSTEM

May 2012: Los tipos de cambio tras la gran recesión; (2012), no. 104.

October 2012: La crisis de la deuda soberana; (2012), no. 105.

ECONOMIC REVIEW

March 2012: 2011: Débil y dispar crecimiento autonómico (2012), no. 226.

May 2012: Presupuestos para la austeridad; (2012), no. 227.

July 2012: Modelos de crecimiento. Una diversidad polémica; (2012), no. 228.

October 2012: Incertidumbre y débil pulso económico; (2012), no. 229.

November 2012: Ahorrar en tiempos de crisis; (2012), no. 230.

PANORAMA SOCIAL

September 2012: Generaciones y relaciones intergeneracionales; (2012), no. 15.

SPANISH ECONOMIC AND FINANCIAL OUTLOOK

March 2012: Will the New Post-Crisis Layout Be Strong Enough to Overcome Existing Challenges?; (2012). Vol. 1. no. 0.

May 2012: Cleaning Up Banks' Property Assets: What's Next?; (2012). Vol. 1. no. 1.

July 2012: EU Assistance for the Banking Sector: A New Roadmap; (2012). Vol. 1. no. 2.

September 2012: How the New Financial Resolution Framework Will Help to Solve Spain's Banking Crisis; (2012). Vol. 1. no. 3.

November 2012: Implementing the MoU: Spain's "Bad Bank" Solution; (2012). Vol. 1. no. 4.

FOUNDATION STUDIES

February 2012: Los atractivos de localización para las empresas españolas. *Encarnación Cereijo, David Martín, Juan Andrés Núñez, Jaime Turrión y Francisco J. Velázquez;* (2012), no. 58.

December 2012: Estudio Económico de los costes de enfermedad: aplicación empírica del Alzeimer y los consumos de drogas ilegales. *Bruno Casal Rodríguez;* (2012), no. 59.

December 2012: Bubbles, currency speculation, and technology adoption. *Carlos J. Pérez;* (2012), no. 60.

December 2012: Discapacidad y mercado de trabajo: tres análisis empíricos con la muestra continua de vidas laborales. *Vanesa Rodríguez Alvarez;* (2012), no. 61.

OTHER PUBLICATIONS

January 2012: El sector bancario español en el contexto internacional: el impacto de la crisis.
Joaquín Maudos Villarroya.

May 2012: La crisis y las autonomías. La sociedad española ante la crisis y el sistema de las autonomías.
Víctor Pérez-Díaz, Josu Mezo y J. Carlos Rodríguez.

May 2012: Balance Económico Regional (Autonomías y Provincias) años 2000 a 2010.
Pablo Alcaide Guindo; (2011).

May 2012: El problema de la productividad en España: causas estructurales, cíclicas y sectoriales.
Juan R. Cuadrado Roura y Andrés Maroto Sánchez

July 2012: El nuevo y otros cuentos. XXXVII Concurso de Cuentos "Hucha de Oro".

July 2012: La distribución regional del empleo y desempleo en la Unión Europea y España.
José Villaverde Castro, Adolfo Maza Fernández y María Hierro Franco.

November 2012: Productividad y Gestión de recursos Humanos en las Administraciones Públicas.
José Mª Peiró, José Ramos y José Vicente Cortés.

DIGITAL PUBLICATIONS. WORKING PAPERS

January 2012: The role of accruals quality in the access to bank debt. *Pedro J. García-Teruel, Pedro Martínez-Solano and Juan P. Sánchez-Ballesta;* (2012), no. 656.

January 2012: Trade Under Uncertainty: Legal Institutions Matter. *Lisa Kolovich & Isabel Rodriguez-Tejedo;* (2012), no. 657.

January 2012: La relación bidireccional entre la RSC y el resultado empresarial: conclusiones de un estudio empírico el sector de las Cajas de Ahorros. *Almudena Martínez Campillo, Laura Cabeza García y Federico Marbella Sánchez;* (2012), no. 658.

February 2012: Consejos de administración y performance de la empresa: efecto de la pertenencia a múltiples consejos. *Félix J. López Iturriaga y Ignacio Morrós Rodríguez;* (2012), no. 659.

February 2012: Análisis comparado de los sistemas eléctricos en España y Argentina, 1890-1950. Estrategias globales y experiencias divergentes de la electrificación en dos países de industrialización tardía. *Isabel Bartolomé y Norma Silvana Lanciotti;* (2012), no. 660.

February 2012: Leverage and corporate performance: International evidence. *Víctor M. González;* (2012), no. 661

February 2012: Procesos de prociclicidad crediticia e impacto de la provisión estadística en España. *Francisco Jaime Ibáñez Hernández, Miguel Ángel Peña Cerezo y Andrés Araujo de la Mata;* (2012), no. 662

February 2012: Policy success or economic slowdown?. Effects of the 80 km●h-1 speed limit on air pollution in the Barcelona metropolitan area. *Germà Bel i Queralt & Jordi Rosell i Segura;* (2012), no. 663.

February 2012: Modelos regulatorios en las telecomunicaciones fijas de banda ancha: competencia en redes frente a competencia en servicios. La evidencia empírica en la OCDE y España. *Juan Rubio Martín y César Sánchez Pérez;* (2012), no. 664.

February 2012: Regional export promotion offices and trade margins. *Salvador Gil-Pareja, Rafael Llorca-Vivero, José Antonio Martínez-Serrano & Francisco. Requena-Silvente;* (2012), no. 665.

February 2012: An Experimental Study of Gender Differences in Distributive Justice. *Ismael Rodriguez-Lara;* (2012), no. 666.

February 2012: Spanish savings banks in the credit crunch: could distress have been predicted before the crisis? A multivariate statistical analysis. *Martí Sagarra, Cecilio Mar-Molinero & Miguel García-Cestona;* (2012), no. 667.

March 2012: Cities to live or to work in: an input-output model of migration and commuting. *Ana Viñuela & Esteban Fernández-Vázquez;* (2012), no. 668.

March 2012: Non-linear Dynamics in Discretionary Accruals: An Analysis of Bank Loan-Loss Provisions. *Marina Balboa, Germán López-Espinosa & Antonio Rubia;* (2012), no. 669.

March 2012: Financiación, persistencia e intensificación en la realización de actividades de I+D en España. *Dolores Añón Higón, Juan A. Máñez and y Juan A. Sanchis-Llopis;* (2012), no. 670.

March 2012: La neutralidad financiera en el impuesto sobre sociedades: microsimulación de las opciones de reforma para España. *Lourdes Jerez Barroso y Fidel Picos Sánchez;* (2012), no. 671.

March 2012: When trains go faster than planes: The strategic reaction of airlines in Spain. *Juan Luis Jiménez and Ofelia Betancor;* (2012), no. 672.

April 2012: Distribución del gasto sanitario público por edad y sexo en España: Análisis de la década 1998-2008. *Ángela Blanco Moreno, Rosa Urbanos Garrido y Israel John Thuissard Vasallo;* (2012), no. 673.

April 2012: Does school ownership matter? An unbiased efficiency comparison for Spain regions. *Eva Crespo-Cebada, Francisco Pedraja-Chaparro and Daniel Santín;* (2012), no. 674.

May 2012: Factores condicionantes de la desigualdad educativa: un análisis para el caso español. *Crespo Cebada, Eva, Díaz Caro, Carlos y Jesús Pérez Mayo;* (2012), no. 675.

May 2012: Integrating network analysis and interregional trade to study the spatial impact of transport infrastructure using production functions. *Inmaculada C. Álvarez-Ayuso, Ana M. Condeço-Melhorado, Javier Gutiérrez y Jose L. Zofío;* (2012), no. 676.

June 2012: An actuarial balance model for DB PAYG pension systems with disability and retirement contingencies. *Manuel Ventura-Marco & Carlos Vidal-Meliá;* (2012), no. 677.

June 2012: Will it last? An assessment of the 2011 Spanish pension reform using the Swedish system as benchmark. *Carlos Vidal-Meliá;* (2012), no. 678.

June 2012: Iniciativas educativas en las universidades mexicanas: un análisis estadístico multivariante. *Martí Sagarra, Cecilio Mar-Molinero & Herberto Rodríguez-Regordosa;* (2012), no 679.

June 2012: Tributación y política de dividendos de las sociedades no financieras, 2000-2010. *Félix Domínguez Barrero y Julio López Laborda;* (2012), no 680.

June 2012: Lending relationships and credit rationing: the impact of securitization. *Santiago Carbó-Valverde, Hans Degryse & Francisco Rodriguez-Fernandez;* (2012), no 681

June 2012: Percepciones de los ciudadanos sobre las haciendas regionales: quién es y quién debería ser responsable de los servicios e impuestos autonómicos. *Julio López Laborda y Fernando Rodrigo;* (2012), no 682.

June 2012: Trade credit, the financial crisis, and firm access to finance. *Santiago Carbó-Valverde, Francisco Rodríguez-Fernández & Gregory F. Udell;* (2012), no 683.

June 2012: Changing market potentials and regional growth in Poland. *Jesús López-Rodríguez & Malgorzata Runiewizc-Wardyn;* (2012), no 684.

June 2012: Firm boundaries and investments in information technologies in Spanish manufacturing firms. *Jaime Gómez, Idana Salazar & Pilar Vargas;* (2012), no 685.

June 2012: Movimientos de capital, inserción en el mercado mundial y fluctuaciones financieras de la economía cubana: la bolsa de la habana, 1910-1959. *Javier Moreno Lázaro;* (2012), no 686.

June 2012: El impacto de la inmigración sobre el crecimiento económico español. Un enfoque contable. *Rodrigo Madrazo García de Lomana;* (2012), no 687.

July 2012: Structural equivalence in the input-output field. *Ana Salomé García Muñiz;* (2012), no 688.

July 2012: Testing the expectations hypothesis in euro overnight interest swap rates. *Lucía Hernandis & Hipòlit Torró;* (2012), no 689.

July 2012: Bank asset securitization before the crisis: Liquidity, bank type and risk transfer as determinants. *Martí Sagarra, Miguel García-Cestona & Josep Rialp;* (2012), no 690.

September 2012: Análisis del riesgo soberano utilizando mapas auto-organizativos. el caso de europa, España y Alemania. *Félix J. López Iturriaga e Iván Pastor Sanz;* (2012), no 691.

September 2012: Economic forecasting with multivariate models along the business cycle. *Carlos Cuerpo & Pilar Poncela;* (2012), no 692.

September 2012: Testing opvar accuracy: an empirical back-testing on the loss distribution approach. *José Manuel Feria-Domínguez, Enrique J. Jiménez-Rodríguez & Mª Paz Rivera-Pérez;* (2012), no 693.

October 2012: Is the boost in oil prices affecting the appreciation of real exchange rate?: Empirical evidence of "Dutch disease" in Colombia. *Pilar Poncela, Eva Senra & Lya Paola Sierra;* (2012), no 694.

October 2012: Market efficiency and lead-lag relationships between spot, futures and forward prices: The case of the Iberian Electricity Market (MIBEL). *José María Ballester, Francisco Climent & Dolores Furió;* (2012), no 695.

November 2012: Complementarities in the innovation strategy: do intangibles play a role in enhancing the impact of r&d on firm performance?. *Dolores Añón, Jaime Gómez & Pilar Vargas;* (2012), no 696.

November 2012: The real effects of bank branch deregulation at various stages of economic development: The European experience / *José Manuel Pastor, Lorenzo Serrano & Emili Tortosa-Ausina;* (2012), no 697.

December 2012: Effects of the financial crisis on the european integration process: relevance of exchange rate, inflation and domestic risks. *Alfredo J. Grau-Grau;* (2012), no 698.

December 2012: Las preferencias por la redistribución: teoría y evidencia para España. *Julio López Laborda y Eduardo Sanz Arcega;* (2012), no 699.

10.3. Glossary

A

ADEPO
Depositaries Association

ADSL
Asymmetric Digital Subscriber Line

AEAT
Spanish Inland Revenue Service

AEB
Association of Spanish Private Banks

AEF
Spanish Fundraising Association

AICC
Aviation Industry Computed Based-Training Committee
(international association of technology-based training professionals)

AIFMD
Alternative Investment Fund Managers Directive

ALCO
Assets and Liabilities Committee

APIE
Economic Reporting Journalists' Association

APR (RWA)
Risk-weighted assets

B

BdE
Bank of Spain

BFA
Banco Financiero y de Ahorros

BMN
Banco Mare Nostrum

C

CASER
Caja de Seguros Reunidos, Insurance and Reinsurance Company

CCI
Interbank Cooperation Centre

CDS
Credit Default Swap

CEA TSL
Spanish Savings Banks (Trade Services Limited)

CECA
Confederation of Spanish Savings Banks

CGPJ
General Council of the Judiciary

CIRBE
Bank of Spain Risks Information Centre

CIRO
Operational Risk Identification Committee

CMOF
Master Financial Transactions Agreement

CNMV
National Securities Market Commission

COAS
Committee for Organisation, Automation and Service

CoC
Internal Code of Conduct

COREP
Common Reporting

COS
Security Transaction Centres

CP
Consultation Paper

CRD
Capital Requirements Directive

CSA
Credit Support Annex

CSR
Corporate Social Responsibility

CUNEF
Colegio Universitario de Estudios Financieros
(University School of Financial Studies)

D

DWDM
Dense Wavelength Division Multiplexing

E

EBA
European Banking Authority

EAPS
European Association Payment System

EBIC
European Banking Industry Committee

EC
European Commission

ECB
European Central Bank

EFMA
European Financial Management & Marketing Association

EHA
Spanish Ministry of Economy and Finance

EMA
European Master Agreement

EMIR
European Market Infrastructure Regulation

EMV
Europay Mastercard Visa

EPC
European Payments Council

ESBG
European Savings Banks Group

ESCA
Savings Banks College

ESIC
Commercial Management and Marketing College

ESMA
European Securities and Markets Authority

ETDF
European Trustee & Depositary Forum

EU
European Union

EUFISERV
European Savings Banks Financial Services

F

FATCA
Foreign Account Tax Compliance Act

FATF
Financial Action Task Force (GAFI)

FINREP
Financial Reporting

FROB
Fund for Orderly Bank Restructuring

Funcas
Savings Banks Foundation (Funcas)

FX
Foreign Exchange Market.

G

GMRA
Global Master Repurchase Agreement

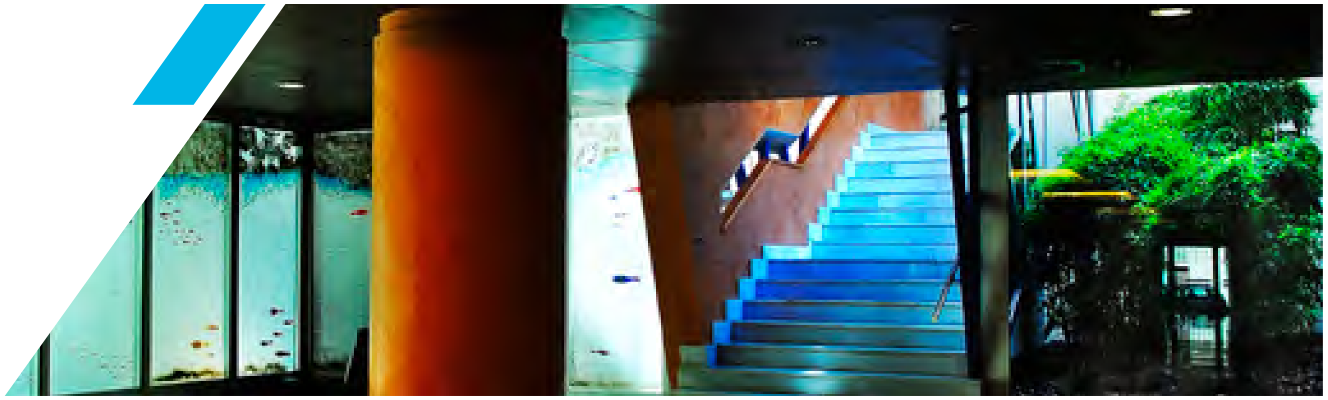
GMSLA
Global Master Securities Lending Agreement

GRI
Global Reporting Initiative (GRI)

G.T. Exp.
Expert Working Group

H

HR
Human Resources



I

IAS
International Accounting Standards

IASB
International Accounting Standards Board

IBERPAY
Spanish Payment Systems Company

ICCA
Savings Banks Credit Institute

IFRS
International Financial Reporting Standards

IIRC
International Integrated Reporting Council

IL3
Institute of Continuing Training of the University of Barcelona

IMCA
World Savings Banks Institute

IPS
Institutional Protection Scheme (SIP)

ISDA
International Swaps and Derivatives Asociation

IT
Information Technologies

L

LAE
Loterías y Apuestas del Estado (Spanish State Lottery Company)

LHP
Large Homogeneous Portfolio

LIBOR
London InterBank Offered Rate

LICO
Leasing International Company

LORCA
Savings Banks Governing Bodies Act

M

MEFF
Spanish Financial Futures Market

MiFID
Markets in Financial Instruments Directive

MiFIR
Markets in Financial Instruments Regulation

MoU
Memorandum of Understanding

N

NAS
Network Attached Storage

NGO
Non-Governmental Organisation

NPV
Net Present Value (VAN)

O

OBS
Charitable and Social Work

OECD
Organisation for Economic Cooperation and Development

OTC
Over The Counter

P

PCI DSS
Payment Card Industry Data Security Standard

PESC
External and Common Security Policy

PF
Pension Funds

Pl.
Plant

POS
Point of Sale terminal

PRIP
Packaged Retail Investment Products

R

RD-L
Royal Decree-Law

S

SCORM
Sharable Content Object Reference Model

Scrl.
Société Coopérative à Responsabilité Limitée

SEPA
Single Euro Payments Area

SEPE
State Public Employment Service

SGA
Asset Management Company

SMS
Short Messaging Service

SNCE
Spanish Electronic Clearing System

SOA
Service-Oriented Architecture

SWIFT
Society for Worldwide Interbank Financial Telecommunication

T

TARGET
Trans-European Automated Real-time Gross Settlement Express Transfer System

TEE
Overseas Economic Transactions

TGSS
General Treasury of the Social Security

TRLIS
Recast Corporate Income Tax Act

U

UCI
Undertakings for Collective Investment (Collective Investment Undertakings)

UCITS
Undertakings for Collective Investment in Transferable Securities

UNACC
Spanish National Union of Credit Cooperatives

UTE
Unión Temporal de Empresas (Joint Venture)

V

VaR
Value at Risk

VAT
Value Added Tax

Vta
Sale

W

WSBI
World Savings Banks Institute

X

XBRL
Extensible Business Reporting Language

Z

zBX
IBM zEnterprise BladeCenter Extension

10.4. Chronology

JANUARY 2012

Date	
12	Extraordinary Executive Committee meeting
17	Management Committee meeting
23	Management Committee meeting
24	Remuneration and Nomination Committee meeting Investment Committee meeting Executive Committee meeting CECA Board meeting
25	Control Committee meeting Committee for Organisation, Automation and Service meeting (COAS meeting)

FEBRUARY 2012

Date	
06	Management Committee meeting
20	Management Committee meeting
22	Executive Committee meeting Annual General Assembly CECA Board meeting Funcas Board of Trustees meeting Control Committee meeting
29	COAS meeting

MARCH 2012

Date	
02	11th Meeting of the WSBI Strategic President's Committee (Berlin)
05	Management Committee meeting
15	Sector Adoption of the Code of Good Practice in respect of housing
16	Management Committee meeting
21	Executive Committee meeting CECA Board meeting Approval by the Consejo of the Cecabank Creation Project Funcas Advisory Council meeting
28	Management Committee meeting Control Committee meeting COAS meeting

APRIL 2012

Date	
12	Management Committee meeting
13	Remuneration and Nomination Committee meeting Executive Committee meeting CECA Board meeting
18	Control Committee meeting COAS meeting Meeting of the ESGB President's Committee: Interview Isidro Fainé - Mario Draghi (ECB)
25	I Financial Meeting with Andrea Enria (EBA)
26	Management Committee meeting

MAY 2012

Date	
08	Extraordinary Executive Committee meeting
09	36th Meeting of the WSBI Ordinary President's Committee (Marrakesh) 13th & 14th Meeting of the WSBI Board of Directors (Marrakesh)
15	Management Committee meeting
16	Investment Committee meeting Executive Committee meeting CECA Board meeting
23	Control Committee meeting COAS meeting

JUNE 2012

Date	
01	Management Committee meeting
06	Foundations and Social Work Committee meeting
07/08	LXXII Convention of Legal Advisers to Savings Banks, Savings Bank Groups and members
08	37th Meeting of the ESBG Strategic President's Committee (Brussels) 15th &16th Meeting of the ESBG Board of Directors (Brussels)
18	Management Committee meeting
20	Remuneration and Nomination Committee meeting Executive Committee meeting CECA Board meeting Funcas Advisory Council meeting
21/22	XIV Savings Banks Customer Services Convention
27	Control Committee meeting COAS meeting
29	Menéndez Pelayo International University (UIMP) summer courses: APIE Informative Session. Speaker José María Méndez

JULY 2012

Date	
04	Management Committee meeting
16	Signing of Collaboration Protocol with the Spanish Fundraising Association (AEF)
18	Funcas Board of Trustees meeting
23	Management Committee meeting
24	COAS meeting
25	Remuneration and Nomination Committee meeting CECA Board meeting Control Committee meeting Extraordinary General Assembly Redemption of association's share certificates and definition of Cecabank shareholders

AUGUST 2012

Date	
01	Management Committee meeting

SEPTEMBER 2012

Date	
06	Management Committee meeting
17	Management Committee meeting
18	Funcas Advisory Council meeting
19	Investment Committee meeting Executive Committee meeting CECA Board meeting Funcas Board of Trustees meeting
26	Control Committee meeting COAS meeting

OCTOBER 2012

Date	
01	Authorisation for the creation of Cecabank
03	Management Committee meeting
14	12th Meeting of the WSBI Strategic President's Committee (Tokyo) 15th Meeting of the WSBI Board of Directors (Tokyo) ESBG - WSBI Annual Reception (Tokyo)
15	Management Committee meeting
17	Remuneration and Nomination Committee meeting Executive Committee meeting CECA Board meeting Funcas Advisory Council meeting
24	Control Committee meeting COAS meeting
29	Meeting with Mario Draghi (ECB, Frankfurt)

NOVEMBER 2012

Date	
05	Management Committee meeting
08	8th Meeting of the ESBG Strategic President's Committee (Brussels)
12	Management Committee meeting
13	Funcas Advisory Council meeting
14	Executive Committee meeting CECA Board meeting Funcas Board of Trustees meeting
15	Start-up of Cecabank
21	COAS meeting; Control Committee meeting
27/28	XIV Communication Managers Convention
29	LXVI Meeting of Tax Experts of Savings Banks, Savings Bank Groups and members

DECEMBER 2012

Date	
03	Management Committee meeting
07	38th Meeting of the ESBG President's Committee (Rome) 9th Meeting of the ESBG Strategic President's Committee (Rome) 17th Meeting of the ESBG Board of Directors (Rome)
17	Management Committee meeting
18	Executive Committee meeting CECA and Cecabank Board meeting FUNCAS Advisory Council meeting
19	COAS meeting
21	Management Committee meeting

10.6. Headquarters, branches and offices

CONFEDERATION OF SPANISH SAVINGS BANKS

Tax registration number: G-28206936
Entered in the Madrid Trade Register, volume 5197, book 0, folio 180, section 8, page M-85116, entry no. 1.

Registered office: Alcalá 27. 28014 MADRID
Telephone: 91 596 50 00
Fax: 91 596 57 42
Internet: http://www.ceca.es
E-mail: admin@ceca.es

CECABANK, S.A.

Tax registration number: A-86436011
Entered in the Madrid Trade Register, volume 30405, book 0, folio 57, section 8, page M-547250, entry no. 1.

Registered office: Alcalá 27. 28014 MADRID
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