Santander

Annual report 2009

Annual Report
2009

“Follow me” robot and Julian Opie’s “7 People Walking” at Grupo Santander City’s new visitors’ centre in the “El Faro” building, Boadilla del Monte, Madrid.

Key figures

Balance sheet and income statement[1] (Million euros)

	2009	2008	2009/2008 %	2007	2007*
Total assets	**1,110,529**	1,049,632	5.8	912,915	
Customer loans (net)	**682,551**	626,888	8.9	571,099	
Managed customer funds	**900,057**	826,567	8.9	784,872	
Shareholders' funds (after distribution of dividends)	**70,006**	63,768	9.8	51,945	
Total managed funds	**1,245,420**	1,168,355	6.6	1,063,892	
Net interest income	**26,299**	20,945	25.6	14,443	
Gross income	**39,381**	33,489	17.6	26,441	
Net operating income	**22,960**	18,540	23.8	14,417	
Results from discontinued operations	**9,427**	9,030	4.4	8,327	
Attributable profit to the Group	**8,943**	8,876	0.7	8,111	9,060

Ratios (%)

	2009	2008	2009/2008 %	2007	2007*
Efficiency (with amortization)	**41.7**	44.6		45.5	
ROE	**13.90**	17.07		19.61	21.91
ROA	**0.86**	0.96		0.98	1.09
RoRWA	**1.74**	1.86		1.76	1.95
Core capital[2]	**8.6**	7.5		6.3	
Tier 1[2]	**10.1**	9.1		7.7	
Ratio BIS[2]	**14.2**	13.3		12.7	
Tangible capital/tangible assets[3]	**4.3**	3.6		3.4	
Core funding ratio[4]	**76.0**	75.1		74.9	
Non-performing loan (NPL) ratio	**3.24**	2.04		0.95	
NPL coverage	**75**	91		151	

The share and capitalisation

	2009	2008	2009/2008 %	2007	2007*
Number of shares in circulation (million)	**8,229**	7,994	2.9	6,254	
Share price (euros)	**11.550**	6,750	71.1	13.790	
Market capitalisation (million euros)	**95,043**	53,960	76.1	92,501	
Shareholders' funds per share (euros)[5]	**8.04**	7.58		7.23	
Share price/shareholders' funds per share (times)[5]	**1.44**	0.89		1.91	
PER (share price/attributable profit per share) (times)[5]	**11.05**	5.53		11.56	
Attributable profit per share (euros)[5]	**1.0454**	1.2207	(14.4)	1.1924	1.3320
Diluted attributable profit per share (euros)[5]	**1.0382**	1.2133	(14.4)	1.1809	1.3191
Nominal dividend per share	**0.6000**	0.6508	(7.8)	0.6508	
Dividend per share (euros)[5]	**0.6000**	0.6325	(5.1)	0.6068	
Total dividend payout	**4,919**	4,812	2.2	4,070	

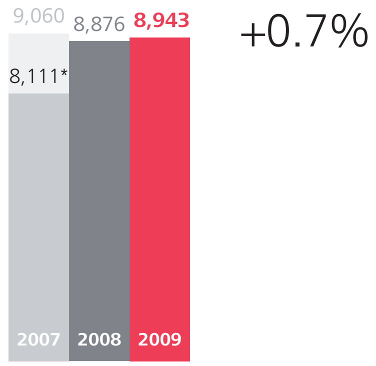
Other figures

	2009	2008	2009/2008 %	2007	2007*
Number of shareholders	**3,062,633**	3,034,816	0.9	2,278,321	
Number of employees	**169,460**	170,961	(0.9)	131,819	
Continental Europe	**49,870**	48,467	2.9	47,838	
United Kingdom	**22,949**	24,379	(5.9)	16,827	
Latin America	**85,974**	96,405	(10.8)	65,628	
Sovereign	**8,847**				
Corporate activities	**1,820**	1,710	6.4	1,526	
Number of branches	**13,660**	13,390	2.0	11,178	
Continental Europe	**5,871**	5,998	(2.1)	5,976	
United Kingdom	**1,322**	1,303	1.5	704	
Latin America	**5,745**	6,089	(5.6)	4,498	
Sovereign	**722**				

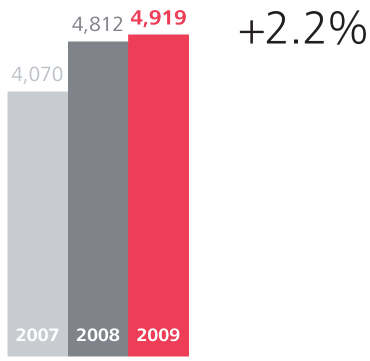
(*) Includes capital gains and extraordinary allowances
(1) In order to faciliate a comparative analysis a proforma statement for 2008 has been drawn up which consolidates Banco Real by global integration for the whole of the year. Capital gains and extraordinary allowances are set out separately in "net extraordinary capital gains and allowances."
(2) 2007 in BIS 1 criteria
(3) (Capital +Reserves +Minority Interests +Profits -Treasury stock -Dividends -Valuation adjustments -Goodwill-Intangibles) / (Total assets-Goodwill-Intangibles)
(4) (Deposits+medium and long-term wholesale financing+capital)/total assets (without trading derivatives)
(5) 2007 and 2008 adjusted to the capital increase at the end of 2008 with preferential subscription rights

Santander was the fourth bank in the world by earnings, with attributable profit of EUR 8,943 million

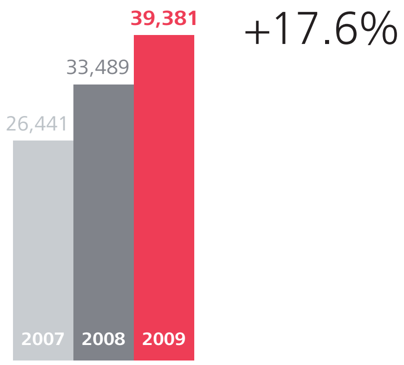
Attributable profit
Million euros



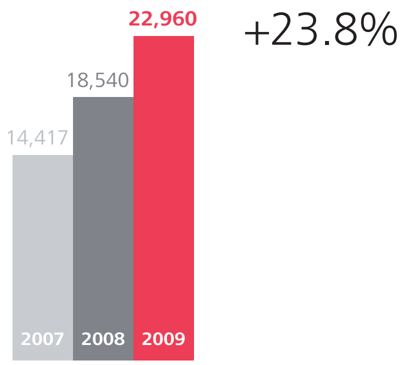
Total dividend payout
Million euros



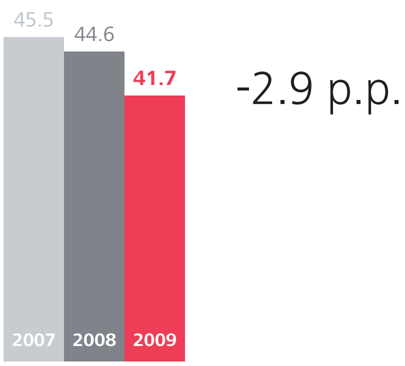
Gross income
Million euros



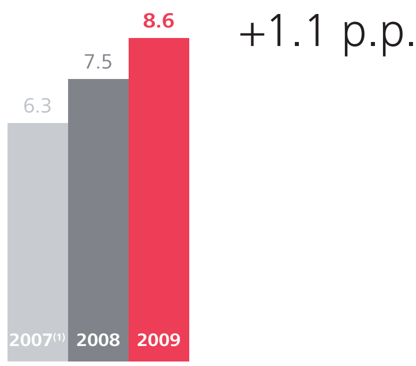
Net operating income
Million euros



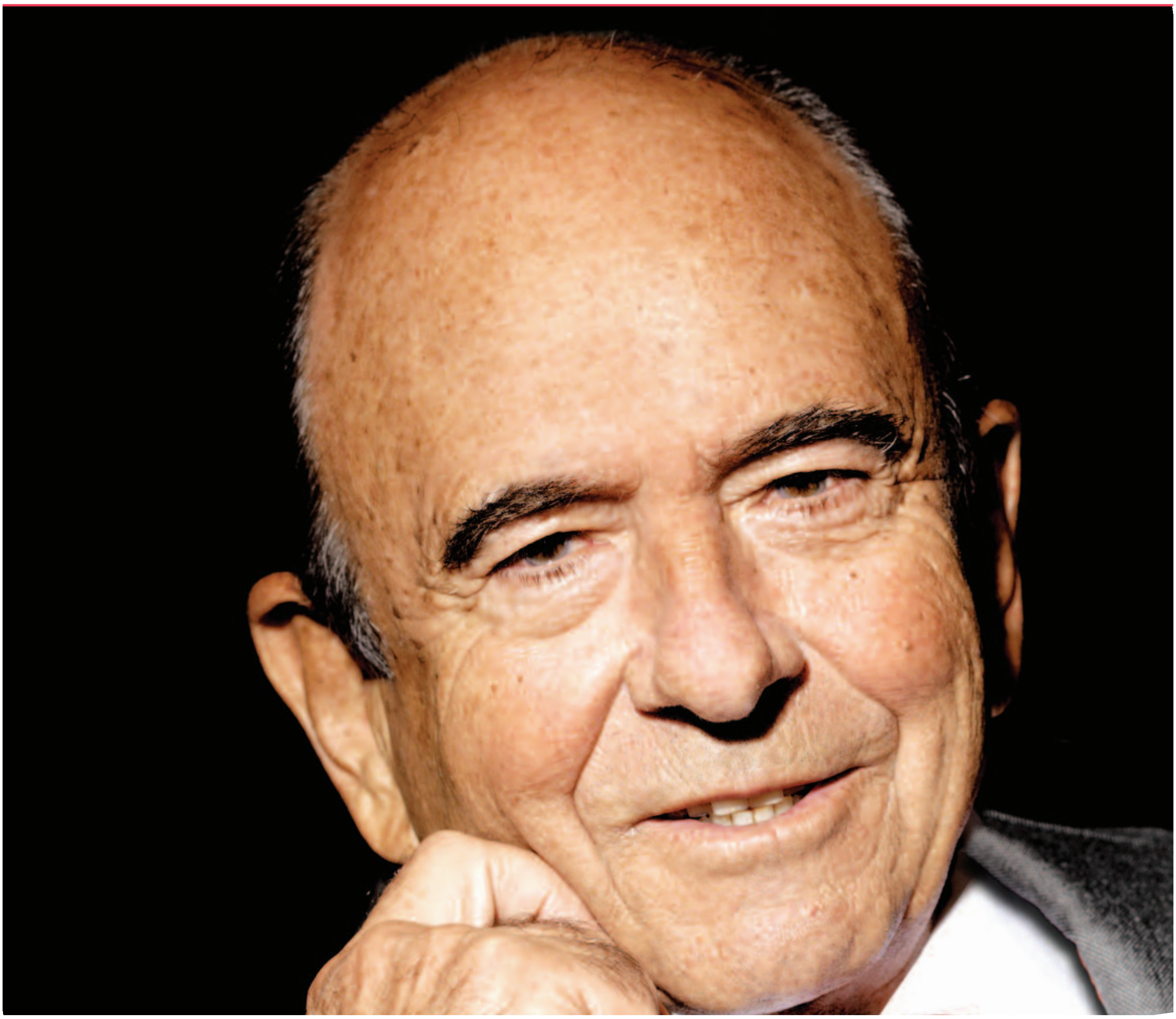
Efficiency
%



Core capital
%



(*) Excludes capital gains and extraordinary allowances.
(1) 2007 in BIS 1 criteria.



"The Bank will pay dividends of EUR 4,919 million, 2% more than in 2008, and above the goal announced at the AGM in June 2009"

Letter from the chairman

Emilio Botín

Dear Shareholders

Banco Santander had yet another excellent year. Despite the challenges raised in 2009 by the worst economic and financial environment for decades, the Bank increased its revenues, improved its efficiency ratio, strengthened its balance sheet and generated profits in line with the goals set at last June's general meeting of shareholders.

Net ordinary attributable profit was 0.7% higher at EUR 8,943 million. For the third year running, Santander's profit was among the top five banks in the world in profits underscoring the recurrence of its business and the success of our management model.

The Group's results were supported by geographic diversification, revenue growth that was almost twice as fast as that of operating costs and very rigorous management of risks. Furthermore, we obtained extraordinary profits of EUR 2,587 million, which we fully assigned to voluntary provisions in order to very significantly bolster our balance sheet.

It was no coincidence that Banco Santander was named the best bank in the world by specialised and internationally prestigious media.

Dividend

The Bank will pay a total EUR 4,919 million in dividends, 2% more than in 2008 above the goal announced at the AGM in June 2009, and in line with our pay out policy of around 50% of the Group's attributable profit.

As part of this remuneration, this year we offered our shareholders, for the first time, a new plan, Santander Dividendo Elección, which has proved to be successful as 81% of the share capital opted to receive their second interim dividend in the form of new shares instead of in cash.

The nominal dividend per share in 2009 will be EUR 0.60, 7.8% lower than in 2008. This reduction is due to the 32% increase in the number of shares since September 2008.

The Santander share

The better tone in the financial markets during 2009, combined with the Bank's good results and prospects, led the share to surge 71% in 2009, 24% more than the Dow Jones Stoxx Banks index. At the end of the year, the Bank's market capitalisation was EUR 95 billion, making us the world's eighth largest bank by market value.

In the first months of 2010, our share was hit by instability in Europe's financial markets, even though the perception of the quality, recurrence and soundness of our results and of the Group's forecasts was positive. I am convinced the Bank's share price will soon return to levels more in line with our growth prospects for this year and the following years.

Strategy and outlook

The last two years of economic and financial crisis have made it clear that a bank's profitability must be measured on a long-term basis. This means having recurrent and sustainable business which shows responsibility to shareholders, employees, customers and society at large.

We face several years of moderate economic growth and stronger regulatory pressure.

In this scenario, Banco Santander aims to maintain its financial strength and ensure the highest return for its shareholders and the best products and services for its customers. Meanwhile, we will continue to support and contribute to economic growth and reinforce our commitment to the society in those countries where we operate.

In order to achieve this, we have five differential elements:

1. Customer-focused

Santander is the international bank with the most branches in the world, serving 92 million customers. This provides a great opportunity for business, but also an important responsibility.

- We will continue our policy of capturing, linking and increasing the loyalty of our individual customers by providing the best advice and the most innovative products and services to best meet clients' needs and features, according to their risk profile.
- We will maintain our focus on traditional retail banking, supporting and financing companies and households so that they can carry out their projects. In Spain, Banco Santander was the leader in 2009 in channelling the loans of the Official Credit Institute (ICO), with a market share of 22%.
- We will continue to invest in technology as a source of value creation for our customers. Our advanced model of technology, operations and costs provides us with better and deeper knowledge of our customers' needs and makes us one of the world's most efficient banks (efficiency ratio of 42%). All of this gives us more competitive products and services, as is the case in Spain and the UK where millions of customers already benefit from our zero commission plans.

Just as important as being profitable is having recurrent and sustainable business which shows responsibility to shareholders, employees, customers and society at large

2. Diversified presence

Banco Santander operates in nine main countries, with significant market shares in each one: Spain, Portugal, Germany, the UK, Brazil, Mexico, Chile, Argentina and the north east of the US. Diversification enables us to maintain recurrent revenues for the whole of the Group, offsetting the slower pace of business in some countries with higher growth in others.

During the last two years of economic and financial crisis, Banco Santander has exploited the opportunities to improve its competitive positioning in strategic markets where it has a strong retail presence and which it knows very well.

- In Brazil, the profits of the bank resulting from the merger of Banco Real and Banco Santander, whose integration we expect to be completed during 2010, grew 22.5% reaching EUR 2,167 million (20% of the Group's total). In 2009, we successfully carried out a capital increase with a new share offer amounting to EUR 5,092 million, the largest that year in the international financial sector, which will be used to finance the Group's expansion in Brazil. The market value of Banco Santander Brazil at the end of 2009 was EUR 36,000 million, making it one of the 30 largest banks in the world on this basis.
- In the UK, the commercial strength and impact of the new acquisitions resulted in a 38.4% rise in profits (EUR 1,726 million). The technological integration of Abbey and Bradford & Bingley was completed and they now operate under the Santander brand. Alliance & Leicester will be integrated during 2010.
- In the US, after its first year as part of Grupo Santander, Sovereign notably improved its efficiency ratio, cleaned up its balance sheet, progressed in its business strategy and in the fourth quarter made a positive contribution to the Group's profits. Our objective in 2011 is to generate a profit in the US of $1,150 million, which would represent a return on our $6,200 million investment of 18.5%.
- In Germany, after the integration of Santander Consumer Bank with the businesses acquired from Royal Bank of Scotland and GE, Banco Santander consolidated itself as the consumer finance leader and it is already the fifth bank in the country by number of customers. Attributable profit reached EUR 385 million.

In short, the integration of the businesses acquired in these countries, which contributed EUR 1,545 million to the Group's profits in 2009, is proceeding on schedule. We expect the contribution in 2010 and 2011 to be EUR 2,300 million and EUR 3,000 million, respectively.

3. Financial strength

Banco Santander's financial strength is underlined by three variables: capital, liquidity and the non-performing loan (NPL) ratio.

As regards capital, we ended 2009 with a core capital ratio of 8.6%, more than two percentage points higher than before the crisis, and a Tier 1 of 10.1%. As a result, Banco Santander is financially much stronger than a year ago. This figure compares very well with other international banks, particularly if one takes into account the stable nature of our retail banking business. The improvement in the size and quality of the Bank's capital has been achieved without recourse to any type of public aid.

Capital strength is even more important today. For this reason, the steps being taken with Basel III seem very positive to me as they attach greater importance to core capital and are in line with the principle of requiring higher capital for activities of greater risk.

Banco Santander is well prepared for the likely regulatory changes that will demand higher capital requirements for banks. Although we agree banks should boost their capital in order to better withstand future crises, we believe the level of capital has to be directly related to the risk assumed by each bank and not with other variables, such as the size of the balance sheet or the international dimension.

Liquidity is another of the aspects which has become key in the crisis. Grupo Santander maintains a comfortable structural liquidity position, thanks to its wide customer deposit base, which increased 21% in 2009, an appropriate debt structure, with maturities concentrated in the medium and long-term, and its capital. These three variables together (the core funding ratio) represent 76% of Grupo Santander's total assets, a figure which is higher than that of our international competitors.

The Group ended 2009 with a NPL ratio of 3.24%, just over a percentage point more than in 2008 and well below the average of our competitors in the markets where we operate. Prudent and rigorous management of risk in admitting, monitoring and recovering loans were the factors behind this low ratio.

The new business unit to recover loans established in Spain, which is being exported to other countries, such as Brazil, Mexico and Chile, is producing excellent results and reducing growth in new entries of bad debts and of doubtful loans.

Furthermore, Grupo Santander has generic provisions of more than EUR 6,700 million.

Letter from the chairman

4. Commitment to society

Banco Santander continues to support higher education. In 2009, we had more than 800 agreements with universities, more than 14,000 scholarships and more than 1,100 universities in Universia. By supporting young people today, we are fostering future economic growth.

Moreover, the Bank deepened its corporate social responsibility policy in 2009, with special attention paid to protecting the environment, social actions, gender equality and reconciling the professional and personal life of employees. All of this is reported on in greater detail in the Group's Sustainability Report.

5. Solid and demanding corporate governance

Banco Santander has a top notch board of directors, with the appropriate balance between executive and non-executive directors, and which applies with the maximum transparency and rigour the most advanced principles of corporate governance to protect the interests and equality of rights of all the Bank's shareholders. The board will continue to pay very significant attention to risk management and ensure the Bank's business model does not stray from the fundamentals of traditional banking. As regards remuneration, the Bank's policy is aligned with the recommendations of the main international institutions in this sphere.

The future of Banco Santander

The likely recovery of the global economy assumes the environment in 2010 will be more favourable than in 2009, although everything points to it taking a long time to reach a pace of growth similar to that before the crisis and the upturn will vary in time and intensity by country.

The financial crisis has underscored that supervision is even more important than regulation, in the light of the clear failures of many banks in risk management, the use of complex and difficult to evaluate financial instruments, and incentive and remuneration packages for executives that rewarded excessive risk taking.

In order to avoid a recurrence of the mistakes that led us to this situation, I believe it is vital to:

- strengthen supervision mechanisms, as the solution is not to increase regulations but to enhance supervision;
- link greater capital requirements to activities of greater risk;
- identify the real sources of systemic risk and not penalise banks on the basis of their size;
- discriminate between banks that conducted themselves well and had no need for public aid and those that performed badly and were supported by their governments, and
- reforms should be adopted on the basis of consensus and coordinated at the international level in the sphere of the G-20 and the Basel Committee, thereby avoiding regulatory arbitrage and competitive distortions between markets.

The crisis has shown we are a solid bank and with an outlook which supports growth on firm foundations

We have the opportunity to build a more stable, efficient and solid financial system that better withstands the impact of a global crisis like the one we have overcome.

Banco Santander is actively participating and contributing ideas to create the new international financial system, in support of our business model and in the interest of our customers, employers and shareholders.

The crisis has shown we are a solid bank and with an outlook that does not seek quick solutions to generate revenues and which supports growth on firm foundations to give it a position of advantage in the long term.

We have a business model that has proven its validity even at the most difficult times, a very balanced geographic positioning and a strong balance sheet and capital.

Banco Santander's outlook for 2010 and the following years is excellent. As we have proved in the last two years, it is at such times as these that solid and well-managed banks mark the difference.

Santander is one of the few international banks that has taken advantage of the difficulties in the international financial system to boost growth in deposits, invest in our customer franchise and to realize acquisitions in strategic markets.

The Bank's good performance and active, global management of the Santander brand has bolstered our image and made ours the third most valued financial brand in the world.

I am very conscious that Banco Santander's strength during the financial crisis is largely due to the loyalty and support of our shareholders who subscribed to the capital increase in November 2008, enabling them to double their investment.

And we have 170,000 employees in the world who, with their skills, effort and dedication, made it possible for the Group to surpass in 2009 the goals we had set.

I would like to thank you all once again for your confidence in Banco Santander.

Emilio Botín,
Chairman

"Despite the very complex environment, our attributable profit was higher than in 2008 and we continued to improve our core capital ratio"

Letter from the chief executive officer

Alfredo Sáenz

Dear shareholders,

Results and Santander share

Grupo Santander once again achieved good results in 2009:

- The Group's attributable profit, excluding extraordinary income, was EUR 8,943 million, 0.7% higher than in 2008.
- Earnings per share were EUR 1.05.
- The core capital ratio improved by two percentage points in two years, from 6.3% in 2007 to 8.6% in 2009.
- In response to the economic crisis, we applied even more strictly our management principles, with the following priorities:
  - Higher spreads, in order to meet the increased cost of liquidity and the rise in non-performing loans (NPLs).
  - Gains in market share, particularly in customer funds.
  - Contained or lower costs in all our businesses.
  - Management of NPLs, with a recoveries model administered as a business unit.
- We are very satisfied with the quality of our income statement:
  - Net interest income rose 26%.
  - The *jaws* (the growth differential between gross income and operating costs) widened to eight points, enabling net operating income to grow 24%.
  - Moreover, we were able to absorb the increase in provisions and writedowns, thanks to the growth in net operating income, from EUR 18,540 million to EUR 22,960 million (from 3.1% to 3.4% of net loans). This improvement puts us in an exceptional position to exploit the cyclical upturn.

In short, our disciplined management enabled us to get through the crisis and maintain our results intact, while many of our competitors generated large losses.

A dual world

If we analyse international banking trends for the next few years we see increasingly different dynamics in mature and emerging markets:

- The mature markets, such as Spain, the UK and the US, have entered a period of deleveraging. Although most countries are beginning to overcome the cyclical moment of high provisions, years of stagnant lending and structurally higher provisions than in the previous cycle still await us.
- The dynamics are very different in emerging markets. In general, neither the public nor the private sectors have excessive levels of indebtedness. These markets are thus recovering more quickly and more solidly than the mature ones. The combination of economic growth and greater "bankarisation" in coming years will create a very attractive banking environment.

  In my view, emerging markets of quality are those which:
  - Do not produce macroeconomic bubbles which devastate the economy.
  - Are institutionally predictable.
  - Have markets open to foreign banks.

  The main countries of Latin America, where Banco Santander is present, comfortably meet these three parameters, and for this reason I am convinced of the quality of our exposure to these markets.

As we are facing two very different environments, the growth strategies will also have to be very different:

- In mature markets, only those banks with a solid business model will be able to grow.
  - We will operate in an environment where the differences between well and poorly managed banks will be more evident.
  - The next few years will be tough because of the lack of economic growth and the need to deleverage. However, this presents opportunities for Grupo Santander to gain market share through organic growth and take advantage of acquisition opportunities to grow in some markets.
- In emerging markets, unlike mature ones, there is the possibility of participating in structural growth. Only if there is GDP growth and higher levels of banking penetration, spurred by the expansion of the middle class, will there be growth in our business.

  Our priority in emerging markets is to build up a solid and top notch business franchise, and this means we have to grow at a faster rate than the market.

Results in 2009 and challenges in 2010 by business units

Retail banking in mature markets

Spain (Santander Branch Network and Banesto)

Our retail banking profits in Spain grew 4%. These are particularly good results compared to those of our competitors, whose profits fell by 21% on average.

Both the Santander Branch Network and Banesto achieved growth in net interest income and attributable profit slightly higher than in 2008. Furthermore, our non-performing loan ratios remained well below the banking system's average.

In 2010, we are suffering the double impact of low demand for loans and pressure on spreads associated with repricing our mortgage portfolio at very low interest rates. We are continuing to apply defensive drivers to protect us in an environment of economic downturn and increased non-performing loans. The objective now is to put more emphasis on growth drivers. Specifically, we have a great opportunity to gain market share, taking advantage of the profound restructuring that is beginning in the banking sector.

Portugal

Santander Totta again produced good results in 2009 in a complicated environment of low demand for loans, pressure on the spreads of deposits and higher non-performing loans. Net interest income, gross income and net operating income all registered single digit growth. Growth in net operating income absorbed the higher provisions, from very low levels, and enabled attributable profit to be slightly higher than in 2008.

Our priorities in 2010 will remain very similar: management of spreads and control of costs, risk control and management of loan-loss recoveries. We probably have an historic opportunity in Portugal to boost our market share, particularly in corporate banking. Moreover, Santander Totta's profits are the highest in the country's banking system, although in terms of business share it is the fourth largest player.

Grupo Santander has shown it can produce good results in very different environments, adapting its management priorities very quickly and flexibly

United Kingdom

Attributable profit was 55% higher at £1,536 million. On a like-for-like basis excluding the contribution of Alliance & Leicester and Bradford & Bingley, profits grew 27%. Moreover, we still have many synergies pending for 2010 from these acquisitions which, coupled with the pace of gain in market share and the improvement in spreads, will give us a good level of growth in this year's results.

In 2010, our objectives are very similar to those of 2009: to continue gaining market share selectively, look after profitability without changing our risk criteria and continue to build up the business franchise, particularly with companies.

Sovereign

In 2009, its first year as part of the Group, Sovereign made a loss of EUR 25 million, largely due to writedowns which had to be made at the time of the acquisition. In the fourth quarter, however, it generated a profit of $4 million.

Sovereign's progress, from the onset, has been very positive, making us very comfortable with the profit goals set when we acquired full control of the bank. Furthermore, we have a great opportunity to build a leading retail bank in the northeast of the US.

Santander Consumer Finance

The environment was complicated, as and how we expected it. Attributable profit was 9% lower at EUR 632 million, despite the strong rise (25%) in gross income.

2010 will be another difficult year. However, we expect to see signs of stabilisation in non-performing loans in our main markets. Our drivers will remain virtually unchanged from 2009 (management of spreads, risk control and active management of recoveries).

In Spain, after several quarters of sharp falls in consumption, the trend began to change in 2010. We are also experiencing strong growth in the US and the UK, while Germany and Italy remain stable.

Corporate banking (GBM)

The wholesale banking division's attributable profit increased 59% to EUR 2,765 million. As well as the purely financial figures, this business also achieved over the last 18 months a very significant qualitative leap forward: we strengthened the relationship with our customers and are generating more revenues in higher value added businesses.

Our strategy for the next few years continues to be very simple: continue to gain market share in the businesses we know well, very focused on corporate banking with our clients in our core markets. This means continuing to support our clients in Latin America, Europe, the UK and the US, both in lending as well as in transaction banking and structuring financial operations.

Emerging markets: Latin America

Latin America's results were very positive: net operating income rose 28%, thanks to a 15% increase in gross income and a 3% fall in operating costs. The growth in net operating income absorbed a big rise in provisions, and helped us to achieve a 21% rise in continued operations (all percentages are in constant dollars).

Letter from the chief executive officer

At the end of 2009, the region's economic recovery began to become clear. The upturn in the glogal industrial cycle and higher raw material prices will continue to support this growth.

Our priorities for 2010 and the following years are similar to those set in 2009: grow and keep on developing business franchises in the rest of markets.

Brazil's attributable profit was EUR 2,167 million. The integration synergies enabled us to increase gross income by 20% and cut costs by 4% (all in constant dollars) and attain an efficiency ratio of 37%.

In Mexico, both net operating income and attributable profit fell as a result of a very complicated environment. The contribution to the Group was 5% lower than in 2008.

This evolution, however, does not really reflect the Group's good positioning in the Mexican market: we have a market share of more than 10% and more than 1,000 branches in a country of 100 million people, whose GDP is slightly less than Spain's and Brazil's and a very stable economy which is now on an upturn.

Chile's profit was 6% higher in constant dollars, despite the strong pressure on spreads, reduced demand for loans and higher provisions. Our business in this country once again underscored the quality of our franchise and of our management in a complicated environment.

The Chilean economy is quickly recovering and we expect a return to normal business in the coming years.

Of note in the rest of the region was the higher contribution from our businesses in Argentina and Uruguay.

Conclusions

I believe we can be satisfied with our results in 2009. Despite the very complex environment, our attributable profit was higher than in 2008 and we continued to improve our core capital ratio.

In the last two years, we have proved the recurrence of our business model. Very few banks have been able to remain solid and stable in such different moments of the cycle.

Although the environment of low banking activity will remain, we still maintain our ambition of growth with strict control of risks. We are enhancing our capacity to generate profits in the medium and long-term. This is not immediately visible because, in the short term, they will be absorbed by higher cyclical provisions and pressure on spreads in an environment of low interest rates. These two effects on our income statement are temporary drags, however. We have been working during these complicated years to improve our capacity to generate profits.

Part of this improvement is organic. Some of the most visible examples are our increased share of new mortgages in the UK in the last two years (from around 10% to 20%) and the qualitative leap forward in corporate banking.

Another part has been through acquisitions, taking advantage of the crisis to buy businesses at very attractive prices. Some of these operations, such as the purchase of Alliance & Leicester and Sovereign, have been very visible. Others less so, and have been off the radar of the investment community. In my view, this does not make them less interesting. I am referring to smaller acquisitions, such as incorporating General Electric's business in Germany, the merger agreement with AIG Bank in Poland and the purchase of consumer credit portfolios in the US.

We are very clear about the importance of maintaining strategic and financial discipline in all of our operations. The last acquisitions of some size – more than EUR 1,000 million (Banco Real in Brazil, Alliance & Leicester and Sovereign) – were carried out with a post-synergies price-earnings ratio of less than seven in the third year after the purchase.

I believe we can be very optimistic about results in 2010 and in coming years

I believe we can be very optimistic about results in 2010 and in coming years, for the following reasons:

- The first is that the profits generated in 2009 were depressed by the impact of the economic cycle.
- The second is that we are only half way through the process of transforming many of our businesses. We have to keep on developing the business franchises and capture cost synergies in those units which are being integrated.
- The third is that we are the Western bank with the largest exposure to emerging markets, where we are going to generate strong growth in coming years.
- The fourth is I believe we can also achieve good growth in mature markets, where we are gaining share from the weakest banks.
- The fifth is that unlike many banks we do not have to change our business model, focused on retail banking and proximity to customers via 13,660 branches.
- Lastly, Grupo Santander has shown it can produce good results in very different environments, adapting its management priorities very quickly and flexibly.

Our growth potential is still not reflected in our share price. The market is not taking into account our capacity to recover our results from a cyclically low level nor the growth potential of our business in emerging markets (around 40% of the Group's total profits) and the potential to improve and execute synergies in many of the Group's units. As the market begins to recognise this potential, so it will be reflected in the Bank's share price. We will continue to strive to meet these expectations.

Alfredo Sáenz,
Chief executive officer

Corporate governance

Solid and transparent corporate governance, aligned with the interests of shareholders, has played a key role in Banco Santander successfully overcoming the global crisis

Banco Santander's corporate governance model

A balanced and committed board of directors

- Of the 19 directors, 13 are non-executive and 6 executive.

Equality of shareholders' rights

- The principle of *one share, one dividend, one vote*.
- No anti-takeover measures in the corporate By-laws.
- Informed participation of shareholders in meetings.

Maximum transparency, particularly in remunerations

A business model recognised by external institutions

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

The board of directors in 2009

- For the fourth year running, a meeting was dedicated solely to the Group's strategy.
- The board's new regulations were approved.
- The second vice-charmain CEO presented eight management reports and the third vice-chairman, who heads the risk division, presented six reports on risks.
- Business in Latin America and Brazil, Santander Consumer Finance, Sovereign and Banesto was analysed, as well as issues such as the Group's image and reputation, the marketing of products and services, sustainability, the Group's structure and offshore centres and Santander Universities.
- The executive committee and the board discussed and agreed the IPO of 16% (before the capital increase) of Banco Santander (Brazil) and the sale of Banco de Venezuela.
- The remuneration of directors remained unchanged from 2008. The annual bonus for executive directors was also kept at the same amount as in 2008.

Banco Santander's board of directors is its maximum decision-making body, except for matters reserved for the general meeting of shareholders. It is responsible, among other things, for the Group's strategy. Its functioning and activities are regulated by the Bank's internal rules and it is guided by principles of transparency, efficiency and defence of shareholders' interests. The board is closely involved in the Bank's business activity and makes an exhaustive analysis of the most relevant issues, particularly those regarding risk, with meetings dedicated solely to the Bank's strategy.

Banco Santander's board is a single body with an appropiate balance between executive and non-executive directors. It is made up of members recognised for their professional capacity, integrity and independence. Almost half of the board's members are independent directors and seven of them are or have been chairmen of Spanish or international banks.

The board held 11 meetings in 2009 and the executive committee 56, underscoring the time and dedication of directors to the Bank's corporate governance.

In the last few years the importance for companies of having strong corporate governance, meeting the highest international standards with an integral strategic outlook has been underlined. In the case of banks, this means paying particular attention to risk management.

Board of directors meeting room, Ciudad Grupo Santander, Boadilla del Monte, Madrid

The board of directors and risk management

Banco Santander's board of directors and its executive, risks and audit and compliance committees very closely monitor not only credit and market risks, but also operational and reputational risks.

The fact that 15 of the 19 directors belong to one or more of these three committees underscores the board's active involvement and commitment in assessing, approving and tracking the Group's risks.

The board is the maximum decision-making body in risk matters. The agendas of the meetings of the board and of the executive committee include a report on risk. Decisions on specific risk operations are adopted by the risk committee and the executive committee if they exceed a certain amount, in the sphere of the powers delegated by the board.

The risk committee is the key element in corporate governance of the risks function. It is chaired by the Bank's third Vice-Chairman and its members are mainly non-executive directors. As well as deciding on specific operations, this committee is also responsible for proposing to the board the Group's policy in risks and for ensuring that its actions are consistent with a previously decided risk tolerance level. The committee met 99 times during 2009, in sessions lasting around three hours.

The audit and compliance committee is responsible, among other things, for ensuring that the policies, methods and procedures in risk matters are appropriate, effectively implemented and regularly revised. It is also responsible for overseeing compliance with the Group's Code of Conduct in the Securities Market, the manuals and procedures for the prevention of money-laundering and, in general, the Bank's rules of governance and compliance. It met 11 times in 2009.

Remuneration policy: commitment to maximum transparency and alignment with shareholders' interests

The board believes that, in corporate governance, transparency is a fundamental principle and so for many years it has fostered transparency in the sphere of remuneration.

In 2002, the Bank pioneered the publication of the individual remuneration of non-executive and executive directors and broken down by items, and in 2005 it was the first to present at a general meeting of shareholders a report by the appointments and remuneration committee. Since 2007, this report has included the remuneration policy for directors of the previous and current year. In 2008, the transparency regime of directors' remuneration became a statutory obligation.

The board, following a proposal by the appointments and remuneration committee, approves the report on the remuneration policy for directors, which is then submitted to the general meeting of shareholders. This policy is in line with the recent recommendations and international regulations in this sphere, specifically regarding the involvement of the board in approving the remuneration of directors, including executive ones and the Bank's senior management, and deferment in the form of shares of a significant part of their variable remuneration for a period of three years. This is subject to meeting the goals and conditions for the evolution of certain financial variables measured against that of a reference group consisting of international banks which because of their size and business model are considered as Santander's peers. The remuneration policy for directors and senior management is based on the principle that variable remuneration does not encourage inappropriate risk taking.

Corporate governance
Board of directors

Director
Mr Luis Ángel Rojo Duque

Director
Mr Rodrigo Echenique Gordillo

Director
Lord Terence Burns

Director
Mr Abel Matutes Juan

Director
Mr Antonio Basagoiti García-Tuñón

Director
Mr Antonio Escámez Torres

Director
Mr Guillermo de la Dehesa Romero

Director
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea

Fourth vice-chairman
Mr Manuel Soto Serrano

First vice-chairman
Mr Fernando de Asúa Álvarez

● Executive committee
■ Risk committee
▲ Audit and compliance committee
● Appointments and remuneration committee
■ International committee
▲ Technology, productivity and quality committee

Director
Mr Luis Alberto Salazar-Simpson Bos
▲ ▲

General secretary and secretary of the board
Mr Ignacio Benjumea Cabeza de Vaca
● ■ ▲ ● ■ ▲

Director
Ms Isabel Tocino Biscarolasaga

Director
Mr Javier Botín-Sanz de Sautuola y O'Shea

Director
Assicurazioni Generali S.p.A. (Mr. Antoine Bernheim)

Chairman
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos
● ■ ▲

Second vice-chairman and chief executive officer
Mr Alfredo Sáenz Abad
● ■ ▲

Third vice-chairman
Mr Matías Rodríguez Inciarte
● ■

Director
Mr Francisco Luzón López
● ■

Director
Mr Juan Rodríguez Inciarte
■

The share

Santander paid a total EUR 4,919 million in dividends in 2009 and is one of the banks with the highest total shareholder return among its competitors

Performance of the Santander share

The share ended 2009 at EUR 11.55, 71.1% higher than a year earlier. This rise was much higher than the 46.9% increase in the Dow Jones Stoxx Banks, the European index for the banking sector, as well as the Ibex-35, Spain's benchmark index, which gained 29.8%.

As a result of the improved prospects for the global economy, world stock market indices picked up in 2009 from the lows reached in March. The recovery of markets, however, was selective and Santander's better performance reflected investors' confidence in the Bank based on the soundness of the Bank's balance sheet and earnings and on its unique geographic positioning.

Santander consolidated itself as the largest bank in the euro zone by market capitalisation (EUR 95,000 million) and the eighth in the world.

Shareholder return

Santander was one of the few international banks which in 2009 increased the total dividends payout (EUR 4,919 million), thanks to its good performance.

As part of this remuneration, Santander launched in 2009 the Santander Dividendo Elección. This initiative, which is a normal practice internationally, offers shareholders the possibility of opting to receive an amount equivalent to that of the second interim dividend in the form of cash or new Santander shares. The Bank thus provides a flexible remuneration policy which enables shareholders to also benefit from tax advantages. In 2009, 81% of the Bank's capital took this option in shares.

The nominal dividend per share in 2009 was EUR 0.60, 7.8% less than in 2008 because of the increase in the number of shares in circulation (+32% since September 2008).

Santander's total shareholder return was the second largest in 2009 among its peers and over the past 15 years Santander is one of the three bank leaders in this regard.

The Santander share in figures

71.1%

rise in 2009

95,043

millions of market capitalisation at the end of 2009

8º

largest bank in the world by market value and the first in the euro zone

0.60

nominal dividend per share

3.1

million shareholders

Distribution of the capital stock by type of shareholder

	Shares	(%) CS
Board	281,460,101	3.42
Institutional	5,264,898,263	63.98
Retail	2,682,467,771	32.60
Total	**8,228,826,135**	**100.00**

Annual General Meeting, June 19th 2009, Santander, Spain

Capital increase

Banco Santander carried out three capital increases in 2009: on January 30 to acquire Sovereign Bancorp, on October 13 to meet the conversion of 754 bonds and on November 2 for the Santander Dividendo Elección programme. Overall, 234,766,732 new shares were issued.

Shareholder base

During 2009 the number of shareholders increased to 3,062,633.

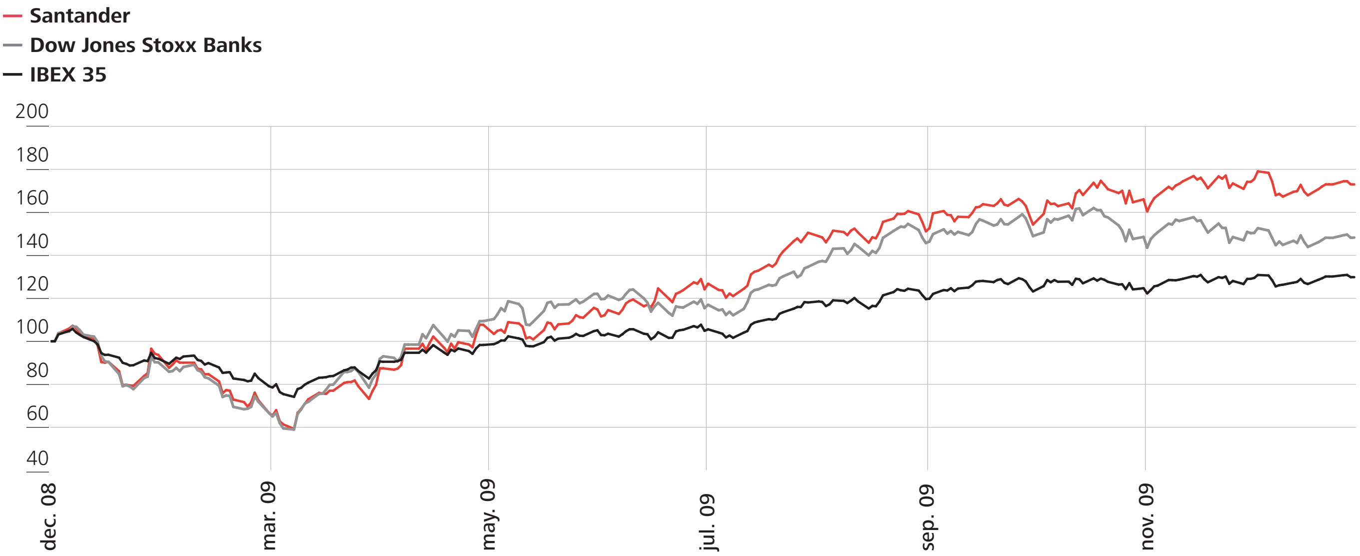
At the end of the year, 3.4% of the capital stock was in the hands of the board of directors, 32.6% with individual shareholders and rest with institutional investors.

Of the total capital stock, 84.6% is located in Europe, 15.1% in the Americas and 0.3% in the rest of the world.

The interests held by Chase Nominees Limited (12.51%), State Street Bank & Trust (9.06%), EC Nominees Limited (6.91%), Bank of New York Mellon (5.57%), Societé Générale (3.59%) and Caceis Bank (3.42%), which were the only ones in excess of 3%, were held by them for the account of their clients. The Bank is not aware of any of them holding individual stakes of 3% or more of its capital stock.

Such a large and committed shareholder base represents a considerable responsibility, which Banco Santander assumes through its dividend policy, the focus it places on tending to shareholders via various information channels and exclusive products and services the Bank makes available to its shareholders in very attractive conditions.

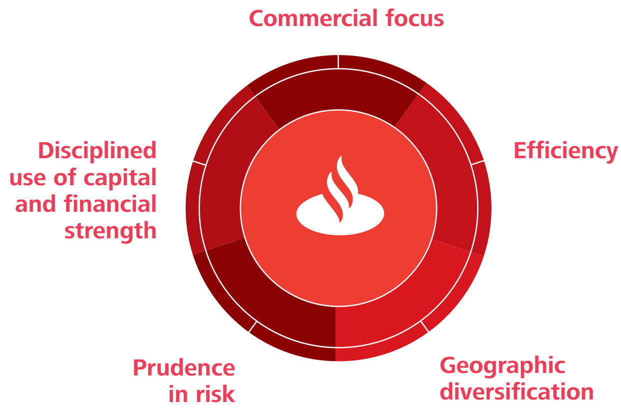
Comparative performance of the Santander share and indices
December 31 2008 = 100



Source: Thomson Datastream, January 2010.

The Santander business model

Banco Santander's customer-focused business model enables it to keep on generating recurring revenues



Commercial focus

is making the customer the focal point of all the Bank's activity

The customer is the centre of Banco Santander's business model, which in its main markets tends to individual customers, the self-employed, SMEs and large companies. This focus produces a high degree of recurrence in revenues and profits.

The most lasting relations, which create the most value, are generated and maintained in branches. The network of 13,660 branches, the largest of any international bank, enables Santander to develop the full potential of its retail banking business. The Bank also provides service through other around-the-clock channels, such as online and telephone banking.

Santander has 92 million customers throughout the world, distributed as follows: 29% in Continental Europe, 27% in the UK and 43% in the Americas. The number of linked customers in 2009 was 5% higher at more than 26 million.

Quality of service is a priority at Banco Santander, and maximum customer satisfaction its main objective. At Santander, 90.8% of retail banking customers said they were satisfied, generating greater linkage and loyalty and higher per customer revenue.

Santander has a broad range of financial products and services with which to seek to satisfy customers' needs. Also, a hallmark of the Bank, in all its markets, is its anticipation and dynamism when launching new products.

Santander's team of professionals

The 169,460 employees of Banco Santander worldwide are well trained motivated to make the customer their first priority every day.

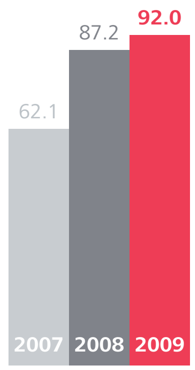
Santander's human resources strategy has four aims:

- Prepare executives and leaders to face the challenges of the future.
- Attract and retain the best talent by being the top-of-class reference employer in international banking.
- Reinforce the corporate culture and transmit strategic knowledge throughout the Group.
- Have tools and processes which facilitate human resources management.

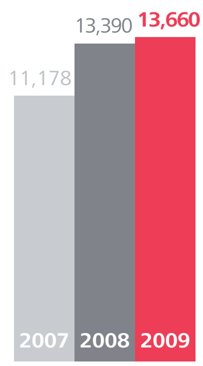
The corporate human resources model revolves around a series of policies and projects which establish common and homogeneous guidelines for the Group's employees in the sphere of external selection, segmentation, internal selection of executives, gender equality, marketing of human resources, training and knowledge, international mobility, career development, performance evaluation and remuneration.

A total of 126,875 employees in 2009 took part in training programmes (total investment of EUR 93 million).

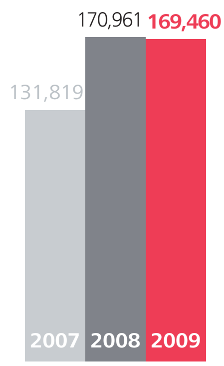
Customers
Million



Branches
Number



Employees
Number



Efficiency

is transforming cost savings into more value for customers and shareholders

Santander has a state-of-the-art technology and operations platform in international banking, which enables it to attain high productivity and know in detail and with an integral outlook customers' financial needs. The Bank strives to concentrate all its resources in customer service, improving processes and optimising the functioning of the support areas.

Santander is advancing in technology and operational integration in all its units, and this is resulting in the creation of value through synergies and cost savings. All the Bank's businesses in the UK and Brazil are expected to operate under the same brand and systems during 2010. The Bank's cumulative experience over the last years enables it to execute these integration processes quickly and efficiently.

This strategy, coupled with recurring revenue growth, a tough culture of controlling costs and high levels of productivity in branches, makes Santander one of the world's most efficient international banks. Its efficiency ratio was 41.7% at the end of 2009 (37.6%, excluding amortisation). Six of the new business units have efficiency ratios below 40%.

These continuous gains in efficiency are resulting in greater value added for customers, as shown by the decisions taken in some of the main markets where the Bank operates to eliminate commissions. More than 4 million customers in Spain linked to the "Queremos ser tu Banco" plan benefit from zero commissions and other advantages.

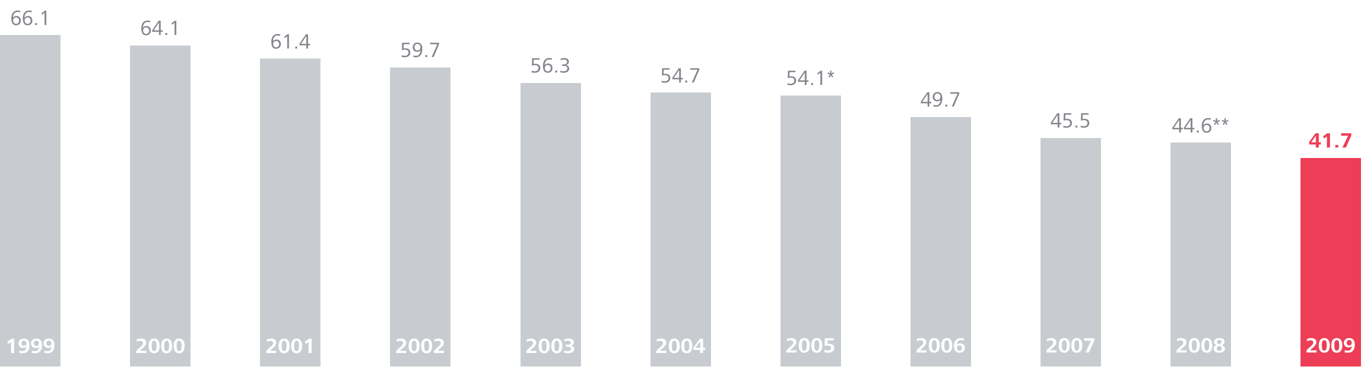
The case of Santander in the UK

The best example of the Bank's capacity to improve efficiency and convert it into value creation is provided by the experience of the businesses acquired by Santander in the UK in the last five years. Applying the business model in the UK has resulted in:

- An improvement of more than 30 p.p. in the efficiency ratio of Abbey, which went from losses in 2004 to become one of the most profitable banks in the UK in the last two years.
- Abbey's transition from a predominantly mortgage lending bank to a full service commercial bank able to offer its customers all types of financial products and services.
- Technological and operational integration, in a little more than a year after the acquisition, of the branches of Bradford & Bingley.
- The launch at the start of 2010 of the Santander Zero Current Account, with no commissions on overdrafts and free access to ATMs throughout the world for Santander UK's mortgage clients.

The Santander Group's efficiency ratio

%



(*) Integration of Abbey in the UK.
(**) Integration of Banco Real in Brazil

Geographic distribution
has given us a leadership position in nine core markets

Santander's geographic position is balanced between mature and emerging markets. This enables the Bank is to maximise revenues and profits throughout the economic cycle.

The Bank's core/main markets are: Spain, Portugal, Germany, the UK, Brazil, Mexico, Chile, Argentina and the US, organised around three geographic areas, each one with its own currency for management purposes: the euro in Continental Europe, sterling in the UK and the dollar in the Americas.

The development of global business areas also allows for the quick transfer of employees between countries and businesses, as well as of best practices, products and services.

UNITED STATES - SOVEREIGN

Customers (millions)	1.7
Branches	722
Employees	8,847
Market share[7]	3%

MEXICO

Customers (millions)	8.7
Branches	1,093
Employees	12,466
Market share[1]	15%
Ranking[1]	3°

BRAZIL

Customers (millions)	22.4
Branches	3,593
Employees	50,961
Market share[1]	10%
Ranking[1][6]	3°

CHILE

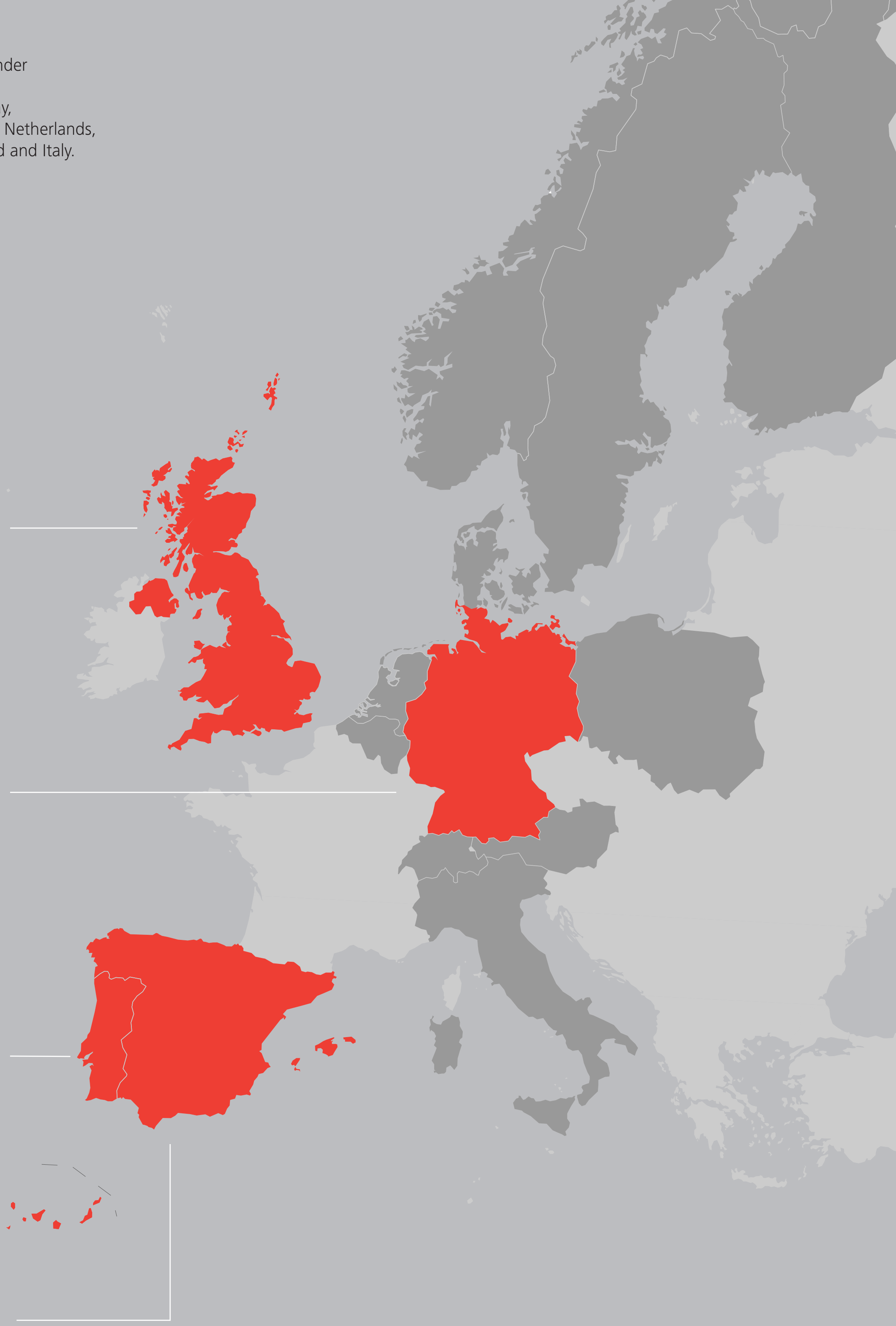
Customers (millions)	3.2
Branches	498
Employees	11,751
Market share[1]	19%
Ranking[1]	1°

ARGENTINA

Customers (millions)	2.0
Branches	298
Employees	5,780
Market share[3]	10%
Ranking[1][6]	1°

Main countries.

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



UNITED KINGDOM

Customers (millions)	25.6
Branches	1,322
Employees	22,949
Market share(1)	10%
Ranking(5)	3°

GERMANY

Customers (millions)	6.0
Branches	144
Employees	3,336
Market share(2)	15%
Ranking(4)	1°

PORTUGAL

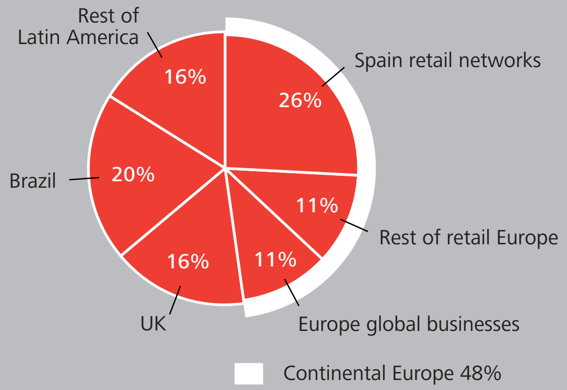
Customers (millions)	1.9
Branches	763
Employees	6,294
Market share(1)	10%
Ranking(1)(6)	4°

SPAIN

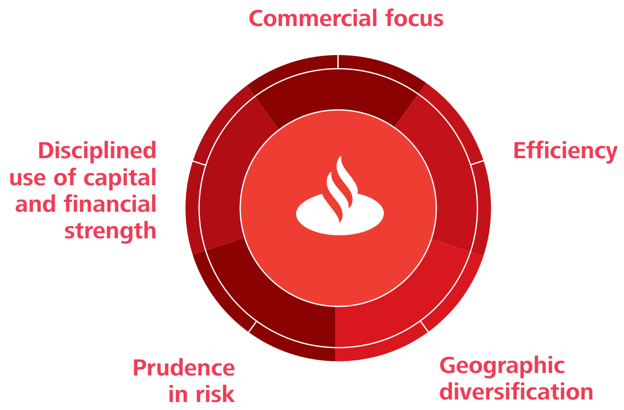
Customers (millions)	14.7
Branches	4,865
Employees	33,262
Market share(1)	16%
Ranking(1)	1°

(1) Loans, deposits and mutual funds
(2) Estimated share of auto finance
(3) Share of lending
(4) Leader in financing of durable goods and first independent finance company
(5) By deposits
(6) Excluding state banks
(7) In its area of influence

Attributable profit by geographic areas
% of total operating areas



Banco Santander's business model



Prudence in risk

is maintaining levels of non-performing loans and their coverage better than those of the banking sector as a whole in the countries where the Bank operates

Prudent risk management has been a hallmark of Banco Santander since it was founded more than 150 years ago. This focus has played a decisive role in the growth in recurrent earnings and in generating shareholder value.

Everyone is involved in risk management, from the daily transactions in branches, where many business managers also have risk objectives, to senior management, the executive committee and the board, whose risk committee comprises five members and meets for 250 hours a year.

Of note among the corporate risk management principles is that the risk function is independent of business. The head of the Group's Risk division, Matías Rodríguez Inciarte, third vice-chairman and chairman of the risk committee, reports directly to the executive committee and to the board.

In an environment of rising bad debts, Santander stands out for maintaining better credit quality than its competitors in all the countries where it operates.

Grupo Santander's non-performing loan (NPL) ratio was 3.24% and coverage 75%. In Spain, the NPL ratio was 3.41% and coverage 73%. The Group's exposure to the real estate development and construction sectors in Spain is low and, furthermore, well covered with provisions (see pages 139 and 154-159 of this annual report).

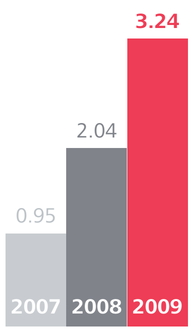
Santander has a low and predictable risk profile

Retail banking accounts for 85% of Banco Santander's risk. As it is very close to its customers, Santander knows their risk profiles well and this enables it to act rigorously and with anticipation when admitting, monitoring and recovering loans. Santander's risk profiles are highly diversified and their concentration in customers, business groups, sectors, products and countries is subject to limits.

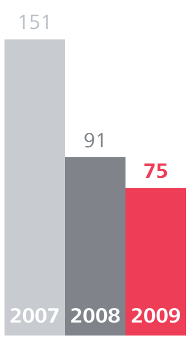
Banco Santander has the most advanced risk management models, such as use of tools for calculating ratings and internal scoring, economic capital, price-setting systems via return on risk-adjusted capital (RoRAC), use of value at risk (VaR) in market risks, and stress testing.

During 2009, the Bank reorganised in Spain the function of loan recovery as a new business unit, which led to more active management of recoveries. This new model of recoveries is being exported successfully to other markets such as Brazil, Chile and Mexico.

Non-performing loan ratio
%



Coverage ratio
%



New visitors' centre "El Faro", Grupo Santander City, Boadilla del Monte, Madrid

Disciplined use of capital and financial strength

means being one of the world's most solid banks, in both the quantity and quality of shareholders' funds

In an uncertain banking environment, Santander has increased its core capital ratio, the main indicator of a bank's solvency, to 8.6% through organic generation of capital and from the positive impact on shareholders' funds of the placement of Banco Santander (Brazil) shares. This ratio is of very high quality as it mainly consists of capital and reserves and it compares very well with that of the Bank's competitors.

Santander finances most of its loans with customer deposits, has wide access to wholesale financing and is broadly diversified in instruments and markets to obtain liquidity.

Santander applies very strict strategic and financial criteria to its new acquisitions. These have to be in countries and markets that Santander knows well and must have a positive impact on earnings per share and generate returns exceed the cost of capital, by the third year after the acquisition.

The main rating agencies held their high ratings for Santander in 2009 (AA). Santander is one of only four international banks with the AA rating from the three main agencies.

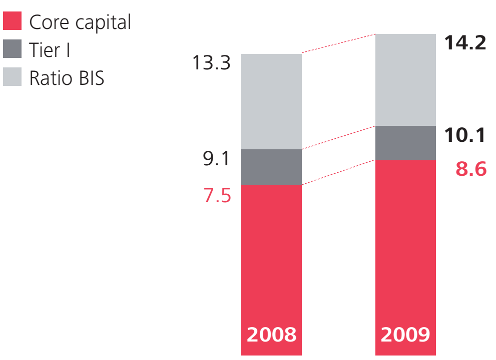
Working for a more solid financial system

Governments, regulators, supervisors, international institutions and the private sector are working to strengthen the financial system and reduce the probability of future crises.

Banco Santander's position regarding the main issues can be summarised as follows:

- Financial supervision has to be rigorous, strict, close and with the capacity to anticipate developments. The crisis has shown that the best supervised financial systems are the one that have had the least problems.
- It is important to make progress in international harmonisation of regulation in areas such as capital and liquidity in order to prevent competitive distortions, but without over regulating which could limit the flow of lending.
- The possible additional capital requirements demanded by the authorities must be linked to risk and not to the size of a bank. In the case of Grupo Santander, size is a source of synergies and enhances competition in countries.
- The big banks must have contingency plans to face crisis situations and, in the case of collapse, make an ordered disposal of their assets without generating risk for the financial system. A structure of autonomous subsidiaries in terms of liquidity and solvency, such as Grupo Santander's, facilitates management of this type of process.

Capital ratios
%



Core funding ratio*
%

(*) Core funding ratio: deposits + medium and long-term wholesale financing + capital/total assets (excluding trading derivatives)

Santander's businesses in 2009

"Without doubt, the international bank that has come through the crisis the best - and taken advantage of the opportunities that have arisen from it - is Santander"

Santander, Best Bank in the World in 2009, according to The Banker magazine

The Banker
Global Bank of the Year 2009
SANTANDER

Grupo Santander results

Grupo Santander's ordinary attributable profit of EUR 8,943 million was 0.7% higher than in 2008. Santander was the only large international bank since the onset of the financial crisis that held its profit and the amount assigned to dividends.

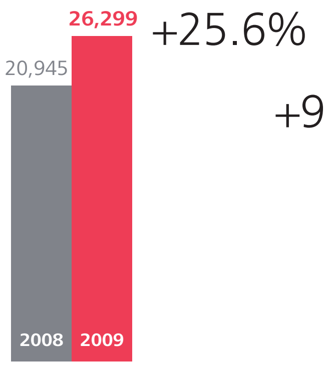
The recurrence of gross income, which grew 17.6%, and strict management of operating costs produced a further gain in the efficiency ratio to 41.7% and growth in net operating income of 23.8%.

In an environment of lower growth in banking business, Grupo Santander focused on attracting deposits (+21%) and linking customers. The good liquidity and capital position enabled the Bank to maintain normal lending, supporting and financing the profitable projects of its individual and corporate customers. Lending increased 9%.

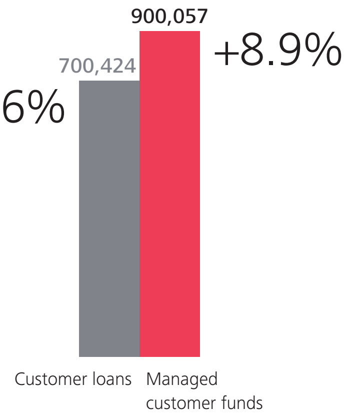
The prudent risk management that is a hallmark of Grupo Santander was reflected in 2009 in levels of non-performing loans and coverage better than the averages of the banking sector in the three geographic areas where the Bank operates. The EUR 2,587 million of capital gains obtained during 2009 were wholly assigned to strengthening the balance sheet. At the end of 2009, Santander had more than EUR 6,700 million of generic reserves.

Net interest income grew by 25.6%, thanks to appropriate management of spreads in all units.

Net interest income
Million euros

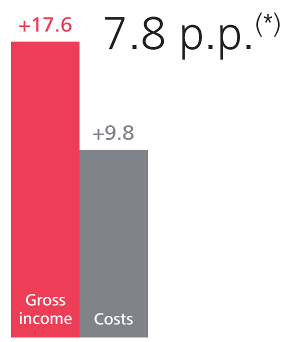


Banking activity
Million euros. December 2009



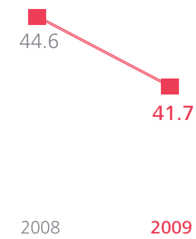
Operating costs grew 9.8% but remained flat on a like-for-like basis. Further gain in efficiency.

Gross income and costs
% change 2009 / 2008



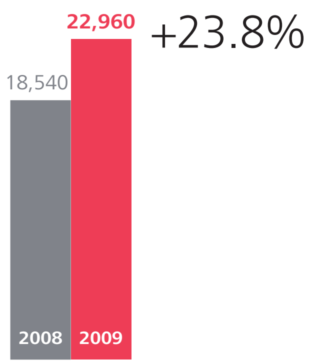
* Growth differential between gross income and costs

Efficiency ratio
%

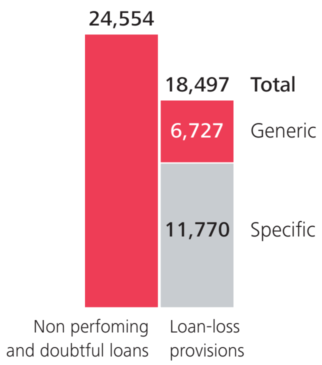


Strong net operating income and more specific and generic provisions against a backdrop of economic downturn.

Net operating income
Million euros

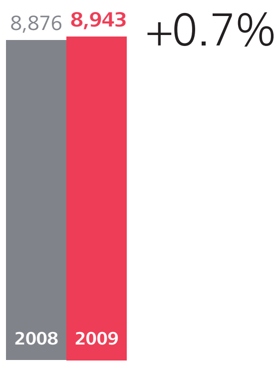


Non-performing loans and loan-loss provisions
Million euros. December 2009

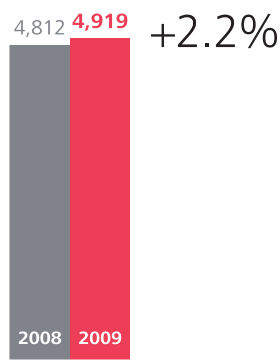


All this led to higher attributable profit and total shareholder return.

Attributable profit
Million euros



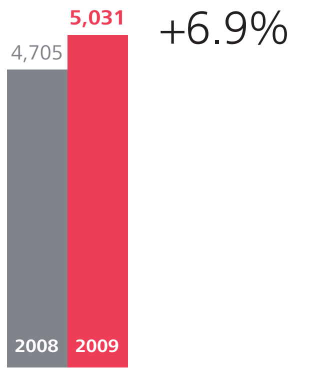
Total dividend payout
Million euros



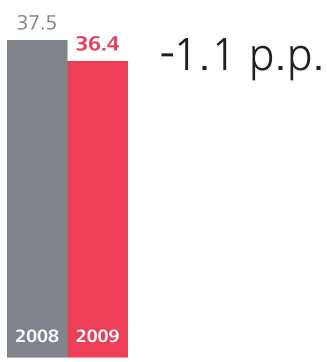
Continental Europe

Santander generated EUR 5,031 million of attributable profit in Continental Europe and strengthened its leadership in this area's main markets

Attributable profit
Million euros



Efficiency
%



Santander is Spain's retail and private banking leader and the largest bank in Portugal by profits. It is also the consumer finance leader in Germany and in other European countries. It also has wholesale businesses, asset management and insurance in Continental Europe. Both Euromoney and The Banker named Santander the best bank in 2009 in Continental Europe.

In an environment of low economic growth and a gradual recovery in the stability of financial markets, Santander's main retail banking businesses in Continental Europe remained notably strong.

The resistance of our business units to the cycle and the excellent performance of Global Wholesale Banking, spurred by customer revenues, produced very favourable growth in gross income, net operating income and profits. Particularly noteworthy was the growth of net operating income in all the business units in Continental Europe.

Overall, the growth of this area's profits was due to revenues, mainly net interest income, and control of operating costs. As a result, the efficiency ratio, including amortization, improved by 1.1 p.p. to 36.4%.

Continental Europe	Santander Branch Network	Banesto	Portugal	Santander Consumer Finance	**Total Continental Europe**
Customers (million)	8.9	2.5	1.9	13.2	**27.0**
Branches (number)	2,934	1,773	763	311	**5,871**
Employees (number)	19,064	9,727	6,294	9,362	**49,870**
Customer loans*	115,582	75,449	32,294	56,893	**322,026**
Managed customer funds*	101,596	97,848	37,068	34,304	**321,122**
Net operating income*	3,252	1,551	726	2,976	**10,312**
Attributable profit*	2,012	738	531	632	**5,031**
Efficiency (%)	39.4	39.9	42.8	28.0	**36.4**

(*) Million euros

Santander Branch Network

The business model, focused on stable and lasting relations with customers, a continuous improvement in efficiency and prudent risk management, enabled the Santander Branch Network to post an attributable profit of EUR 2,012 million (+5.5%), well above that of its competitors in Spain who, in some cases, produced lower profits.

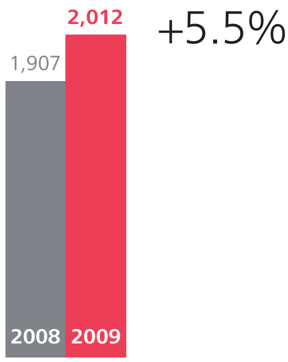
The Santander Branch Network has shown its power to attract and generate business in all spheres of activity, both lending, which is very important at this time of need by companies and individuals, as well as deposits, as household savings increased.

More than 330,000 loans were granted in 2009 for a total of over EUR 50,000 million. A large part of these loans were channelled via the programmes of the Official Credit Institute (ICO), where Santander was the leader during the whole year with a market share of more than 20% in this segment. The balance of customer funds increased 4.4%. All this, coupled with control of costs, enabled the area's contribution to the Group's net attributable profit to be 5.5% higher than in 2008, net interest income to increase 16% and the efficiency ratio to reach 39.4%.

The "We want to be your Bank" strategic plan, in its fourth year, continued to grow strongly. It attracted 500,000 new customers in 2009 and brought the total number of linked customers who pay no commissions to more than 4.2 million.

The creation of a new business unit to recover loans, within the functional sphere of Banco Santander's retail banking, played a key role in containing the volume of bad debts, as it controlled new entries and sought solutions so that customers could more comfortably satisfy their financial obligations. Banco Santander's non-performing loan ratio in Spain was only 3.41%, well below the sector's average of 5.0%.

Attributable profit
Million euros



Efficiency
%

Customers
Millions

Banesto

Banesto concentrates on retail banking with individual customers, SMEs and companies, and together they account for 84% of the bank's gross income. Its more than 2.5 million customers are tended to in 1,773 branches and through its multi channel platform.

The online bank ibanesto has more than 125,000 customers and in 2009 was the leader in capturing funds in direct banking in Spain.

Despite the very complex domestic environment, Banesto met its goals in 2009 in results, efficiency, quality of risk and capital, and improved its competitive position in Spain in this part of the cycle.

- 348,000 new individual customers and 82,000 companies and SMEs were captured.
- The degree of product linkage of individual customers continued to improve (average of 4.6 per customer). In 2009, 48% of customers had their payroll cheques paid into their accounts in Banesto.
- The non-performing loan ratio was 2.97%, almost half the average ratio of the Spanish banking sector.

Banesto contributed EUR 738 million to the Group profit, 0.8% more than in 2008, while strengthening the balance sheet (core capital ratio of 7.7%).

Rating agencies held their rating of Banesto at AA, the highest among Spanish banks.

For the second year running, Banesto was named Best Bank in Spain by the magazine Euromoney.

Portugal

Santander Totta is the leading private sector bank in Portugal by profits, the most profitable and the most efficient (ROE of 25.4% and efficiency ratio of 42.8%). It also has the highest credit rating of Portuguese banks. These solid ratios underscore the strategy of management with revenue growth, controlled costs and active management of risks and recoveries.

Its business model is customer-focused and provides the best solutions for the return on savings. The campaigns to attract funds started in 2008 were continued and new ones launched, "Super Conta Ordenado" and "Poupanca Cresce Mais."

In an environment of a sharp slowdown in lending, Santander Totta combined a selective credit policy with support for the Portuguese business sector. Lending to the business segment grew 9% and to medium-sized companies 3%.

Net interest income increased 5.7% and combined with contained costs led to attributable profit of EUR 531 million, 0.1% more than in 2008.

Santander Totta obtained the three most prestigious prizes for banking in 2009: Best Bank in Portugal from Euromoney, Bank of the Year from The Banker and "Melhor Grande Banco en Portugal" from Exame.

Headquarters of Santander Consumer Bank, Mönchengladbach, Germany.

Santander Consumer Finance contributed EUR 632 million to the Group's attributable profit in a difficult economic environment

Santander Consumer Finance

Santander Consumer Finance is the Group's division specialised in consumer finance. Its business model is based on providing customers with financial solutions via more than 137,000 distributors (auto dealerships and points of sale). Once a relation is started with a final customer, Santander Consumer Finance increases customer linkage and loyalty by directly offering them other products such as credit cards and personal loans tailored to suit their needs.

Business in 2009

Despite the global recession and its impact on consumption, attributable profit was EUR 632 million and the efficiency ratio of 28.0% compares very well with that of the market as a whole.

In Germany, Santander Consumer has 144 branches, agreements with 36,000 distributors and 6 million customers (fifth largest bank in terms of customers). The German unit made the largest contribution to the profits of Santander Consumer Finance (EUR 385 million), with a good evolution of revenues and costs.

Santander Consumer USA's attributable profit was 41.2% higher in dollars and made the second largest contribution. This was due to the drive from the commercial agreements combined with experience in costs and agility in recoveries.

Against a very complicated backdrop, Santander Consumer Spain maintained stable revenues and made a big effort to cut costs and actively manage recoveries.

The rest of European units improved their performance, particularly those in Nordic countries.

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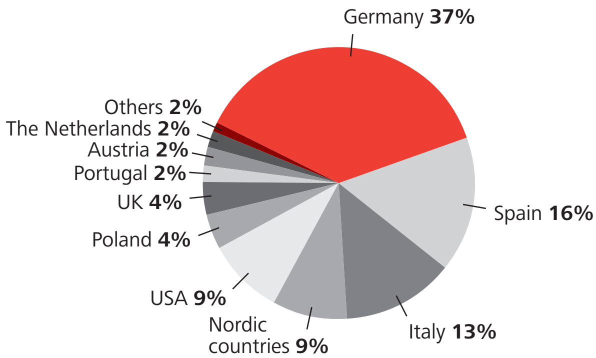
Acquisitions and global agreements

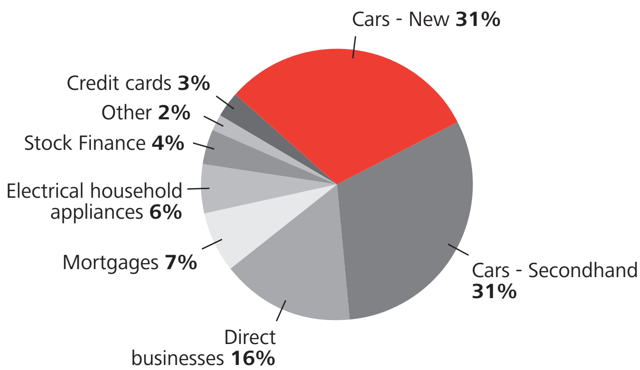
Santander Consumer Finance progressed during 2009 in integrating the units acquired from GE Money and from the Royal Bank of Scotland in Germany, Austria, Finland, the UK, Netherlands and Belgium. In July, Santander and AIG agreed to integrate their consumer finance businesses in Poland. These operations will help to achieve greater critical mass in these markets and significant synergies in integration.

In 2009, global agreements were also signed with various international car producers, aimed at boosting their sales, improving credit stock management and increasing auto finance.

Lending by countries
%



Lending by segments
%

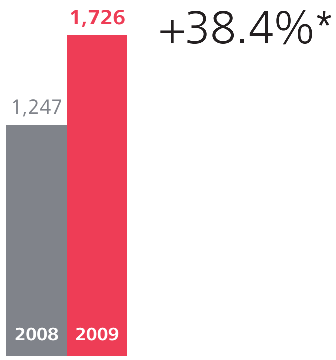


United Kingdom

Santander UK enjoyed an excellent year and made a profit of £1,536 million, progressed in integrating its business networks and was named the Best Bank in the UK by both Euromoney and The Banker

Attributable profit

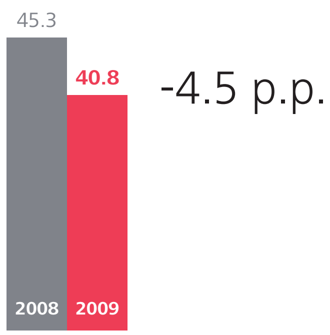
Million euros



(*) +55.1% excluding the exchange-rate impact

Efficiency ratio

%



Grupo Santander conducted its retail banking activity in the UK via three networks: Abbey, with 720 branches and part of the Group since 2004; Bradford & Bindley (325 branches) and Alliance & Leicester (277 branches). The latter two were acquired at the end of 2008. Santander is the second largest bank in the UK by mortgage lending (market share of 13%) and the third biggest by deposits (10% share).

Santander generated £1,536 million of attributable profit in the UK in 2009, 55.1% more than in 2008 (+38.4% in euros). Bradford & Bingley and Alliance & Leicester made a positive contribution to these results (£280 million). Excluding the new incorporations and so on a like-for-like basis, Santander's attributable profit in the UK continued to show a very solid evolution (+27%).

The good evolution of results in the UK was based on revenue growth much higher than that of the market, strict control of costs, exploiting the advantages derived from the integration of businesses and a prudent lending policy. All of this is reflected in the efficiency ratio, which improved by 4.5 p.p. to 40.8%, and the non-performing loan ratio of 1.71%. Both ratios compare very well with the sector's averages.

United Kigndom

Customers (million)	25.6
Branches (number)	1,322
Employees (number)	22,949
Customer loans*	227,713
Managed customer funds*	244,731
Net operating income*	3,231
Attributable profit*	1,726
Efficiency (%)	40.8

* Million euros

Headquarters of Santander UK, Triton Square, London

Business dynamism

The good revenue growth in the UK is the result of excellent management of spreads and the strength of all the Group's businesses.

Santander's strong capital and comfortable liquidity position enable a notable pace of lending to be maintained, in spite of the UK's difficult economic situation. Customer lending increased 4% to £89,900 million.

The market share in gross mortgages during 2009 was 19%, well above Santander's share in the stock of mortgages of the whole system (13%).

In lending to companies and SMEs (+16%), which was in line with the objective of increasing the business base, Santander is investing in business development and expanding the product range.

In customer funds, Santander attained its goal set at the beginning of the year of opening more than one million current accounts during 2009. The number grew 26%.

Retail deposits increased 12% and total investment products 24% (-13% in the market as a whole).

Integration of businesses in the UK

Santander announced in 2009 that all its businesses in the UK would change their brand name during 2010. In January 2010, the branches of Abbey and of Bradford & Bingley were the first to change their name and Alliance & Leicester will follow suit in the second half of the year.

The speed at which the Partenón technology and corporate operations platform is being integrated into the banks acquired is vital for being able to change the brand name. The integration of Bradford & Bingley's savings accounts into Partenón was done in the record time of a year.

Within the framework of the integration and change of brand of Santander's businesses in the UK, the Bank announced the launch of the Santander Zero Current Account. This product marks the beginning of the new strategy in the UK based on increasing the value added and loyalty of customers. The account pays interest of 6% on balances up to £2,500 and there are no overdraft charges in the account or charges on cash withdrawals from Santander? ATMs anywhere in the world. This account is available to the mortgage customers of Abbey, Bradford & Bingley and Alliance & Leicester as the branches adopt the Santander brand.

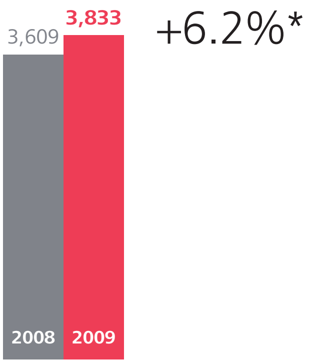
Santander, Best Bank in the UK

The Banker magazine named Banco Santander its bank of the year in the UK for 2009 as "Abbey's impressive 20% increase in net profits in 2008 was followed by even more staggering results for the first three quarters of this year." And, for the second year running, the magazine Euromoney also named Santander the best bank in the UK for "standing on its own feet throughout the financial crisis, while many of its large European rivals announced big losses and cutbacks and had to be propped up with state injections of capital and other support."

Latin America

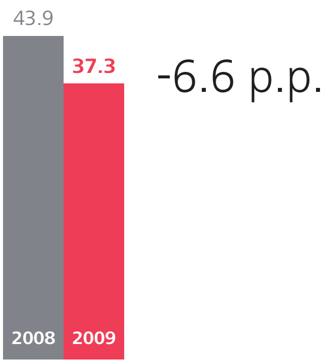
Santander posted an attributable profit of $5,331 million (EUR 3,833 million) and consolidated itself as the leading financing franchise in Latin America

Attributable profit
Million euros



(*) +11.4% excluding the exchange-rate impact

Efficiency
%



Latin America is a priority in the Group's global strategy. The region, where Santander has a 10% market share, generates one-third of the Group's attributable profit.

Banco Santander continues to contribute to the region's "bankarisation," with its customer base of more than 37 million and market shares in lending and savings of 11.5% and 9.5%, respectively.

In 2009, Santander fostered the loyalty of its customer base and optimum management of spreads, while paying particular attention to risk assets and their relation to capital.

Progress continued to be made in fine-tuning the strategy for Latin America defined in the "Programa América 20.10" and adapting it to the new economic environment. The focus was placed on a selective and moderate increase in lending, growth in deposits, linkage of customers and strict control of spending and investments. Meanwhile, the business franchise and recurring revenues continued to be strengthened.

Latin America	Brazil	Mexico	Chile	Argentina	Uruguay	Colombia	Pto. Rico	Peru	Total Latin America
Customers (million)	22.4	8.7	3.2	2.0	0.3	0.4	0.5	0.1	**37.7**
Branches (number)	3,593	1,093	498	298	42	77	130	1	**5,745**
Employees (number)	50,961	12,466	11,751	5,780	815	1,330	1,809	33	**85,974**
Customer loans*	53,924	11,489	19,379	2,754	778	1,507	3,888	249	**97,901**
Managed customer funds*	105,667	24,585	23,948	4,000	2,047	2,167	8,218	196	**184,181**
Net operating income*	7,376	1,542	1,196	417	66	67	166	9	**11,071**
Attributable profit*	2,167	495	563	226	51	33	33	4	**3,833**
Efficiency (%)	37.0	34.2	33.2	41.4	54.0	57.8	50.4	40.6	**37.3**

* Million euros

Grupo Santander Brazil obtained attributable profit of EUR 2,167 million. It is the country's third largest private sector bank, with a market share of 10%, 3,593 branches, 18,132 ATMs and 22 million customers

Brazil

The Brazilian economy successfully overcame 2009, the worst year of the global financial crisis, with a slight recession in just two quarters but positive growth for the year as a whole. Buoyant domestic demand offset the decline in external demand. In 2010, domestic demand is expected to remain strong and investment to play a greater role. This, coupled with a better international picture, should enable the Brazilian economy to expand by close to 5%.

In this environment, overall lending by Grupo Santander Brazil (the sum of Santander Brazil and Banco Real) dropped 5%, but that to individuals through the branches grew 11% (credit cards, +21% and mortgages, +31%). Deposits and mutual funds increased 1%.

This activity resulted in growth in local currency of 20.2% in gross income, particularly due to the good performance of net interest income.

The synergies derived from integration produced a significant cut in costs of 3.7% in local currency, which combined with the growth in gross income improved the efficiency ratio by 9.2 p.p. to 37.0%.

Attributable profit rose 27.1% in local currency. Santander Brazil contributed 20% of the Group's total attributable profit.

October 7, 2009, Wall Street, New York, US

New headquarters of Grupo Santander Brazil in Sao Paulo

Capital increase

Banco Santander Brazil carried out a EUR 5,092 million capital increase with a new share offer in October. These new shares began to be traded on the New York and Sao Paulo stock exchanges on October 7. The Lex column of the Financial Times called it the "operation of the year in the international financial system."

After the capital increase, Banco Santander Brazil's free float was 16.4% and its market capitalisation of more than EUR 36,000 million at the end of 2009 put it among the 30 largest banks in the world on this basis.

This operation reaffirmed the Group's commitment to the Brazilian economy, its financial system and, in particular, the high potential of the franchise from the integration of Santander Brazil and Banco Real.

Strategic plan and integration

The capital increase was part of Santander's strategic plan for Brazil for the next few years. The proceeds will be used to finance the bank's growth in the country, improve its financing structure and strengthen its capital.

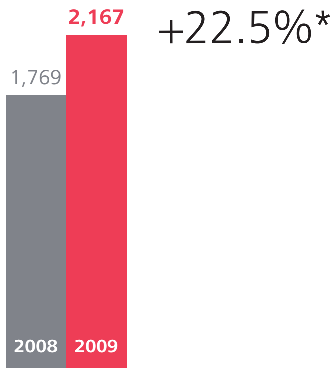
The objective of increasing its market share will require significant investment in installed capacity such as the opening of 600 new branches. Furthermore, the bank aims to win a greater share of business with SMEs, boost cross-selling of products and step up penetration in insurance and cards. Banco Real will begin to adopt the Santander brand during 2010.

The integration process, begun at the end of 2008, is proceeding as scheduled. Unification of the support areas and of global and specialist businesses was completed during 2009, except in some activities still underway. The legal merger and unification of employees was also carried out and there are now common, basic operations that the customers of both banks can access in any branch, ATM or call centre.

Programmes with common benefits and products were also launched for the customers of both networks. Of note are Santander Master and Realmaster which combine two of the most successful features for customers of Santander and Real in overdrafts: the 10 interest-free days a month of Banco Real and the possibility of postponing half the monthly interest payments of Santander.

Attributable profit

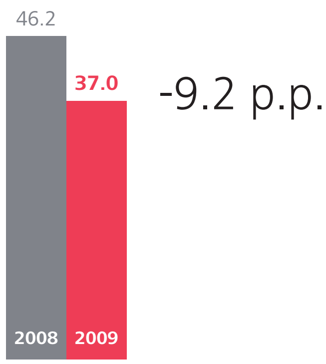
Million euros



(*) +27,1% excluding the exchange-rate impact

Efficiency

%



Customers

Millions

Santander's contact centre in Querétaro, Mexico

Mexico

Santander Mexico is the country's third largest financial group, with a market share of 13.4% in loans and 15.5% in bank savings. Attributable profit was $688 million.

Against a backdrop of recession, the bank's strategy focused on growth in deposits and stabilisation of card business, strengthening and increasing business with high income customers, SMEs and companies and developing new customer niches, particularly in private institutions. At the same time, investments and costs have been strictly controlled, productivity of teams enhanced and the business franchise consolidated.

In 2009, Santander opened a new contact centre in Querétaro at a cost of EUR 261 million and the creation of 6,000 jobs. This centre will provide services to Santander's customers in Mexico and in other Latin American countries. It is equipped with state-of-the-art technology and can manage 95,000 calls and 340,000 banking transactions an hour.

Chile

Santander Chile is the leading financial group by number of customers, business volumes and profits. Its market shares ate 19.9% in loans and 18.5% in deposits and mutual funds. Attributable profit was $783 million and the efficiency ratio improved to 33.2%.

Santander Chile continued to concentrate on strengthening customer linkage through all channels and paid particular attention to the high income segment, growth in banking business, optimum management of spreads in all activities and segments and increasing the solid base of customer funds. A big effort is also being made to manage non-performing loans through the creation of new units to recover loans and boost the productivity of teams.

Argentina

Santander Río is a leading franchise with a market share of around 10% in loans and bank savings. Net interest income, gross and net operating income and attributable profit ($315 million) all grew.

The Group's strategy in 2010 focuses on customer linkage via transactions and selective growth in low-risk assets.

Other countries

In Uruguay, after the integration of the assets of ABN-Amro, the Group's market shares were 17.0% in loans and 17.4% in deposits and mutual funds, with 42 branches. This made Santander the leading private sector bank by business size and branches. The strategy centred on exploiting the synergies of the ABN/Santander merger, the drive in retail business and growth in activity with companies.

The market shares in Colombia were 2.9% in both loans and deposits. The Group concentrated on credit risk management and selective growth in loans, while maintaining appropiate levels of liquidity. Of note among the objectives was the drive in transaction businesses and containment of costs.

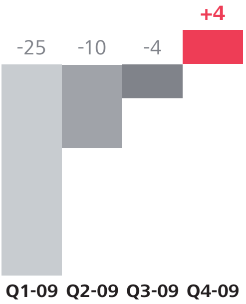
In Puerto Rico, the Bank is one of the three largest by loans, deposits and mutual funds. The Group continued to strengthen selective growth in business with individual and corporate customers, as well as recovery management of loans in default.

Activity in Peru centres on companies and tending to the Group's global clients.

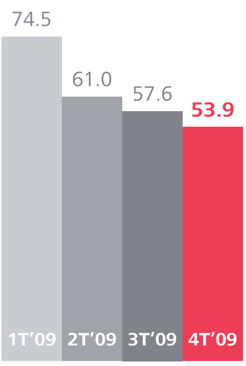
United States

With the acquisition of Sovereign, Santander entered retail banking in the US

Attributable profit
Million dollars



Efficiency
%



United States - Sovereign

Customers (million)	1.7
Branches (number)	722
Employees (number)	8,847
Customer loans*	34,605
Managed customer funds*	44,581
Net operating income*	582
Attributable profit*	(25)
Efficiency (%)	60.2

* Million euros

Sovereign has 722 branches, 2,359 ATMs and close to $100 billion of customer loans and deposits.

Banco Santander's investment in Sovereign goes back to 2006 when the Bank acquired a 25% stake. In January 2009, after being invited by Sovereign's Board to make an offer, Banco Santander acquired the 75.65% it did not own. The transaction was done through an exchange of shares via a capital increase, which had won the support of Banco Santander's shareholders at an extraordinary meeting.

Sovereign's business model, focused on retail customers and small firms, fits very well with Santander's retail banking model, and offers a notable profit growth potential for the coming years, both through business as well as cost synergies. Sovereign's integration into the Group also enhances Santander's geographic diversification.

Sovereign concentrates on the north east of the US, one of the country's most attractive areas, with six of the 26 largest US cities. The Bank has a significant presence in the states of New York, Massachusetts, Pennsylvania, Rhode Island, New Hampshire, Connecticut, New Jersey and Maryland.

Sovereign's integration into Grupo Santander

As part of Grupo Santander, Sovereign is able to offer customers a wide range of products and services. Santander is working on developing a franchise of modern customers, with appropriate segmentation and a range of products tailored to satisfy their financial needs, combined with the highest standards in risk and a solid balance sheet which in the future enables strong business growth and the best quality service.

The risk and costs areas made great progress, laying the foundations for the next stages of development. The risk teams already work under the corporate model, and in costs the Bank surpassed the goals set for 2009.

The business strategy focused on improving the management of spreads in new and renewed loans. The emphasis is on attractive segments of individual and corporate customers and on reducing loan risk in non-core segments and businesses.

On the funding side, prices were adjusted and brought into line with benchmark market rates, particularly in higher cost products. This improved the Bank's financing cost.

Balance sheet and income statement

Sovereign conducted its business during most of 2009 in a recession which had a significant impact on the US financial sector as
a whole.

Gross income, since consolidation in the Group in February 2009, was $2,034 million and net operating income $810 million. The efficiency ratio improved from 74.5% in the first quarter to 53.9% in the fourth, but still far from the Group's average (41.7%).

The effort made to boost revenues, particularly net interest income, as well as cut costs and control provisions is reflected in the favourable evolution of quarterly results (profit in the fourth quarter).

The Group expects Sovereign to generate a net profit of $750 million in 2011.

Business activity

Retail deposits increased 15%, while non-core lending and higher cost funds declined.

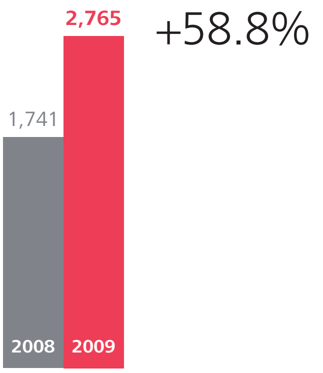
Of note was the launch of Sovereign's first product since forming part of Grupo Santander. Save and Invest CD captured $593 million from individual customers. Sovereign took advantage of the offer period to promote the sale of other banking products.

Sovereign already operates under the Sovereign-Santander brand and will switch to just Santander when the integration process is complete.

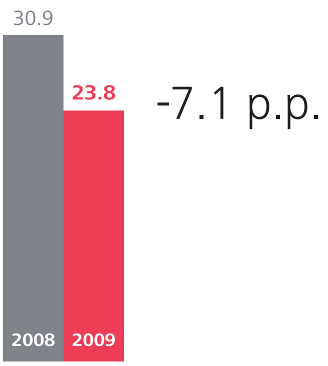
Global businesses

Santander has global businesses which operate in an integrated way with local retail franchises

Attributable profit
Million dollars



Efficiency
%



Global Wholesale Banking	Million euros
Customer loans	62,808
Customer deposits	52,211
Net operating income	3,850
Attributable profit	2,765
Efficiency (%)	23.8

Global Wholesale Banking

Santander Global Banking & Markets provides products and services to satisfy the financial needs of large corporations and institutional investors in 17 countries. It has local and global teams (2,515 employees) who are very knowledgeable about markets. Tailored solutions cover all the financing, investment and hedging needs.

Business is structured around six areas:

1. **Global transaction banking** embraces cash management and traded finance and supplies basic financing services to institutions and corporations with an international presence.
2. **Corporate finance** integrates coverage/hedging at the global level of financial institutions and large corporations, as well as M&A and asset and capital structuring teams.
3. **Credit markets groups** origination and distribution units for all structured credit and debt products.
4. **Rates** covers all trading activities in financial markets involving interest rates and exchange rates.
5. **Global equities** involves all businesses related to the equity markets.
6. **Proprietary trading** manages the Group's short and long-term positions in various fixed-income and equity markets.

Treasury room, Grupo Santander City, Boadilla del Monte, Madrid

Business in 2009

The good performance of Santander Global Banking & Markets was supported by a business model focused on the customer, global reach and connection with local units, and strict control of costs and risks. Equally important was the strength of the Group's capital and liquidity which, rigorously controlled, enables it to maintain the capacity to finance new operations and take over the space left by other competitors.

The strategy in 2009 was adjusted to the new environment and centred on financial prudence, management of customer spreads and of costs which, combined with the customer focus, produced better results than those of its main competitors. Attributable profit increased 58.8% to EUR 2,765 million (26% of the Group's total operating areas).

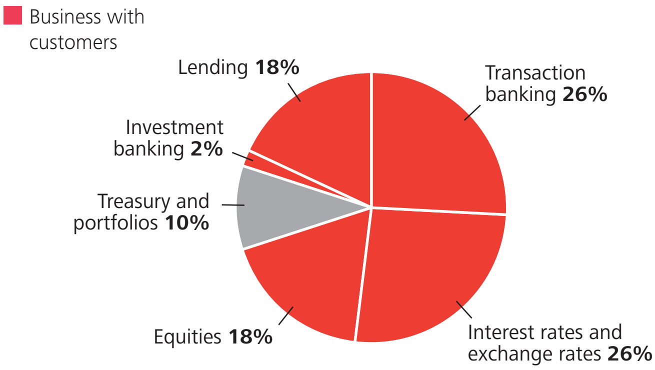
The Global Relationship Model, which unifies management of global corporations and institutions, continued to be deepened in 2009. Having a customer-focused business model reduces dependence on markets which tend to have wholesale banking activities.

Customer revenues grew 23% in 2009, due to the improvements in the global management capacities of products and businesses and distribution of certain products by the Group.

Large operations in 2009

Santander participated in significant corporate transactions, tending to the needs of its clients in Europe and Latin America. Of note were the advisory services for Gas Natural in its takeover of Unión Fenosa; Enel's acquisition of Acciona's 25% stake in Endesa for EUR 8,000 million; Pfizer's purchase of Wyeth ($68,000 million); Porsche's credit line of EUR 10,000 million and participation as book runner in the bond issues of Roche, Imperial Tobacco and Petrobrás.

Gross income
% of the total



Santander Private Banking's branch in via Seratu 28, Milan

Asset Management

Santander Asset Management covers Grupo Santander's asset management activities and offers a broad range of savings and investment products to meet needs of clients, distributed globally by all the Group's networks.

Its activity revolves around three business areas:

- Santander Asset Management for mutual and pension funds, investment companies and discretional portfolios.
- Santander Real Estate, which manages investment products.
- Santander Private Equity for venture capital.

There were two different periods in 2009; in the first four months the risk aversion and liquidity preference trends of 2008 were maintained. As of April (depending in each country), there was some recovery in financial markets and in subscriptions to mutual funds. The volume of managed funds ended 2009 almost 15% higher.

Activity centred on improving the quality of products and on a broad offer of value added products for customers.

Global Private Banking

Global Private Banking division includes companies specialised in financial advice and wealth management for high income clients.

In Europe:

- Banif, in Spain.
- Santander Private Banking in Switzerland and Italy, Santander Totta Private Banking in Portugal, Cater Allen, Abbey Sharedealing and Abbey International in the UK.

In the Americas:

- Santander Private Banking in the US, Brazil, Chile, Mexico and Uruguay.
- Allfunds is the specialised bank for investment funds for banks that adopt the strategy of open architecture and multi brand distribution.

Global Private Banking continued in 2009 its strategy of exporting tools to develop its global service and high value added model, together with identifying global synergies.
This enabled:

- The policies for selecting and creating products at the global level to be aligned, and implementation and adjustment at the local level.
- The teams of Santander Private Banking and Banco Real to be successfully integrated in a single entity in Brazil.
- Management teams at the local level to be installed in units lacking them.
- All the risks of clients' portfolios to be more controlled.

Asset management	Million euros
Managed assets	116,526
Gross income	276
Attributable profit	54
Efficiency (%)	54.0

Global Private Banking	Million euros
Managed assets	96,873
Gross income	842
Attributable profit	330
Efficiency (%)	46.6

Insurance

Santander Insurance focuses on risk coverage and savings insurance for individuals and households. Its strategy is based on a global business model that fosters development of innovative products that are then distributed via networks in the countries where the Group operates and its own distribution channels.

Its business model combines exploiting synergies and the best practices that come from its global positioning, with specialised management in each country. It is a low-risk business due to its geographic diversification and to its retail nature.

The total contribution to the Group's revenue (gross income plus the fee income from the various networks) was EUR 2,422 million (+4%).

In 2009, Santander Insurance developed and increased its range of products, anticipating the needs of customers and commercial networks, with achievements in all markets:

- In Spain, leadership, already consolidated, in life insurance business and strong drive in quality of service and distribution processes.
- In Latin America, integration of insurance business in Brazil and development of savings products in Mexico and Chile.
- Consolidation of insurance business in the UK with the integration of Abbey, Alliance & Leicester, Bradford & Bingley and GE Money.
- Santander's bancassurance model introduced in Sovereign.
- In European consumer finance business, strong drive to sell insurance in Germany.

Means of Payment

Santander Cards globally manages means of payment. It is both the issuer of credit and debit cards as well as the supplier of point-of-sale terminals for shops. It contributes a specialised view of this business which is well integrated into the Group's retail banks. The division manages 75,3 million cards.

Its business model combines business and risk outlook, from admission to management and the recovery of cards.

The focus in 2009 was on:

- Consolidating the integration of Banco Real in Brazil, launching for it innovative products such as the Flex card.
- Creating the business model in the UK, strengthening the capturing of customers in the branches of Abbey, Alliance & Leicester and Bradford & Bingley, and launching the Santander Zero card for customers of Alliance & Leicester.
- Progress in integrating the cards business acquired from General Electric Money.
- Launching in Spain the Plus card which gives its customers a 5% discount on their purchases.

Insurance business	Million euros
Number of policies (million)	30
Total revenues for the Group	2,422
Gross income	729
Attributable profit	350

Santander Cards*	Million euros
Total number of credit cards (million)	24.8
Total number of debit cards (million)	50.5
Lending	10,983
Gross income	3,241

* Santander Cards data perimeter (total Group excluding Banesto and Santander Consumer Finance)

The brand

Santander, a strong and attractive brand positioned among the world's leading financial brands

Santander is the overarching brand which centralises the Group's identity and expresses a corporate culture, an international positioning and a strong identity throught out the the world. It represents the essence, personality and values that make Santander unique: dynamism, strength, innovation, leadership, a focus on business and professional ethics.

Management of the brand is consistent throughout the Group and continues to work for a single positioning in all markets where the Bank is present with a long-term outlook. This strategic management has generated substantial results. Today, the Santander brand is a leader, strong and attractive, among the world's 100 best brands.

The Santander brand means commitment to all of its stakeholders: customers, shareholders, employees and society. It comprises three elements: the flame, the colour red and the name, Santander.

Santander

The Bank's symbol evokes the "S" of Santander, an "S" in movement which is transformed into a flame and transmits light, leadership and colour. The base sustains the flame and gives it stability and solidity. The colour red represents leadership, strength, energy, determination and passion. The name represents the Bank's origin and trajectory.

"The value of ideas" is the slogan that always accompanies the Santander brand: it sums up the philosophy and way the Bank sees things.

Image and brand plan 2006-2009

- The image and brand plan, whose main objective was to consolidate the Bank as one of the world's top 10 financial brands, was completed in 2009. Today, Santander is among the top three financial brands, according to Brand Finance.
- In 2009, significant steps were taken to install the Santander brand in the banks most recently acquired by Banco Santander in key markets.

  In the UK, more than 1,000 branches of Abbey and Bradford & Bingley were already displaying the Santander image in January 2010, and they will be followed by the 254 branches of Alliance & Leicester. Studies show that awareness of the Santander brand in the UK has increased eightfold in the last three years and, today, the UK market recognises Santander as a reference in the banking sector.

  In Brazil, after Banco Real's incorporation to the Group, considerable integration efforts are being made in corporate culture, technology and operations and business, which will end with the installation of the Santander brand in all the Group's branches in the country in 2010.

  In the United States, after the acquisition of Sovereign, both brands exist side by side with the message, "A Bright Union."

- Corporate sponsorship continues to be an ideal platform for fostering business via the launch of commercial promotions for customers and non-customers and of products linked to these sponsorships, for the unification of the Bank's global image and its international positioning. The maximum optimisation has been achieved, exploiting all its advantages and activating all the tools they offer, in order to strengthen the Bank's relations with customers, shareholders and employees.
- Santander completed its third year of sponsoring the Vodafone McLaren Mercedes team and its second year of sponsoring the Santander Libertadores Cup. In 2009, the return on the sponsorships continued to be very high (EUR 4 for every euro invested).

  Sponsorship of the Formula 1 team has enhanced Santander's renown in key markets such as the UK, Brazil and Germany, and strengthened the Bank's leadership and strength. Sponsorship of the Copa Santander Libertadores has consolidated Santander's image in Latin America and positioned it as a leading bank.

  Following the good results of the corporate sponsorships in the last three years, Santander decided to take another step and sign a five-year alliance with Ferrari, the globally most recognised sports team brand and Formula 1 leader. According to studies by international consultancy firms, Ferrari is the most attractive brand for linking promotions and financial products. Moreover, Formula 1 has more than 51 million loyal fans in Brazil, 26 million in Germany, 20 million in the UK and 13 million in Spain.

Management of corporate marketing

Santander has a corporate marketing management model which guarantees that all the Group's marketing activities are consistent and generate value. This model is backed by the strategic committee of corporate marketing and brand, chaired by Banco Santander's chief executive officer. This committee analyses the coherence of the Bank's strategy and the positioning of marketing at the global level. The sourcing and publicity committees aim to take advantage of the Bank's synergies to help build the brand and ensure the best ordering of spending on marketing with the Bank's budgetary priorities.

Corporate social responsibility

Santander strengthens its corporate social responsibility strategy in a difficult economic enviroment

In a complicated environment like today's, corporate social responsibility is more important than ever to contribute to sustainable development based on a lasting and stable relation with stakeholders.

During 2009, the Bank took important steps in the sphere of corporate social responsibility, all of which helped to create value for the various stakeholders:

- **Customers:** conscious that business sustainability is directly related to customer confidence, the Bank pays the maximum attention to offering the best products and the highest quality of service.
- **Shareholders:** Banco Santander's large shareholder base is an enormous strength as it entails a great responsibility. Santander is the only big international bank that was able to maintain its earnings and dividends since the onset of the financial crisis.
- **Employees:** Santander supports its employees with programmes that enable them to grow not only professionally but also personally.
- **Suppliers:** stable relations with suppliers enable the Bank to ensure the best quality and availability of their products and services.
- **Society:** the main instrument of Banco Santander's support of society is Santander Universities. In addition, the Bank also participates in many initiatives for the benefit of society in the countries where it operates.
- **The environment:** Santander has assumed the commitment to develop its banking activity while conserving the environment.

The Sustainability Report provides information on the full scope of Banco Santander's corporate social responsibility www.santander.com.

Banco Santander has a unique and long-term strategic alliance with universities throughout the world

Santander Universities global division

The Santander Universities global division, with a team of professionals in 20 countries, coordinates and manages Banco Santander's commitment to higher education.

Banco Santander, in its support for universities, foments projects to improve education, internationalisation, innovation and the transfer of knowledge to society.

Of note among its activities are:

- Integral co-operation agreements, which have enabled 3,340 academic, financial and technology projects to be developed with universities, such as programmes of scholarships, teaching and research projects, fostering the use of new technologies in university campuses and encouraging relations between the academic and business worlds.
- Support for international co-operation programmes between universities, such as programmes for national and international travel of students and teachers and those which promote the Latin American Knowledge Web, strengthen the relation between students and teachers in Asia, Europe and the US and enable university students and researchers to exchange experiences.
- Fomenting co-operation with international academic networks, such as the Latin American University Network for the Incubation of Companies (Red Emprendia).
- Supporting global projects, such as Universia, the largest online network of university co-operation in the Spanish and Portuguese-speaking world, and the Miguel de Cervantes Virtual Library, the portal with the largest digitalisation of Hispanic culture and which in 2009 celebrates its 10th anniversary.

Santander Universities in figures

833

co-operation agreements with universities in 20 countries on 4 continents

3,959,000

intelligent university cards in 201 universities

1,169

universities grouped in Universia

14,456

scholarships and aid for study granted in 2009

176,985

new employees via Universia


Delivery of international scholarships at the University of Salamanca, Spain

Santander Universities in 2009

The main developments in 2009 were:

- International expansion with the signing of 21 new co-operation agreements in Russia, China, the UK and the UK.
- Consolidation of the innovation and entrepreneurial culture prizes in Brazil, Colombia, Argentina, Mexico and Chile. More than 4,000 projects from 350 universities were presented for the prizes in 2009.
- The launch of the programmes to learn Spanish in Brazil, the US, China and Russia.
- The expansion of Universia to new countries so that the whole of Latin America is covered.
- Santander Universities granted 14,456 scholarships and aid for study, of which 6,840 were travel scholarships and 3,973 access, research and teaching specialisation.
- The celebration of the 10th anniversary of the Miguel de Cervantes Virtual Library.

Santander Universities will organise in 2010 the second meeting of Universia rectors in Guadalajara, Mexico, which, with the participation of more than 1,000 universities, will give a decisive push to the Latin American Knowledge Web. The theme of this meeting will be "For a socially responsible Latin American Knowledge space."

Moreover, the division will maintain and widen in 2010 the aid for university projects in countries where Santander operates; improve the attention and quality of service given to students, and launch new programmes of scholarships to prevent dropping out from university, foment the international travel of young people with doctorates and researchers and strengthen the exchange of students between Asia and Latin America.

International presence of Santander Universities

833 agreements

Argentina 59
Brazil 325
Chile 56
China 5
Colombia 44
Spain 89
USA 8
Mexico 135
Portugal 43
UK 42
Puerto Rico 5
Russia 10
Uruguay 12

Thousand year-old olive trees in Ciudad Grupo Santander, Boadilla del Monte, Madrid

Social actions

Banco Santander assumed many years ago the commitment to contribute to the cultural, social and educational development of the societies in which it operates. The Bank co-operates closely with various NGOs and non-profit making institutions via activities that aim to cover the basic needs of the least favoured collectives.

In 2009, against a backdrop of global crisis, Santander not only maintained but reinforced its co-operation through local projects adapted to the social and economic circumstances of each country where the Bank operates.

Meanwhile, in 2009, we strengthened the participation of employees in various solidarity initiatives, as it believes that not only is this the best way to foment solidarity among the Group's employees, but also it is a way to increase motivation, the team spirit and the pride in belonging to Santander.

Some of these projects were very successful, such as convoking social projects in Spain, the Community Days programme in the UK and the School Project in Brazil.

The environment

Santander promotes measures to protect, conserve and recover the environment. It has a recently revised social and environmental policy, which can be consulted on corporate website. In addition, the Bank has specific policies that set out the criteria for activities related to the defence, energy, water and forestry sectors.

The Bank's activities in the sphere of protecting the environment revolve around two large areas:

- **Actions to minimise direct impact on the environment – environmental footprint**

  Among other initiatives, the Bank has developed a tool for calculating the emissions and consumption in all the Bank's installations, enabling it to establish goals for reduction and sharing the best practices among countries in order to minimise the environmental impact.

- **Activities to minimise the indirect environmental impact**

  Social and environmental aspects are key elements for Santander when analysing risk and taking decisions on financing operations. The corporate units of risk assess the environmental and social risks of the projects presented by the various committees for approval, in accordance with the Group's policies.

  Santander adopted the Equator Principles for its project finance activities in order, prior to the financing, to identify and prevent the negative social and environmental effects of projects and, if necessary, reduce, mitigate or compensate for them adequately. Of note in this sphere is the effort made by the Bank in the last few years to install a global systematic process for analysing the risks derived from these effects.

All information on the various steps taken by the Bank regarding corporate social responsibility is set out in the 2009 Sustainability Report.

Corporate governance report

Corporate governance report

Over the last years, the board of directors has known how to pull ahead of the markets and regulations by adopting good corporate governance measures in advance.

Initiative of the board	Regulatory framework
1986 The board creates the audit and compliance committee as a part thereof, with the name of audit committee	**2002** Audit committees are mandatory in Spain since the enactment of the Financial System Reform Measures Law
2002 Santander publishes for the first time the itemised remuneration received for all reasons by the directors, including executive directors	**2006** The Unified Good Governance Code, approved by the National Securities Market Commission on 22 May 2006, recommends that the report include an itemised breakdown of the remuneration received by each director
2003 The defensive mechanisms contemplated in the Bylaws are eliminated	**2006** This is the first recommendation in the Unified Good Governance Code
2005 Starting in 2005, the directors of the Bank are submitted to a separate vote of the shareholders at the shareholders' meeting; the director training programme is launched and the annual self-assessment by the board is formally implemented	**2006** These are also recommendations included in the Unified Good Governance Code
2007 The board of the Bank approves a long-term incentive policy to implement the deferral in shares of a part of the variable remuneration which is in line with the interests of the shareholders	**2009** The Financial Stability Board announces its principles regarding best practices in the area of remuneration. The Group's policy is in line with these principles

1. Ownership structure

1. Number of shares and significant interests

Number of shares
During fiscal year 2009, the Bank carried out three capital increases that became effective on 30 January, 13 October and 2 November, and pursuant to which there were issued 161,546,320, 257,647 and 72,962,765 new shares, representing 1.963%, 0.003% and 0.887%, respectively, of the Bank's share capital at year-end 2009. The first increase took place on occasion of the acquisition of the shares in Sovereign that the Bank did not yet hold; the second increase was carried out in order to accommodate the conversion of 754 mandatorily convertible bonds *(Valores Santander)*, and the third one within the framework of the *Santander Dividendo Elección* (scrip dividend) programme.

The Bank's share capital at 31 December 2009 was represented by 8,228,826,135 shares, whose value per the listing price on Spain's Electronic Trading System (Continuous Market) *[Sistema de Interconexión Bursátil (Mercado Continuo)]* at such date was 95,043 million euros.

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

Significant interests
No shareholder held significant interests (of more than 3% of the share capital or interests that would permit a significant influence on the Bank) at 31 December 2009.

The interests held by Chase Nominees Limited (12.51%), State Street Bank & Trust (9.06%), EC Nominees Ltd. (6.91%), Bank of New York Mellon (5.57%), Société Générale (3.59%) and Caceis Bank (3.42%), which were the only ones in excess of 3%, were held by them for the account of their clients. The Bank is not aware of any of them holding individual stakes of 3% or more of its share capital.

Bearing in mind the current number of board members (19), the percentage of capital needed to exercise the right to appoint a director in accordance with article 137 of the Spanish Companies Law *(Ley de Sociedades Anónimas)* is 5.26%, a percentage not reached by any shareholder.

2. Shareholders' agreements and other significant agreements

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

1 The limit set, for purposes of the annual corporate governance report, in Royal Decree 1362/2007, of 19 October.

3. Treasury stock

Key data
At 31 December 2009, the Bank held 2,584,249 treasury shares, representing 0.031% of its share capital; at 31 December 2008, the Bank had 64,489,873 shares which represented 0.807% of its share capital at such date.

The following table sets out the monthly average percentages of treasury stock in 2008 and 2009.

Monthly average percentages of treasury stock

	2009	2008
January	**1.195%**	0.206%
February	**1.795%**	0.660%
March	**1.807%**	0.605%
April	**2.820%**	0.700%
May	**1.982%**	0.717%
June	**1.250%**	0.722%
July	**0.413%**	0.175%
August	**0.695%**	0.075%
September	**0.525%**	0.143%
October	**0.617%**	0.225%
November	**0.496%**	0.356%
December	**0.414%**	0.784%

Note: Further information in this regard can be found in section A.8 of the annual corporate governance report, which is part of the management report, and in the capital and treasury stock section of this latter report.

Authorisation
The current authorisation for treasury stock transactions arises from resolution No. 5 adopted by the shareholders acting at the general shareholders' meeting held on 19 June 2009, item II) of which reads as follows:

"To grant express authorisation for the Bank and the subsidiaries belonging to the Group to acquire shares representing the share capital of the Bank for valuable consideration in any manner permitted by Law, within the limits of the Law and subject to all legal requirements, up to a maximum number of shares –including the shares they already hold– equal to 5 per cent of the share capital existing at any given time or such greater maximum percentage as is established by the Law while this authorisation is in effect. Such shares shall be fully paid-in at a minimum price per share equal to the par value thereof and a maximum price of up to 3 per cent over the last listing price for transactions in which the Bank does not act on its own behalf on the Continuous Market of the Spanish stock exchanges (including the block market) prior to the acquisition in question. This authorisation may only be exercised within 18 months from the date of the general shareholders' meeting. The authorisation includes the acquisition of shares, if any, that must be delivered directly to the employees and managers of the Company, or that must be delivered as a result of the exercise of the options held by them."

Treasury stock policy
At its meeting of 19 June 2009, the board of directors adopted the current resolution on treasury stock policy, which was published on the Group's website (www.santander.com) and which governs aspects such as the purposes thereof, persons authorised to carry out treasury stock transactions, general guidelines, prices, time limits and reporting obligations.

In any event, the aforementioned policy excludes the use of treasury stock as a defensive mechanism.

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

The additional authorised capital amounts to 2,038,901,430.50 euros, pursuant to the authorisation of the shareholders acting at the 19 June 2009 ordinary general shareholders' meeting. The period available to the Bank's directors to carry out and make capital increases up to such limit expires on 19 June 2012. Such resolution gives the board the power to exclude pre-emptive rights in whole or in part, pursuant to the provisions of article 159.2 of the Spanish Companies Law.

At 31 December 2009, the aforementioned limit had not been used.

The shareholders acting at the 2009 ordinary general shareholders' meeting also resolved to increase the Bank's capital by the nominal amount of 500 million euros and to delegate full powers to the board such that the board may, within one year of the date of such general shareholders' meeting, set the date and terms of such increase. Should the board fail to exercise the powers delegated to it within the period established by the shareholders for implementation of this resolution, such powers will be null and void.

In addition, the shareholders acting at the above-mentioned meeting resolved to delegate to the board the power to issue fixed-income securities that are convertible into and/or exchangeable for shares of the Bank in the total maximum amount for any such issuance or issuances of 7,000 million euros or the equivalent thereof in another currency. The period available to the Bank's directors to carry out this resolution expires on 19 June 2014.

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

Mr Emilio Botín-Sanz de Sautuola y García de los Ríos
Chairman

Executive director

Born in Santander (Spain) in 1934. Joined the board in 1960. Graduate in Economic and Law.

Mr Fernando de Asúa Álvarez
First vice-chairman and chairman of the appointments and remuneration committee

Non-executive (independent) director

Born in Madrid (Spain) in 1932. Joined the board in 1999. Graduate in Economics, Information Technology, Business Administration and Mathematics.
Other significant positions: former chairman of IBM Spain, of which he is currently honorary chairman. He is a non-executive vice-chairman of Técnicas Reunidas, S.A.

Mr Alfredo Sáenz Abad
Second vice-chairman and chief executive officer

Executive director

Born in Getxo, Biscay (Spain) in 1942. Joined the board in 1994. Graduate in Economics and Law.
Other significant positions: former chief executive officer and first vice-chairman of Banco Bilbao Vizcaya, S.A. and chairman of Banco Español de Crédito, S.A. (Banesto).

Mr Matías Rodríguez Inciarte
Third vice-chairman and chairman of the risk committee

Executive director

Born in Oviedo (Spain) in 1948. Joined the board in 1988. Graduate in Economics and State Economist.
Other significant positions: former minister of the Presidency of the Spanish Government (1981-1982). He is the chairman of the Príncipe de Asturias Foundation and a non-executive director of Banesto, of Sanitas, S.A. de Seguros and of Financiera Ponferrada, S.A., SICAV.

Mr Manuel Soto Serrano
Fourth vice-chairman

Non-executive (independent) director

Born in Madrid (Spain) in 1940. Joined the board in 1999. Graduate in Economics and Business.
Other significant positions: non-executive vice-chairman of Indra Sistemas, S.A., non-executive director of Corporación Financiera Alba, S.A. and of Cartera Industrial REA, S.A. He was formerly the chairman of Arthur Andersen's Global Board and a manager for EMEA (Europe, Middle East and Africa) and India for the same firm.

Mr Rodrigo Echenique Gordillo
Non-executive (independent) director

Born in Madrid (Spain) in 1946. Joined the board in 1988. Graduate in Law and State Attorney.
Other significant positions: former chief executive officer of Banco Santander, S.A. (1988-1994).

Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea
Executive director

Born in Santander (Spain) in 1960. Joined the board in 1989. Graduate in Economics.
Main activity: executive chairwoman of Banesto. Joined the Bank after a period at JP Morgan (1981-1988). She has been an executive vice president of Banco Santander, S.A. since 1992, and the executive chairwoman of Banesto since 2002.
Other significant positions: she is a non-executive director of Assicurazioni Generali S.p.A. and a member of the International Advisory Board of the New York Stock Exchange and of Insead and Georgetown University.

Mr Francisco Luzón López
Executive director

Born in Cañavate, Cuenca (Spain) in 1948. Joined the board in 1997. Graduate in Economics and Business.
Other significant positions: former chairman of Argentaria and member of the board of directors of BBV. He is a non-executive director of Industria de Diseño Textil, S.A. (Inditex), global vice-chairman of Universia and vice-chairman of the Spanish National Library.

Assicurazioni Generali S.p.A.
Non-executive (proprietary) director

Joined the board in 1999. Represented by:

Mr Antoine Bernheim
Born in Paris (France) in 1924. Graduate in Law and Sciences. Post-graduate degree in Private and Public Law.
Main activity: chairman of Assicurazioni Generali. Joined the board of Assicurazioni Generali in 1973, acting as chair from 1995 to 1999 and then again from September 2002 to date.
Other significant positions: he is vice-chairman of the supervisory board of Intesa Sanpaolo S.p.A., vice-chairman of the group's subsidiary Alleanza Toro S.p.A., a member of the board of Mediobanca, vice-chairman of LVMH and of Bolloré Investissement. Mr Bernheim is also a director of Generali France, Generali Deutschland AG, Generali España Holding Entidades de Seguros S.A., BSI, Generali Holding Vienna and Chistian Dior, S.A. Finally, he is a member of the supervisory board of Eurazeo.

Mr Antonio Escámez Torres
Non-executive (independent) director

Born in Alicante (Spain) in 1951. Joined the board in 1999. Graduate in Law.
Other significant positions: chairman of Fundación Banco Santander, non-executive chairman of Santander Consumer Finance, S.A. and of Open Bank, S.A., non-executive vice-chairman of Attijariwafa Bank and non-executive chairman of Arena Communications Network, S.L.

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

Mr Luis Alberto Salazar-Simpson Bos
Non-executive (independent) director

Born in Madrid (Spain) in 1940. Joined the board in 1999. Graduate in Law and holder of a Degree in Treasury and Tax Law.
Main activity: chairman of France Telecom España, S.A.

Mr Antonio Basagoiti García-Tuñón
Non-executive (independent) director

Born in Madrid (Spain) in 1942. Joined the board in 1999.
Graduate in Law.
Other significant positions: former chairman of Unión Fenosa.
He is a proprietary non-executive vice-chairman of Faes Farma, S.A., non-executive director of Pescanova, S.A. and a member of the external advisory board of A.T. Kearney.

Mr Guillermo de la Dehesa Romero
Non-executive (independent) director

Born in Madrid (Spain) in 1941. Joined the board in 2002. State Economist and Office Manager of Banco de España (on leave of absence).
Main activity: international advisor to Goldman Sachs International.
Other significant positions: former state secretary of Economy, general secretary of Trade and chief executive officer of Banco Pastor, S.A. He is currently a non-executive director of Campofrío Food Group, S.A., chairman of the Centre for Economic Policy Research in London, a member of the Group of Thirty in Washington, chairman of the board of trustees of IE Business School and non-executive chairman of Aviva Grupo Corporativo, S.L., Aviva Vida and Pensiones, S.A. de Seguros y Reaseguros.

Mr Abel Matutes Juan
Non-executive (independent) director

Born in Ibiza (Spain) in 1941. Joined the board in 2002. Graduate in Law and Economics.
Main activity: chairman of Grupo de Empresas Matutes.
Other significant positions: former Spanish Foreign minister and European Union commissioner for Loans and Investment, Financial Engineering and Policy for Small and Medium-Sized Enterprises (1989), North-South Relations, Mediterranean Policy and Relations with Latin America and Asia (1989), Transport and Energy, and the Euroatom Supply Agency (1993).

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

Born in Santander (Spain) in 1973. Joined the board in 2004.
Graduate in Law.
Main activity: chairman and chief executive officer of JB Capital Markets, Sociedad de Valores, S.A.

Lord Burns (Terence)
Non-executive director

Born in Durham (United Kingdom) in 1944. Joined the board in 2004.
Graduate in Economics.
Main activity: non-executive chairman of Santander UK plc and of Alliance & Leicester plc.
Other significant positions: he is chairman of Channel Four Television Corporation, non-executive chairman of Glas Cymru Ltd (Welsh Water) and non-executive director of Pearson Group plc. He has been permanent secretary of the UK Treasury, chairman of the Financial Services and Markets Bill Joint Committee of the British Parliament, non-executive director of Marks and Spencer Group plc, non-executive director of British Land plc and of Legal & General Group plc.

Mr Luis Ángel Rojo Duque
Chairman of the audit and compliance committee

Non-executive (independent) director

orn in Madrid (Spain) in 1934. Joined the board in 2005.
Graduate in Law, doctor in Economics, State Economist, and holder of honorary doctorates from Universidad de Alcalá de Henares and Universidad de Alicante.
Other significant positions: at the Bank of Spain he was head of the research department, deputy governor and governor. He has been a member of the governing council of the European Central Bank, vice-chairman of the European Monetary Institute, a member of the United Nations Planning and Development Committee and Treasurer of the International Association of Economics. He is a member of the Royal Academy of Moral and Political Sciences and of the Royal Spanish Academy of Language.

Ms Isabel Tocino Biscarolasaga
Non-executive (independent) director

Born in Santander (Spain) in 1949. Joined the board in 2007.
Main activity: full professor at Universidad Complutense de Madrid. Doctor in Law. She has undertaken graduate studies in business administration at IESE and the Harvard Business School.
Other significant positions: former Spanish minister for the Environment, former chairwoman of the European Affairs Committee and of the Foreign Affairs Committee of the Spanish Congress and former chairwoman for Spain and Portugal and former vice-chairwoman for Europe of Siebel Systems. She is currently an elected member of the Spanish State Council, a non-executive director of Climate Change Capital and a member of the Royal Academy of Doctors.

Mr Juan Rodríguez Inciarte
Executive director

Born in Oviedo (Spain) in 1952. Joined the board in 2008. Graduate in Economics. Joined the Bank in 1985 as director and executive vice president of Banco Santander de Negocios. In 1989, he was appointed executive vice president of Banco Santander, S.A. From 1991 to 1999 he was a director of Banco Santander, S.A. Other significant positions: he is vice-chairman of Santander UK plc and a director of Alliance & Leicester plc, Santander Consumer Finance, S.A. and RFS Holdings.

Mr Ignacio Benjumea Cabeza de Vaca
General secretary and secretary of the board

Born in Madrid (Spain) in 1952. Joined the Group in 1987, as general secretary and secretary of the board of Banco Santander de Negocios. He was appointed general secretary and secretary of the board of Banco Santander S.A. in 1994. Graduate in Law, ICADE-E3, and State Attorney.
Other significant positions: he is executive vice president of Banco Santander, S.A., non-executive director of Sociedad Rectora de la Bolsa de Valores de Madrid, S.A., Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. and La Unión Resinera Española, S.A.

1. Re-election of directors at the 2010 annual general shareholders' meeting

Pursuant to article 55 of the Bylaws* and article 22 of the Rules and Regulations of the Board,* directors are appointed to five-year terms (the maximum term is six years under Spanish law) and one-fifth of the board is renewed each year.

At the 2010 annual general shareholders' meeting, scheduled for 10 and 11 June 2010 on first and second call, respectively, the following directors will be proposed for re-election: Mr Fernando de Asúa Álvarez (independent non-executive director), Mr Alfredo Sáenz Abad (executive director), Mr Javier Botín-Sanz de Sautuola y O'Shea (proprietary non-executive director) and Ms Isabel Tocino Biscarolasaga (independent non-executive director), whose résumés appear on the preceding pages.

The re-election will be submitted separately for a vote of the shareholders at the general shareholders' meeting (article 21.2 of the Rules and Regulations for the General Shareholders' Meeting). Since the 2005 annual general shareholders' meeting, the election of all of the current directors has been submitted to a separate vote at a general shareholders' meeting.

Composition and structure of the board of directors

C Committee Chairman · V Committee Vice-Chairman · P Proprietary · I Independent · N Non-executive, neither proprietary nor independent

Board of Directors		Executive	Non-executive	1. Executive committee	2. Risk committee	3. Audit and compliance committee	4. Appointments and remuneration committee	5. International committee	6. Technology, productivity and quality committee
Chairman	D. Emilio Botín-Sanz de Sautuola y García de los Ríos	●		C				C	C
First vice-chairman	D. Fernando de Asúa Álvarez		I	●	V	●	C		●
Second vice-chairman and chief executive officer	D. Alfredo Sáenz Abad	●		●				●	●
Third vice-chairman	D. Matías Rodríguez Inciarte³	●		●	C				
Fourth vice-chairman	D. Manuel Soto Serrano		I			●	●		●
Members	Assicurazioni Generali S.p.A.		P						
	D. Antonio Basagoiti García-Tuñón		I	●	●				●
	Dª. Ana Patricia Botín-Sanz de Sautuola y O'Shea	●		●				●	●
	D. Javier Botín-Sanz de Sautuola y O'Shea		P						
	Lord Burns (Terence)		N						
	D. Guillermo de la Dehesa Romero		I	●			●	●	
	D. Rodrigo Echenique Gordillo		I	●			●	●	
	D. Antonio Escámez Torres		I	●	●			●	●
	D. Francisco Luzón López	●		●				●	
	D. Abel Matutes Juan		I			●		●	
	D. Juan Rodríguez Inciarte	●			●				
	D. Luis Ángel Rojo Duque		I			C	●		
	D. Luis Alberto Salazar-Simpson Bos		I			●			●
	Dª. Isabel Tocino Biscarolasaga		I						
	Total								
General secretary and secretary of the board	D. Ignacio Benjumea Cabeza de Vaca	●	●	●	●	●	●	●	●
Deputy general secretary and deputy secretary of the board	D. Jaime Pérez Renovales								

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

(1) Mr Emilio Botín-Sanz de Sautuola y García de los Ríos has the right to vote, at the general shareholders' meeting, 91,886,035 shares owned by Fundación Marcelino Botín (1.12% of the share capital), 8,096,742 shares owned by Mr Jaime Botín-Sanz de Sautuola y García de los Ríos, 9,042,777 shares owned by Mr Emilio Botín-Sanz de Sautuola y O'Shea, 9,060,910 shares owned by Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea and 9,446,228 shares owned by Mr Javier Botín-Sanz de Sautuola y O'Shea. Accordingly, this table includes the direct and indirect interests of each of the two last named, who are directors of the Bank, but in the column showing the total percentage of share capital that such interests represent they are computed together with those owned or also represented by Mr Emilio Botín-Sanz de Sautuola y García de los Ríos.

2. Powers and duties

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

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

The board also reserves for itself, and likewise cannot delegate, decisions regarding the acquisition and disposition of substantial assets (except for those within the purview of the shareholders at a general shareholders' meeting) and major corporate transactions; the determination of the remuneration of each director and the approval of the contracts governing the performance by the directors of duties other than those of a director, including executive duties, as well as the remuneration to which they are entitled for the performance thereof; the appointment, remuneration and, if appropriate, removal of the other members of senior management and the determination of the basic terms of their contracts, as well as the creation or acquisition of interests in special purpose entities or in entities registered in countries or territories regarded as tax havens. On the matters mentioned in this paragraph, the executive committee may make decisions whenever reasons of urgency require it.

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

In addition, the board of the Bank plays a special role in the Group's risk management. Four out of five of its members participate therein not only in their capacity as directors but also in their capacity as members of the executive committee, the risk committee and the audit and compliance committee, which are the committees of the board with competences in risk matters.

Shareholding at 31 December 2009					Appointments			
Direct	Indirect	Shares represented	Total	% of share capital	Date of first appointment	Date of last appointment	Expiration date [4]	Date of last proposal of the appointments and remuneration committee
8,137,775	40,936,473	109,005,554	158,079,802	2.146[1]	4.07.1960	21.06.2008[5]	First six months of 2013	16.04.2008
37,016	69,379	—	106,395	0.001	17.04.1999	17.06.2006	First six months of 2011	18.04.2006
805,747	1,243,532	—	2,049,279	0.025	11.07.1994	17.06.2006[5]	First six months of 2011	18.04.2006
887,710	82,521	77,288	1,047,037	0.013	7.10.1988	19.06.2009[5]	First six months of 2014	27.04.2009
60,659	240,109	—	300,768	0.004	17.04.1999	19.06.2009	First six months of 2014	27.04.2009
1,072,277	92,690,958	—	93,763,235	1.139	17.04.1999	23.06.2007	First six months of 2012	19.03.2007
704,400	—	—	704,400	0.009	26.07.1999	23.06.2007	First six months of 2012	19.03.2007
5,036,774	4,024,136	—	9,060,910	0.000[1]	4.02.1989	17.06.2006[5]	First six months of 2011	18.04.2006
4,793,481	4,652,747	—	9,446,228	0.000[2]	25.07.2004	18.06.2005	First six months of 2010	20.04.2005
30,101	27,001	—	57,102	0.001	20.12.2004	17.06.2006	First six months of 2011	18.04.2006
101	—	—	101	0.000	24. 06.2002	19.06.2009	First six months of 2014	27.04.2009
658,758	9,280	—	668,038	0.008	7.10.1988	17.06.2006	First six months of 2011	18.04.2006
757,593	—	—	757,593	0.009	17.04.1999	23.06.2007	First six months of 2012	19.03.2007
1,132,264	26,964	—	1,159,228	0.014	22.03.1997	23.06.2007[5]	First six months of 2012	19.03.2007
123,388	2,590,104	—	2,713,492	0.033	24.06.2002	19.06.2009	First six months of 2014	27.04.2009
1,318,267	—		1,318,267	0.016	28.01.2008	21.06.2008[5]	First six months of 2013	21.01.2008
1	—	—	1	0.000	25.04.2005	21.06.2008	First six months of 2013	16.04.2008
185,768	5,641	—	191,409	0.002	17.04.1999	21.06.2008	First six months of 2013	16.04.2008
36,394	—	—	36,394	0.000	26.03.2007	26.03.2007	First six months of 2011	19.03.2007
25,778,474	**146,598,845**	**109,082,782**	**281,460,101**	**3.420**				

(2) Mr Javier Botín-Sanz de Sautuola y O'Shea is a proprietary non-executive director because on the board of directors he represents 2.146% of the share capital, representing the aggregate interests owned by Fundación Marcelino Botín, Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea, Mr Emilio Botín-Sanz de Sautuola y O'Shea, Mr Jaime Botín-Sanz de Sautuola y García de los Ríos, Ms Paloma O'Shea Artiñano and his own interest.

(3) Mr Matías Rodríguez Inciarte has the right to vote 77,288 shares owned by two children of his.

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

(5) The date on which they were appointed for the first time as executive directors coincides with their first appointment as a director.

Commitment and experience of the Board

In a sustained fashion, the board's interest in the Bank's capital has come to around 3,000 million euros.

The directors have, on average, more than 12 years' experience in the Bank's board duties.

Board's interest in the Bank's capital

Data at 31 December 2009

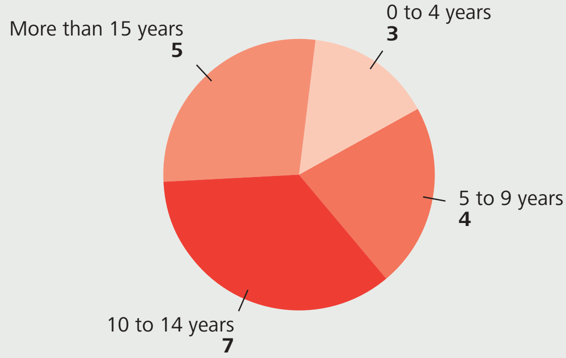
3,251 million euros
Stock market value

281,460,101
Number of shares of the boar

11.55 euros
Stock listing price

3.420%
Interest held by the board in the Bank's share capital

Experience of the board



The 10 independent non-executive directors have an average of 10 years' experience on the board.

In the case of the 6 executive directors, their average experience exceeds 20 years.

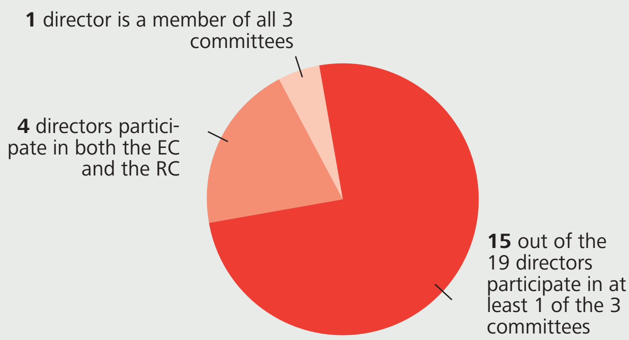
"The Board and the entire organisation of the Bank are strongly committed to our risk management culture."

Emilio Botín, Chairman
General shareholders' meeting, 19 June 2009

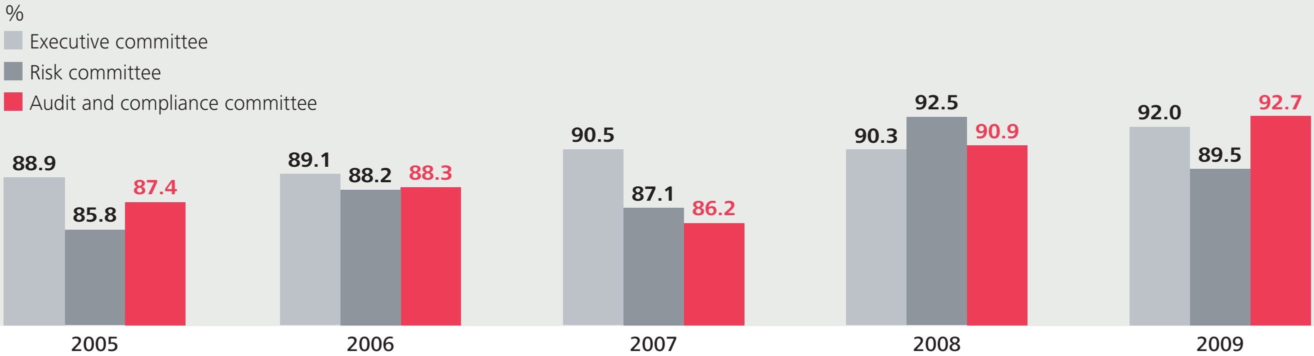
Number of meetings of the executive committee, the risk committee and the audit and compliance committee

Committees	2005	2006	2007	2008	2009
Executive	53	51	55	59	**56**
Risk	100	100	98	102	**99**
Audit and compliance	11	12	13	11	**11**
Total meetings	**164**	**163**	**166**	**172**	**166**

Number of directors participating in the executive committee, the risk committee and the audit and compliance committee



Average attendance rate at meetings of the executive committee, the risk committee and the audit and compliance committee



Main activities of the board in 2009 on matters reserved thereto

(article 3 of the Rules and Regulations of the Board):

General policies and strategies of the Bank

- For the fourth consecutive year, the board has dedicated a meeting solely to the discussion of the Group's strategy, analyzing the Bank's position within the current economic environment and management priorities.
- At its meeting of 23 March 2009, the board approved a new set of Rules and Regulations of the Board.

Control of activities and risk management

- During the year, eight management reports were submitted to the board by the chief executive officer and six risk reports were submitted by the third vice-chairman and head of the risk division.
- Each of the heads of internal and external audit reported to the board at three and two meetings, respectively.
- During its 2009 meetings, the board analysed the business in Latin America and in particular in Brazil, as well as that of Santander Consumer Finance, Sovereign and Banesto, in addition to other matters that come within its area of supervision, as are the image and reputation of the Group, the sale of products and services, the Group's structure and off-shore centres, sustainability and Santander Universidades.

Financial information periodically published by the Bank

- The board approved the quarterly financial information, the annual financial statements, and the management report for 2009, in addition to other documents such as the annual report, the sustainability report, the annual corporate governance report, and the reports of the audit and compliance committee and the appointments and remuneration committee.

Acquisitions and divestitures

- The executive committee and the board discussed and approved the initial public offering of shares representing 17% of the capital (before the increase) of Banco Santander (Brasil), S.A., by way of implementation of the strategic plan in such country, thus strengthening the Group's balance sheet. The sale of Banco de Venezuela was also approved.

Bylaw-mandated payments

- In 2009, the board resolved to maintain the same amounts as in the prior year for the annual allocation to the board members for the discharge of supervision and collective-decision making duties.

Remuneration of executive directors

- Likewise, the board decided that the annual bonuses for executive directors should come to the same amounts as in 2008, which were, on average, 14% lower than those in the prior year.

Appointment of members of senior management

- Mr Javier Marín Romano was appointed as head of the new Asset Management and Global Private Banking division, which was created in 2009 through the merger of the Asset Management and Global Private Banking businesses.
- Mr Juan Guitard Marín was appointed head of the Internal Audit division, and Mr Jaime Pérez Renovales was appointed to replace him as deputy general secretary and deputy secretary of the board and executive vice president in charge of the Group's Legal Services.

3. Size and composition of the board

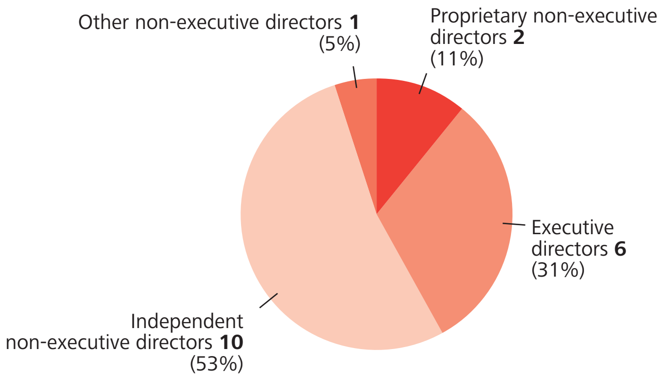
The Bank believes that the current size and composition of the board reflects the principles of representativeness of the ownership structure and equilibrium in governance of the Bank, also taking into account the size, complexity and geographical diversity of the Group.

In 2006, the shareholders acting at a general shareholders' meeting approved a bylaw amendment whereby the maximum number of directors was reduced from 30 to 22, with the minimum remaining at 14.

Pursuant to article 6.3 of the Rules and Regulations of the board, the appointments and remuneration committee, at its meeting of 17 March 2010, verified the status of each director. Its proposal was submitted to the board, which approved it at its meeting of 22 March 2010 and established the composition of the board upon the terms set forth below.

Of the 19 directors currently sitting on the board of directors, 6 are executive and 13 are non-executive. Of the 13 non-executive directors, 10 are independent, 2 are proprietary and one is, in the opinion of the board, neither proprietary nor independent.

Composition of the board



Executive directors

Pursuant to the Rules and Regulations of the Board (article 6.2.a), the following are executive directors: Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, Mr Alfredo Sáenz Abad, Mr Matías Rodríguez Inciarte, Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea, Mr Francisco Luzón López and Mr Juan Rodríguez Inciarte.

Proprietary non-executive directors

Since 2002, the standard used by the appointments and remuneration committee and the board of directors as a necessary, but not sufficient, condition to designate or consider a director as a non-executive proprietary director —as expressly set forth in article 6.2.b) of the Rules and Regulations of the Board of Directors— is that he/she hold at least 1% of the share capital of the Bank. This percentage was set by the Bank exercising its powers of self-regulation.

Taking into account the circumstances of each case, and upon the prior report of the appointments and remuneration committee, the board considers the following directors to be non-executive proprietary directors: Assicurazioni Generali S.p.A. and Mr Javier Botín-Sanz de Sautuola y O'Shea.

Independent non-executive directors

During the last three years, independent non-executive directors have accounted for 53% of the board.

Article 6.2.c) of the Rules and Regulations of the Board includes the definition of independent director established in the Unified Code. In the light thereof, taking into account the circumstances of each case, and upon the prior report of the appointments and remuneration committee, the board considers the following to be independent non-executive directors: Mr Fernando de Asúa Álvarez, Mr Manuel Soto Serrano, Mr Antonio Basagoiti García-Tuñón, Mr Guillermo de la Dehesa Romero, Mr Rodrigo Echenique Gordillo, Mr Antonio Escámez Torres, Mr Abel Matutes Juan, Mr Luis Ángel Rojo Duque, Mr Luis Alberto Salazar-Simpson Bos and Ms Isabel Tocino Biscarolasaga.

At 31 December 2009, the average length of service in the position of board member of independent non-executive directors was 9.7 years.

Taking the board as a whole, the average length of service is 12.6 years, which is greater than that of independent non-executive directors due to the longer continuity in office of executive directors (20.3 years).

Other non-executive directors

Lord Burns is an external non-proprietary director as he currently receives remuneration as a non-executive chairman of the Group's subsidiaries, Santander UK plc (formerly known as Abbey National plc) and Alliance & Leicester plc. The board of directors, based on a report by the appointments and remuneration committee, deems that he cannot be classified as an independent director.

4. Executive chairman and chief executive officer

The Bank has chosen to have an executive chairman because it believes that it is the position that best suits its circumstances.

The chairman of the board is the highest-ranking officer of the Bank (article 48.1 of the Bylaws and article 8.1 of the Rules and Regulations of the Board) and accordingly, all the powers which may be delegated under the Law, the Bylaws and the Rules and Regulations of the Board have been delegated to him. He is responsible for directing the Bank's management team, always in accordance with the decisions and standards set by the shareholders acting at a general shareholders' meeting and by the board within their respective purview.

The chief executive officer, acting by delegation from and reporting to the board of directors and the chairman, as the highest-raking officer of the Bank, is charged with the conduct of the business and the highest executive duties.

A clear separation of duties between the executive chairman, the chief executive officer, the board and the committees thereof, and various checks and balances assure proper equilibrium in the corporate governance structure of the Bank. The following are some particularly important aspects:

- The board and its committees exercise supervisory and control duties over the actions of both the chairman and the chief executive officer.
- The first vice-chairman, who is an independent non-executive director, is the chairman of the appointments and remuneration committee and acts as coordinator of non-executive directors.
- The powers delegated to the chief executive officer are the same as those delegated to the chairman, which powers do not include, in either case, the powers reserved solely for the board.

5. Succession plans for the chairman and the chief executive officer

Succession planning for the main directors is a clear element of the good governance of the Bank, tending to assure an orderly leadership transition at all times. Along these lines, article 24 of the Rules and Regulations of the Board provides that:

"In the cases of withdrawal, announcement of renunciation or resignation, legal incapacitation or death of the members of the board of directors or its committees or withdrawal, announcement of renunciation or resignation of the chairman of the board of directors or of the chief executive officer or officers, as well as from other positions on such bodies, at the request of the chairman of the board of directors or, in his absence, at the request of the highest-ranking vice-chairman, the appointments and remuneration committee will be convened in order for such committee to examine and organise the process of succession or replacement in an orderly manner and to present the corresponding proposal to the board of directors. Such proposal shall be communicated to the executive committee and subsequently submitted to the board of directors on the following meeting scheduled to be held by the board's annual calendar of meetings or on another extraordinary meeting which, if deemed necessary, is called."

Spanish law does not contemplate the nominal appointment of successors to take office if vacancies occur. However, article 44.2 of the Bylaws sets out interim replacement rules for the temporary performance (in cases of absence, inability to act, or indisposition) of the duties of the chairman of the board in the absence of the vice-chairmen.

The board determines the numerical sequence for such purpose every year based on the seniority of the directors. In this regard, at its meeting of 19 June 2009, the board unanimously resolved to assign the following order of priority for the temporary performance of the duties of chairman in the absence of the vice-chairmen of the board:

1) Mr Rodrigo Echenique Gordillo
2) Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea
3) Mr Francisco Luzón López
4) Assicurazioni Generali S.p.A.
5) Mr Antonio Escámez Torres
6) Mr Luis Alberto Salazar-Simpson Bos
7) Mr Antonio Basagoiti García-Tuñón
8) Mr Guillermo de la Dehesa Romero
9) Mr Abel Matutes Juan
10) Mr Javier Botín-Sanz de Sautuola y O'Shea
11) Lord Burns
12) Mr Luis Ángel Rojo Duque
13) Ms Isabel Tocino Biscarolasaga
14) Mr Juan Rodríguez Inciarte

6. Secretary of the board

The Bylaws (article 45.2) include among the duties of the secretary those of caring for the formal and substantive legality of the activities of the board, safeguarding observance of the good governance recommendations assumed by the Bank, and ensuring that governance procedures and rules are observed and regularly reviewed.

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

Article 17.4.d) of the Rules and Regulations of the Board provides that the appointments and remuneration committee must report on proposals for the appointment or withdrawal of the secretary of the board prior to submission thereof to the board.

7. Proceedings of the board

There were eleven meetings during fiscal year 2009.

The board holds its meetings in accordance with an annual calendar. The Rules and Regulations of the Board provide that the board shall hold not less than nine annual ordinary meetings. The board shall also meet whenever the chairman so decides, acting on his own initiative or at the request of not less than three directors (article 46.1 of the Bylaws).

When directors cannot attend personally, they may give a proxy to any other director, for each meeting and in writing, to represent them for all purposes at such meeting. Any member of the board may propose the inclusion of any other item not included in the draft agenda that the chairman proposes to the board (article 46.2 of the Bylaws).

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

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

8. Conduct of meetings

In 2009, the board was kept continuously and fully informed of the running of the various business areas of the Group through the eight management reports and six risks reports presented by the chief executive officer and the third vice-chairman in charge of the risk division, respectively, at the eleven meetings held during the fiscal year. In addition, the board analysed in detail the business in Latin America and in particular in Brazil, as well as that of Santander Consumer, Sovereign and Banesto, as well as other matters that come within its area of supervision, as are the image and reputation of the Group, the sale of products and services, the definition of the Group's structure and off-shore centres, sustainability and Santander Universidades. Likewise the board has been informed of the findings of the external and internal audits of the Group and the matters discussed in the markets committees.

9. Strategy meeting

In addition to the ordinary meetings described above, on 18 and 19 September 2009, the board held, for the fourth consecutive year, a meeting to discuss the strategy of the Group, the agenda for which was divided into the following three modules:

- Santander's position within the global economic and financial industry environment.
- Management priorities per business unit for fiscal year 2010.
- Regulatory framework, capital, liquidity and business portfolio of the Group.

10. Training of directors and orientation programme

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

Eight meetings were held in 2009 with the attendance of an average of eleven directors, who devoted approximately one hour and a half to each session.

During such fiscal year, the principal matters dealt with were aspects relating to the Group's coverage and funding, complex transactions within the wholesale banking business, and the systemic risk and size of banks.

The Rules and Regulations (article 21.7) provide that the board shall make available to new directors an information programme providing quick and adequate understanding of the Bank and its Group, including its governance rules. This programme was thus made available to the newest directors.

11. Self-assessment by the board

The 2009 self-assessment, performed, as in the prior year, with the support of the firm Spencer Stuart, on the basis of a questionnaire and personal interviews with the directors, also included this year—in line with the recommendation of the Unified Code and the provisions of the Rules and Regulations of the Board— a special section for the individual assessment of the chairman, the chief executive officer and the other directors.

The process of self-assessment by the board focuses on the organisation, proceedings and content of board and committee meetings, as well as on the internal regulations applicable to the directors and the commitment thereof.

In this regard, the directors highlighted the significant progress made in the Bank's corporate governance over the last four years, evidenced by the volume and quality of the information provided to them for the performance of their duties. Moreover, they noted the focus on the Group's strategy, the training efforts made by the Bank and the possibility for non-member directors to attend the meetings of the executive committee and of the other committees of the board and, finally, the quality of debate.

Likewise the board members highlighted the importance that the board and its committees keep paying a great deal of attention to the reputational, operating and technological risks.

The key factors around which the self-assessment revolves include the directors' opinion regarding the other members' contribution to and participation in the debate, their degree of expertise and of commitment to the Bank, and their capacity for teamwork with other directors.

As regards the chairs of the board and of the committees, especially appreciated were the appropriateness of the matters discussed and the stimulation of debate at their meetings.

12. Appointment, re-election and renewal of directors

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

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

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

13. Remuneration

Remuneration system

Article 58 of the Bylaws provides that the directors shall have the right to receive, in consideration for the performance of their duties as board members and as a share in the profits for each fiscal year, remuneration equal to 1% of the Bank's net profits for the respective fiscal year, although a director may agree to reduce such percentage. In exercise of its powers, the board set the amount for fiscal year 2009 at 0.144% of the Bank's profits for the year. This percentage was calculated by including in the numerator not only the annual allocation, but also the attendance fees accrued by the directors during the fiscal year, as provided in such article 58.

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

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

Report on the director remuneration policy

As provided in the Bylaws (article 59.1), the board of directors annually approves a report on the directors remuneration policy which sets forth the standards and grounds that determine the remuneration for the last and current fiscal year, making such report available to the shareholders on occasion of the call to the annual general shareholders' meeting.

The submission of the first report at the 2007 annual general shareholders' meeting was a pioneer initiative in Spain, and continued at the 2008 and 2009 meetings.

The report for 2010 is published as part of the report of the appointments and remuneration committee.

Transparency

Pursuant to the Bylaws (article 59.2), the annual report includes itemised information on the remuneration received by each director, with a statement of the amounts for each item of remuneration. The report also sets forth, on an individual basis for each item, the remuneration for the executive duties entrusted to the executive directors of the Bank.

All such information is contained in note 5 to the Group's legal report.

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

Duties

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

The Rules and Regulations expressly provide for the duties of diligent management, fidelity in furtherance of the Bank's interests, loyalty, secrecy and inactivity in the event of knowledge of confidential information.

The duty of diligent management includes the directors' duty to inform themselves adequately of the running of the Bank and to dedicate to their duties the time and effort needed to carry them out effectively. The directors shall inform the appointments and remuneration committee of their other professional obligations, and the maximum number of boards of directors on which they may sit is governed by the provisions of Law 31/1968 of 27 July.

Related-party transactions

No member of the board of directors, no person represented by a director and no company of which such persons, or persons acting in concert with them or through nominees therein, are directors, members of senior management or significant shareholders has, in fiscal year 2009 and to the date of publication of this report, to the best of the Bank's knowledge, carried out unusual or significant transactions with the Bank.

Control mechanisms

As provided in the Rules and Regulations of the Board (article 30), directors must inform the board of any situation of conflict of interest, whether direct or indirect, that they may have with the interests of the Bank. If the conflict relates to a transaction, the director may not carry it out without the approval of the board, following a report from the appointments and remuneration committee. The director involved must refrain from participating in the discussion and voting on the transaction to which the conflict refers.

In the case of directors, the body in charge of resolving any disputes is the board of directors itself.

Specific situations of conflict

In fiscal year 2009 there were 48 cases in which directors, including those who are members of senior management, abstained from participating and voting in the discussions of the board of directors or of the committees thereof.

The breakdown of the 48 cases is as follows: on 28 occasions, the matter under consideration was the approval of the terms of remuneration and other terms and conditions of the contractual relationship of the Bank with the executive directors; on 9 occasions, the situation of conflict was due to appointment and re-election proposals; on 6 occasions, proposals were discussed regarding the financing of companies related to various directors; and on 5 occasions, the situation arose from the annual verification of the status of the directors made by the appointments and remuneration committee at its meeting of 17 March 2009 pursuant to article 6.3 of the Rules and Regulations of the Board.

15. Committees of the board

General

The board has set up, as decision-making committees, an executive committee, to which it has delegated general decision-making powers, and a risk committee, to which it has delegated powers specifically relating to risks.

The board also has the following committees with supervisory, reporting, advisory and proposal-making powers: the audit and compliance committee, the appointments and remuneration committee, the international committee, and the technology, productivity and quality committee.

Executive committee

The executive committee is a basic instrument for the corporate governance of the Bank and its Group. Its duties and composition are established in the Bylaws (article 51) and in the Rules and Regulations of the Board (article 14).

There are currently 10 directors sitting on the committee, of whom 5 are executive and 5 are independent non-executive directors.

The executive committee proposes to the board those decisions that are within its exclusive purview. It also reports to the board on the matters dealt with and the resolutions adopted by making the minutes of its meetings available to the directors (article 14.7 of the Rules and Regulations of the Board), among other ways of reporting.

Risk committee

It is governed by the Bylaws (article 52) and the Rules and Regulations of the Board (article 15), which define the composition and duties of this committee, including within its powers and duties the responsibilities set forth in the Unified Code regarding risk control and management.

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

Pages 136 to 195 of this annual report contain broad information regarding the risk committee and the Group's risk policies, the responsibility for which (article 3 of the Rules and Regulations of the Board) is part of the board's general duty of supervision.

Audit and compliance committee

As provided in the Bylaws (article 53) and the Rules and Regulations of the Board (article 16), the audit and compliance committee must be made up of non-executive directors, the majority of whom must be independent. Its chairman shall be an independent director. It is currently composed of independent non-executive directors only.

Its duties, listed in the above-mentioned provisions, conform to the recommendation of the Unified Code for audit committees and the internal audit function.

The audit and compliance committee has prepared a report on its activities during 2009, which is distributed together with the annual report.

Appointments and remuneration committee

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

During fiscal year 2009, none of the members of the appointments and remuneration committee was an executive director, member of senior management or employee of the Bank, and no executive director or member of the senior management of the Bank sat on the board (or on the remuneration committee) of companies that employed members of the appointments and remuneration committee.

The Rules and Regulations of the Board establish the duties of this committee, including all those recommended by the Unified Code for appointments and remuneration committees.

Since 2004 the appointments and remuneration committee has published an activities report which, since 2006, also includes the report on director remuneration policy.

Committees of the board

Comisiones	Executive committee	Risk committee	Audit and compliance committee	Appointments and remuneration committee	Technology, productivity and quality committee	International committee
Number of members	10	5	5	5	8	8
Executive	5	2	—	—	3	4
Non-executive	5	3	5	5	5	4
Number of meetings	56	99	11	8	2	2
Hours*	285	250	55	28	4	4

* Estimated hours of average dedication per director.

16. International advisory board

The international advisory board, established in 1997 and governed by article 18 of the Rules and Regulations of the Board, cooperates with the board in the design, development and, if applicable, implementation of the overall business strategy by contributing ideas and suggesting business opportunities.

During 2009, the international advisory board held two meetings, during which the following issues were discussed, among others: the international financial situation and the political environment, especially in the United States of America and Europe, and the Group's results, with a special focus on the business in the United Kingdom and the U.S.

It is made up of leading Spanish and foreign personalities who are not members of the Bank's board. The international advisory board is currently composed of the following 9 members, representing 6 nationalities:

Chairman	Mr Antonino Fernández, former chairman of Grupo Modelo in Mexico
Members*	Mr Bernard de Combret, chairman of Total Trading Geneve
	Mr Carlos Fernández González, chairman and executive vice president of Grupo Modelo in Mexico
	Mr Santiago Foncillas, former chairman of Grupo Dragados
	Mr. Richard N. Gardner, former US ambassador to Spain
	Mr Francisco Pinto Balsemâo, former prime minister of Portugal
	Sir George Mathewson, former chairman of the Royal Bank of Scotland
	Mr. William J. McDonough, former chairman of the Federal Reserve Bank of New York
	Mr Fernando Masaveu**, chairman of Grupo Masaveu
Secretary	D. Ignacio Benjumea Cabeza de Vaca

* Mr Rodrigo Rato tendered his resignation as a member of the international advisory board at the end of 2009.

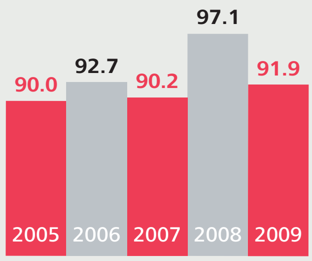
** Appointed by the board of the Bank at its meeting of 25 January 2010.

17. Attendance at meetings of the board of directors and its committees in 2009

Pursuant to the Rules and Regulations of the Board (article 20.1), absences from meetings must be limited to unavoidable cases. The average attendance rate at board of directors' meetings in fiscal year 2009 was 91.9%.

Attendance at board meetings

%



The attendance rate at board meetings has been greater than 90% in each of the last five years

Attendance at meetings of the board of directors and its committees in 2009

		Committees					
		decision-making		reporting			
Directors	Board	Executive	Risk	Audit and compliance	Appointments and remuneration	Technology, productivity and quality	International
Average attendance:	91.87%	91.96%	89.49%	92.73%	87.50%	100.00%	100.00%
Individual attendance:							
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	11/11	50/56	—	—	—	2/2	2/2
Mr Fernando de Asúa Álvarez	11/11	52/56	95/99	11/11	8/8	2/2	—
Mr Alfredo Sáenz Abad	11/11	54/56	—	—	—	2/2	2/2
Mr Matías Rodríguez Inciarte	11/11	56/56	98/99	—	—	—	—
Mr Manuel Soto Serrano	11/11	—	—	11/11	8/8	2/2	—
Assicurazioni Generali S.p.A.(1)	5/11	—	—	—	—	—	—
Mr Antonio Basagoiti García-Tuñón	11/11	55/56	94/99	—	—	2/2	—
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	11/11	50/56	—	—	—	2/2	2/2
Mr Javier Botín-Sanz de Sautuola y O'Shea	10/11	—	—	—	—	—	—
Lord Burns (Terence)	9/11	—	—	—	—	—	—
Mr Guillermo de la Dehesa Romero	11/11	52/56	—	—	7/8	—	2/2
Mr Rodrigo Echenique Gordillo	11/11	47/56	—	—	6/8	—	2/2
Mr Antonio Escámez Torres	10/11	54/56	92/99	—	—	2/2	2/2
Mr Francisco Luzón López	11/11	45/56	—	—	—	—	2/2
Mr Abel Matutes Juan	9/11	—	—	8/11	—	—	2/2
Mr Juan Rodríguez Inciarte	11/11	—	64/99	—	—	—	—
Mr Luis Ángel Rojo Duque	6/11	—	—	10/11	6/8	—	—
Mr Luis Alberto Salazar-Simpson Bos	11/11	—	—	11/11	—	2/2	—
Ms Isabel Tocino Biscarolasaga	11/11	—	—	—	—	—	—

* Note: the denominator refers to the number of meetings held during the year during which a director served as such or as a member of the respective committee.
(1) Represented on the board of the Bank by Mr Antoine Bernheim.

3. Shareholder rights and the general shareholders' meeting

1. Basic principle: *One share, one vote, one dividend.* Absence of defensive mechanisms contemplated in the Bylaws

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

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

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

Any person is eligible for the position of director, subject only to the limitations established by law.

2. Quorum at the annual general shareholders' meeting held in 2009

The informed participation of shareholders at general shareholders' meetings is an objective expressly acknowledged by the board (article 31.3 of the Rules and Regulations of the Board).

The quorum at the 2009 annual general shareholders' meeting was 54.627%, above 50% for the third consecutive year, despite the increase in the number of the Bank's shareholders by a little more than seven hundred fifty thousand over the last 3 years.

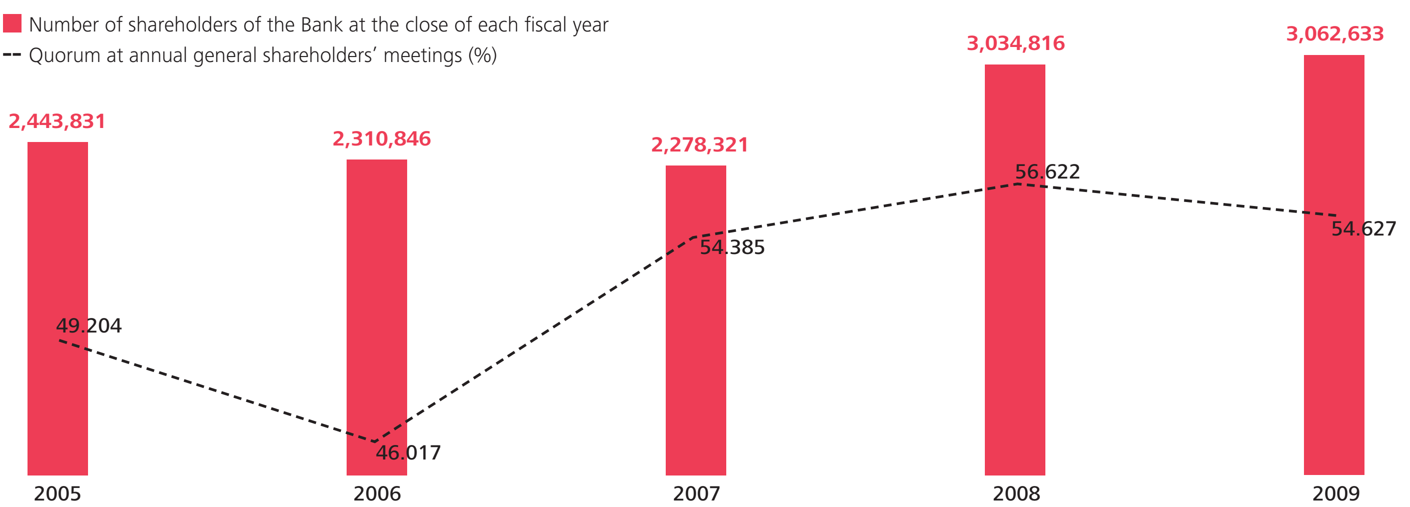
3. Encouragement of informed participation of shareholders at shareholders' meetings

Noteworthy measures adopted by the Bank to encourage informed participation of the shareholders at shareholders' meetings include the following, all of which are currently included in the internal regulations of the Bank:

- Attendance at meetings by owners of a single share.
- Absence of a share blocking system to identify the persons who are entitled to attend shareholders' meetings.

  The requirement is for any number of shares to be registered in the name of the shareholder five days prior to the date of the meeting.
- Remote attendance by means of data transmission and exercise of voting rights by postal correspondence, physical means and electronic communication.
- Convening of the meeting by shareholders representing not less than 5% of the capital of the Bank, who may request that a supplement to the notice of the meeting be published (which supplement must also be available on the Bank's website) including one or more items on the agenda.

High participation in annual general shareholders' meetings



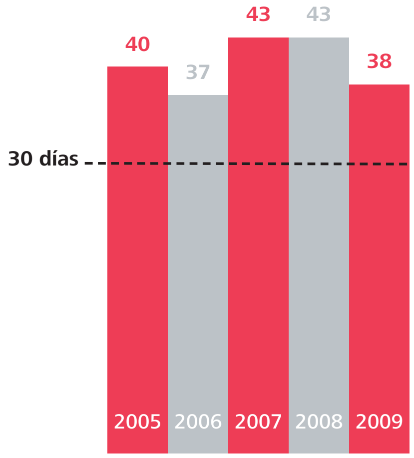
- Separate voting on matters such as the appointment of directors and on articles or groups of articles which are substantially independent in the event of amendments to the Bylaws or the Rules and Regulations for the General Shareholders' Meeting.
- Fractional voting by financial intermediaries.
- Granting of proxy to any person, whether or not a shareholder.
- Attendance of a notary to prepare the minutes of the meeting.
- To defend the rights of its shareholders, the Bank has also taken care to resolve any possible conflicts of interest that may arise in proxy-granting by establishing the required mechanisms on the proxy cards.

The Bank usually calls general shareholders' meetings by giving advance notice in excess of the mandatory 30 days' notice, and makes available to the shareholders, through the Group's website and from the date of publication of the announcement, all relevant information, including the proposed resolutions submitted to the shareholders at the meeting.

The chart below shows the number of days' advance notice used to call annual general shareholders' meetings in the last five years.

Advance notice to the annual general shareholders' meeting

Number of days



4. Information provided to the shareholders and communication with them

On the occasion of the 2009 annual general shareholders' meeting, the chairman once again sent a letter to all shareholders inviting them to suggest the matters they would like to see dealt with, without prejudice to their rights to receive information and make proposals.

923 letters and e-mails were received, all of which were duly answered.

During 2009, the Bank held 628 meetings with investors and maintained an on-going relationship with analysts and rating agencies, which entailed personal contact with more than 1,300 investors/analysts. For the second consecutive year, the department of investors relations was chosen by investors (buy side) and analysts (sell side) as the best IR Team in the financial industry in Europe, according to the survey conducted by the specialised magazine Institutional Investor. In September and October, the department participated actively, by attending more than 100 meetings with investors, in the capital increase successfully carried out at the Brazil subsidiary. The department also continued to inform the main investors and analysts of the Group's policies in the area of corporate social responsibility.

The shareholder area is responsible for the relationship with the more than 3 million non-institutional shareholders of the Bank throughout the world. It prepares the global loyalty programmes and is responsible for the implementation of exclusive products and services for the shareholders.

The channels of communications available to the shareholders are:

- Service lines in Spain, the United Kingdom, Mexico and the United States, which this year replied to 261,698 questions and which operate as a contact centre that is innovative in the financial sector because of its proactive approach.
- The Shareholder's Mailbox, increasingly used and through which any new developments regarding the Group are timely reported to the 103,271 shareholders subscribed. This year, 17,515 e-mails from shareholders were answered.
- The Shareholder's Forum, consisting of periodic meetings to make information on the Group and its prospects available to shareholders, reply to all kinds of questions and receive suggestions. 175 forums were held this year, attended by 14,150 shareholders in Spain, the United Kingdom, France, Switzerland, Mexico and the United States. In order to increase the added value provided, well-known specialists participated in some shareholder forums, contributing their analysis and experience on matters of great interest to the shareholders.
- In addition, 520,647 letters from the shareholders were processed.
- The large shareholders unit also carries out its activities from within this area.

In 2009, the shareholder area launched its commercial website yosoyaccionista.santander.com, with access being restricted to Santander shareholders. This private website contemplates two different shareholder profiles, young and adult, and both the contents and the design are adapted to the needs of each group.

Finally, in compliance with recommendations of the National Securities Market Commission *(Comisión Nacional del Mercado de Valores* or *CNMV)* on meetings with analysts and investors, both notices of meetings and the documentation to be used thereat are being published sufficiently in advance.

5. General shareholders' meetings held in 2009

Information on the calls to meeting, the establishment of a quorum thereat, attendance, proxy-granting and voting

Extraordinary general shareholders' meeting of 26 January 2009

Notice of the call to the 2009 extraordinary general shareholders' meeting was published on 23 December 2008, 34 days prior to the date of the meeting. A total of 156,864 shareholders attended, in person and by proxy, with 3,834,363,736 shares. The quorum was thus 47.965% of the share capital of the Bank.

The average percentage of affirmative votes upon which the proposals submitted by the board were approved was 97.060%.

The following data are stated as percentages of the Bank's share capital:

Meeting of 26 January 2009

	2009
Physically present	0.237%(1)
By proxy	31,843%(2)
Remote votes	15.885%(3)
Total	**47,965%**

(1) Of such percentage (0.237%), 0.0004% is the percentage of the share capital that attended by remote means through the Internet.
(2) The percentage of share capital that granted proxies through the Internet was 0.014%.
(3) Of such percentage (15.885%), 15.881% is the percentage of votes cast by postal mail and 0.004% is the percentage of electronic votes.

Annual general shareholders' meeting of 19 June 2009

Notice of the call to the 2009 annual general shareholders' meeting was published on 12 May, 38 days prior to the date of the meeting. A total of 260,913 shareholders attended, in person and by proxy, with 4,455,156,135 shares. The quorum was thus 54.627% of the share capital of the Bank.

The average percentage of affirmative votes upon which the proposals submitted by the board were approved was 96.338%.

The following data are stated as percentages of the Bank's share capital:

Meeting of 19 June 2009

	2009
Physically present	0.312%(1)
By proxy	35.824%(2)
Remote votes	18.419%(3)
Total	**54.627%**

(1) Of such percentage (0.312 %), 0.001% is the percentage of the share capital that attended by remote means through the Internet.
(2) The percentage of share capital that granted proxies through the Internet was 0.017%.
(3) Of such percentage (18.491%), 18.487% is the percentage of votes cast by postal mail and 0.004% is the percentage of electronic votes.

Resolutions adopted at the shareholders' meetings held in 2009

The full text of the resolutions adopted at the 2009 shareholders' meetings is available on the websites of both the Group (www.santander.com) and the CNMV (www.cnmv.es).

4. Banco Santander's senior management

1. Composition

The Bank is managed at the highest level through the executive vice presidents, under the control of the chairman and the chief executive officer. Accordingly, the chairman, the chief executive officer and the following executive vice presidents make up the Bank's senior management, regardless of their positions, if any, on the board of directors:

America	Mr Francisco Luzón López Mr Marcial Portela Álvarez Mr Jesús Mª. Zabalza Lotina
Internal Audit	Mr Juan Guitard Marín
Global Wholesale Banking	Mr Adolfo Lagos Espinosa Mr Jorge Maortua Ruiz-López
Banesto	Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea
Communication, Corporate Marketing and Research	Mr Juan Manuel Cendoya Méndez de Vigo
Strategy	Mr Juan Rodríguez Inciarte
Financial Management and Investor Relations	Mr José Antonio Álvarez Álvarez
Asset Management and Global Private Banking	Mr Javier Marín Romano
Financial Accounting and Control	Mr José Manuel Tejón Borrajo
Human Resources	Mr José Luis Gómez Alciturri
Santander Branch Network - Spain	Mr Enrique García Candelas
Risk	Mr Matías Rodríguez Inciarte Mr Javier Peralta de las Heras Mr José María Espí Martínez
Consumer Finance	Ms Magda Salarich Fernández de Valderrama
Santander Totta	Mr Nuno Manuel da Silva Amado
Santander UK	Mr Antonio Horta Osorio
General Secretariat	Mr Ignacio Benjumea Cabeza de Vaca Mr Jaime Pérez Renovales Mr César Ortega Gómez
Insurance and Global Direct Banking	Mr Jorge Morán Sánchez
Technology and Operations	Mr José María Fuster van Bendegem

In addition, Mr Ramón Tellaeche Bosch, a deputy executive vice president of the Bank, is the head of the Payment Means division, and Mr José Antonio Villasante Cerro, also a deputy executive vice president of the Bank, is the head of the Santander Universidades global division.

2. Remuneration

Information on the remuneration of executive vice presidents is provided in note 5 of the Group's legal report.

3. Related-party transactions and conflicts of interest

Related-party transactions

No member of senior management who is not a director, no person represented by a member of senior management who is not a director, and no company in which such persons or persons with whom they act in concert or who act through nominees therein are directors, members of senior management or significant shareholders, has made any unusual or significant transaction with the Bank during fiscal year 2009 and through the date of publication of this report, to the knowledge of the Bank.

Conflicts of interest

The control mechanisms and the bodies in charge of resolving this type of situation are described in the Code of Conduct in Securities Markets, which is available on the Group's website (www.santander.com).

5. Transparency and independence

1. Financial information and other significant information

Financial information

Pursuant to the provisions of its Rules and Regulations (article 34.2), the board has taken the necessary actions to ensure that the quarterly and semi-annual financial information and the other information made available to the markets is prepared following the same principles, standards and professional practices as are used to prepare the annual financial statements. To such end, the aforementioned information is reviewed by the audit and compliance committee prior to the release thereof.

As regards the annual financial statements, they are reported on by the audit and compliance committee and certified by the head of financial accounting prior to the preparation thereof by the board.

Other significant information

Pursuant to the provisions of the Code of Conduct in Securities Markets, the compliance division is responsible for communicating to the CNMV the material information generated in the Group.

Such communication shall be simultaneous to the release of significant information to the market or the media, as soon as the decision in question is made or the resolution in question has been signed or carried out. Significant information shall be disseminated in a true, clear, complete and equitable fashion and on a timely basis and, whenever practicable, such information shall be quantified.

In fiscal year 2009, the Bank published 124 items of material information, which are available on the websites of the Group and the CNMV.

2. Relationship with the auditor

Independence of the auditor

The shareholders acting at the annual general shareholders' meeting of 19 June 2009 approved the re-election of Deloitte, S.L. as auditor for one year, with the affirmative vote of 97.694% of the capital present in person or by proxy.

The Bank has mechanisms in place to preserve the independence of the auditor; worth noting is the obligation of the board to refrain from hiring audit firms in which the fees intended to be paid to them for any and all services are equal to or more than two per cent of the total income thereof during the last fiscal year.

In addition, the Rules and Regulations of the Board establish limits upon hiring the audit firm for the provision of services other than audit services that could jeopardise the independence thereof. In this connection, the audit and compliance committee approves non-audit services provided to the Group by the auditor, which, in 2009, related mainly to securitisation, issuance of securities, tax advice, preparation of financial studies and due diligence.

The Rules and Regulations impose on the board the duty to make public the overall fees paid by the Bank to the auditor for services other than audit services. The information for fiscal year 2009 is contained in note 48 of the Group's legal report.

The Rules and Regulations determine the mechanisms to be used to prepare the financial statements such that there is no room for qualifications in the auditor's report. Nevertheless, the Bylaws as well as the Rules and Regulations also provide that, whenever the board believes that its opinion must prevail, it shall provide an explanation, through the chairman of the audit and compliance committee, of the content and scope of the discrepancy and shall endeavour to ensure that the auditor likewise discloses its considerations in this regard. The annual financial statements of the Bank and of the consolidated Group for fiscal year 2009 are submitted without qualifications.

3. Intra-group transactions

There were no intra-group transactions in fiscal year 2009 that were not eliminated in the consolidation process and that are not part of the ordinary course of business of the Bank or of the companies of its Group as regards the purpose and conditions thereof.

4. Website

Since 2004, the Group's website (www.santander.com) has disclosed in the *Information for Shareholders* and Investors section of the main menu all information required under article 117 of the Securities Market Law *(Ley del Mercado de Valores)* (according to the text provided by Law 26/2003) and under Order ECO/3722/2003, thus carrying out the resolution adopted by the board at its meeting of 23 January 2004.

The website contents are presented with specific sections for institutional investors and shareholders and the information is accessible in Spanish, English and Portuguese.

The following information is available on such website:

- The Bylaws
- The Rules and Regulations for the General Shareholders' Meeting
- The Rules and Regulations of the Board
- The professional profiles of and other information regarding the directors, as proposed by Recommendation 28 of the Unified Code
- The annual report
- The annual corporate governance report
- The Code of Conduct in Securities Markets
- The General Code of Conduct
- The sustainability report
- The reports of the audit and compliance committee and the appointments and remuneration committee
- The Santander-Banesto relationship framework established by application of recommendation 2 of the Unified Code

The notice of call to the 2010 annual general shareholders' meeting, together with the information relating thereto, including proposed resolutions and mechanisms for the exercise of the rights to receive information, to grant proxies and to vote, as well as an explanation of the mechanisms for the exercise of such rights by means of data transmission, will be available as from the date of publication of such notice.

6. Unified Good Governance Code

In 2007, Banco Santander carried out a process of adjustment to the Unified Good Governance Code, approved by the CNMV on 22 May 2006, based on the principle of self-regulation, which was completed in 2008 with the approval of new Bylaws and, already in 2009, with new Rules and Regulations of the Board of Directors.

Banco Santander follows a large majority of the recommendations of the Unified Code, and does not follow (i.e., does not adopt in full) a small number thereof (4 out of 58). Such recommendations from which the Bank departs are described below, together with the rationale for the board's position.

1. Number of members of the board of directors

Although the current number of directors (19) exceeds the maximum number of 15 proposed by recommendation 9, the board believes that its size is commensurate to the scale, complexity and geographical diversification of the Group. In the opinion of the board, the manner in which it operates, sitting both as a full body and through committees —with delegated supervisory, advisory, reporting and proposal-making powers—, guarantees its effectiveness and the participation of its members.

2. Independent directors

The board believes that its unity is essential to determine its composition. All the directors must act in furtherance of the interests of the Bank and of its shareholders and are equally responsible for the decisions of the board. The board believes that independence must apply to judgment, be an attribute of all the directors, and be based on the probity, integrity, reputation and professionalism of each of them. In the opinion of the board, it would be contrary to such principles to establish a different treatment for independent directors than for other directors.

Accordingly, it would not be in line with the aforementioned principles to adopt the recommendation that the board of directors not propose the withdrawal of any independent director prior to the expiration of the term fixed by the bylaws for which he was appointed, except for just cause, determined by the board following a report of the appointments and remuneration committee, with just cause being deemed to exist whenever such director fails to perform the duties inherent in his position or if he becomes subject to any of the circumstances that deprive him of independence. In this case, the decision of the board not to adopt recommendation 31 is also based on the fact that there may be reasons of corporate interest which, in the opinion of the board itself, may lead to a proposal for withdrawal from the board for reasons other than those contemplated in the recommendation.

The board has also not deemed it appropriate to adopt recommendation 29 to the effect that the term of office of independent directors be limited to a maximum of 12 years, as this would lead to having to dispense with the services of directors whose continuation on the board serves the corporate interest because of their qualifications, contribution and experience, without such continuation affecting their independence.

Finally, the board believes it is not appropriate to adopt the part of recommendation 17 which advises granting an independent director the power to request that a meeting of the board be called or that items be included in the agenda for such meeting as well as the power to direct the assessment of the chairman since, in the opinion of the board, that would contravene the principle of unity of the board and of absence of blocs within the board. However, the Rules and Regulations provide that the chairman shall call a meeting of the board at the request of at least three directors, and that any director may propose the inclusion of new items on the agenda submitted to the board by its chairman (article 19.2 and 19.3).

Economic and Financial Review

In 2009, the business model and high degree of diversification enabled the Group to keep on generating large profits, strengthen the balance sheet and create shareholder value, while enhancing the competitive position.

General background

The global economy suffered in 2009 its worst recession in recent history. GDP shrank 2.4% compared to growth of 2.2% in 2008. The recession, which hit developed economies particularly hard, was especially intense during the first months of the year. The various monetary, fiscal and financial measures of an expansive nature began to take effect in the second half of the year, and most countries registered positive growth in the fourth quarter. Of note was the strong recovery of emerging economies, most notably China, which was reflected in the recovery in trade and higher prices of commodities. The global economy ended 2009 with an upturn that seems to be underway, although it is still fragile and of moderate intensity.

The US economy declined 2.4% in 2009, but ended the year with positive growth, thanks to firm fiscal, monetary and financial measures and the real estate slump. Negative inflation for most of the year except in the last months enabled the Federal Reserve to hold its key rate at 0-0.25%, while the budget deficit was more than 10% largely because of the fiscal stimulus.

Latin America withstood the international economic and financial crisis well. Unlike previous occasions, the region's greater strength enabled anti cyclical policies to be applied, banking crisis to be avoided and maintain relatively stable interest rates. The economic downturn was not as intense as in developed countries and growth was positive at the end of the year.

Brazil was the best example. The reforms undertaken in the last few years made the economy more resilient increasing its international credibility and the leeway to apply expansive policies (fiscal; lending via state banks and interest rates at historic lows: 8.75%). GDP growth for the whole year was flat, following a fourth quarter with growth of around 5% year-on-year, and inflation was under control (at around 4.5% it was within the central bank's target range). The real remained strong and ended the year at $1=BRL 1.74, in line with the periods of greatest strength in 2007 and 2008.

The Chilean economy shrank 1.5%, a moderate decline given its high degree of openness to the international economy, thanks to large cuts in official interest rates to 0.5%. Negative inflation enabled the central bank to maintain its very expansive monetary policy. The Chilean peso, after several months of instability, recovered to $1=CLP 507, stronger even than in 2007.

Mexico was the hardest hit (GDP: -6.5%), largely because of its strong links with the neighbouring US economy and with the most affected sectors. At the end of the year, the improvement in the US economy and the decline in official Mexican interest rates to 4.5% (inflation of more than 5% for several quarters prevented deeper cuts) laid the foundations for a moderate recovery. The Mexican peso depreciated against the dollar to around MXN 13.1.

The euro zone's GDP declined 4.0%, with a profile similar to that of the US but more adverse: larger shrinkage in the first quarter and less intense recovery. The measures implemented by governments and the European Central Bank, including lowering the repo rate to 1% in the second quarter, helped the economy to grow at positive rates in the third and fourth quarters. Contained inflation (negative rates after the summer) facilitated the expansive monetary policy, while the euro remained strong throughout the year (EUR 1=$1.44).

Germany, the strongest economy of the euro zone, shrank 5% as a result of the worsening of the global economy and its impact on exports and investment. The progressive recovery combined with fiscal stimulus programs and the relative stability of the labour market, which underpinned consumption, pushed the German economy out of recession in the last quarter of 2009.

The Spanish economy declined 3.6%, slightly less than the euro zone due to a less intense recession at the onset. The recovery underway in the rest of the world also began to be felt in Spain. The pace of decline in the economy slowed in the second half and quarter-on-quarter growth moved close to positive rates. However, the slump in the property sector continued to damage the recovery, which will be slower than in the euro zone as a whole.

The UK economy, with a growth profile similar to that of the euro zone, contracted 4.7%, due to the weakness of its financial system and the high level of household indebtedness. Unlike the rest of Europe, inflation remained at more than 2% for most of the year, chiefly due to the weakness of sterling (EUR 1=£0.90 compared to £0.65 at the start of the crisis). The fall in the UK base rate to 0.5% at the beginning of 2009 and the fiscal and financial measures adopted enabled quarter-on-quarter growth to be positive in the fourth quarter.

Summary of 2009 for Grupo Santander

Against a very complex backdrop for banking activity, Grupo Santander's results once again demonstrated the effectiveness of its business model, which is adapted to different markets and environments to achieve solid growth in gross income and net operating income and keep on generating high recurring profits. The drivers behind this are the focus on customers and on retail business, the potential of the business portfolio, the large degree of diversification and the continuous effort to improve commercial and operational efficiency.

Other key factors are the excellent position of the Group's capital (which after lifting the core capital ratio by more than a percentage point for the second year running is at a comfortable level ahead of possible regulatory changes), the level of non-performing loans, which is lower than that of our peers (after a better than envisaged evolution in the main markets), and the competitive advantage provided by a balance sheet with an adequate structure of financing.

As a result, we were able to grow without restrictions and as in 2007 and 2008, we compare very well internationally from various standpoints:

- By volume of profits: Santander's were among the largest in the world by banks. Moreover, all of its profits in 2009 were ordinary as the EUR 2,587 million of extraordinary capital gains were all assigned to voluntary provisions to strengthen the balance sheet. The details are in this report;
- By stability: Santander is the only big bank in the world which in the last four years has remained among the top seven by profits. This is the best proof of the resilience and soundness of our model to the very complex environment;
- By shareholder remuneration: EUR 4,919 million of dividends, 2% more than in 2008 and putting us in the number one spot in the world. Our total shareholder return (TSR) was also better than the market as a whole and the average of our peers in the short, medium and long term. The TSR in 2009 was 85%;
- By the liquidity of our share, which in 2009 was the most traded stock in the Stoxx 50 index (average daily turnover of EUR 860 million);
- Lastly, and from the strategic standpoint, Santander took advantage of the opportunities arising from the crisis to improve its positioning in some markets:
  - In Brazil, after acquiring Banco Real, we combined in 2009 a strong pace of integration with an IPO of Banco Santander Brazil. This enabled us to obtain the funds needed to finance our expansion in Brazil;
  - In the UK, a leap forward was taken with the incorporation of Alliance & Leicester and the deposits and branches of Bradford & Bingley to the organic growth of Abbey. Santander UK, still today undergoing the integration which will end in 2010, is firmly advancing toward its goal of becoming a full service commercial bank;
  - In Germany, we completed the integration of the latest consumer businesses acquired, worked on developing global financing agreements with leading car manufacturers and, for the first time, Santander received the prize from The Banker for best bank in Germany;
  - n Sovereign, the Group made a significant management effort and implemented a shock plan for costs and risks, reducing non-strategic assets and beginning to adjust structures and businesses in order to create a real bank for customers to sustain revenue and profit growth, having already obtained profits in the fourth quarter;
  - Lastly, and as part of active management of the business portfolio, the Group sold its bank in Venezuela.

The main aspects of results were:

- **Attributable profit** of EUR 8,943 million, all of it ordinary, which was 0.7% higher than the EUR 8,876 million generated in 2008.
- **Earnings per share** of EUR 1.0454, 14.4% lower than in 2008, partly due to the capital increases in 2008 and the beginning of 2009.
- In line with the profits and the Bank's capacity to keep on generating recurring profits, Banco Santander allocated EUR 4,919 million to dividends, 2% more than in 2008. The Board approved a final dividend of EUR 0.22 per share to be paid as of May 1. This brought the total **dividend per share** for 2009 to EUR 0.60, 7.8% less than in 2008 as since September of that year the number of shares increased by 32%, due to the capital increase in November. Shareholders who participated in that capital increase accumulated at the end of 2009 an increase of 157%. The dividend of EUR 0.60 per share represented a return of 7% on the average share price during 2009.

- The **income statement** shows the strength of the underlying business, the robustness of the Santander model to very complex environments and reflects the year's management focuses.

  In order to facilitate year-on-year comparisons, a proforma statement for 2008 was drawn up that consolidates 12 months of Banco Real by global integration in Brazil and makes it comparable with 2009.

  There is also a positive perimeter effect in the income statement from the businesses incorporated in the UK (Alliance & Leicester and Bradford & Bingley), in Santander Consumer Finance and from the consolidation of Sovereign by global integration (as of February 2009). On the other hand, the impact of exchange rates is negative. Thus, the **main developments**, both including and excluding the perimeter and exchange-rate effects, were:

  – Consistent and solid revenues increased 17.6% despite the global recession (10.9% excluding the exchange-rate and perimeter effects).

  – Flexibility in adjusting costs to the cycle. Excluding the exchange-rate and perimeter effects, they remained flat (+0.4%). Their evolution also benefited from higher than envisaged synergies in the processes of integration.

  – The efficiency ratio (including amortizations) was 2.9 p.p. better at 41.7% (37.6% excluding amortizations).

  – Higher revenues and improved efficiency produced a 23.8% rise in net operating income (+19.3% excluding the exchange-rate and perimeter effects), and allowed the larger provisions to be absorbed (+43.7% or +31.3% excluding the exchange-rate and perimeter effects).

  – Net operating income after provisions was 12.9% higher and attributable profit 0.7% (+12.6% and +0.4%, respectively, without the exchange-rate or perimeter effects), strongly backed by the operating areas. The increases (in euros) were 6.9% in Continental Europe, 38.4% in the UK and 6.2% in Latin America. The performance of the main units and the impact of the perimeter and of exchange rates where appropriate is set out in this report.

- The Group maintained a **strong balance sheet**:

  – The global recession pushed up the Group's **ratio of non-performing loans** to 3.24%. Our advantage over our competitors stems from our starting point and comparative evolution. The Group's NPL ratio compares well with the average of its international peer group and also with its competitors in Spain (NPL ratio of 3.41%), the UK and Latin America.

  Total provisions amount to EUR 18,497 million and provide NPL coverage of 75%. Of them, EUR 6.727 million are generic provisions.

  – **Solid capital ratios**. At the end of 2008, and against a backdrop of substantial uncertainty and capital requirements demanded by the market, the Group decided to do a capital increase of EUR 7,195 million, with preferential subscription rights for shareholders. After this increase, core capital stood at 7.5% at the end of 2008.

  At the end of 2009, **core capital** was 8.6% and Tier 1 10.1%, up by around one percentage point in both cases and due to the generation of free capital as well as to the positive impact on equity of the IPO at Banco Santander Brazil.

  – The Group has a financing structure that adequately covers the needs of a retail balance sheet such as Santander's. Our **solid liquidity structure** reflects a basic financing ratio of around 75%. This ratio relates the bank's most stable source of financing (deposits, medium and long-term wholesale financing and capital) to total assets.

  The Group demonstrated its access, even during periods of considerable tensions, to medium and long-term wholesale financing, both the parent bank and a large number of subsidiaries. Moreover, it has a large discounting capacity in central banks (at the end of 2009 total assets eligible to be discounted amounted to more than EUR 100,000 million).

  Lastly, and within the current environment, the Group stepped up its management of financing and put the focus on deposits, which increased 21%, double the growth in lending. The lending/deposit ratio improved by 15 p.p. in 2009 and 26 p.p. since the end of 2007.

- Noteworthy points by **geographic areas**:

  – **Continental Europe:** the overall attributable profit was 6.9% higher. The net operating income of the four large retail units increased 8.8%, absorbing the higher provisions and improving their combined attributable profits by 1.2%. Global businesses also did well. Their attributable profit was 33.1% higher, mainly due to global wholesale banking.

- **The UK:** the Group remained focused on profitability, which combined with the entry of new units, pushed up attributable profit in sterling terms by 55.1% (27% on a like-for-like basis). For the fifth year running, there was double digit profit growth, unlike our competitors in the UK. We also exploited our capacity to keep on growing in a very difficult environment, underscored by a sharp rise in new mortgage loans, balances with companies and in deposits.
- **Latin America:** attributable profit excluding the exchange-rate impact increased 11% to $5,331 million. This growth was spurred by the rise in revenues and very active management of costs. Their growth was negative and comfortably offset the rise in loan-loss provisions and enabled net operating income after provisions to rise by 19%.

In short, Grupo Santander's evolution and that of the business areas continued to show our capacity to maintain profit growth in a complex environment. An analysis of the individual businesses reflects the efforts made to boost revenues and improve the efficiency ratios of all countries and businesses, while strengthening the balance sheet's solvency.

Rating Agencies

	Long term	Short term	Financial strength
Standard & Poor's	AA	A1 +	
Fitch Ratings	AA	F1 +	A/B
Moody's	Aa2	P1	B-
DBRS	AA	R1(high)	

- As regards **rating agencies**, Fitch Ratings confirmed in June 2009 its AA rating and moved from negative rating watch to stable outlook. This was due to the good management of integrating the acquisitions in Brazil, the UK, Europe and the US, which generated revenue and cost synergies. Another factor was core capital of 7.3% at the end of the first quarter.

  This agency also highlighted the Group's good position in the current complex environment due to the diversification of its businesses, its capacity to generate recurring commercial revenues and its strict cost control policy.

  Although S&P positively assessed Banco Santander's overcoming of the crisis, in April 2009 it changed its outlook from stable to negative because of the deteriorating credit conditions in some of the markets where the Group does business.

  Moody's, as part of a general revision of countries, gave us a long-term rating of Aa2, with negative outlook and B- for financial strength. The reasons for the revision were Santander's exposure to the Spanish, UK and US markets, although it stated that in the long term the UK and the US would provide profits.

  Moody's said in its note that Santander remained among the global banks with the best ratings.

  Lastly, DBRS confirmed in February 2010 its AA rating, based on the strength of Santander's franchise and the capacity to generate recurring profits, which are expected to enable Santander to cope with the weak economic conditions and the still unstable global financial markets.

Exchange rates: 1 euro / currency parity

	2009		2008	
	Year-end	Average	Year-end	Average
US$	1.4406	1.3906	1.3917	1.4639
Pound sterling	0.8881	0.8901	0.9525	0.7944
Brazilian real	2.5113	2.7577	3.2436	2.6572
New Mexican peso	18.9223	18.7756	19.2333	16.2599
Chilean peso	730.7444	775.2659	886.8608	757.3061
Argentine peso	5.4761	5.1760	4.8041	4.6423
Colombian peso	2,949.6285	2,984.2729	3,129.3488	2,864.4267
Uruguayan peso	28.1637	31.2598	33.9575	30.5238

Grupo Santander. Results

The consistency of recurring results was maintained in 2009, due to:

- **The strength and diversification of the operating areas.**
- **The management focuses:**
  - **Resilience of revenues to the cycle.**
  - **Flexible costs and generation of synergies.**
  - **Active management of risks / recoveries.**

In addition, all capital gains were assigned to strengthen the balance sheet (basically generic provisions and coverage of property).

Grupo Santander's attributable profit of EUR 8,943 million was 0.7% higher than in 2008.

In order to properly interpret the Group's performance, the following needs to be taken into account:

- In order to facilitate comparisons, given that in 2008 the nine months of Banco Real were consolidated by the equity method in Corporate Activities and the last three months by global integration in Brazil, a proforma statement for 2008 was drawn up that consolidates the 12 months by global integration in Brazil.
- There is a perimeter impact on profits of EUR 377 million from the businesses incorporated in the UK (Alliance & Leicester and Bradford & Bingley), in Santander Consumer Finance and from Sovereign's consolidation by global integration since February 2009.
- Lastly, the comparison of revenues and expenses with 2008 is negatively affected by the average exchange rates of the dollar, sterling and of the main Latin American currencies against the euro. The impact with regard to the euro was: -4 p.p. for the whole Group, -14 p.p. in the United Kingdom and -6 p.p. in Latin America.
- The sale of Banco de Venezuela led to its results being eliminated from various lines and recorded in discontinued operations. In order to produce a like-for-like comparison, the same was done for the bank's results in 2008.

Income statement

Million euros

	2009	2008	Variation Amount	(%)	2007
Net interest income	**26,299**	**20,945**	**5,353**	**25.6**	**14,443**
Dividends	436	553	(116)	(21.0)	420
Income from equity-accounted method	(1)	117	(117)	—	438
Net fees	9,080	9,020	60	0.7	7,869
Gains (losses) on financial transactions	3,423	2,597	826	31.8	2,981
Other operating income/expenses	144	258	(114)	(44.2)	291
Gross income	**39,381**	**33,489**	**5,892**	**17.6**	**26,441**
Operating expenses	(16,421)	(14,949)	(1,472)	9.8	(12,024)
General administrative expenses	(14,825)	(13,580)	(1,245)	9.2	(10,777)
Personnel	*(8,450)*	*(7,758)*	*(693)*	*8.9*	*(6,434)*
Other general administrative expenses	*(6,374)*	*(5,822)*	*(552)*	*9.5*	*(4,342)*
Depreciation and amortisation	(1,596)	(1,370)	(227)	16.6	(1,247)
Net operating income	**22,960**	**18,540**	**4,420**	**23.8**	**14,417**
Net loan-loss provisions	(9,484)	(6,601)	(2,883)	43.7	(3,397)
Impairment losses on other assets	(402)	(91)	(310)	339.3	(51)
Other income	(1,311)	(426)	(885)	207.5	(263)
Profit before taxes (w/o capital gains)	**11,764**	**11,421**	**342**	**3.0**	**10,705**
Tax on profit	(2,336)	(2,391)	55	(2.3)	(2,378)
Profit from continuing operations (w/o capital gains)	**9,427**	**9,030**	**397**	**4.4**	**8,327**
Net profit from discontinued operations	31	319	(288)	(90.3)	304
Consolidated profit (w/o capital gains)	**9,458**	**9,349**	**109**	**1.2**	**8,631**
Minority interests	516	473	43	9.1	520
Attributable profit to the Group (w/o capital gains)	**8,943**	**8,876**	**66**	**0.7**	**8,111**
Net extraordinary capital gains and allowances*	—	—	—	—	950
Attributable profit to the Group	8,943	**8,876**	**66**	**0.7**	**9,060**
EPS (euros)(1)	**1.0454**	**1.2207**	**(0.1753)**	**(14.4)**	**1.1924**
Diluted EPS (euros)(1)	**1.0382**	**1.2133**	**(0.1751)**	**(14.4)**	**1.1809**
Pro memoria:					
Average total assets	1,099,018	970,413	128,604	13.3	877,682
Average shareholders' equity	64,335	51,986	12,350	23.8	41,352

(1).- 2008 and 2007 data have been adjusted to the capital increase with preemptive rights at the end of 2008.
(*).- In 2009 and 2008 extraordinary capital gains and extraordinary allowances for the same amount are included, and thus the net amount is zero.

- Both in 2008 and 2009 the extraordinary capital gains were all assigned to strengthening the balance sheet.

  The extraordinary capital gains in 2009 net of taxes amounted to EUR 2,587 million and were as follows:

  – EUR 724 million from the exchange of securities.
  – EUR 1,499 million from the IPO of Santander Brazil.
  – and EUR 364 million from other operations, notably the sale of 10% of Attijariwafa Bank.

  These gains were assigned as follows:

  – EUR 1,500 million to the fund for generic loan-loss provisions (EUR 1,041 million net of taxes).
  – EUR 814 million to the fund for properties acquired (EUR 554 million net of taxes), lifting coverage to 32%.
  – EUR 269 million to an additional provision for Metrovacesa (up to a valuation of EUR 25 per share).
  – EUR 260 million to the restructuring fund for GE and Sovereign.
  – and EUR 463 million to other funds, including early retirements.

Management priorities in 2009

Bearing all this in mind, Grupo Santander's income statement managed in both years to show the underlying strength of its businesses and the resilience of the business model to the complex environment. This led the Group to prioritise the focuses of management announced for 2009:

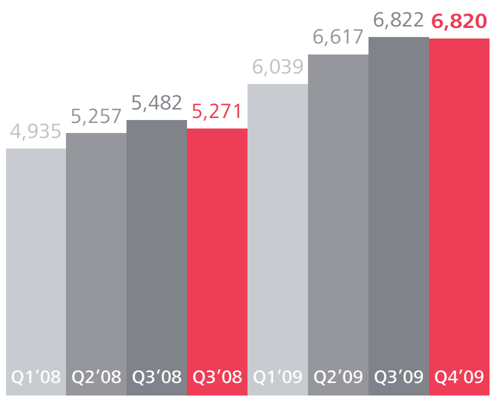
- Management of spreads, particularly in lending.
- Management of the growth differential between revenues and expenses, with strict control of the latter.
- Risk management against a backdrop of a sharp deterioration in the macroeconomic environment.
- Focus on recoveries.
- Disciplined financial management.
- Disciplined use of capital.

Quarterly
Million euros

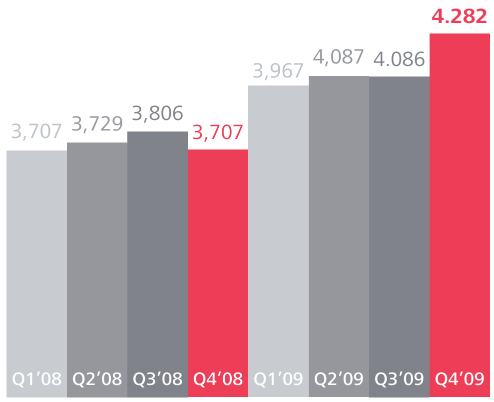
				2008				2009
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net interest income	**4,935**	**5,257**	**5,482**	**5,271**	**6,039**	**6,617**	**6,822**	**6,820**
Dividends	62	257	84	150	87	153	94	102
Income from equity-accounted method	101	51	(56)	21	(13)	10	1	2
Net fees	2,287	2,251	2,347	2,135	2,164	2,374	2,291	2,252
Gains (losses) on financial transactions	756	817	579	444	862	977	777	806
Other operating income/expenses	83	79	29	66	80	16	19	29
Gross income	**8,225**	**8,713**	**8,464**	**8,088**	**9,221**	**10,147**	**10,004**	**10,010**
Operating expenses	(3,707)	(3,729)	(3,806)	(3,707)	(3,967)	(4,087)	(4,086)	(4,282)
General administrative expenses	(3,363)	(3,386)	(3,460)	(3,371)	(3,587)	(3,681)	(3,679)	(3,877)
Personnel	*(1,952)*	*(1,971)*	*(1,979)*	*(1,856)*	*(2,059)*	*(2,106)*	*(2,095)*	*(2,190)*
Other general administrative expenses	*(1,411)*	*(1,416)*	*(1,481)*	*(1,514)*	*(1,529)*	*(1,575)*	*(1,583)*	*(1,687)*
Depreciation and amortisation	(343)	(343)	(347)	(337)	(379)	(405)	(407)	(405)
Net operating income	**4,518**	**4,984**	**4,657**	**4,381**	**5,254**	**6,060**	**5,918**	**5,728**
Net loan-loss provisions	(1,281)	(1,599)	(1,787)	(1,934)	(2,209)	(2,417)	(2,574)	(2,284)
Impairment losses on other assets	(13)	(16)	(13)	(50)	(25)	(241)	(42)	(94)
Other income	(241)	(110)	37	(112)	(278)	(232)	(418)	(382)
Profit before taxes (w/o capital gains)	**2,984**	**3,259**	**2,895**	**2,284**	**2,742**	**3,171**	**2,883**	**2,967**
Tax on profit	(699)	(658)	(617)	(417)	(614)	(629)	(559)	(535)
Profit from continuing operations (w/o capital gains)	**2,284**	**2,601**	**2,278**	**1,867**	**2,128**	**2,542**	**2,325**	**2,432**
Net profit from discontinued operations	58	61	56	145	67	(6)	(7)	(23)
Consolidated profit (w/o capital gains)	**2,342**	**2,662**	**2,333**	**2,012**	**2,195**	**2,536**	**2,318**	**2,409**
Minority interests	136	138	128	71	99	113	97	207
Attributable profit to the Group (w/o capital gains)	**2,206**	**2,524**	**2,205**	**1,941**	**2,096**	**2,423**	**2,221**	**2,202**
Net extraordinary capital gains and allowances*	—	—	—	—	—	—	—	—
Attributable profit to the Group	**2,206**	**2,524**	**2,205**	**1,941**	**2,096**	**2,423**	**2,221**	**2,202**
EPS (euros)(1)	**0.3086**	**0.3533**	**0.3076**	**0.2512**	**0.2472**	**0.2846**	**0.2588**	**0.2547**
Diluted EPS (euros)(1)	**0.3066**	**0.3522**	**0.3066**	**0.2479**	**0.2460**	**0.2831**	**0.2584**	**0.2508**

(1).- 2008 and 2007 data have been adjusted to the capital increase with preemptive rights at the end of 2008.
(*).- Including extraordinary capital gains and extraordinary allowances for the same amount are included, and thus the net amount is zero.

Net interest income
Million euros



Operating expenses
Million euros



The main developments in the income statement, excluding extraordinary capital gains and writedowns, are now set out.

Revenues

Net interest income continued to be the main driver of revenue growth. It increased 25.6% to EUR 26,299 million.

The strong growth was due to larger volumes (benefiting from the acquisitions) and appropriate management of spreads in all units. Spreads on loans were notably better (for the whole Group they increased from 2.65% to 3.29%), although they began to ease in the second quarter, while spreads on deposits were affected by lower interest rates.

In relation to 2008, the rise in net interest income benefited, like other items of the income statement, from incorporations, basically Sovereign, Alliance & Leicester and specialised consumer credit companies (+13 p.p. in revenue growth). On the other hand, the evolution of exchange rates reduced growth by 4 p.p. Excluding both effects, net interest income was 16.3% higher than in 2008.

Gains on financial transactions increased 31.8%, largely due to the good performance of revenues from wholesale businesses, mostly originating in customer operations.

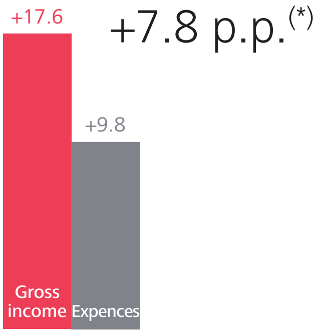
The rest of revenue lines declined, partly because of reduced activity and partly because of the Group's strategy in certain businesses and non-strategic assets.

Fee income was flat, affected by lower activity and the reduced demand for some fee-generating products. Both factors mainly hit revenues from mutual funds and insurance. On the other hand, fee income from services and securities increased.

Net fees
Million euros

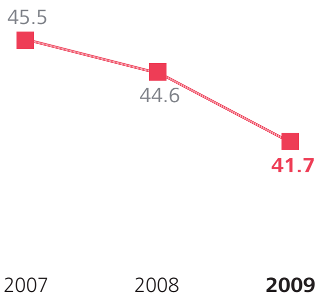
			Variation		
	2009	2008	Amount	(%)	2007
Commissions from services	5,267	4,799	468	9.8	3,592
Mutual & pension funds	1,178	1,627	(450)	(27.6)	1,891
Securities services	774	732	43	5.8	971
Insurance	1,861	1,862	(1)	(0.0)	1,415
Net fees	**9,080**	**9,020**	**60**	**0.7**	**7,869**

Gross income and expenses
% variation 2009 / 2008



* Growth differential between gross income and expenses

Efficiency ratio
(with amortisations)
%



The stronger growth in revenues than in costs produced a further improvement in the **efficiency** ratio to 41.7% (including amortizations) from 44.6% in 2008. Without amortizations, the ratio was 37.6%. This improvement in all units occurred in both Continental Europe and, particularly, in Latin America and in the United Kingdom. It should be noted that, as with other ratios, the evolution of efficiency is on a like-for-like basis in this report but not with that recorded in previous annual reports, because of the incorporation of Banco Real by global integration in all the quarters of 2008 and the changes made to the income statement model at the beginning of 2009.

Net operating income

Net operating income increased 23.8% to EUR 22,960 million, all due to the operating areas. Eliminating the perimeter and exchange-rate impact, growth for the Group was 19.3%. This pace underscored its capacity to keep on generating income in a very difficult environment and absorb the consequent higher levels of provisions.

This capacity increased in relative terms as the year progressed, as net operating income represented 3.4% of loans, up from 3.1% in 2008.

Net loan-loss provisions

Net loan-loss provisions increased 43.7% to EUR 9,484 million. Their growth is still high, but on a downward quarterly trend.

Income accounted for by the equity method was EUR 1 million negative compared to EUR 117 million positive in 2008, as a result of the sale of the stake in Cepsa. The contribution of dividends also declined (from EUR 553 million to EUR 436 million) because of those received in 2008 from RBS and Fortis.

Gross income increased 17.6% to EUR 39,381 million and 10.9% excluding the various perimeter modifications and the exchange-rate impact, underpinned by the 11.4% rise in the operating areas.

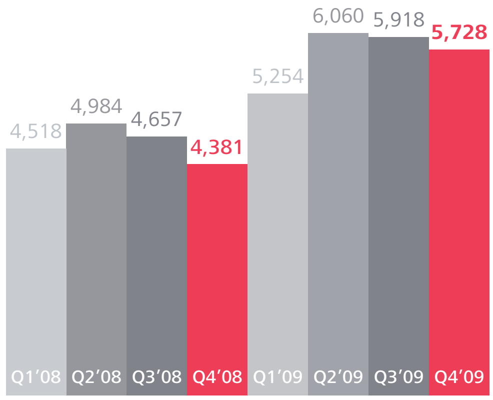
Expenses

Operating expenses rose 9.8% (only 0.4% excluding the perimeter and exchange-rate effects). In the current weak environment, control of expenses is paramount. All geographic and global units reflect changes of around zero or very moderate, consistent with their efficiency objectives. Of note were Brazil and Mexico, with reductions of 3.7% and 3.4%, respectively.

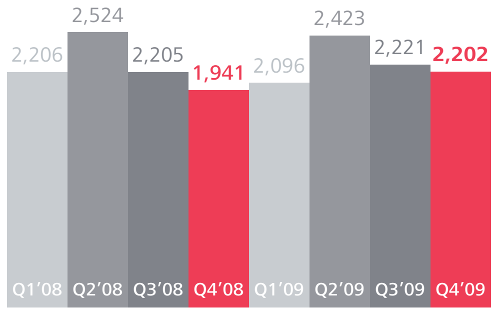
Operating expenses
Million euros

	2009	2008	Variation Amount	(%)	2007
Personnel expenses	8,450	7,758	693	8.9	6,434
General expenses	6,374	5,822	552	9.5	4,342
Information technology	786	668	118	17.7	468
Communications	632	609	23	3.8	401
Advertising	594	632	(38)	(6.0)	554
Buildings and premises	1,405	1,167	238	20.4	835
Printed and office material	209	173	36	20.6	131
Taxes (other than profit tax)	313	284	29	10.2	266
Other expenses	2,436	2,290	146	6.4	1,688
Personnel and general expenses	**14,825**	**13,580**	**1,245**	**9.2**	**10,777**
Depreciation and amortisation	1,596	1,370	227	16.6	1,247
Total operating expenses	**16,421**	**14,949**	**1,472**	**9.8**	**12,024**

Net operating income
Million euros



Attributable profit to the Group
Million euros



This sharp year-on-year rise reflects the impact of the incorporation of new units (approximately 17 p.p. of the increase) and the organic increase in most of the business units for various reasons. The first and most important one is the macroeconomic environment which deteriorated significantly. The second, and to a lesser extent, is the change of mix of the portfolio in previous years toward more profitable products but with a higher risk premium.

The increase in the impairment losses on other assets was EUR 310 million, basically because of the EUR 195 million provision for Metrovacesa in the first half.

Other income and allowances, which includes those for possible contingencies, was EUR 1,311 million negative (EUR 426 million negative in 2008). Part of this growth is reflected in operating businesses, as a result of the larger allowances and the rest on a centralised basis. Of note were the costs related to the acquisition of properties and to pensions and other provisions.

Profit

Profit before tax was EUR 11,764 million. After the tax charge, the results from discontinued operations and minority interests, **attributable profit** was 0.7% higher at EUR 8,943 million.

Earnings per share were EUR 1.0454, 14.4% lower than in 2008, because of the capital increases in 2008 and the beginning of 2009.

Net loan-loss provisions
Million euros

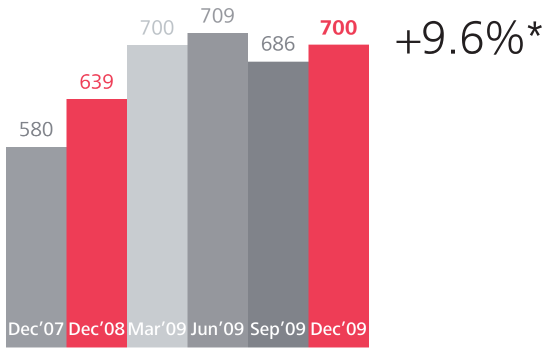
	2009	2008	Variation Amount	(%)	2007
Non performing loans	10,516	7,306	3,210	43.9	4,115
Country-risk	(117)	100	(217)	—	(105)
Recovery of written-off assets	(915)	(805)	(110)	13.7	(612)
Total	**9,484**	**6,601**	**2,883**	**43.7**	**3,397**

Balance sheet

Million euros

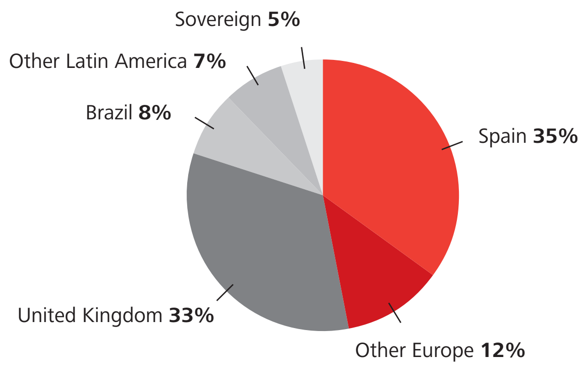
	2009	2008	Variation Amount	(%)	2007
Assets					
Cash on hand and deposits at central banks	34,889	45,781	(10,892)	(23.8)	31,063
Trading portfolio	135,054	151,817	(16,763)	(11.0)	158,807
Debt securities	*49,921*	*43,896*	*6,025*	*13.7*	*66,331*
Customer loans	*10,076*	*684*	*9,392*	—	*23,704*
Equities	*9,248*	*6,272*	*2,976*	*47.4*	*9,744*
Trading derivatives	*59,856*	*95,815*	*(35,959)*	*(37.5)*	*46,733*
Deposits from credit institutions	*5,953*	*5,150*	*803*	*15.6*	*12,295*
Other financial assets at fair value	37,814	25,817	11,997	46.5	24,829
Customer loans	*8,329*	*8,973*	*(644)*	*(7.2)*	*8,022*
Other (deposits at credit institutions, debt securities and equities)	*29,485*	*16,844*	*12,641*	*75.0*	*16,808*
Available-for-sale financial assets	86,621	48,920	37,700	77.1	44,349
Debt securities	*79,289*	42,548	36,742	*86.4*	34,187
Equities	*7,331*	6,373	959	*15.0*	10,162
Loans	736,746	699,615	37,132	5.3	579,524
Deposits at credit institutions	*57,641*	*64,731*	*(7,090)*	*(11.0)*	*38,483*
Customer loans	*664,146*	*617,231*	*46,915*	*7.6*	*539,372*
Debt securities	*14,959*	*17,653*	*(2,693)*	*(15.3)*	*1,668*
Investments	164	1,323	(1,159)	(87.6)	15,689
Intangible assets and property and equipment	11,774	10,289	1,485	14.4	11,661
Goodwill	22,865	18,836	4,029	21.4	13,831
Other	44,602	47,233	(2,631)	(5.6)	33,162
Total assets	**1,110,529**	**1,049,632**	**60,898**	**5.8**	**912,915**
Liabilities and shareholders' equity					
Trading portfolio	115,516	136,620	(21,104)	(15.4)	123,398
Customer deposits	*4,658*	*4,896*	*(238)*	*(4.9)*	*27,992*
Marketable debt securities	*586*	*3,570*	*(2,984)*	*(83.6)*	*17,091*
Trading derivatives	*58,713*	*89,167*	*(30,455)*	*(34.2)*	*49,448*
Other	*51,559*	*38,987*	*12,573*	*32.2*	*28,867*
Other financial liabilities at fair value	42,371	28,639	13,732	47.9	39,718
Customer deposits	*14,636*	*9,318*	*5,318*	*57.1*	*10,669*
Marketable debt securities	*4,887*	*5,191*	*(304)*	*(5.9)*	*10,279*
Deposits at credit institutions	*22,848*	*14,130*	*8,718*	*61.7*	*18,770*
Financial liabilities at amortized cost	823,403	770,008	53,395	6.9	646,411
Due to central banks and credit institutions	*73,126*	*79,795*	*(6,669)*	*(8.4)*	*70,873*
Customer deposits	*487,681*	*406,015*	*81,666*	*20.1*	*316,745*
Marketable debt securities	*206,490*	*227,642*	*(21,152)*	*(9.3)*	*205,917*
Subordinated debt	*36,805*	*38,873*	*(2,069)*	*(5.3)*	*36,193*
Other financial liabilities	*19,300*	*17,681*	*1,619*	*9.2*	*16,683*
Insurance liabilities	16,916	16,850	67	0.4	13,034
Provisions	17,533	17,736	(204)	(1.1)	16,571
Other liability accounts	20,919	19,777	1,142	5.8	16,225
Total liabilities	**1,036,659**	**989,630**	**47,029**	**4.8**	**855,357**
Shareholders' equity	71,832	65,887	5,945	9.0	54,478
Capital stock	*4,114*	*3,997*	*117*	*2.9*	*3,127*
Reserves	*61,071*	*55,707*	*5,365*	*9.6*	*43,828*
Attributable profit to the Group	*8,943*	*8,876*	*66*	*0.7*	*9,060*
Less: dividends	*(2,297)*	*(2,693)*	*397*	*(14.7)*	*(1,538)*
Equity adjustments by valuation	(3,165)	(8,300)	5,135	(61.9)	722
Minority interests	5,204	2,415	2,789	115.5	2,358
Total equity	**73,871**	**60,001**	**13,869**	**23.1**	**57,558**
Total liabilities and equity	**1,110,529**	**1,049,632**	**60,898**	**5.8**	**912,915**

Gross customer loans
Billion euros and % variation Dec 09 / Dec 08



* Excluding exchange rate impact: +5.1%

Gross customer loans
% o/ operating areas. December 2009



Grupo Santander. Balance sheet

Activity reflected the current market context:

- Lower demand for loans intensified: lending increased 9% (-2% on a like-for-like basis and excluding the exchange-rate impact).
- Faster growth in deposits: they rose 21% (+8% on a like-for-like basis and excluding the exchange-rate impact).
- Adequate financing structure: ratio of basic financing of 76%.
- Generation of capital helped increase core capital to 8.6%.
- Further rise in shareholders' equity per share, to EUR 8.04.

Total managed funds at the end of 2009 amounted to EUR 1,245,420 million, of which EUR 1,110,529 million (89%) were on-balance sheet and the rest off-balance sheet mutual and pension funds and managed portfolios.

In order to correctly interpret this information, it is necessary to take into account two positive factors. First, a net perimeter rise from the incorporation to the Group of Sovereign and the consumer business units acquired, which more than offset the reduction in balances from the sale of our bank in Venezuela. Second, the appreciation against the euro on the basis of period-end exchange rates of 29% for the Brazilian real, 7% for sterling, 2% for the Mexican peso and 21% for the Chilean peso. The dollar, however, depreciated 3%.

The positive impact of both factors on the changes in customer balances was 11 p.p. positive on loans and 10 p.p. on customer funds.

Lending

The Group's net lending amounted to EUR 682,551 million, 9% higher than in 2008. Deducting the perimeter effects and exchange rates, there was a fall of 2%.

Lending to the public sector increased 28% and loans to other resident sectors dropped 4%, in line with the deceleration in the market.

Customer loans
Million euros

	2009	2008	Variation Amount	(%)	2007
Public sector	9,803	7,668	2,134	27.8	5,633
Other residents	222,355	230,783	(8,428)	(3.7)	231,681
Commercial bills	11,134	14,874	(3,740)	(25.1)	18,248
Secured loans	125,397	123,566	1,830	1.5	123,371
Other loans	85,824	92,343	(6,519)	(7.1)	90,062
Non-resident sector	468,267	400,903	67,364	16.8	342,479
Secured loans	286,381	229,761	56,620	24.6	199,316
Other loans	181,886	171,142	10,743	6.3	143,163
Gross customer loans	**700,424**	**639,354**	**61,070**	**9.6**	**579,794**
Loan-loss allowances	17,873	12,466	5,407	43.4	8,695
Net customer loans	**682,551**	**626,888**	**55,662**	**8.9**	**571,099**
Pro memoria: Doubtful loans	24,027	13,968	10,059	72.0	6,070
Public sector	18	1	16	—	1
Other residents	9,898	6,208	3,690	59.4	1,812
Non-resident sector	14,111	7,759	6,352	81.9	4,257

Credit risk management*
Million euros

	2009	2008	Variation Amount	**(%)**	2007
Non-performing loans	24,554	14,191	10,363	73.0	6,179
NPL ratio (%)	3.24	2.04	1.20 p.		0.95
Loan-loss allowances	18,497	12,863	5,634	43.8	9,302
Specific	*11,770*	*6,682*	*5,088*	*76.1*	*3,275*
Generic	*6,727*	*6,181*	*546*	*8.8*	*6,027*
NPL coverage (%)	75.33	90.64	(15.31 p.)		150.55
Credit cost (%) **	1.57	1.16	0.41 p.		0.50
Ordinary non-performing and doubtful loans ***	17,641	10,626	7,015	66.0	4,335
NPL ratio (%) ***	2.35	1.53	0.82 p.		0.67
NPL coverage (%) ***	104.85	121.05	(16.20 p.)		214.58

(*).- Excluding country-risk
(**).- Net specific allowance / computable assets
(***).- Excluding mortgage guarantees
Note: NPL ratio: Non-performing loans / computable assets

Secured loans, the main component, increased by 1%, while the commercial portfolio dropped 25%, given its reduced maturities and more direct relation with business activity. Other loans declined 7%. Loans to the non-resident sector rose 17%, affected by perimeter changes and exchange rates.

Continental Europe's balance of total lending decreased 1%. In Spain, the combined lending of the Santander Branch Network and Banesto dropped 4%, following the pattern in the resident sector.

Santander Consumer Finance increased its lending 6%, because of the integration of the assets acquired from Royal Bank of Scotland and GE, while Portugal's lending was 1% lower due to the 8% fall in loans to companies as credit to individuals and SMEs grew 2% and 9%, respectively.

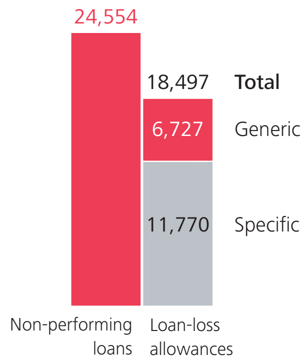
In the United Kingdom, lending grew 5% in sterling. Mortgage loans rose 5%, lifting their share of new gross lending to 19% (+5 p.p. in 2009), credit to companies increased 3% and personal loans, with a small relative share in total lending, dropped 24%, in line with the Group's strategy.

Lending in Latin America declined 8%, discounting exchange rates and the sale of Banco de Venezuela. Of note was the decline of 5% in Brazil (+11% to individuals and decline in non-global companies), while Chile and Mexico decreased 6% and 11%, respectively, the latter affected by cards business.

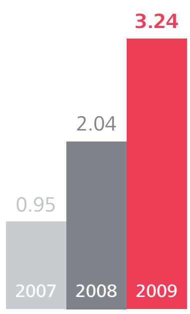
Sovereign recorded EUR 34,605 million, with a downward trend in the balances of non-strategic segments and already showing in the fourth quarter the first increases in attractive segments (multifamily and residential mortgages).

At the end of 2009, Continental Europe accounted for 47% of total lending (35% Spain), the UK 33%, Latin America 15% (8% Brazil) and Sovereign 5%. The respective figures a year earlier were 52% for Continental Europe, 33% for the UK and 15% for Latin America.

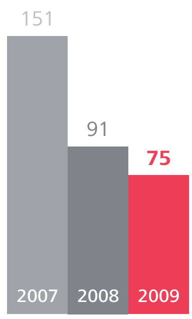
NPLs and loan-loss allowances
Million euros. December 2009



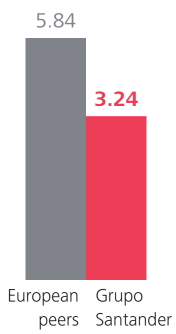
NPL ratio
%



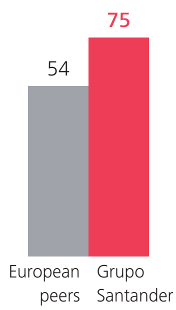
NPL coverage
%



NPL ratio
%



NPL coverage
%



Non-performing loans

Million euros

	2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Balance at beginning of period	6,179	8,047	9,677	11,685	14,191	18,968	21,752	22,666
Net additions	2,304	2,847	3,509	4,340	5,290	4,877	4,170	3,897
Increase in scope of consolidation	1,156	—	—	933	1,033	—	—	—
Exchange differences	(108)	94	(86)	(770)	211	370	(302)	610
Write-offs	(1,484)	(1,310)	(1,415)	(1,997)	(1,758)	(2,463)	(2,954)	(2,620)
Balance at period-end	**8,047**	**9,677**	**11,685**	**14,191**	**18,968**	**21,752**	**22,666**	**24,554**

Risk

Global recession pushed up the ratio of non-performing loans, linked to the rise in the Group's bad and doubtful loans and the slower pace of growth in lending. Another factor was the consolidation of Sovereign and the consumer business units acquired.

Bad and doubtful loans amounted to EUR 24,554 million at the end of 2009. The NPL ratio for the whole Group was 3.24% (+120 b.p.). These loans are covered by provisions of EUR 18,497 million (+EUR 5,634 million), a third of which (EUR 6,727 million) are generic provisions. Coverage for the whole Group, which rose in the third and fourth quarters, stood at 75% at the end of 2009 (91% a year earlier).

Both the NPL ratio and coverage compare well with international standards, as the average figures of European banks included in our peer group are higher in the first case and lower in the second. The same goes for the three large areas where we operate (Spain, the UK and Latin America). Excluding loans with mortgage guarantees, the NPL ratio is 2.35% and coverage 105%.

Net specific loan-loss provisions, excluding bad debts recovered, amount to EUR 11,760 million, 1.57% of average credit risk in 2009 compared to EUR 7,659 million and 1.16% in 2008. This higher credit cost is offset by higher spreads on loans, reflected in growth in net interest income, and in greater recoveries of generic loan-loss provisions in some units. Net provisions represented 1.4% of credit risk, well below the Group's net operating income which stood at 3.4% of credit risk.

In Spain, according to the latest figures, the NPL ratio was clearly below the sector's average, widening the difference as a result of our better relative performance in the last few years. At the end of 2009, the ratio was 3.41% and coverage 73%.

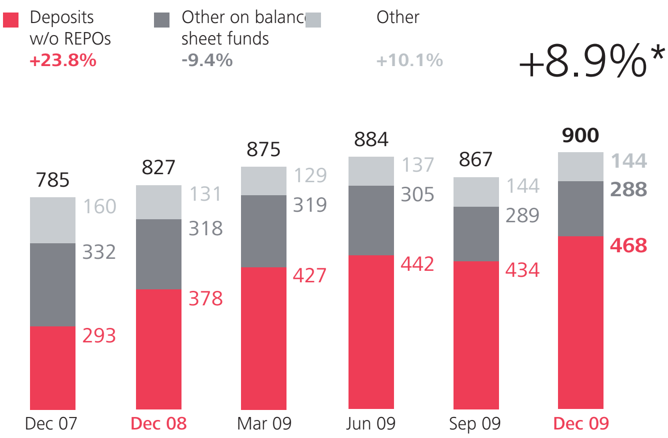
The NPL ratio in the UK was 1.71%, 67 b.p. higher than in 2008, while coverage was 44% (25 p.p. lower). This fall is closely related to the lower share in the portfolio of unsecured loans (due to the aforementioned reduction), whose coverage is much higher as coverage of secured loans only dropped by 3 p.p.

Customer funds under management

Million euros

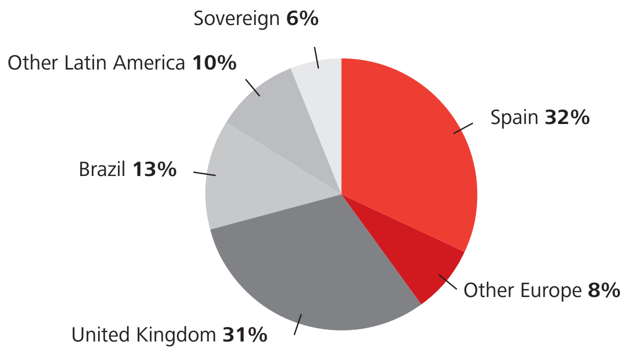
	2009	2008	Variation Amount	(%)	2007
Public sector	13,293	13,720	(427)	(3.1)	15,239
Other residents	126,189	117,776	8,413	7.1	103,535
Demand deposits	61,000	51,300	9,701	18.9	53,779
Time deposits	49,177	46,783	2,394	5.1	30,770
REPOs	16,012	19,693	(3,682)	(18.7)	18,986
Non-resident sector	367,495	288,734	78,761	27.3	236,633
Demand deposits	195,823	151,774	44,049	29.0	117,699
Time deposits	148,485	115,620	32,866	28.4	78,227
REPOs	18,403	17,187	1,215	7.1	37,538
Public Sector	4,784	4,153	631	15.2	3,168
Customer deposits	**506,976**	**420,229**	**86,747**	**20.6**	**355,407**
Debt securities	211,963	236,403	(24,440)	(10.3)	233,287
Subordinated debt	36,805	38,873	(2,069)	(5.3)	36,193
On-balance-sheet customer funds	**755,744**	**695,506**	**60,238**	**8.7**	**624,886**
Mutual funds	105,216	90,306	14,911	16.5	119,211
Pension funds	11,310	11,128	182	1.6	11,952
Managed portfolios	18,364	17,289	1,075	6.2	19,814
Savings-insurance policies	9,422	12,338	(2,916)	(23.6)	9,009
Other customer funds under management	**144,313**	**131,061**	**13,251**	**10.1**	**159,986**
Customer funds under management	**900,057**	**826,567**	**73,489**	**8.9**	**784,872**

Customer funds under management
Billion euros and % variation Dec 09 / Dec 08



* Excluding exchange rate impact: +4.1%

Customer funds under management
% o/ operating areas. December 2009



In order to properly assess coverage in Spain and the UK, it should be borne in mind that it is affected by the share of mortgage balances, which require fewer provisions as these loans have guarantees not included here. The balances of residential mortgages in Spain and the UK, which together account for one-third of the Group's global lending (predominantly first home), have an average LTV of 52% and 53% respectively, or, put another way, additional coverage through collateral of 190%.

Santander Consumer Finance reduced its NPL ratio in the fourth quarter of 2009 to 5.39% (+121 b.p. since the end of 2008). Coverage was 97% (+11 p.p.).

Portugal's NPL ratio increased by 55 b.p. to 2.27% and coverage dropped to 65%.

In Latin America, the NPL ratio was 4.25% (+130 b.p.) and coverage was 105%, only 3 p.p. less than at the end of 2008. Brazil's coverage was 99% and Mexico, Colombia, Argentina, Peru and Uruguay were well above 100%.

More information on credit risk, control and monitoring systems and internal models of risks for calculating provisions is included in the section on risk management.

Customer funds under management

Total customer funds under management by Grupo Santander at the end of 2009 were 9% higher at EUR 900,057 million including the perimeter and exchange rate effects.

Excluding both effects in order to produce a better analysis of management, total funds were 1% lower and with a varied performance by items. Of note was the 10% rise in deposits excluding repos (demand: +11%; time: +8%), reflecting the focus on capturing customer balances in the Group's various units during the last few quarters.

Marketable securities dropped 17%, repos 15% and subordinated debt 13%. The volume of mutual funds increased 6% and pension funds 2%, reversing the decline in both cases between the end of 2007 and the first quarter of 2009.

Continental Europe increased its deposits excluding repos 24%.

In Spain, where around 80% of Continental Europe's deposits are concentrated, deposits without repos increased 19%, while the aggregate of mutual and pension funds declined 7%, a significantly smaller fall than in 2008.

Mutual funds
Million euros

	2009	2008	Variation Amount	(%)	2007
Spain	40,616	44,694	(4,077)	(9.1)	67,246
Portugal	3,982	3,031	950	31.3	5,698
United Kingdom	10,937	7,180	3,757	52.3	10,225
Latin America	49,681	35,400	14,281	40.3	36,041
Total	**105,216**	**90,306**	**14,911**	**16.5**	**119,211**

Pension funds

Million euros

	2009	2008	Variation Amount	(%)	2007
Spain	9,912	9,734	178	1.8	10,464
Individuals	8,429	8,381	48	0.6	9,061
Collective plans	266	236	30	12.7	267
Group employee plans	1,217	1,117	100	9.0	1,136
Portugal	1,398	1,394	4	0.3	1,488
Total	**11,310**	**11,128**	**182**	**1.6**	**11,952**

Santander Consumer Finance increased its deposits excluding repos 45%, backed by Germany and the contribution (13 p.p.) from the businesses acquired.

In Portugal, deposits excluding repos declined 3% because of the shift into mutual and pension funds (+22%) and into savings-insurance (+29%).

In the UK, deposits excluding repos increased 8% in sterling and mutual funds 42%.

In Latin America, excluding the exchange-rate effect and the sale of Banco de Venezuela, the volume of deposits and mutual funds was similar to 2008. They rose 1% in Brazil, 6% in Mexico and dropped 3% in Chile. The capturing policies were the same in these countries and aligned with the envisaged evolution of interest rates. Demand deposits and mutual funds registered double digit growth and time deposits declined.

Sovereign's customer funds amounted to EUR 44,581 million. Demand deposits rose 15% and other deposits declined sharply, due to the bank's policy of reducing high cost balances.

Continental Europe accounted for 40% of managed customer funds (32% Spain), the UK 31%, Latin America 23% (Brazil 13%) and Sovereign 6%. The respective figures in 2008 were 43% for Continental Europe, 33% for the United Kingdom and 24% for Latin America.

In the current environment of deleverage, and due to growth in the deposits of the retail networks much higher than that of loans, there was less need for recourse to the medium and long-term public market.

However, given the strategic importance for the Group of maintaining a notable presence in international institutional investor markets, various units issued in 2009 EUR 10,912 million and EUR 7,077 million of senior debt and covered bonds.

Of particular note were Banco Santander's covered bond operations during the second quarter, as they signified the reopening of this market for Spanish issuers. In the Spanish retail market, two issues of preferred shares were made by Banco Santander and Banesto (EUR 2,000 million and EUR 500 million, respectively).

Issues of senior debt, covered bonds and subordinated debt that matured had countervalues of EUR 30,841 million, EUR 727 million and EUR 2,305 million, respectively, and EUR 2,411 million of preferred shares were amortised.

In addition, and in order to improve the structure of equity and strengthen the balance sheet, Grupo Santander made in the third quarter in international markets exchange offers of securities for a nominal amount of around EUR 9,100 million. The exchange was made with new securities that meet both the current standards of the market and the regulatory requirements for their calculation as equity at the consolidated level. As a result of this exchange, subordinated debt with a countervalue of EUR 1,617 million was issued and preferred shares with a countervalue of EUR 1,593 million.

In August, an offer was made to acquire securitisation bonds corresponding to 27 series issued by funds managed by Santander de Titulización S.G.F.T. In this offer, EUR 609 million were accepted.

All these measures bolstered the Group and maintained its comfortable liquidity position.

More information on Grupo Santander's financing policy can be found on pages 179 to 182 of this annual report.

Goodwill

Total goodwill, including that corresponding to the banks that consolidate by global integration and to equity stakes, was EUR 22,874 million at the end of 2009, EUR 4,029 million higher than a year earlier. This increase is the net difference between the entry into consolidation of the businesses acquired and the impact of exchange rates, mainly the appreciation of sterling and the Brazilian currency against the euro.

Total equity and capital with the nature of financial liabilities

Million euros

	2009	2008	Variation Amount	(%)	2007
Capital stock	4,114	3,997	117	2.9	3,127
Additional paid-in surplus	29,305	28,104	1,201	4.3	20,370
Reserves	31,796	28,024	3,772	13.5	23,458
Treasury stock	(30)	(421)	391	(92.9)	(0)
Shareholders' equity (before profit and dividends)	**65,186**	**59,704**	**5,482**	**9.2**	**46,955**
Attributable profit	8,943	8,876	66	0.7	9,060
Interim dividend distributed	(1,285)	(1,711)	426	(24.9)	(1,538)
Interim dividend not distributed	(2,837)	(3,102)	265	(8.5)	(2,532)
Shareholders' equity (after retained profit)	**70,006**	**63,768**	**6,239**	**9.8**	**51,945**
Valuation adjustments	(3,165)	(8,300)	5,135	(61.9)	722
Minority interests	5,204	2,415	2,789	115.5	2,358
Total equity (after retained profit)	**72,045**	**57,883**	**14,163**	**24.5**	**55,026**
Preferred shares and securities in subordinated debt	7,745	8,673	(927)	(10.7)	7,784
Total equity and capital with the nature of financial liabilities	**79,791**	**66,555**	**13,235**	**19.9**	**62,810**

Shareholders' equity and capital ratios

Total shareholders' equity was 10% higher at EUR 70,006 million (+EUR 6,239 million). This large increase was mainly due to retained earnings and three capital increases during 2009.

The first one, in January, was due to the acquisition of Sovereign when 161,546,320 shares were issued; the second one, in October, saw the issue of 257,647 shares to meet the exchange of 754 Valores Santander and at the third one 72,962,765 shares were issued as a result of the scrip dividend in November when 81% of capital stock opted to receive their second interim dividend in the form of shares.

Total equity and capital with the nature of financial liabilities amounted to EUR 79,791 million, after incorporating minority interests, which increased by EUR 2,789 million after the placement of Banco Santander shares in Brazil, preferred shares and valuation adjustments. The variation in the latter was EUR 5,135 million positive since the end of 2008.

As regards capital ratios, Grupo Santander's eligible shareholders' equity, in accordance with the criteria of the Bank for International Settlements (BIS II), amounted to EUR 79,704 million (EUR 34,769 million surplus and 77% above the minimum requirement).

The BIS II ratio was 14.2%, Tier 1 10.1% and core capital 8.6% (+110 b.p.). Some 80 b.p. of this improvement was due to the free generation of capital, 14 b.p. the scrip dividend and 60 b.p. from the positive impact on equity from the placement of Banco Santander shares resulting from Brazil's IPO. The negative impact from the entry into consolidation of acquisitions was around 40 b.p.

This level of core capital is in quality and quantity terms very high and compares very well with that of our peers, particularly because Grupo Santander's business is basically retail and is broadly diversified by geographic areas and products. Furthermore, this ratio reflects the impact of valuation adjustments of portfolios available for sale and does not include the Group's large generic loan-loss provisions.

Meanwhile, the capacity to generate retained profits, after deducting dividends in accordance with the Group's pay-out policy, is high and constant as shown by the evolution of shareholders' equity per share. This increased by EUR 0.46 in 2009 to EUR 8.04 and is added to that of the three previous years. A further indication of the Group's financial strength is the similar evolution of the net asset value (NAV) per share, defined as equity less valuation adjustments, goodwill and other intangible assets.

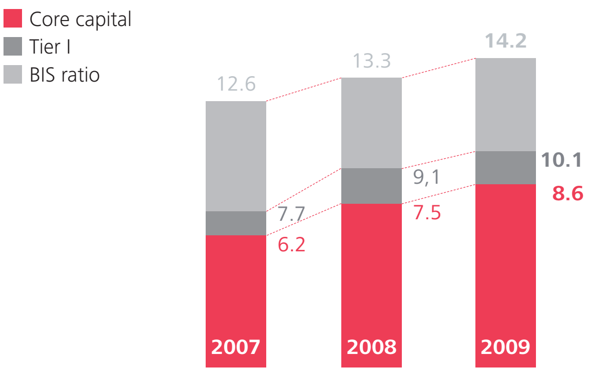
Computable capital and BIS II ratio

Million euros

	2009	2008
Core capital	48,366	38,968
Basic capital	56,615	46,894
Supplementary capital	24,309	25,225
Deductions	(1,221)	(3,816)
Computable capital	**79,704**	**68,302**
Risk-weighted assets	561,684	514,003
BIS II ratio	**14.2**	**13.3**
Tier I (before deductions)	**10.1**	**9.1**
Core capital	**8.6**	**7.5**
Shareholders' equity surplus (BIS II ratio)	**34,769**	**27,182**

Capital ratios

%



Note: 2007 under BIS I; 2008 and 2009 under BIS II

Information by segments

Description of the segments

Grupo Santander maintained in 2009 the general criteria used in 2008, with the following exceptions:

- The system for calculating the financing cost of the Santander Branch Network was changed. The spread is now calculated on the basis of comparing the interest rate of each operation with the relevant Euribor rate instead of doing it at one month Euribor for the gap between assets and liabilities. This system is more appropriate for the current volatility and interest rates.
- The cost of renting the offices sold in the Group's lease-back operation is assigned to the Santander Branch Network.
- The Global Customer Relation Model was reviewed and 208 new customers incorporated in net terms. This does not mean any changes in the principal (geographic) segments, but it does affect the figures for Retail Banking and Global Wholesale Banking.

None of these changes was significant for the Group and do not alter its figures. The figures for 2008 were restated and include the changes in the affected areas.

In addition, and in order to better monitor the performance in 2009, a pro forma statement was drawn up in 2008 for twelve months of Banco Real in Brazil by global integration (in the published accounts, Banco Real's contribution was nine months by the equity accounted method, in corporate activities, and in the fourth quarter by global integration in the income statement of the country).

Due to the agreement to sale Banco de Venezuela, this bank's results for 2009 were eliminated from the various lines of the income statement and are recorded in discontinued operations. In order to provide like-for-like comparisons, the same was done for 2008's results.

The financial statements of each business area have been drawn up by aggregating the Group's basic operating units. The information relates to both the accounting data of the companies in each area as well as that provided by the management information systems. In all cases, the same general principles as those used in the Group are applied.

In accordance with the IFRS, the business areas are structured into two levels:

Principal level (or geographic).

The activity of the Group's operating units is segmented by geographic areas. This coincides with the Group's first level of management and reflects our positioning in the world's three main currency areas (euro, dollar and sterling). The segments reported on are:

- **Continental Europe**. This covers all retail banking business (including Banif, the specialised private bank), wholesale banking and asset management and insurance conducted in Europe with the exception of the United Kingdom. Given the importance of some of these units, the financial information of the Santander Branch Network, Banesto, Santander Consumer Finance (Drive included) and Portugal is also set out.
- **United Kingdom**. This includes retail and wholesale banking, asset management and insurance conducted by the various units and branches of the Group.
- **Latin America.** This embraces all the Group's financial activities conducted via its subsidiary banks and subsidiaries. It also includes the specialised units of Santander Private Banking, as an independent and globally managed unit, and New York's business. Because of their specific importance, the financial statements of Brazil, Mexico and Chile are also provided.

In addition, Sovereign's figures are recorded on their own. This bank began to be consolidated in the first quarter of 2009, after its acquisition became effective. This means that the Group's year-end figures and the operating segments incorporate the balance sheet and income statement of Sovereign of 11 months (February to December).

Secondary level (or business).

This segments the activity of the operating units by the type of business. The reported segments are:

- **Retail Banking**. This covers all customer banking businesses (except those of Corporate Banking, managed through the Global Customer Relationship Model). Because of their relative importance details are provided by the main geographic areas (Continental Europe, United Kingdom and Latin America) and Sovereign, as well as by the main countries. The results of the hedging positions in each country are also included, conducted within the sphere of each one's Assets and Liabilities Committee.
- **Global Wholesale Banking** (GBM). This business reflects the revenues from Global Corporate Banking, Investment Banking and Markets worldwide including all treasuries managed globally, both trading and distribution to customers (always after the appropriate distribution with Retail Banking customers), as well as equities business.
- **Asset Management and Insurance.** This includes the contribution of the various units to the Group in the design and management of mutual and pension funds and insurance. The Group uses, and remunerates through agreements, the retail networks which place these products. This means that the result recorded in this business is net (i.e. deducting the distribution cost from gross income).

As well as these operating units, which cover everything by geographic area and by businesses (their totals are the same), the Group continues to maintain the area of Corporate Activities. This area incorporates the centralised activities relating to equity stakes in industrial and financial companies, financial management of the structural exchange rate position and of the parent bank's structural interest rate risk, as well as management of liquidity and of shareholders' equity through issues and securitisations.

As the Group's holding entity, this area manages all capital and reserves and allocations of capital and liquidity. It also incorporates amortisation of goodwill but not the costs related to the Group's central services except for corporate and institutional expenses related to the Group's functioning.

1. Principal segments or geographic areas

Income statement

Million euros

	Net operating income				Attributable profit to the Group			
	2009	2008	Amount	%	2009	2008	Amount	%
Continental Europe	**10,312**	**9,103**	**1,210**	**13.3**	**5,031**	**4,705**	**326**	**6.9**
o/w: Santander Branch Network	3,252	3,300	(49)	(1.5)	2,012	1,907	105	5.5
Banesto	1,551	1,442	109	7.5	738	732	6	0.8
Santander Consumer Finance	2,976	2,395	581	24.3	632	696	(64)	(9.2)
Portugal	726	678	47	7.0	531	531	1	0.1
United Kingdom	**3,231**	**2,127**	**1,104**	**51.9**	**1,726**	**1,247**	**479**	**38.4**
Latin America	**11,071**	**9,072**	**1,999**	**22.0**	**3,833**	**3,609**	**225**	**6.2**
o/w: Brazil	7,376	5,441	1,935	35.6	2,167	1,769	398	22.5
Mexico	1,542	1,755	(212)	(12.1)	495	600	(105)	(17.6)
Chile	1,196	1,144	52	4.5	563	545	19	3.4
Sovereign	**582**		**582**		**(25)**		**(25)**	
Operating areas	**25,196**	**20,301**	**4,895**	**24.1**	**10,565**	**9,561**	**1,004**	**10.5**
Corporate Activities	(2,236)	(1,761)	(475)	27.0	(1,623)	(685)	(938)	137.0
Total Group	**22,960**	**18,540**	**4,420**	**23.8**	**8,943**	**8,876**	**66**	**0.7**

Ratios

%

	Efficiency ratio[(1)]		ROE		NPL ratio*		NPL coverage*	
	2009	2008	2009	2008	2009	2008	2009	2008
Continental Europe	**36,4**	**37.5**	**18,78**	**20.30**	**3,64**	**2.31**	**77**	**90**
o/w: Santander Branch Network *	39,4	38.7	26,63	23.03	4,38	2.58	65	75
Banesto	39,9	41.8	17,24	18.29	2,97	1.64	64	106
Santander Consumer Finance	28,0	27.6	9,00	17.00	5,39	4.18	97	86
Portugal	42,8	44.1	25,38	27.05	2,27	1.72	65	77
United Kingdom	**40,8**	**45.3**	**29,62**	**28.56**	**1,71**	**1.04**	**44**	**69**
Latin America	**37,3**	**43.9**	**23,67**	**24.59**	**4,25**	**2.95**	**105**	**108**
o/w: Brazil	37,0	46.2	25,64	22.91	5,27	3.58	99	102
Mexico	34,2	35.3	18,43	20.76	1,84	2.41	264	132
Chile	33,2	34.6	32,29	37.26	3,20	2.64	89	102
Sovereign	**60,2**		**—**		**5,35**		**62**	
Operating areas	**38,3**	**41.4**	**21,02**	**22.62**	**3,21**	**2.02**	**76**	**91**
Total Group	**41,7**	**44.6**	**13,90**	**17.07**	**3,24**	**2.04**	**75**	**91**

(1).- with amortisations.
(*).- Santander Branch Network is the retail banking unit of Banco Santander S.A. The NPL ratio of Banco Santander S.A. at the end of December 2009 stood at 3.41% (1.93% in December 2008) and NPL coverage was 73% (96% in December 2008).

Medios operativos

	Employees		Branches	
	2009	2008	2009	2008
Continental Europe	**49,870**	**48,467**	**5,871**	**5,998**
o/w: Santander Branch Network	19,064	19,447	2,934	2,933
Banesto	9,727	10,440	1,773	1,915
Santander Consumer Finance	9,362	8,052	311	290
Portugal	6,294	6,584	763	770
United Kingdom	**22,949**	**24,379**	**1,322**	**1,303**
Latin America*	**85,974**	**96,405**	**5,745**	**6,089**
o/w: Brazil	50,961	53,256	3,593	3,603
Mexico	12,466	13,932	1,093	1,129
Chile	11,751	12,079	498	507
Sovereign	**8,847**		**722**	
Operating areas	**167,640**	**169,251**	**13,660**	**13,390**
Corporate Activities	1,820	1,710	—	
Total Group	**169,460**	**170,961**	**13,660**	**13,390**

(*).- In 2009, sale of Banco de Venezuela (5,600 employees; 285 branches)

Continental Europe

Million euros

	2009	2008	Variation Amount	(%)
Income statement				
Net interest income	**11,456**	**9,259**	**2,197**	**23.7**
Net fees	3,787	4,074	(287)	(7.0)
Gains (losses) on financial transactions	609	764	(154)	(20.2)
Other operating income(1)	364	462	(98)	(21.3)
Gross income	**16,217**	**14,559**	**1,658**	**11.4**
Operating expenses	(5,904)	(5,456)	(448)	8.2
General administrative expenses	(5,335)	(4,956)	(379)	7.6
Personnel	*(3,306)*	*(3,123)*	*(183)*	*5.9*
Other general administrative expenses	*(2,028)*	*(1,832)*	*(196)*	*10.7*
Depreciation and amortisation	(569)	(500)	(69)	13.8
Net operating income	**10,312**	**9,103**	**1,210**	**13.3**
Net loan-loss provisions	(3,111)	(2,473)	(638)	25.8
Other income	(151)	(86)	(65)	76.4
Profit before taxes	**7,050**	**6,544**	**507**	**7.7**
Tax on profit	(1,882)	(1,703)	(178)	10.5
Profit from continuing operations	**5,169**	**4,840**	**328**	**6.8**
Net profit from discontinued operations	(45)	(21)	(24)	115.0
Consolidated profit	**5,124**	**4,820**	**304**	**6.3**
Minority interests	93	114	(21)	(18.6)
Attributable profit to the Group	**5,031**	**4,705**	**326**	**6.9**
Balance sheet				
Customer loans(2)	322,026	325,378	(3,353)	(1.0)
Trading portfolio (w/o loans)	50,764	72,303	(21,538)	(29.8)
Available-for-sale financial assets	20,132	12,806	7,326	57.2
Due from credit institutions(2)	88,508	63,296	25,212	39.8
Intangible assets and property and equipment	5,054	4,612	442	9.6
Other assets	21,955	17,644	4,311	24.4
Total assets/liabilities & shareholders' equity	**508,439**	**496,039**	**12,400**	**2.5**
Customer deposits(2)	198,144	165,762	32,382	19.5
Marketable debt securities(2)	50,610	52,076	(1,466)	(2.8)
Subordinated debt(2)	2,079	1,752	327	18.6
Insurance liabilities	10,287	13,889	(3,602)	(25.9)
Due to credit institutions(2)	115,487	85,232	30,255	35.5
Other liabilities	105,366	153,674	(48,308)	(31.4)
Shareholders' equity(3)	26,466	23,653	2,813	11.9
Other customer funds under management	**70,289**	**75,473**	**(5,184)**	**(6.9)**
Mutual funds	44,598	47,725	(3,127)	(6.6)
Pension funds	11,310	11,128	182	1.6
Managed portfolios	5,499	4,479	1,020	22.8
Savings-insurance policies	8,882	12,141	(3,258)	(26.8)
Customer funds under management	**321,122**	**295,064**	**26,058**	**8.8**

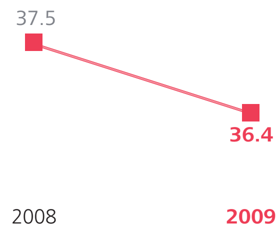
(1).- Including dividends, income from equity-accounted method and other operating income/expenses
(2).- Including all on-balance sheet balances for this item
(3).- Not including profit of the year.

Continental Europe

- Revenue growth, from net interest income, despite the recession.
- Flat costs on a like-for-like basis and an improvement of one percentage point in the efficiency ratio.
- The retail networks continued to show their resilience in the face of the cycle and surge in GBM's results.

Gross income and expenses
% variation 2009 / 2008

Efficiency ratio
(with amortisations)
%



Attributable profit was EUR 5,031 million (48% of the Group's total from its operating areas). Gross income increased 11.4%, net operating income 13.3% and attributable profit 6.9%.

Growth reflected some perimeter effect, mainly in gross income and net operating income from the incorporation of the acquired consumer businesses (mainly GE in the first quarter of 2009). On a like-for-like basis and given the current environment, the increases were also very good: gross income rose 5.4%; net operating income 8.2% and profit 5.1%, because of the resilience of business units to the cycle and the excellent evolution of Global Banking and Markets, strongly backed by customer revenues.

The area's growth was due to the favourable evolution of revenues and control of costs. As a result, the efficiency ratio (with amortizations) was 1.1 p.p. better at 36.4%.

Net interest income, the main engine of revenue growth, increased 23.7% to EUR 11,456 million, thanks to active management of spreads which offset the slowdown in volumes, in line with the market trend. Of note were the Santander Branch Network, whose net interest income rose 16.0%, Santander Consumer Finance (+31.8%, aided by the latest acquisitions) and GBM with a sharp rise in spreads. Revenues from insurance increased 15.3% to EUR 122 million.

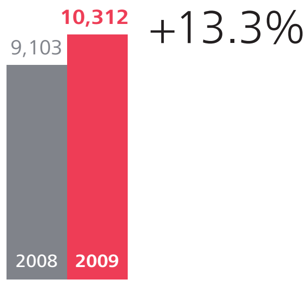
Net fee income, gains on financial transactions, dividends and income by the equity method declined, partly because of the impact of the environment and, in some cases, a policy of marketing products different from that in 2008.

Operating expenses increased 8.2%. The growth differential between gross income and expenses was 3.2 p.p, and produced a further improvement in the efficiency ratio. Excluding Santander Consumer Finance's acquisitions, costs were almost flat (+0.8%).

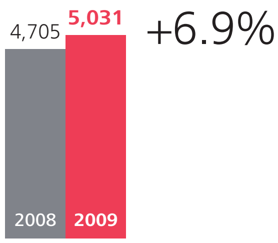
Net operating income grew 13.3%, a strong pace in the current environment. The net operating income of the retail units increased 8.8%. Of note was the double digit growth of Santander Consumer Finance and GBM.

This growth absorbed the increase in loan-loss provisions and maintained the rise in the profits of the Santander Branch Network, Banesto (recurring), Portugal and GBM. Only the earnings of Santander Consumer Finance declined, mainly because of Spain and discontinued operations, although its evolution gradually improved during the second half of the year. Its profits fell 20% in the first half and 9.2% for the whole year, with those in the fourth quarter already higher than in the same period of 2008.

Net operating income
Million euros



Attributable profit
Million euros



NPL ratio
%

NPL coverage
%

Lending declined 1%, due to the lower demand in Spain. Customer funds, on the other hand, increased 9%. Total deposits and insurance savings (an alternative product whose evolution depends on the greater or lesser preference of customers in relation to deposits) rose 16%. Demand and time deposits increased.

Mutual funds declined 7%, although the fall came to a halt in the second half of 2009 when there was slight growth. Similar comments can be made about pension funds which after falling in every quarter of 2008 and the first quarter of 2009 increased in the other three quarters (+2% for the whole year).

Continental Europe. Main units

Million euros

	Santander Branch Network		Banesto		Santander Consumer Finance		Portugal	
	2009	Var (%)	2009	Var (%)	2009	Var (%)	2009	Var (%)
Income statement								
Net interest income	**4,052**	**16.0**	**1,747**	**9.6**	**3,268**	**31.8**	**793**	**5.7**
Net fees	1,188	(25.2)	608	(1.9)	863	18.7	344	(2.7)
Gains (losses) on financial transactions	132	(39.2)	165	3.8	(15)	—	81	42.6
Other operating income(1)	(8)	—	64	(39.3)	18	(58.6)	51	(4.5)
Gross income	**5,363**	**(0.3)**	**2,583**	**4.3**	**4,135**	**25.0**	**1,269**	**4.5**
Operating expenses	(2,111)	1.5	(1,032)	(0.3)	(1,159)	26.7	(544)	1.5
General administrative expenses	(1,951)	1.5	(909)	(1.2)	(1,051)	25.7	(469)	1.1
Personnel	(1,248)	*(0.4)*	(683)	*(1.8)*	(519)	*29.3*	(318)	*1.9*
Other general administrative expenses	(703)	*4.9*	(226)	*0.5*	(532)	*22.4*	(151)	*(0.7)*
Depreciation and amortisation	(160)	1.9	(123)	7.1	(107)	37.4	(75)	4.1
Net operating income	**3,252**	**(1.5)**	**1,551**	**7.5**	**2,976**	**24.3**	**726**	**7.0**
Net loan-loss provisions	(481)	(25.2)	(379)	26.6	(1,967)	41.4	(91)	605.6
Other income	(13)	(13.1)	(23)	120.0	(46)	117.2	9	—
Profit before taxes	**2,757**	**4.4**	**1,148**	**1.5**	**963**	**(2.0)**	**643**	**0.4**
Tax on profit	(743)	3.9	(334)	4.9	(274)	7.7	(111)	2.1
Profit from continuing operations	**2,014**	**4.6**	**814**	**0.1**	**689**	**(5.4)**	**532**	**0.1**
Net profit from discontinued operations	—	—	—	—	(45)	115.0	—	—
Consolidated profit	**2,014**	**4.6**	**814**	**0.1**	**645**	**(8.9)**	**532**	**0.1**
Minority interests	2	(89.3)	77	(6.3)	13	9.7	1	(11.5)
Attributable profit to the Group	**2,012**	**5.5**	**738**	**0.8**	**632**	**(9.2)**	**531**	**0.1**
Balance sheet								
Customer loans(2)	115,582	(5.0)	75,449	(2.4)	56,893	5.6	32,294	(0.9)
Trading portfolio (w/o loans)	—	(100.0)	6,857	31.1	1,153	104.1	1,286	(17.7)
Available-for-sale financial assets	39	40.8	7,837	37.8	483	291.1	3,867	259.2
Due from credit institutions(2)	138	(57.2)	23,500	14.3	8,398	18.8	5,630	33.2
Intangible assets and property and equipment	1,227	(0.1)	1,424	2.9	864	(7.0)	486	(0.8)
Other assets	559	99.5	7,332	1.4	2,888	42.2	4,867	(2.3)
Total assets/liabilities & shareholders' equity	**117,545**	**(4.8)**	**122,399**	**4.3**	**70,680**	**9.4**	**48,430**	**7.8**
Customer deposits(2)	72,636	24.6	55,580	(0.6)	26,114	44.8	14,946	(3.6)
Marketable debt securities(2)	—	—	29,893	5.0	7,395	(42.5)	11,677	34.4
Subordinated debt(2)	—	—	1,340	30.3	464	4.4	254	(9.1)
Insurance liabilities	—	—	—	—	—	—	4,794	18.2
Due to credit institutions(2)	386	(15.4)	18,362	10.4	25,423	(2.1)	13,672	6.0
Other liabilities	37,309	(34.3)	12,892	13.4	3,744	71.6	1,326	(28.9)
Shareholders' equity(3)	7,214	(9.6)	4,332	9.3	7,539	47.3	1,762	6.9
Other customer funds under management	**28,961**	**(25.8)**	**11,035**	**12.5**	**330**	**(4.1)**	**10,191**	**23.9**
Mutual funds	21,660	(15.9)	7,370	8.1	276	(3.4)	3,982	31.3
Pension funds	6,203	(1.9)	1,416	0.5	55	(7.0)	1,398	0.3
Managed portfolios	—	—	115	90.0	—	—	122	(25.2)
Savings-insurance policies	1,098	(84.3)	2,134	40.3	—	—	4,689	28.9
Customer funds under management	**101,596**	**4.4**	**97,848**	**2.8**	**34,304**	**8.3**	**37,068**	**13.4**

(1).- Including dividends, income from equity-accounted method and other operating income/expenses
(2).- Including all on-balance sheet balances for this item
(3).- Not including profit of the year

Santander Branch Network

- **Growth in gross income, aided by management of spreads and good levels of activity.**

- **Flat costs for eight straight quarters without reducing business capacity.**

- **Non-performing loans better than the sector's average, because of the early measures taken and the focus on recoveries.**

Against a backdrop of recession and the downturn in the financial sector, the Santander Branch Network generated attributable profit of EUR 2,012 million in 2009, 5.5% more than in 2008.

Strategy in 2009

This was due to the progress made in the main focuses of attention: capturing and linking customers; good levels of lending and customer funds; balanced management of spreads; containment of costs without reducing the business capacity; management and strong control of credit risk quality and enhancing the quality of service.

Income statement

These measures resulted in net interest income 16.0% higher at EUR 4,052 million, due to the 25% rise in deposits, the continued good level of lending (the average balance only dropped 3%) and the improvement in the spread on loans of 0.84 p.p. The spread on deposits, however, dropped 0.30 p.p. due to accommodating the cost of funds to the downward trend in market interest rates.

The rest of revenues were more affected by market conditions and the policies pursued in 2009. Total fee income and gains on customers' financial transactions declined 26.9%. The main reasons for this decline were mutual funds, structured insurance and hedging of interest rates and exchange rates. Also, Santander remained loyal to its commitment of "Zero service fees" for those benefiting from the "Queremos ser tu Banco" plan, a policy that has kept the tariff of fees unchanged for five years. Those generated are solely the result of greater business.

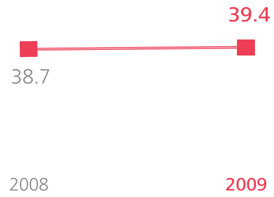
Gross income remained virtually unchanged at EUR 5,363 million (-0.3%).

Operating expenses have been stable for the last two years (+1.5%). Of note was the 0.4% reduction in personnel costs and the fact that this has been achieved without cutting installed capacity as the number of branches remained stable at more than 2,900.

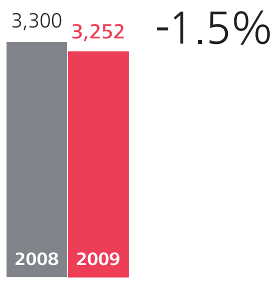
Net operating income was 1.5% lower at EUR 3,252 million, and the efficiency ratio remained at below 40% (39.4%). Excluding amortizations, the ratio was 36.4%.

Gross income and expenses
% variation 2009 / 2008

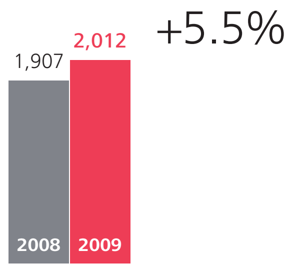
Efficiency ratio
(with amortisations)
%



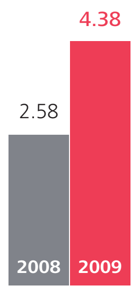
Net operating income
Million euros



Attributable profit
Million euros



NPL ratio
%



NPL coverage
%

The Santander Branch Network continued to strictly manage risk, reflected in a lower pace of growth than the market and a NPL ratio of 4.38%, which compares well with the banking sector and even more so given that as it is a retail network it does not include the balances of wholesale banking whose bad loans are clearly lower. Taking them into account, the NPL ratio of Banco Santander parent bank at the end of 2009 was 3.41%. The coverage for the Santander Branch Network was 65% and 73% for Banco Santander.

Net loan-loss provisions were EUR 481 million, 25.2% lower than in 2008, due to efficient management of the Recoveries Area, created this year, and the availability of generic provisions established in previous years when lending growth was higher, which offset the greater need for specific provisions during the year.

Profit before tax was EUR 2,757 million, 4.4% more than in 2008, and attributable profit was EUR 2,012 million, which compares well with that of our competitors.

Activity

Activity is backed by the large customer base of the Santander Branch Network (almost 9 million) and the "Queremos ser tu Banco" strategic plan, which continued to provide good levels of capturing and linking customers.

In lending, the Santander Branch Network maintained its capacity to meet the demand from individuals and companies, which was lower than normal because of the recession. More than 300,000 credit operations were formalised and lending amounted to EUR 50,000 million.

Of note were the 45,000 loans with mortgage guarantee (EUR 8,500 million), 130,000 consumer credits (EUR 1,300 million) and 135,000 other loans to companies and businesses (EUR 35,000 million). Also noteworthy was our participation in the programme of the Official Credit Institute (ICO) to finance companies, mainly SMEs, through which the Santander Branch Network granted EUR 3,500 million, three times more than in 2008 (22% share). One in every five of these operations (45,000 in all) was Santander's.

Furthermore, a large part of this activity were pre-approved credits, where the Bank used the most advanced tools to enable customers and business managers to quickly and safely handle these operations. More than EUR 10,000 of loans were granted to individuals, the self-employed, professionals, shops and micro companies.

Customer funds grew 4%, maintaining the trend of the last quarters. Deposits increased 25%, mutual funds fell 16% and pension funds decreased 2%.

The work of the Santander Branch Network was recognised in various spheres and The Banker magazine named it the best bank in Spain in 2009.

Priorities in 2010

The objectives for 2010 are: to have more than 9 million customers, increase the number of customers benefiting from "Queremos ser tu Banco" and push activity as much as possible in order to increase market share. All of this will be done without letting down our guard on two basic aspects: rigorous management of credit risk, which should enable us to maintain a NPL ratio lower than that of the banking system as a whole, and keep flat costs.

Banesto

- **Higher revenues due to capturing and linking customers and SMEs.**
- **Strongly controlled expenses, with a further gain in the efficiency ratio.**
- **Net operating income after loan-loss provisions increased 2.6%.**
- **Good evolution of credit quality, better than that of our competitors.**
- **Strengthened balance sheet and its capital and liquidity position.**

In a difficult environment for the banking system, Banesto's financial soundness, the development of a business model focused on customer growth and linkage, and the capacity to manage costs and risks, enabled the bank to generate positive and quality results.

Strategy

The whole bank was aligned with the management priorities of this business model, focused on making Banesto the first choice bank for its individual and corporate customers.

- Quality of service as the basis of the value proposal. Business processes will lead to a sustained increase in recurring revenues.
- Financial soundness as a competitive advantage. A high rating by external agencies has a positive impact on access to the markets.
- Exploiting Banesto's technological capacity which, with innovative solutions, is a distinguishing factor and a competitive advantage.

All of this enabled Banesto to enhance its commercial efficiency with the launch of new initiatives or deepen those already in existence, such as the Smash mortgage and the Wii payroll campaign, among others.

As in the rest of segments, Banesto's figures were drawn up again in accordance with the criteria set out on page 98 of this report. The figures presented here, therefore, do not coincide with those published by Banesto itself.

Income statement

Net interest income was 9.6% higher at EUR 1,747 million. The drivers were the business derived from the capturing and linking of customers and management of the balance sheet.

Net fees were 1.9% lower at EUR 608 million. This fall was due to the decline during 2008 of mutual and pension funds, which in 2009 produced lower revenues from this activity. Fees from services and insurance, on the other hand, increased 6.1% to EUR 509 million, largely due to greater linkage and transactions.

Gains on financial transactions, largely from the distribution of treasury products to customers (a recurring activity), increased 3.8 % to EUR 165 million.

Gross income was 4.3% higher at EUR 2,583 million.

Operating expenses remained almost flat (-0.3%) and combined with the rise in gross income produced a further improvement in the efficiency ratio to 39.9% (41.8% at the end of 2008).

As a result of increased revenues and control of expenses, net operating income increased 7.5% to EUR 1,551 million.

Net loan-loss provisions rose 26.6% to EUR 379 million, due to the rise in non-performing loans which at Banesto increased at a slower pace than the banking system's as a whole.

Ordinary profit before tax was EUR 1,148 million. Attributable profit after taxes and minority interest was EUR 738 million, 0.8% more than in 2008.

Activity

The evolution of the balance sheet was consistent with the impact of recession. The trend of lower demand for loans intensified in 2009. In these circumstances, Banesto continued its policy of selective growth in lending. The balance of loans at the end of 2009 was EUR 75,449 million, 2% lower than a year earlier.

Also, Banesto was not immune to the rise in non-performing loans, but its relative performance has been better. The NPL ratio at the end of 2009 was 2.97%, up 1.33 p.p. compared to a rise of 1.72 p.p. in the banking sector as a whole. Coverage was 64%.

Customer funds amounted to EUR 97,848 million, 3% more than in 2008 and with a significant advance in the most profitable products. Off-balance sheet funds consolidated the recovery started in June and ended 2009 at EUR 11,035 million (+12.5%). The balance of current accounts was EUR 17,727 million (+18%).

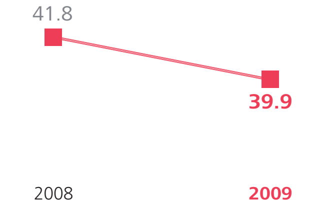
Banesto's level of capitalisation is well above the minimum required (surplus of more than EUR 2,200 million). The BIS II ratio was 11.3% and Tier 1 8.7%.

Priorities in 2010

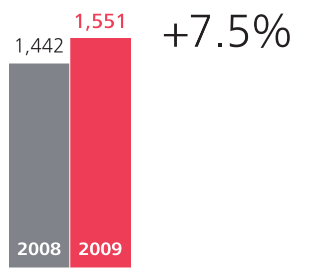
Banesto's objectives for 2010, based on the envisaged environment, are to keep on improving its efficiency ratio, boost profits by more than the sector and maintain a lower level of non-performing loans. The main management drivers for this are a greater focus on profitable growth in business (capturing new customers, increasing linkage to 50% of customers and growth in business with corporate clients of the best quality) and continued prudence and anticipation in risk policies.

Gross income and expenses
% variation 2009 / 2008

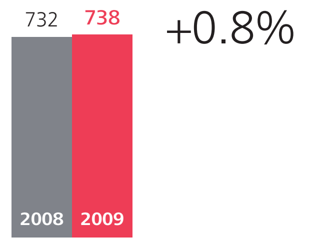
REfficiency ratio
(with amortisations)
%



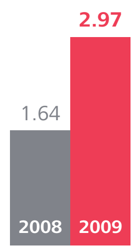
Net operating income
Million euros



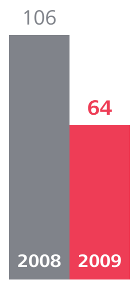
BAttributable profit
Million euros



NPL ratio
%



NPL coverage
%



Santander Consumer Finance

- Solid revenues from improved spreads, the lower cost of financing and the rise in fee income.
- Strict management of costs and reduction in structures.
- Higher net operating income absorbed the larger provisions, which are in the process of being stabilised.
- Active management of the business portfolio: entry of new units and portfolios and discontinuation of others.

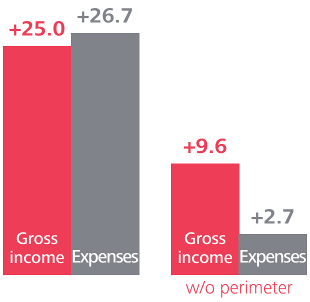
Income statement

Attributable profit was EUR 632 million, 9.2% less than in 2008. This was due to the difficult macroeconomic and business environment in various countries. The decline in profits, however, was sharply reduced (-19.7% in the first half over the same period of 2008) after a good second half. The profit in the fourth quarter was 10.3% higher than in the same period of 2008 and all of it was recurring income (net operating income after provisions was 26.5% higher year-on-year). There were three factors behind this:

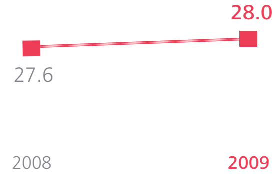
- Solid revenues (+25.0%), due to the positive impact of new incorporations and the notable organic growth in net interest income and fee income (+13% on a like-for-like basis). This reflects the active management of spreads (average spread on loans: +75 b.p.), more adjusted to the rise in risk premiums in various markets and taking advantage of the lower cost of wholesale financing, as well as the rise in cross-selling with a further increase in fees from insurance business.
- Strong containment of expenses: on a like-for-like basis, they increased 2.7%. Including incorporations, they rose 26.7%, a slower pace than in the first half (+33.6%) and partly due to the integration progress. The efficiency ratio remained at around 28% and net operating income grew 24.3% (+13% without incorporations).
- High cost of credit because of the deterioration of the economic environment and of credit quality. Net loan-loss provisions rose 41.4% and 28% excluding incorporations. However, the greater stability of provisions in the last few quarters (those in the fourth quarter were 3% lower than in the same period of 2008) enabled net operating income to absorb the increase in provisions. Net operating income after provisions ended 0.5% higher than in 2008 (-10.5% in the first half).

The evolution of provisions reflected the efforts in admission and recoveries in all units, which led to sharp reductions in net NPL entries (54% lower in the fourth quarter than in the same period of 2008).

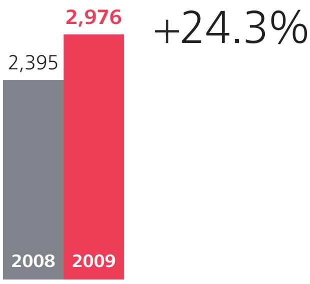
Gross income and expenses
% variation 2009 / 2008



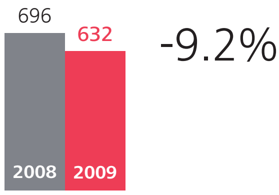
Efficiency ratio
(with amortisations)
%



Net operating income
Million euros



Attributable profit
Million euros



NPL ratio
%

NPL coverage
%

The NPL ratio at the end of 2009 was better than envisaged at the beginning of the year (5.39% compared to 4.18% in 2008) and coverage was higher at 97% (86% in 2008).

The results differed from country to country. Of note was Germany, which generates the largest profits, whose contribution to the Group was 9% higher than in 2008 because of the new incorporations and good management of revenues and costs which offset the higher provisions in the new entities.

Santander Consumer Finance USA registered the largest rise in attributable profit (+41.2% in dollars) and made the area’s second largest contribution. This was due to the drive in revenues via commercial agreements, both from the acquisition of portfolios of greater quality with significant discounts as well as management of others, control of costs and experience and agility in recoveries against a backdrop of contained organic growth.

Better evolution of Nordic countries. Their contribution to the Group increased 12% in euros, and in the UK which, after quickly integrating the unit acquired from GE, obtained profits and became the second largest independent auto finance company in the country. Of note among the other countries was the weak evolution of Spain, more affected by the sector's deterioration, which led to large provisions and stable revenues that could not be offset by lower costs.

Activity

New lending amounted to EUR 22,500 million, 4% less than in 2008. This was due to the consumer downturn in the countries where we operate, the rigorous admission processes and the need to balance organic growth and acquisition of portfolios.

Larger fall in auto finance (-7%) which, however, picked up in the second half thanks to government scrappage schemes. These stimulus programmes enabled combined auto finance in Europe to end the year only 2% lower than in 2008, in line with car sales (-2%) but differing by country.

Of note was Germany which, with the push from car sales (+23%) and new incorporations, increased its new lending by 18%. On the other hand, Spain, Portugal and Nordic countries on a like-for-like basis reflected a sharp drop in their new lending by rates of close to 20%, despite the recovery in the last few months.

Our consumer unit in the US combined greater requirements in the admission of new operations (reflected in a 39% fall in lending) with new commercial agreements and incorporations of portfolios. The impact of both was a 30% rise in the total portfolio.

As a result of all these trends, the volume of loans at the end of 2009 was EUR 60,000 million (+6% excluding the exchange-rate impact). This figure does not include another EUR 2,000 million from third parties which are managed by SCF and would bring the total under management to EUR 63,000 million.

As regards funds, of note was the solid rise in customer deposits, particularly in Germany (+32% on a like-for-like basis) and the contribution of new units. Regarding the rest of financing sources, and not including recourse to the Group's parent bank, the area maintained a stable financing structure. It issued securitisation bonds at the same pace as in previous years. The balance was more than EUR 14,000 million which is added to the more than EUR 3,000 million in other medium and long-term issues. The volume of commercial paper issued was EUR 18,000 million (EUR 10,000 million in Spain and EUR 8,000 million in international markets within the Euro Commercial Paper Programme), with a stable level of joint use and below 50%.

Integration

Santander Consumer Finance was also very active in managing and integrating its business portfolio, enabling it to strengthen and consolidate its presence in key countries and attain the envisaged synergies.

Of note in Europe was integration of the units acquired from GE Money in Germany, Austria, Finland and the UK, while progress was made in discontinuing the businesses in Hungary and the Czech Republic. Acquisition of Triad Financial ($1,700 million under management) was completed in the US in the fourth quarter and fully integrated into the platform.

Two agreements (pending completion in the first months of 2010) were reached which will strengthen the franchise in two key markets. One is in Poland, with American International Group (AIG) to combine consumer finance businesses in a unit which will be the leader in auto finance (30% market share), personal loans and credit cards. Santander will have 70% of the capital and will assume management of the business (EUR 3,500 million in loans, EUR 750 million in deposits and 250 branches). And the other is in the US, with HSBC to acquire $1,000 million of portfolio and the provision of service to the rest of its portfolio of $7,600 million.

Priorities in 2010

SCF's priorities in 2010 are to increase new lending in the most dynamic markets, defend spreads in the face of a likely rise in the cost of funds and extract value from recoveries and from the slowdown in the cost of credit, all while controlling costs and obtaining value from the new incorporations.

Portugal

- Growth in gross income, driven by the rise in net interest income.
- In expenses, continued excellent management.
- Provisions increased because of recession.
- Greater increase in mutual funds, insurance and loans to SMEs (high market shares in programmes promoted by the Portuguese government).
- Santander Totta received the three most prestigious prizes granted for banking in Portugal.

Strategy in 2009

In a very adverse and complex environment, Santander Totta maintained solid capital and efficiency ratios, levels of profitability of more than 20% and a management strategy aimed at revenue growth, controlled costs and active and prudent management of risks and recoveries.

This strategy is reflected in the 4.5% rise in gross income, well above the 1.5% increase in costs. As a result, the efficiency ratio improved to 42.8% and net operating income was 7.0% higher, which absorbed the larger provisions and left an attributable profit of EUR 531 million.

Santander Totta's business model is very focused on the customer and on continuous improvement in the quality of service in order to strengthen the bank's positioning in aspects of soundness and confidence and provide the best solutions for the return on savings. Greater emphasis was placed in 2009 on capturing customer funds, with continuation of the campaigns such as "Super Conta Ordenado" and "Poupança Cresce Mais" which are very competitive in attracting new deposits.

Income statement

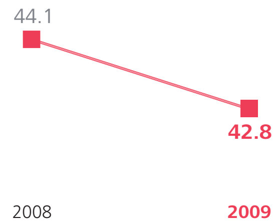
Net interest income was 5.7% higher at EUR 793 million, due to management of spreads which offset the lower business volumes, appropriate coverage of net interest income sensitivity and a comfortable liquidity position, which limited the impact of the higher cost of funding.

Net fee income was 2.7% lower at EUR 344 million. Of note was the fee income from GBM, means of payment, lending and services, although these are still not offsetting the lower revenues from mutual funds and financial insurance. Gains on financial transactions amounted to EUR 81 million, 42.6% more than in 2008.

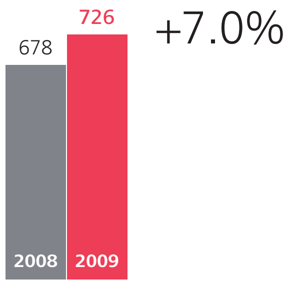
Gross income increased 4.5% to EUR 1,269 million and costs only rose 1.5% producing a further efficiency ratio improvement of 1.3 p.p. to 42.8%.

Gross income and expenses
% variation 2009 / 2008

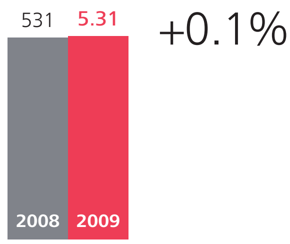
Efficiency ratio
(with amortisations)
%



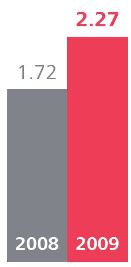
Net operating income
Million euros



Attributable profit
Million euros



NPL ratio
%



NPL coverage
%

Loan-loss provisions and other results amounted to EUR 82 million, much higher than in 2008 because of the recession which pushed up the level of non-performing loans, and adopting more conservative criteria in provisions in the face of the continued economic downturn.

The NPL ratio at the end of 2009 was 2.27% and coverage 65%. In local criteria, the Group compares very well with its peers as the ratio is lower and coverage is higher.

Attributable profit was EUR 531 million, in line with 2008 as the sustainable growth in revenues and rigorous control of costs absorbed the higher provisions.

Activity

Against a backdrop of a sharp slowdown in lending, particularly mortgages, Santander Totta maintained a selective policy to support the business sector, actively participating in the Portuguese government's PYME Invest programme. Overall lending was almost flat, but was 9% higher to businesses and SMEs.

Funds increased 6%, with a varied evolution by items. After rising strongly in the first half, deposit growth slowed in the second half due to the pressure on spreads from strong competition. Mutual funds and savings insurance, on the other hand, grew 31% and 29%, respectively.

Santander received in 2009 the three most prestigious prizes awarded for banking in Portugal: Best Bank in Portugal from the magazine Euromoney, Bank of the Year from the magazine The Banker and "Melhor Grande Banco en Portugal" (Best Large Bank in Portugal) from Exame.

Priorities in 2010

The launch of the Energy campaign in the fourth quarter left the bank well positioned for 2010 when the economic environment will remain very difficult. Santander Totta's priorities will be: very active management of spreads; growth in customers and business with individual customers and SMEs and active and prudent management of risks and recoveries in order to maintain the best NPL ratios among retail banks, maintain leadership in profitability and efficiency, continue to manage liquidity conservatively and have a solid capital base.

Rest of Europe

The rest of businesses (wholesale banking, asset management, insurance and Banif) generated attributable profit of EUR 1,118 million, 33.1% more than in 2008. This figure is the net for businesses that performed very differently.

GBM Europe, which represents almost 90% of the profits of the businesses included here, increased its profit by 51.2% because of the strong rise in revenues, spurred by net interest income as a result of the improvement in spreads, and the good evolution of costs (+3.1%). Net operating income was 27.4% higher.

Asset Management and Insurance's revenues and profits were lower because of the fall in the volume of mutual funds, although there was a change of trend in the last part of the year.

Banif's higher profit was strongly supported by a big rise in net interest income, control of costs and lower provisions.

United Kingdom
Million euros

	2009	2008	Variation Amount	(%)
Income statement				
Net interest income	**3,934**	**2,411**	**1,522**	**63.1**
Net fees	993	926	68	7.3
Gains (losses) on financial transactions	506	500	6	1.2
Other operating income(1)	27	50	(23)	(45.7)
Gross income	**5,460**	**3,887**	**1,573**	**40.5**
Operating expenses	(2,229)	(1,760)	(469)	26.6
General administrative expenses	(1,997)	(1,603)	(393)	24.5
Personnel	*(1,170)*	*(986)*	*(184)*	*18.6*
Other general administrative expenses	*(827)*	*(617)*	*(210)*	*34.0*
Depreciation and amortisation	(233)	(157)	(76)	48.2
Net operating income	**3,231**	**2,127**	**1,104**	**51.9**
Net loan-loss provisions	(881)	(456)	(425)	93.2
Other income	17	2	15	627.5
Profit before taxes	**2,367**	**1,673**	**694**	**41.5**
Tax on profit	(641)	(426)	(215)	50.4
Profit from continuing operations	**1,726**	**1,247**	**479**	**38.4**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**1,726**	**1,247**	**479**	**38.4**
Minority interests	0	—	0	—
Attributable profit to the Group	**1,726**	**1,247**	**479**	**38.4**
Balance sheet				
Customer loans(2)	227,713	202,622	25,091	12.4
Trading portfolio (w/o loans)	41,245	50,029	(8,784)	(17.6)
Available-for-sale financial assets	897	2,785	(1,888)	(67.8)
Due from credit institutions(2)	28,745	31,518	(2,773)	(8.8)
Intangible assets and property and equipment	1,424	1,210	214	17.7
Other assets	24,522	30,626	(6,104)	(19.9)
Total assets/liabilities & shareholders' equity	**324,546**	**318,790**	**5,756**	**1.8**
Customer deposits(2)	166,607	143,200	23,407	16.3
Marketable debt securities(2)	58,611	67,996	(9,385)	(13.8)
Subordinated debt(2)	8,577	9,890	(1,314)	(13.3)
Insurance liabilities	3	3	(0)	(3.2)
Due to credit institutions(2)	57,879	60,063	(2,184)	(3.6)
Other liabilities	26,946	32,306	(5,360)	(16.6)
Shareholders' equity(3)	5,923	5,332	592	11.1
Other customer funds under management	**10,937**	**7,180**	**3,757**	**52.3**
Mutual funds	10,937	7,180	3,757	52.3
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Savings-insurance policies	—	—	—	—
Customer funds under management	**244,731**	**228,267**	**16,465**	**7.2**

(1).- Including dividends, income from equity-accounted method and other operating income/expenses
(2).- Including all on-balance sheet balances for this item
(3).- Not including profit of the year

United Kingdom

- Double digit growth in profits for the fifth year running.
- Significant progress in becoming a full service commercial bank.
- Excellent performance of businesses in their first year of integration, obtaining the envisaged synergies.
- Big improvement in revenues and profits, with a significant advantage over our peers due to our balanced growth and management of spreads.
- Non-performing loans evolved better than expected, despite the difficult market conditions.
- Santander branding of Abbey's and B&B's branches completed and those of A&L to be done during 2010.

Grupo Santander's UK businesses include Abbey (since 2004), the deposits and branches of Bradford & Bingley (acquired in September 2008) and Alliance & Leicester (acquired in October 2008). They are hence referred to as Santander UK.

The three businesses are an integral part of Santander's growth strategy in the UK. The market share is more than 10% in core segments such as mortgages, deposits and current accounts, where the range of products and services continues to be expanded. We are well on our way to becoming a full service commercial bank.

The balance sheet of Santander UK mainly consists of secured retail loans, with no exposure to self-certified mortgages or subprime and only 1% of loans are buy-to-let. The acquisitions enhanced this structure, underscored by the credit/deposits ratio which improved by 13 p.p. in the last two years.

Income statement

In results, Santander UK maintained the favourable trend, backed by revenue growth and strict control of costs. Attributable profit increased 38.4% to EUR 1,726 million.

This growth was negatively impacted by sterling's slide against the euro and positively by the contribution of £280 million from the businesses acquired in 2008 (B&B and A&L). This brought attributable profit in sterling to 1,536 million (+55.1%). Excluding their results, profit was 27% higher, reflecting the good performance of Abbey's retail and wholesale activity.

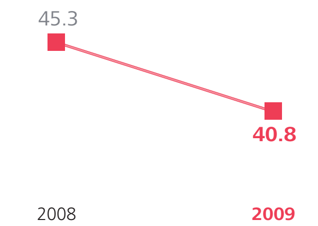
All figures are in sterling, and as with the other segments, figures have been restated according to the criteria on page 98 of this report. This means that the figures given below may not coincide with those published by Santander UK on the basis of local criteria.

Gross income increased 57.4% and operating expenses 41.9%. These rises were heavily impacted by the perimeter. In order to facilitate better analysis of management and of the underlying income statement, we provide figures on a like-for-like basis.

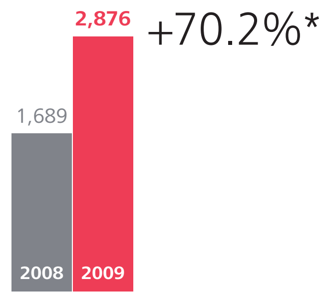
Gross income and expenses*
% variation 2009 / 2008 (sterling)

* In euros: Gross income: +40.5%; expenses: +26.6%

Efficiency ratio
(with amortisations)
%

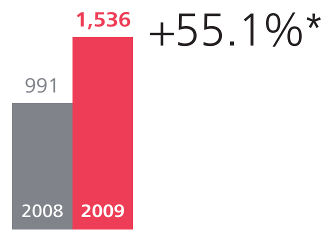


Net operating income
Million sterling



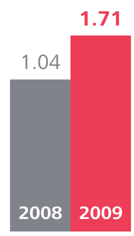
* In euros: +51.9%

Attributable profit
Million sterling



* In euros: +38.4%

NPL ratio
%



NPL coverage
%

Without the acquisitions effect, gross income increased 19.4%, mainly due to net interest income growth of 35.0%, the result of active management of spreads. In mortgages, spreads were higher in new loans and on those maintained. In deposits, the impact of the reduction of spreads was offset by a balanced mix of products and pro-active hedging strategies.

Furthermore, the performance of Santander Global Banking and Markets was very positive and largely due to the continuous growth in the number of customers, especially in the businesses of credits and rates. Gains on financial transactions rose 20.8%.

In contrast, net fee income was 16.2% lower than in 2008, impacted by lower fees from current accounts, the reduction in mortgage redemptions and in unsecured lending (UPLs). These factors were partially offset by the good evolution of revenues from investment products.

Operating expenses were flat on a like-for-like basis.

Synergies of some £100 million were obtained, higher than the forecast for the year and work continued to eliminate overlapping in back office and support functions in all businesses in order to achieve the £180 million of savings envisaged for 2011.

The efficiency ratio was 40.8%, 4.5 p.p. better than in 2008.

Net loan-loss provisions were lower in the fourth quarter, unlike in the third quarter, as a result of fewer provisions for the mortgage portfolio.

The NPL ratio was 1.71% at the end of 2009 (September 2009: 1.65%; December 2008: 1.04%). The NPL ratio in mortgages rose by a smaller extent, ending the year at 1.37% (September 2009: 1.34%; December 2008: 0.93%). This ratio was much better than that of the rest of the sector which, according to the Council of Mortgage Lenders (CML), was 2.38% at the end of 2009. The stock of properties in possession dropped to only 0.05% of the total portfolio (CML: 0.14%).

NPL coverage was 44% (September 2009: 48%; December 2008: 69%). This decline was due to a significant extent to the lower share in total unsecured loans, whose coverage is much higher, as secured loans' coverage was only 3 p.p. lower (December 2009: 21%; December 2008: 24%). Moreover, this coverage continues to be higher than the average of our competitors in the UK. Coverage of unsecured loans remained at more than 100%.

Activity

With respect to activity (local criteria), loans to customers amounted to £189,900 million, 4% higher than in 2008. Residential mortgages increased 5% and loans to SMEs (including commercial mortgages) 16%. These increases were due to Santander UK's policy of continuing to facilitate loans in the current difficult environment.

In mortgages, there was a significant increase in our share of net lending due to our market share in gross lending of 19% (well above the 14% in 2008 and to the share of the stock) compared to 14% in cancellations, whose volume was 35% lower than in 2008. This was achieved against a backdrop of strong competition in the low Loan to Value (LTV) segments, underscoring the success of both our marketing strategy as well as in retention.

The focus on the quality of new lending was maintained, based on lower affordability rate and low LTV segments. The average LTV of new loans at the end of the year increased slightly to 64%, while in the stock the LTV remained at around 50%.

Our commitment to SMEs in the UK was demonstrated by our involvement in the Enterprise Finance Guarantee (EFG) scheme guaranteed by the British government and in the recently announced Growth Fund. Moreover, Santander UK is participating with £100 million in the funding of the European Investment Bank and has created a joint venture with Essex County Council to finance SMEs in the local market.

The rest of assets are being managed under Santander UK's deleveraging strategy and positions will be closed as opportunities arise. As regards personal loans (UPLs), the stock continued to be reduced during 2009 (-24%), maintaining a value management strategy and a focus on specific segments where volume and profitability can be increased and risk minimised.

As part of the strategy of getting out of non-strategic assets, A&L's treasury portfolio was reduced by 37%, and the portfolio of securities performed in line with expectations and consistent with the level of provisions made at the time of acquisition.

Deposits increased 12% to £143,900 million, with a net inflow of £14,900 million (£13,900 million in 2008), backed by the Group's capacity in knowing how to exploit the conditions of a market where customers are seeking to increase their relations with their bank. We also benefited from the marketing of products and the pricing strategy in all brands. Investment products increased 24% compared to a 13% drop in the market as a whole.

The number of new current accounts opened in 2009 was 1.1 million (+26%), surpassing the goal of one million set for the year.

In private banking, customer deposits continued to grow strongly in Cater Allen and in Abbey International. The foundations were also laid for increasing the range of products offered to high income clients via the Abbey International brand in 2010.

Integration

The objectives set for the year in integration were attained. The expansion of B&B products completed in the first half of 2009 was fully integrated into Santander and monoline products have already been introduced into A&L. The integration of A&L's retail banking proceeded according to schedule, and the establishment of banking for businesses and SMEs is envisaged for the second half of 2010.

The integration of Abbey and Bradford & Bingley under the Santander brand was completed on time and the unification of A&L is scheduled for the fourth quarter of 2010.

Lastly, and in recognition of the Group's achievements in the UK, The Banker and Euromoney named Abbey the Best Bank in the UK in 2009.

Priorities in 2010

In 2010, Santander UK will continue to work towards its goal of becoming the best commercial bank in the UK. It will focus on completing the integration and rebranding of A&L, while continuing to strengthen its franchise and accelerate growth in corporate and SME banking, as well as boosting cross selling in retail banking. It will also continue to get out of non-strategic businesses as attractive opportunities arise. And all of this while beating its competitors in the UK in revenues and efficiency and maintaining the best credit quality and solid capital.

Latin America

Million euros

	2009	2008	Variation Amount	(%)
Income statement				
Net interest income	**11,959**	**11,432**	**527**	**4.6**
Net fees	3,925	3,962	(36)	(0.9)
Gains (losses) on financial transactions	1,663	720	943	130.9
Other operating income(1)	121	57	64	110.9
Gross income	**17,668**	**16,172**	**1,497**	**9.3**
Operating expenses	(6,597)	(7,100)	502	(7.1)
General administrative expenses	(6,032)	(6,565)	533	(8.1)
Personnel	*(3,210)*	*(3,449)*	*239*	*(6.9)*
Other general administrative expenses	*(2,822)*	*(3,117)*	*294*	*(9.4)*
Depreciation and amortisation	(566)	(535)	(31)	5.8
Net operating income	**11,071**	**9,072**	**1,999**	**22.0**
Net loan-loss provisions	(4,970)	(3,702)	(1,268)	34.3
Other income	(673)	(662)	(11)	1.7
Profit before taxes	**5,428**	**4,708**	**720**	**15.3**
Tax on profit	(1,257)	(1,077)	(180)	16.7
Profit from continuing operations	**4,171**	**3,631**	**540**	**14.9**
Net profit from discontinued operations	90	340	(250)	(73.5)
Consolidated profit	**4,261**	**3,971**	**290**	**7.3**
Minority interests	428	362	66	18.1
Attributable profit to the Group	**3,833**	**3,609**	**225**	**6.2**
Balance sheet				
Customer loans(2)	97,901	96,054	1,848	1.9
Trading portfolio (w/o loans)	22,521	20,965	1,555	7.4
Available-for-sale financial assets	29,154	19,208	9,946	51.8
Due from credit institutions(2)	22,146	19,946	2,200	11.0
Intangible assets and property and equipment	3,926	3,272	654	20.0
Other assets	38,105	30,496	7,608	24.9
Total assets/liabilities & shareholders' equity	**213,753**	**189,941**	**23,812**	**12.5**
Customer deposits(2)	108,122	108,257	(136)	(0.1)
Marketable debt securities(2)	8,411	8,674	(263)	(3.0)
Subordinated debt(2)	4,888	3,847	1,042	27.1
Insurance liabilities	6,627	2,958	3,669	124.1
Due to credit institutions(2)	32,765	29,331	3,434	11.7
Other liabilities	34,994	24,291	10,703	44.1
Shareholders' equity(3)	17,946	12,583	5,363	42.6
Other customer funds under management	**62,759**	**48,408**	**14,351**	**29.6**
Mutual funds	49,681	35,400	14,281	40.3
Pension funds	—	—	—	—
Managed portfolios	12,538	12,810	(272)	(2.1)
Savings-insurance policies	540	198	342	173.1
Customer funds under management	**184,181**	**169,186**	**14,994**	**8.9**

(1).- Including dividends, income from equity-accounted method and other operating income/expenses
(2).- Including all on-balance sheet balances for this item
(3).- Not including profit of the year

Latin America

- **In the current context, focus on customer linkage, transaction banking, control of costs and risk management.**
- **Sound revenues from the moderate increase in business activity, improved spreads on assets and GBM's contribution.**
- **Slower pace in nominal costs, reflecting the more selective growth policy.**
- **Strong net operating income which, after absorbing the larger provisions, increased 19.4% (excluding the exchange-rate impact).**
- **Intense management of early NPLs and their recovery.**

Santander generated attributable profit of EUR 3,833 million in 2009, 6.2% more than in 2008 (+11.4% excluding the exchange-rate impact), after incorporating the results of Banco Real in Brazil.

As mentioned in other parts of this report, the 2008 figures have been restated to include Banco Real by global integration in order to provide like-for-like comparisons. In July, Banco de Venezuela was sold to the Republic of Venezuela via Banco de Desarrollo de Venezuela for $1,050 million. The results of this bank in 2008 and 2009 have been eliminated from the various lines and incorporated on a net basis to discontinued operations.

Economic environment

The region's main economies began to show signs as of the third quarter of emerging from the recession started at the end of 2008, and today the general perception is that this time Latin America has satisfactorily withstood the global crisis.

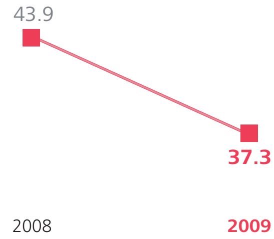
Three factors played a role in this:

- First, the Brazilian economy, which accounts for 40% of the region's GDP, began to grow in the second quarter and with such intensity that its GDP did not fall for the year as a whole. Peru was also able to grow in 2009 (by more than 1%). Brazil thus consolidated its model and together with Chile's became the "second success story" in the region.
- Second, for the first time in 50 years, Latin America was able to implement anti-cyclical monetary and fiscal policies to mitigate the impact of external shocks. The most notable case was Chile, a country whose strong institutions and orthodoxy enabled fiscal and monetary impulses of around 10% and 6% of GDP, respectively. As a result, Chile was one of the few really open economies in the world whose GDP declined by less than 2%.
- Third, the region was able to avoid any banking crisis episodes. Furthermore, this time Latin American banks were not part of the problem but of the solution and the nominal stock of lending was maintained. Brazil was largely responsible for this development and increased its share of the region's total lending to 60% of the total stock.

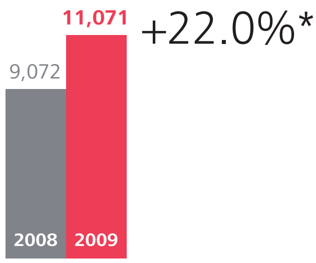
Gross income and expenses*
% variation in euros 2009 / 2008

* Excluding exchange rate impact: Gross income: +14.8%; expenses: -2.6%

Efficiency ratio
(with amortisations)
%

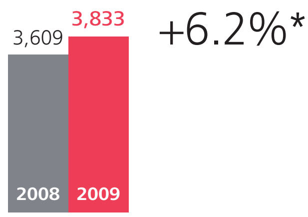


Net operating income
Million euros



* Excluding exchange rate impact: +28.4%

Attributable profit
Million euros



* Excluding exchange rate impact: +11.4%

NPL ratio
%

NPL coverage
%

As well as other good developments, most of the region's large economies were able to get through 2009 without eroding the quality of their institutions, their rules and their basic macroeconomic fundamentals. As a result, inflation, except in Venezuela and Argentina, is expected to be no more than 5% in 2010 and within the target ranges of central banks.

Budget deficits in all countries are also expected to be below 3% of GDP and net public debt below 40% of GDP. The improvement in the international prices of raw materials and the reduction in risk premiums since March 2009 point to GDP growth of more than 3.5% and to job creation.

In the countries where Santander operates – Brazil, Mexico, Chile, Argentina, Colombia, Puerto Rico, Uruguay and Peru – the pace of lending slowed sharply (6% in 2009, excluding the exchange-rate impact). Overall, loans to individuals grew 8% and continued to decelerate for other concepts (cards: -2%; consumer: +11%; mortgages: +8% and to companies and institutions +5%).

Savings (deposits and mutual funds) increased 13%, with a slight jump in the fourth quarter after a sharp deceleration in the first half of the year. In general terms, and based on the main financial systems, Brazil's growth was the strongest and Chile's slowed the most.

The following factors regarding the impact of interest rates and exchange rates on business and converting figures into euros should be taken into account when analysing the financial information:

– The weighted average of the region's medium- and short-term interest rates fell between 2008 and 2009. In general terms, interest rates registered a sharp fall during 2009.
– Earnings in euros are impacted by average exchange rates. In global terms, Latin American currencies depreciated against the dollar while the dollar, the currency used to manage business in Latin America, strengthened against the euro by 5%. The Brazilian real slid against the euro from 2.66 to 2.76, the Mexican peso from 16.3 to 18.8 and the Chilean peso from 757 to 775.

Strategy in 2009

Given the economic downturn and the greater degree of uncertainty in markets, the strategy focused on customer management (based on linkage and transactions), higher spreads on loans, rigorous management of risks, with a greater emphasis on recoveries, and lower growth in costs reflecting a more selective policy.

In Brazil, Banco Real's consolidation gave the strategy some features that differentiated it. Of note was Banco Santander Brazil's capital increase through a new share offer in the second half of 2009, the proceeds of which will finance the strategic plan in the coming years.

In Puerto Rico, and in order to find a solution to the lack of liquidity of the Santander share and cut costs and administrative expenses, on December 14 Grupo Santander announced its intention to acquire 9.4% of Santander Bancorp and delist it on the New York Stock Exchange.

Grupo Santander had 5,754 branches at the end of 2009 (including traditional ones and points of banking attention), while the number of ATMs was 27,000.

The total number of customers was 37.7 million, 1.6 million more than in 2008 on a like-for-like basis (including Banco Real in Brazil and ABN-AMRO in Uruguay and excluding Venezuela). The Group's strategic focus in the last few quarters has been on customer linkage. Thus, the number of linked customers account for 30% of total customers in the region.

Lending to individuals and SMEs accounts for 59% of the Group's total loans in Latin America. After several years of increasing its market share of non-mortgage loans to individuals (cards, consumer), the Group applied tighter criteria because of the increase in its risk premium and the perception of an erosion of its credit quality in some of the countries where it operates. The risk premium reached 4.75% in 2009.

Activity and income statement

The main developments in 2009 (all year-on-year percentage changes exclude the exchange-rate impact and the exit from the perimeter of consolidation of Banco de Venezuela) were:

- The pace of lending continued to decline, with consumer credit and cards down 3%, mortgages up 11% and commercial credit (companies in all their range and institutions) falling 3%. Loans to individuals increased 3%, that to SMEs dropped 2% and to companies 11%. The share of total lending in the countries where the Group operates is 11.5%.
- Savings (deposits without repos and mutual funds) hardly changed. Demand deposits grew 13% and mutual funds 16%, while time deposits declined 17%. The market share in deposits and mutual funds was 9.5% and 9.6% in demand deposits. The overall market share (loans, deposits and mutual funds) was 10.2%.
- Due to the weak economic situation, the Group is placing less emphasis on market shares in retail lending, while in wholesale business the focus is on providing transaction services and hedging risks (exchange rates, interest rates) and active participation in restructurings.
- Net interest income increased 9.9%. The rise in spreads on loans was due to the measures taken to increase entry prices and try to offset the higher cost of financing in the markets and the higher risk premium. Spreads on loans (with differences between countries) were higher than in 2008. As for spreads on deposits, after falling they stabilised to some extent (falls in year-end rates compared to 2008 of 375 b.p. in Mexico, 500 b.p. in Brazil, 600 b.p. in Colombia and 775 b.p. in Chile).
- Net fee income rose 4.1%. That from mutual funds declined 9.9%, while that from foreign trade and, to a lesser extent, cards and insurance grew. Income from the administration of accounts dropped, impacted by regulatory changes in most of the region. The slower pace of business also affected fee income.
- Gains on financial transactions increased 144.2%, due to good results in customer activity and capital gains.
- As a result, gross income increased 14.8%.

- Growth in operating expenses showed signs of slowing down considerably. On a year-on-year basis, they were 2.6% lower, due to the strong adjustments in Brazil, Mexico, Chile, Puerto Rico and Colombia. This was as a result of containing the expansion of installed capacity, streamlining structures and processes and more restrictive criteria in relation to commercial expenses.
- The efficiency ratio (with amortizations) improved by 6.6 p.p. to 37.3% and net operating income was 28.4% higher.
- The economic downturn generally eroded credit quality. Net loan-loss provisions increased 41.4%, a pace that was continuously reduced (first quarter: +79.8%; first half: +64.8%; nine months: +59.1%). The NPL ratio was 4.25% at the end of 2009 (2.95% a year earlier), while coverage was 105% (108% in December 2008).
- As a result, growth in net operating income after provisions accelerated from 0.6% in the first quarter to 19.4% for the whole year.
- Retail Banking's net operating income was 25.2% higher. The rise in loan-loss provisions meant that the growth in net operating income after provisions was 5.9%, while attributable profit declined 9.3%, impacted by the sale of Banco de Venezuela and higher minority interests in Brazil. Global Wholesale Banking's attributable profit increased 77.9%, due to 31.2% growth in gross income, lower costs (-9.8%) and reduced provisions for loan losses, and the attributable profit of Asset Management and Insurance rose 17.4%.

Priorities in 2010

The management criteria in 2010 are:

- Selective linking of customers focused on transactions.
- Optimisation of spreads on loans.
- Rigorous risk management.
- Focus on recoveries as an integral part of customer management.
- Rigorous emphasis on costs and new investments.
- Deepening of businesses that consume less capital or have lower risk levels.

Latin America. Income statement

Million euros

	Gross income		Net operating income		Attributable profit to the Group	
	2009	Var (%)	2009	Var (%)	2009	Var (%)
Brazil	11,702	15.8	7,376	35.6	2,167	22.5
Mexico	2,342	(13.6)	1,542	(12.1)	495	(17.6)
Chile	1,790	2.4	1,196	4.5	563	3.4
Puerto Rico	334	0.9	166	10.4	33	—
Colombia	159	2.7	67	13.0	33	23.9
Argentina	710	14.7	417	28.7	226	4.9
Uruguay	144	196.4	66	395.0	51	462.3
Rest	197	99.7	66	—	109	(61.6)
Subtotal	**17,378**	**9.9**	**10,896**	**23.1**	**3,677**	**7.3**
Santander Private Banking	290	(18.5)	175	(21.1)	156	(13.5)
Total	**17,668**	**9.3**	**11,071**	**22.0**	**3,833**	**6.2**

Latin America. Main units

Million euros

	Brazil		Mexico		Chile	
	2009	Var (%)	**2009**	Var (%)	**2009**	Var (%)
Income statement						
Net interest income	**8,215**	**13.4**	**1,521**	**(22.1)**	**1,190**	**(10.4)**
Net fees	2,486	2.4	509	(15.1)	356	1.6
Gains (losses) on financial transactions	908	118.9	331	80.5	210	608.3
Other operating income[(1)]	93	468.3	(18)	(24.5)	34	(15.3)
Gross income	**11,702**	**15.8**	**2,342**	**(13.6)**	**1,790**	**2.4**
Operating expenses	(4,325)	(7.2)	(800)	(16.4)	(594)	(1.7)
General administrative expenses	(3,977)	(8.5)	(713)	(17.2)	(527)	(3.3)
Personnel	(2,040)	(7.2)	(383)	(14.7)	(321)	(4.1)
Other general administrative expenses	(1,936)	(9.8)	(330)	(19.9)	(206)	(2.1)
Depreciation and amortisation	(349)	9.6	(87)	(8.5)	(67)	12.9
Net operating income	**7,376**	35.6	**1,542**	(12.1)	**1,196**	4.5
Net loan-loss provisions	(3,523)	60.6	(767)	(12.6)	(418)	18.0
Other income	(658)	5.7	(25)	452.5	34	—
Profit before taxes	**3,195**	**21.7**	**749**	**(14.1)**	**813**	**5.5**
Tax on profit	(908)	10.5	(94)	7.0	(113)	18.4
Profit from continuing operations	**2,288**	**26.8**	**655**	**(16.4)**	**699**	**3.7**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**2,288**	**26.8**	**655**	**(16.4)**	**699**	**3.7**
Minority interests	121	246.0	161	(12.8)	136	4.9
Attributable profit to the Group	**2,167**	**22.5**	**495**	**(17.6)**	**563**	**3.4**
Balance sheet						
Customer loans[(2)]	53,924	22.7	11,489	(9.9)	19,379	13.8
Trading portfolio (w/o loans)	8,070	15.3	9,056	6.7	2,508	(13.6)
Available-for-sale financial assets	18,882	86.3	4,038	2.2	2,815	88.2
Due from credit institutions[(2)]	11,360	6.3	5,205	(51.5)	2,531	27.5
Intangible assets and property and equipment	2,950	43.5	367	(24.7)	352	16.9
Other assets	24,094	59.8	3,653	(2.1)	2,631	79.8
Total assets/liabilities & shareholders' equity	**119,279**	**34.2**	**33,808**	**(15.8)**	**30,216**	**20.0**
Customer deposits[(2)]	59,274	23.0	15,879	(19.6)	14,624	4.6
Marketable debt securities[(2)]	4,587	22.8	419	(83.5)	3,183	45.7
Subordinated debt[(2)]	3,838	35.6	52	(4.4)	813	4.4
Insurance liabilities	6,183	128.7	226	58.8	198	110.6
Due to credit institutions[(2)]	13,465	5.8	8,739	(17.7)	6,257	49.6
Other liabilities	21,279	67.5	6,091	37.0	3,454	26.1
Shareholders' equity[(3)]	10,654	77.3	2,402	(6.9)	1,687	38.1
Other customer funds under management	**37,969**	**53.1**	**8,235**	**20.9**	**5,328**	**74.0**
Mutual funds	34,521	44.7	8,148	20.4	5,290	73.2
Pension funds	—	—	—	—	—	—
Managed portfolios	3,034	280.9	—	—	—	—
Savings-insurance policies	414	182.6	87	100.4	39	404.5
Customer funds under management	**105,667**	**32.8**	**24,585**	**(15.7)**	**23,948**	**19.7**

(1).- Including dividends, income from equity-accounted method and other operating income/expenses
(2).- Including all on-balance sheet balances for this item
(3).- Not including profit of the year

Brazil

- **Integration process on schedule with implementation of best business practices: new products, services and functions.**
- **Growth differential of 24 p.p. between gross income (+20%) and costs (-4%), backed by synergies.**
- **Net operating income after loan-loss provisions increased 23%.**
- **Faster growth in profits: +27% for the whole year against +12% in the first half and +1% in the first quarter.**
- **Capital increase through a new share offer in October of EUR 5,092 million (BRL 13,182 million) in order to finance expansion plans in the coming years.**

Grupo Santander Brazil is the country's third largest private sector bank, with a market share of 10% in overall banking business, 3,593 branches (including points of banking attention), 18,094 ATMs and 22.5 million customers, of which more than 10 million have current accounts.

Economic environment

The economy continued to show signs of recovery. GDP expanded 1.3% in the third quarter over the previous one, with stronger growth in investment (+6.5%) and household consumption (+2.0%). The figure was very positive, mainly because of the rise in investment, a necessary factor for sustainable growth in the coming years. The labour market figures were also better (unemployment rate of 8.1% at the end of 2009).

As well as more positive figures, the granting by Moody's Ratings of investment grade status to Brazil and the holding of the 2014 FIFA World Cup and the olympic games in 2016 confirm the expectations that the economy will entry a new cycle of growth.

Inflation was 4.3%, below the central bank's target (4.5%). The key rate was down to 8.75% by the end of the year, its lowest level since the series was started.

The pace of lending by the whole financial system slowed to 15%. Loans by state banks grew 31% and those by private sector banks 6%. Credit to individuals increased 19% and that to companies by only 1%, affected by the impact of the real's appreciation on foreign currency operations and lower demand. Directed loans (including BNDES, rural and real estate) rose 28%.

Savings grew 16%, with mutual funds up 22% compared to a decline of 1% in 2008 in an environment of low interest rates, while growth in time deposits continued to decelerate (+4%). Demand and savings deposits increased 15%.

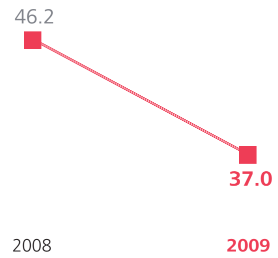
Strategy in 2009

The strategic focus in 2009 of Grupo Santander Brazil was the integration process, with the emphasis on greater efficiency, obtaining synergies and implementing the best operational and commercial practices.

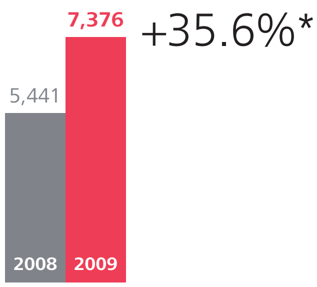
Gross income and expenses*
% variation in euros 2009 / 2008

* Excluding exchange rate impact: Gross income: +20.2%; expenses: -3.7%

Efficiency ratio
(with amortisations)
%

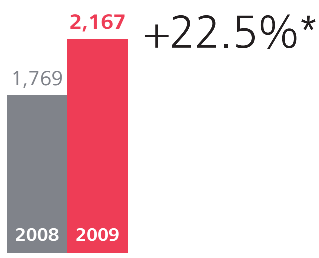


Net operating income
Million euros



* Excluding exchange rate impact: +40.7%

Attributable profit
Million euros



* Excluding exchange rate impact: +27.1%

NPL ratio
%

NPL coverage
%

This process, begun at the end of 2008, continues to be on schedule. During 2009 the support areas and global and specialist businesses were unified, except for some activities which are still underway. The legal merger has been completed and headcounts unified and there is already a basic common system available to the customers of both banks in all branches and ATMs (Interoperability project) and common call centres.

Of note among the measures taken were unification of the cards business and the broker-dealers and the launch of programmes of common benefits and products for both banks' customers. They include:

– Santander Master and Realmaster ("cheque especial"), combines two of the most successful features among customers of Santander and Banco Real.

– Banco Real's customers have access to the Flex card, very successful in Santander.

– AutoMax: the adoption by both banks of the same format for contracting and selling insurance.

– At the end of 2009, Santander launched a new model of services for Banco Real's high income customers, using the Van Gogh services. The new model, called Van Gogh Santander, has more than 240 spaces in branches and special teams, guaranteeing greater comfort and privacy. Customers will be entitled to the new Santander Elite Platinum and Santander Style Platinum cards.

All of this strengthens the emphasis on enhancing the quality of customer attention, innovation of products and services and the commercial structure, while generating cost savings.

Activity and income statement

Total lending declined 5%, with a differing performance by items. Loans to individuals granted in branches increased 11% and those to companies declined 4%. Of note by products were the 21% growth in lending via credit cards, the 33% rise in payroll cheques paid into accounts and the 31% increase in mortgages. Our market share in unregulated lending was 12.5% and 14.0% in loans to individuals.

Savings rose 1%, with demand deposits up 14% and mutual funds 12%, while the balance of time deposits dropped 14%. The market share in total savings is 8.7%.

Gross income in local currency increased 20.2%, mainly due to net interest income (+17.7%) and gains on financial transactions as well as two good quarters in wholesale banking, and the 6.3% rise in fee income.

Operating expenses declined 3.7% (-5.0% in personnel and general expenses) An important factor here were BRL 1,100 million of synergies, higher than the BRL 800 million initially estimated.

Net fee income surged 40.7%, enabling the efficiency ratio to improve by 9.2 p.p. to 37.0%.

Loan-loss provisions were 66.7% higher, although their trend is downward due to the slower pace of new entries in non-performing loans (the year's minimum was reached in the fourth quarter). Furthermore, strong net operating income allowed the larger provisions to be absorbed, enabling the latter to maintain a stable weight over net operating income of around 45%-50%.

The soundness of the income statement was underscored by growth of 23.1% in net operating income after provisions, and the good quarterly trend throughout 2009 as this figure was always higher than in any quarter of 2008.

Attributable profit of EUR 2,167 million was 22.5% more than in 2008 (+27.1% in local currency).

Retail Banking's profit increased 9.1% as it reflected to a larger extent loan-loss provisions and other results, as net operating income was 41.7% higher. GBM, much less demanding in provisions, increased its attributable profit by 70.1% and Asset Management and Insurance by 34.7% because of the increasing weight of insurance business.

The recurrency ratio was 62.5% (improvement of 6.6 p.p.) and ROE 25.6%. The NPL ratio was 5.27% and coverage 99%.

Priorities in 2010

At the beginning of 2010, the Group was well placed to exploit market opportunities. The union of Santander and Real boosted our presence in Brazil and the focus on the main regions and provided a better balance between businesses thanks to the complimentarity of both banks. Real is stronger in business with individuals and Santander with large companies.

In this context, Banco Santander Brazil's capital increase through a new share offer raised EUR 5,092 million including the partial exercise of the green shoe. The shares began to be quoted on October 7 on the New York and Sao Paulo stock exchanges. After its capital increase, Banco Santander Brazil's free float was 16.4% and its market capitalisation at the end of 2009 around EUR 36,000 million (the 28th largest bank in the world by market value).

This capital increase is part of the strategic plan in Brazil for the next few years. The proceeds will be used to finance the bank's growth, improve its financing structure and boost its capital ratios. The bank aims to increase its market share, which will require significant investment in installed capacity. It plans to open 600 branches and extend the network of ATMs.

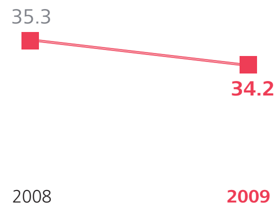
Mexico

- **Integral risk management strengthened, particularly in credit cards.**
- **Emphasis on low cost deposits.**
- **Selective growth in lending with improved spreads.**
- **Strict control of costs, lower than in 2008.**

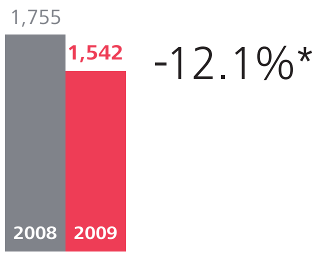
Gross income and expenses*
% variation in euros 2009 / 2008

* Excluding exchange rate impact: Gross income: -0.2%; expenses: -3.4%

Efficiency ratio
(with amortisations)
%

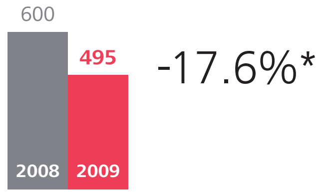


Net operating income
Million euros



* Excluding exchange rate impact: +1.5%

Attributable profit
Million euros



* Excluding exchange rate impact: -4.8%

NPL ratio
%

NPL coverage
%

Santander is the third largest banking group in Mexico by business volume, with a market share in loans of 13.4% and 15.5% in savings. It has 1,093 branches (net drop of 36 during the year) and 8.7 million customers.

Economic environment

GDP began to grow again in the third quarter of 2009 (+2.9% over the second quarter), putting an end to the shrinkage of the three previous quarters. Partial indicators for the fourth quarter show the recovery is underway and expectations are for growth of more than 3% in 2010.

Inflation eased significantly to 3.6%, almost 3 p.p. less than in 2008 (6.5%). The expectations for 2010 are a rise to 5%, partly due to the increase in VAT and in other indirect taxes since January.

Thanks to the signs of economic stabilisation and the good outlook for 2010, the authorities decided to begin to withdraw the fiscal and monetary stimulus. The government approved a package of fiscal measures, with selective rises in taxes, to reduce the budget deficit from 2.3% of GDP in 2009 to 0.7%. The central bank's monetary policy has to reconcile vigilance of the possible second round effects on inflation with a still high negative output gap, but one which will narrow as the recovery advances. The central bank is expected to increase interest rates during the second half of 2010.

The pace of banking business decelerated sharply. Lending in 2009 was almost flat (+2%), with consumer credit and cards down 19% and savings rose 8%.

Strategy in 2009

The strategy in 2009 was focused on strengthening the commercial franchise through a better relationship with customers and increased transactions; stronger integral management of risk, particularly recovery of loans in default; stabilisation of credit card business; emphasis on growth in low cost deposits; selective growth in lending with optimisation of spreads; leadership in granting loans under government programs and strict management of investments and costs.

Offers and campaigns aimed to attract new customers were conducted in 2009, with prizes and/or participation in draws. The campaigns included "Santander Libertadores", "Súper crucero", "Mueve tu mundo" and "Santander cumple tus sueños esta navidad". In insurance, the emphasis was on the sale of SAFE, Medicash, and household and car insurance. The focus in lending was on payroll credit, "cheque misma línea" and consumer credit linked to credit cards.

A priority activity was recovery of non-performing loans, for which various products were launched such as "Alíviate" for individuals and SMEs and ad hoc programmes in SME and company segments.

Due to the swine flu in Mexico at the beginning of May, we supported SMEs through loans with federal government guarantees and offers of point-of-sales equipment and insurance.

As a result of this strategy, the number of linked customers rose by 106,000 (+7%) in 2009 (19% of the total). Business with SMEs, especially via loans with state guarantees, and transaction business with companies and wholesale banking remained a priority.

Activity and income statement

Lending declined 11%. Consumer credit and cards declined 30%, in line with the market and more demanding risk admission policies. Mortgages, on the other hand, increased 7%.

Savings rose 6%, as the drop in time deposits balances was offset by the increase in demand deposits and the strong rise (+19%) in mutual funds.

In local currency, gross income was virtually unchanged and net interest income declined 10.1%, in line with the slower growth in the financial system and in the bank. Rising interest rates in 2008 and declining in 2009 reduced the spread on deposits by 104 b.p in 2009, while that on loans began to fall in the third and fourth quarters after rising in the first part of the year.

Fee income was 1.9% lower, affected by regulatory changes.

Gains on financial transactions doubled to EUR 331 million, partly due to capital gains, the good performance of markets and customer transactions.

Operating expenses declined 3.4% (inflation of 3.6%), reflecting a positive response to the difficult environment.

Net operating income, resulting from flat gross income and lower costs, increased 1.5%.

Net loan-loss provisions were only 1% higher at EUR 767 million. Their growth decelerated as the year progressed (first quarter: 79.9%; first half: +47.4%; first nine months: +19.8%), due to the plans in place to contain NPLs.

Attributable profit was 17.6% lower at EUR 495 million (-4.8% in local currency). Retail Banking's profit declined 38.9% as it was hard hit by lower market reference interest rates and reduced business volumes and operations. Global Wholesale Banking's attributable profit doubled.

The efficiency ratio was 34.2%, the recurrence ratio 71.4% and ROE 18.4%. The NPL ratio was 1.8% and coverage 264%, continuing the high levels of quality.

Priorities in 2010

In 2010, the focus is on customer linkage via transactional products; growth in lending backed by state guarantee programmes and with less consumption of capital; a specific plan for recoveries, with an emphasis on credit cards, and lower costs.

Chile

- **Leadership in revenues, despite inflation's negative impact on the UF portfolio.**
- **Customer linkage via all channels.**
- **Strict control of costs (growth was almost flat).**
- **Risk management strengthened (human and technological resources) and focused on support plans for customers and recoveries.**

Santander is the largest financial group in Chile in terms of the number of customers, business and results. Its market shares are 19.9% in loans and 18.5% in savings. It has 498 branches and 3.2 million customers.

Economic environment

The Chilean economy grew 3.2% in the second half of 2009, overcoming the contraction of the four previous quarters. Expansive fiscal and monetary policies, thanks to the healthy position of the government's accounts and low inflation, are putting the economy on the road to growth of between 4% and 5% in 2010, while inflation will remain low and no longer negative. In this context, monetary policy is gradually returning to normal, although with expectations of rises in official interest rates in the second half of the year from 0.5% at the end of 2009 to around 3%.

Growth in the financial system's lending was significantly lower (-2%), with a marked slowdown in consumer and commercial credit. Savings growth continued to decelerate (+5.2%).

Strategy in 2009

Santander Chile concentrated in 2009 on assigning more resources to risk management and focusing on recoveries; management of spreads in all businesses and segments; strengthening customer linkage through all channels; strong participation in government credit programmes to foster productive activity and pushing fee-generating activities. At the same time, growth in investments and costs decelerated.

As part of risk management, programmes were put in place to improve customers' payment performance and to reactivate lending to SMEs ("Alíviate" and "Reactívate" programmes).

Insurance, a risk-free product and generator of fee income, reached 4.4 million policies, consumer credit 861,000 and cards 1.5 million. Payrolls, a highly binding product, rose 24% and helped to increase the quality of the customer base and future business prospects.

The density of the branch network and the improvements in the quality of service helped to increase the number of customers by 180,000 in 2009, but the main strategic focus is on boosting the number of linked ones (714,000).

Activity and income statement

Lending declined 6%, pulled down by the fall in commercial credit in line with the market's situation. Consumer credit and credit cards, after several years of expansion, remained virtually unchanged and lending to SMEs was also stagnant. Loans to individuals increased 6% (market share of 24.4%) and mortgage lending grew 5%.

Savings declined 3%, with a differing performance by products. Demand deposits increased 24% and mutual funds picked up and increased 43%. Time deposits fell 24%.

In the second half of 2009, the Bank took advantage of the low interest rates and the favourable risk perception of Chile and of Santander and issued $500 million of debt in international markets. These senior bonds were given a rating above that of Chile's sovereign debt ceiling.

In results (and always in local currency), gross income increased 4.8%. Net interest income fell 8.3% year-on-year, hard hit by deflation, which affected the long position of UF-indexed assets and liabilities, and by the slower growth in business, especially consumer credit and cards.

Net fee income increased 4.0%, spurred by foreign trade (+50.0%), insurance (+20.5%) and credit cards (+19.4%). Purchases using Santander credit cards increased 23%, more than double that of the market. Drivers here were the alliance of co-branding of cards with LAN, Chile's main airline, and with Movistar, the largest mobile phone company. Greater transactions and linking of customers sustained revenue growth in an adverse environment. This growth was partly offset by lower fee income from management of accounts (-19.0%) because of regulatory changes.

Lower interest rates produced strong growth in gains on financial transactions to EUR 210 million, which partly offset the big impact of deflation and the slower growth in lending.

Operating expenses hardly changed (+0.6%). Net operating income grew 7.0%. Loan-loss provisions rose 20.8%, although they were on a downward trend.

Attributable profit was 3.4% higher at EUR 563 million (+5.9% in local currency). Retail Banking's profit dropped 3.4% and accounted for 63% of the total, while that of Global Wholesale Banking rose 44.6%.

The efficiency ratio improved to 33.2%, the recurrence ratio was 67.5% and ROE 32.3%. The NPL ratio was 3.20% and coverage 89%.

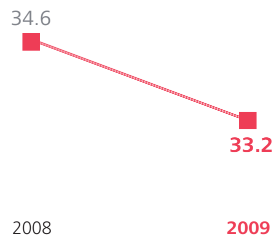
Priorities in 2010

In 2010, the focus is on consolidating the commercial franchise, continuing customer linkage through all channels, strict control of costs and investments and strengthening risk management, particularly standardised risks.

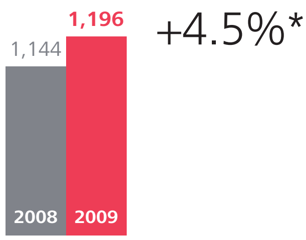
Gross income and expenses*
% variation in euros 2009 / 2008

* Excluding exchange rate impact:
Gross income: +4.8%; expenses: +0.6%

Efficiency ratio
(with amortisations)
%

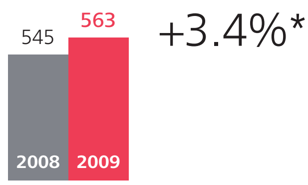


Net operating income
Million euros



* Excluding exchange rate impact: +7.0%

Attributable profit
Million euros



* Excluding exchange rate impact: +5.9%

NPL ratio
%

NPL coverage
%

Argentina

Santander Río is one of the country's leading banks, with market shares of 9.6% in lending and 9.5% in savings. It has 298 branches and 2.0 million customers, of which 42% are linked.

Santander Río announced the acquisition of a portfolio of 30,000 individual customers, 900 companies and 17 branches from BNP Paribas Argentina. When it is authorised, it will increase the bank's market share by 25 b.p.

The economy grew by around 0.5% in 2009. The outlook for 2010 is growth of around 4%. Inflation began to rise as of the middle of 2009 and reached 7.7% in December, 0.5 p.p. higher than in 2008. The expectations are for stability in 2010.

Argentina began its return to the international markets in the second half of 2009, with the announcement of the reopening of the exchange with the holdouts. The exchange will possibly take place during the first half of 2010.

The pace of growth in savings in the whole financial system accelerated and lending slowed down, which continued to improve the quality of its balance sheet and maintain high levels of liquidity.

The Group's strategy in 2009 was focused on lifting the return on its business franchise, with greater importance attached to customer linkage and transaction banking, selective growth in lending and carefully managing the whole risk cycle. The lower growth in business required restrictive criteria in spending.

Lending increased 2% and savings 13%. Deposits grew 15% (+32% demand deposits and +2% time deposits). Mutual funds increased 1%.

Gross income rose 27.9% in local currency and net operating income 31.4%, fuelled by better spreads on lending. Net fee income increased 19.2% and gains on financial transactions 74.9%, largely due to better results in treasury.

Operating expenses rose 10.9%, below the growth in gross income. As a result, net operating income was 43.5% higher.

Loan-loss provisions were 41.0% higher than in 2008 but on a downward trend. Profit before tax grew 48.0%, but attributable profit was EUR 226 million, only 16.9% higher in local currency, because of the large rise in taxes.

The efficiency ratio was 41.4%, the recurrence ratio 95.2% and ROE 55.9%. The NPL ratio was 2.60% and coverage 141%.

The priorities in 2010 are to make the commercial franchise more profitable through customer linkage, higher spreads on loans, selective growth in low risk assets, maintaining comfortable levels of liquidity, carefully overseeing risk and controlling costs.

Uruguay

After the incorporation of ABN businesses, Santander became the largest private sector bank in the country in terms of profits (EUR 51 million), number of branches (42) and business (market share of 17.0% in lending and 17.4% in savings). Thirty two percent of the 258,000 customers are linked.

Uruguay was one of the countries to emerge from recession in 2009, as its economy only shrank in the first quarter. Growth for the whole of 2009 was estimated at close to 2% and the forecast for 2010 is more than 4%, with a moderate rise in inflation.

In 2009, growth in the financial system's deposits and lending slowed down, although it accelerated in the fourth quarter.

The strategy in 2009 focused on exploiting the synergies from the merger of Santander and ABN; pushing retail business and growing and linking the number of individual customers, SMEs and companies. Also aiming to linkage and boosting of medium and high income customers through its Van Gogh project.

Lending and deposits declined by 15% and 8%, respectively, while gross income tripled, costs increased 126.1% (in both cases with the perimeter impact) and loan-loss provisions were marginal.

The efficiency ratio was 54.0% and recurrence 29.9%. The NPL ratio was 0.60% and coverage very high, showing another of the strengths of the new Bank.

In 2010, the Group will focus on completing the technological and operational merger of Santander and ABN; fomenting retail business, with a strong rise in linked customers from medium and high income segments; greater business with companies and achieving the best return on surplus liquidity.

Colombia

Attributable profit was 29.0% higher in local currency at EUR 33 million. The Group has 77 branches, 402,000 customers and market shares of 2.9% in business

The economy hardly grew in 2009. The impact of the international crisis on exports and consumer and business confidence hurt growth in the first half. In the second half of the year, activity picked up a little. GDP growth is estimated at 3% in 2010.

The Group focused on credit risk management, selective growth in lending, preserving adequate levels of liquidity, strengthening transactional businesses and, in particular, containment of costs.

The efficiency ratio was 57.8% and the recurrence ratio 43.9%. The NPL ratio was 1.83% and coverage 188%.

In 2010, the emphasis is on selective business growth, preserving adequate levels of liquidity and customer linkage in relevant segments.

Puerto Rico

Santander Puerto Rico is one of the island's largest financial groups, with 130 branches, 530,000 customers (18% of them linked) and market shares of 8.3% in loans, 9.3% in deposits and 23.0% in mutual funds.

The economy remained in recession, affecting both the growth of the financial system and its profitability, under pressure from lower activity and higher risk premiums.

In this environment, the bank continued to position itself among the three largest financial institutions in terms of lending, deposits and mutual funds. It continued to strengthen credit recovery management and selective growth in business with individuals and companies. This strategy, together with the 11.7% reduction in costs, and the lower loan-loss provisions produced attributable profit of EUR 33 million (a loss of EUR 19 million in 2008) and made it an exception in the banking system as a whole.

The efficiency ratio was 50.4%, the recurrence ratio 41.4%, the NPL ratio 9.6% and coverage 53%.

The centre of attention in 2010 is selective growth in various businesses, lower costs, loan loss recoveries and the sale of assets assigned.

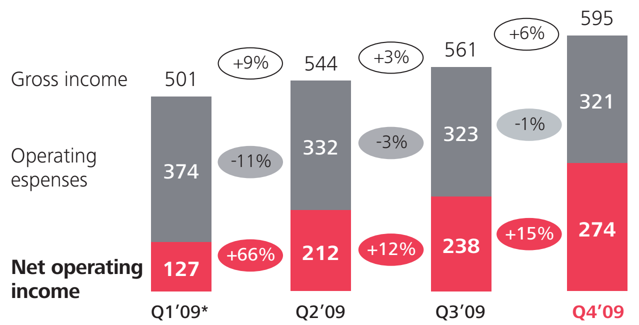
Peru

Activity was focused on companies and tending to the Group's global customers. Attributable profit was EUR 4 million which, while modest, shows a favourable trend (EUR 1 million profit in 2008).

Sovereign Million euros	2009
Income statement	
Net interest income	**1,160**
Net fees	380
Gains (losses) on financial transactions	13
Other operating income(1)	(91)
Gross income	**1,463**
Operating expenses	(881)
General administrative expenses	(766)
Personnel	*(457)*
Other general administrative expenses	*(309)*
Depreciation and amortisation	(114)
Net operating income	**582**
Net loan-loss provisions	(571)
Other income	(58)
Profit before taxes	**(47)**
Tax on profit	22
Profit from continuing operations	**(25)**
Net profit from discontinued operations	—
Consolidated profit	**(25)**
Minority interests	—
Attributable profit to the Group	**(25)**
Balance sheet	
Customer loans(2)	34,605
Trading portfolio (w/o loans)	163
Available-for-sale financial assets	9,568
Due from credit institutions(2)	496
Intangible assets and property and equipment	391
Other assets	3,568
Total assets/liabilities & shareholders' equity	**48,791**
Customer deposits(2)	30,888
Marketable debt securities(2)	11,236
Subordinated debt(2)	2,129
Insurance liabilities	—
Due to credit institutions(2)	736
Other liabilities	1,689
Shareholders' equity(3)	2,113
Other customer funds under management	**327**
Mutual funds	—
Pension funds	—
Managed portfolios	*327*
Savings-insurance policies	—
Customer funds under management	**44,581**

(1).- Including dividends, income from equity-accounted method and other operating income/expenses
(2).- Including all on-balance sheet balances for this item
(3).- Not including profit of the year

Net operating income
Million US$



* February-March data at a quarterly rate

Sovereign

- Focus on integration and restructuring to give the bank corporate stability and a solid balance sheet and income statement.
- Break-even reached in the fourth quarter, thanks to higher revenues, lower costs and controlled provisions
- The target level of provisions as a percentage of loans announced at the time of the acquisition was surpassed: 3.6% at the end of 2009.
- Decline in non-strategic assets and in higher cost funds.

Description of the bank and its environment

Banco Santander completed on 30 January the acquisition of 75.65% of Sovereign that it did not already own, making it a fully-owned subsidiary of Grupo Santander. An issue of ordinary shares for an effective amount of EUR 1,302 million was made.

Sovereign improves Grupo Santander's geographic diversification as it enables it to operate in the US and specifically in the northeast, one of the most attractive and stable areas and less prone to cyclical changes and where six of the 26 largest US cities are located.

Sovereign has 722 branches, 2,359 ATMs and close to $100,000 million of loans and deposits (almost equally divided).

Its business model, focused on retail customers and small companies, fits Santander's profile perfectly and offers a notable growth potential in earnings in coming years, both via business as well as through synergies.

Sovereign's performance since becoming part of the Group has been very conditioned by its integration and, above all, by recession at the start of 2009 (GDP declined quarter-on-quarter throughout the year). This evolution improved in the third and fourth quarters when growth was positive.

The recession took its toll on banking business in the US. Of note was the 8% decline in lending, because of the reduced demand to finance consumption and investment. The most affected segments were construction (-20%) and industrial and commercial companies (-15%). Mortgage lending was down 6% and consumer credit 4%.

On the liabilities side, deposits increased 5%, spurred by retail deposits (+9%).

Activity picked up in Sovereign's business area, showing its greater potential and soundness. Of note was the better evolution than the US average in construction and industrial and commercial companies (-7% and -10%, respectively).

Integration of Sovereign in Grupo Santander

2009 for Sovereign was a period of integration and aligning itself with the business model of Grupo Santander. In order to inject stability into corporate governance and make the balance sheet and income statement more solid, a series of steps were taken:

- Creation of a solid structure of corporate governance under the direct supervision of the highest executive bodies (management committee and the Board, supported by the audit committee) and committees to oversee the bank's main functions (risks, ALCO, marketing, etc).
- Adapting the bank's management to the Group's standards, with the appointment of a new team and centralisation of key areas (management control, human resources, risks, etc).
- The Group's risks model was put into effect, with weekly reviews by a risks committee whose members include independent directors. Technological and human resources were boosted, with a special focus on loan recoveries.
- Optimisation of the structure management and strengthening the balance sheet by updating the policies regarding control of interest rate risk, levels of capitalisation, liquidity management and contingency plans.
- A cost-cutting plan was implemented which streamlined the headcount and reduced general, technological and operating expenses. The elimination of redundant functions, business reorganisation and leverage in the global scope of Santander's operations, IT model and cost enabled Sovereign to end 2009 with a monthly cost in local criteria 20% less than that in the fourth quarter of 2008 and close to the medium-term target.
- Review and reorganisation of the business lines under a customer banking focus. The products have been segmented and cataloged into four large areas: Retail Banking, SMEs, Large Companies and Specialised Businesses. The structure of wholesale banking also began to be defined. It will be integrated into the Santander GBM global area and will provide an additional source of recurring revenues.

Activity and income statement

As in other businesses, Sovereign's income statement and ratios have been restated in accordance with the criteria set out on page 98 of this report, and so the figures shown here do not coincide with those published locally.

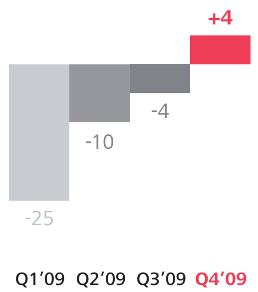
The income statement incorporates the 11 months from the bank's consolidation into the Group in February. Gross income amounted to $2,034 million, net operating income was $810 million and attributable profit $35 million negative (-EUR 25 million). The good evolution, with gradual rises in revenues, cost reductions and control of loan-loss provisions, made net operating income after provisions positive in the third and fourth quarters and in to reach in the fourth quarter $4 million of profit).

Net interest income was $1,614 million (79% of gross income), with a good quarterly evolution (that of the fourth quarter was 29.2% more than February-March at a quarterly rate). This was due to repricing of loans, the lower cost of customer deposits (-91 b.p. between the first and fourth quarters) and ALCO management that offset the lower volume of lending.

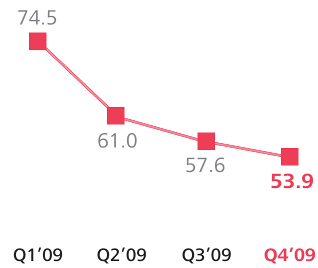
Operating expenses amounted to $1,224 million and remain on a downward trend.

In the fourth quarter they were 14.1% lower than those of February-March at a quarterly rate. This trend combined with that in revenues improved the efficiency ratio from 74.5% in the first quarter to 53.9% in the fourth quarter.

Attributable profit
Million US$



Efficiency ratio
(with amortisations)
%



Net loan-loss provisions amounted to $794 million and became more stable in the last few quarters, once the target level of provisions as a percentage of loans stated in the acquisition was surpassed (3.6% of gross lending at the end of 2009).

The main developments in business were:

- In lending, and in an environment of low short-term interest rates, management was focused on improving the spreads on new loans and renewal of credits in order to incorporate the higher cost of liquidity and the greater risk. This limited the impact of the fall in interest rates on the return on basic loans, while continuing to reduce lending in non-core segments and businesses.

  Coinciding with the improvement in real estate expectations, the transfer of mortgage loans to government agencies was reduced with the consequent positive impact on volumes. In return for foregoing immediate revenue, net interest income in coming quarters will be more recurrent. As a result, the volume of loans declined 11%.

  The NPL ratio was 5.35% and coverage 62%, with 74% of loans covered by collateral or guarantees.
- In deposits, there was a sharp drop in prices, particularly in higher cost products. This occurred without an excessive loss of volumes (-8%) as the reduction on the balances of high cost products (retail time deposits and wholesale deposits: -35%) was partly offset by the 15% increase in retail demand deposits.

Overall, Sovereign has an excellent credit/deposits ratio (112%).

Prorities in 2010

The priorities in 2010 are to complete the restructuring plan and continue to implement the Santander model both in operations, technology and systems as well as in the commercial sphere, while maintaining strict management of risk. Goals have been set for each business segment (individuals, SMEs, corporate and specialised businesses), backed by increasing the customer base and increasing the penetration of products with appropriate management of prices.

Corporate Activities
Million euros

	2009	2008	Variation Amount	(%)
Income statement				
Net interest income	**(2,210)**	**(2,157)**	**(53)**	**2.5**
Net fees	(6)	59	(64)	—
Gains (losses) on financial transactions	631	613	18	3.0
Dividends	121	229	(107)	(47.0)
Income from equity-accounted method	(15)	97	(113)	—
Other operating income/expenses	52	32	21	65.9
Gross income	**(1,427)**	**(1,128)**	**(298)**	**26.4**
Operating expenses	(809)	(633)	(177)	27.9
General administrative expenses	(695)	(455)	(240)	52.7
Personnel	*(307)*	*(200)*	*(108)*	*53.9*
Other general administrative expenses	*(388)*	*(256)*	*(132)*	*51.7*
Depreciation and amortisation	(114)	(177)	63	(35.7)
Net operating income	**(2,236)**	**(1,761)**	**(475)**	**27.0**
Net loan-loss provisions	50	30	19	63.2
Other income	(848)	227	(1,075)	—
Profit before taxes (w/o capital gains)	**(3,034)**	**(1,503)**	**(1,531)**	**101.8**
Tax on profit	1,421	815	606	74.4
Profit from continuing operations (w/o capital gains)	**(1,614)**	**(688)**	**(925)**	**134.4**
Net profit from discontinued operations	(15)	0	(15)	—
Consolidated profit (w/o capital gains)	**(1,628)**	**(688)**	**(940)**	**136.6**
Minority interests	(5)	(4)	(2)	46.8
Attributable profit to the Group (w/o capital gains)	**(1,623)**	**(685)**	**(938)**	**137.0**
Net extraordinary capital gains and allowances	—	—	—	—
Attributable profit to the Group	**(1,623)**	**(685)**	**(938)**	**137.0**
Balance sheet				
Trading portfolio (w/o loans)	4,331	2,689	1,642	61.1
Available-for-sale financial assets	26,870	14,122	12,748	90.3
Investments	32	1,216	(1,185)	(97.4)
Goodwill	22,865	18,836	4,029	21.4
Liquidity lent to the Group	49,677	77,011	(27,335)	(35.5)
Capital assigned to Group areas	52,448	41,563	10,886	26.2
Other assets	64,511	92,187	(27,677)	(30.0)
Total assets/liabilities & shareholders' equity	**220,733**	**247,624**	**(26,891)**	**(10.9)**
Customer deposits(1)	3,216	3,010	206	6.8
Marketable debt securities(1)	83,094	107,657	(24,563)	(22.8)
Subordinated debt(1)	19,131	23,384	(4,253)	(18.2)
Other liabilities	50,106	53,870	(3,764)	(7.0)
Group capital and reserves(2)	65,186	59,704	5,482	9.2
Other customer funds under management	**—**	**—**	**—**	**—**
Mutual funds	—	—	—	—
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Savings-insurance policies	—	—	—	—
Customer funds under management	**105,442**	**134,051**	**(28,609)**	**(21.3)**

(1).- Including all on-balance sheet balances for this item
(2).- Not including profit of the year

Corporate Activities

- **Reduced income by the equity accounted method (basically Cepsa) and lower dividends received.**
- **Higher expenses, mainly due to rentals.**
- **Ordinary provisions for Metrovacesa.**
- **Higher writedowns in real estate assets and other contingencies.**

Corporate Activities covers a series of centralised activities and acts as the Group's holding. It manages all capital and reserves and allocations of capital and liquidity with the rest of businesses on the basis of the criteria set out on page 98 of this report.

The area made a loss of EUR 1,623 million in 2009 compared to a loss of EUR 685 million in 2008. This was mainly due to the lower revenues in almost all business lines and higher operating expenses.

The main developments were:

- Net interest income was EUR 2,210 million negative compared to EUR 2,157 million also negative in 2008.
- Dividends dropped from EUR 229 million to EUR 121 million, including those from the stakes in RBS and Fortis.
- Income accounted for by the equity method was EUR 97 million in 2008 compared to a loss of EUR 15 million in 2009. The difference was largely due to the sale of the stake in Cepsa.
- Gains on financial transactions, which includes those from centralised management of interest rate and currency risk of the parent bank as well as from equities, amounted to EUR 631 million, similar to the EUR 613 million in 2008. The charge of EUR 195 million made in the first quarter for Metrovacesa was transferred in the second quarter to "other income and provisions".
- Operating expenses increased by EUR 177 million, mainly because of higher general expenses which were partly offset by lower amortizations. The sale of buildings and of Grupo Santander City in Spain meant greater spending on rentals and lower amortizations.
- Net loan-loss provisions include releases of EUR 50 million compared to EUR 30 million in 2008. In both years there were releases of country risk provisions and fluctuations derived from positions in equity and fixed income related to financial management.
- "Other income", which includes various provisions and allowances, was EUR 848 million negative compared to EUR 227 million positive in 2008.

  The difference was mainly due to the EUR 195 million charge for Metrovacesa, transferred to this line in the second quarter, provisions for real estate assets, pensions and other provisions.

  There is also a temporary mismatch of various allowances and writedowns for contingencies which are anticipated at the consolidated level and not recorded in the results of units until their effective materialisation. This had a negative impact in 2009, while in 2008 it was positive because of the reversal of funds constituted in previous years for hedging of operational risks as well as other funds established for integration costs.

As regards the area's sub segments:

- Equity Stakes: this centralises the management of equity stakes in financial and industrial companies.

  In 2008 and 2009, the Equity Stakes line recorded a sharp fall to almost zero because of the integration by the global method of Banco Real and Sovereign, and the exit from Cepsa.

- Financial Management: this area carries out the global functions of managing the structural exchange rate position, the structural interest rate risk and the liquidity risk. The latter is conducted through issues and securitisations. It also manages the Group's shareholders' equity.

  This subsegment includes the cost of hedging the capital of the Group's non-euro denominated subsidiaries, in the face of exchange-rate fluctuations.

  As regards the book value, the current policy is aimed at covering the excess capital of each subsidiary on 7% of their risk weighted assets, either through direct term positions in most cases or through a strategy of option "tunnels" that limit the losses in scenarios of significant currency depreciation.

  The year's results in currencies other than the euro are also hedged, using in each case the aforementioned strategies. In 2008 and 2009 the main units with exchange-rate risk remained hedged.

  The results of interest rate risk management, which is actively conducted by taking positions in the market, are also reflected. This management seeks to cushion the impact of changes in market interest rates on the bank's net interest income and value, and is done via bonds and derivatives of high credit quality, high liquidity and low capital consumption.

  As regards liquidity risk, needs in the current environment are below those in previous years.

  This subsegment also manages shareholders' equity, the allocation of capital to each business unit, and the cost of financing investments. This means that the contribution to earnings is usually negative.

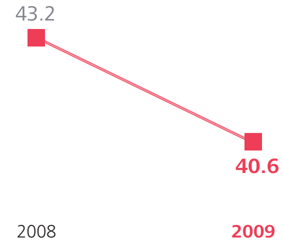
2. Secondary segments or by business

Retail Banking

- Moderate business growth and management of spreads produced net interest income growth.
- Net fees showed signs of recovery in the last quarters.
- Rigorous discipline in expenses, which remained flat on a like-for-like basis, and a further gain in efficiency.
- Higher provisions, due to the environment.

Gross income and expenses
% variation 2009 / 2008

Efficiency ratio
(with amortisations)
%



The Group's Retail Banking generated 85% of the operating areas' total gross income in 2009 and 70% of attributable profit (EUR 7,397 million). Profit was 0.7% higher than in 2008, despite the reduced volume of activity, the higher cost of risk and the negative impact of exchange rates.

Gross income was EUR 34,751 million, up 18.3%. This was due to net interest income (+24.4%), spurred by moderate business growth and better customer spreads. Net fees increased 0.9% as there were signs of a recovery in recent quarters.

These year-on-year variations were positively impacted by the change in perimeter and negatively by exchange rates. Excluding them, gross income was 9.9% higher.

Operating expenses rose 11.2%, but remained flat without the impact from the change in perimeter and forex. As a result, the efficiency ratio improved from 43.2% in 2008 to 40.6%. Net operating income was 23.8% higher at EUR 20,649 million (+17.6% excluding the perimeter and exchange rate impact).

Net loan-loss provisions increased 51.0% and were on a downward trend.

Income statement and business volumes. Secondary segments
%

	Operating business areas		Retail Banking		Global Wholesale Banking		Asset Management and Insurance	
	2009	Var (%)	2009	Var (%)	2009	Var (%)	2009	Var (%)
Income statement								
Net interest income	**28,509**	**23.4**	**25,942**	**24.4**	**2,367**	**15.9**	**201**	**(3.1)**
Net fees	9,086	1.4	7,524	0.9	1,131	16.6	431	(19.2)
Gains (losses) on financial transactions	2,792	40.7	1,376	55.8	1,382	28.5	34	32.1
Other operating income(1)	421	(26.0)	(91)	—	174	60.8	339	15.8
Gross income	**40,808**	**17.9**	**34,751**	**18.3**	**5,053**	**20.5**	**1,004**	**(5.1)**
Operating expenses	(15,612)	9.0	(14,101)	11.2	(1,203)	(7.1)	(307)	(10.1)
General administrative expenses	(14,129)	7.7	(12,734)	9.6	(1,117)	(5.8)	(278)	(13.7)
Personnel	(8,143)	*7.7*	(7,280)	*9.6*	(725)	*(5.3)*	(138)	*(9.5)*
Other general administrative expenses	(5,986)	*7.5*	(5,454)	*9.6*	(392)	*(6.7)*	(140)	*(17.4)*
Depreciation and amortisation	(1,482)	24.3	(1,368)	28.5	(86)	(21.3)	(29)	51.1
Net operating income	**25,196**	**24.1**	**20,649**	**23.8**	**3,850**	**32.8**	**697**	**(2.8)**
Net loan-loss provisions	(9,533)	43.8	(9,578)	51.0	37	—	8	331.8
Other income	(865)	16.0	(814)	15.6	3	—	(54)	197.6
Profit before taxes	**14,798**	**14.5**	**10,257**	**6.5**	**3,890**	**50.3**	**651**	**(7.1)**
Tax on profit	(3,757)	17.2	(2,413)	12.3	(1,125)	32.5	(219)	5.5
Profit from continuing operations	**11,041**	**13.6**	**7,844**	**4.8**	**2,765**	**59.0**	**432**	**(12.4)**
Net profit from discontinued operations	45	(85.8)	45	(85.8)	—	(100.0)	—	—
Consolidated profit	**11,086**	**10.5**	**7,889**	**1.1**	**2,765**	**59.0**	**432**	**(12.4)**
Minority interests	521	9.4	493	8.0	0	—	28	25.9
Attributable profit to the Group	**10,565**	**10.5**	**7,397**	**0.7**	**2,765**	**58.8**	**404**	**(14.2)**
Business volumes								
Total assets	1,095,529	9.0	812,027	9.7	253,756	5.0	29,746	29.8
Customer loans	682,245	9.3	618,847	10.9	62,808	(4.7)	590	167.2
Customer deposits	503,761	20.7	451,044	22.5	52,211	7.1	506	28.6

(1).- Including dividends, income from equity-accounted method and other operating income/expenses.

Retail Banking. Income statement

Million euros

	Gross income 2009	Gross income Var (%)	Net operating income 2009	Net operating income Var (%)	Attributable profit to the Group 2009	Attributable profit to the Group Var (%)
Continental Europe	**13,864**	**11.5**	**8,663**	**12.8**	**3,844**	**1.6**
o/w: Spain	8,754	1.5	5,273	2.2	2,749	(1.3)
Portugal	1,077	2.8	570	3.3	418	(4.1)
United Kingdom	**4,832**	**46.9**	**2,766**	**60.8**	**1,335**	**34.0**
Latin America	**14,591**	**7.0**	**8,637**	**18.6**	**2,242**	**(12.8)**
o/w: Brazil	9,834	15.5	5,837	36.5	1,219	5.1
Mexico	1,876	(20.6)	1,168	(22.3)	229	(47.1)
Chile	1,474	0.1	949	0.4	358	(5.7)
Sovereign	**1,463**		**582**		**(25)**	
Total Retail Banking	**34,751**	**18.3**	**20,649**	**23.8**	**7,397**	**0.7**

Total lending rose 11% and customer deposits 23%, both benefiting from the latest acquisitions.

- Retail Banking in Continental Europe increased its net interest income by 23.3%, net operating income 12.8% and attributable profit 1.6%.

  The main drivers were moderate business volumes, good management of spreads in an environment of lower interest rates and control of costs (flat on a like-for-like basis). The efficiency ratio improved from 38.2% to 37.5%.

- The profit of Retail Banking in the United Kingdom was 50.1% higher in sterling, due to the good performance of Abbey and the incorporation of A&L and B&B. The drivers were the same as for other units: higher revenues spurred by net interest income, lower growth in costs, which enabled the efficiency ratio to improve by 5 p.p. to 42.8%, and higher loan-loss provisions.

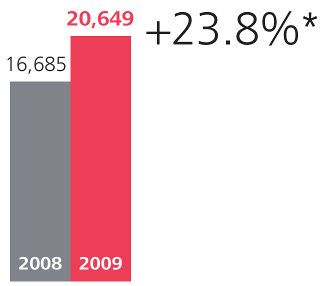
- The results of Retail Banking in Latin America came from growth in customer business, the good performance of net interest income, within the region's environment of lower economic growth, and control of expenses compatible with business development and benefiting from savings from synergies in Brazil. Net interest income rose 10.2%, gross income was 12.6% higher and operating expenses dropped 1.8% (all without the exchange-rate impact).

  As a result, the efficiency ratio (with amortizations) improved from 46.6% in 2008 to 40.8% and net operating income was 25.2% higher. However, as a result of the big rise in net loan-loss provisions, attributable profit was 9.3% lower, although on an improving trend.

Global Private Banking includes institutions that specialise in financial advice and asset management for high income clients (Banif in Spain, Santander Private Banking UK and Abbey International in the UK and Santander Private Banking in Latin America and Italy), as well as the units of domestic private banking in Portugal and Latin America, jointly managed with local retail banks. Allfunds Bank, the leader in distributing the funds of third parties, is also present in Spain, Italy, the UK and Latin America.

Net operating income

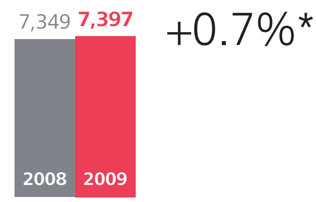
Million euros



* Excluding exchange rate impact: +27.8%

Attributable profit

Million euros



* Excluding exchange rate impact: +3.5%

Private banking activity was lower in the first half of 2009 because of the developments in the second half of 2008. Gross income declined 6.9%, due to the reduction in average volumes managed and the shift in customer preferences towards a more conservative mix of products. This was mitigated to some extent by the 9.9% decline in personnel and general costs. Attributable profit was 1.6% higher at EUR 330 million.

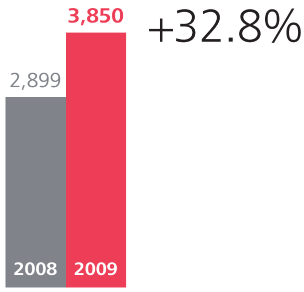
Although average balances were lower than in 2008, the balances at the end of 2009 were 5% higher at EUR 96,873 million, as a result of the increase in the second half.

The division continued to deepen and adapt its business model to the various units and paid particular attention to the commercial processes of advice, training, homogenisation of investment strategies and discretional investment, unification of products and the common IT platform for customer management. Santander Private Banking Italy is already using the same platform as Banco Banif in Spain and the rest of units will gradually be incorporated (Mexico in 2010). This will boost the levels of customer service quality, maintain a constant watch on portfolios to ensure they are in line with objectives, align the value offer of all units and obtain significant synergies.

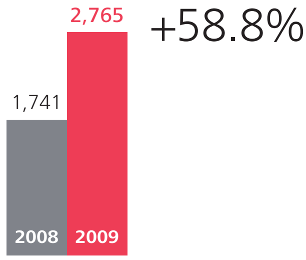
Global Wholesale Banking

- Big rise in profits and gain in market share.
- High share of customer revenues, which grew strongly because of greater activity and increased spreads.
- Lower expenses thanks to adjustments made in 2008.
- Rigorous management of risk, liquidity and capital.

Net operating income
Million euros



Attributable profit
Million euros



This segment, managed by Santander Global Banking & Markets, contributed 12% of total gross income and 26% of attributable profit (EUR 2,765 million, + 58.8%).

Strategy in 2009

This performance was backed by a customer-focused business model, the area's global reach and its connection with local units, and strict control of expenses and risks. Another decisive factor is the strength of the Group's capital and liquidity which, within rigorous control of both variables, enabled us to maintain a high level of unrestricted activity and take on new operations.

The business model and the strong balance sheet were combined with a more favourable environment, higher spreads and volatilities than in 2008 and many competitors focused on aspects other than pure business. All of this enabled Santander to penetrate attractive business segments profitably and occupy spaces left by others without increasing risk levels.

Income statement

All of this was clearly reflected in results. Gross income increased 20.5%, spurred by all components. Of note was net interest income (+15.9%), thanks to strong activity and higher spreads, and fee income (+16.6%). Gains on financial transactions rose 28.5%.

Operating expenses dropped 7.1%, particularly at the beginning of the year, reflecting the adjustments to the new environment made in the last part of 2008. The efficiency ratio improved by 7 p.p. to 23.8% and net operating income was 32.8% higher at EUR 3,850 million.

All of this growth and the lower level of provisions fed through to attributable profit (+58.8%).

The third and fourth quarters of 2009, however, saw a trend toward normalisation of the business environment with less stressed levels of spreads, volatilities and competition. This trend was also reflected in results. The fourth quarter profit (8.6% higher than a year earlier) continued to grow solidly, but at a slower pace than in previous quarters

The results were supported by strong customer revenues which increased 23%. All geographic areas increased their revenues: Continental Europe (+27%), United Kingdom (+7%) and Latin America (+26%).

These growth rates were achieved with strict management of volumes and risks. The area's risk weighted asset levels at the end of 2009 were lower than in 2008.

Business model and performance of product areas

In order to maintain the trend in customer revenues, we continued to deepen the global focus of business, increasing the Global Customer Relationship Model and fostering inter-relation between the product areas and specialised units. The Model, which concentrates management of global corporations and institutions, increased its revenues 20%.

The product areas also made progress in their increasingly global business vision which is adapted to the changing needs of markets and customers. Their performance was the following:

1) Global Transaction Banking

This area, which includes Cash Management, Trade Finance and Basic Financing, increased its customer revenues 34%, backed by a solid position in its natural markets where it provides local and regional solutions for corporate and institutional customers.

Trade Finance revenues rose 57%, with rises in all countries, particularly Brazil (main engine of growth), which was awarded the Excellence Prize by the magazine Trade Finance, Mexico and Chile. These three units, which account for more than 80% of the segment's total growth, benefited from the improvements made to global management of products and businesses.

All the units of Basic Financing registered notable growth (+53% in constant euros), the result of moderate rises in volumes and sharp rises in spreads, particularly in the first half of 2009. These higher spreads underlined the effort made in repricing in order to adapt new operations and renewals to the current liquidity and risk conditions.

Lastly, lower growth in Cash Management (+2% in constant euros), due to the fall in benchmark interest rates. Growth in Europe was moderate (single digit) and better in Brazil and Mexico (+11% in their respective currencies).

2) Corporate Finance
This area (including Mergers and Acquisitions and Asset & Capital Structuring, -A&CS-) reduced its customer revenues by 41%, due to the decline in the number and size of corporate operations and the impact on year-on-year comparisons of the high revenues from a particular operation in 2008. Excluding this, and backed by the high recurrence of A&CS business, revenues were almost in line with those in 2008.

In Mergers and Acquisitions, Santander maintained solid positions in core markets. Of note was the increased market share in Spain and Portugal, where for the second year running we were named Financial Advisor of the year by the Financial Times and Mergermarket. Also noteworthy was the leadership attained in Brazil in M&A, according to Thomson Financial, which helped to put Santander's overall M&A activity in the second spot for the whole of Latin America. Among the operations were:

- In Europe, advising on the main consolidation movements in the energy sector: Gas Natural in its takeover bid on Unión Fenosa; Enel's acquisition of 25% of Endesa; the purchase by Acciona of Endesa's renewable assets and Galp Energía in selling assets to the Portuguese family office Gestmin in order to meet European competition requirements, as well as the acquisition of Manley by Flamagás and other smaller operations.
- Of note in Latin America were the following transactions in Brazil: the acquisition of Termonorte by Grupo Carlos Suarez; the merger of JBS and Bertin to create the world leader in proteins; the acquisition of a Brazilian plant of Votorantim Celulosa e Papel by the Chilean CMPC and the sale of Usina Santelisa Vale by Louis Dreyfus Commodities.

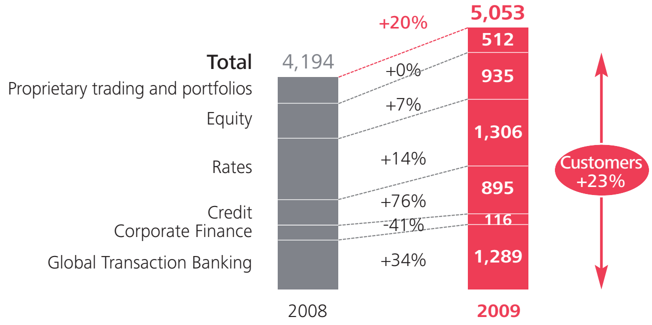
Asset & Capital Structuring's revenues remained stable, with a small fall in Europe and a large rise in Latin America from small levels. Activity in Brazil increased (mandate to buy three aeroplanes for TAM; two operations to monetise C02 emission rights and new product of local R&D to optimise state aid) and good prospects in Mexico and Argentina in the monetisation and sale of emission rights.

In Europe, within the business of R&D+I, operations of more than EUR 600 million were structured, optimising development funds of the Spanish state. In tonnage business, EUR 240 million of ship finance operations were structured in a year of low activity.

3) Credit Markets
Credit Markets, which include origination activities, risk management and distribution of both bank loans – corporate or structured finance – as well as bonds and structured credit products, increased their customer revenues by 76%, backed by all products and countries, particularly Spain and Latin America.

In loans, Santander enjoyed a good year and participated in large operations for a total of more than EUR 25 billion. This consolidates Santander as one of the leading banks in the corporate sector and project finance and again we were named Loan House of the Year by the magazine Latin Finance.

Gross income breakdown
Million euros



Also noteworthy was Santander's presence in the following operations: the purchase financing of Anheuser-Busch by Inbev, the I-595 highway in the US, the Boreas wind-power park, the desalination plant in Victoria, Australia and the acquisition of Gatwick airport in the UK.

In project finance, Santander was again one of the main protagonists. Project Finance International again awarded Santander its prize for Deal of the Year in Latin America for the Obedrecht operation in Brazil and Deal of the Year in public-private partnership (the desalination plant in Victoria).

The bonds and securitisations area also did very well, especially in Spain and the rest of Europe where it led significant operations in the capital markets for a total amount of more than EUR 27 billion, including the issues of Gas de France-Suez, Roche, Enel and Gas Natural.

All of this is enabling Santander to scale positions in the world of bonds and attain an increasingly notable position in the primary markets.

4) Rates
The customer revenues of this area (including trading activities and distribution of bonds and interest rate and currency derivatives for the Group's wholesale and retail customers) increased 14%, backed by all countries and business lines, although with slower growth (+64% in the first half and +41% in the first nine months).

The strong growth at the start of the year, based on higher spreads because of the lack of depth of the market, greater penetration and good management of local books, was reduced in the last part of 2009 following a trend toward normalisation of market conditions.

Of note in Europe, the main area of activity, were the increased sales with financial institutions (particularly in public bonds and simple derivatives) and large companies (especially in the UK). In Latin America, Brazil stood out for the sharp rise in retail business, reflecting the success of the risk hedging model for Santander's retail customers in the integrated bank. Mexico and Chile also performed well, consolidating solid growth in all segments.

5) Equities

Customer revenues in Global Equities (activities related to the equity markets, settlement and custody) increased 7%, following several quarters which combined recoveries and lower revenues against a backdrop of substantial uncertainty in financial markets.

This environment of strong volatility and sharp falls in trading volumes mainly affected brokerage activity on equity markets and in organised derivative markets (revenues fell by 5% and 28%, respectively). The recovery in markets as of March enabled the fall to be only 5% (more than -40% in the first quarter).

Custody and settlement results were also hit by the environment and by the outflows from mutual funds in Spain, particularly during the first half of the year. Their revenues were 15% lower.

On the other hand, Santander's leadership position in primary markets in Latin America and Spain and a notable participation in the main IPOs, produced a 69% leap in revenues, strongly spurred by Brazil.

Similarly, our vocation of customer service and risk management capacity resulted in a 70% increase in revenues from investment solutions and hedging of market risks through derivative products. This growth came mainly from Spain and, in particular, the incorporation of the UK to this activity.

Lastly, Securities Financing in the UK made another solid contribution (+18% growth in revenues in sterling). As envisaged, the narrowing of spreads toward levels normal in a more stable market caused the deceleration in the fourth quarter.

Priorities in 2010

In 2010, Santander Global Banking and Markets will continue to grow and consolidate the gains in market share achieved in 2009. It will concentrate on increasing business with European customers and on greater penetration of the franchise in Latin America, focusing on larger volumes, both in net interest income business as well as fee income. Growth in risk assets will be selective and in accordance with the strategy. This will require investment in human and technological resources.

Rankings in 2009

	Activity	Area	Country / Region	Source
Award	Best Trade Finance Bank Argentina	GTB	Argentina	Global Finance
Award	Best International Trade Bank	GTB	Brazil	Trade Finance
Award	Best Supply Chain Finance Provider in Latin America	GTB	Latin America	Global Finance
Nº1*	Domestic Cash Manager Provider	GTB	Mexico	Euromoney
Award	M&A Financial Advisor of the year	CIB	Iberia	Financial Times & Mergermarket
Award*	Americas Deal of the Year (Odebrecht Drill Ships - Brasil)	CM	Latin America	PFI Awards 2009
Award*	PPP Deal of the Year (Aquasure/Gallas - Australia)	CM	Pacific Asia	PFI Awards 2009
Award*	Loan House of the Year	CM	America	Latin finance
Award*	Overall deal of the year/ Multi-currency deal of the year Roche	CM	Suisse	Credit magazine
Nº1**	Best Equity Capital Markets Bank in Latam	EQ	Latin America	Bloomberg y Dealogic
Award**	Latinamerican Equity Issue of the Year: IPO Santander Brasil	EQ	Latin America	IFR
Award*	Best Structured Products provider in Spain	EQ	Spain	Structured Products Europe Awards
Nº1*	Best Equity Research Bank in Spain	EQ	Spain	Thomson Extel Surveys
Nº1**	Domestic Bonds Market Maker	RT	Mexico	Mexder
Nº4*	GBP Derivatives	RT	UK	Euromoney
Nº1*	Divisas	RT	Spain	Risk Spain
Nº1*	Swaps de Tipos de Interes	RT	Spain	Risk Spain

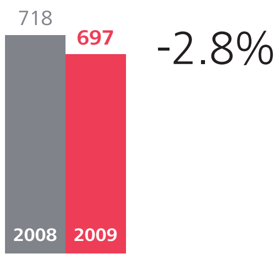
(*).- Prize or ranking depending on the criterion.
(**).- Prize or ranking by volume.

GTB: Global Transaction Banking **CIB: Corporate and Investment Banking** **CM: Credits and Markets** **EQ: Equity** **RT: Rates**

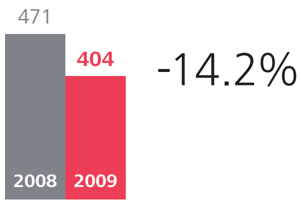
Asset Management and Insurance

- Revenues accounted for 9% of the Group's total operating areas.
- Preference for deposits / liquidity reduced the sale of investment funds and insurance and their revenues.
- Investment funds: recovery of volumes underway in the last two quarters.
- Insurance: continued strengthening of its global management model and development of new products.

Net operating income
Million euros



Attributable profit
Million euros



Attributable profit was EUR 404 million, 14.2% less than in 2008 (-11.5% excluding the exchange-rate impact) and 4% of the operating areas' total.

Gross income fell 5.1%, as the higher revenues from insurance did not offset the fall in asset management, particularly fee income. A key factor was the sharp decline in the managed volumes of mutual funds, particularly in Spain.

Operating expenses declined 10.1%, reflecting the area's efforts to adapt its structures to the new environment of revenues. Net operating income dropped 2.8%, a trend that fed through to attributable profit mainly because of negative extraordinary results and a higher tax rate.

Total revenues contributed to the Group by asset management and insurance activities, including those recorded by the distribution networks, amounted to EUR 3,599 million, 9% of the Group's total.

Asset Management

Santander Asset Management generated total revenues of EUR 1,178 million, 27.6% lower because of the preference for liquidity and deposits by financial agents and the impact of the markets on portfolios, both average volumes under management (-14%) as well as their composition (more conservative and lower return).

Of note, however, was the trend of stabilisation in revenues as of the second quarter, in contrast to the double digit falls at the end of 2008 and the start of 2009. This was due to the gradual recovery of mutual fund markets, begun in Latin America and now spreading to Europe, which is improving volumes.

Total managed assets stood at EUR 116,500 million at the end of 2009, 15% more than a year earlier but still 6% below the average volume of 2008.

Attributable profit was EUR 54 million (-65.9%), after deducting operating expenses and fees paid to the commercial networks (-16.9% as a result of structure adjustments).

The main elements by units and countries were as follows:

- In **traditional management of assets,** mutual fund business continued to recover gradually, with the incorporation of more markets and greater interest by customers and distributors. To Latin America, the UK and Portugal, which attained positive figures of capturing in the first half, was added Spain with net contributions in the fourth quarter. Stock markets picked up around the world and the global volume managed increased substantially.

  At the end of 2009, the Group administered EUR 110,000 million in mutual funds, investment companies and pension plans, 17% more than in 2008 (+7% without the exchange-rate impact). Spain is the main market, followed by Brazil and the UK. These three countries account for more than 80% of the total managed volume.

  In Spain, Santander Asset Management's growth was focused on higher value-added products, such as mixed funds, which were well received by branch networks and their customers in the low interest rate environment. This gradual assumption of risk is being accompanied by success in guaranteed equity funds, which have benefited from the rise in stock markets.

Despite the positive evolution in the past few months, the volume of managed assets in Spain, including pension funds, dropped 6% over December 2008 to EUR 44,000 million, a larger fall than the industry as a whole which was virtually unchanged.

Of note in Brazil was the restructuring of a range of products, enabling us to take advantage of the expansion possibilities in a market which is already responding very well to our innovative offers. The total volume managed at the end of 2009 was EUR 34,500 million, 12% more than a year earlier excluding the exchange rate impact.

Retail balances in the UK were also good, thanks to sustained sales in branches and the positive performance of markets. Assets under management rose 40% in sterling to EUR 11,000 million.

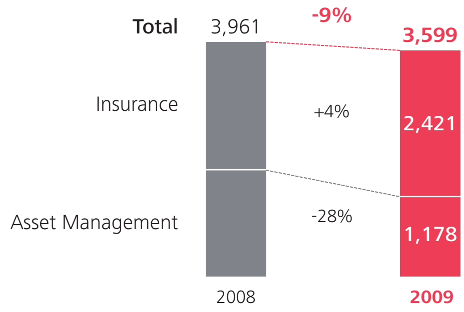
Lastly, at the global level, Santander Asset Management continued to streamline the range of funds and merge them in various markets. The first mutual funds with share classes were launched in Spain. The purpose of these processes is to ensure the Group's networks have simple and well known products, profitable for our customers, with high average volumes and the full focus of management teams.

- In **real estate fund management,** we continued the ordered sale of the assets of Santander Banif Inmobiliario in a very demanding environment. The aim is to achieve, in the best interest of investors and within the applicable regulatory framework, the best combination of agility, price optimisation and the largest possible turnout of investors.
- In **alternative management,** we are reorganising funds and the structures of Optimal Investment Services, in line with the current scant demand for this type of products and the consequent reduction in these managed assets.
- In **venture capital funds,** an investment segment specialised in unlisted companies and over the very long-term, assets amounted to more than EUR 300 million, slightly more than at the end of 2008.

Priorities in 2010

The focus in 2010 is on strengthening the area's global structure as a way to support local managers and as a channel to obtain synergies and best practices, enrich the mix of products through diversification, quality and product transparency and enhance the relation with distribution networks based on excellence in service.

Total Group revenues
Million euros



Insurance

Santander Insurance generated attributable profit of EUR 350 million, 12.2% more than in 2008. Higher net interest income and insurance activity, coupled with lower operating expenses, offset lower net fee income.

Total revenues (the area's gross income plus fee income paid to the networks) were EUR 2,421million, 3.8% higher (+7% excluding the exchange-rate impact) and representing 6% of the operating areas' total.

Excluding operating expenses, the total contribution to the Group's results (profit before tax of the insurance companies and brokers and fees received by networks) was EUR 2,251 million (+4.5% and +7% excluding the exchange-rate impact).

Santander Insurance continued to progress in its global business model and foster the development of new products via its distribution channels. It also consolidated its position with the acquisition of 50% of the insurer Real Tokio Marine Vida e Previdencia in Brazil, which the Group did not have, and the integration of the businesses of Alliance & Leicester, GE Money and Sovereign.

Premium income was 14% lower, eroded by the Group's reduced lending (which affected insurance products related to credits) and customers' greater preference for liquidity, which reduced the demand for savings insurance.

Continental Europe, which contributed 48% of the total, was affected by both of these factors, mainly in Spain and Portugal.

Spain's contribution (excluding SCF business) was EUR 401 million (-29%) and reflects to a greater extent the impact of slower business and the change of mix in savings insurance products (-34%). Of note were the rise in insured products ("rentas" and "planes de ahorro"). In protection insurance, the slower pace of lending reduced total sales as this could not be offset by non-credit linked insurance sales.

Of note in Portugal was the growth in revenues from protection insurance and the lower contribution of savings products. Their total contribution was EUR 133 million (-10%).

Santander Consumer Finance, on the other hand, maintained a strong pace in insurance sales, particularly in Germany due to the government's scrappage scheme in the car sector during the first half of the year and the incorporation of new units. Its total contribution was 9% higher at EUR 556 million.

The **UK's** total contribution was EUR 222 million, 46% more in sterling than in 2008, due to the incorporation of new banking networks and the new business of cards. These offset the decline in payment protection insurance (PPI), due to changes in the UK regulatory environment and the fall in new mortgages.

Latin America's contribution increased 26% to EUR 907 million excluding the exchange-rate impact and already accounts for 40% of the area's total. The greater efficiency in selling via bank branch networks and other channels such as telemarketing, coupled with the development of simple and transparent products not linked to lending, pushed up the results of the main countries. Of note was Brazil (+36% in reales), spurred by its business plan and the new businesses acquired at the beginning of 2009.

The incorporation of **Sovereign** contributed EUR 31 million (fee income from the distribution of savings insurance).

Priorities in 2010

The emphasis in 2010 is on:

- Strengthening insurance savings business and non-credit linked insurance.
- Stepping up penetration of the customer bases and diversification, while controlling risks.
- Exploring new business opportunities and new sales channels.
- Further enhancement of the level of quality and customer service.

Asset Management and Insurance. Income statement

Million euros

	Gross income		Net operating income		Attributable profit to the Group	
	2009	Var (%)	2009	Var (%)	2009	Var (%)
Mutual funds	247	(34.0)	108	(47.6)	42	(70.7)
Pension funds	28	(12.8)	19	(14.4)	12	(21.4)
Insurance	729	11.8	571	16.6	350	12.2
Total Asset Management and Insurance	**1,004**	**(5.1)**	**697**	**(2.8)**	**404**	**(14.2)**

Risk management

Risk management Executive Summary

Banco Santander's risk management principles

- Independence of the risks function
- Support for business, maintaining risk quality
- Collegiate decisions
- Cutting-edge tools and systems in risk measurement and analysis
- All the Bank's organs of government are deeply involved

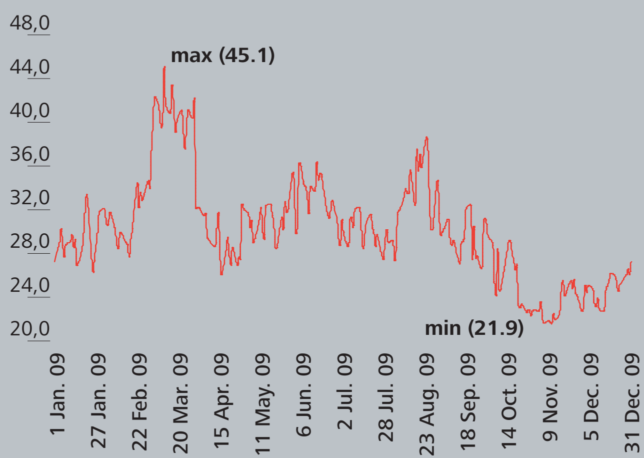
Market risk

(pages 168-183)

- Santander maintains a low risk profile in activities subject to market risk.
- In trading activity, most of the results come from recurring business with customers.
- In 2009, the exposures of Grupo Santander related to complex structured assets, from an already very low level in 2008, were reduced.

VaR performance in 2009

Million euros



Management of financing and liquidity risk

(pages 179-182)

- Santander has a decentralised model of liquidity, independent of the subsidiaries and within coordinated management at Group level.
- Santander has a stable structural liquidity position, backed by customer deposits and medium and long-term wholesale financing (4.5 years on average).
- Ample access to wholesale markets thanks to the high rating and diversification by markets, instruments and maturities.
- Discounting capacity in central banks of around EUR 100,000 million.

Liquidity monitoring metrics

	2009	2008
Loans/Net assets	79%	79%
Customer deposits, insurance and medium and long-term financing/Lending	106%	104%
Customer deposits, insurance, medium and long-term financing, shareholders' equity and other liabilities/Loans+ fixed assets	110%	103%
Short-term financing/ Net liabilities	5%	7%

Credit risk exposure in Spain

(pages 154-159)

At the end of 2009:

- Spain's credit portfolio accounted for 37% of Grupo Santander's total. Its non-performing loan ratio was 3.4%, below the sector's average of 5.0%.
- The Group's consolidated lending to the construction and property sectors in Spain (Banco Santander and Banesto) was EUR 42,256 million.
- The NPL ratio of the portfolio of these sectors was 6.2%.
- In addition, there are EUR 4,332 million of risks classified as substandard.
- The gross amount of property acquired was EUR 4,304 million and foreclosures amounted to EUR 2,217 million.
- The potentially problematic exposure of the loans to the construction and property sectors –doubtful and substandard loans plus the total acquired, foreclosures and write offs– amounted to EUR 13,961 million, 8% of the system's total exposure.
- This exposure was 29% covered with specific provisions and including generic provisions coverage was 50%.
- Coverage was around 93% including the Group's 2009 net operating income in Spain (Banco Santander and Banesto)[1].
- These levels of coverage are well above the sector's average.
- In a Theoretical exercise of a stress test, the total expected loss from the exposure to the construction and property sectors would be EUR 4,208 million for the next three years.

(1) This information is given in order to follow the March 2010 Financial Stability Report of the Bank of Spain.
Coverage for the whole system, according to the report, is 71%.

Exposure and coverage of the construction and real estate development sectors. December 2009

- The following table sets out the different items and figures mentioned in the March 2010 Financial Stability Report of the Bank of Spain regarding the construction and real estate sectors.
- The table reflects the figures of the total system in Spain and those of Grupo Santander Spain (Banco Santander and Banesto).

	Total system		Grupo Santander Spain	
	Million euros	%	Million euros	%
Exposure	445,000		48,299[1]	
Non-performing loans	42,800	9.6	2,972	6.2
Substandard	59,000	13.3	4,332	9.0
Acquired and foreclosures	59,700	11.8[2]	6,521	11.9[2]
Write offs	4,000	0.9	137[3]	0.3
Potentially problematic exposure	165,500	33[2]	13,961	25[2]
Coverage				
Specific provisions	42,300	26	4,024	29
Non-performing loans	*17,700*	*41*	*1.323*	*45*
Sub-standard	*7,600*	*13*	*573*	*13*
Acquired and awarded (gross)	*13,000*	*22*	*1,991*	*31*
Write-offs[4]	*4,000*		*137*	
Specific plus generic provisions		35		50

(1) EUR 42,256 million consolidated.
(2) The percentage is calculated against total non-consolidated loans+ assets acquired and foreclosures.
(3) Figures for write offs made in 2009.
(4) 100% covered with provisions.

Risk management

Corporate principles of risk management

The vital importance for banks of appropriate risk management was highlighted in 2009.

Grupo Santander's risk policy is focused on maintaining a low-medium and predictive profile in all risks.

For Grupo Santander, quality management of risk is one of its hallmarks and thus a priority in its activity. Throughout its 150 years, Santander has combined prudence in risk management with use of advanced risk management techniques, which have proven to be decisive in generating recurrent and balanced earnings and creating shareholder value.

The turmoil affecting financial markets since July 2007 has put the effectiveness of Santander's risk management policies to the test.

Santander's risk management is based on the following principles:

- Involvement of senior management. The Board's Risks Committee, the Senior Management Committees and the Group's units are structured in such a way as to involve management in global supervision of risk taking.
- Independent working from the business areas. Mr. Matías Rodríguez Inciarte, the Group's third Vice-Chairman and Chairman of the Board's Risks Committee, reports directly to the Executive Commitee and to the Board. The establishment of separate functions between the business areas (risk takers) and the risk areas responsible for measurement, analysis, control and information provides sufficient independence and autonomy to control risks appropriately.
- Collective decision-making (including at the branch level) which ensures a variety of opinions and does not make results dependent on decisions solely taken by individuals.
- Joint responsibility for decisions on credit operations between risk and business areas.
- Defining functions. Each risk taker unit and, where appropriate, risk manager has clearly defined the types of activities, segments, risks in which they could incur and decisions they might make in the sphere of risks, in accordance with delegated powers. How risk is contracted, managed and where operations are recorded is also defined.
- Risk measurement. This considers all the risk positions taken throughout the business perimeter and uses the basic measures in the components and dimensions of risk, in the whole life cycle, for the management at each moment.
- This integral vision from a qualitative standpoint is based on the use of a series of integrating metrics, which are fundamentally: consumption of risk capital and RORAC (risk adjusted return).

- Limiting risks. The aim is to limit, efficiently and comprehensively, the maximum risk levels for the various risk measures, so that the risks incurred are known and the necessary infrastructure exists for their management, control and information, so as to guarantee that undesired types of risk will not be incurred and capital consumption on the basis of risk, the exposures and the losses will never exceed the maximum levels approved.
- Setting policies and risk procedures. The policies and procedures constitute the basic regulatory framework, articulated through circulars and operating rules which regulate risk activities and processes.
- Defining and assessing risk methodologies. The methodologies provide the definitions of internal risk models, applied by the Group, and, so, require risk measures, methods for evaluating products, methods for constructing interest rate curves and market data series, calculations of capital consumption on the basis of risk and other risk analysis methods, as well as respective calibration and testing.

Management and control of risks at Santander is structured around the following phases:

- Establishment of risk management frameworks and policies which reflect the principles and standards for the general functioning of risk activities in Grupo Santander, based on a corporate risk management framework which embraces the organisational model and the management model, as well as a series of more specific corporate frameworks of the functions under the General Directorate of Risks. At the local level, the risk units incorporate the corporate rules to their internal policies and develop the corresponding procedures in order to:

- Identify risks by constantly reviewing and monitoring exposures, assessing new products and analysing particular operations.
- Measure risks using methodologies and models that have been put in use after a process of validation and approval.
- Formulate the Group's appetite for risks by setting global and specific limits for the different types of risks, products, customers, groups, sectors and geographic areas.
- Draw up and distribute a complete series of reports, which are reviewed on a daily basis by those responsible for the management of Santander at all levels.
- Execute a system of risks control, which verifies every day the extent to which Santander's risks profile is in line with the risk policies approved and the limits established.

The Group has been using a series of techniques and tools for many years. They are mentioned in other parts of this report. Of note among them, given that Santander implemented them ahead of time and for being in line with the New Basel Capital Accord (BIS II), are:

- Internal rating and scoring models which, by assessing the various qualitative and quantitative components by client and operation, enable the probability or failure to be estimated first and then, on the basis of estimates of losses, the expected loss.
- Economic capital, as the homogeneous metric of the risk assumed and the basis for measuring management.
- RORAC, for pricing operations (bottom up) and analysis of portfolios and units (top down).
- Value at Risk (VaR) as an element of control and for setting the market risk limits of the different trading portfolios.
- Analysis of scenarios and stress testing to complement the analysis of market and credit risk, in order to assess the impact of alternative scenarios, including on provisions and on the capital.

1. Corporate governance of the risks function

For these reasons, Santander fully identifies with the BIS II principles, as it recognises and supports the banking industry's most advanced practices which the Group has been anticipating.

Grupo Santander calculates the minimum regulatory capital in accordance with Bank of Spain circular 3/2008 on determining and controlling the minimum equity of credit institutions. This regulation completed the transfer to Spanish banking legislation of the Directives (2006/48EC and 2006/49/EC) which incorporate to EU regulations the new Basel Capital Accord (BIS II).

The Risks Committee is responsible for proposing to the Board the Group's risk policy, approval of which corresponds to the Board under its powers of administration and supervision. The committee also ensures that the Group's activities are consistent with its risk tolerance level and establishes the global limits for the main risk exposures, reviewing them systematically and resolving those operations that exceed the powers delegated in bodies lower down the hierarchy.

The committee is of an executive nature and takes decisions in the sphere of the powers delegated in it by the Board. It is chaired by the third Vice-Chairman of Grupo Santander and four other Board members are also members of the committee.

The committee met 99 times during 2009, underscoring the importance that Grupo Santander attaches to appropriate management of its risks.

The main responsibilities of the Board's Risks Committee are:

- Propose to the Board the risk policy for the Group, which must, in particular, identify:
  - The different types of risk (operational, technological, financial, legal and reputational, among others) facing it;
  - The information and internal control systems used to control and manage these risks;
  - Set the level of risk considered acceptable:
  - The measures envisaged to mitigate the impact of identified risks, in the event that they materialise;
- Systematically review exposures with the main customers, economic sectors, geographic areas and types of risk.
- Authorise the management tools and risk models as well be familiar with the results of the internal validation.

• Ensure that the Group's actions are consistent with the previously decided risk tolerance level.

• Know, assess and monitor the observations and recommendations periodically formulated by the supervisory authorities in the exercise of their function.

• Resolve operations beyond the powers delegated to bodies lower down the hierarchy, as well as the global limits of pre-classification of economic groups or in relation to exposures by classes of risk.

The Board's Risks Committee delegates some of its powers in Risk Committees which are structured by geographic area, business and types of risk.

Grupo Santander's risks function is conducted via two Directorates-General of Risks which are independent of the business areas, both from the hierarchical and functional standpoint. Both of them are directly linked to the Board via the Risks Committee and the third Vice-Chairman (the maximum executive responsible for the Group's risk management).

In order to meet the requirements of Basel II and reinforce the capacity to tend to the Group's business growth, the organisational and functional framework of its two Directorates-General is as follows:

• General Directorate of Integral Control and Internal Validation of Risks, with responsibilities of global scope and corporate nature and support for the Group's organs of governance, which are:

– Validation of Internal Models of Risk to assess the suitability and appropriateness of the classification systems, internal processes and treatment of data, in accordance with Basel II.

– Integral Control of Risks to guarantee that the management and control systems of the various risks are in line with the Bank's global risk profile.

• Directorate General of Risks, with functions in the following blocks:

– A corporate structure, with global scope responsibilities ("all risks, all countries"), which establishes the policies, methodologies and control: Solvency, Market and Methodology.

– A business structure, centred on the execution and integration in management of the risks function in the Group's retail, global and local businesses. In this structure, the Corporate Area of Brazil's Risks was created in 2009, within the Group's Risks Division. This area's objectives include: improving the relation with and joint work between the Global Areas of Risk and the local unit in Brazil, foment globalisation of the risk models and obtain and systemise risk management information.

2. Integral control of risks

Grupo Santander launched in 2008 the function of integral control of risks, anticipating the new regulatory requirements, then being discussed in the main organisations and forums –Basel Committee, CEBS, FSF, etc–, as well as the recommendations on best risk management practices formulated by various public and private bodies.

In July 2009, the Basel Committee required banks to put the function into effect immediately.

Organisation, mission and features of internal control of risks

The organisation of this function is part of the directorate general of integral control and internal validation of risk. This function supports the Group's governance bodies in risk management and control.

Particular attention is paid to credit risk (including the risks of concentration and counterparty); market risk (including liquidity risk as well as structural risks of interest rates and exchange rates); operational and technology risks and risk of compliance and reputational risk.

Integral control of risks is based on:

- Module 1) Ensure that the management and control systems of the various risks inherent in Grupo Santander's activity meet the most demanding criteria and the best practices observed in the industry and/or required by regulators.
- Module 2) Ensure that senior management has at its disposal an integral vision of the profile of the various risks assumed and that these risks are in line with the previously agreed appetite for risks.
- Module 3) Supervise compliance in time and form with the recommendations drawn up for risk management matters following inspections by internal auditing and by the supervisors to whom Santander is subject.

Internal control of risk supports the work of the risks committee, providing it with the best practices in risk management.

The main features of this function are:

- Global and corporate scope: all risks, all businesses, all countries;
- It is configured as a third layer of control, following the one by the person responsible for managing and controlling each risk in the sphere of each business or functional unit (first layer of control) and the corporate control of each risk (second layer). This ensures the vision and thus integral control of all risks incurred during the year.
- Special attention is paid to the development of best practices in the sphere of the financial industry, in order to be able to incorporate within Santander and at once any advances deemed opportune.
- Both the information available as well as the resources that Grupo Santander assigns to controlling the various risks are optimised, avoiding overlapping.

Methodology and tools

In order to systemise the function and adjust it to Santander's specific needs, internal development of methodology and tools to support it was completed. This makes application of the methodology traceable. The methodology and the tools are articulated through the three modules previously referred to for all risks treated:

- Module 1) A guide of tests or reviews exists for each risk. It consists of more than 650 tests (for all the risks), divided in spheres of control (for example, corporate governance, organisational structure, management systems, integration in management, technology environment, contingency plans and business continuity, etc).

  Applying the tests and obtaining the relevant evidence which is assessed and enables the parameters of control of the various risks to be homogenised is done every six months. New tests are incorporated where needed. The support tool is the risk control monitor, which is a repository of the results of each test and of their work papers.
- Module 2) A synthetic control panel is being designed, along with the corresponding tool, to enable senior management to monitor the various risks assumed and their degree of adjustment to the previously formulated risk appetites.
- Module 3) The SEGRE tool is used to track the recommendations made by internal auditing and by the supervisors regarding risk control and management and it also includes the recommendations by integral control. Use of this tool is coordinated with the relevant risk control areas so that monitoring is optimised.

The Bank of Spain can access these tools if it so wishes.

3. Credit risk

Main advances in 2009

The following stages were covered:

(a) The first cycle of reviewing the various risks was completed in close contact with the corporate areas of control, contrasting and assessing the control and management systems of these risks. Improvements were identified and turned into recommendations –with their corresponding schedule for implementation agreed with the areas– so that progress could be monitored.

(b) The corporate model of integral control of risks was presented, as well as the first diagnostic report on the auditing and compliance committee, the risks committee and the board which approved the model.

(c) The process of informing the board and giving them an integral vision of all risks was begun.

(d) The first steps were taken to extend the integral control of risks model to the Group's main units.

We will now look at the Group's main risks: credit, market, operational and reputational.

3.1 Introduction to the treatment of credit risk

Credit risk is the possibility of losses stemming from the failure of clients or counterparties to meet their financial obligations with the Group.

The Group's risks function is organised on the basis of the type of customer in order to distinguish during the risk management process companies under individualised management from standardised customers:

- Those under individualised management are assigned, mainly because of the risk assumed, a risk analyst. This category includes the companies of wholesale banking, financial institutions and some of the companies of retail banking. Risk management is conducted through expert analysis backed up by tools to support decision making based on internal models of risk assessment.
- Standardised: a customer who has not been specifically assigned a risk analyst. This category includes individuals, individual businessmen and retail banking companies that are not segmented. Management of these risks is based on internal models of assessment and automatic decisions, complemented where the model does not go far enough or is not sufficiently precise by teams of analysts specialised in this type of risk.

3.2 Main magnitudes and evolution

The Group's credit risk profile is characterised by diversified geographic distribution and predominantly retail banking activity.

A. Global map of credit risk, 2009

The table below sets out the global credit risk exposure in nominal amounts (except for derivatives and repos exposure which is expressed in equivalent credit) at December 31, 2009.

Growth in lending was moderate, due to reduced demand (a very significant part of the growth was due to the change in perimeter with the incorporation of Sovereign Bank). The nominal exposure to credit risk increased 8.8%, particularly outstanding to customers and commitments to customers. Excluding Sovereign Bank, growth was 3.3%.

Spain is the most relevant unit en exposure to credit risk, (7% lower in absolute terms). Of note in the rest of Europe, which accounts for more than one-third of the credit exposure, is the presence in the UK. Overall, Europe accounts for 75% of the credit exposure.

In Latin America investment-grade countries accounted for 96% of the region's exposure.

With the incorporation of Sovereign Bank, the US accounted for 6% of credit exposure at the end of 2009.

Grupo Santander. Gross exposure to credit risk

Million euros

	Outstanding to customers	Commitments to customers	Sovereign fixed income (exc. trading.)	Private fixed income (exc. trading.)	Outstanding to credit entities	Disponible entidades de crédito	Commitments to credit entities	Total	%	%/dec. 08
Spain	**281,621**	**57,179**	**29,602**	**11,835**	**28,440**	**1,113**	**27,911**	**437,700**	**39.6%**	**(7.1%)**
Parent bank	170,692	39,716	20,769	8,049	19,038	736	19,053	278,053	25.2%	(8.6%)
Banesto	80,109	11,167	6,204	2,003	6,696	225	8,701	115,104	10.4%	3.2%
Others	30,819	6,296	2,629	1,784	2,706	152	157	44,543	4.0%	(19.4%)
Rest of Europe	**305,831**	**36,827**	**3,844**	**16,025**	**9,025**	**155**	**18,877**	**390,583**	**35.3%**	**10.8%**
Germany	22,256	9	—	159	432	—	5	22,861	2.1%	(5.0%)
Portugal	22,143	8,276	2,734	1,410	2,425	—	1,519	38,507	3.5%	6.9%
United Kingdom	228,044	26,484	464	14,136	5,172	155	17,132	291,587	26.4%	12.9%
Others	33,387	2,058	646	320	996	—	220	37,627	3.4%	10.6%
Latin America	**104,965**	**45,537**	**24,280**	**1,821**	**20,684**	**19**	**10,648**	**207,953**	**18.8%**	**15.4%**
Brazil	62,952	30,996	16,719	1,212	14,535	—	5,564	131,978	11.9%	38.3%
Chile	20,200	6,300	2,220	502	1,812	19	3,209	34,261	3.1%	22.0%
Mexico	11,611	6,724	4,252	—	2,220	—	1,573	26,379	2.4%	(7.3%)
Others	10,202	1,516	1,089	108	2,118	—	303	15,335	1.4%	(45.6%)
United States	**43,814**	**9,395**	**1,742**	**9,157**	**2,970**	**77**	**105**	**67,260**	**6.1%**	
Rest of the world	**1,017**	**262**	**80**	**1**	**167**	**—**	**—**	**1,526**	**0.1%**	
Total Group	**737,246**	**149,200**	**59,547**	**38,839**	**61,287**	**1,363**	**57,540**	**1,105,022**	**100.00%**	**8.8%**
% of total	**66.7%**	**13.5%**	**5.4%**	**3.5%**	**5.5%**	**0.1%**	**5.2%**	**100%**		
% change/dec. 08	**6.5%**	**27.2%**	**68.5%**	**45.3%**	**(30.8%)**	**(77.3%)**	**16.9%**	**8.8%**		

Data at December 31, 2009, drawn up on the basis of legal company criteria.
ECR (equivalent credit risk: net value of replacement plus the maximum potential value. Includes mitigants).
Derivatives and repos exclude Sovereign and Alliance & Leicester.
Balances with customers exclude repos (EUR 13,439 million) and other customer create assets (EUR 7,661 million).
Balances with credit entities (excluding repos and trading) include EUR 29,718 million of deposits in central banks.

B. Evolution of the magnitudes in 2009

The evolution of non-performing loans and the cost of credit reflect the impact of the deterioration of the economic environment softened by prudent risk management which enabled, in general, these figures to remain lower than those of our competitors. As a result, the Group maintains a significant level of coverage and generic provisions available.

The Group's ratio of non-performing loans (NPLs) was 3.24% at the end of 2009, after an increase of 120 b.p. during the year. NPL coverage was 75.3% compared to 90.6% at the end of 2008.

Specific provisions for loan losses, net of recoveries, amounted to EUR 11,760 million, 1.57% of the average credit exposure with customers (the year's average lending plus financial guarantees), up from 1.16% in 2008.

Grupo Santander's credit risk management

	Credit risk with customers* (million euros)		NPL ratio %		Coverage %		Spec. prov net of recovered write-offs** (million euros)		Credit cost (% of risk)	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Continental Europe	**366,970**	**368,512**	**3.64**	**2.31**	**76.6**	**90.0**	**5,084**	**3,201**	**1.39**	**0.89**
Santander Branch network	129,099	135,508	4.38	2.58	64.9	74.9	1,851	1,204	1.41	0.91
Banesto	86,681	87,925	2.97	1.64	64.1	106.5	737	450	0.89	0.53
Santander Consumer Finance	60,245	56,245	5.39	4.18	96.8	85.5	2,005	1,402	3.38	2.71
Portugal	34,501	34,760	2.27	1.72	64.6	77.2	95	6	0.27	0.02
United Kingdom	**238,215**	**217,063**	**1.71**	**1.04**	**43.8**	**68.5**	**1,018**	**442**	**0.43**	**0.23**
Latin America	**117,146**	**112,040**	**4.25**	**2.95**	**105.2**	**108.3**	**5,053**	**3,965**	**4.44**	**3.44**
Brazil	65,611	53,764	5.27	3.58	99.2	102.4	3,537	2,493	5.88	4.30
Mexico	12,676	13,482	1.84	2.41	264.4	132.1	824	879	6.13	5.44
Chile	21,384	18,848	3.20	2.64	89.0	102.4	402	350	1.98	1.73
Puerto Rico	4,132	4,810	9.60	6.92	53.3	61.0	89	138	1.99	2.84
Colombia	1,719	1,464	1.83	1.79	187.5	204.1	31	44	1.94	2.83
Argentina	2,936	3,271	2.60	1.83	141.0	178.6	91	49	2.99	1.54
Sovereign	**38,770**		**5.35**		**62.5**		**578**			
Total Group	**758,347**	**697,200**	**3.24**	**2.04**	**75.3**	**90.6**	**11,760**	**7,659**	**1.57**	**1.16**
Memo item:										
Spain	**284,307**	**300,524**	**3.41**	**1.95**	**73.4**	**98.5**	**3,497**	**2,150**	**1.20**	**0.71**

Data drawn up on the basis of management criteria. Memo item, on the basis of accounting criterion – Financial Control.
The figures for 2008 have been restated, consolidating Banco Real by global integration for the year.
(*) Includes gross loans to customers, guarantees and documentary credits.
(**) Bad debts recovered.

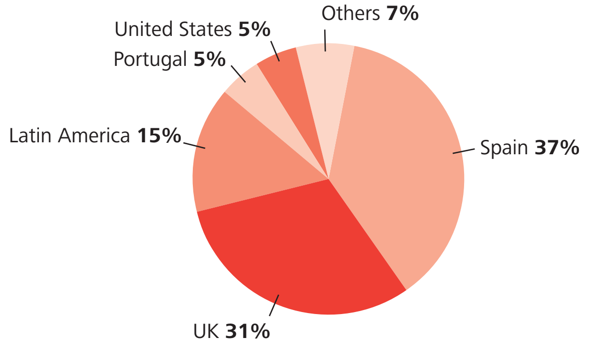
C. Distribution of credit risk

The charts below show the diversification of Santander's loans by countries and customer segments and concentrated on its core markets. The Group is geographically diversified and focused on its core markets.

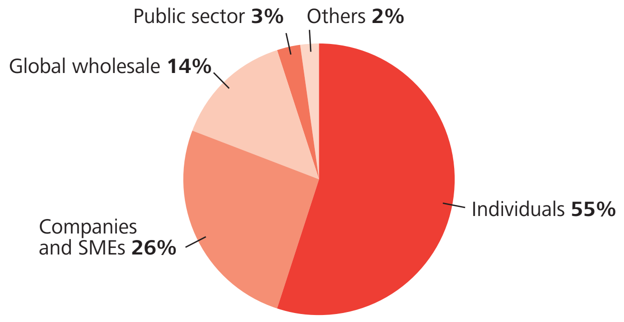
Grupo Santander's profile is essentially retail (86.3% retail banking), and most portfolios are products with a real guarantee (e.g. mortgages).

Distribution of credit risk, December 31, 2009

By geographic area. Total



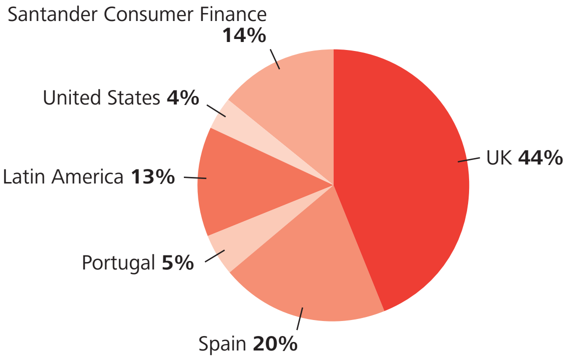
By type of risk



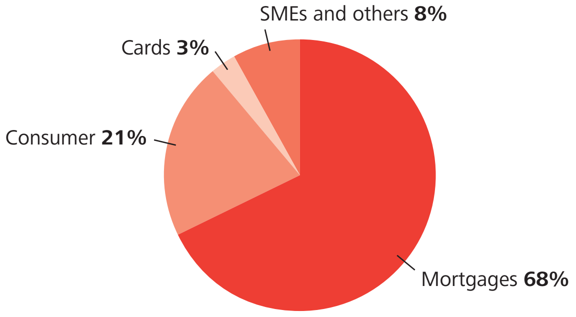
The distribution by geographic area and product of lending in the segment of standardised risks is set out below.

Distribution of credit risk, December 31, 2009

By geographic area. Standardised



By product. Standardised



3.3 Metrics and measurement tools

A. Rating tools

The Group has been using since 1993 its own models for assigning solvency and internal ratings, which measure the degree of risk of a client or transaction. Each rating corresponds to a certain probability of default or non-payment, the result of the Entity's past experience, except for some termed "low default portfolios". The Group has around 200 internal rating models for risk admission and monitoring.

Global rating tools are used for the segments of Sovereign risk, financial institutions and global wholesale banking. Their management is centralised in the Group, both for determining their rating as well monitoring the risk. These tools assign a rating for each customer, based on balance sheet ratios or macroeconomic variables, and supplemented by the expert view of an analyst.

In the case of companies and institutions under individualised management, the parent company of Grupo Santander has defined a single methodology for formulating a rating in each country. The rating is determined by an automatic model which reflects a first intervention by the analyst and which can or not be later complemented. The automatic model determines the rating in two phases, one quantitative and the other qualitative based on a corrective questionnaire which enables the analyst to modify the automatic scoring by a maximum of ±2 points of rating. The quantitative rating is determined by analysing the credit performance of a sample of customers and the correlation with their financial statements. The questionnaire has 24 questions divided into six areas of assessment. The automatic rating (quantitative +corrective questionnaire) can be changed by an analyst by writing over it or by using a manual assessment model.

The ratings accorded to customers are regularly reviewed, incorporating new financial information available and the experience in the development of the banking relation. The regularity of the reviews increases in the case of clients who reach certain levels in the automatic warning systems and for those classified as special watch. The rating tools are also reviewed so that their accuracy can be fine-tuned.

In the case of standardised risks, both for transactions with companies as well as individuals, there are scoring tools which automatically assess the operations.

These admission systems are complemented by performance assessment models which enable the risk assumed to be better predicted. They are used for both preventative activities as well as sales.

B. Parameters of credit risk

The assessment of a customer or operation, through ratings or scorings, constitutes a judgement of the credit quality, which is quantified via probability of default (PD).

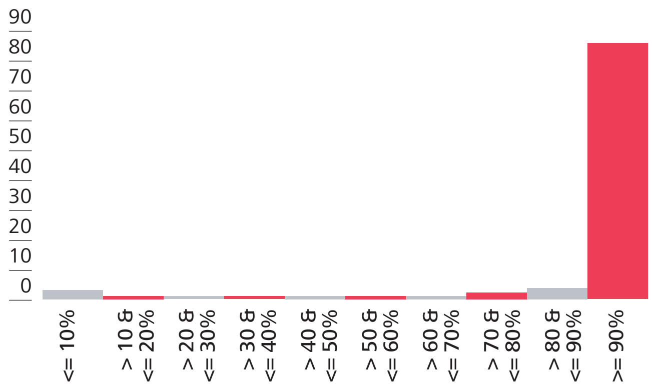
As well as evaluating the customer, quantifying credit risk requires other parameters to be estimated such as exposure at default (EaD) and the percentage of EaD that might not be recovered (loss given default or LGD). Other aspects are also included such as quantifying off-balance sheet exposures, which depend on the type of product, or analysis of expected recoveries, related to the guarantees existing.

These factors comprise the main credit risk parameters. Their combination enables the probable or expected loss (EL) to be calculated. This loss is considered as one more cost of the activity as it reflects the risk premium and should be incorporated into the price of operations.

The following charts show the distribution of failed consumer loans and mortgages since 2001 on the basis of the percentage recovered after discounting all the costs –including the financial or of opportunity– of the recovery process.

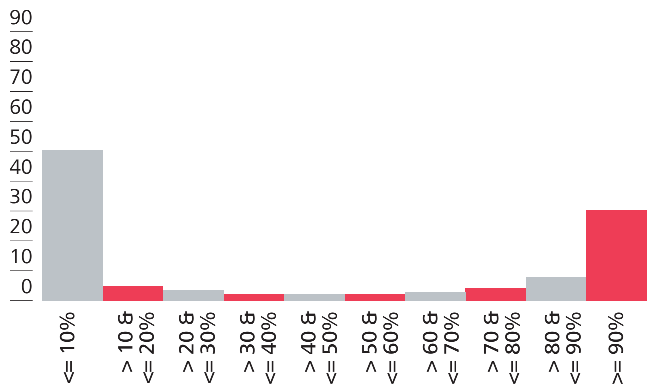
Spain-parent bank. Mortgages

Distribution of operations by the percentage recovered



Spain-parent bank. Consumer-retail

Distribution of operations by the percentage recovered



The risk parameters also calculate the regulatory capital in accordance with the rules of the new Basel Capital Accord (BIS II). The regulatory capital is the difference between the unexpected and the expected loss.

The unexpected loss is the basis for calculating the capital and makes reference to a very high level of loss, but not very probable, not considered recurrent and which must met with equity.

Estimates of the risk parameters (PD, LGD and EaD) should be based on internal experience – i.e. on observations of defaults and experience in recovering these operations.

In portfolios where the internal experience of defaults is scant, such as banks, sovereigns or global wholesale banking, estimates of the parameters come from alternative sources: market prices or studies by external agencies which draw on the shared experience of a sufficient number of institutions. These portfolios are called low default portfolios.

For the rest of portfolios, estimates are based on the institution's internal experience. The PD is calculated by observing the NPL entries and putting them in relation to the final rating assigned to the customer or with the scoring assigned to the operations.

The LGD calculation is based on observing the recovery process of operations not fulfilled, taking into account not only the revenues and costs associated with this process, but also the moment when they are produced and the indirect costs incurred in recovery activity.

The estimation of the EaD comes from comparing the use of the lines committed at the moment of default and a normal situation, in order to identify the real consumption of the lines at the time of default.

The parameters estimated for global portfolios are the same for all the Group's units. A financial institution with a rating of 8.5 will have the same PD regardless of the unit in which its exposure is recorded. On the other hand, retail portfolios have specific scoring systems in each unit of the group. This requires separate estimates and specific assignment in each case.

The parameters are then assigned to the operations present in the balance sheet of units in order to calculate the expected losses and the capital requirements associated with their exposure.

C. Master scale of global ratings

The models committee approved the following relation between internal rating and probability of default (PD) for the global portfolios of banks and global wholesale banking.

Probability of default

Internal rating	PD Wholesale Banking	PD Banks
9.3	0.018%	0.013%
9.2	0.020%	0.014%
9.0	0.024%	0.018%
8.5	0.037%	0.029%
8.0	0.060%	0.049%
7.5	0.095%	0.083%
7.0	0.151%	0.139%
6.5	0.240%	0.232%
6.0	0.382%	0.390%
5.5	0.607%	0.653%
5.0	0.965%	1.095%
4.5	1.535%	1.835%
4.0	2.442%	3.076%
3.5	3.884%	5.157%
3.0	6.178%	8.645%
2.5	9.826%	14.492%
2.0	15.627%	24.294%
1.5	24.855%	40.725%
1.0	39.532%	68.268%

These PDs are applied uniformly throughout the group in accordance with the global management of these portfolios. As can be seen, the PD assigned to the internal rating is not exactly equal for a same rating in both portfolios, although it is very similar in the tranches where most of the exposure is concentrated (i.e. in tranches of rating of more than six).

D. Distribution of EaD and expected loss (EL) associated

The table below sets out the distribution by segments of the outstanding credit exposure to customers in terms of EaD. PD, LGD and EL. Approximately 83% of total risk with clients (excluding sovereign, counterparty risks and other assets) corresponds to companies, SMEs and loans to individuals, underlining the retail focus of business and of Santander's risks. The expected loss from customer exposure is 1.09% (0.90% for the Group's total credit exposure), which can be considered as a medium-to-low risk profile.

Segmentation of credit risk exposure

	EaD[1]	%	Average PD	Average LGD	EL
Sovereign debt	104,457	11.0%	0.23%	14.54%	0.03%
Counterparty	76,888	8.1%	0.29%	70.34%	0.21%
Public sector	3,129	0.3%	0.70%	21.32%	0.15%
Corporate	131,703	13.8%	0.51%	39.68%	0.20%
SMEs	186,321	19.5%	4.65%	28.11%	1.31%
Mortgages (individuals)	302,395	31.7%	3.30%	7.04%	0.23%
Consumer loans (individuals)	111,452	11.7%	6.51%	52.42%	3.41%
Credit cards of individuals	24,297	2.5%	6.73%	64.94%	4.37%
Other assets	13,066	1.4%	2.47%	29.73%	0.74%
Memorandum item customers[2]	*759,296*	*79.6%*	*3.72%*	*29.32%*	*1.09%*
Total	**953,707**	**100.00%**	**3.04%**	**29.52%**	**0.90%**

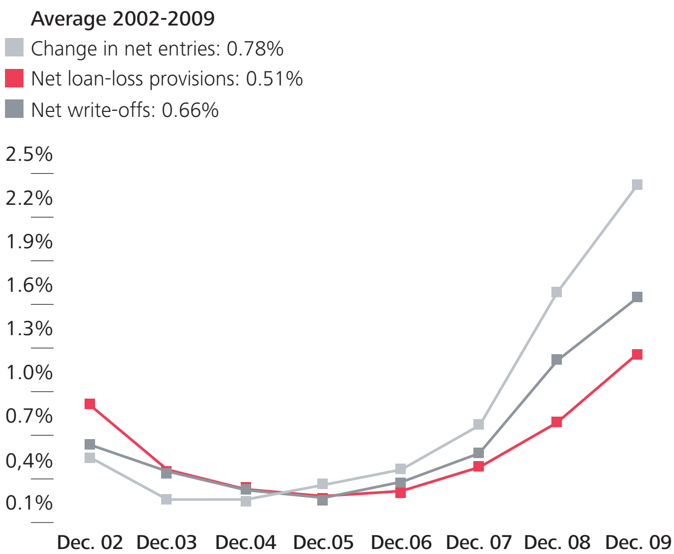
Data at December 09
(1) Excluding doubtful loans.
(2) Excluding sovereign, counterparty and other assets.

3.4. Loss observed: measurements of credit cost

As well as using these advanced models (their figures are shown in the section on economic capital), other usual measures are employed which provide prudent and effective management of credit risk on the basis of the loss observed.

Grupo Santander's cost of credit is measured by various means: change in net entries (final doubtful loans –initial doubtful loans + write offs– recovered write offs); net loan-loss provisions (specific provisions – recovered write-offs); and net write-offs (write offs – recovered write-offs).

Grupo Santander's total cost of credit
% of average portfolio



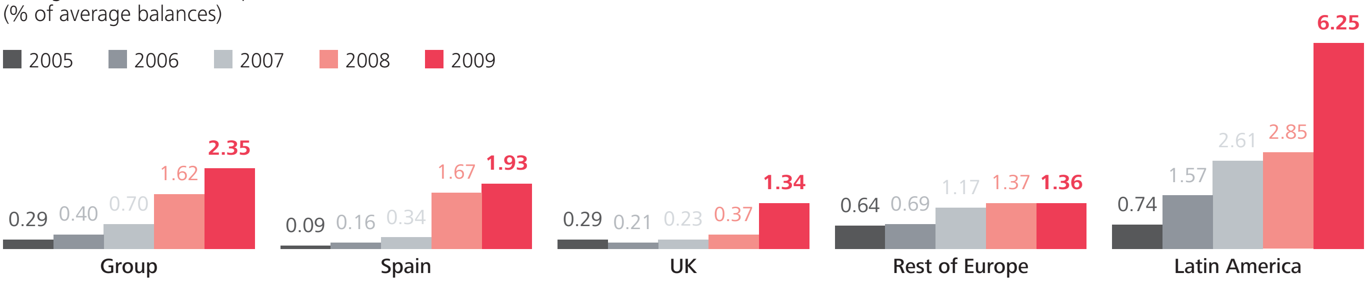
Note: The data for 2008 has been restated, consolidating Banco Real by global integration for the whole of the year- 2009 reflects the incorporation of A&L and excludes Sovereign.

The three approaches measure the same reality and, consequently, converge in the long term although they represent successive moments in credit cost measurement: flows of non-performing loans (non-performing loans management variation, NPLMV), coverage of doubtful loans (net loan-loss provisions, NLLPs) and becoming write offs (net write-offs), respectively. And this without detriment that in the long term and within the same economic cycle, the three show differences at certain times, particularly significant at the start of a change of cycle. These differences are due to the different moments at which the losses are calculated, which are basically determined by accounting rules (for example, mortgages have a calendar of coverage and become write-offs more "slowly" than consumer loans). In addition, the analysis can be complicated by changes in the policy of coverage and entry into write offs, composition of the portfolio, doubtful loans of entities acquired, changes in accounting rules, sale of portfolios, etc.

The following charts reflect the cost of Grupo Santander's credit risk in its main areas of activity in 2009 and prior years, measured in various ways:

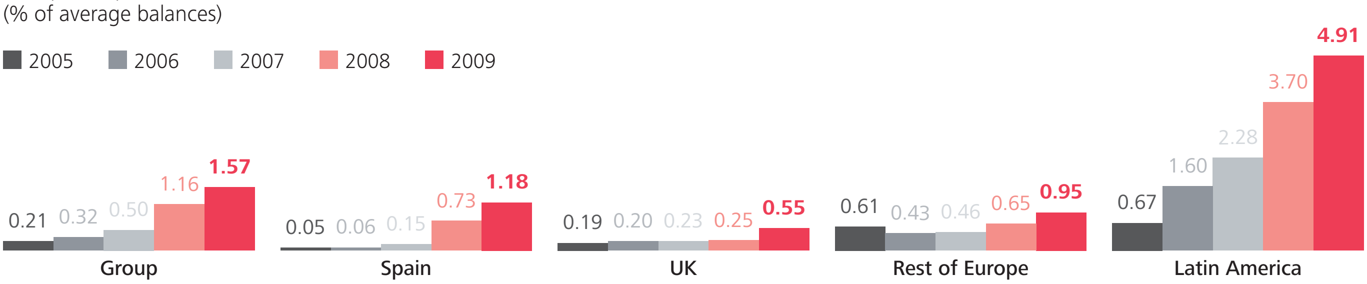
Net write-offs

Change in doubtful loans plus net write-offs
(% of average balances)



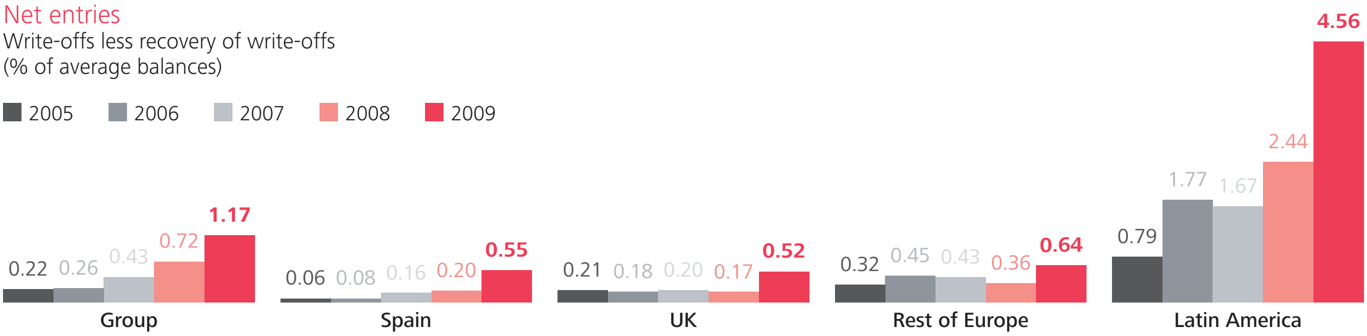
Net loan-loss provisions

Net specific provisions less recovered write offs
(% of average balances)



Net entries

Write-offs less recovery of write-offs
(% of average balances)



Note: Data drawn up in accordance with legal company criteria. The figures for 2008 have been restated, consolidating Banco Real by global integration for the whole year. 2009 reflects the incorporation of A&L and excludes Sovereign.

The year-on-year change includes the exchange-rate impact which for Latin America was around 31.8% in net write offs, 3.2% in net provisions and 14.6% in net entries.

The general trend over the past few years has been to maintain the cost of Santander's credit at low levels. In 2009, there was a rise in the cost of credit due to the economic downturn and growth in retail profiles which, with a higher expected loss, have higher levels of direct return (financial margin less cost of provisions) and indirect return (induced business) and greater attractiveness because of the more predictable nature of this type of risk.

3.5 Credit risk cycle

Risk management consists of identifying, measuring, analysing, controlling, negotiating and deciding the risks incurred by the Group's operations. The process involves risk takers and senior management, as well as the risk areas.

The process emanates from senior management, via the Board of Directors and the Risks Committee; they set the risk policies and procedures, the limits and delegating of powers, and approve and supervise the framework of the risks function.

The risk cycle has three phases: pre-sale, sale and after sale:

- Pre-sale: this includes the planning and setting of objectives, determining the appetite for risk, approving new products, studying the risk and rating loans, and establishing limits.
- Sale: this covers the phase of decision-making both for operations under pre-classification as well as one-off transactions.
- After sale: monitoring, measurement, control and recovery management.

A. Planning and setting limits

Setting limits is a dynamic process which identifies the Group's risk appetite by discussing business proposals and the opinion of risks.

The Global Plan of Limits, the document drawn up on the basis of consensus which provides complete management of the balance sheet and of the inherent risks, establishes the risk appetite in the various factors.

The limits are based on two structures: customers/segments and products.

The most basic level is the customer and when certain features are present –generally of relative importance– an individual limit (pre-classification) is set.

A pre-classification model based on a system for measuring and monitoring economic capital is used for large corporate groups. A more simplified version is used for those companies who meet certain requirements (high knowledge, rating, etc).

In the sphere of standardised risk, the planning and setting of limits is done through Credit Management Programmes (CMPs), a document reached by consensus between the business and risk areas and approved by the Risks Committee or committees delegated by it. The CMPs set out the expected results of business in terms of risk and return, as well as the limits to which activity is subject and management of the associated risks.

B. Risk study and process of credit rating

The study of risk is obviously a prior requirement for authorising customer operations. It consists of analysing the capacity of the customer to meet their contractual obligations with the Bank. This entails analysing the customer's credit quality, risk operations, solvency and return in accordance with the risk assumed.

The risk study is carried out every time there is a new customer or operation or with a pre-established regularity, depending on the segment. In addition, the rating is studied and reviewed every time there is an alert or something that affects the customer/operation.

C. Decisions on operations

The purpose of the decision-making process is to analyse and resolve operations, taking into consideration both the risk appetite as well as those elements of the operation that are relevant in the search for the appropriate balance between risk and return.

The Group has been using RORAC methodology (return on risk adjusted capital) since 1993 to analyse and set prices for operations and businesses.

D. Monitoring and control

As well as the tasks carried out by the Internal Auditing Division, the Directorate General of Risks, through local and global teams, controls credit quality by monitoring the risks and has the resources and specific people to do it.

The monitoring is based on a continuous process of permanent observation, which enables incidents to be detected in advance in the evolution of risk, operations, customers, and their environment in order to take steps to mitigate them. The monitoring is conducted on the basis of customer segmentation.

The Group has a system called Companies in Special Watch (FEVE) which identifies four levels on the basis of the degree of concern arising from the circumstances observed (extinguish, secure, reduce, monitor). The inclusion of a company in FEVE does not mean there have been defaults, but rather the advisability of adopting a specific policy toward that company and establishing the period for it. Clients in FEVE are reviewed at least every six months, and every quarter for the most serious cases. A company can end up in special watch as a result of monitoring, a review conducted by internal auditing, a decision of the person responsible for the company or the entry into functioning of the system established for automatic warnings.

Ratings of risk balances according to the FEVE monitoring system

Million euros at December 2009

	Extinguish	Secure	Reduce	Monitor	Total FEVE
Retail Banking Spain	4,425	1,065	11,956	12,137	29,583
Banesto	9,230	1,290	2,582	11,447	24,549
Portugal	425	130	787	1,690	3,031
UK	1,225	86	387	3,259	4,957
Latin America	480	93	818	2,377	3,768
Total	**15,785**	**2,664**	**16,531**	**30,908**	**65,888**

Note: excluding Sovereign.
The risk classifications in FEVE are independent in each institution and respond to the different criteria for rating these risks and the management of them on the basis of the category in which they are classfied.

Ratings are reviewed at least every year, but if weaknesses are detected, or on the basis of the rating, it is done more regularly.

As regards the risks of standardised clients, the main indicators are monitored in order to detect shifts in the performance of the loan portfolio with respect to the forecasts made in the credit management programmes.

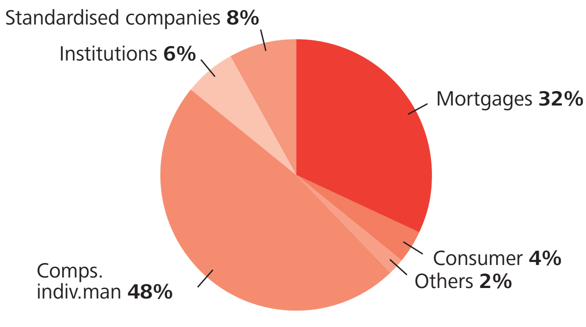
Spain's credit portfolio

General view of the portfolio

At the end of 2009, credit risk amounted to EUR 284,307 million (37.49% of the Group's total).

This exposure has a high degree of diversification, both by product as well as well as by customer segment (48% in companies under individualised management, 32% in the residential mortgage portfolio and 6% in public institutions).

Segmentation of the network in Spain



In accordance with the Bank of Spain's rules, the Group regards as doubtful loans those which have not been serviced for more than 90 days and includes the total debt of the customer when the unpaid part represents more than 25% of it or when pre-judicial actions are taken. Also considered as doubtful loans are those which, without entering into non-compliance, have reasonable doubts of being fully repaid.

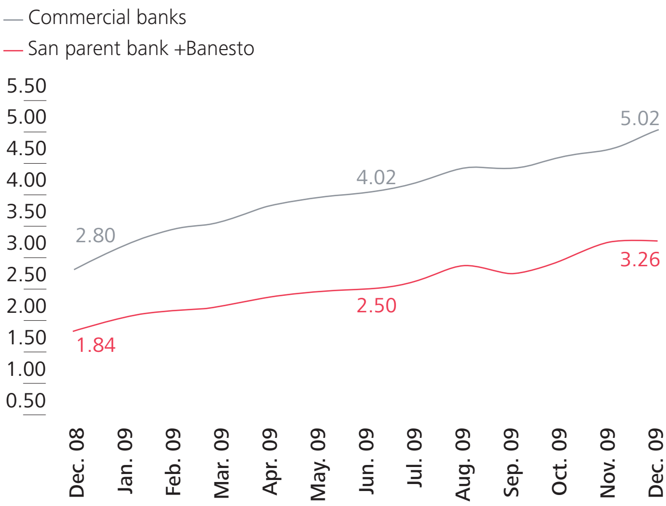
Under this definition, the non-performing loan (NPL) ratio in Spain was 3.41%, well below the aggregate of commercial banks as a whole, according to the Bank of Spain, and with a more moderate growth trend.

NPL coverage was 73.4%.

In addition, and in line with the Bank of Spain's rules and indications, loans classified as substandard are those which, while being up to date on payments and with no reason to be classified as doubtful, show some weakness which could lead to non-payments and losses, as they involve the weakest customers from certain collectives or sectors affected by extraordinary circumstances of greater risk. This category has EUR 6,724 million of classified risks.

Monthly evolution of non-performing loans

%

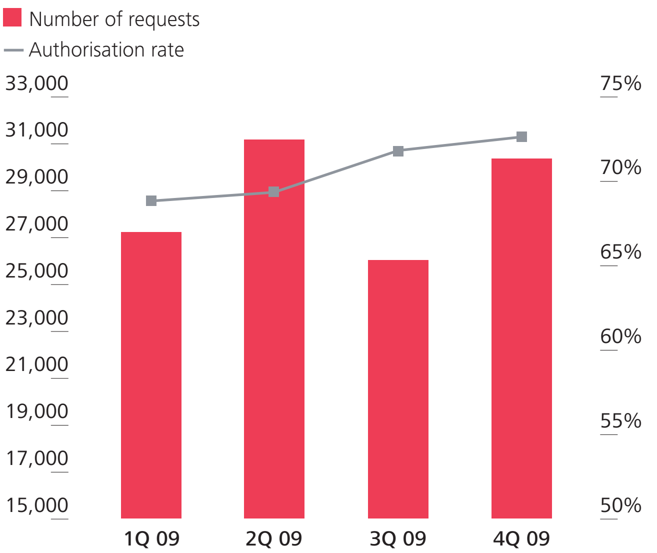


Analysis of the mortgage portfolio of individual customers
Of note, within standardised risks because of their importance in the Group's total lending in Spain, is the portfolio of mortgage loans to individuals.

This portfolio has been affected by the gradual downturn in the real economy, which caused demand for loans to drop in 2008 and in 2009. The following charts, however, show that in the retail networks in Spain the number of mortgage loan requests showed signs of picking up in the fourth quarter of 2009. In this context, Santander continued to apply its established admission criteria and policies (the authorisation rate remained at average levels of around 70%).

Spain: Quarterly evolution of number of mortgage requests by individuals

Portfolio of individuals: rate of final authorisation

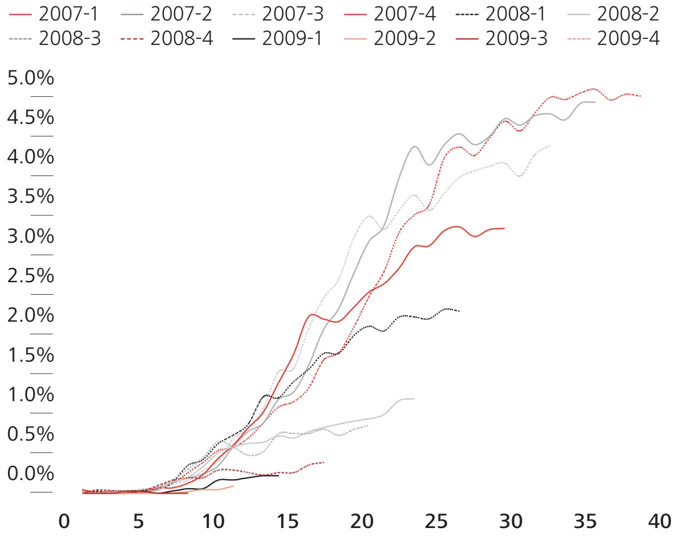


Excluding novations.

The measures taken in admission improved the credit quality and maintained the authorisation rates. For new loans between 2007 and 2009, the quarterly maturity of vintages was as follows.

Santander Spain: Portfolio

Evolution of the default rate by the number of operations by vintages



At the end of 2009, the non-performing loan ratio of the Group's residential mortgage portfolio in Spain was 2.46%, below the average rates in the Spanish financial system.

In the face of the deterioration in the scenario, the medium low risk profile of this portfolio enables one to estimate an impact at Group level and a low estimated final loss, thanks to real guarantees. The portfolio, and thus its risk profile, is characterised by a predominance of first homes, an average loan-to-value (LTV) of 52% (with values updated on the basis of the house price index of the Housing Ministry) and an affordability rate in admission of 31%.

Residential mortgage loans account for 31.8% of the total credit risk of Santander Retail Banking and Banesto, with a LTV below 80% for 85% of the portfolio of residential mortgages.

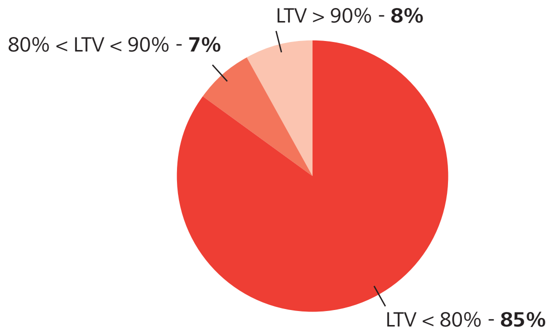
Santander Spain: Portfolio

Million euros

	Dec. 09	
	Portfolio	%
Residential mortgages	68,601	31.8
First home	64,403	93.9
Second home and others	4,198	6.1

Loan-to-Value Spain

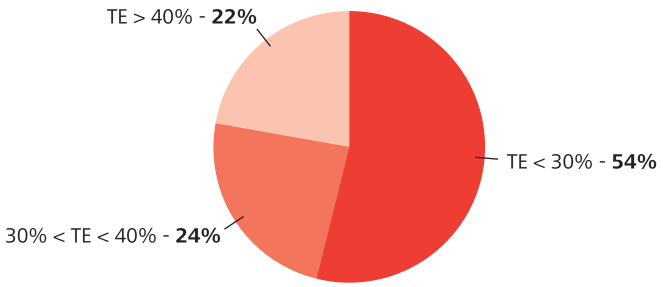
Average (52,4%)



Loan-to-Value: relation between the amount of the loan and the appraised value of the property.

Affordability rate Spain

Average (30,8%)



Affordability rate: relation between the annual payments and the customer's net income.

Lending to the construction and real estate activity sectors in Spain

These two sectors are among the most affected by the downturn.

Lending to these sectors in Spain (Banco Santander and Banesto) amounted to EUR 42,256 million. This portfolio includes the financing of activities as diverse as the tourist sector, lease-back operations, development of companies that depend on local and regional governments and insurance firms, among others.

The non-performing loan ratio of this portfolio, on the basis of the criteria already indicated, was 6.2%, higher than the Group's average ratio. Coverage stood at 45%.

In addition, and in accordance with Bank of Spain guidelines, there is EUR 4,332 million of risks classified as sub-standard.

A particularly important product in the real estate portfolio is mortgage loans to real estate developers. At the end of 2009, this amounted to EUR 12,207 million and represented around 1.6% of Grupo Santander's global credit portfolio. The exposure to this product was 9.3% less than in 2008 and 13.8% lower than in 2007.

At the end of 2009, this portfolio of loans to real estate developers had a large number of customers, with a low degree of concentration and an appropriate level of guarantees and coverage.

The situation was as follows:

- Developments completed and with the final certificate of work: 66.7% of outstanding risk.
- Developments more than 80% completed: 14.5% of outstanding risk.
- Developments between 50% and 80% completed: 8.9% of outstanding risk.
- Developments less than 50% completed: only 9.8%.

These figures show that this portfolio has a high degree of completion in the work, with 81.2% of buildings underway with the construction risk already surpassed or close to it.

In addition to the constant control by Grupo Santander's monitoring teams, there is a technical unit specialised in monitoring and controlling this portfolio in relation to building progress, fulfilment of plans and controlling sales, as well as validation and control of disbursements by certifications.

This portfolio of credit to the construction sector and real estate development has been submitted to the Group's usual stress testing exercises, the results of which are set out on page 159 of this report.

Acquisition of property assets (Spain)

One of the mechanisms used in Spain to manage risk more efficiently is to acquire real estate assets. The volume of acquisitions was reduced significantly in 2009; the net balance of property acquired at the end the year was EUR 2,935 million. The net initial balance was EUR 3,768 million and during 2009 purchases amounted to EUR 908 million, mostly in the first half of the year, and provisions and writedowns amounted to EUR 947 million.

The reasons for this option as opposed to initiating legal proceedings are as follows:

- The length of legal proceedings as against the immediate availability of these assets.
- Cost savings.
- It facilitates the viability of companies as liquidity is injected into their activity.
- Reduction in the possible loss of value in the loans of these clients.
- Reduction in the exposure and in the expected loss.

Furthermore, and as part of normal banking practice in risk management, the Group was awarded properties during 2009 for a gross amount of EUR 1,357 million. The net balance of the awarded assets is EUR 1,595 million.

At the end of 2009, the gross amount of acquired properties was EUR 4,304 million and those awarded EUR 2,217 million.

It should also be noted that this process is conducted with a policy of provisions that follows the Group's usual prudent criteria. The value of these assets is assessed regularly in order to guarantee an appropriate level of provisions (31% coverage at the end of 2009, clearly above the regulatory requirements).

As well as the usual structure for management of these assets, there is a specialised company firm to manage and sell the properties so that the acquired and awarded assets can be treated more efficiently.

Analysis of the potentially problematic exposure

Given the economic circumstances affecting these sectors and the need for adjustments in them, and taking as a basis the aforementioned figures, the potentially problematic exposure –the combined figure of doubtful and sub-standard assets plus the total assets acquired and awarded plus write-offs– in the construction and real estate development sectors is EUR 13,961 million.

The specific provisions for this portfolio amount to EUR 4,024 million (coverage of 29%), in line with the banking sector's average as they are regulatory provisions. If we add to these provisions the generic ones available in Spain coverage is 50%.

Coverage would be 93% if one took into account the Group's net operating income in Spain (Banco Santander plus Banesto) at the end of 2009[1].

These coverage levels are higher than the sector's average, given the higher amount of both available generic provisions as well as Grupo Santander's net operating income in Spain.

Exposure and coverage of the construction and real estate development sectors. December 2009

	Total System		Grupo Santander Spain	
	Million euros	%	Million euros	%
Exposure	445,000		48,299[1]	
Non-performing loans	42,800	9.6	2,972	6.2
Sub-standard	59,000	13.3	4,332	9.0
Acquired and awarded (gross)	59,700	11.8[2]	6,521	11.9[2]
Write-offs	4,000	0.9	137[3]	0.3
Potentially problematic exposure	165,500	33[2]	13,961	25[2]
Coverage				
Specific provisions	42,300	26	4,024	29
Non-performing loans	*17,700*	*41*	*1.323*	*45*
Sub-standard	*7,600*	*13*	*573*	*13*
Acquired and awarded (gross)	*13,000*	*22*	*1,991*	*31*
Write-offs[4]	*4,000*		*137*	
Specific plus generic		35		50

(1) Consolidated figure of EUR 42,256 million
(2) The percentage is calculated over total non-consolidated investment+acquired and awarded assets.
(3) Data for 2009
(4) Fully covered with provisions.

(1) This information is given in order to follow the systematics of the Bank of Spain's March 2010 Financial Stability Report. For the whole system, this report puts coverage at 71%.

Refinancing
Refinancing is one of the management tools to adjust maturity structures of principal and interest payments to the new payment capacity of customers.

At Grupo Santander, these operations are restricted, on the basis of rigorous and selective criteria, to:

- viable operations,
- where the customer intends to pay,
- which improve the Bank's position in terms of expected loss,
- and where the refinancing does not discourage the additional effort by the customer.

The Corporate Policy of Restructurings ensures homogeneous and rigorous application of these criteria in the various units:

- The customer's risk is assessed overall, irrespective of the situation of each individual contract, and all the risks are provided with the highest possible level of guarantees.
- As a general rule, the risk with the customer is not increased.
- All the alternatives to the refinancing and its effects are evaluated, ensuring that the results of it are better than what might have been obtained if nothing was done.
- Particular attention is paid to collateral and the possible future evolution of its value.
- Its use is restricted, giving precedence to the renewal of risks with additional efforts by the customer and avoiding situations that only postpone the problem.
- The refinanced operations are put under special watch.

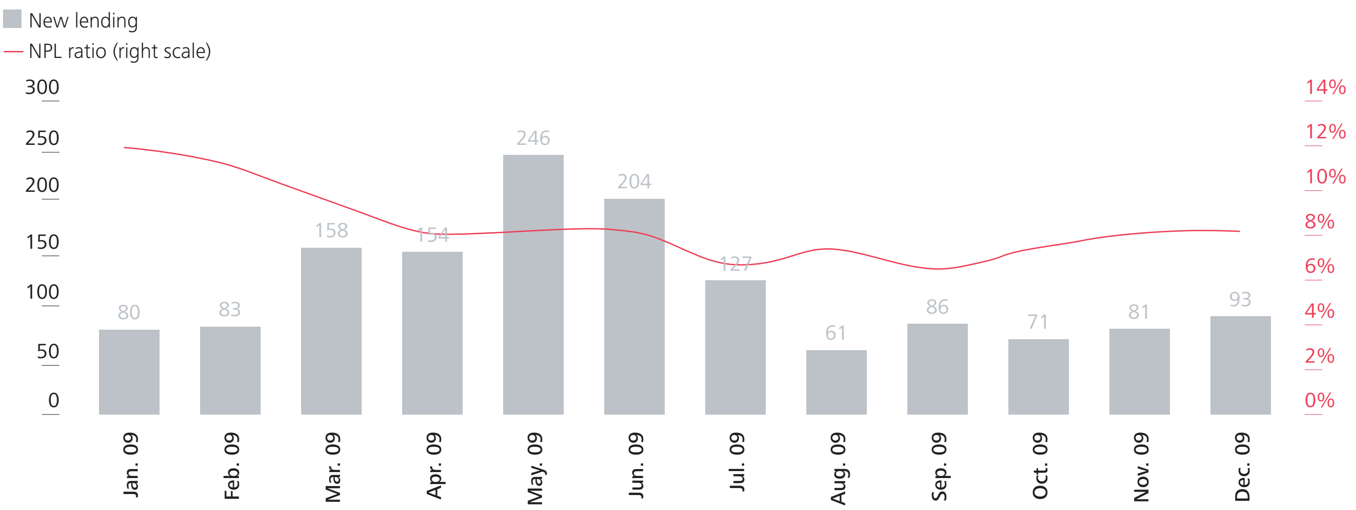
These criteria are mainly aimed at those situations of low impact on the customer's payment capacity, which are estimated to be of medium/long duration. On a more restrictive basis, more serious cases where the payment difficulty is estimated to not last long can also be considered. The severest cases are not susceptible to refinancing and other solutions to recover the appropriate amount are sought.

In addition to close monitoring of these portfolios by the Group's risk management teams, both the various supervisory authorities to which the Group is subject as well as Internal Auditing pay particular attention to controlling and assessing the refinanced portfolios.

Refinancing does not mean the release of provisions or the classification of these loans as normal, unless:

- They meet the criteria in the regulations based on Bank of Spain circulars (payment of ordinary interest pending and new effective guarantees or reasonable certainty of payment capacity).
- They fulfil the precautions which under prudent criteria are set out in the Group's Corporate Policy (sustained payment for between 3 and 12 months, on the basis of the operation's features and the type of guarantees).

New lending and non-performing loan ratio



In the case of Spain (Santander networks plus Banesto), the balance of refinancing at the end of 2009 was EUR 1,449 million, of which EUR 950 million were company operations and EUR 499 million with individuals.

Of the total refinancing, EUR 1,028 million met the requirements set by the Bank of Spain in appendix IX of its Circular 4/2004 for being regularised to the normal situation at the time of formalisation. At the end of 2009, the non-performing loan ratio of these operations was 8.2%.

The remaining EUR 421 million is refinancing which, following again the conditions defined by the Bank of Spain, was maintained as non-performing loans at formalisation.

The chart in the previous page shows the monthly volume of refinancing in 2009, mostly concentrated in the first half, as well as the evolution of the non-performing loan ratio of this portfolio.

Stress testing exercises
Grupo Santander regularly conducts stress testing exercises on its main credit portfolios (see further on). These theoretical exercises, required by the regulator, simulate the effect on the Bank's credit portfolios of the different scenarios of a country's main economic and financial variables. In the vase of Spain, the exercise affects all credit portfolios.

Among the hypotheses handled, the severest one assumes an intense shrinkage of the Spanish economy in 2010 and 2011 and slight growth in 2012, with falls in house prices, in addition to those already seen (41% cumulative). In this scenario, very far from any historical experience and assigned a very small chance of happening, the expected loss for the portfolios of Santander and Banesto would not surpass 80% of recurrent net operating income in 2009 in 2010, 2011 and 2010. The net operating income of the Santander Branch Network and Banesto in 2009 was EUR 4,803 million.

Of this figure, EUR 4,208 million of expected loss would correspond to the construction and real estate development sectors for the next three years.

It should also be borne in mind that Grupo Santander had generic provisions of EUR 6,727 million at the end of 2009.

Analysis of the UK's mortgage portfolio
As well as the risk portfolio in Spain, of note in standardised risks and because of its importance in Grupo Santander's total lending is the UK mortgage portfolio.

This portfolio is focused on first home mortgages, with a high quality of risk in terms of Loan to Value (average value of 56%). The mortgages with the highest risk profile (buy-to-let) account for a small percentage of the total (barely 1%).

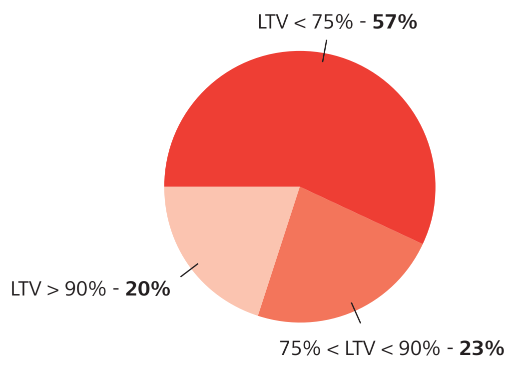
The following table shows the distribution by type of loan:

Mortgage portfolio United Kingdom
Million euros

	Dec. 09	
	Portfolio	% of loans
Residential mortgages	180,694	75.9*
First home buyer	26,540	14.7
Mover	66,171	36.6
Remortgage	87,983	48.7

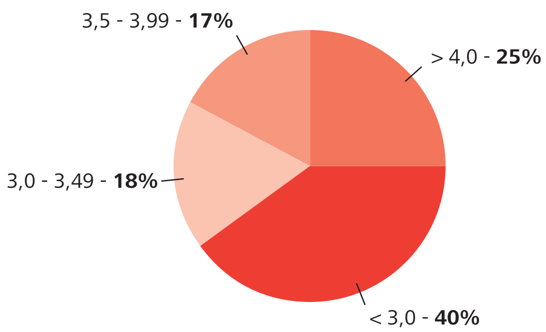
(*) the total UK portfolio.
First time buyer: customers who buy a home for the first time.
Mover: customers who change home with or without changing the bank that granted the mortgage.
Remortgage: customers who transfer their mortgage from another bank.

Loan to value - UK[1]
(average 56.2%)



(1) Indexed

Income multiple – UK*
(average 2.9%)



(*) Loan to Value: the relation between the loan and the appraised value of the mortgaged property. Income multiple: affordability rate (relation between the customer's uncommitted net income and the annual loan payments). The figures in the chart are only for loans made in 2009.

E. Control function

The management process is also aided during the various phases of the risk cycle by the function of control. This provides a global vision of the Group's portfolio of loans with the sufficient level of detail, enabling the current risk position and its evolution to be assessed.

The evolution of risk with regard to budgets, limits and standards of reference is constantly and systematically controlled and the impact in the face of future situations, both exogenous and arising from strategic decisions, assessed in order to establish measures that put the profile and volume of the portfolio of risks within the parameters set by the Group.

The control function is conducted by assessing risks from various perspectives and establishing as the main elements control by countries, business areas, management models, products and processes. This facilitates the detection of focuses of specific attention for decision-making.

In the context of 2009, one of the focuses of the function was to ensure compliance with the corporate criteria for classifying refinanced portfolios, as well as monitor the volumes of new lending and their performance.

In 2006, under the corporate framework established in the Group for complying with the Sarbanes-Oxley Law, a tool was created in the Group's intranet to document and certify all sub processes, operational risks and controls that mitigate them. The Risks Division, as part of the Group, evaluates every year the efficiency of internal control of its activities.

Analysis of scenarios

As part of its management of monitoring and continuous control, the Group conducts simulations of its portfolio using adverse scenarios and stress testing in order to assess the Group's solvency in the face of certain situations in the future. These simulations cover all the Group's most relevant portfolios and are done systematically using a corporate methodology which:

- Determines the sensitivity of risk factors (PD. LGD) in the face of certain macroeconomic variables.
- Defines reference scenarios (at the global level as well as for each of the Group's units).
- Identifies "rupture scenarios" (levels as of which the sensitivity of risk factors to macroeconomic variables is more accentuated) and the distance of these scenarios from the current situation and the reference scenarios.
- Estimates the expected loss of each scenario and the evolution of the risk profile of each portfolio in the face of movements in certain macroeconomic variables.

The simulation models use the data of a complete economic cycle to measure the performance of risk factors in the face of changes in macroeconomic variables.

In the wholesale sphere, as they are low default portfolios, there is not sufficient data on defaults to conduct this measurement and expert criteria are used.

The scenarios take into account the vision of each unit as well as the global outlook. The variables include:

- The unemployment rate
- Property prices
- GDP
- Interest rates
- Inflation

The analysis of scenarios enables senior management to better understand the foreseeable evolution of the portfolio in the face of market conditions and changing situations, and it is a key tool for assessing the sufficiency of the provisions established for stress scenarios.

The analysis of the baseline and acid scenarios for the whole Group and for each unit, with a time frame of five years, shows the strength of the balance sheer in the face of different market and macroeconomic situations.

F. Recovery activity

Santander's recovery management is a strategic, integral and business activity.

We have a global model which is applied and executed locally and takes into account the business features in each sphere.

The purpose of recovery activity is to:

- Obtain payment and regularisation of the pending balances so that an account returns to its normal state; if this is not possible the objective is total or partial recovery of debts, in any of the accounting or management situations in which they find themselves.
- Maintain and strengthen our relations with the customer and nurture the payment performance.

Recovery activity is part of business and is based on the relation with the customer and on the contribution to results. Santander has created its own management model, associating and exploiting management capacities and commercial and risk intelligence in order to improve results and maintain the Group's traditional culture regarding quality and sensitivity to risk.

This model operates in all phases of management: both before default, through preventative management which helps the customer or detects early on possible problems, as well as in the subsequent phases of the recovery process: management of irregular loans, of non-performing loans and of write offs.

Clients in this process are segmented (massive or standardised and those under individualised management with specific management models in each case), in accordance with basic specialisation criteria. Recovery management is shared with other business areas.

The segment for individualised management is managed by specialised managers who, as they have a limited number of clients in their portfolios, provide tailored treatment, define strategies, action plans and special ways of recovery (if the case) in order to receive payment. There is also a regular review of the issues to assess their handling, the recovery periods and the envisaged amounts to be recovered, on the basis of the greater or lesser recovery capacity (total or partial).

Management of standardised customers is articulated by defining in each unit rules by segment/product from which are derived management circuits with pre-determined activity times, players or structures and differentiated management strategies. Management takes advantage of the capacities of the multi channel systems (recovery centres, letters, text messages, pre-recorded messages left on answering machines, messages in commercial documents, ATMs, web page, etc) where new strategies with identified elements (score, guarantees, products, market, etc) are applied.

In the next phase and depending on the greater or lesser recovery capacity, there is personalised or individualised management or massive.

In the first case, matters are treated by internal or external managers, and in the second externally and maintaining the methodology of the aforementioned management and accompanied by supervisors who guarantee the effectiveness and quality of management.

In those cases where it is deemed opportune judicial actions are started and at the same time non-judicial processes continued in order to always try to resolve the situation on a friendly and negotiated basis.

This model also includes the possibility of selling a portfolio, establishing an exit point .

The recovery managers at Santander are the key element. Quality, training and incentives are the pillars that sustain the management model. Every year a specific training plan for all levels of the management structure is designed in order to increase skills and foment professional development. A system of objectives and incentives at all levels and including externally is also being put into place.

Santander's recoveries model encourages the identification, transfer and implementation of best practices, taking advantage of our knowledge and experience acquired in the many markets and businesses in which we operate. This privileged situation has enabled management models previously tested in other units to be transferred and problems to be detected early on and effective solutions anticipated.

The recovery business area, part of the Spain Retail Banking Division and using the criteria, policies and guidelines of Santander in risks and recovery matters, which emanate from the corresponding organs of governance, and from the Risks Division, focuses integrally on managing bad loans in all customer segments and combines commercial and risk skills.

In 2009, the area oversaw the installation of the recoveries model in Santander Consumer Spain.

Recovery management in Spain resulted in notably more recoveries, both in absolute terms, as well as in a higher relative share of gross entries of bad loans (64% against 53% in 2008) for all activity in Spain.

The model was also applied in Brazil, Mexico and Chile, taking into account each country's features.

3.6. Other standpoints of credit risk

There are spheres and/or specific points in credit risk that deserve specialised attention and which complement global management.

A. Risk of concentration

Control of risk concentration is a vital part of management. The Group continuously tracks the degree of concentration of its credit risk portfolios using various criteria: geographic areas and countries, economic sectors, products and groups of clients.

The Board's Risks Committee establishes the policies and reviews the appropriate exposure limits for appropriate management of the degree of concentration of credit risk portfolios.

The Group is subject to the Bank of Spain regulation on large risks. In accordance with Circular 3/2008, no individual or economic group exposure, including all types of credit risks and equities, can exceed 25% of the Group's shareholders' equity. The total of large risks (those that exceed 10% of eligible equity) cannot be more than eight times higher than equity (excluded from this are exposures to OECD governments and central banks).

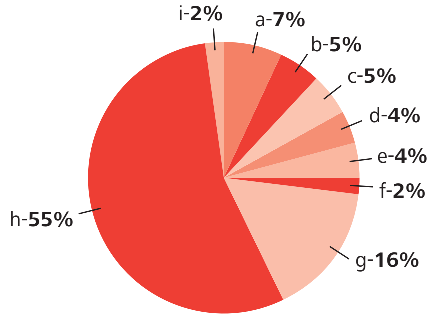
At December 31, 2009, there was only one economic group classified as a large risk (11.15% of equity) and it corresponded to a British financial group with an internal rating equivalent to A. After applying risk mitigation techniques and the rules for large risks, the percentage came down to 1.67% of eligible equity (consumption of 6.7% of the limit of 25% established by the Bank of Spain).

At December 31, 2009, the 20 largest economic and financial groups, excluding AAA governments and sovereign securities denominated in local currency, represented 6.7% of the outstanding credit risk of the Group's clients (lending plus guarantees).

The distribution of the portfolio of companies by sectors is adequately diversified. The chart below shows the distribution of the credit exposure in the Group's main units (excluding Sovereign).

Distribution of risk by sector

%



a. Real estate activity
b. Prod. and distrib. electricity, gas and water
c. Construction and public works
d. Commerce and repairs
e. Transport and communications
f. Food, drink and tobacco
g. Rest
h. Individuals
i. Other financial intermediaries
(*) Rest includes sectors with concentration below 2%.

The Group's Risks Division works closely with the Financial Division to actively manage credit portfolios. Its activities include reducing the concentration of exposures through various techniques such as using credit derivatives and securitisation to optimise the risk-return relation of the whole portfolio.

B. Credit risk by activities in financial markets

This section covers credit risk generated in treasury activities with clients, mainly credit institutions. This is developed through financing products in the money market with different financial institutions, as well as derivatives with our clients.

Risk is controlled through an integrated system and in real time which enables us to know at any moment the exposure limit available with any counterparty, in any product and maturity and in all of the Group's units.

Risk is measured by its prevailing market as well as potential value (value of risk positions taking into account the future variation of underlying market factors in contracts). The Equivalent Credit Risk (ECR) is the Net Replacement Value plus the Maximum Potential Value of these contracts in the future. The capital at risk or unexpected loss is also calculated (i.e. the loss which, once the expected loss is subtracted, constitutes the economic capital, net of guarantees and recovery).

The total exposure to credit risk from activities in the financial markets was 70.1% with credit institutions. By product type, the exposure to derivatives was 48.6%, mainly products without options, and 51.4% to liquidity products and traditional financing.

Derivative operations are concentrated in high credit quality counterparties; 68.4% of risk with counterparties has a rating equal to or more than A-. The total exposure in 2009 in terms of equivalent credit risk amounted to EUR 38,704 million.

OTC derivatives distribution by net replacement value and equivalent credit risk*

Million euros at December 31, 2009

	Total ECR			Total net replacement value		
	Trading	Hedging	Total	Trading	Hedging	Total
CDS protection acquired	812	822	1,634	462	614	1,076
CDS protection sold	95	71	166	(679)	33	(646)
TRS total return swap	—	142	142	—	511	511
CDS options	—	—	—	—	—	—
Total credit derivatives	**907**	**1,034**	**1,941**	**(217)**	**1,159**	**942**
Equity forwards	2	55	57	—	(163)	(163)
Equity options	407	1,524	1,931	(195)	(208)	(403)
Equity swaps	—	816	816	—	208	208
Equity spot	—	—	—	—	—	—
Total equity derivative	**409**	**2,396**	**2,805**	**(195)**	**(163)**	**(358)**
Fixed-income forwards	6	24	29	1	—	1
Fixed-income options	1	—	1	—	—	—
Fixed-income spot	—	—	—	—	—	—
Total fixed income derivatives	**6**	**24**	**30**	**1**	**—**	**1**
Asset swaps	1,011	2,812	3,822	(752)	486	(266)
Exchange-rate options	240	159	399	1	(37)	(36)
Exchange-rate swaps	5,222	12,079	17,301	1,257	2,834	4,092
Other exchange-rate derivative	—	3	3	—	1	1
Total exchange rates	**6,473**	**15,053**	**21,525**	**506**	**3,285**	**3,791**
Asset swaps	—	279	279	—	(40)	(40)
Call money swaps	176	31	207	(160)	(60)	(220)
IRS	8,367	8,379	16,746	(865)	3,032	2,167
Forward interest rates	2	13	15	(25)	(10)	(35)
Other interest-rate derivatives	580	1,193	1,772	412	(798)	(386)
Interest rate structures	75	620	695	46	(79)	(33)
Total interest-rate derivatives	**9,199**	**10,514**	**19,714**	**(593)**	**2,047**	**1,454**
Commodities	103	35	138	202	9	211
Total commodity derivatives	**103**	**35**	**138**	**202**	**9**	**211**
Total OTC derivatives	**17,097**	**29,055**	**46,153**	**(296)**	**6,337**	**6,041**
Collateral	**—**	**(7,449)**	**(7,449)**			
Total	**17,097**	**21,606**	**38,704**			

(*) Excluding A&L and Sovereign.

Notional OTC derivative products by maturity*

Million euros at December 31, 2009

	1 year			1-5 years			5-10 years			over 10 years			total rec		
	Trading	Hedging	Total	Trading	Hedging	Total	Trading	Hedging	Total	Trading	Hedging	Total	Trading	Hedging	Total
CDS protection acquired	3	13	16	123	65	188	41	52	94	645	692	1,337	812	822	1,634
CDS protection sold	5	2	7	77	1	78	13	—	13	—	67	67	95	71	166
TRS total return swap	—	—	—	—	1	1	—	5	5	—	136	136	—	142	142
CDS options	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total credit derivatives	**8**	**15**	**23**	**200**	**68**	**267**	**54**	**57**	**111**	**645**	**894**	**1,540**	**907**	**1,034**	**1,941**
Equity forwards	2	55	57	—	—	—	—	—	—	—	—	—	2	55	57
Equity options	193	363	555	192	1050	1242	22	105	127	—	6	6	407	1,524	1,931
Equity swaps	—	80	80	—	364	364	—	315	315	—	58	58	—	816	816
Equity spot	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total equity derivative	**195**	**498**	**692**	**192**	**1,414**	**1,606**	**22**	**420**	**442**	**—**	**64**	**64**	**409**	**2,396**	**2,805**
Fixed-income forwards	6	1	7	—	22	22	—	—	—	—	—	—	6	24	29
Fixed-income options	1	—	1	—	—	—	—	—	—	—	—	—	1	—	1
Fixed-income spot	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total fixed income derivatives	**6**	**1**	**7**	**—**	**22**	**22**	**—**	**—**	**—**	**—**	**—**	**—**	**6**	**24**	**30**
Asset swaps	605	2,647	3,252	313	165	478	37	—	37	55	—	55	1,011	2,812	3,822
Exchange-rate options	157	148	306	82	11	93	—	—	—	—	—	—	240	159	399
Exchange-rate swaps	2,299	3,195	5,495	1,787	4,833	6,620	1,136	2,935	4,071	1	1,116	1,116	5,222	12,079	17,301
Other exchange-rate derivative	—	3	3	—	—	—	—	—	—	—	—	—	—	3	3
Total exchange rates	**3,062**	**5,994**	**9,055**	**2,182**	**5,009**	**7,191**	**1,174**	**2,935**	**4,108**	**55**	**1,116**	**1,171**	**6,473**	**15,053**	**21,525**
Asset swaps	—	5	5	—	22	22	—	27	27	—	225	225	—	279	279
Call money swaps	55	30	85	118	1	118	3	—	3	1	—	1	176	31	207
IRS	299	1,022	1,320	2,220	3,400	5,621	1,520	2,101	3,621	4,328	2,324	6,652	8,367	8,846	17,213
Forward interest rates	2	13	15	—	—	—	—	—	—	—	—	—	2	13	15
Other interest-rate derivatives	1	287	288	30	548	579	94	130	225	454	227	681	580	1,193	1,772
Interest rate structures	4	2	7	49	11	60	19	23	42	2	120	122	75	156	231
Total interest-rate derivatives	**361**	**1,358**	**1,719**	**2,418**	**3,982**	**6,400**	**1,636**	**2,281**	**3,917**	**4,785**	**2,896**	**7,681**	**9,199**	**10,518**	**19,718**
Commodities	37	5	42	42	26	68	24	—	24	—	—	—	103	31	134
Total commodity derivatives	**37**	**5**	**42**	**42**	**26**	**68**	**24**	**—**	**24**	**—**	**—**	**—**	**103**	**31**	**134**
Total OTC derivatives	**3,669**	**7,870**	**11,539**	**5,033**	**10,522**	**15,554**	**2,911**	**5,693**	**8,604**	**5,485**	**4,970**	**10,456**	**17,097**	**22,055**	**46,153**
Collateral													**—**	**(7,449)**	**(7,449)**
Total													**17,097**	**21,606**	**38,704**

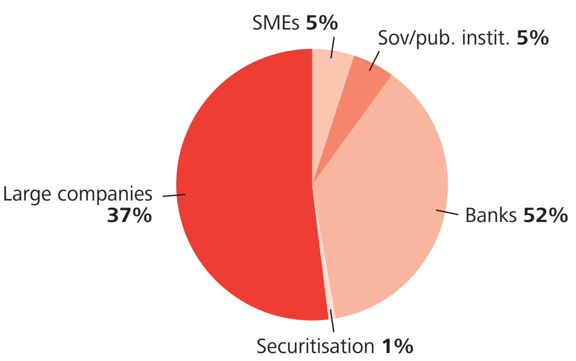
(*) Excluding A&L and Sovereign.

Distribution of risk in OTC derivatives by type of counterparty

Rating	%
AAA	4.6
AA	12.6
A	51.2
BBB	21.3
BB	5.3
B	2.2
Rest	2.8

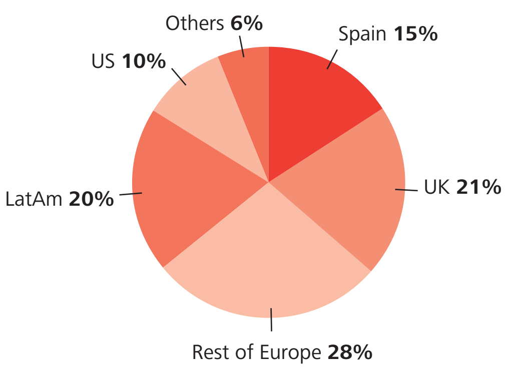
The distribution of risk in derivatives by type of counterparty was 52% with banks, 37% with large companies and 5% with SMEs.

Distribution of risk in OTC derivatives by type of counterparty
%



As regards the geographic distribution of risk, 15% is with Spanish counterparties, 21% with UK counterparties (mainly Abbey's operations), 28% the rest of Europe, 10% the US and 20% Latin America.

Distribution of risk in OTC derivatives by geographic areas
%



Activity in credit derivatives

Grupo Santander uses credit derivatives to cover loans, customer business in financial markets and, to a lesser extent, within trading operations. The volume of this activity is small compared to that of our peers and, moreover, is subject to a solid environment of internal controls and minimising operational risk.

The risk of these activities is controlled via a broad series of limits such as VaR, nominal by rating, sensitivity to the spread by rating and name, sensitivity to the rate of recovery and to correlation. Jump-to-default limits are also set by individual name, geographic area, sector and liquidity.

At December 31, 2009, for the Group's trading activity, the sensitivity of lending to increases in spreads of one basis point was EUR 1.9 million, and the average VaR during the year was EUR 12.3 million.

In notional terms, the position in CDS incorporates EUR 83,791 million of acquired protection and EUR 73,684 million of sold protection.

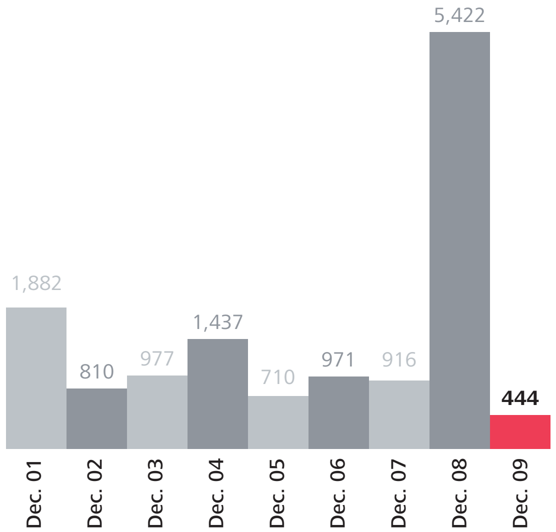
C. Country risk

Country risk is a credit risk component in all cross-border credit operations for circumstances different to the usual commercial risk. Its main elements are sovereign risk, the risk of transfer and other risks which could affect international financial activity (wars, natural disasters, balance of payments crisis, etc).

The exposure susceptible to country-risk provisions at the end of 2009 was EUR 444 million, of which EUR 37 million corresponded to intragroup operations. At the end of 2008, the total country risk in need of provisions was EUR 5,422 million. Total provisions in 2009 stood at EUR 65 million compared with EUR 612 million in 2008.

The decline was largely due to Brazil where operations stopped being considered as risk in need of provisions. This did not mean relevant changes in the Group's level of exposure in Brazil.

Evoution of country-risk subject to provisions and provisions assigned
Million euros



The principles of country risk management continued to follow criteria of maximum prudence; country risk is assumed very selectively in operations that are clearly profitable for the Bank and which enhance the global relation with customers.

D. Sovereign risk

As a general criterion, sovereign risk is that contracted in transactions with a central bank (including the regulatory cash reserve requirement), the issuer risk of the Treasury or the Republic (portfolio of state debt) and that arising from operations with public institutions with the following features: their funds only come from institutions directly integrated into the state sector; and their activities are of a non-commercial nature.

At December 31, 2009 (including Banesto) Europe accounted for 58.5% of total risk, Latin America 36.9%, the US 4.1% and others 0.5%. Of note were Spain (31.4% of the total) and the UK (21.2%), Brazil (23.3%) and Mexico (7.0%). It was higher than in 2008, mainly as a result of increased positions in the UK, Brazil, Spain and Chile and the incorporation of Miami and Sovereign to the perimeter of consolidation, which was partly offset by the reduction in the perimeter as a result of Santander's exit from Venezuela.

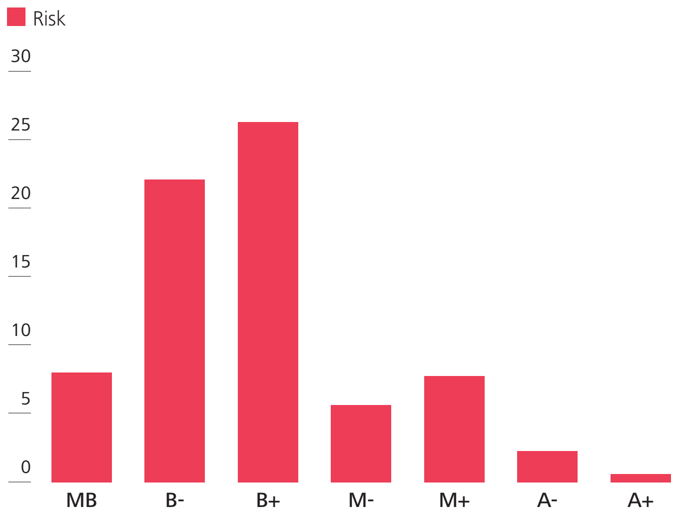
Latin America's exposure to sovereign risk mainly comes from the obligations to which our subsidiary banks are subject for constituting certain deposits in the corresponding central banks as well as from fixed-income portfolios maintained as part of the structural interest rate risk management strategy. These exposures are in local currency and are financed on the basis of locally captured customer deposits, also denominated in local currency. The exposure to sovereign risk of Latin American issuers denominated in currencies other than the official one of the country of issue amounted to EUR 2,595 million (5.5% of total sovereign risk with Latin American issuers).

E. Environmental risk

Analysis of the environmental risk of credit operations is one of the main aspects of the strategic plan of corporate social responsibility. It revolves around the following two large points:

- Equator principles: this is an initiative of the World Bank's International Financial Corporation. It is an international standard for analysing the social and environmental impact of project finance operations. By assuming these principles Santander commits itself to assessing, using a sequential methodology, the social and environmental risks of projects it finances in developing countries. All project financing operations include filling out a questionnaire designed to determine their sensitivity to socio-environmental issues and the degree of compliance with them.
- VIDA tool: used since 2004, its main purpose is to assess the environmental risk of corporate clients, both current and potential, through a system that classifies in seven categories each of the companies on the basis of the environmental risk contracted. In 2009, 38,510 companies were assessed by this tool in Spain.

Environmental risk classification
Million euros



4. Market risk

4.1 Activities subject to market risk

The perimeter for measuring, controlling and monitoring the area of Financial Risks covers those operations where equity risk is assumed. This risk comes from the change in risk factors[2] –interest rates, exchange rates, shares, the spread on loans, raw material prices and the volatility of these elements– as well as the liquidity risk of the various products and markets in which the Group operates.

On the basis of the purpose of the risk, activities are segmented in the following way:

a) **Trading:** this includes financial services for customers and the buying and selling and positioning mainly in fixed-income, equity and currency products.

b) **Balance Sheet Management:** Interest rate and liquidity risk comes from mismatches between maturities and repricing of assets and liabilities. It also includes active management of credit risk inherent in the Group's balance sheet.

c) **Structural risks:**

- **Structural exchange-rate risk/hedging of results:** Exchange rate risk, due to the currency in which the investment is made, both in companies that consolidate and do not consolidate **(structural exchange rate)** and exchange rate risk arising from the hedging of future results generated in currencies other than the euro **(hedging of results)**.
- **Structural equity activity:** This covers equity stake investments in financial and non-financial companies that do not consolidate, generating risk in equities.

The treasury area is responsible for managing the taking of trading activity positions.

The financial management area is responsible for the centralised management of these structural risks, applying standardised methodologies, adapted to each market where the Group operates. In the area of convertible currencies, financial management directly manages the parent bank's risks and coordinates management of the rest of the units which operate in these currencies. The management decisions for these risks are taken by each country's ALCO committee and, in the last instance, by the markets committee of the parent bank.

The aim of financial management is to inject stability and recurrence into the net interest margin of commercial activity and the Group's economic value by maintaining appropriate levels of liquidity and solvency.

Each of these activities is measured and analysed with different tools in order to show in the most precise way their risk profile.

4.2 Methodologies

A. Trading activity

The standard methodology that Grupo Santander applied to trading activities during 2009 was value at risk (VaR), which measures the maximum expected loss with a certain confidence level and time frame. The standard for historic simulation is a confidence level of 99% and a time frame of one day. Statistical adjustments are applied enabling the most recent developments that condition the levels of risk assumed to be efficiently and quickly incorporated. A time frame of two years or at least 520 days from the reference date of the VaR calculation is used. Two figures are calculated every day, one applying an exponential decline factor which accords less weight to the observations furthest away in time and another with the same weight for all observations. The reported VaR is the higher of the two.

The VaR is not the only measure used. It is used because it is easy to calculate and is a good reference for the Group's level of risk. There are also other measures that allow greater control of risks in all the markets where the Group operates.

(2) Two new factors were given differentiated treatment in 2009 compared to 2008: the credit spread (previously integrated partly in interest rates) and the price of commodities (previously integrated in equities, with a small relative share compared to the rest of factors).

They include analysis of scenarios which define alternatives for the performance of different financial variables and provide the impact on results. These scenarios can replicate critical developments or circumstances that happened in the past (such as a crisis) or determine plausible alternatives that are not concerned with the past. A minimum of three types of scenario are given: plausible, severe and extreme, and a VaR is obtained as well as a much fuller picture of the risk profile.

The Market Risk Area, at the level of each unit and globally and following the principle of independence of the business units, carries out daily monitoring of positions, through an exhaustive control of the changes that take place in the portfolio in order to detect possible new developments for immediate correction. The daily preparation of the income statement is an excellent indicator of risk levels, as it enables us to identify the impact of changes on financial variables in the portfolios.

Lastly, in order to control derivative activities and credit management, because of its atypical nature, specific measures are conducted daily. In the first case, sensitivity to the price movements of the underlying asset (delta and gamma), volatility (vega) and time (theta) is controlled. In the second case, measures such as the spread sensitivity, jump-to-default, and concentration of positions by rating levels, etc, are systematically reviewed.

As regards the credit risk inherent in trading portfolios and in line with the recommendations of the Basel Committee on Banking Supervision and prevailing regulations, an additional measurement began to be calculated (incremental default risk, IDR), in order to cover the risk of default that is not adequately captured in the VaR, via changes in lending spreads. The controlled products are basically fixed-rate bonds, both public and private sector, derivatives on bonds (forwards, options, etc) and credit derivatives (credit default swaps, asset backed securities, etc). The method for calculating the IDR, in essence similar to that of the credit risk of positions outside trading, is based on direct measurements of the tails of the distribution of losses to the appropriate percentile (99.9%). The Monte Carlo methodology is used, applying a million simulations.

B. Balance sheet management

Interest rate risk

The Group analyzes the sensitivity of net interest margin and market value of equity to changes in interest rates. This sensitivity arises from gaps in maturity dates and the review of interest rates in the different asset and liability items.

On the basis of the positioning of balance sheet interest rates, as well as the situation and outlook for the market, the financial measures are agreed to adjust the positioning to that desired by the Bank. These measures range from taking positions in markets to defining the interest rate features of commercial products.

The measures used by the Group to control interest rate risk in balance sheet management are the interest rate gap and the sensitivity of net interest margin and net worth to changes in interest rates, Value at Risk (VaR) and analysis of scenarios.

a) Interest rate gap of assets and liabilities

Interest rate gap analysis focuses on lags or mismatches between changes in the value of asset, liability and off-balance sheet items. It provides a basic representation of the balance sheet structure and allows for the detection of interest rate risk by concentration of maturities. It is also a useful tool for estimating the impact of eventual interest rate movements on net interest margin or equity.

All on- and off-balance sheet items must be disaggregated by their flows and looked at in terms of repricing/maturity. In the case of those items that do not have a contractual maturity, an internal model of analysis is used and estimates made of the duration and sensitivity of them.

b) Net interest margin sensitivity (NIM)

The sensitivity of net interest margin measures the change in the short/medium term in the accruals expected over a particular period (12 months), in response to a shift in the yield curve.

It is calculated by simulating the net interest margin, both for a scenario of a shift in the yield curve as well as for the current situation. The sensitivity is the difference between the two margins calculated.

c) Market value of equity sensitivity (MVE)

This is an additional measure to the sensitivity of the net interest margin.

It measures the interest risk implicit in net worth (equity) on the basis of the impact of a change in interest rates on the current values of financial assets and liabilities.

d) Value at risk (VaR)

The Value at risk for balance sheet activity and investment portfolios is calculated with the same standard as for trading: historic simulation with a confidence level of 99% and a time frame of one day. Statistical adjustments are made which incorporate effectively and quickly the latest developments that condition the risk levels assumed.

e) Analysis of scenarios

Two scenarios for the performance of interest rates are established: maximum volatility and severe crisis. These scenarios are applied to the balance sheet, obtaining the impact on net worth as well as the projections of net interest margin for the year.

Liquidity risk

Liquidity risk is associated with the Group's capacity to finance its commitments, at reasonable market prices, as well as carry out its business plans with stable sources of funding. The Group permanently monitors maximum gap profiles.

The measures used for liquidity risk control in balance sheet management are the liquidity gap, liquidity ratios, stress scenarios and contingency plans.

a) Liquidity gap

The liquidity gap provides information on contractual and expected cash inflows and outflows for a certain period of time, for each of the currencies in which the Group operates. The gap measures the net need or excess of funds at a particular date, and reflects the level of liquidity maintained under normal market conditions.

Two types of liquidity gap analysis are made, on the basis of the balance sheet item:

1. **Contractual liquidity gap:** All on-and off-balance sheet items are analysed provided they contribute cash flows placed in the point of contractual maturity. For those assets and liabilities without a contractual maturity, an internal analysis model is used, based on statistical research of the historical series of products, and which determines what we call the stability and instability impact on liquidity.
2. **Operational liquidity gap:** This is a scenario in normal conditions of liquidity profile, as the flows of the balance sheet items are placed in the point of probable liquidity and not in the point of contractual maturity. In this analysis defining the behaviour scenario –renewal of liabilities, discounts in sales of portfolios, renewal of assets– is the fundamental point.

b) Liquidity ratios

The liquidity coefficient compares liquid assets available for sale (after applying the relevant discounts and adjustments) with total liabilities to be settled, including contingencies. This coefficient shows, for currencies that cannot be consolidated, the level of immediate response to firm commitments.

Net accumulated illiquidity is defined as the 30-day accumulated gap obtained from the modified liquidity gap. The modified contractual liquidity gap is drawn up on the basis of the contractual liquidity gap and placing liquid assets in the point of settlement or repos and not in their point of maturity.

In addition, other ratios or metric regarding the structural position of liquidity are followed:

- Loans/net assets.
- Customer deposits, insurance and medium and long-term financing/lending.
- Customer deposits, insurance and medium and long-term financing, shareholders' funds and other liabilities/the sum of credits and fixed assets.
- Short-term financing/net liabilities.

c) Analysis of scenarios/contingency plan

The Group's liquidity management focuses on taking all the necessary measures to prevent a crisis. Liquidity crises, and their immediate causes, cannot always be predicted. Consequently, the Group's contingency plans concentrate on creating models of potential crises by analyzing different scenarios, identifying crisis types, internal and external communications and individual responsibilities.

The contingency plan covers the sphere of activity of a local unit and of central headquarters. It specifies clear lines of communication at the first sign of crisis and suggests a wide range of responses to different levels of crisis.

As a crisis can occur locally or globally, each local unit must prepare a contingency financing plan, indicating the amount it would potentially require as aid or financing from headquarters during a crisis. Each unit must inform the central unit of its plan at least every six months so that it can be reviewed and updated. These plans, however, must be updated more frequently if market circumstances make it advisable.

Lastly, Grupo Santander is actively participating in the process opened by the Basel committee to strengthen the liquidity of banks[3], with a two-pronged approach: on the one hand, participating in the analysis of the impact of the regulatory changes raised –basically, the introduction of two new ratios: liquidity coverage ratio (LCR) and net stable funding ratio (NSFR)– and, on the other, being present in the different forums to discuss and make suggestions on the issue (European Banking Federation, etc), maintaining in both cases close co-operation with the Bank of Spain.

(3) International framework for liquidity risk measurement, standards and monitoring (Basel Committee on Banking Supervision, Consultative Document, December 2009)

C. Structural exchange-rate risk/ Hedging of results/ Structural equity

These activities are monitored by position measures, VaR and results.

D. Additional measures

Back-testing

Back-testing is an a posteriori comparative analysis between Value at Risk (VaR) estimates and the "clean" daily results actually generated (results of the portfolios at the end of the day valued at the next day's prices). The purpose of these tests is to verify and measure the precision of the models used to calculate VaR.

The back-testing analysis carried out by Grupo Santander complies, as a minimum, with the BIS recommendations regarding the verification of the internal systems used to measure and manage market risks. In addition, back-testing includes the hypothesis test: tests of excess, normality, Spearman rank correlation, measures of average excess, etc.

The valuation models are fine-tuned and tested regularly by a specialized unit.

Coordination with other areas

Every day work is carried out jointly with other areas to offset the operational risk. This entails the conciliation of positions, risks and results.

4.3 Control system

A. Definition of limits

The process of setting limits takes place after the year-end budgeting process, and is the means used by the Group to establish the level of equity that each activity has available. The process of definition of limits is dynamic, and responds to the level of risk appetite considered acceptable by senior management.

B. Objectives of the structure of limits

The structure of limits require a process that takes into account the following aspects, among others:

- Identify and define, efficiently and comprehensively, the main types of risk incurred so that they are consistent with the management of business and with the strategy.
- Quantify and inform the business areas of the risk levels and profile that senior management believes can be assumed, in order to avoid undesired risks.
- Give flexibility to the business areas to build risk positions efficiently and opportunely according to changes in the market, and in the business strategies, and always within the risk levels regarded as acceptable by the Entity.
- Allow the generators of business to take prudent risks but sufficient to attain the budgeted results.
- Define the range of products and underlying assets with which each unit of Treasury can operate, bearing in mind features such as the model and valuation systems, the liquidity of the tools used, etc.

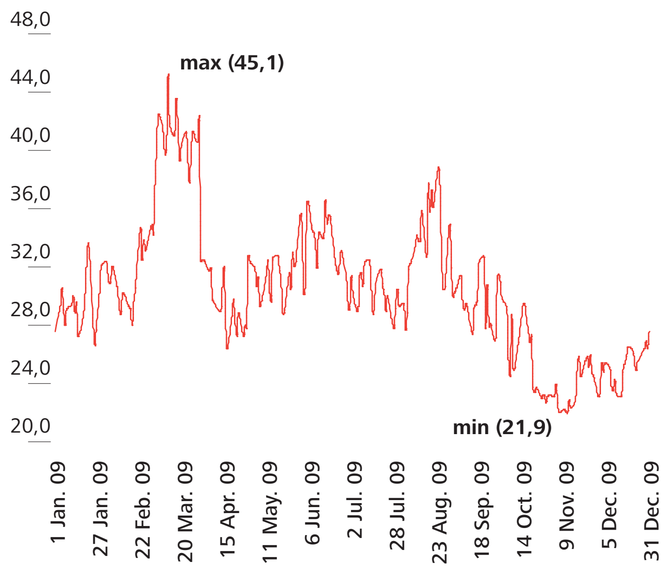
4.4 Risks and results in 2009

A. Trading activity

Quantitative analysis of var in 2009

The Group's risk[4] performance with regard to trading activity in financial markets during 2009, as measured by VaR, was as follows:

VaR performance in 2009
Million euros



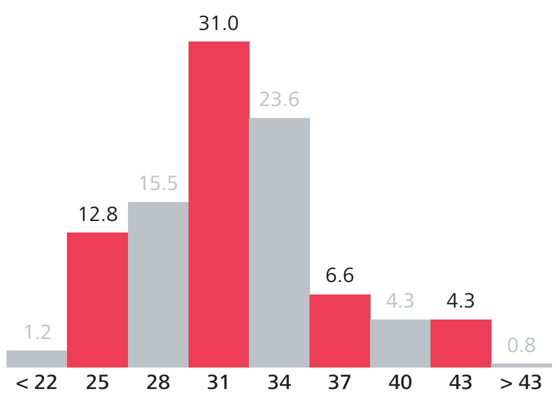
(4) Including Banesto and Sovereign. Venezuela stopped being included in the perimeter as of April 1.

VaR during 2009 fluctuated more than 95% of the time in a range of between EUR 20 million and EUR 40 million. The exception was March when it was temporarily higher, because of the increased positions in the Treasuries of Brazil (fixed income and equities) and Mexico (fixed income and exchange rates). It reached a high of EUR 46.2 million in the middle of March. It then declined, mainly due to the reduced positions in Brazil and Mexico.

The average VaR of the Group's trading portfolio in 2009 (EUR 30.2 million) was lower than in 2008. This was due more to the increased global volatility in financial markets following the collapse of Lehman Brothers than to greater risk taking. Compared to other financial groups, Grupo Santander has a low trading risk profile. Dynamic management of it enables the Group to adopt changes of strategy in order to exploit opportunities in an environment of uncertainty.

The histogram below shows the distribution of average risk in terms of VaR during 2009. It was between EUR 25 million and EUR 34 million on 70.2% of days. Of note were the levels of more than EUR 40 million, due to the increased positions in Brazil and Mexico.

VaR risk histogram
Number of days (%), million euros



Risk by factor

The minimum, average, maximum and year-end 2009 values in VaR terms are shown below:

VaR statistics by risk factor[5]
Million euros

	Minimum	Average	Maximum	Year-end
Total trading total VaR	**21,9**	**30,2**	**45,1**	**27,5**
Diversification effect	(19,2)	(24,8)	(31,4)	(29,2)
Fixed income VaR	11,3	20,0	31,9	18,3
Equity VaR	4,2	6,9	11,6	5,9
FX VaR	10,5	15,5	23,1	16,1
Credit spread VaR	8,2	11,9	15,8	15,0
Commodities VaR	0,1	0,8	1,6	1,4
Latin America total VaR	**9,0**	**19,6**	**33,8**	**16,6**
Diversification effect	(6,3)	(12,3)	(16,8)	(7,7)
Fixed income VaR	8,9	16,6	29,2	16,0
Equity VaR	0,7	3,9	10,3	2,8
FX VaR	1,7	7,1	16,7	6,0
US and Asia total VaR	**1,0**	**3,3**	**11,0**	**1,2**
Diversification effect	—	(1,0)	(2,6)	(0,3)
Fixed income VaR	0,7	3,1	11,2	0,9
Equity VaR	—	0,3	2,1	—
FX VaR	0,3	0,9	5,9	0,6
Europe total VaR	**11,2**	**14,6**	**23,9**	**13,5**
Diversification effect	(10,3)	(16,5)	(23,2)	(18,1)
Fixed income VaR	5,2	8,6	19,1	6,6
Equity VaR	3,2	5,5	8,8	5,2
FX VaR	6,1	11,6	18,7	13,8
Credit spread VaR	1,9	4,6	8,3	4,7
Commodities VaR	0,1	0,8	1,6	1,4

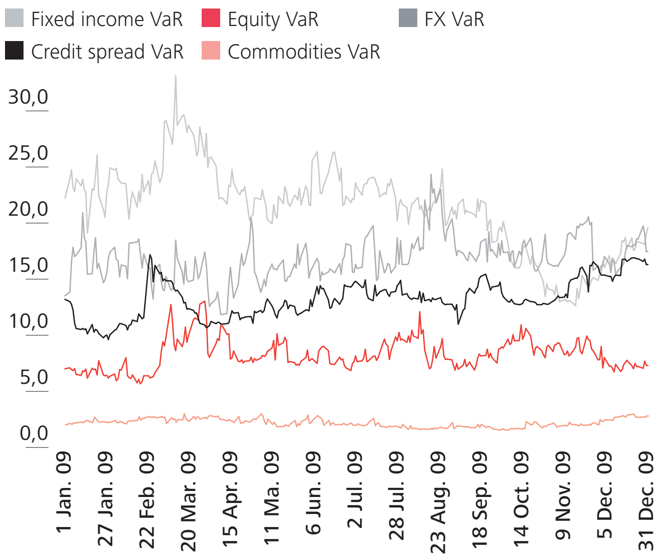
Compared to the 2008 Annual Report, this report gives a more detailed breakdown by factors, including the credit spread VaR and the commodities VaR. Until now, the risk of these factors was included in fixed income and equities, respectively. In Latin America, the US and Asia these factors are not shown separately because of their scant or zero materiality.

The average VaR was EUR 9.8 million lower than in 2008, due to the lower volatility in markets. The reduction was mainly in fixed income/credit spread, which dropped from EUR 34.4 million to EUR 23.3 million (taking the joint VaR of both factors in 2009). The average levels of VaR in currency and equities remained virtually unchanged: the first remained at EUR 15.5 million and the second increased a little (from EUR 6.4 million to EUR 6.9 million). The decline in fixed income risk was divided between Latin America (from EUR 26.2 million to EUR 16.6 million) and Europe (from EUR 24.7 million to EUR 9.8 million[6]).

(5) Total VaR of trading includes operations that are not assigned to any particular country, such as Active Credit Portfolio Management and Non-core Legacy Portfolio.
(6) Taking the joint VaR of fixed income and credit spread.

Histogram of VaR by risk factor[3]

Million euros



The VaR performance during 2009 underlined the Group's flexibility and agility in adapting its risk profile on the basis of changes in strategy caused by a different perception of expectations in the markets.

Distribution of risks and economic results

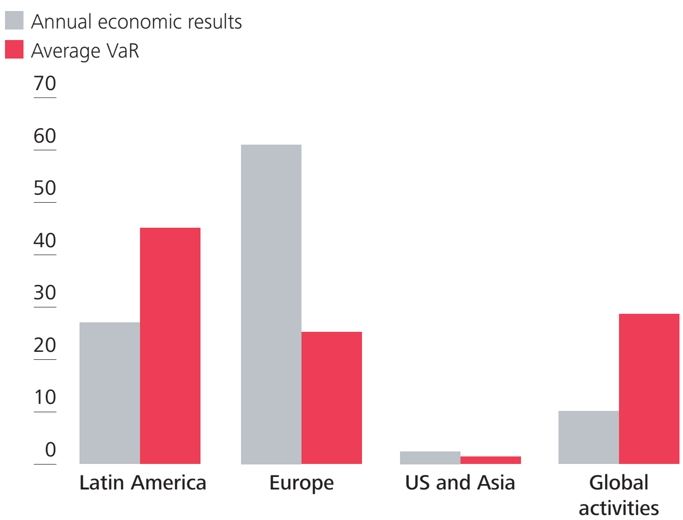
a) Geographic distribution

Latin America contributed on average 45.1% of the Group's total VaR in trading activity and 27.1% in economic results. Europe, with 25.0% of global risk, contributed 60.6% of results, as most of its treasury activity focused on professional and institutional clients.

Below is the geografic contribution (by percentage), both in risks, measured in VaR terms, as well as in results (economic terms).

Risk statistics 2009

%

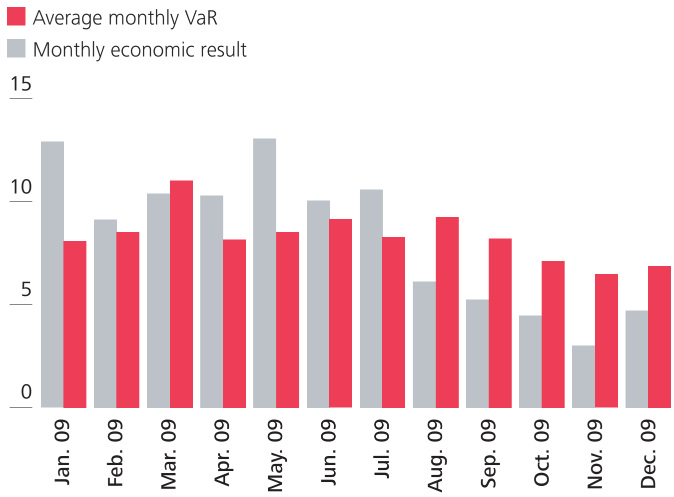


b) Monthly distribution of risks and results

The next chart shows that the risk assumption profile, in terms of VaR, and results followed a relatively downward path, particularly in the latter case. The result in the first half of the year was higher than in the second, which also corresponds to risk levels somewhat higher.

Distribution of risk by time and results

% of annual total

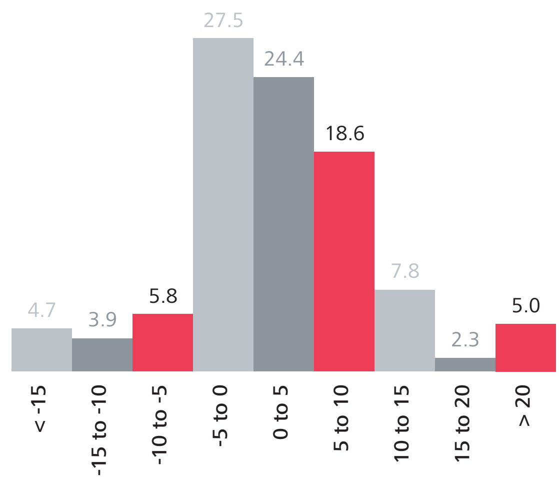


Histogram of daily mark-to-market (mtm) results

The following histogram of frequencies shows the distribution of daily economic results on the basis of size. The daily yield[7] was between -EUR 5 and +EUR 15 million on 78% of days of the market.

Histogram of the frequency of daily results

Number of days (%) VaR in million euros



(7) Yields "clean" of commissions and results of intraday derivative operations.

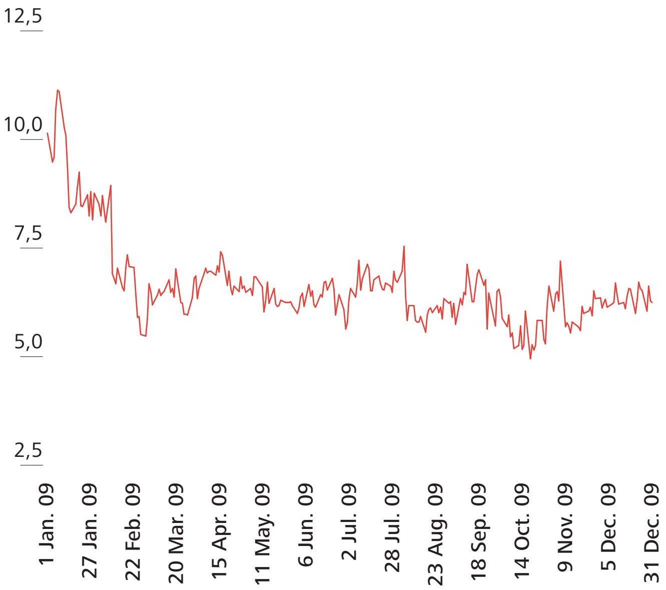
Risk management of structured derivatives market
Structured derivatives activity is mainly focused on designing investment products and hedging risks for clients.

These transactions include options on equities, fixed-income and exchange rates.

The units where this activity mainly takes place are: Madrid, Banesto, Abbey, Brazil and Mexico, and, to a lesser extent, Chile and Portugal.

The chart below shows the VaR Vega[8] performance of structured derivatives business in 2009. Most of the time risk moved in a range between EUR 5 and EUR 10 million. The main exception was a slight temporary increase at the beginning of the year, concentrated in interest rate volatility of Treasury in Madrid and caused by the increased volatility linked to greater uncertainty about the economy.

Evolution of risk (VaR) of the structured derivative business
Million euros



The following table shows the average, maximum and minimum values for each of the units where this type of transactions were carried out.

Structured derivatives risk (VaR) in 2009 by unit
Million euros

	Mininum	Average	Maximum	Year-end
Total VaR Vega	**5,0**	**6,6**	**10,8**	**6,3**
Madrid	1,5	3,3	8,9	2,1
Portugal	—	0,1	0,1	0,1
Abbey	1,0	2,1	3,7	1,2
Banesto	2,3	4,5	6,2	—
Brazil	0,6	1,7	3,6	0,8
Mexico	0,6	1,4	2,9	1,8

The average risk in 2009 (EUR 6.6 million) was lower than in 2008 (EUR 10 million), reflecting the lower volatility of markets more than changes in assuming risk.

Regarding VaR by risk factor exposure, on average, was concentrated in equities, followed by fixed income and exchange rates. This is shown in the following table:

Structured derivatives
Risk (VaR) in 2009 by factor
Million euros

	Minimum	Average	Maximum	Year-end
Total VaR Vega	**5,0**	**6,6**	**10,8**	**6,3**
Diversification impact	(2,4)	(3,7)	(6,7)	—
Fixed income VaR	1,7	3,2	8,4	2,9
Equity VaR	3,0	5,2	7,1	5,2
FX VaR	0,7	1,9	5,6	1,7

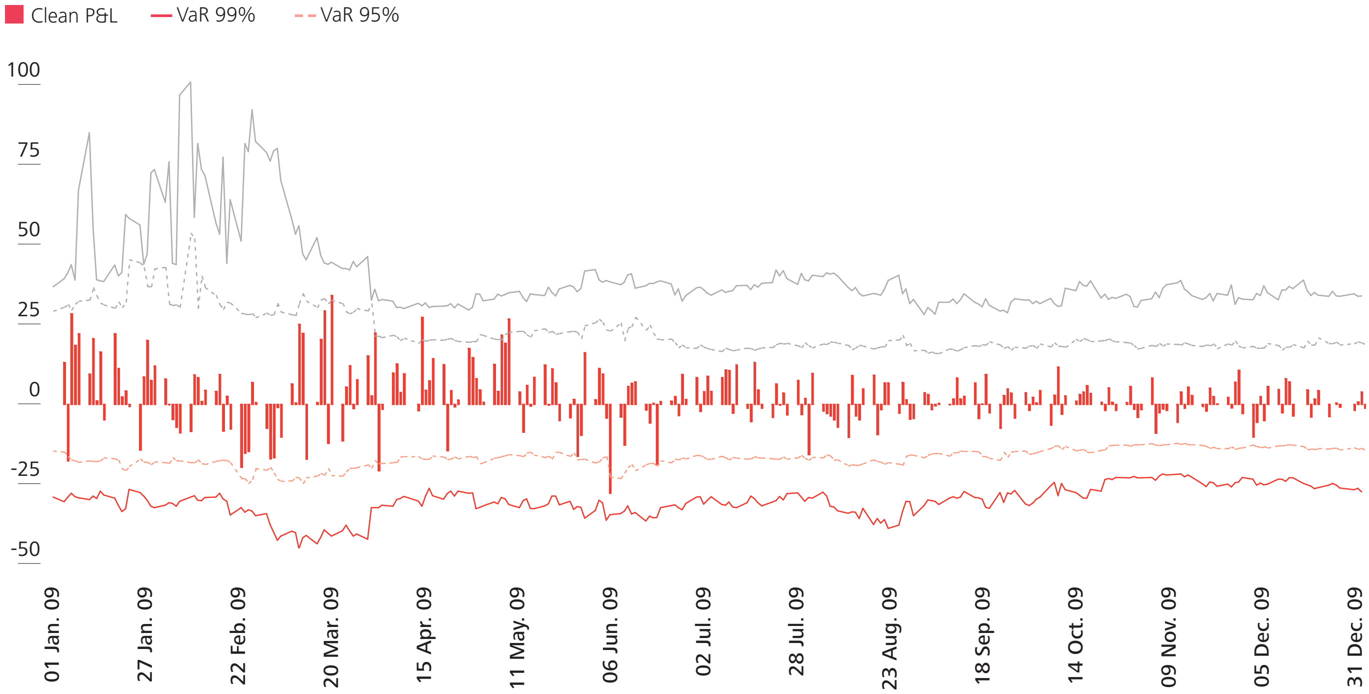
Gauging and contrasting measures
In accordance with the BIS recommendations on gauging and controlling the effectiveness of internal financial risk measurement and management systems, in 2009 the Group regularly carried out analysis and contrasting measures which confirmed the reliability of the model.

Unlike in 2008, when there were three exceptions of VaR at 99% (days when the loss was higher than the VaR[9]), in 2009 there were none. This was due to the significant decline in volatility.

(8) Vega, a Greek term, means here the sensitivity of the value of a portfolio to changes in the price of market volatility.

(9) Results in terms of "clean P&L". Excluding intraday results and those from commissions.

Backtesting of business portfolios: daily results versus previous day's value at risk
Million euros



Analysis of scenarios

Various scenarios were analyzed in 2009. The chart above shows the results at December 31, 2009 for a scenario of maximum volatility, applying six standard deviations in various market factors for the trading portfolios.

Maximum volatility scenario

The table below shows, at December 31, 2009, the results of each product (fixed income, equities, exchange rates, spreads on loans and the volatility of each one of them), in a scenario in which a volatility equivalent to six standard deviations in a normal distribution is applied. This scenario is based on taking for each risk factor the movement that represents a greater potential loss in the global portfolio. For the year-end, this scenario involved rises in interest rate in Latin American markets and falls in core markets ("flight into quality"), declines in stock markets, the dollar's slide against all currencies except the euro, greater volatility and spreads on loans.

Maximum volatility stress test
Million euros

	Fixed income	Equities	Exchange rate	Volatility	Commodities	**Total**
Total trading	**(52,6)**	**4,8**	**(62,1)**	**(122,0)**	**(2,2)**	**(234,0)**
Europe	(10,2)	20,3	(51,5)	(64,4)	(2,2)	**(107,9)**
Latin America	(40,2)	(15,4)	(10,5)	—	—	**(66,1)**
US	(1,0)	(0,1)	—	—	—	**(1,1)**
Global activities	(1,2)	—	(0,1)	(57,6)	—	**(58,9)**

The stress test shows that the economic loss suffered by the Group in its trading portfolios, in terms of the Mark to Market (MtM) result would be, if the stress movements defined in the scenario materialized, EUR 234 million, a loss that would be distributed between Europe (exchange rates and spreads on loans), Latin America (fixed income) and global activities (spreads on loans).

B. Balance sheet management[10]

B1. Interest rate risk

a) Convertible currencies

At the end of 2009, the sensitivity of net interest margin at one year to parallel rises of 100 basis points was concentrated in the euro interest rate curve (EUR 209.7 million), with the parent bank contributing the most, and in the sterling interest rate curve (£34.1 million negative). The sensitivity of the rest of convertible currencies was not very significant.

At the same date, the sensitivity of equity to parallel rises in the yield curve of 100 basis points in the euro interest rate curve was EUR 743.4 million, most of it in the parent bank. As regards the curve in sterling it was £11.2 million negative.

Sovereign is included within the perimeter in 2009, with no considerable impact on the sensitivity of the interest rate curve in dollars.

In accordance with the current environment of low interest rates, the Bank maintains a lightly positive sensitivity, both in net interest margin (NIM) and market value equity (MVE), to interest rate rises.

Maturity and repricing Gaps as of December 31, 2009

Structural Gap parent bank-holding, million euros

	Not sensitive	Uo to 1 year	1-3 years	3-5 years	More than 5 years	**Total**
Money & securities market		40,570	9,101	1,093	12,104	**62,868**
Loans	112	117,973	10,833	1,498	1,758	**132,173**
Permanent equity stakes	58,783	—	—	—	—	**58,783**
Other assets	15,846	49,368	51	53	120	**65,437**
Total assets	74,742	207,910	19,985	2,643	13,982	**319,262**
Money market	—	34,081	125	1,500	300	**36,006**
Customer deposits	—	32,917	10,318	8,099	13,016	**64,350**
Debt issues & securitisations	—	85,021	18,761	11,979	11,150	**126,911**
Shareholders' equities & other liabilities	77,502	39,922	1,100	830	1,370	**120,725**
Total liabilities	77,502	191,942	30,304	22,408	25,836	**347,993**
Balance sheet Gap	(2,761)	15,968	(10,320)	(19,765)	(11,854)	**(28,731)**
Off balance sheet structural Gap	—	645	17,041	9,809	4,333	**31,827**
Total structural Gap	(2,761)	16,613	6,721	(9,957)	(7,521)	**3,096**
Accumulated Gap	—	16,613	23,334	13,378	5,857	**—**

(10) Includes all the balance sheet except the trading portfolios.

b) Latin America

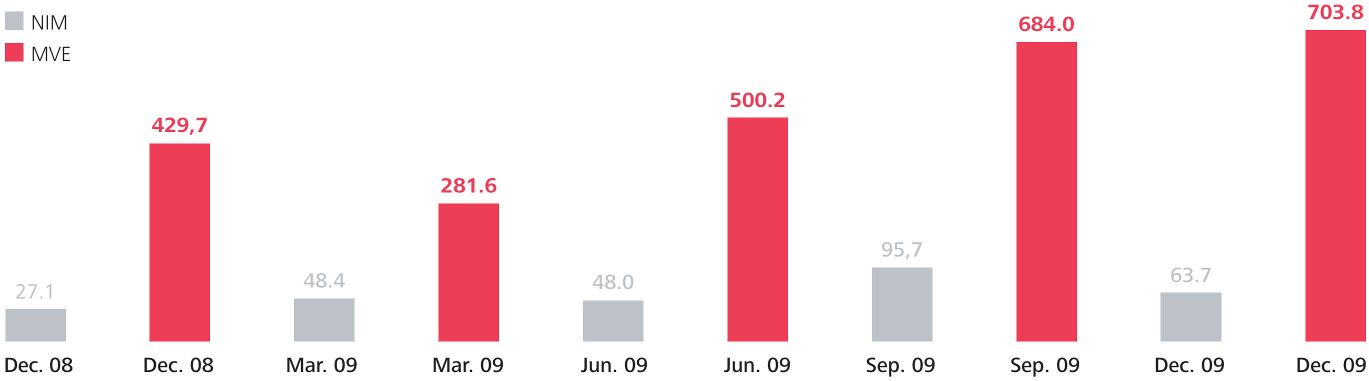
(1) Quantitative analysis of risk

The interest rate risk of Latin America's balance sheet management portfolios, measured by the sensitivity of market value of the net interest margin (NIM) to a parallel movement of 100 basis points, remained during 2009 at low levels and within a narrow band (maximum of EUR 96 million in September). In terms of equity sensitivity, it fluctuated in a wider range of EUR 250 million to EUR 750 million, and increased in the second half of the year, mainly because of the purchase of the portfolio in Brazil to cover the interest rate risk of the balance sheet.

At the end of 2009, the region's risk consumption, measured by the market value of equity sensitivity to 100 basis points, was EUR 704 million (EUR 430 million in 2008), while that of the net interest margin at one year, measured by its sensitivity to 100 basis points, was EUR 64 million (EUR 27 million in 2008).

Latin American risk profile evolution

Sensitivity of NIM and MVE to 100 b.p.



Interest rate risk profile at the end of 2009

The gap tables show the risk maturity structure in Latin America at the end of 2009.

Structural Gap Latin America

Million euros

Local currency	**0-6 months**	**6-12 months**	**1-3 year**	**> 3 years**	**Not sensitive**	**Total**
Assets	74,918	18,703	21,685	21,661	42,421	**179,467**
Liabilities	83,356	14,585	14,353	6,469	57,326	**176,090**
Off-balance	1,894	(2,590)	(1,109)	(783)	2	**(2,586)**
Gap	(6,828)	2,384	5,692	14,169	(14,626)	**792**
Dollar						
Assets	21,752	2,229	2,359	3,767	2,591	**32,698**
Liabilities	24,461	3,404	3,625	3,119	1,466	**36,075**
Off-balance	(2,221)	704	1,951	2,152	—	**2,586**
Gap	(4,930)	(471)	685	2,800	1,125	**(792)**

(2) Geographic distribution

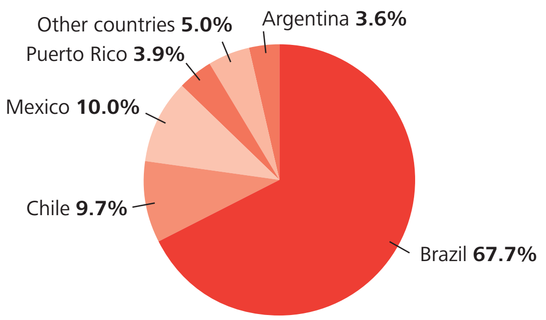
Financial margin sensitivity

For the whole of Latin America, the consumption at the end of 2009 was EUR 64 million (sensitivity of the financial margin at one year to rises of 100 b.p.). The geographic distribution is shown below.

More than 80% of the risk was concentrated in three countries: Brazil, Chile and Mexico.

NIM sensitivity by countries

%



Other countries: Colombia, Panama, Santander Overseas and Uruguay.

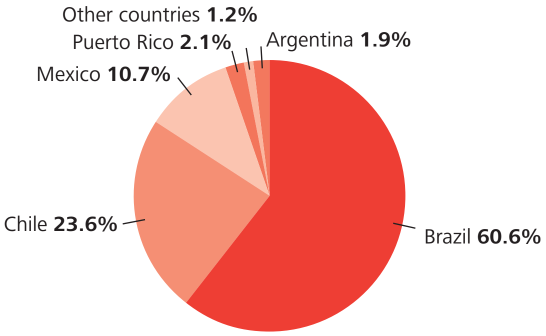
Market value of equity sensitivity

For the whole of Latin America, the consumption at the end of 2009 was EUR 704 million (sensitivity of MVE to rises of 100 b.p in interest rates). The geographic distribution is shown below.

More than 90% of risk is concentrated in three countries: Brazil, Chile and Mexico.

MVE sensitivity by countries

%

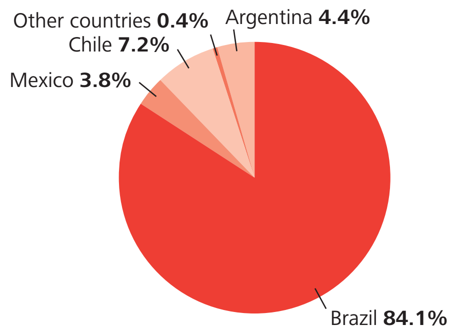


Other countries: Colombia, Panama, Santander Overseas and Uruguay.

The balance sheet management risk in Latin America, measured in VaR terms, amounted to EUR 172.4 million at the end of 2009. The chart shows that most of it was concentrated in Brazil.

Distribution of balance sheet risk management (VaR)

%



B2. Structural management of credit risk

The purpose of structural management of credit risk is to reduce the concentrations that can naturally occur as a result of business activity through the sale of assets. These operations are offset by acquiring other assets that diversify the credit portfolio. The financial management area analyses these strategies and makes proposals to the ALCO in order to optimise the exposure to credit risk and help create value.

In 2009:

- EUR 16,000 million of assets were securitised. Given the difficulties of the securitisation market since August 2007, all the issues were retained by the Group's various units. These securitisations significantly increased the Group's liquidity position through its discounting capacity in central banks.
- Repurchases were made in the secondary market of AAA securitisation bonds by Group issuers (EUR 2,000 million).

B3. Management of financing and liquidity risk

Management of liquidity in Grupo Santander

- **Decentralised liquidity model:** autonomy of subsidiaries within coordinated management at Group level.
- **Comfortable structural liquidity position backed by stable financing:** customer deposits (more than 90% retail) and medium and long-term wholesale (average 4.5 years).
- **Ample access to wholesale markets, as a result of:**
  - High rating.
  - Diversification by markets, instruments and maturities.

  High discounting capacity in central banks: around EUR 100,000 million.

Management of financing and liquidity risk, fully consolidated before the onset of the financial turbulence, has been one of the main pillars behind the success of Banco Santander's business model during this critical period.

This framework of liquidity management has not required changes to make it function correctly and has given Santander a significant competitive advantage. Specifically, it has enabled the Group and its subsidiaries to successfully tackle the business liquidity needs during the worst moments of the crisis and take advantage of growth opportunities offered by the market.

On the one hand, the lack of liquidity restrictions made it possible to finance the organic growth of existing units and businesses and surpass many of our competitors. This produced gains in market share in businesses as demanding as mortgage lending in the UK and wholesale business in Europe.

On the other hand, the acquisition of new units in the last few years was made possible by the Group's excellent conditions of access to liquidity. This also helped to boost the Bank's capacity to create value, while diversifying even more the sources of financing and achieving a better positioning in attracting deposits.

The liquidity management framework in the Group and its situation at the end of 2009 is set out below.

B2.1. Management framework

Liquidity management is based on three fundamental pillars:

a. Organisational and governance model: a solid model of governance that ensures the involvement of senior management and the Board in taking decisions and facilitating their integration with the Group's global strategy.

b. Management: adapted to each business's liquidity needs, in accordance with the decentralised organisational model.

c. Balance sheet analysis and liquidity risk management: profound analysis of the balance sheet and its evolution in order to support decisions.

a. Organisational and governance model

Decision-taking regarding structural risks is done by local ALCO committees in coordination with the Markets Committee. The latter is the highest decision-taking body and coordinates all global decisions that influence measurement, management and control of liquidity risk.

The committee is headed by the chairman of the Bank, who is the maximum person responsible, and comprises the second vice-chairman and CEO, the third vice-chairman, the chief financial officer and the senior vice-president of risks and those responsible for the business and analysis units.

The financial management and global market risk areas manage and control the structural and liquidity risks, respectively, and they support the ALCO committees, presenting analysis and proposals and ensuring compliance with the established limits.

In line with the best practices of governance, the Group establishes a clear division between executing the financial management strategy (the responsibility of the financial management area) and monitoring and control (the responsibility of market risks).

Organisation model

b. Management

Structural liquidity management aims to finance the Group's recurring activity in optimum conditions of maturity and cost and avoid assuming undesired liquidity risks.

Liquidity and financing management is based on the following principles:

- Wide and very stable base of customer deposits: more than 90% are retail and are captured in the Group's core markets by various units.
- Financing via medium and long-term issues of the balance sheet's stable liquidity needs (the gap between loans and deposits), establishing a surplus of structural financing in order to be able to meet possible adverse situations.
- Diversification of financing sources to reduce the risk in relation to:
  – instruments/investors
  – markets/currencies
  – maturities
- Strict control of short-term financing needs, within the Group's policy of minimising the degree of recourse to short-term funds.
- Autonomy and responsibility of subsidiaries in managing the financing of liquidity, with no structural support from the parent bank (except for a small part of consumer business, whose financing is done at the market price).

In practice, and applying these principles, the Group's liquidity management consists of:

- Drawing up every year the liquidity plan based on the financing needs derived from the budgets of each business and the methodology stated in section B. On the basis of these needs and bearing in mind prudent limits on recourse to short-term markets, the year's issuance and securitisation plan is established by Financial Management.
- During the year the evolution of the balance sheet and financing needs is regularly monitored, giving rise to changes to the plan.
- Maintain an active presence in a wide and diversified series of financing markets. The Group has eight significant and independent issuance units, which are not dependent on any one market and maintain available a wide capacity of issuance in various markets.

And backed by all this, the Group has an adequate structure of medium and long-term issues, well diversified by products (senior debt, subordinated, preferred shares, bonds, securitisation) with an average conservative maturity (4.5 years at the end of 2009).

All of this results in moderate needs of recourse to short-term wholesale financing at the Group level, which, as reflected in the balance of liquidity, only represented 5% of net funds in 2009, down from 7% in 2008.

The subsidiaries have a large degree of autonomy to manage their liquidity within Grupo Santander's decentralised financing model. Each one must budget their liquidity needs and assess their own capacity of recourse to the wholesale markets in order to establish the issuance and securitisation plan in coordination with the parent bank.

Only in the case of Santander Consumer Finance does the parent bank (Banco Santander) provide the necessary liquidity and always at the market price, taking into account the maturity of the finance and the rating of the relevant unit.

c. Analysis of the balance sheet and measurement of liquidity risk

Taking decisions on financing and liquidity is based on a deep understanding of the Group's current situation (environment, strategy, balance sheet and state of liquidity), the future liquidity needs of businesses (projection of liquidity), as well as access to and the situation of financing sources in the wholesale markets.

The objective is to ensure the Group maintains optimum levels of liquidity to cover its short and long-term needs, optimising the impact of its cost on the income statement.

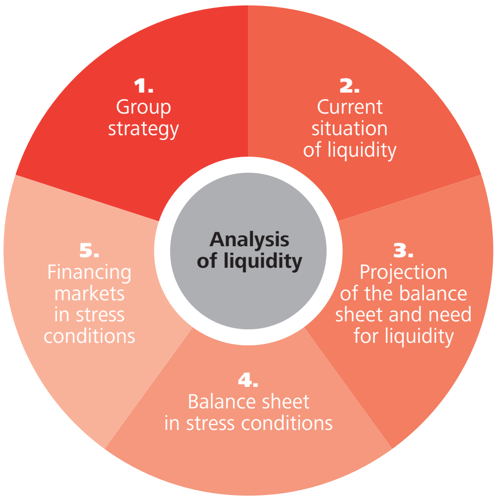
This requires monitoring of the structure of balance sheets, forecasting short and medium-term liquidity and establishing the basic metrics, in line with those reported in the next section.

Various stress testing is also conducted taking into account the additional needs that could arise from various extreme, although possible, events. These could affect the various items of the balance sheet and/or sources of financing differently (degree of renewal of wholesale financing, deposit outflows, deterioration in the value of liquid assets, etc), whether for global market reasons or specific ones of the Group.

All of this enables the Group to respond to a spectrum of potential, adverse circumstances, anticipating the corresponding contingency plans.

These actions are in line with the practices being fomented from the Basel Committee in order to strengthen the liquidity of banks, whose objective is to define a framework of principles and metrics that is still being analysed and discussed.

Analysis of the balance sheet and measurement of liquidity risk



B3.2. Current state of liquidity

The Group has an excellent structural position, with the capacity to meet the new conditions of stress in the markets. This is underscored by:

a. The robust balance sheet

b. The dynamics of financing

a. Robust balance sheet

The balance sheet at the end of 2009 was solid, as befits the Group's retail nature. Lending, which accounted for 79% of net assets, was entirely financed by customer deposits and medium and long-term financing. Equally, the structural needs of liquidity, represented by loans and fixed assets, were also totally financed by structural funds (deposits, medium and long-term financing and capital).

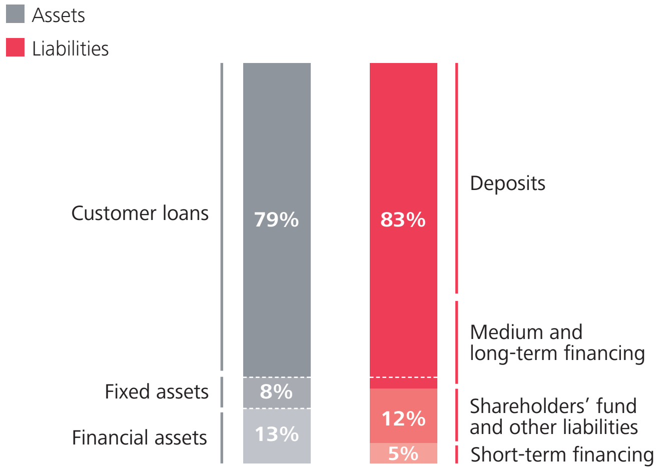
As regards financing in wholesale markets, the Group's structure is largely based on medium and long-term instruments (81% of the total).

Short-term financing is a marginal part of the structure (5% of total funds) and is amply covered by liquid assets. Of note is that the parent bank, probably the unit most demanding in liquidity, comfortably meets the recommendations of liquidity horizons pointed out by CEBS.

Lastly, the Bank has a large capacity of recourse to central banks to obtain immediate liquidity. At the end of 2009, total eligible assets which could be discounted in the various central banks to which the Group has access via its subsidiaries amounted to more than EUR 100,000 million, more than double the short-term financing.

We now set out the framework of the balance of liquidity, consolidated as the main metrics for monitoring the structural position of liquidity:

Grupo Santander's balance sheet of liquidity at the end of 2009*



(*) Balance sheet for the purposes of liquidity management: total balance sheet net of trading derivatives and interbank balances.

Monitoring metrics

Metrics	**2009**	2008
Loans/net assets	79%	79%
Customer deposits, insurance and medium and long-term financing/loans	106%	104%
Customer deposits, insurance and medium and long-term financing, shareholders' funds and other liabilities/total loans and fixed assets	110%	103%
Short-term financing/net liabilities	5%	7%

As in the Group, the balance sheets of the units of convertible currencies and of Latin America maintain the same principles, within the philosophy of independence and responsibility in their financing.

b. Dynamics of financing

The evolution of 2009 enabled Santander to continue to improve its structural liquidity position, backed by two management drivers which proved to be very effective in the recession.

The first one was that the Group was able to increase its customer deposit base very significantly: more than EUR 170,000 million since the onset of the crisis in June 2007 (+52%).

This growth was due to two effects. On the one hand, the effort made to attract deposits via the branch networks, which benefited from the customers' confidence in the Group's liquidity and solvency. All of this made Santander during the crisis the brand chosen by depositors in many markets: the so-called flight to quality effect.

On the other hand, growth also benefited from the acquisitions made in the last few years: the assets from ABN AMRO (basically, Banco Real in Brazil and Uruguay), Alliance & Leicester, the deposits of Bradford & Bingley and Sovereign. Overall, these incorporations produced a substantial rise in the Group's base of stable deposits and improved the financing ratios.

This increase occurred in an environment of deleveraging in which deposits were spurred by the higher rate of household and corporate savings, while lending slowed down, reflecting the lower rates of consumption and investment in various countries.

The evolution of 2009 was a good example of this, with the Group's deposits growing 8% and lending declining 2%, both excluding the perimeter and exchange-rate effects. Furthermore, it is likely that this will continue in coming years in the mature markets where the Group operates, given the deleveraging in these markets.

The second driver was the high capacity of access to wholesale financing markets. This was well shown during the worst moments of the financial crisis when Santander played a leadership role in "opening" some markets to other domestic issuers.

As a result, the Group captured during 2009 EUR 18,000 million in medium and long-term issue in wholesale markets of senior debt and mortgage bonds. This capacity is backed by the Group's excellent credit quality (AA from Standard & Poor's and Aa2 from Moody's). Moreover, in all cases the appetite for securities by investors is adjusted to placement prices that recognise the superior credit quality of the Group and its subsidiaries.

In short, a big rise in deposits, good access to medium and long-term wholesale markets and the generation of liquidity by businesses in scenarios such as today's explain the improvement in the Group's structural liquidity in the last 12 months.

C. Structural exchange-rate risk/hedging of results

Structural exchange rate risk arises from Group operations in currencies, mainly related to permanent financial investments, and the results and the dividends of these investments.

This management is dynamic and seeks to limit the impact on equity of currency devaluations and optimise the financial cost of hedging.

As regards the exchange-rate risk of permanent investments, the general policy is to finance them in the currency of the investment provided the depth of the market allows it and the cost is justified by the expected depreciation. One-off hedging is also done when a local currency could weaken against the euro beyond what the market estimates.

At the end of 2009, the largest exposures of a permanent nature (with potential impact on net worth) were concentrated in Brazilian reales, followed by sterling, Mexican pesos and Chilean pesos. The Group covers part of these positions of a permanent nature with exchange-rate derivatives.

In addition, financial management at the consolidated level is responsible for exchange-rate management of the Group's expected results and dividends in those units whose currency is not the euro.

D. Structured finance operations

In its usual operations, Grupo Santander's exposure is low and its activity is diversified by product, sector and number of operations. The committed exposure at the end of 2009 was EUR 13,983 million corresponding to 422 transactions, as follows: EUR 8,138 million (296 transactions) in project finance; EUR 3,712 million (39 transactions) in acquisition finance and the rest leveraged buy-outs (LBOs) and other forms (87 transactions). No writedowns were considered necessary in the investment portfolio, beyond EUR 79 million of loan-loss provisions. There were no significant LBOs during 2009. The Group's exposure to structured finance operations, in its usual operations, was 28.7% lower than in 2008.

As a result of integrating Alliance & Leicester into the group in 2008, a portfolio of structured operations is maintained. It is a diversified portfolio of specialised financing operations. The exposure at the end of 2009 was 20.1% lower than in 2008 at £5,872 million (EUR 6,621 million).

Of note in December was an operation of EUR 308 million which should reach EUR 850 million within two years. This operation releases regulatory capital, the result of the reduction in the corresponding risk assets.

E. Exposures related to complex structured assets

Grupo Santander continues to have a very limited exposure to instruments or complex structured vehicles, reflecting a management culture one of whose hallmarks is prudence in risk management. At the end of 2009, the Group had:

- CDOs/CLOs: position of EUR 637 million, mostly due to the integration of the portfolio of Alliance & Leicester in 2008 (56% of the portfolio has an AAA rating and 85% A or higher).
- Non-agency CMOs and pass-through with underlying mortgage alt-A[11]: exposure of EUR 730 million at the end of 2009.
- Hedge funds: the total exposure is not significant (EUR 549 million at the end of 2009) and most of it is through financing these funds (EUR 342 million), as the rest is direct participation in portfolio. This exposure has low levels of loan-to-value of around 50% (EUR 1,095 million of collateral). The risk with this type of counterparty is analysed case by case, establishing the percentages of collateral on the basis of the features and assets of each fund. The exposure was 52% lower than in 2008.
- Conduits: the only exposure is as a result of buying Alliance & Leicester, which led to the incorporation of a conduit with assets of EUR 657 million at the end of 2009 (42% with AAA rating and 83% A or higher).
- Monolines: Santander's exposure to bond insurance companies was EUR 396 million[12] at the end of 2009, EUR 191 million of it indirect exposure by virtue of the guarantee provided by this type of entity to various financing or traditional securitisation operations. The exposure in this case is double default, as the primary underlying assets are of high credit quality (mainly AA). The small remaining amount is direct exposure (for example, via purchase of credit default swaps).

The exposure to this type of instrument, the result of the Group's usual operations, has declined. The only instruments are due to integrating the positions of banks acquired by the Group, such as Alliance & Leicester and Sovereign (in 2008 and 2009, respectively). All these positions were known at the time of purchase, having been duly provisioned.

Santander's policy for approving new transactions related to these products remains very prudent and conservative; it is subject to strict supervision by the Group's senior management. Before approving a new transaction, product or underlying asset, the risks division verifies:

- The existence of an appropriate valuation model to monitor the value of each exposure: mark-to-market, mark-to-model or mark-to-liquidity.
- The availability in the market of the necessary inputs to be able to apply this valuation model.

And provided these two points are always met:

- The availability of appropriate systems, duly adapted to calculate and monitor every day the results, positions and risks of new operations.
- The degree of liquidity of the product or underlying asset, in order to make possible their coverage when deemed opportune.

4.5 Internal model

The Bank of Spain approved at the end of 2008 the use of our internal market risk model for calculating regulatory capital. Although the approval was first effective for treasury trading activity of the parent bank, the Group's objective is to gradually increase approval to the rest of units.

As a result of this approval, the regulatory capital of trading activity is now calculated via advanced methods instead of the previous standard methods. The VaR calculated for the market risks area is the fundamental metric and incorporates an incremental default risk.

We closely co-operate with the Bank of Spain in order to advance in the perimeter susceptible of entering into the Internal Model (at the geographic and operational levels), as well as analysis of the impact of possible future changes, in line with the consultative documents published by the Basel committee in December 2009 to strengthen the capital of banks[13].

(11) Alternative A-paper: mortgages originated in the US market which for various reasons are considered as having an intermediate risk level between prime and subprime mortgages (not having all the necessary information, loan-to-value levels higher than usual, etc).

(12) Guarantees provided by monolines for bonds issued by US states (municipal bonds) are not considered as exposure. As a result of the acquisition of Sovereign Bank, the Group integrated a EUR 1,260 million portfolio of these bonds.

(13) "Strengthening the resilience of the banking sector" and "International framework for liquidity risk measurement, standards and monitoring."

5. Operational risk

Definition and objectives

Grupo Santander defines operational risk (OR) as "the risk of losses from defects or failures in its internal processes, employees or systems, or those arising from unforeseen circumstances". They are, in general, purely operational events, which makes them different from market or credit risks, although they also include external risks, such as natural disasters.

The objective in control and management of operational risk is to identify, measure/valuate, control/mitigate and monitor this risk.

The Group's priority, is to identify and eliminate risk focuses, regardless of whether they produce losses or not. Measurement also helps to establish priorities in management of operational risk.

Grupo Santander opted, in principle, to use the standard method for calculating regulatory capital by operational risk, envisaged in the BIS II rules. The Group is weighing up the best moment to adopt the focus of Advanced Models (AMs), bearing in mind that a) the short-term priority in management of operational risk centres on its mitigation; and b) most of the regulatory requirements established for being able to adopt the AMs must already be incorporated into the Standard Model (already achieved in the case of Grupo Santander's operational risk management model).

Management model

The organisational model for controlling and managing risks is the result of adapting to the new BIS II environment, which establishes three levels of control:

– First level: control functions conducted by the Group's units.

– Second level: functions carried out by the corporate areas.

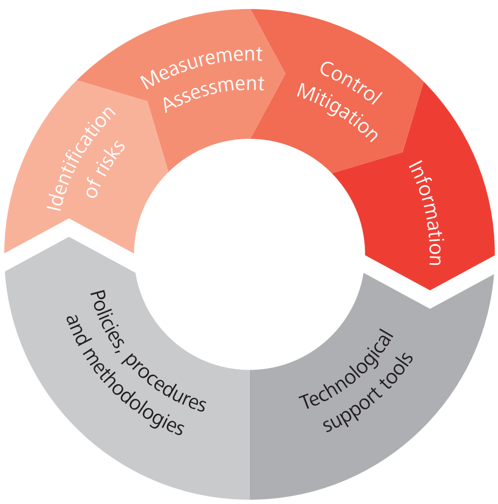
– Third level: integral control functions by the risks division-integral control area and internal validation of risk.

The technology and operations division is responsible for management and control of operational risk. Within this division, the corporate area of technological and operational risk, established in 2008, defines policies as well as managing and controlling these risks. The implementation, integration and local adjustment of the policies and guidelines established by this area is the responsibility of local executives in each unit.

This structure for operational risk management is based on the knowledge and experience of executives and professionals of the Group's various units. Particular importance is attached to the role of local executives.

Management is based on the following elements:

Technology and operational risk management model



The different phases of the technological and operational risk management model entail:

- Identify the operational risk inherent in all activities, products, processes and banking systems.
- Measure and assess the operational risk objectively, continuously and in line with the regulatory standards (Basel II, Bank of Spain) and the banking industry, establishing risk tolerance levels.
- Continuously monitor the exposure of operational risk in order to detect the levels of unassumed risk, implement control procedures, improve internal knowledge and mitigate losses.
- Establish mitigation measures that eliminate or minimise operational risk.
- Produce regular reports on the exposure to operational risk and the level of control for senior management and the Group's areas/units, as well as inform the market and regulatory bodies.
- Define and implement systems that enable operational risk exposures to be watched over and controlled and integrated into the Group's daily management, taking advantage of existing technology and seeking the maximum computerisation of applications.
- Define and document operational risk management policies, and introduce methodologies for managing this risk in accordance with regulations and best practices.

Grupo Santander's operational risk management model contributes the following advantages:

- Integral and effective management of operational risk (identification, measurement/assessment, control/mitigation and information).
- Better knowledge of existing and potential operational risks and assigning responsibility for them to the business and support lines.
- Operational risk information helps to improve the processes and controls, reduce losses and the volatility of revenues.

Implementing the model: global initiatives and results

The corporate function for management and control of operational risk, part of the risks division, has been operating since 2001. Its main functions, activities and global initiatives are:

- Designate coordinators and create operational risk departments.
- Training and interchange of experiences: continuation of best practices within the Group.
- Foster mitigation plans: ensure implementation of corrective measures as well as ongoing projects.

The corporate function has strengthened management of technological risk since 2008, including the following aspects:

- The security of the information systems.
- The contingency and business continuity plans.
- Management of risk associated with the use of technologies (development and maintenance of applications, design, implementation and maintenance of technology platforms, output of computer processes, etc).

The management model for operational risk began to be installed in the Group's different entities in 2002. Almost all these units have been incorporated to the project with a high degree of uniformity. However, due to the different paces of implementation, phases, schedules and the historical depth of the respective data bases, the degree of progress varies from country to country.

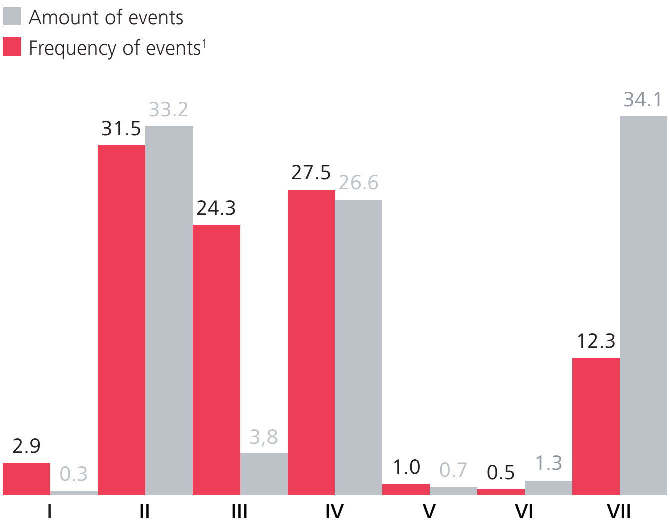
On a general basis:

- Data bases of operational incidents that are classified are received every month. The capturing of events related to operational risk are not truncated (i.e. without exclusions for reasons of amount and with both the accounting impact –including positive effects– as well as the non-accounting impact).
- Self-assessment questionnaires filled in by almost all the Group's units are received and analysed.
- A corporate system of operational risk indicators is in place.
- The main events are identified and analysed, and mitigation measures taken which, in significant cases, are disseminated to the Group's other units as a Best Practices guide.
- Processes are conducted to conciliate data bases with accounting data.

By consolidating the total information received, the Group's operational risk profile is reflected in the following charts:

Grupo Santander: distribution of amount and frequency of events by category (2009)

%



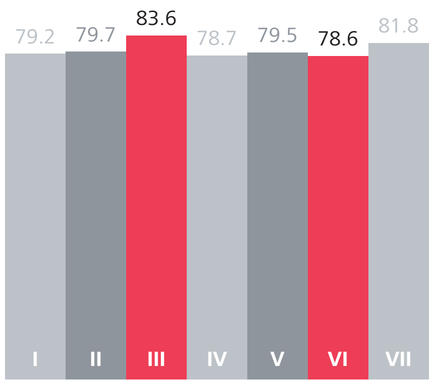
I. Internal fraud
II. External fraud
III. Employment, health and security practices at work
IV. Practices with clients, products and business
V. Damage in physical assets
VI. Interruption of business and failures in systems
VII. Execution, delivery and management of processes

There was an increase in the third and fourth categories in 2009, mainly due to the incorporation of Banco Real's operational events as well as the greater information available on legal risk. As regards the latter, most were civil actions (complaints by employees) in Brazil, a very frequent practice in this country.

Below, as an example of Grupo Santander's practice, are self-assessment questionnaires regarding coverage of operational risk consolidated in 2009.

Grupo Santander: distribution of the percentate of operational risk coverage by type of event (2009)

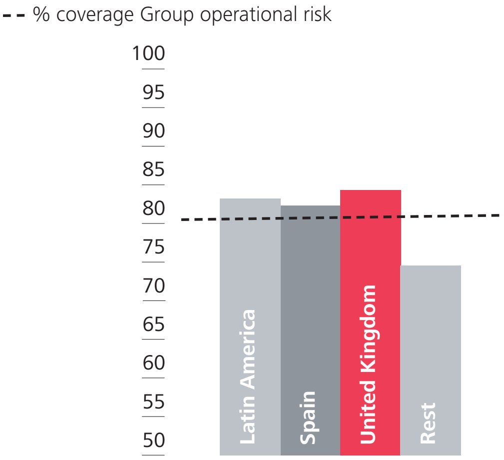
%



I Internal fraud
II External fraud
III Employment, health and security practices at work
IV Practices with clients, products and business
V Damage in physical assets
VI Interruption of business and failures in systems
VII Execution, delivery and management of processes

% coverage of operational risk by geographic zone

%



Note: Operational risk coverage is represented by a value of between 0% and 100%, with 0% the minimum coverage (maximum exposure) and 100% the maximum (minimum exposure).

In addition to this risk profile, the Group, via approval in the Risks Committee, formalised for 2010 the establishment of operational risk profiles, appetite and limits. A risk appetite is also established which must be in low and medium-low profiles on the basis of the measurement of various ratios. During 2010 limits will come into force by country and limits for the Group on the basis of the gross loss/gross income ratio and the percentage of coverage of risk on the basis of self-evaluation exercises. The limits for the Group must not exceed 2% for the first ratio and coverage has to be no lower than 75%, both of which represent a threshold higher than the profile defined as medium-low.

Analysis and monitoring of controls in market operations

The complexity of financial instruments makes it necessary for the Group to continuously strengthen operating control of this activity, enhancing the very demanding and conservative risk and operating principles that we have been regularly applying.

Over and above regular tracking of all aspects regarding operating control, all of the Group's units paid more attention to the following aspects, so that the review is validated every month by each unit's Management Committee. Of note are the following:

- Review of the valuation models and in general the valuation of portfolios.
- Capturing processes and independent validation of prices.
- Appropriate confirmation of operations with counterparties.
- Reviewing cancellations/modifications of operations.
- Reviewing and monitoring the effectiveness of guarantees, collateral and mitigation of risks.

Corporate Information

The Corporate Area of Operational Risk has a system for Integral Management of Operational Risk Information, which every quarter consolidates the information available from each country/unit in the operational risk sphere and gives a global vision with the following features:

- Two levels of information: one corporate and the other individualised for each country/unit.
- Dissemination of the best practices among countries/units of Grupo Santander, obtained from the combined study of the results of qualitative and quantitative analysis of operational risk.

Information is also prepared on the following aspects:

- Grupo Santander's management model for operational risk
- Human resources and perimeter of action
- Analysis of the data base of errors and events
- Operational risk cost and accounting conciliation
- Self-assessment questionnaires
- Indicators
- Mitigating measures/asset management
- Contingency plans
- Regulatory framework: BIS II
- Insurance

This information acts as the basis for meeting the needs of reporting to the Board's Risks Committee, senior management, regulators, rating agencies, etc.

Insurance in the management of operational risk

Grupo Santander regards insurance as a key element in management of operational risk. The area responsible for operational risk has been closely cooperating with the Group's insurance area since 2004 in all those activities that entail improvements in both areas. For example:

- Cooperation in the exposure of the Group's operational risk control and management model with insurance and reinsurance companies.
- Analysis and monitoring of recommendations and suggestions to improve operational risks made by insurance companies, via prior audits conducted by specialised companies, as well as their subsequent implementation.
- Exchange of information generated in both areas in order to strengthen the quality of the data bases of errors and the perimeter of coverage of the insurance policies for the various operational risks.
- Close cooperation between local operational risk executives and local coordinators of insurance to strengthen mitigation of operational risk.
- Regular meetings on specific activities, states of situation and projects in both areas.
- Active participation of both areas in Global Sourcing of Insurance, the Group's maximum technical body for defining coverage strategies and contracting insurance.

6. Reputational risk

Grupo Santander defines reputational risk as that linked to the perception of the Bank by its various stakeholders, both internal and external, of its activity, and which could have an adverse impact on results, capital or business development expectations. This risk relates to juridical, economic-financial, ethical, social and environmental aspects, among others.

The Board, as part of its supervisory function, is responsible for defining the Group's risk policies. In the case of reputational risk, its assessment corresponds to the Risks Committee as the organ responsible for the Group's global risk management.

Various of the Group's governance structures are involved in reputational risk management, depending on where the risk comes from. The Audit and Compliance Committee helps the Board to supervise compliance with the Group's code of conduct in the securities markets, the manuals and the procedures to prevent money-laundering and, in general, the Bank's rules of governance and compliance. It formulates the proposals needed for their improvement.

This section deals with the reputational risk that could come from inadequate sale of products or incorrect provision of services.

Corporate project of marketing products and services

Under the new corporate framework for the compliance function, still being implemented and which is mentioned in the appendices of this annual report, a corporate project of marketing was launched in 2009, which will lead to a complete review in the Group of: (1) the marketing policies; (ii) the map of governance for authorising and tracking products; and (iii) systems and processes, strengthening in all of them the customer's vision.

i) Marketing policies

The policies for marketing products and services which cover all phases (admission, pre-sale, sale and monitoring) are being reviewed and with a corporate scope.

ii) Organs of governance

The Global Committee of New Products (GCNP) –whose activities in 2009 are summarised later on– was redefined and a corporate committee of marketing (CCM) created, which has been assigned powers of approval as well as those for monitoring of products after their sale.

A global consultative committee (GCC) was established comprising representatives of areas that contribute vision of regulatory and market risks. The GCC can recommend the review of products which are affected by changes in markets, deterioration of solvency (country, sectors and companies) or by changes in the Group's vision of markets in the medium and long term.

The review of the map of corporate control in the sphere of marketing led to the creation in September 2009 of the office for reputational risk management. The purpose of this office is to facilitate to the corresponding organs of governance the information needed to: (1) adequately analyse risk in the approval stage, with a two-pronged approach: impact on the Bank and on the customer; and (ii) monitor products during their life cycle.

In its first three months, this office tracked derivatives, mutual funds and funds with a certain level of risk or complexity.

iii) Systems and processes

The improved systems and processes will facilitate adapting some marketing processes to the new commercial policies and also enable automated monitoring and in remote of their compliance.

The global committee of new products and the manual of procedures for selling financial products in 2009

Global Committee of New Products (GCNP)

The committee held 15 meetings in 2009 at which 170 products or families of products were analysed.

The areas that participated in the GCNP, chaired by the secretary general, are: tax advice, legal advice, customer service, internal auditing, retail banking, global corporate banking, integral control of risks, compliance, financial control and management control, technology and global business operations, technology and ECB operations, global wholesale banking risks management, corporate risks and IFIs, credit risks, market risks, risks-methodology, solvency risk, corporate technology risk and operational risk, Santander private banking, technology, global treasury, universities and, lastly, the unit proposing the new product or a representative of the local committee of new products.

Before a new product or service can be launched, these areas, as well as, where applicable, other independent experts needed to correctly evaluate the risks incurred (for example, prevention of money-laundering), exhaustively analyse the aspects that could affect the process, stating their opinion on each product or service.

The GCNP, in the light of the documentation received, and after checking that all the requirements for approving the new product or service have been met and bearing in mind the risk guidelines set by the board's risks committee approves, rejects or sets conditions for the new product or service.

The GCNP gives particular consideration to the suitability of the new product or service to the framework where it is going to be marketed. Particular importance is attached to ensuring that:

- Each product or service is sold by those who know how to sell it.
- The client knows what he or she is investing in and the risk of each product or service and this can be accredited with the relevant documents.
- The product or service fits the customer's risk profile.
- Each product or service is sold where it can be, not only for legal or tax reasons (i.e. it fits into the legal and tax regime of each country), but also on the basis of the prevailing financial culture.
- When a product or service is approved the maximum limits for placement are set.

Manual of Procedures for the Sale of Financial Products

The manual, which has been used by Banco Santander since 2004 for the retail marketing of financial products in Spain, covers investment services for financial products including securities and other fixed-income or equity instruments, money market instruments, participations in collective investment institutions, savings and investment insurance, traded derivatives and OTC and atypical financial contracts. The GCNP can also include other instruments in the sphere of the manual of procedures, as has been the case with structured deposits, savings insurance and pension plans.

In 2009 115 products subject to the manual were submitted for approval. Of them, 38 were new products submitted to the GCNP and 77 were products that were not new and were submitted to the office of the manual (specifically created to vouch for the manual's implementation and integrated into the corporate area of compliance).

7. Adjustment to the new regulatory framework

Santander has been firmly committed right from the start to the principles that inspired the Basel II rules. This framework enables institutions to make internal estimates of capital to ensure solvency in the event of circumstances caused by different types of risk. As a result of this commitment, Grupo Santander has assigned all the human and material resources needed to ensure Basel II is successfully implemented. Several years ago a Basel II team was formed from the Group's different areas: financial controller, risks, technology and operations, financial management and internal auditing. Grupo Santander's senior management actively participates in monitoring the progress in implementing Basel II at the corporate level, and fostering the measures needed to extend the new culture and its implications for everyone. Both for credit and market risk, Basel II means recognising, for regulatory capital purposes, the internal models that have been used for management purposes.

Grupo Santander has proposed adopting, during the next few years, the advanced internal ratings based (AIRB) models of Basel II for almost all its banks (up to covering close to 100% of net exposure of the credit portfolio under these models). Santander continued during 2009 to gradually install the technological platforms and methodological developments in order to allow it to progressively apply the advanced internal models for calculating regulatory capital in the rest of the Group's units.

Grupo Santander has been authorised to use the advanced models for calculating regulatory capital requirements by credit risk for the parent bank and the main subsidiaries in Spain, the UK and Portugal (two-thirds of its total exposure at the end of 2009). The strategy of implementing Basel II in the Group will be focused as of now on the main institutions in the Americas and consumer banking in Europe.

Given the medium-low risk profile characteristic of Santander's businesses, very focused on retail banking (SMEs and individual customers), the Bank of Spain's authorisation has enabled, on the basis of the Group's real profile of risk, optimisation of the capital required in Pillar I. Equally, the significant diversification of the Group's risk profile and businesses enabled additional requirements of capital arising from the process of self-assessment of capital (which develops Pillar II) to be offset. This takes into account the impact of the risks not considered in Pillar I, as well as the benefits related to diversification by risks, businesses and geographic areas.

As regards the rest of risks explicitly envisaged in Pillar I of Basel II, in market risk authorisation was obtained to use its internal model for treasury trading activity in Madrid, and like credit risk a plan for gradual implementation for the rest of units was presented to the Bank of Spain.

In operational risk, the Group decided for the moment to adopt the standard focus for calculating regulatory capital. The advanced focus (AMM in the English acronym) may be adopted in the medium term.

Pillar II is another important line of work of the Basel II corporate project. Grupo Santander worked during 2009 on applying the proposed improvements as a result of the reviews made by an international team of supervisors of the committee of european banking supervisors (CEBS) at the end of 2008, and by internal auditing and validation teams on the corporate model of economic capital.

In addition, utilisation of the technology platform supporting Pillar I was completed. This will enable the units with internal models authorised in Pillar I to use an integrated and robust information system to cover both regulatory and economic capital needs.

Grupo Santander, in accordance with the capital requirements set out in the European Directive and the regulations of the Bank of Spain, publishes for the second time the Report with Prudential Relevance at December 31, 2009. This report, published for the first time in June 2009 with data at December 31, 2008, clearly shows the transparency requirements requested by the Bank of Spain regarding Pillar III. With its publication, Grupo Santander meets the requirements of providing the market with information which is particularly relevant in Basel II and serves as a reference so that market agents can assess the capital sufficiency of banks.

Internal validation of internal risk models

Internal validation is a prerequisite for supervisory validation. A specialised unit of Santander, with complete independence, obtains a technical opinion on whether the internal model is appropriate for the purposes used (internal and regulatory) and concludes on its usefulness and effectiveness.

As well as the regulatory requirement, internal validation is also a fundamental support for the board's committee of risks and local committees of risks in their responsibilities of authorising the use (management and regulatory) of models and their periodic review.

Santander's internal validation covers both credit risk and market risk models and those that set the prices of financial assets as well as the economic capital model. The scope of validation includes not only the most theoretical or methodological aspects but also the technology systems and the quality of data that make implementation effective and, in general, all relevant aspects for management of risk (controls, reporting, uses, involvement of senior management, etc).

The function of Internal Validation is located, at the corporate level, within the area of integral control and Internal Validation of risk which reports directly to the Group's third vice-chairman and chairman of the board's risks committee. The function is global and corporate in order to ensure homogeneous application. This is done via three regional centres in Madrid, London and Sao Paulo. These centres report to the corporate centre, which ensures uniformity in the development of their activities. This facilitates application of a common methodology supported by a series of tools developed internally in Santander which provide a robust corporate framework for use in all the Group's units and which automate certain verifications in order to ensure the reviews are conducted efficiently.

Moreover, Grupo Santander's corporate framework of internal validation is fully aligned with the criteria for internal validation of advanced models issued by the Bank of Spain. The criterion of separation of functions is maintained between the units of internal validation and internal auditing which, as the last element of control in the Group, is responsible for reviewing the methodology, tools and work done by internal validation and to give its opinion on its degree of effective independence.

8. Economic capital

The concept of economic capital has traditionally been contrasted with that of regulatory capital, as this is the one required for the regulation of solvency. The new Basel II capital framework clearly brings both concepts closer together. While Pillar I determines the minimum regulatory capital requirements, Pillar II quantifies, via economic capital, the Group's global solvency position.

The Group's model of economic capital quantifies the consolidated risk profile taking into account all the significant risks of activity, as well as the consubstantial diversification effect on a multinational and multi-business group like Santander. This economic capital model serves as the Group's base for preparing its proposal of self-assessment of capital in accordance with Bank of Spain regulations under the Basel II Pillar II framework.

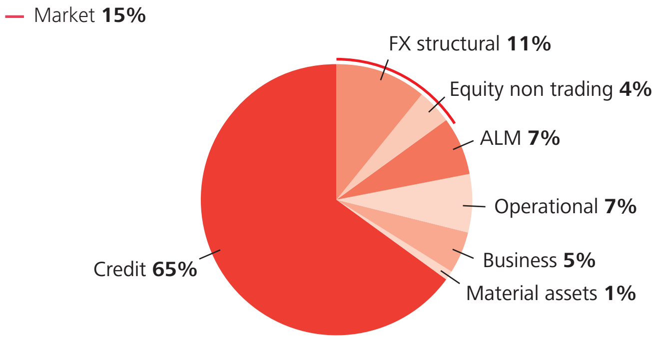
The concept of diversification is fundamental for appropriately measuring the risk profile of a global activity group. Although it is an intuitive concept and one present in risk management since banking began, we can also explain diversification as the fact that the correlation between various risks is imperfect and so the largest events of losses do not happen simultaneously in all portfolios or by types of risk. The sum of the economic capital of the different portfolios and types of risk, considered in isolation, is more than the Group's total economic capital. In other words, the Group's overall risk is less than the sum of its parts considered separately.

In addition, within the framework of the model for measurement and aggregation of economic capital, the risk of concentration for wholesale portfolios (large companies, banks and sovereigns) is also considered both in its dimension of exposure as well as concentration by sectors and countries. The existence of concentration in a country or a product in retail portfolios is captured by applying an appropriate model of correlations.

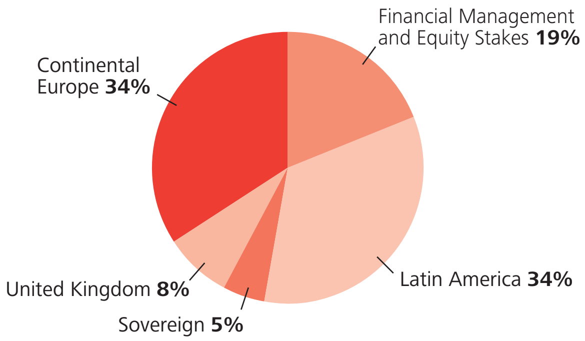
Global risk analysis profile

The Group's risk profile at December 31, 2009, measured in terms of economic capital, is distributed by types of risk and the main business units, is reflected below:

Distribution of economic capital
By types of risk



Distribution of economic capital
By business units



The distribution of economic capital among the main business units reflects the diversification of the Group's activity and risk, something which increased in 2009 after the acquisition of Sovereign in the US (5% of the Group's capital).

Continental Europe and Latin America each account for around one-third of risk, the UK for 8%, while financial management and equity stakes, which assumes the risk from the structural exchange-rate position (derived from stakes in subsidiaries abroad denominated in non-euro currencies) and most of the equity stakes account for 19%.

The economic capital at December 31, 2009 was EUR 43,045 million, including minority interests.

The Group's geographic diversification, understood as the difference between the sum of the capital of the business units taken on their own and the Group's total diversified capital, is 21.6%.

The Group also conducts capital planning with the main objective of obtaining future projections of economic and regulatory capital and so be able to assess situations of capital sufficiency in various scenarios. Each scenario incorporates the forecasts of results in a coherent way, both with their strategic objectives (organic growth, M&A, pay-out ratio, etc) as well as with the evolution of the economic situation and in the face of stress situations. Possible capital management strategies are identified that enable the Bank's solvency situation to be optimised as well as the return on capital.

Return on risk adjusted capital (rorac) and creation of value

Grupo Santander has been using RORAC methodology in its credit risk management since 1993 in order to:

- Calculate the consumption of economic capital and the return on it of the Group's business units, as well as segments, portfolios and customers, in order to facilitate optimum assigning of economic capital.
- Budget the capital consumption and RORAC of the Group's business units, including them in their remuneration plans.
- Analyze and set prices during the decision-taking process for operations (admission) and clients (monitoring).

RORAC methodology enables one to compare, on a like-for-like basis, the return on operations, customers, portfolios and businesses, identifying those that obtain a risk adjusted return higher than the cost of the Group's capital, aligning management of risk and business with the intention to maximise the creation of value, the ultimate aim of senior management.

The Group regularly assesses the level and evolution of value creation (VC) and the risk adjusted return (RORAC) of its main business units. The VC is the profit generated above the cost of the economic capital (EC) employed, and is calculated as follows:

Value creation =profit – (average EC x cost of capital)

The economic profit is obtained by making the necessary adjustments to attributable profit so as to extract just the recurrent profit that each unit generates in the year of its activity.

The minimum return on capital that an operation must attain is determined by the cost of capital, which is the minimum required by shareholders. It is calculated objectively by adding to the risk-free return, the premium that shareholders demand to invest in our Group. This premium depends essentially on the degree of volatility in the price of our shares in relation to the market's performance. The cost of capital in 2009 applied to the Group's various units was 12.03%.

A positive return from an operation or portfolio means it is contributing to the Group's profits, but it is not really creating shareholder value unless that return exceeds the cost of capital.

All the main business units obtained in 2009 a RORAC higher than the cost of capital. The creation of value and the RORAC for the Group's main business areas are shown below:

Million euros

Main segments	RORAC	Creation of value
Continental Europe	32.3%	3,243
United Kingdom	37.2%	1,168
Latin America	29.7%	2,479
Sovereign	-1.5%	(225)
Subtotal of operating areas	30.4%	6,665
Financial management & equity stakes	-22.2%	(2,484)
Group total	**21.6%**	**4,180**

The Group's RORAC comfortably exceeded the cost of capital estimated for 2009 and stood at 21.6%. The creation of value (i.e. the economic profit less the average cost of capital used to achieve it) amounted to EUR 4,180 million.

9. Risk training activivies

Santander has a corporate school of risks. Its purpose is to help to consolidate the risk management culture in Santander and ensure that all employees in the risks area are trained and developed with the same criteria.

The school, which gave a total of 21,479 hours of training to 3,067 employees in 2009, is the base for strengthening Santander's leadership in this sphere and continuously enhancing the skills of its staff.

It also trains staff in other business segments, particularly in the retail banking area, and aligns the requirements of risk management with business goals.

Appendices

The compliance function

Corporate framework of the compliance function

The corporate area of compliance and reputational risk is part of the general secretariat division and is responsible for global management of the Group's reputational and compliance risks and anti-money laundering. The objectives of compliance are to minimise the probability of irregularities and to identify, report and quickly resolve the ones that might occur.

The compliance function focuses on the operational spheres where the Group's exposure to reputational and compliance risks is the greatest:

- Marketing of products and services.
- Conduct in the securities markets.
- Relation with regulators and supervisors.
- Preparing and disseminating the Group's institutional information.
- Prevention of money laundering and financing of terrorism.

Reputational risk is that arising from the perception of the Bank by its various stakeholders, both internal and external, of its activity, and which could have an adverse impact on results, capital or business development expectations. This risk relates to juridical, economic-financial, ethical, social and environmental aspects, among others.

Compliance risk is the risk of receiving sanctions, economic or otherwise, or other forms of disciplinary measures from supervisory bodies for failing to comply with laws, regulations, rules, self-regulation standards and codes of conduct applied to its activities.

Money laundering is participating in any operation whose purpose is to hide or mask the nature or origin or funds from criminal activities. Financing of terrorism is understood as providing or collecting funds, by any direct or indirect means, in order to use them or in the knowledge that they will be wholly or partly used to commit an act of terrorism.

The executive committee of Grupo Santander approved in 2009 a new corporate framework of the compliance function in order to enhance the relation between the compliance management of the Group's units at the global level, strengthening the compliance function as an area of global control.

The compliance function is conducted, with varying levels of responsibility and different tasks, by the board, which approves the policy and receives information on how it is being implemented, by the audit and compliance committee, which supervises compliance with the code of conduct in the securities markets and with the manuals and procedures for anti-money laundering, and reviews the compliance of actions and measures resulting from the reports or activities of supervisors, and by senior management, which fosters the compliance policy in their respective areas of responsibility.

Compliance management is responsible, in the first instance, for implementing the policy together with other areas or units which, for operational or specialisation reasons, are not an organic part of compliance management, but cooperate with it in executing policy. As well as ensuring appropriate implementation of the policy, compliance management must: (i) advise on how to resolve doubts regarding the policy; (ii) maintain the general secretary, the audit and compliance committee and the board informed of the state of execution of the policy; and (iii) foster the creation of a corporate culture of compliance.

Compliance management reports on an ongoing basis to the board via the audit and compliance committee. The chief compliance officer took part in the 11 meetings held by such committee in 2009. The compliance committee, which monitors the compliance policy, held five meetings during the year.

Code of conduct in the securities markets

The functions of compliance management with regard to the code of conduct in the securities markets (CCSM) are as follows:

1. Register and control sensitive information known and/or generated by the Group.
2. Maintain the lists of affected securities and related personnel, and watch the transactions performed with these securities.
3. Monitor transactions with restricted securities according to the type of activity, portfolios or collectives to whom the restriction is applicable.
4. Receive and deal with communications and requests to carry out own account transactions.
5. Control own account transactions of the personnel subject to the CCSM.
6. Manage failures to comply.
7. Resolve doubts on the CCSM.
8. Resolve and register, in the sphere of its responsibilities, conflicts of interest and situations that could give rise to them.
9. Assess and manage conflicts arising from the analysis activity.
10. Keep the necessary records to control compliance with the obligations envisaged in the CCSM.
11. Develop ordinary contact with regulators.
12. Organise the training and, in general, conduct the actions needed to apply the code.
13. Analyse activities suspicious of constituting market abuse and, where appropriate, report them to the supervisory authorities.

The general code of conduct was updated during 2009. The ammendment was approved by the board on 21 December 2009, following a favourable report by the audit and compliance committee.

The changes include a new title II which sets out the ethical principles that govern the activities of employees (equality of opportunity and no discrimination, respect, balance of professional and personal life, prevention of risks at work, protection of the environment and collective rights), and the new organisation for applying the code which defines more precisely the functions of human resources and compliance in this sphere.

The manual of policies for analysis activity applicable to stock market reports published in the US by our broker-dealer there, Santander Investment Securities, was reviewed.

Marketing of products

A corporate plan for marketing products and services was launched. This includes a revision of the policies and the governance framework for authorising and monitoring products, as well as a strategic IT systems project enabling pre-selling and selling processes to be automated and computerised and tracked the compliance with internal and external rules at the distance.

This project is explained on pages 188 and 189 of this annual report, as well as the activities carried out by the global committee of new products and those of the office of the manual of procedures for selling financial products in 2009.

Relation with the supervisory authorities and dissemination of information into markets

Compliance management is responsible for answering the information requirements of the regulatory and supervisory bodies in Spain and in those countries where the Group operates, monitoring the implementation of measures emanating from the reports or inspection activities of these bodies and supervising the way in which the Group disseminates institutional information into markets, ensuring it is done transparently and in accordance with the requirements of regulators.

A total of 75 information requirements were received and answered during 2009; the audit and compliance committee was informed of the most significant ones.

The Bank made public 124 relevant facts, both in Spain and in the rest of the markets where its shares are traded.

Off-shore centres

In accordance with the recommendations of the Bank of Spain contained in the 2003 Report of Banking Supervision in Spain regarding subsidiaries and branches in tax havens, compliance management, in coordination with internal audit, legal affairs, tax advisory, and financial accounting and control, has prepared a report on off-shore centres which was reviewed by the audit and compliance committee at its 17 February 2010 meeting.

The 2009 report of the audit and compliance committee contains more information on this issue.

Other compliance activities

Compliance management continued to carry out other activities inherent to its sphere, such as reviewing the Bank's internal rules (circulars and various notes) before their publication, ensuring treasury stock transactions are in line with internal and external rules, maintaining the section on regulatory information on the corporate website, reviewing the vote recommendation reports for shareholders' meetings drawn up by the leading proxy agencies in this area and sending periodic regulatory information to the supervisory bodies (treasury stock, significant equity stakes, opening and closing of branches, etc).

Anti-money laundering

Grupo Santander, aware of the importance for advanced societies of fighting money-laundering and the financing of terrorism, is keeping and redoubling its commitment to co-operate with governments and authorities in all countries where it operates. It is strengthening its policies and procedures at the global level and applying them in all its units and subsidiaries, in line with the strictest guidelines and mandates of the Financial Action Task Force (FATF), the Basel Committee on Banking Supervision , the EU Directive on Money-Laundering and the US Patriot Act. The prevention of money-laundering is a very important part of Grupo Santander's culture. In this sphere, we are one of the groups in the vanguard of the financial system.

The anti-money laundering organisation has a pyramid-shaped structure and involves the whole Group. At the top is the Analysis and Resolution Committee, which sets the policies and general objectives. The Anti-Money Laundering Central Department is responsible for executing the policies, and in that sense, it is in charge of implementing, coordinating and globally supervising the system. Below it is staff responsible for prevention systems in their respective sphere (business areas, units, branches and accounts). The central organisation is replicated in all countries. The prevention system at Grupo Santander throughout the world is subject to the policies, control and direct supervision of the parent Bank in Spain.

The anti-money laundering organisation covers 209 units in 38 countries. In 2009, 490 Group employees were involved in fighting money-laundering and the financing of terrorism, three-quarters of them full time.

The Group's policies, approved by the board of Banco Santander, are set out in corporate manuals (universal, private and correspondent banking). These internal regulations govern all aspects related to anti-money laundering and the financing of terrorism and have been adapted and implemented in all the Group's units.

The policies and procedures for the prevention of money-laundering are set out in the corporate website (www.santander.com).

Grupo Santander's model is based on customer acceptance policies, which establish rigorous filters, such as a ban on dealing with certain people or risk sectors and, in other cases, a strict regime of authorisation. The business areas with the highest risk have specific and much more demanding regulations. Forms have to be filled out which give information on the identification, activities, origin of the capital, references, among others.

In order to control and analyse risk transactions, Grupo Santander has established a mixed model in all its units, which covers all transactions and involves everyone in the Group. The model, unique in banks of our size, combines decentralised software in business areas with centralised applications in anti-money laundering departments. BlanCa II, the corporate tool of centralised control, enables us to increase the scope of reviews by incorporating the profiles of each customer, whose breaches are analysed on a centralised basis. This complements the decentralised analysis by each business unit and allows an operation susceptible of being linked to money laundering or to the financing of terrorism to be analysed and identified, as well as monitored.

These tools cover not only the transactions of the branch network, but also those in the securities markets, correspondent and direct banking.

One of the obligations in the regulations of all countries is to train employees in techniques that enable them to detect and prevent potential money laundering activities. All our units and staff receive training. The teaching material is of a corporate nature and experts give training. Specialised training actions have also been developed for certain areas, such as private and correspondent banking.

In 2009, 138,827 employees received training in all the different levels of anti-money laundering transactions (awareness, strengthening, updating and specialisation), 18,139 of them in Spain and 120,688 in other countries.

Grupo Santander's anti-money laundering system is under constant review. The AML central department, whose main function is to implement policies and procedures globally, also directly supervises activities. During 2009 it reviewed 161 units, 23 of them in Spain and the rest abroad, and issued reports on the steps to be taken to improve or to strengthen systems.

In addition, the internal audit division has regular review programmes in branches and on the organisation responsible for carrying out anti-money laundering activities.

Deloitte conducted in 2009 a full review of the parent Bank's global anti-money laundering system and in the rest of the units in Spain as well as completing a regular review plan of the units globally.

All units have procedures for communicating suspicious transactions to the authorities, ensuring strictest confidentiality throughout the circuit. The Group opened and investigated 36,981 cases in 2009 on customers and transactions, which showed signs of links to criminal activities, of which 17,477 were reported to the authorities of the respective countries.

Santander is a founder member of the Wolfsberg Group (www.wolfsberg-principles.com) along with 10 other large international banks. Wolfsberg Group's purpose is to establish international standards that increase the effectiveness of programmes to combat money-laundering and the financing of terrorism in the financial community. Various initiatives have been developed on anti-money laundering in private and correspondent banking, the financing of terrorism, among others. All regulators in the world and experts in this area believe that the principles and guidelines set by the Wolfsberg Group are a major reference in the fight against money-laundering, corruption, terrorism and other serious crimes. During 2009, among other projects, the Wolfsberg Group actively participated in improving the transparency of international payment systems, leading, with other groups from the financial sector, the development and implementation of new standards in payments coverage, a process which was widely received and backed in international regulatory and financial communities. The proposals for recommended models to analyse sensitive operations were also updated.

Main indicators of activity

	2009
Number of subsidiaries reviewed	161
Number of cases investigated	36,981
Number of reports sent to authorities	17,477
Number of employees trained	138,827

Historical data
1999-2009

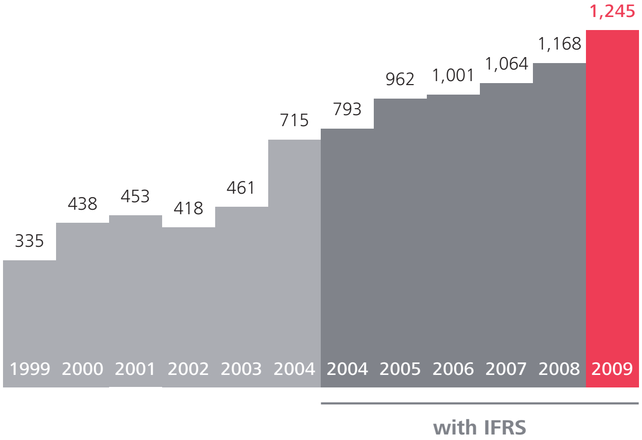
							with IFRS
		2009	2008	2007	2006	2005	2004
	Mill. US$	Mill. euros	Mill. euros	Mill. euros	Mill. euros	Mill. euros	Mill. euros
Balance sheet							
Total assets	**1,599,829**	**1,110,529**	1,049,632	912,915	833,873	809,107	664,486
Net customer loans	**983,283**	**682,551**	626,888	571,099	523,346	435,829	369,350
Customer funds under management	**1,296,622**	**900,057**	826,567	784,872	739,223	651,360	595,380
On-balance sheet	**1,088,725**	**755,744**	695,506	624,886	565,715	483,369	466,865
Other customer funds under management	**207,897**	**144,313**	131,061	159,986	173,509	167,991	128,515
Shareholders' equity	**100,851**	**70,006**	63,768	51,945	40,062	35,841	32,111
Total managed funds	**1,794,152**	**1,245,420**	1,168,355	1,063,892	1,000,996	961,953	793,001
Income statement							
Net interest income	**36,571**	**26,299**	20,945	14,443	12,480	10,659	7,562
Gross income	**54,764**	**39,381**	33,489	26,441	22,333	19,076	13,999
Net operating income	**31,929**	**22,960**	18,540	14,417	11,218	8,765	6,431
Profit before taxes	**14,723**	**10,588**	10,849	10,970	8,995	7,661	4,387
Attributable profit to the Group	**12,436**	**8,943**	8,876	9,060	7,596	6,220	3,606

		2009	2008	2007	2006	2005	2004
	US$	Euros	Euros	Euros	Euros	Euros	Euros
Per share data*							
Atributable profit to the Group	**1.4537**	**1.0454**	1.2207	1.3320	1.1334	0.9293	0.6791
Dividend	**0.8644**	**0.6000**	0.6325	0.6068	0.4854	0.3883	0.3107
Share price	**16.639**	**11.550**	6.750	13.790	13.183	10.396	8.512
Market capitalisation (million)	**136,919**	**95,043**	53,960	92,501	88,436	69,735	57,102

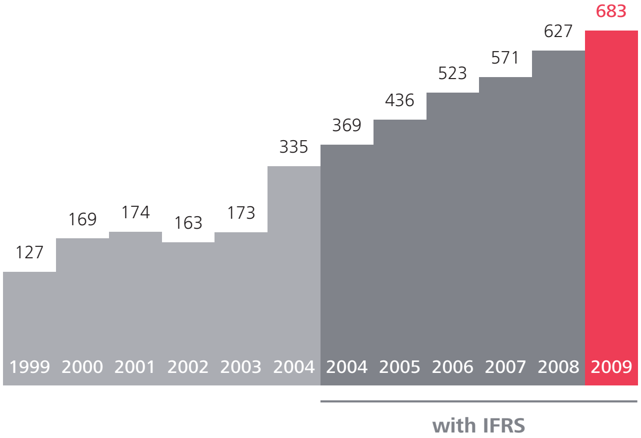
Euro/$=1.4406 (balance sheet) and 1.3906 (income statement)

(*) Figures adjusted to capital increases and stock splits.
(**) Compound annual growth.

Total managed funds
Billion euros



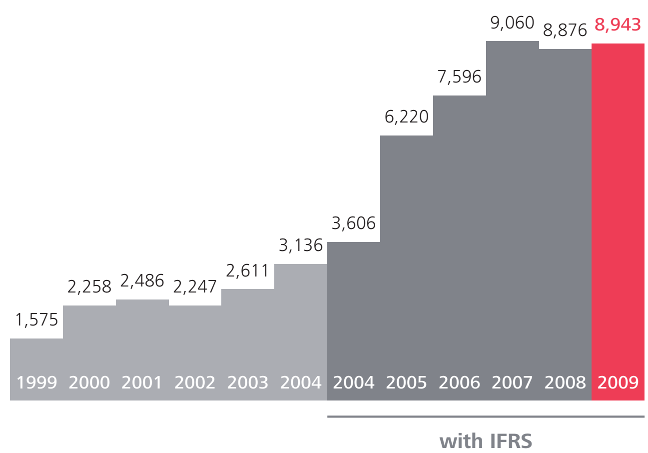
Customer loans
Billion euros



2004 Mill. euros	2003 Mill. euros	2002 Mill. euros	2001 Mill. euros	2000 Mill. euros	1999 Mill. euros	without IFRS CAGR** (%)
575,398	351,791	324,208	358,138	348,928	256,438	**15.8**
335,208	172,504	162,973	173,822	169,384	127,472	**18.3**
538,042	323,901	304,893	331,379	303,098	232,232	**14.5**
398,047	214,998	211,555	236,132	214,450	153,757	**17.3**
139,995	108,903	93,338	95,247	88,648	78,476	**6.3**
32,058	18,364	17,594	19,128	17,798	8,026	**24.2**
715,393	460,693	417,546	453,384	437,576	334,914	**14.0**
8,636	7,958	9,359	10,257	8,290	6,670	**14.7**
14,198	13,128	14,004	15,564	13,005	10,127	**14.5**
6,545	5,721	5,566	5,944	4,689	3,479	**20.8**
4,435	4,101	3,509	4,237	3,774	2,716	**14.6**
3,136	2,611	2,247	2,486	2,258	1,575	**19.0**

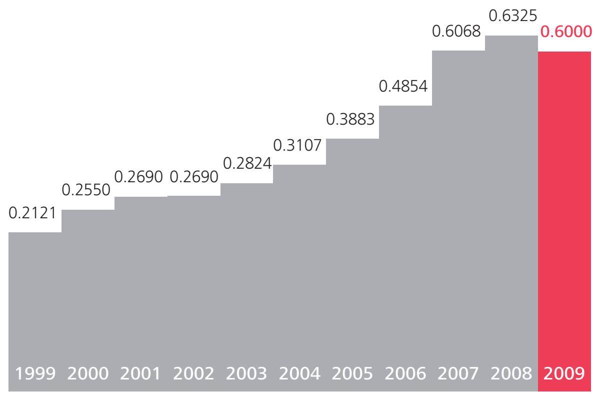
2004 Euros	2003 Euros	2002 Euros	2001 Euros	2000 Euros	1999 Euros	CAA** (%)
0.5881	0.5105	0.4431	0.5079	0.5006	0.4004	**10.1**
0.3107	0.2824	0.2690	0.2690	0.2550	0.2121	**11.0**
8.512	8.755	6.098	8.773	10.629	10.479	**1.0**
57,102	44,775	31,185	43,845	51,987	41,226	**8.7**

Attributable profit to the Group*
Million euros



(*).- Includes extraordinary capital gains and allowances (€1,008 million in 2005, €1,014 million in 2007 and €950 million in 2007).

Dividend per share*
Euros



(*).- Figures adjusted to capital increases and stock splits.

General information

Banco Santander, S.A.

The parent bank of Grupo Santander was established on March 21, 1857 and incorporated in its present form by a public deed executed in Santander, Spain, on January 14, 1875, recorded in the Mercantile Registry (Finance Section) of the Government of the Province of Santander, on folio 157 and following, entry number 859. The Bank's by-laws were amended to conform with current legislation regarding limited liability companies. The amendment was registered on June 8, 1992, and entered in the Mercantile Registry of Santander (volume 448, general section, folio 1, page 1,960, first inscription of adaptation).

The Bank is also recorded in the Special registry of Banks and Bankers 0049, and its fiscal identification number is A-390000013. It is a member of the Bank Deposit Guarantee Fund.

Registered Office

The corporate by-laws and additional public information regarding the company may be inspected at its registered office at Paseo de la Pereda, numbers 9 to 12, Santander.

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