ANNUAL
REPORT

2012

Santander
a bank for your ideas

ANNUAL REPORT 2012

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KEY FIGURES

BALANCE SHEET AND INCOME STATENT (Million euros)	2012	2011	% 2012/2011	2010
Total assets	**1,269,628**	1,251,525	1.4	1,217,501
Customer loans (net)	**720,483**	750,100	(3.9)	724,154
Customer deposits	**626,639**	632,533	(0.9)	616,376
Managed customer funds	**968,987**	984,353	(1.6)	985,269
Shareholder's funds(1)	**80,821**	80,400	0.5	75,273
Total managed funds	**1,387,769**	1,382,980	0.3	1,362,289
Net interest income	**30,147**	29,110	3.6	27,728
Gross income	**43,675**	42,754	2.2	40,586
Pre-provision profit (net operating income)	**23,559**	23,195	1.6	22,682
Profit from continuing operations	**6,148**	7,812	(21.3)	9,077
Attributable profit to the Group	**2,205**	5,351	(58.8)	8,181

RATIOS (%)	2012	2011		2010
Efficiency (with amortization)	**46.1**	45.7		44.1
ROE	**2.80**	7.14		11.80
ROTE(2)	**4.11**	10.81		18.11
ROA	**0.24**	0.50		0.76
RoRWA	**0.55**	1.06		1.54
Core capital (BIS II)	**10.33**	10.02		8.80
Tier I	**11.17**	11.01		10.02
BIS II ratio	**13.09**	13.56		13.11
Loan-to-deposit ratio(3)	**113**	117		117
Non-performing loan (NPL) ratio	**4.54**	3.89		3.55
NPL coverage	**72.6**	61.4		72.7

THE SHARE AND CAPITALISATION	2012	2011	% 2012/2011	2010
Number of shares in circulation (million)(4)	**10,321**	8,909	15.9	8,329
Share price (euros)	**6.100**	5.870	3.9	7.928
Market capitalisation (million euros)	**62,959**	50,290	25.2	66,033
Shareholders' funds per share (euros)(1)	**7.87**	8.59		8.58
Share price/shareholders' funds per share (times)	**0.78**	0.68		0.92
PER (share price/attributable profit per share) (times)	**27.02**	9.75		8.42
Attributable profit per share (euros)	**0.23**	0.60	(62.5)	0.94
Remuneration per share (euro)	**0.60**	0.60		0.60
Total shareholder remuneration (million euros)	**6,086**	5,260	15.7	4,999

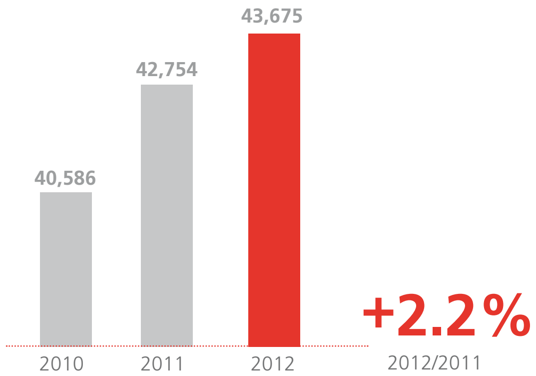
OTHER FIGURES	2012	2011	% 2012/2011	2010
Number of shareholders	**3,296,270**	3,293,537	0.1	3,202,324
Number of employees	**186,763**	189,766	(1.6)	175,042
Number of branches	**14,392**	14,756	(2.5)	14,082

INFORMATION ON ORDINARY PROFIT	2012	2011	% 2012/2011	2010
Attributable profit to the Group	**5,251**	7,021	(25.2)	8,181
Attributable profit per share (euros)	**0.54**	0.79	(31.9)	0.94
ROE	**6.66**	9.37		11.80
ROTE	**9.80**	14.18		18.11
ROA	**0.48**	0.63		0.76
RoRWA	**1.08**	1.35		1.54
PER (share price/attributable profit per share) (times)	**11.34**	7.43		8.42

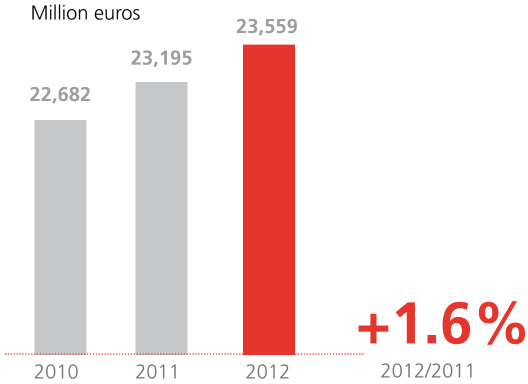
(1) In 2012, scrip dividend for May 2013 estimate.
(2) Return on tangible equity.
(3) Includes retail commercial paper in Spain.
(4) In 2011, includes shares issued to meet the exchange of preferential shares in December 2011.

Santander posted attributable profit of EUR 2,205 million in 2012 and assigned EUR 18,806 million to provisions, while strengthening its solvency and maintaining shareholder remuneration at EUR 0.60 per share for the fourth consecutive year.

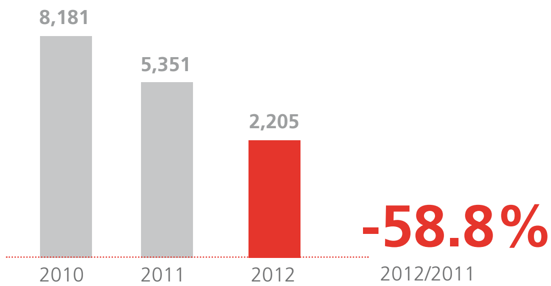
GROSS INCOME
Million euros



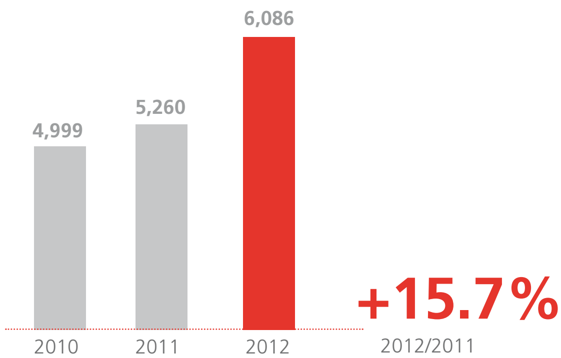
PRE-PROVISION PROFIT (NET OPERATING INCOME)
Million euros



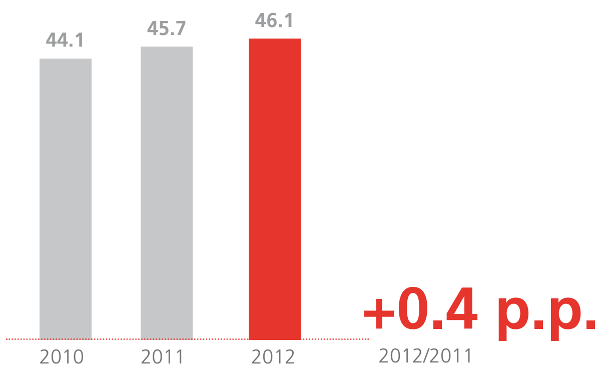
ATTRIBUTABLE PROFIT[(5)]
Million euros



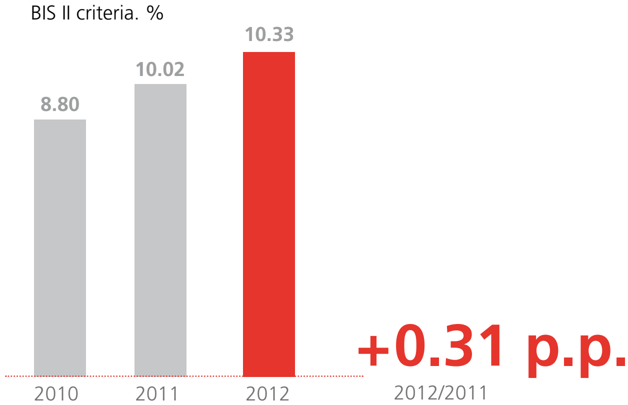
TOTAL DIVIDEND PAYOUT
Million euros



EFFICIENCY
Cost to income ratio. %



CORE CAPITAL
BIS II criteria. %



(5) Before the impact of real estate provisions net of capital gains: EUR 5,251 million (-25.2%).

LETTER FROM THE CHAIRMAN

Dear Shareholders

Against a backdrop of a particularly difficult economic and regulatory environment, Banco Santander posted a net attributable profit of EUR 2,205 million, 58.8% less than in 2011.

The key factor behind this decline was EUR 6,140 million of provisions for real estate loans in Spain, which was only partly offset by extraordinary gains of EUR 1,241 million.

Despite the crisis, the Group's profit before provisions rose 1.6% during the year to EUR 23,559 million, thanks to the international diversification of our revenues. This amount places us among the top three international banks by this measure and underscores the Group's strong capacity to generate profits once we return to normal levels of provisions and writedowns.

A strong capital base, above the European Banking Authority's minimum requirements and Basel II, enabled us to maintain shareholder remuneration at EUR 0.60 per share in 2012, which represented a dividend yield of 10.9%.

The bases of Banco Santander's strategy

Banco Santander is one of the international financial institutions that has most successfully tackled the financial crisis. This is due to four key principles and a consistently maintained strategy over the years.

1. Balance sheet strength and liquidity

- Banco Santander increased its core capital ratio to 10.33% at the end of 2012 and passed the strictest capital tests, such as those conducted by the European Banking Authority (EBA). In the stress tests of the the Spanish financial system, carried out under the supervision of the European Central Bank, the European Commission and the International Monetary Fund, our Group had a capital surplus of EUR 25,297 million even in the most adverse macroeconomic scenarios.

- Our objective is always to maintain a comfortable surplus of core capital above the regulatory requirements and a ratio according with the EBA's criteria of more than 9%.

- Grupo Santander made provisions in 2012 amounting to EUR 18,806 million and improved coverage of non-performing loans by 11 points to 73%.

- The Group's commercial banking model is essentially financed by retail deposits. The loan-to-deposit ratio improved notably in 2012 to 113% and we also placed issues in the market totalling EUR 43,000 million, despite the financial difficulties of the environment.

"DESPITE THE CRISIS, THE GROUP INCREASED ITS PROFIT BEFORE PROVISIONS BY 1.6%, THANKS TO THE INTERNATIONAL DIVERSIFICATION OF ITS REVENUES"

LETTER FROM THE CHAIRMAN

I want to particularly mention the measures we took during the year to strengthen the balance sheet and liquidity in Spain.

- We set aside EUR 6,140 million in provisions to cover exposure to problematic real estate assets, thus exceeding the requirements under the Spanish government's two royal decree laws. With the provisions made in 2012, the writing down of the Spanish real estate portfolio has been completed.

- Also, during the year, we reduced our exposure to the real estate sector in Spain, net of provisions, by EUR 12,400 million, down from EUR 24,900 million in 2011 to EUR 12,500 million in 2012. This was thanks largely to the sale of 33,500 properties owned by the Bank and real estate developers, as well as loan portfolios. As a result, the exposure to the real estate sector in Spain at the end of 2012 represented, net of provisions, 1.7% of the Group's total lending.

- In terms of liquidity, we have a loan-to-deposit ratio of 96% in Spain, thanks to the successful intake of deposits by the branch networks of Santander and Banesto. Their deposits rose by EUR 22,000 million in 2012.

2. Diversification and subsidiaries model
Banco Santander has attained an excellent geographic diversification of its businesses by maintaining a commercial banking model with a critical mass in its ten main markets.

As a result of this diversification, the Group's ordinary profit in 2012 was almost equally split between mature markets (45%) and emerging markets (55%).

Banco Santander's international structure is based on a model of subsidiaries that are autonomous in capital and liquidity, some of which are listed. Each subsidiary is responsible for maintaining sufficient capital and liquidity in accordance with the features and regulation of the markets in which they operate, thereby avoiding the risk of contamination among the Group's units.

- At the end of 2012, in light of the restructuring of the Spanish financial system, we decided to integrate Banesto and Banif into Banco Santander. Before the end of 2013, the Group's retail networks in Spain will be fully unified under the Santander brand, recognised as the first one in Spain and the fourth in the world according to Brand Finance in 2012. This transaction, which will be submitted for approval to the annual general meeting of shareholders in March, is very positive:

  - For Grupo Santander's customers in Spain, who will have a larger number of branches to conduct their business and a broader range of products.

  - For employees, as the new business structure in Spain and our international diversification will open up professional opportunities.

  - And for Banco Santander's shareholders, as the merger will generate cost synergies and revenues of EUR 520 million before taxes and an increase in earnings per share of 3% from

"WITH THE PROVISIONS MADE IN 2012, THE WRITING DOWN OF THE SPANISH REAL ESTATE PORTFOLIO HAS BEEN COMPLETED"

"BANCO SANTANDER'S INTERNATIONAL STRUCTURE IS BASED ON A MODEL OF SUBSIDIARIES AUTONOMOUS IN CAPITAL AND LIQUIDITY, SOME OF WHICH ARE LISTED"

the third year. Banesto's shareholders will receive a premium of 25% in the exchange of their shares for those of Santander.

- As part of our policy of listing the Group's subsidiaries, another major transaction in 2012 was the flotation of Santander Mexico, which enjoyed huge success. The placement of 25% of the capital raised EUR 3,178 million and demand for the shares, in the world's third largest transaction of its kind in 2012, was five times higher than the supply. Between the placement and the end of 2012, the shares of Santander Mexico rose by 33.8%, valuing the unit at $21,959 million and making it the 69th largest bank in the world by market capitalisation.
- At the beginning of 2013, the Group's subsidiary in Poland, Bank Zachodni WBK, and Kredyt Bank merged to create the country's third largest bank by deposits, lending and number of branches, with more than 3.5 million customers.

3. Commercial banking model
Banco Santander has developed a commercial banking model that is the main base of our activity. The strategic decision to maintain this model is one of the Group's essential hallmarks.

Some 88% of Santander's revenues come from commercial banking and are generated by 14,400 branches that form the largest network among international banks. This model produces recurring and well-diversified results from more than 100 million individual customers, SMEs and companies.

Underscoring our commitment to this large customer base, in 2012 we launched a new corporate claim, *Santander, a bank for your ideas*. This conveys to our customers the Group's will and capacity to support them so that they can realise their projects. *A bank for your ideas* reflects our culture and commitment to our customers.

4. Risk management and efficiency in costs
Prudent and integral management of risk and efficiency in costs are key drivers of Banco Santander's commercial banking model.

The Group's NPL ratio rose by 65 basis points to 4.54%, largely due to the situation in Spain where the ratio came to 6.74%. In almost all the countries where Banco Santander operates, however, we have a NPL ratio below that of the sector's average.

Management and control of the Group's risks are independent of the business areas. The ultimate responsibility in risk management lies with the board. Its risk committee met 98 times in 2012 and the executive committee meets every week and dedicates a significant part of its time to risk-related issues. The discipline to maintain risk profiles that are well known and well managed had a key role during the financial crisis.

A strict cost structure is a clear competitive advantage in commercial banking. Shared product factories, with significant economies of scale, and global management of businesses are key elements of the Santander model, and enable us to have the best efficiency ratio of international banks.

* * *

In short, Banco Santander has a business model and a solid strategy that have adapted very well to the current crisis. The prestigious magazine Euromoney named us the Best Bank in the World in 2012.

LETTER FROM THE CHAIRMAN

Shareholder remuneration and the Santander share

Banco Santander has a very large number of shareholders – 3.3 million in 14 countries. Transparent information, and constant attention to shareholders, is one of our main priorities.

During 2012, despite the crisis, shareholder remuneration was, for the fourth year running, EUR 0.60 per share. The total remuneration over the last four years has been more than EUR 21,000 million.

The *Santander Dividendo Elección* (scrip dividend) programme enables our shareholders to opt to receive the dividend in shares or in cash. In 2012, 80% of the share capital chose to be paid in shares.

The performance of the Santander share was affected in 2012 by market volatility, regulatory uncertainty and by Spain's recession. Even so, the Santander share price ended the year up 3.9%, better than the Ibex-35 benchmark index. The total return for Santander shareholders in 2012 was 17.3%.

Banco Santander continues to be the largest bank in the euro zone by market capitalisation. The Santander share is also the most liquid stock in Eurostoxx.

The conversion of *Valores Santander* in 2012 resulted in the issue of 519,501,751 shares, representing 5.03% of the capital at 31 December 2012.

Corporate governance and corporate social responsibility

Banco Santander's board is balanced between non-executive (69%) and executive directors (31%), all of them very knowledgeable about banking and finances and with wide international experience. The board attaches special importance to risk management and to complying with the best banking principles and values.

Banco Santander conducts its business in a sustainable way and gives special attention to fostering the professional growth of its employees, caring for the environment and helping to social development by supporting higher education.

Santander Universities is the main destiny of the Bank's investment in corporate social responsibility. It is a unique alliance in the world between banking and universities which began 16 years ago. Today Santander Universities has more than 1,000 agreements with universities in 20 countries, contributing EUR 130 million in 2012, and annually funds 28,303 study scholarships, among other projects.

Mortgage evictions in Spain became a particularly sensitive issue this year. Banco Santander is very clear about this. Evictions are the last and worst option for everyone: for our customers and also for the Bank. Proof of this is that we anticipated the problem when we introduced a mortgage moratorium in the summer of 2011 that by the end of 2012 had benefited more than 21,000 clients.

" BANCO SANTANDER HAS A BUSINESS MODEL AND A SOLID STRATEGY THAT HAVE ADAPTED VERY WELL TO THE CRISIS"

"PROFIT BEFORE PROVISIONS REACHED A RECORD EUR 23,559 MILLION, SANTANDER RANKS AMONG THE TOP THREE INTERNATIONAL BANKS BY THIS MEASURE"

The outlook: Banco Santander's unique positioning

The economic and financial environment will remain difficult in the short term, above all in Europe. However, in the last months of 2012, there were some developments that laid the foundations of recovery:

- Europe is taking the necessary decisions to strengthen the euro and progress toward greater integration. The European Banking Union project should lower the funding costs of European banks and improve the rating of banks supervised by the European Central Bank.

- In Spain, the financial sector's restructuring is in its final phase and, once the recapitalisation and reform of the nationalised banks is completed, the country will have Europe's healthiest and most solvent banking system. Moreover, the government's measures put into effect during 2012 will begin to have a positive impact on growth at the end of 2013. The recent creation of the Company for the Management of Assets Proceeding from the Bank Restructuring (SAREB in Spanish) will clearly have a very positive effect on reviving the Spanish economy. Banco Santander's board decided to invest EUR 840 million in SAREB.

- In Latin America, after a year of moderate growth, Brazil will grow again at faster rates, while the region's other important economies, Mexico and Chile, will maintain the positive trend of 2012.

In this environment, our Group is well placed to exploit its significant competitive advantages, as it has proven in these last particularly difficult years through its capacity to generate revenues and the soundness of its balance sheet.

This is thanks, in first place, to the diversification of the Group's revenues, with our wide growth possibilities in emerging economies.

Meanwhile, our commercial banking model is generating more stable, recurrent revenues which, together with the normalisation of provisions and write-downs - which have been extraordinarily high in the last few years - are providing us with a margin to boost profits considerably.

Lastly, the regulatory changes in the pipeline for capital, liquidity and the business model affect Banco Santander less than other large international banks, which are more focused on capital markets or investment banking, and should not affect our strategy or business model.

Our shareholders can expect from Banco Santander the performance of a bank with a comfortable capital base, a solid balance sheet, recurring revenues, 187,000 professional employees, the best in international banking, and considerable potential to increase profits as the global economic situation returns to normal.

EMILIO BOTÍN
Chairman

LETTER FROM THE CHIEF EXECUTIVE OFFICER

Dear shareholders,

1 Introduction – 2012 Results

Grupo Santander posted attributable profit of EUR 5,251 million in 2012, excluding capital gains and special provisions, 25% lower than in 2011. Including provisions and capital gains, profit was EUR 2,205 million, down 59% from 2011.

Operating earnings continued to grow: profit before provisions (the difference between revenues and costs) rose 2% to EUR 23,559 million. The high level of writedowns and loan-loss provisions, however, continued to exert pressure on our results. Specifically, in 2012, we had to absorb the requirements of Spanish royal decree laws 2/2012 and 8/2012, which meant extra provisions to cover our real estate exposure in Spain. Moreover, we made provisions above our usual levels in other markets, such as Brazil and Chile. To put this into context, the Group had to set aside EUR 18,806 million of provisions in 2012 as a result of the crisis in Spain and the economic downturn in other parts of the world. This compares with provisions of around EUR 12,200 million in 2011 and EUR 7,100 million in 2008.

Our current profits in no way reflect Grupo Santander's earnings potential. This year will mark a turning point: over the next few years our profitability will return to higher levels, as our pre-provision profit will continue to evolve well and our provisions get back to normal.

"OVER THE NEXT FEW YEARS, OUR PROFITABILITY WILL RETURN TO HIGHER LEVELS, AS OUR PRE-PROVISION PROFIT CONTINUES TO EVOLVE WELL AND OUR PROVISIONS GET BACK TO NORMAL"

LETTER FROM THE CHIEF EXECUTIVE OFFICER

2 2012 environment and outlook

Global economy

The global economy has undergone a profound adjustment since 2008. To understand this process, it is vital to understand the origin of the crisis: imbalances in the balance of payments. On the one hand, an excess of domestic demand in markets such as the US, the UK and Spain (consumption excess, an oversized construction sector and excesses in the granting of loans) - and, on the other hand, a lack of domestic demand in other markets, including Asia and most emerging markets, and in mature economies such as Japan and Germany. In 2007 and 2008, we lived in a very unbalanced world in which some countries such as the US, the UK, Spain, Ireland, etc., accumulated too much debt while others, such as China, Germany, Japan and emerging markets, accumulated excessive international reserves.

Over the last four years, the global economy has been gradually re-balanced. We have seen improvements in savings rates and in the current account balance of payments of the US, the UK, Ireland and Spain, which have turned deficits into surpluses or are close to doing so. Meanwhile, there has been a significant adjustment in the trade surpluses of countries such as China. Indeed, the Japanese and Brazilian economies have moved from surplus to deficit or a lower surplus over the last four years.

A good example of a country that has adjusted its imbalances quite successfully is Spain:

1. Between joining the euro in 1999 and 2008, Spanish labour costs rose 30% more than German ones. This made the country much less competitive in the global market. Since 2009, Spain has recovered almost 80% of the competitiveness lost with Germany; this is reflected in the surge in Spanish exports, which for years will be the main source of the country's economic growth.

2. In the last five years, and given the improvement in Spain's competitiveness, the current account deficit has declined and, very probably, will register surplus in 2013. Spain already has trade surpluses with its European partners and exports to the US, Asia, Latin America and Africa are growing at a good pace.

3. The government is making a great effort to reduce the budget deficit and implement structural reforms. As the results of these efforts are recognised by the markets, the borrowing costs of the public and private sectors will fall.

4. Lastly, considerable progress has been made in cleaning up and restructuring the financial sector. The number of banks and *cajas*, which was over 50 some years ago, will stabilise at below 10. Furthermore, the results of the stress tests conducted in 2012 led to the recognition of losses and recapitalisation (partly with private capital and partly with public capital). In my view, the solvency adjustment process for banks in Spain is almost over. Once this process of consolidation, cleaning up and recapitalisation is completed, the banking system can focus on improving its profitability.

In short, if this path is followed in the next three or four quarters, Spain will start to grow again at the end of 2013.

At the same time, over the last few years we have seen how certain imbalances have arisen in emerging economies, including high growth of salaries, too much investment in certain sectors and bottlenecks in infrastructure. These imbalances do not put at risk the high potential of these markets in the medium and long term; however, in the short term they are reducing growth as the imbalances are adjusted.

In this type of environment, flexible, dynamic and well managed companies can generate good results, both in mature as well as emerging economies. Economies that put all their trust in macroeconomics, that do not know how to interpret the changes in the environment or are not sufficiently flexible to respond could have problems.

Global financial system

The trends in the financial sector are very similar. Banks, after all, reflect the economy.

In the last four years, the profits of banks in mature markets have been under pressure from a combination of factors, such as weak economies, the deleveraging of companies and households, the pressure of deposit spreads from low interest rates, liquidity tensions and tougher regulatory demands around the world.

As a result, during this period, the emphasis has been on strengthening balance sheets, which has caused collateral damage in the form of lower profitability. For example, Banco Santander has given priority to having comfortable liquidity and capital buffers, even though this erodes profits in the short term.

Over the next three or four years, we will begin to see a recovery in the profitability of banks in mature markets. Once the balance sheets have been repaired, provisions will return to more normalised levels in most markets. Moreover, banks are taking steps to recover their profitability: consolidation and cutting costs, change in pricing policies and reassigning capital to the more profitable segments.

Meanwhile, banks in emerging markets have generally enjoyed a golden decade. Since 2003, banking business in emerging markets has grown constantly, with only a small dip in 2008-2009. This growth will continue but at a lower pace than in the last few years.

In the international financial system, as in the economy in general, we are beginning to see some convergence between mature and emerging markets. And, as happens with the economy as a whole, we are starting to see clear differences between well managed and poorly managed institutions, both in mature as well as emerging markets. Those with local economies of scale, which manage efficiency well and are able to fine tune their lending criteria will be capable of generating good results.

"ENTITIES WITH LOCAL ECONOMIES OF SCALE, WHICH MANAGE EFFICIENCY WELL AND ARE ABLE TO FINE TUNE THEIR LENDING CRITERIA WILL BE CAPABLE OF GENERATING GOOD RESULTS"

LETTER FROM THE CHIEF EXECUTIVE OFFICER

3 Santander: results and priorities by business unit

A. Mature markets

- **Spain**

  We generated aggregate profit of EUR 1,290 million in 2012. Despite being 12% more than in 2011, this profit is low and reflects the significant effort made in ordinary provisions. This figure does not include the provisions required by the new Spanish rules on real estate exposure. I would like to point out that we captured EUR 22,000 million of deposits in 2012, which improved our market share by two percentage points. We also continued to improve the spreads on loans.

  In December 2012, we announced the merger of the three networks we have in Spain (Santander, Banesto and Banif) under the Santander brand. We also announced an optimisation of the combined branch network which will enable us to strengthen our presence in the most attractive segments: SMEs/companies, and personal and private banking. We expect cost synergies of EUR 420 million and revenue synergies of EUR 100 million.

  The main objective of this merger is to take advantage of the opportunities to grow and gain market share offered by the Spanish financial system over the next three years. We believe that we will gain market share in the next three years of at least three percentage points in lending and deposits, thanks to the strength of being the market leader in Spain, the strong specialisation of the networks in the mass market, companies and private banking, and bearing in mind the weakness of many of our competitors.

  The combination of the higher profitable market share (mainly in the most attractive products and services, including SMEs and personal banking), continuous management of spreads and greater efficiency, together with normalisation of our provisions, will enable us to achieve a clear improvement in the contribution of our business in Spain. We have communicated to the market a goal for increasing profit before tax in Spain of EUR 2,500 million in three years.

- **Portugal**

  Profit in Portugal came to EUR 124 million, 29% lower than in 2011. The fall was largely due to the impact of provisions for loan losses. In 2012, our main priority continued to be the soundness of the balance sheet: the loan-to-deposit ratio improved from 121% in 2011 to 108% in 2012 and the core capital ratio from 11% to 12%.

  We are the only bank in Portugal that did not need more capital and the only one still profitable, even though our profit was lower than in other years.

  Our objective for the next few years is to keep on bolstering the balance sheet, while continuing to manage spreads and efficiency. Like Spain, the Portuguese economy is adjusting its imbalances (excessive debt levels, current account deficit and budget deficit). Our unit in Portugal has strengthened its position during the crisis, and will be very well placed to exploit the opportunities that arise when the Portuguese economy starts to grow again.

- **Rest of Continental Europe/Santander Consumer Finance**

  Santander Consumer Finance's attributable profit in 2012 was 9% higher at EUR 727 million, as lower provisions offset reduced fee income in certain markets.

  Our goal for Santander Consumer Finance for the next few years is to continue to gain market share selectively, with the main focus on profitability. Today, our consumer finance business is the most profitable in Europe and we want to continue to improve it even more. In order to do this, we will continue to manage spreads very actively and maintain an appropriate risk profile.

  I would like to stress the strong presence and results that the consumer finance division achieved in Germany, the UK, the Nordic countries, Poland and Spain.

In Germany, we continued to build our commercial banking business which, together with our consumer finance business, generated a profit before taxes of close to EUR 500 million. I draw your attention to the size of Banco Santander in Germany, where we have EUR 30,000 million of customer deposits. Over the next three years, this unit will be ready to take advantage of its expansion opportunities in the German market, and this will enable it to attain even more attractive levels of profitability.

- **United Kingdom**

Santander UK's profit fell 10% in 2012 to £952 million, mainly due to reduced revenues as a result of the higher cost of funding and the environment of low interest rates, together with the expiry of coverage portfolios.

However, the underlying customer spread of Santander UK is improving thanks to balance sheet management in 2012 and the good performance in business banking. We improved more than any other bank in the FRS customer satisfaction survey, which contributed to the good growth in transaction deposits. Balances in current accounts rose 32% and we already have more than 1.3 million customers using *1/2/3* products.

In 2012, we continued to strengthen our balance sheet. The Tier 1 core capital ratio of 12.2% is one of the best in the UK system and the loan-to-deposit ratio of 129% is three points better than in 2011. We achieved this improvement by managing our mortgage book with risk criteria and diversifying our business toward companies, as well as promoting deposits based on the relationship with the customer (for example, current accounts and ISAs). We also cut costs by 1%, despite inflation and investment in the transformation of our business.

The UK economy is gradually recovering: funding costs for banks are beginning to drop and demand for credit is rising a bit. This, coupled with our gradual commercial progress, leads us to expect higher profit in 2013 and particularly in 2014.

In October, the Group announced that the purchase of the Royal Bank of Scotland (RBS) branches will not proceed.

- **United States**

Our business in the US generated profit of $1,042 million, 26% less than in 2011, reflecting a lower stake in our consumer finance unit.

Sovereign generated a profit of $733 million, excluding extraordinaries, in line with 2011. We had extraordinary costs from litigation that reduced our profit by $127 million.

Our consumer finance business (Santander Consumer USA), in which we have a 65% stake, contributed $436 million to the Group's profit.

Our objective for the coming years is to exploit the growth opportunities in segments where the bank has a low presence, such as companies, insurance and cards. Specifically, we are making significant investments in IT systems and staff to be able to take advantage of these opportunities. These investments will begin to bear fruit in 2013 and, above all, in 2014.

LETTER FROM THE CHIEF EXECUTIVE OFFICER

B. Emerging markets

- **Brazil**

  Santander Brazil's net profit was $3,600 million, 4% lower than in 2011, at constant exchange rates. The fall was largely due to the negative impact of higher loan-loss provisions.

  Economic growth slowed down in Brazil. The growth potential in the medium and long term, however, remains intact. Our objective is to keep on exploiting the growth opportunities offered by the Brazilian market while normalising our provisions in order to be able to recover our normal double-digit growth in profits.

- **Mexico**

  Net profit was $1,380 million, 12% more than in 2011 at constant exchange rate.

  There are several factors that make us very optimistic about Santander Mexico's profit growth in the coming years: the Mexican banking market is still not very developed, its economy is not very indebted and the US economy, to which Mexico is closely tied, is growing.

  In September, we placed 24.9% of our Mexican subsidiary in an IPO that valued the bank at $16,538 million. The bank's share price was 33.8% higher at the end of 2012.

  Our objective for the coming years is to continue to develop a strong commercial organisation that will enable us to maintain double-digit profit growth.

- **Chile**

  Our unit in Chile made a net profit of $915 million, 17% less than 2011 at constant exchange rate. The unit obtained good operating results despite regulatory effects. Higher loan-loss provisions, however, hit earnings. This has already been corrected. We launched a plan to better monitor our exposure in Chile and improve our commercial capacity with companies and high-income segments. This will enable us to grow again in 2013 and particularly in 2014.

- **Argentina**

  Argentina's net profit was 16% higher at $425 million, partly affected by higher provisions as the operating result was solid (net operating income rose 42%). Our goal for the coming years is to continue to take advantage of the investments made in the last few years and maintain, at the same time, an appropriate risk profile.

- **Poland**

  Bank Zachodni WBK generated attributable profit of PZL 1,379 million (EUR 330 million).

  In January 2013 we merged this subsidiary with Kredyt Bank (the Polish subsidiary of KBC). After this transaction, Santander controls 76.5% of the new resulting combined bank, Poland's third largest.

  Our unit in Poland has considerable growth potential in the next few years: as well as the opportunities provided by the Polish market, there is the high potential to improve Kredyt Bank (its efficiency and profitability ratios are clearly below those of Bank Zachodni WBK) and the contribution of Grupo Santander to local business (for example, in wholesale banking).

  Our objective is to achieve an exemplary merger of the banks, attaining or exceeding the level of synergies promised. We have the best management team in Poland, backed by the Group's track record in integration. This will enable us to keep on growing at double-digit rates.

"DURING THE NEXT THREE YEARS, OUR PRIORITY WILL BE TO GENERATE PROFIT GROWTH. OUR OBJECTIVE IS TO INCREASE PROFITS IN MATURE AS WELL AS EMERGING MARKETS"

4 Conclusions for the future

I would like to conclude with four clear messages on Grupo Santander's strategy and prospects:

1. **The first is that in the last four years one of our priorities has been strengthening the balance sheet:** we assigned more than EUR 53,000 million of provisions in four years, we finished the writing down of real estate assets in Spain, core capital increased by EUR 19,000 million and we narrowed the commercial gap (the difference between loans and deposits) by EUR 125,000 million.

2. The second is that **our strategic emphasis on balance sheet soundness has exerted pressure on the income statement.**

   - As a result of the decision to improve our capital ratios, we decided to sell some businesses in which we did not have sufficient economies of scale. At the same time, we sold minority stakes in some units and reduced lending in some businesses regarded as non-core.

   - Our strategic decision to strengthen liquidity led us to issue securities at high yields and to be prepared to pay a little more for deposits.

   - The significant effort in provisions prevented good growth in net operating income from feeding through to satisfactory levels of return on capital.

   Net operating income rose from EUR 17,800 million in 2008 to EUR 23,559 million in 2012. Our return on tangible capital, however, (excluding non-recurring impacts) dropped from 20% to 10% and our profit declined from close to EUR 9,000 million to EUR 5,251 million excluding non-recurring items.

3. The third message is that, **during the next three years, our priority will again be to generate growth in profits.** We expect 2013 to represent a turning point. Our objective is to increase profits in mature as well as emerging markets.

   - In mature markets, we will do this by gaining profitable market share, developing the businesses where we have a low presence, managing efficiency and normalising provisions.

   - In the emerging markets, we can take advantage of structural growth opportunities to develop strong commercial organisations, with an acceptable risk profile and capable of exploiting the benefits of belonging to Grupo Santander.

4. The fourth message is that **the Santander share does not yet reflect this improvement potential.** I believe that as the market begins to understand this potential, it will gradually be reflected in a higher share price. This allows me to continue to be very optimistic about your investment over the next three years.

ALFREDO SÁENZ
Chief Executive Officer

CORPORATE GOVERNANCE

Banco Santander's corporate governance model

Balanced and committed board

- Of the 16 directors, 11 are non-executive and five executive.

Equality of shareholders' rights

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

Maximum transparency, particularly in remunerations

- This is vital for generating confidence and security in shareholders and investors.

Recognised by socially responsible investment indices

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

The board of directors

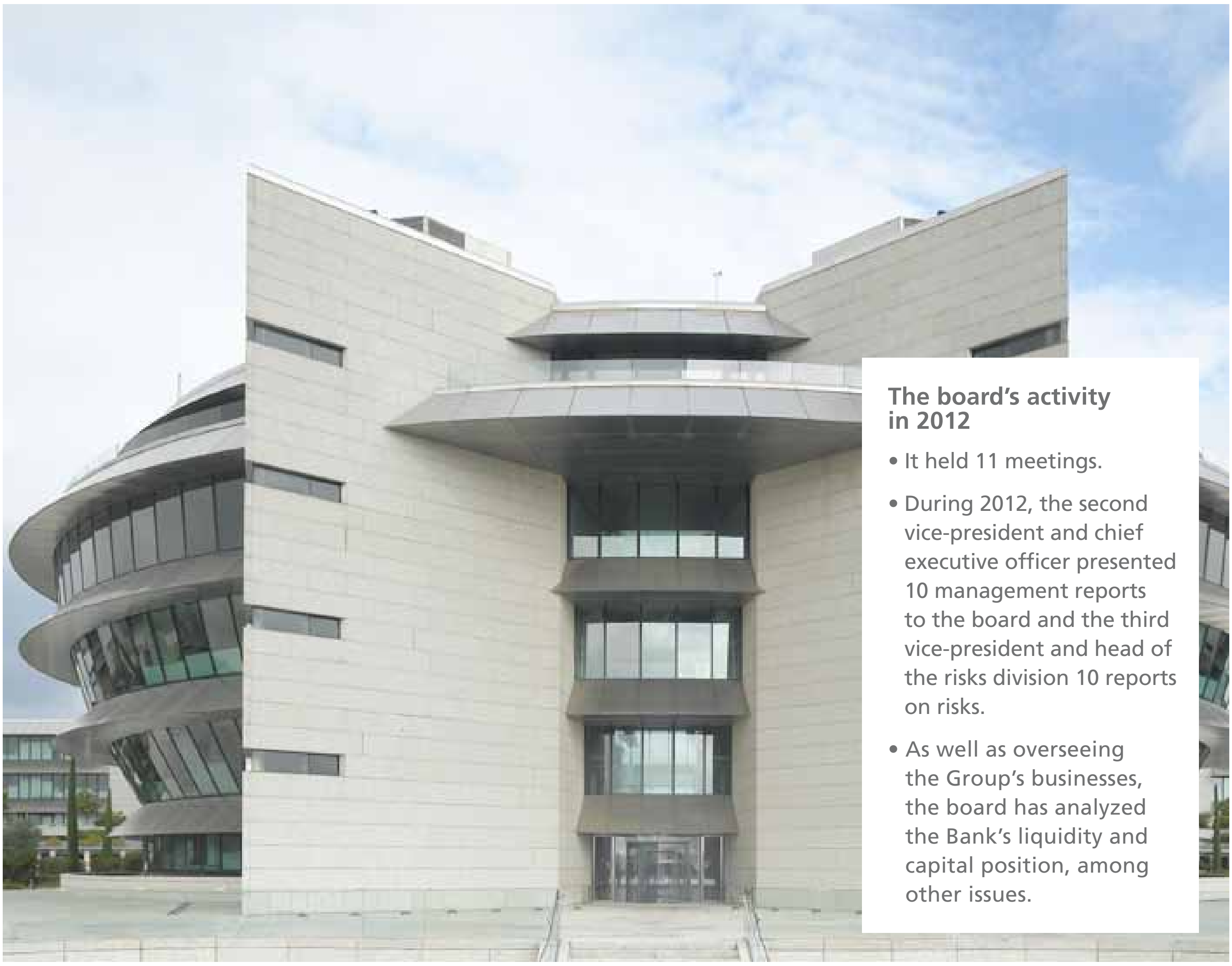
Banco Santander's board of directors is the maximum decision-making body, except for matters reserved for the general meeting of shareholders. It is responsible, among other things, for the Group's strategy. Its functioning and activities are regulated by the Bank's internal rules and principles of transparency, efficiency and defence of shareholders' interests guide it. The board also oversees compliance with the best international practices in corporate governance and closely involves itself in the Group's taking of risks. In particular, the board, at the proposal of senior management, is the body responsible for establishing and monitoring the risk appetite.

The board has a balanced composition between executive and non-executive directors. All members are recognised for their professional integrity, capacity, experience and independence.

There were changes to the board in 2012. On 23 January, Mr. Francisco Luzón resigned as an executive director and executive vice-president responsible for the Americas division. At the general meeting of shareholders on 30 March 2012, Mr. Antonio Basagoiti, Mr. Antonio Escámez and Mr. Luis Alberto Salazar-Simpson stopped being part of the board and Mr. Vittorio Corbo Lioi, appointed in July 2011, was ratified and re-elected.

The appointment of Ms. Esther Giménez-Salinas as an independent director was also approved, bringing the presence of women in the board to 18.8%.

The non-executive directors are noted for their financial experience. Among them are former chief executives of banks and a former governor of a central bank, and people with deep knowledge of Latin America and the United Kingdom, two of the markets where the Group has a substantial part of its businesses.



Pereda building, Grupo Santander City, Boadilla del Monte, Madrid, Spain.

The board's activity in 2012

- It held 11 meetings.
- During 2012, the second vice-president and chief executive officer presented 10 management reports to the board and the third vice-president and head of the risks division 10 reports on risks.
- As well as overseeing the Group's businesses, the board has analyzed the Bank's liquidity and capital position, among other issues.

Remuneration policy

The remuneration policy for directors and the Bank's senior management is based on the following principles:

1. The remuneration is consistent with rigorous risk management without giving rise to inappropriate assumption of risks.

2. Anticipating and adapting to regulatory changes in remuneration matters.

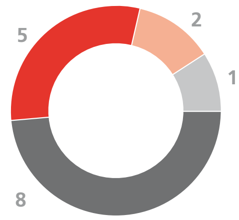
3. Involvement of the board, as, at the proposal of the appointments and remuneration committee, it approves the report on the remuneration policy for directors and submits it to the general meeting of shareholders on a consultative basis and as a separate item on the agenda. The board approves the remuneration and contracts of directors and of the other members of senior management and the remuneration of the rest of the supervised collective.

4. Transparent information on remuneration.

The board's remuneration in 2012

All the details on the remuneration policy for directors in 2012 is set out in the report of the appointments and remuneration committee which is part of Banco Santander's social documentation.

COMPOSITION OF THE BOARD



- Executive directors
- Other non-executive directors
- Non-executive proprietary director
- Independent non-executive directors

BOARD OF DIRECTORS OF BANCO SANTANDER

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

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

Mr Juan Rodríguez Inciarte
Director
■

Mr Guillermo de la Dehesa Romero
Director
● ● ■

Ms Esther Giménez-Salinas
Director

Mr Manuel Soto Serrano
4th vice-chairman
▲ ● △ ■

Mr Fernando de Asúa Álvarez
1st vice-chairman
● ■ ▲ ● △

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

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

Ms Isabel Tocino Biscarolasaga
Director
● ■

Mr Rodrigo Echenique Gordillo
Director
● ▲ ● ■

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

Lord Burns (Terence)
Director

Mr Ángel Jado Becerro de Bengoa
Director

Meeting of the board at the data processing centre in Cantabria, 17 December 2012, with the bay of Santander in the background.

Mr Alfredo Sáenz Abad
2nd vice-chairman and chief executive officer
● ■ △

Mr Matías Rodríguez Inciarte
3rd vice-chairman
● ■

Mr Abel Matutes Juan
Director
▲ ■

Mr Vittorio Corbo Lioi
Director

Banco Santander's general shareholders' meeting, March 2012, Santander, Spain.

SANTANDER SHARES

Shareholder remuneration

Banco Santander assigned EUR 6,086 million to dividends in 2012, 15.7% more than in 2011.

The *Santander Dividendo Elección* programme (scrip dividend), which enables shareholders to receive the equivalent of the dividend in the form of cash or Santander shares, was applied on the dates when the interim and final dividends are traditionally paid. On each of these dates, the Bank paid EUR 0.15 per share, resulting in a total remuneration for 2012 of EUR 0.60 per share. The dividend yield was 10.9%.

With the *Santander Dividendo Elección,* the Bank offers flexible remuneration, so that its shareholders may benefit from tax advantages. Some 80% of the Bank's capital chose to receive shares in 2012, despite volatility in the financial markets.

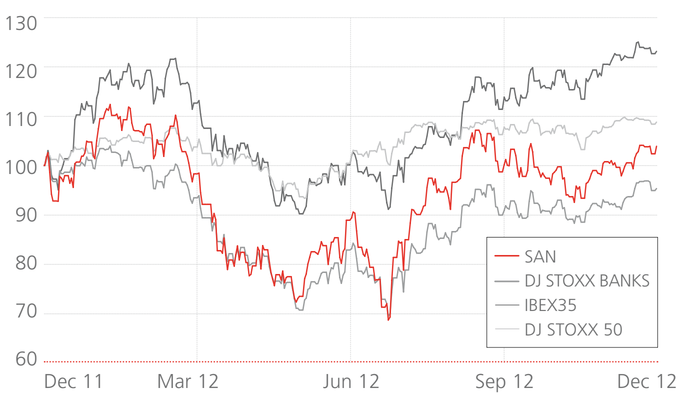
Share performance

Santander remained in a privileged position as the largest bank in the euro zone by market value and the 13th in the world, with a capitalisation of EUR 62,959 million at the end of 2012. Furthermore, Santander is the most liquid share on the Eurostoxx 50 index.

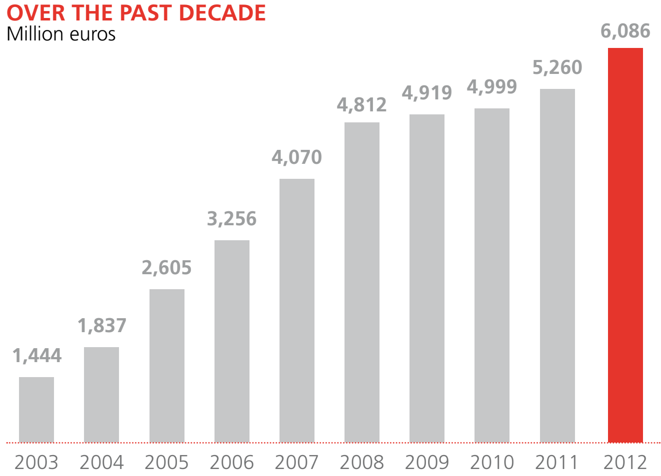
In an uncertain environment worldwide, with intense market volatility due to the European debt crisis, the Santander share ended 2012 at EUR 6.10 per share, 3.9% higher than a year earlier. The share performance was better than that of the Ibex 35 (-4.7%), the benchmark index of the Madrid stock market.

Despite the rise in Spain's risk premium in 2012, the shareholder return was very positive. The total return was 17.3% compared to a 1.4% fall in that of the Ibex-35.

COMPARATIVE PERFORMANCE OF SANTANDER SHARE AND INDEXES
Dec. 2012 v. Dec. 2011



TOTAL SHAREHOLDER REMUNERATION OVER THE PAST DECADE
Million euros



Dividend per share
0.60
euros
For the fourth year running

Market capitalisation
62,959
million euros
Santander is the largest bank in the euro zone by market value

High recurring profit, and the strength of Santander's capital, has enabled the Bank to remunerate shareholders with over 21,000 million euros during the past four years.

Shareholder base and capital

The number of Banco Santander shareholders continued to rise in 2012 to 3.3 million.

At the end of the year, 1.9% of the capital stock was in the hands of the board of directors, 40% with individual shareholders and the rest with institutional investors. Of the total capital stock, 87.9% is located in Europe, 11.7% in the Americas and 0.4% in the rest of the world.

The number of Banco Santander shares at the end of 2012 stood at 10,321,179,750. The *Santander Dividendo Elección* programme and the exchange of *Valores Santander* gave rise to the issuance of 1,412,136,547 new shares, 13.7% of capital.

Banco Santander continued to strengthen its shareholder information and attention channels in Spain, the United Kingdom, United States, Brazil, Argentina, Mexico, Portugal and Chile. A new shareholder office was opened in Mexico in 2012 to tend to the new shareholders resulting from the flotation of the Mexican subsidiary. These offices tended to 215,278 consultations by telephone and 22,710 e-mails. Some 17,910 shareholders attended 254 forums and events held in various countries.

Why 3.3 million shareholders put their trust in Banco Santander

- For its solvency, soundness and geographic diversification.
- Because it maintained a remuneration of EUR 0.60 per share for the fourth year running, when many other international banks were reducing dividends.
- They are attracted by the Santander Scrip Dividend programme, which allows them to choose to receive their dividend in cash or shares.
- Thanks to a dividend yield of 10.9% in 2012 and total shareholder return of 17.3%.

"The global economy is undergoing a profound re-balancing process. Europe must continue to progress toward greater integration to retain leadership in the 21st century, while emerging countries must keep up their sustainable growth. Santander's geographic diversification enables it to take advantage of opportunities in all its markets."

Guillermo de la Dehesa
Non-executive director (independent).

MACROECONOMIC, FINANCIAL AND REGULATORY CONTEXT

Economic environment

Banco Santander conducted its business in 2012 in a very complex economic and financial environment. In Europe, the first half of the year was characterized by instability in the financial markets triggered by the worsening of the euro crisis. The risk premium of the 10-year Spanish bond yield over German bund reached 650 b.p. in May. The European Council meeting in June, which decided to push for a European Banking Union with the creation of a single supervision mechanism, and the financial aid measures for countries requiring them announced by the European Central Bank in September, marked a turning point and helped to gradually ease the risk premiums. As for economic activity, Europe was in its fifth year of recession and growth in 2012 was almost zero.

In the US, the Federal Reserve decided to maintain the monetary support, which favoured some recovery in growth during the year. In the second half, the agenda was determined by the risks linked to the non-renewal of the fiscal stimulus, the so-called fiscal cliff, which was resolved at the very end of 2012.

Latin American economies kept up positive growth despite the unfavourable international environment. Mexico and Chile grew more than expected. In the case of Brazil, its economy was more buoyant in the second half of the year although for 2012 as a whole growth was below expectations.

Regulatory environment

Banco Santander began 2012 with a core capital ratio of 10.02%, comfortably meeting the requirements set by the European Banking Authority for June 2012.

In Spain, the government deepened the process of provisions for banks and recapitalization. The financial industry has been immersed in a profound restructuring since 2009, via three routes. First, the requirement for extra provisions for exposure to construction assets and real estate development, differentiated by type of asset and situation, including those up to date with payments. These provisions, set in two royal decree laws, raise the average coverage level of real estate exposure from 18% to 45%. Grupo Santander met 100% of requirements at the end of the year.

Second, the expert and independent valuation of the balance sheets of the Spanish financial system. This exercise, very rigorous in the amount of information used as well as the toughness of the scenarios applied, shows that even in the most adverse situation Santander would be the only bank to increase its capital ratio – from 9.7% to 10.8% - and would have a large surplus of capital (EUR 25,297 million in 2014). It is the Spanish bank with the greatest ability to generate profits.

Third, the Spanish government requested financial assistance from European institutions to recapitalize those banks that required it. In line with the programme's Memorandum of Understanding, the Asset Management Company for Assets Arising from Bank Restructuring (known as Sareb) was created in December. Santander's board agreed to invest in the company and contribute up to EUR 840 million (25% in capital and 75% in subordinated debt).

MANAGEMENT PRIORITIES IN 2012

Management priorities	Strategy and results
Manage liquidity in a very volatile environment in the financial markets	• Commercial strategy based on attracting funds in Continental Europe, which resulted in deposits in Spain growing by EUR 22,000 million in 2012. • Improvement in the Group's loan-to-deposit ratio to 113% (150% in 2008) and in Spain to 96% (178% in 2008). • The Group made EUR 43,000 million of medium- and long-term issues and securitisations through more than 10 of its units in countries with issuance capacity.
Increase the Group's capital base in the face of an unfavourable economic environment and intensified regulatory pressure	• Santander had the best results in the stress tests of Spanish banks conducted by the independent consultancy Oliver Wyman. These tests showed that Santander would, in the most adverse scenario, have capital of EUR 25,297 million above the minimum required in the analysis. • Organic generation of capital and active management of the business portfolios enabled the Group's core capital ratio to increase by 31 basis points in 2012 to 10.33%.
Reduce real estate risk in Spain and comply with the Spanish goverment's new rules	• Real estate exposure net of provisions in Spain declined by EUR 12,400 million in 2012 and by EUR 28,500 million, or 69%, since 2008. • Santander set aside EUR 6,140 million in provisions for real estate exposure in 2012, exceeding the amount required under the Spanish government's two royal decree laws. • Real estate exposure in Spain, net of provisions, represented only 1.7% of the Group's total lending.
List the Group's main subsidiaries	• Santander successfully floated 24.9% of its subsidiary in Mexico for EUR 3,178 million. The share price of Santander Mexico ended the year up 33.8% and the bank's market value stood at $21,959 million.

INTERNATIONAL RECOGNITION

Euromoney

July

Best bank in the world

Best bank in Argentina

Best bank in Mexico

Best bank in Poland

Best bank in Portugal

Best bank in UK

The Banker

November

Best bank in Argentina

Best bank in Mexico

Best bank in Poland

Best bank in Portugal

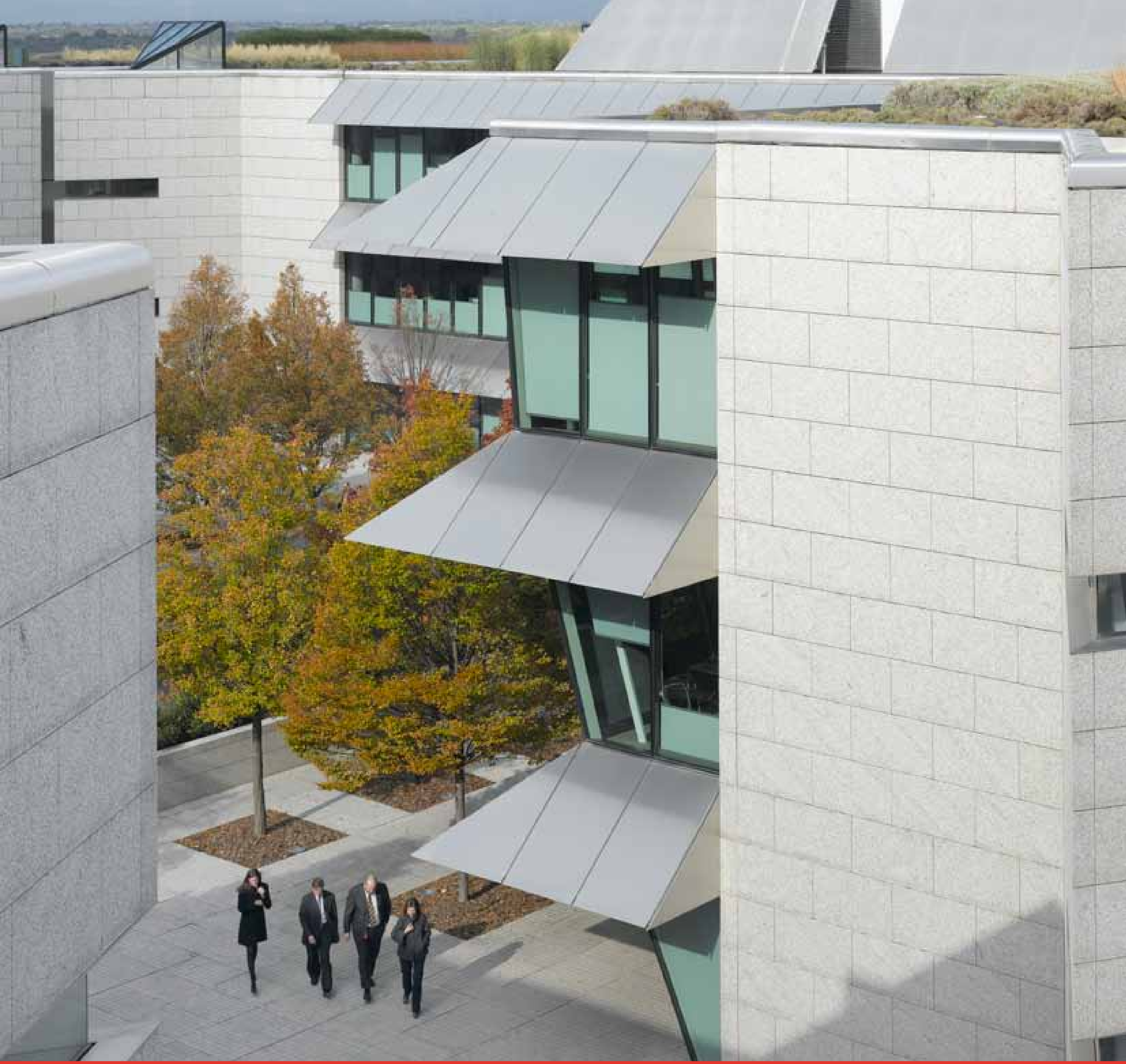
Best bank in Puerto Rico

Best bank in UK

British financial magazine Euromoney opted for a European and Spanish bank when selecting Santander - for the third time in seven years - as the *Best Bank in the World*. Meanwhile, The Banker, a part of the Financial Times group, named the bank as the best in six of its core markets.

EUROMONEY HIGHLIGHTED THE "BANK'S ABILITY TO GENERATE RECURRING PROFITS, EVEN IN DIFFICULT TIMES, AND THE SOUNDNESS OF ITS BALANCE SHEET."

SANTANDER BEST GLOBAL BANK
EUROMONEY 2012 Awards for excellence



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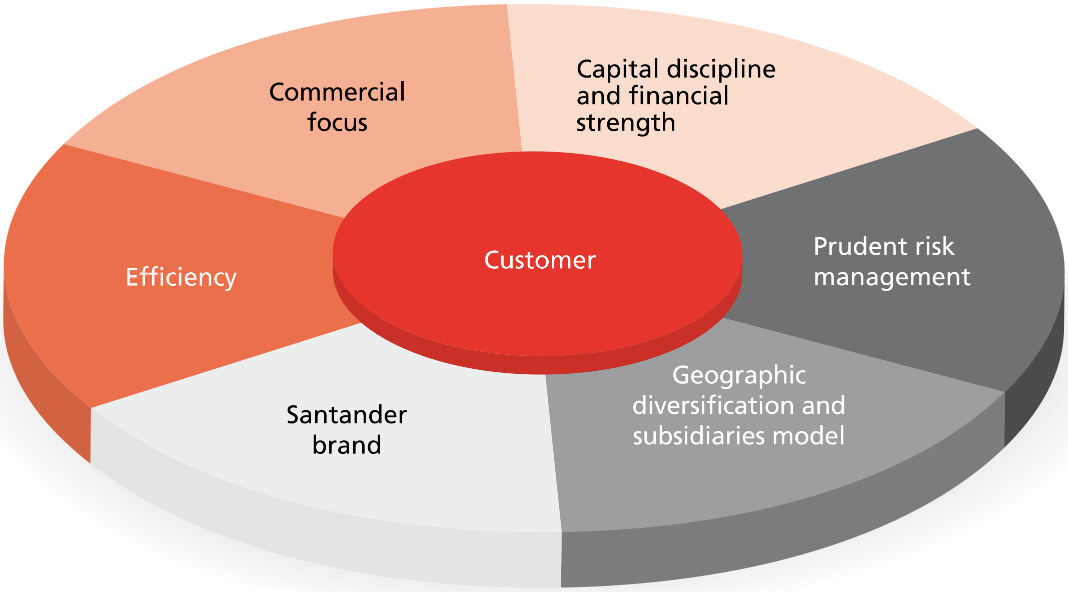
BANCO SANTANDER'S BUSINESS MODEL

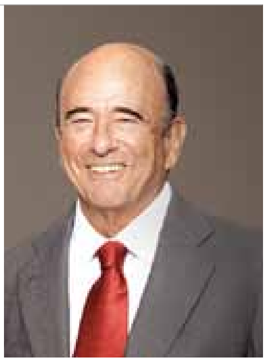
BANCO SANTANDER'S BUSINESS MODEL



Highlights

- Banco Santander's business model produces substantial recurrence in results.
- Santander has over 100 million customers and 14,392 branches, more than any other international bank.
- Geographic diversification in 10 core countries gives Santander the right balance between mature and emerging markets.
- Santander is one of the world's most efficient international banks.
- Maintaining a high level of capital and liquidity is a priority. Santander has not needed state aid at any time during the crisis.
- Santander's NPL ratio is below the banking sector's average in almost all its main markets thanks to prudent risk policies.
- The Bank's international expansion has been achieved through subsidiaries that are autonomous in capital and liquidity, providing advantages in funding and limiting the risk of contagion.
- Santander conducts its business on a sustainable basis, preserving the environment, supporting the communities in the countries in which it operates and investing in higher education.
- Santander has 186,763 employees focused on the customer and on results.

“At Banco Santander, we serve over 100 million customers. Our ability to listen, to get ahead of their needs, to provide solutions and build lasting relations with them has enabled us to become one of the leading banks in the world. For us, the customer is king. It’s always been like that and always will be, because it is the essence of a retail bank like Santander.”



Emilio Botín
Chairman

BANCO SANTANDER’S COMMITMENT TO ITS CUSTOMERS

The customer is the focal point of Banco Santander’s business model. The bank has more than 100 million customers in the world who recognise it as a solid and solvent institution with the strength to tackle the future.

Understanding their needs, responding with innovative solutions and building long-term relations of confidence are the foundations of Santander’s commitment to its clients.

Quality of service and customer satisfaction

Banco Santander believes it is vital to take maximum care of the quality of service provided to customers. Over the last few years the Bank has been developing a corporate model of quality improvement which extends to more countries every year.

Within this model, the corporate benchmark of customer satisfaction is the tool that enables the Bank to know its relative position with regard to its competitors in each market. Santander’s permanent goal is to be among the best banks in service quality in all the countries where it operates.

The Bank also has customer voice measurement models that gather their perceptions regarding the branch network, contact centres, products, etc., and it manages incidents and complaints via the MIRO system.

Continuous improvements have been generated through the quality committees that exist in all countries, and the commercial banking corporate school has promoted learning and constant exchange of best practices.

As a result, the satisfaction of individual customers improved in 2012: 86.2% said they were satisfied with Santander’s services compared to 84.3% in 2011.

In order to continue to make progress, Santander has begun to work on a new project to improve customer satisfaction that builds on the current model of quality. The goal is to have a global view of all the factors that influence customer satisfaction and a table of management indicators that relate customer satisfaction to business results.

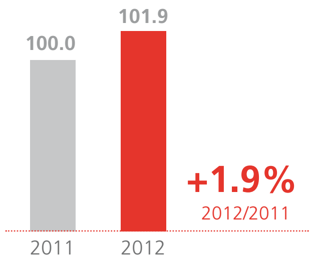
The chief executive officer continuously reviews these procedures, which underlines Santander’s commitment to constantly improve customer satisfaction.

Santander, a bank for your ideas

Santander launched in November its new corporate claim, *Santander, a bank for your ideas*. The aim is to move closer to customers and let them know that all the Bank’s strength, leadership and innovation capacity is at their service to help them realise their projects.

This new claim also reflects a corporate and daily working culture that aims to ensure that the customer has a unique brand experience and perceives tangible benefits in all of its dealings with the Bank: through a range of more streamlined and tailor-made products and services, providing security for customers by communicating their advantages more clearly and transparently, and helping to increase linkage with and loyalty to the Santander brand.

CUSTOMERS
Million



COMMERCIAL FOCUS

Santander branch, Madrid, Spain.

Santander's commercial model focuses on satisfying the needs of different customer profiles: individuals with different income levels, companies of all sizes and sectors and private and public corporations.

Retail banking, which covers individuals, company and consumer banking, accounts for 88% of revenues.

Multi-channel service

The branch network is Santander's main channel for creating and maintaining long term relations with customers. The Group has 14,392 branches, the largest network of any international bank.

In 2012, Santander continued to advance its multi-channel approach as a strategic driver for strengthening customer relations. As well as telephone and online banking, new applications were launched for iPad, iPhone and other mobile devices.

Santander also progressed in greater integration of its operational customer attention channels. The Customer VoiceLab was launched in 2012. This builds on the traditional contact centre and integrates all customer attention channels, incidents and complaints, in a single team supported by the most innovative technology. The project began in Spain and will gradually be implemented in the rest of the Group.

Innovative solutions

Santander continues to innovate and develop new products and financial services that create value for its customers and respond to their needs and the specific circumstances of different markets.

Banco Santander has a high value-added offer in each of its main markets:

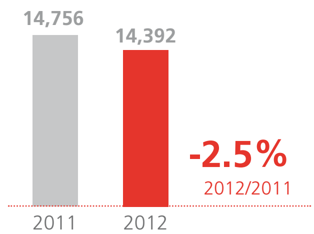
- **Spain:** Four million customers who are part of *We want to be your bank* do not pay service fees and enjoy additional advantages in food, fuel, energy, telecoms and leisure.
- **UK:** The *1/2/3* current account reimburses in cash part of household bills and rewards larger balances in accounts with higher interest rates.
- **Brazil:** The *Conta light*, with lower interest rates on overdrafts and facilities to pay by instalments.

In 2012, Santander launched new credit card solutions providing greater comfort and advantages, for customers as well as for shops. Of note was the *Contactless* card, which does not need to be connected with the point-of-sale terminal, and the new shared brand Santander-Iberia card, with preferential

GROUP CUSTOMERS
Million

Spain	13.1
Portugal	2.0
Bank Zachodni WBK	2.5
Santander Consumer Finance	12.3
Rest	0.1
Total Continental Europe	**30.0**
UK	**26.2**
Brazil	27.3
Mexico	10.0
Chile	3.5
Argentina	2.4
Uruguay	0.3
Puerto Rico	0.5
Total Latin America	**44.0**
United States – Sovereign	**1.7**
Total customers	**101.9**

BRANCHES
Number



Santander branch, Leicester, UK.

conditions for the Bank's customers. Also, as a result of the agreement signed with Elavon in Spain, shops will be provided with a better payments service via point-of-sale terminals.

Support for companies

To foster the internationalisation of companies, Santander created the global unit of international business, which provides an integral service to customers with a presence in different countries and supports their expansion in attractive markets, such as Latin America and Poland.

The Bank also launched specific initiatives in 2012 to support customers in those countries with a more difficult economic situation. Santander Totta launched *Plano Activacão,* a EUR 1,500 million credit line to support funding of Portuguese companies. In Spain, the Santander network launched the credit lines *Crédito Activación* and *Plan Exporta*, which saw 7,952 SMEs access EUR 944 million in funds and 4,851 exporters loaned EUR 4,263 million.

Learning and continuous improvement

The commercial banking corporate school was created three years ago to boost the retail banking units in the various countries and take advantage of growth opportunities. It works via a global network comprising 600 experts in different business areas who participate in working groups that promote the exchange of experiences and bring together the best business practices that are then adopted by the different countries.

The commercial banking corporate school continued to consolidate its model in 2012. It is active in all the Bank's countries and has 64 teams in strategic areas focusing on customers and business development.

Moreover, joint working agendas have been put together with the countries to cooperate in the implementation of projects which are based on the Group's best practices. Sovereign Bank, for example, has implemented a remote advisory unit in its branch network, adapting one of Brazil's best practices, known as *Gestion on line* (GOL).

The Sustainability Annual Report provides more details on customers, products and services.

DISCIPLINED USE OF CAPITAL AND FINANCIAL STRENGTH

El Faro, Grupo Santander City, Boadilla del Monte, Madrid, Spain.

Capital

Having a strong balance sheet is a priority for Banco Santander. The Bank increased its core capital ratio in 2012 to 10.33%, according to Basel II criteria, and met the requirements of the European Banking Authority for the main European banks ahead of schedule. Banco Santander has not needed any state recapitalisation aid in any of the countries in which it operates.

In the third quarter of 2012, the international consultancy Oliver Wyman, supported by the main auditing firms and real estate valuation companies, made an exhaustive analysis of Spanish banks' loan portfolios. This exercise was supervised by international institutions such as the European Commission, the European Central Bank and the International Monetary Fund. Even in the most adverse economic scenario considered in the stress test, Santander's core capital ratio at the end of 2014 would exceed by EUR 25,297 million the minimum required in these stress tests.

Underlining its solvency, Santander is the only Spanish bank with a higher rating than the Spanish sovereign debt by all four main rating agencies. Moreover, it is the only bank in the world with a rating above its sovereign, according to S&P.

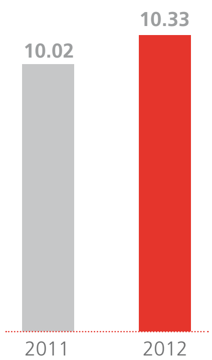
Liquidity

Santander funds most of its lending with customer deposits, maintains comfortable access to wholesale financing and has a wide range of instruments and markets to obtain liquidity.

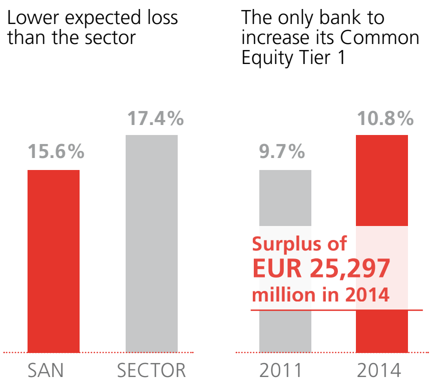
In 2012, Grupo Santander continued to improve its liquidity position, as underscored by the improvement in its loan-to-deposit ratio to 113% (96% in Spain), and by issuing EUR 43,000 million of medium and long term debt and securitisations. At the beginning of 2013, the Bank returned EUR 24,000 million taken in December 2011 via the ECB's Long-Term Refinancing Operation (LTRO).

CORE CAPITAL RATIO

(%, according to BIS II criteria)



OLIVER WYMAN STRESS TEST ANALYSIS OF SPANISH FINANCIAL SYSTEM



> *The international financial crisis has confirmed that prudence in managing different types of risks - not only credit and market risk, but also operational, compliance and liquidity risk - is essential. At Banco Santander, the whole organisation shares this principle, starting with the board of directors, which sets the Bank's appetite for risk and devotes 25% of its time to risk management.*

Manuel Soto
4th vice-chairman.
Non-executive director.
Chairman of the audit and compliance committee

PRUDENT RISK MANAGEMENT

Prudence in risk management has been a hallmark of Banco Santander for more than 150 years. Of note among its corporate risk management principles is the independence of the risk function from business lines. Matías Rodríguez Inciarte, head of the Group's risk division and chairman of the risk committee, reports directly to the executive committee and to the board. The board sets the Group's risk appetite at a medium-low level.

More than 80% of Grupo Santander's risk comes from retail and commercial banking. The Bank has a high degree of diversification in risk and avoids excessive concentration in customers, business groups, industries, products and geographic areas.

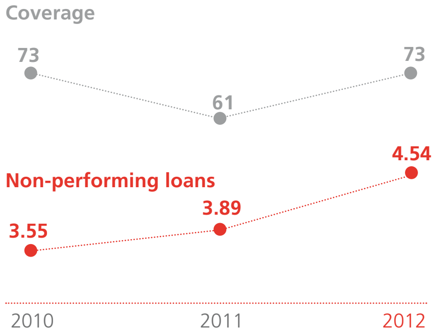
Risk management in 2012

The Group's non-performing loan (NPL) ratio increased to 4.54% in 2012 and is below the financial sector's average in almost all the countries in which it operates. The coverage ratio rose to 73%. The NPL ratio in Spain stood at 6.74%, well below the sector's average.

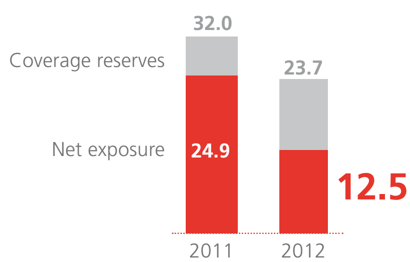
Santander set aside EUR 6,140 million of provisions for real estate assets in Spain in 2012, exceeding the requirements under the Spanish government's new rules. Real estate coverage, including outstanding risk, increased from 22% in 2011 to 47% in 2012. Following provisions made in 2012, the real estate provisioning is effectively completed.

Santander reduced its net exposure to real estate risk by EUR 28,500 million in the last four years. The reduction was particularly intense in 2012, with net exposure decreasing by EUR 12,400 million and the stock of foreclosed properties falling by EUR 714 million. Exposure to the real estate sector in Spain, net of provisions, represented 1.7% of the Group's total lending at the end of 2012.

NON-PERFORMING LOANS AND COVERAGE GRUPO SANTANDER
%



REAL ESTATE EXPOSURE IN SPAIN
Billion euros

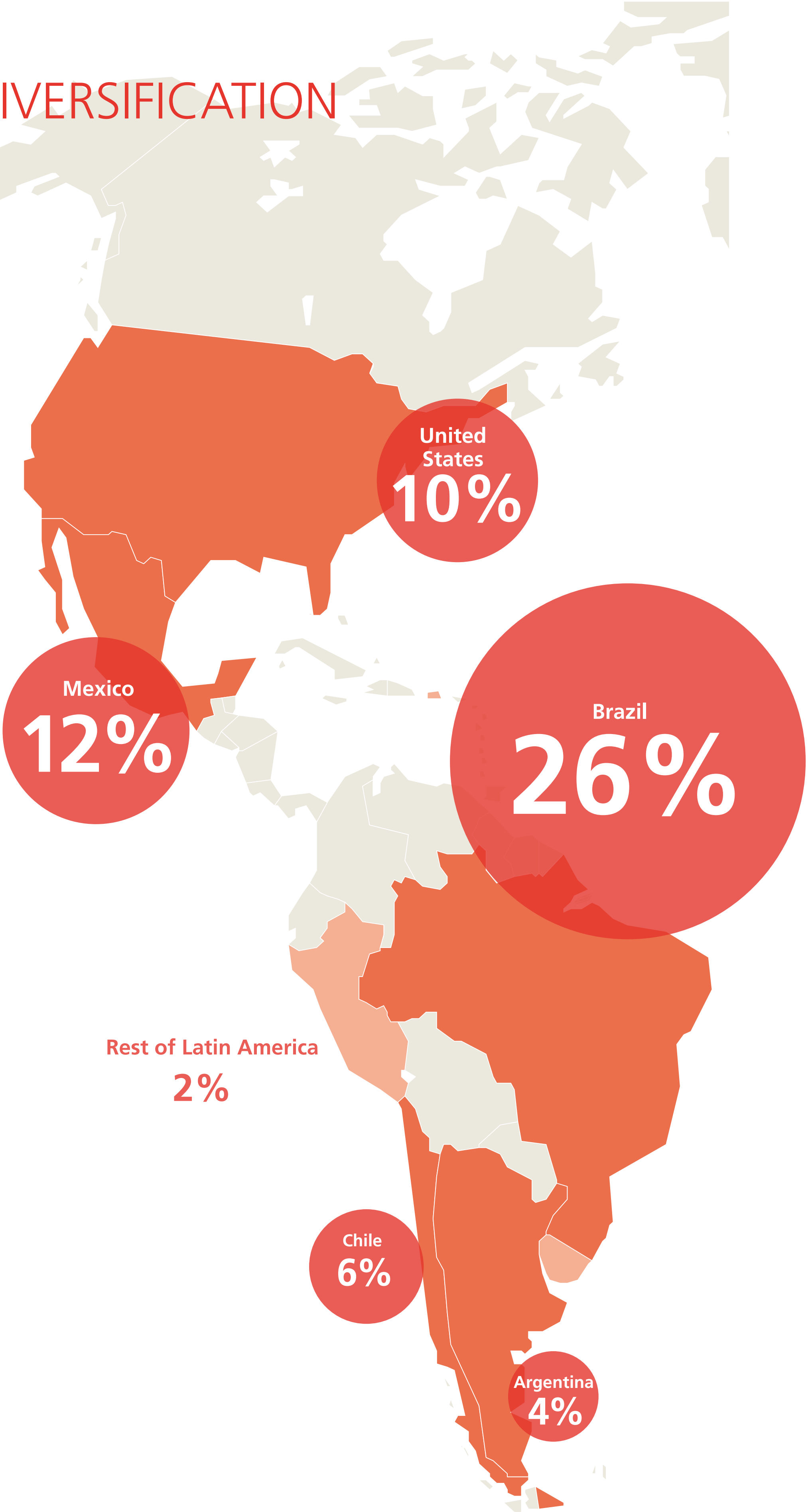


GEOGRAPHIC DIVERSIFICATION

DISTRIBUTION OF RECURRING ATTRIBUTABLE PROFIT BY OPERATING GEOGRAPHIC SEGMENTS

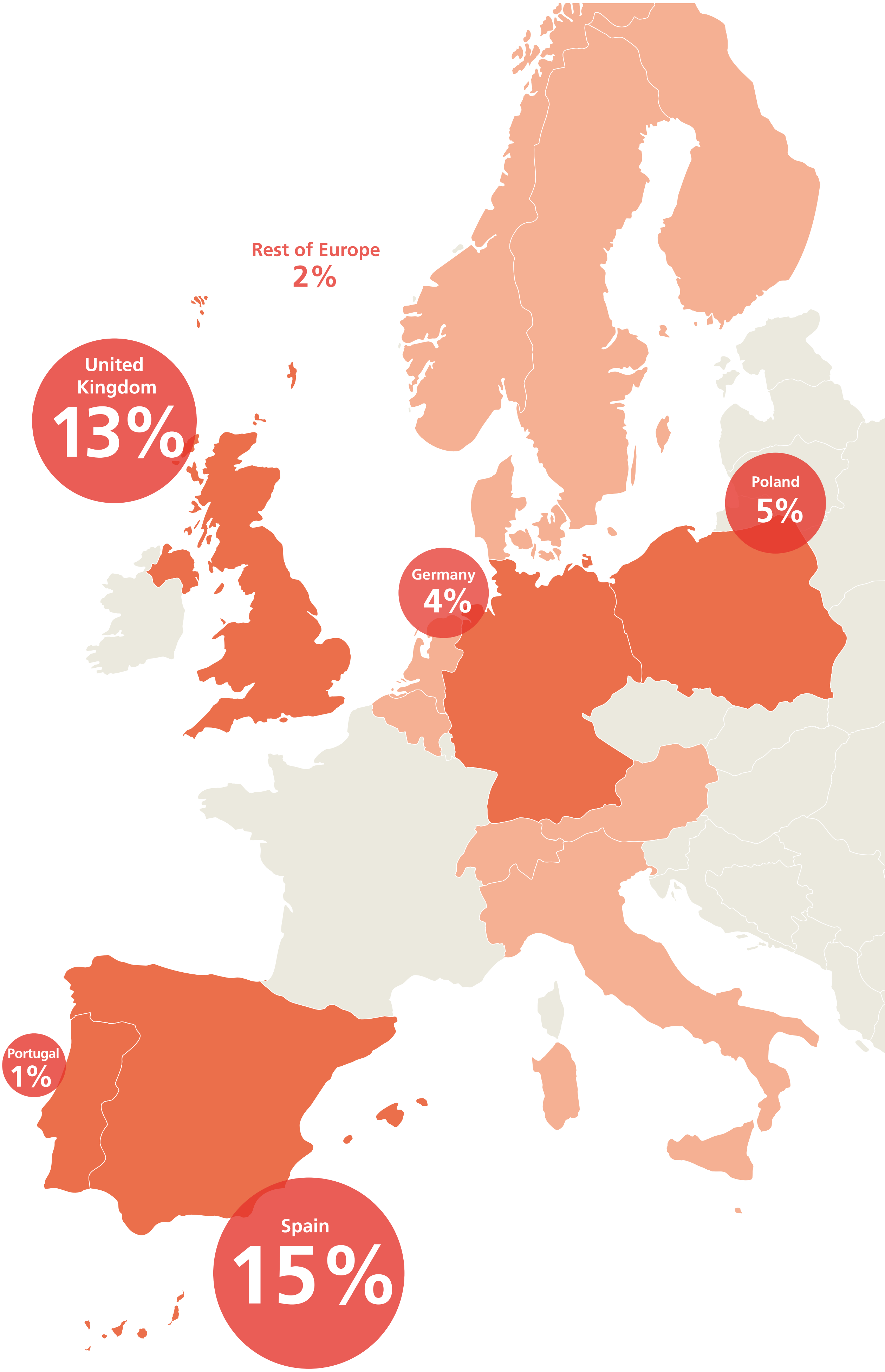
Main countries

Other countries where Banco Santander conducts retail and commercial banking: Peru, Puerto Rico, Uruguay, Norway, Sweden, Finland, Denmark, the Netherlands, Belgium, Austria, Switzerland and Italy.

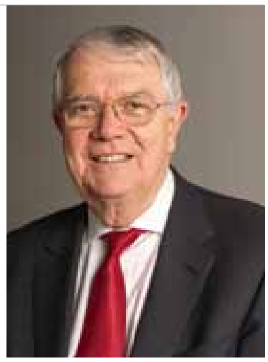


Grupo Santander's geographic diversification is balanced between mature and emerging markets, which contributed, respectively, 45% and 55% of profit in 2012.

The Bank focuses on 10 core markets: Spain, Germany, Poland, Portugal, United Kingdom, Brazil, Mexico, Chile, Argentina and the United States. Furthermore, the global business areas develop products that are distributed in the Group's retail networks and provide services to global clients.


Rest of Europe
2%
United Kingdom
13%
Poland
5%
Germany
4%
Portugal
1%
Spain
15%

"International financial institutions must combine financial flexibility with common operational processes across countries. Santander achieves this with its subsidiaries model, which is generally regarded highly by regulators. It acts as a firewall in the event of a crisis, allows access to local capital and ensures dual monitoring. This model is reinforced by the listing of some of its subsidiaries."



Lord Burns (Terence)
Non-executive director

MODEL OF SUBSIDIARIES

Grupo Santander's international expansion has been achieved through subsidiaries that are legally independent and autonomous in capital and liquidity:

- **Capital:** Local units have the capital required to carry out their activity autonomously and comply with regulatory requirements.

- **Liquidity:** Each subsidiary puts together its financial plans and liquidity forecasts, calculating their funding needs, without relying on funds or guarantees from the parent bank. The Group's liquidity position is coordinated in the asset and liability committees (ALCO).

In 2012, the Bank took a further step in its strategy of listing its main subsidiaries with the flotation of 24.9% of Santander Mexico for EUR 3,178 million, which joined the already-listed units in Brazil and Chile. This transaction was the world's third largest IPO in 2012 and valued Santander Mexico at EUR 12,730 million at the time of the share placement.

Banco Santander combines the financial flexibility of its subsidiaries with its operations as an integrated group capable of generating important synergies. The corporate systems and policies implemented in all the Group's companies allow:

- **Cost and revenue synergies** to be generated, by developing the Santander commercial banking model through global strategies and sharing best practices between different countries and units.

- **To strengthen the Santander culture,** with particular importance attached to global management of risks and on controlling business units.

- **Greater efficiency in lending,** through sharing systems on a global basis.

All of this enables the Group to obtain better results than those that would result from the sum of each of the local units independently.

Regulatory and strategic advantages

- The autonomy of subsidiaries limits, in times of crisis, contagion among the Group's various units reducing systemic risk.
- Subsidiaries are subject to double supervision and internal control, that is, local and global.
- This model facilitates management and resolution of crises while generating incentives for good local management.
- Listed subsidiaries:
  1. Allow quick access to capital, while being subject to market discipline.
  2. Facilitate the funding of acquisitions in local markets and are an alternative to investing capital.
  3. Guarantee a high level of transparency and corporate governance and strengthen the brand in the various countries.

“ Banco Santander understands efficiency as an essential tool to provide value-added products to customers and higher shareholder returns. Banco Santander is constantly striving to improve all its processes and its customer service. Its leadership in technology and operational integration makes Santander one of the most efficient international banks in the world. ”

Isabel Tocino
Non-executive director

EFFICIENCY

Santander has an IT and operations platform, which enables it to attain a high degree of commercial productivity while getting to know the financial needs of its customers in detail and with a single vision.

The Bank focused on improving processes, business support areas and direct customer attention.

Santander continues to make progress in implementing corporate technological platforms in all its business units, which translates into value creation and cost savings. In May 2012, Sovereign in the US completed the migration of all its customer accounts to the *Santander IT Core* corporate technological system. In August, the 155 retail banking branches of Santander Bank in Germany also joined this platform.

The Group's technology and operations model is organised around corporate 'factories' that are responsible, among other things, for software development, operations, maintaining Internet and intranet, and purchasing management. These 'factories' have a global strategy and have local teams in each country.

Recurring revenue growth, cost control culture and high productivity of branches make Santander one of the world's most efficient international banks. Its cost-to-income efficiency ratio is 46.1%.

Data processing centre, Cantabria, Spain

Improvements in efficiency translate into value for clients, such as the zero commissions offered in the *We want to be your Bank* plan implemented in the Santander branch network in Spain, and the reimbursements and discounts in purchases and direct debits in the *1|2|3* current account in Santander UK.

Banco Santander carries out plans and programmes to improve its energy efficiency, and measures the environmental impact of its businesses. In 2012, Santander achieved the goals of its three-year (2011-2013) energy efficiency plan to reduce consumption of electricity and CO_2 emissions.

DATA PROCESSING CENTRES (DPCs)

Spain: Cantabria
Boadilla del Monte (Madrid)

UK: London

Mexico: Queretaro

Brazil: São Paulo

Annual transactions

3 trillion

The DPCs are high security bunkers that process more than three trillion transactions a year and reduce operational risk to a minimum for the Group's more than 100 million customers.

THE SANTANDER TEAM

Santander's team of 186,763 employees worldwide is the bedrock sustaining its business model. Human resources management at the Bank is thus designed to respond to the team's needs, and ensure that the Bank possess the best international talent to guarantee sustainable growth and results.

The employees' management model is based on strategic planning of talent and leadership, knowledge and a solid corporate culture.

Leadership with talent

Management of talent and leadership is conducted with an integral focus that enables Santander to select the best professionals for each post and invest in their career and commitment.

As regards external talent, the Bank, through the employer brand initiative *Santander could be you*, communicates its value offer to attract the best candidates from universities, business schools and networks of professionals throughout the world.

In order to identify and get to know internal talent, Santander has development and mobility committees, which since 2007 have assessed 66% of the Group's executives, and which were recognised in 2012 by the Corporate Leadership Council (CLC) consultancy as constituting the best international practice for strategic talent planning.

In 2012, Santander extended the *Talent development* model to new divisions, ensuring that the best professionals for business development are in strategic posts. The new management performance system, with common processes and criteria to assess the Group's corporate executives, was also put into effect.

Santander has specific programmes, in strategic business areas as well as for key collectives (corporate executives, high-potential professionals and female talent), in order to foster international mobility and skills development.

Knowledge

Santander invested EUR 123.2 million in training programmes in 2012 and each of the 179,282 employees involved received an average of 35.5 hours of training.

In order to promote the exchange of knowledge and best practices between the countries in which the Group operates, Santander has the *Santander Knowledge Institute*, which develops its activity via corporate schools specialising in key business areas. In 2012, the commercial banking corporate school continued to expand in new countries, while the risks school began its activity in the US and the auditing school adapted their curricula plans to other countries.

In Spain, the Santander Financial Institute (SanFi) was launched, fostered by the University of Cantabria and the Bank, to promote research and generate and disseminate knowledge in the financial sphere.

Training of professionals was underpinned by the Santander Learning IT platform, which operates in eight countries, 148 Group's companies and has 67,051 users and more than 40 online communities.

Culture of values

New initiatives were implemented via the *Santander is you* programme in order to continue to make Santander one of the best companies to work for, foster pride in belonging to the Group and disseminate the corporate values. The

"An organisation's future lies in the professionalism, knowledge and the commitment of its workforce. Banco Santander's board has made attraction, development and retention of the best talent worldwide a priority."

Fernando de Asúa
1st vice-chairman.
Non-executive director.
Chairman of the appointments and remuneration committee.

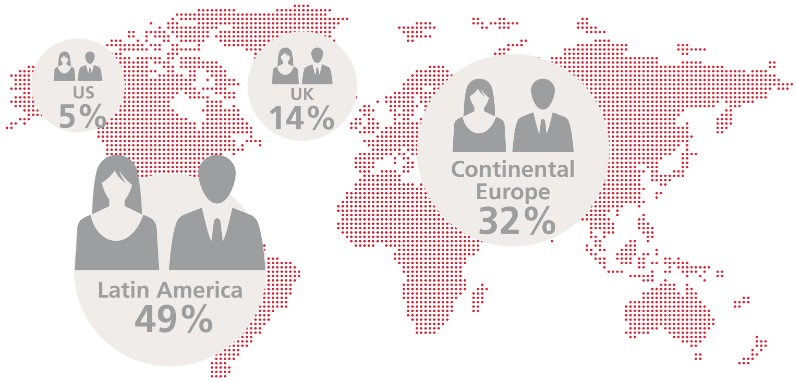
objective is to make progress in the areas of improvement that professionals have identified in internal and external surveys, such as cooperation, teamwork and recognition.

The 5th *Santander is you* week, which held in all countries simultaneously between 10 and 16 June, and the 4th *Santander is you* race, which took place in Mexico, were organized under the slogan, *We are a great team*.

Santander also promoted its committed volunteers programme, which has mobilized 15,770 volunteers, including participants in the *Euros from your payroll* programme and in the Santander-PESA study. Thanks to events such the two editions of the Santander solidarity race, the *Santander is you week* and the cooperation of the Group's trainers, EUR 250,000 was raised and used to pay for the schooling of 15,557 children in Oaxaca, Mexico. After achieving this first objective, the programme in Spain is focusing on supporting families most affected by the economic crisis, backing and financing education programmes together with the Red Cross.

The Brazil School project, which strives to improve the quality of teaching in state schools across the country, increased its total number of volunteers by 52% to 3,030.

GEOGRAPHIC DISTRIBUTION OF PROFESSIONALS



OTHER KEY FIGURES

	54%	46%
AVERAGE NUMBER OF YEARS WITH SANTANDER	8.8	10.7
GRADUATES	54%	46%
AVERAGE AGE (YEARS)	36	38

TOTAL PROFESSIONALS

186,763

Continental Europe	UK	US	Latin America
60,476	26,186	9,525	90,576

SANTANDER AND SUSTAINABILITY

Sustainability for Banco Santander means carrying out its business contributing to economic and social progress in the communities in which it operates, taking care over the impact of its activities on the environment and developing positive, stable relationships with its main stakeholders.

2012 was the 10th anniversary of the introduction of the corporate sustainability plan. This plan was the basis of a clear sustainability strategy that has guided the Group's activities and has enabled Santander to become one of the main international benchmarks in sustainability.

At Santander, sustainability is integrated into the strategy and business model as well as internal processes and policies, and affects, on a cross-cutting basis, very different spheres.

Grupo Santander City, Boadilla del Monte, Madrid, Spain.

- Santander offers its customers responsible and sustainable products and services, tailored to their needs, which meet the best practices in the markets where they are sold and whose distinguishing features are their innovation and technical rigour. These products and services not only take into account financial productivity criteria but also incorporate ethical, social, environmental and good governance aspects.

- In its risk analysis and decision-making processes, Santander takes into account and evaluates social and environmental aspects. The Equator Principles are applied to project finance operations throughout the Group.

- Santander measures and controls its environmental footprint in all the Group's facilities throughout the world and has an ambitious energy efficiency plan.

- The Bank's purchasing processes are managed on a coordinated, efficient and sustainable basis, and promote compliance by suppliers with the United Nations Global Compact.

Social investment

Santander promotes access to banking services and financial inclusion in the communities in which it operates, with initiatives designed to cover the needs of the poorest communities with low purchasing power.

Sustainability committee

This committee is the body that ensures sustainability is integrated into the Bank's business plan. It draws up the Bank's strategic plans and sustainability policies and submits them for the board's approval. It is chaired by the chief executive officer and comprises members of the Bank's business and support divisions.

Sustainability for Banco Santander means:

- Integrating ethical, social and environmental criteria into the business;
- Taking a long term view in the development of activities;
- Maintaining stable and lasting relations with the main stakeholders in order to understand their expectations and respond to their needs;
- Anticipating the challenges of the changing environment;
- Having the best corporate governance, and;
- Contributing to social and economic progress in the communities in which it develops its business.

The Bank's main activities in corporate social responsibility are set out in the sustainability report

"Santander's commitment to higher education is a great value in itself. The Bank believes in universities and, as a result, invests in value and knowledge, contributing to the prestige of higher education in all the countries where the Group operates."

Esther Giménez-Salinas
Non-executive director

Santander Universities

The Bank's investment in corporate social responsibility is mainly earmarked for higher education. Santander is convinced that this is the best way to contribute to the economic and social development of the countries in which it operates.

The Santander Universities global division manages Banco Santander's commitment to higher education. Over the past 16 years, it has forged a long term strategic alliance with universities that is unique in the world. Banco Santander contributed EUR 130 million to cooperation projects with universities in 2012.

Santander cooperates with universities in launching projects to improve education, internationalisation, the mobility of students and teachers, innovation, the transfer of knowledge to society and fostering and promoting the entrepreneurial culture in universities.

This cooperation is articulated through integral agreements of support for international programmes of interuniversity cooperation, promoting and cooperating with international academic networks and supporting global projects.

Santander Universities in 2012

- Signing of the 1,000th university cooperation agreement. Forty new cooperation agreements effected with universities in Germany, Poland and the United Kingdom.
- Launch of the second edition of the programme of 5,000 grants for work experience in SMEs and programmes to foster the international mobility of young post graduates and researchers and strengthen the exchange of students between the UK, the US and Latin America.
- Consolidation of the Santander Latin America scholarships programme, first presented at the 2nd Meeting of University Rectors in Guadalajara, Mexico, in 2010.
- The 8th Santander Universities prizes for innovation and entrepreneurship were awarded in Brazil, with 10,260 projects presented, and the editions in Mexico, Argentina, Chile and Puerto Rico.
- The Santander International Entrepreneurship Centre, in cooperation with the University of Cantabria and the regional government, was launched and the first Latin American university entrepreneurial forum held.
- Launch of the financial culture and education programme.
- Universia published in 2012 a total of 2,455,978 job offers and registered 12,339,588 employment requests in the portals of the local community.

130
million euros for universities.

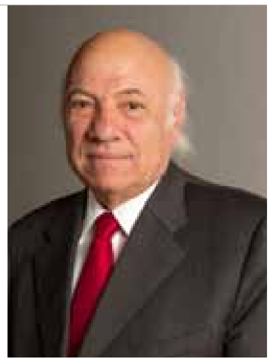
1,027
cooperation agreements with universities in 20 countries on four continents.

Scholarships and grants

28,303
scholarships and grants awarded for studies in 2012.

Universia

1,242
universities form part of Universia.



Vittorio Corbo
Independent, director

“In banking, where confidence is vital, the image and reputation of an institution makes a huge difference. Banco Santander is perceived as a strong and solid bank in all the markets in which it operates. This is the best reflection of its corporate culture and global reach.”

THE SANTANDER BRAND

Santander was the 4th most valuable financial brand in the world in 2012, according to the Brand Finance ranking, and is associated with internationalisation, leadership and strength. The brand is home to the Group's identity and values, and expresses a unique international positioning which sets Santander apart.

Strategic corporate marketing and brand committee

The corporate committee of corporate marketing and brand, chaired by the Bank's chief executive officer, approves the marketing plans for countries and global businesses; validates their budgets; monitors the image of the brand and, together with the corporate area of clients and quality, customer satisfaction. It also oversees the positioning of the single brand and ensures that all the Group's advertising and marketing activities are consistent and create value. The human resources division also participates in the committee, as it is the key for involving employees, and the commercial banking school as it is the conveyor belt of the Group's best practices between countries.

Santander began a global brand unification process back in 2004. It led to the brand being installed in all the Group's banks. This process will continue in 2013 with the integration of Banesto and Banif into the Santander brand in Spain, and with the change of Sovereign's brand in the US.

Corporate sponsorship

Corporate sponsorship continues to be a key plank in making the brand better known and thus continuing to consolidate Santander's international position. Support for sport is part of the Bank's commitment to society and it identifies strongly with the sporting values of teamwork, innovation and leadership.

- In 2012, Santander announced it would extend its alliance with the Formula 1 Ferrari team until 2017, thanks to an agreement that gives the Santander brand a greater presence on the car. Sponsorship of the two McLaren drivers is also maintained.
- In Latin America, Santander consolidated its positioning as the ‘football bank' by sponsoring the region's main championships, both for clubs (*Copa Libertadores, Copa Sudamericana and Recopa Santander Sudamericana*) as well as for national teams (*Copa América*).

THE BRAND IS THE GROUP'S ESSENCE

1.Symbol 2. Logotype

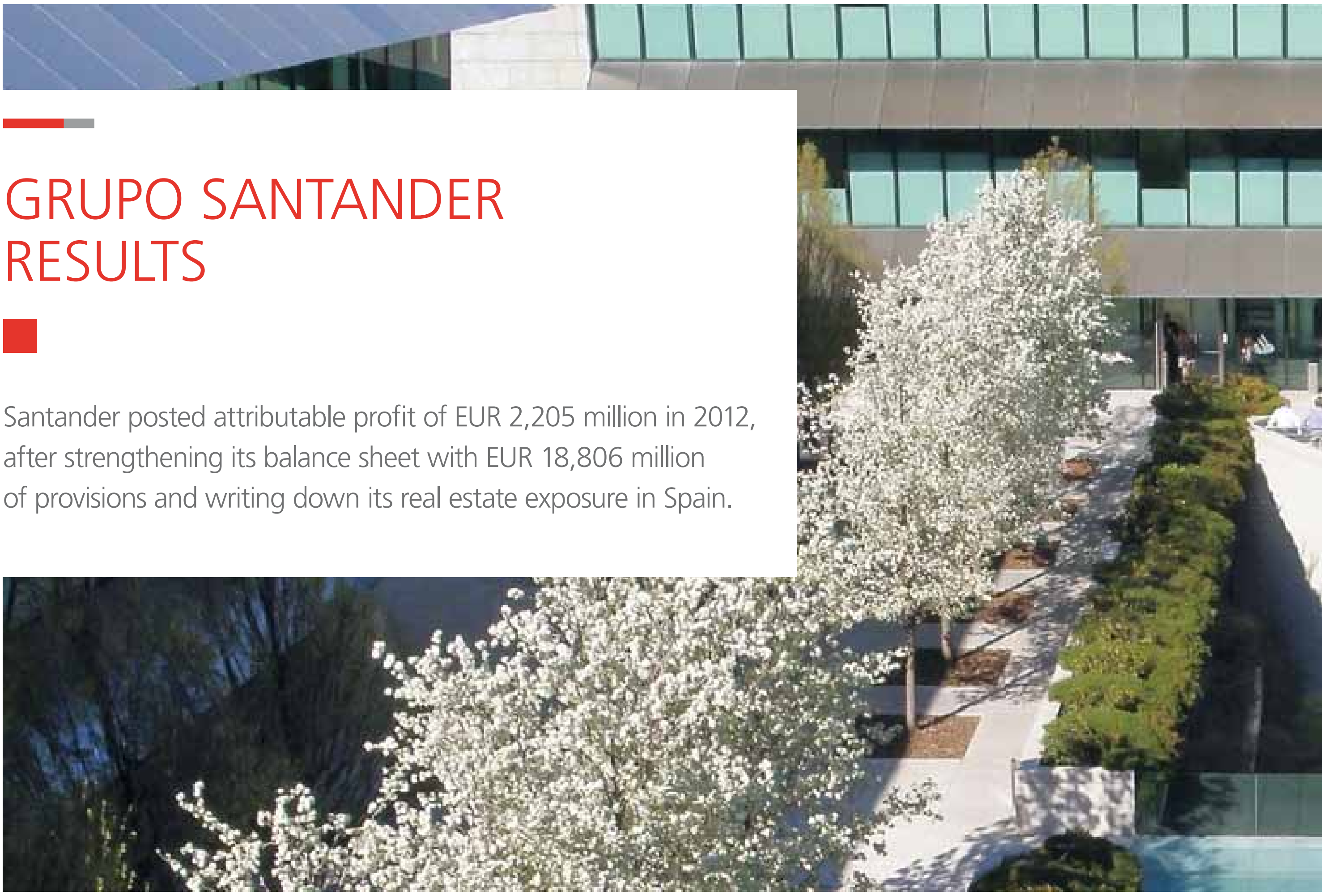
Santander
a bank for your ideas

3. Colour 4. Corporate claim

1. **The symbol** is a flame that evokes the “S” of Santander and transmits triumph, leadership, clarity and dynamism.
2. **The logotype** is the word “Santander”, the name that represents the Bank and reflects its origin and trajectory.
3. **The colour red** is a key component of the Bank's identity. It impregnates all elements of communication with its strength, energy and determination.
4. **The corporate claim** transmits to customers, shareholders and society in general that all the Bank's strength, leadership and innovation capacity is at their service to help them realise their projects.

2

RESULTS IN 2012



GRUPO SANTANDER RESULTS

Santander posted attributable profit of EUR 2,205 million in 2012, after strengthening its balance sheet with EUR 18,806 million of provisions and writing down its real estate exposure in Spain.

2012 highlights

Grupo Santander carried out its business against an economic backdrop of crisis in developed markets, a tenuous recovery in emerging countries and uncertainty in equity and debt markets, particularly in Europe.

- Pre-provision profit (net operating income) increased 1.6% to a new record of EUR 23,559 million.
- A total of EUR 18,806 million was assigned to provisions (EUR 12,666 million to the Group's loan-loss provisions and EUR 6,140 million to real estate exposure in Spain).
- Santander met 100% of the real estate provisions required by the new rules in Spain.
- Santander is one of the world's most efficient international banks.
- The core capital ratio increased to 10.33% (BIS II criteria) and the liquidity position remained comfortable.

Recurrent revenues

Grupo Santander's commercial banking business model, together with its geographic diversification, enabled it to maintain notable growth in revenues. Gross income increased 2.2%, spurred by the most commercial revenues,such as net interest income, fee income and insurance.

Outstanding loans declined in Spain and Portugal because of the weak demand, which was partly offset by growth in Brazil, Mexico, Chile, Poland and the United States, and lending to SMEs in the United Kingdom. Deposits were virtually stable, with a noteworthy EUR 22,000 million captured in Spain.

Costs grew 2.9%, due to investments in technology and the branch networks in Latin America and the United States. In developed countries, such as Spain and the United Kingdom, costs maintained a downward trend. The

Grupo Santander City, Boadilla del Monte, Madrid, Spain.

Group's efficiency ratio ended 2012 at 46.1%, one of the best among international banks.

The good performance in revenues, coupled with control of costs, pushed up pre-provision profit (net operating income) by 1.6% to EUR 23,559 million.

Provisions and writedowns

Loan-loss provisions made in 2012 amounted to EUR 12,666 million, as a result of lending growth in emerging countries and the rise in non-performing loans in certain countries (Spain, Brazil and Chile).

Ordinary profit was EUR 5,251 million, after deducting loan-loss provisions, taxes and minority interests. After EUR 1,064 million of net capital gains during the year (mainly from the sale of businesses in Colombia and the reinsurance of the life assurance portfolio in Spain and Portugal) is added to this, and EUR 4,110 million of special net provisions for real estate exposure in Spain is deducted, the accounting profit is EUR 2,205 million, down 59% for the year.

Balance sheet strength

In 2012, Grupo Santander notably increased its capital and fulfilled, ahead of schedule, the new requirements of the European Banking Authority. The core capital ratio rose by 31 b.p. to 10.33% under BIS II criteria.

During the year, international authorities such as the International Monetary Fund (IMF), and the stress tests conducted by independent consultancies, underscored the strength of Banco Santander's balance sheet, even in the most adverse scenarios. The Group has a comfortable liquidity position, with a loan-to-deposit ratio of 113% (117% in 2011). Despite the tensions in European debt markets, the Group maintained a high capacity of issuance in the markets, as shown by the EUR 43,000 million of medium- and long-term debt and securitisations issued in the markets in 2012.

The NPL ratio increased to 4.54% and remained below the sector's average in almost all the countries where Santander operates. NPL coverage increased to 73%. The exposure to the real estate sector in Spain, net of provisions, was reduced by EUR 12,400 million in 2012, with declines in both lending to this sector as well as in foreclosed properties.

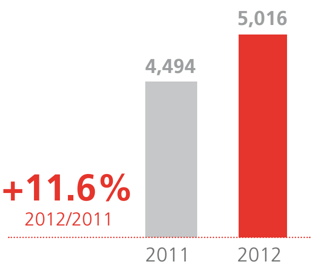
RESULTS BY COUNTRIES AND BUSINESSES

SPAIN

Santander generated profit in Spain of EUR 1,290 million. It is the country's largest financial group, with a market share of 12.5% in loans and 15.3% in savings. It has commercial and wholesale banking businesses, consumer finance and online banking (OpenBank). During 2013, the branch networks of Banesto and Banif (private banking) will come under the Santander brand.

Santander branch, Madrid, Spain.

PRE-PROVISION PROFIT (NET OPERATING INCOME)
Million euros



Contribution to the Group's profit

15%

Branches: **4,683**
Customers: **15 million(*)**
Loans: **194,170(**)**
Deposits: **201,850(**)**
Attributable profit: **1,290(**)**

(*) Includes 1.9 million Santander Consumer Finance customers
(**) million euros

2012 highlights

→ In a very unfavourable economic and financial environment, Santander's strategy in Spain focused on:
- Capturing deposits (more than EUR 22,000 million captured with a gain in market share of 2.2 percentage point in the year).
- Selective growth in lending toward sectors such as SMEs and exporters, with a special credit line of EUR 4,000 million that benefited 8,000 SMEs and 5,000 exporters.
- The sharp reduction in exposure to the real estate and construction sectors (down EUR 12,400 million in net terms and, with coverage increased to 47%).
- The improvement in liquidity (the loan-to-deposit ratio dropped to 96%).

→ Gross income grew 4.9% and costs declined 2.4%, enabling net operating income to rise 11.6%. The non-performing loans (NPL) ratio increased to 6.74%, although it was still well below the sector's average, while coverage rose to 71% (+25 points on 2011).

→ The Santander branch network attracted 850,000 new customers in 2012. *We want to be your Bank,* Santander network's strategic plan exempting linked customers from service charges, expanded its advantages with discounts and offers in alliance with top Spanish brands.

→ In 2012, 214,000 new loans were made for a total of EUR 29,000 million (+16%).

→ Banco Santander was particularly sensitive toward customers in difficulties because of the crisis. More than 21,000 clients took advantage of the mortgage moratorium launched in the summer of 2011 and benefited from a significant reduction in their repayments for three years.

Santander branch, Madrid, Spain.

Integration of commercial networks in Spain

Banco Santander announced in December that it will integrate Banesto and Banif, thus unifying its business brands in Spain. This transaction takes place in the context of the deep restructuring of the Spanish financial sector, which is producing a significant decline in the number of players and the creation of larger banks.

After the networks are integrated, Santander will have 4,000 branches in Spain under the same corporate identity; corporate and private banking will be strengthened and cost and revenue synergies are expected to come to EUR 520 million before tax by the third year. Cost synergies will come from the closure of 700 branches and from the integration of central services.

Banesto has been part of Grupo Santander since 1994. The transaction will be carried out through a merger by absorption. Banesto's minority shareholders, who hold 10.26% of the share capital, will receive Banco Santander shares in circulation with a premium of 24.9% over the share price on December 14. The merger will generate value right from the start and lift Banco Santander's earnings per share by 3% in the third year on the market consensus.

The customers of Santander, Banesto and Banif will benefit from this merger as they will have access to a much larger branch network and an expanded range of products and services.

INTEGRATION CALENDAR

2012

17 December 2012
Banco Santander's board approves the proposal to integrate.

2013

9 January 2013
The boards of Banco Santander and Banesto approve the planned merger project and inform the National Securities Market Commission about the project.

21 March 2013
The transaction is submitted for approval at the AGM of Banesto.

22 March 2013
The transaction is submitted for approval by Banco Santander AGM.

April 2013
Regulatory and administrative authorisation expected.

May 2013
Completion of legal merger between the banks and delivery of Banco Santander shares to Banesto's minority shareholders. The transition to the Santander brand begins in Banesto's branches.

During 2013
Operational and brand integration.

The transaction will be submitted for approval to the annual general meeting of shareholders in March 2013. The legal merger of Santander and Banesto will be completed in May 2013, at the end of which year the operational and brand integration will have been completed.

Network of
4,000
branches and
6,000
cashpoints
under the same Santander corporate identity.

Synergies of
520
million euros

Earnings per share
+3%
as of the third year

POLAND

Bank Zachodni WBK obtained an attributable profit of EUR 330 million in 2012, 21.1% up on the year before in local currency and on a like-for-like basis.

Bank Zachodni WBK branch, Poland.

2012 highlights

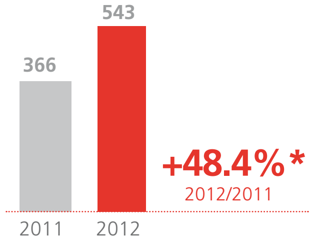
→ Santander carries out its commercial banking business in Poland through Bank Zachodni WBK, which has the country's third largest branch network (519), and EUR 21,300 million of loans and customer funds. Santander also carries out consumer finance business, through Santander Consumer Bank Poland.

→ In 2012, net loans to customers rose by 5% in local currency and deposits dropped 1%. The loan-to-deposit ratio was 87% and the efficiency ratio improved to 43.9%.

→ Bank Zachodni WBK's business model focuses on retail customers and strong support for SMEs, complemented by a notable presence in asset management, brokerage of securities and leasing.

→ In January 2013, Grupo Santander and the Belgian group KBC Bank merged their two subsidiaries in Poland (Bank Zachodni WBK and Kredyt Bank). This transaction consolidates the Group's Polish subsidiary as the country's third largest bank by revenues and profits. Its 800 branches will serve more than 3.5 million individual customers.

PRE-PROVISION PROFIT (NET OPERATING INCOME)
Million euros



* In local currency: +51.0%

Contribution to the Group's profit

5%

Branches: **519**
Customers (million): **2.5**
Loans: **9,732(*)**
Deposits: **11,217(*)**
Attributable profit: **330(*)**

(*) million euros

PORTUGAL

Santander Totta is the third largest private sector bank by assets and the leader in terms of attributable profit generated in Portugal, which in 2012 amounted to EUR 124 million, a fall of 28.7%.

Santander Totta branch in Lisbon.

2012 highlights

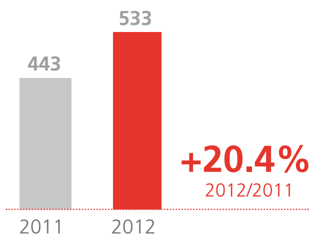
→ Santander's business in Portugal focuses on commercial banking, with 667 branches, 2 million customers and a market share of 10%.

→ In 2012, revenues rose 6.7% despite the country's recession, while costs fell 4.8%. As a result, net operating income increased 20.4% and the efficiency ratio was 48.6%. Provisions increased because of the growth in non-performing loans in a difficult economic environment.

→ The Bank's deposits rose 2% and loans declined 9%. The loan-to-deposit ratio improved to 108%.

→ Santander's business strategy centred on the segment for companies (with a market share of 17%), with initiatives such as the *Programa Top Exporta*, which supports internationalisation, and the *Plano Activação*, a credit line for companies of EUR 1,500 million. Of note was the Bank's significant involvement in the Portuguese government's credit programmes: *PME Investe* and *PME Crescimento*.

PRE-PROVISION PROFIT (NET OPERATING INCOME)
Million euros



Contribution to the Group's profit

1%

Branches: **667**
Customers (million): **2.0**
Loans: **25,960(*)**
Deposits: **23,971(*)**
Attributable profit: **124(*)**

(*) million euros

SANTANDER CONSUMER FINANCE

Santander Consumer Finance (SCF) recorded attributable profit in 2012 of EUR 727 million, up 9%. SCF is a leader in consumer finance, operating in 13 European countries, including Germany.

Headquarters of Santander Consumer Bank in Mönchengladbach, Germany.

Santander Consumer Finance specialises in auto finance and also offers other products such as personal loans, loans to buy durable goods and credit cards.

Its business model is based on providing financial solutions through more than 112,000 dealers. In 2012, SCF strengthened the model's key components: diversification, leadership in key markets, efficiency, risk control and recoveries, and its single pan-European platform.

2012 highlights

- The division obtained solid results in a weak European consumer environment. Gross income dropped 2.2% and costs rose by 4.0% as the franchise was developed. This was offset by lower loan-loss provisions, which were down -11.7%, thanks to the enhanced loan quality.

- The NPL ratio improved for the third year running and ended 2012 at 3.90%. Coverage ratio remained virtually unchanged (110%).

- Gross lending amounted to EUR 59,212 million, in line with the end of 2011. New loans in 2012 totalled EUR 21,720 million (+1%), with rises in all segments, particularly used cars (+6%) and durable goods (+10%).

- SCF maintained a high level of deposits (EUR 31,892 million), which gave it considerable funding stability. Wholesale funding via securitisations also performed well and diversified into new markets: Benelux, Denmark, Finland and Sweden.

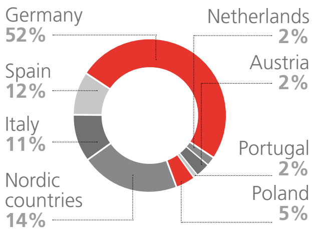
Germany

Santander has 296 branches and 6.5 million customers in Germany, where it is the consumer finance leader and also carries out retail banking businesses. Germany accounted for 52% of SCF's profits and 4% of the Group's total.

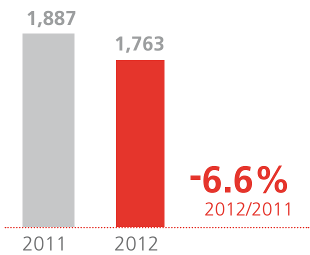
New lending (+5%) and the high level of deposits (EUR 29,737 million) reflect the consolidation of the business model in the German market.

In 2012, installation of the *Partenon* IT platform in commercial banking branches was completed.

LENDING
By countries



PRE-PROVISION PROFIT (NET OPERATING INCOME)
Million euros



Branches: **629**
Customers (million): **12.3**
Lending: **56,683**(*)
Deposits: **31.892**(*)
Attributable profit: **727**(*)

(*) million euros

Contribution to Group profit

UNITED KINGDOM

Santander UK's attributable profit was EUR 1,175 million in 2012 (10.2% lower than in 2011 in local currency). It is the country's third largest bank by retail deposits and the second by home mortgages, with market shares of 9.4% and 13.1%, respectively.

Santander UK's headquarters in London.

2012 highlights

→ Santander UK focuses its activity on the United Kingdom: almost 99% of customers' assets come from the UK and 85% of loans are residential mortgages. The Bank has 1,189 branches and 35 regional business centres servicing 26 million customers.

→ Revenues fell 17.5% in sterling because of low interest rates and the higher cost of funds, together with the maturity of interest rate hedges made in previous years. Costs fell 1.3%, despite inflation and investments in retail and business banking. As a result, pre-provision profit dropped 30.4%. Loan-loss provisions increased 22.8%, which lifted coverage by five percentage points.

→ The Bank reached a volume of new mortgage loans of £14,605 million in 2012. Loans to SMEs rose 18% and deposits in current accounts by 32%, thanks to the launch of the *1|2|3 World* products (a credit card and a current account with cash reimbursements).

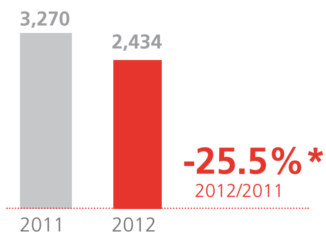
→ Santander UK's capital remains strong and it has a comfortable liquidity position. The loan-to-deposit ratio improved to 129%.

→ Santander UK's business strategy centred on becoming a more diversified bank, able to provide all types of services to meet the financial needs of individuals, households and companies.

- It offers transparent, simple and high valued-added products, forging solid banking relations with customers.
- It continued to make progress in the organic growth of business banking by expanding the network of corporate business centres.
- The Bank remained very disciplined in costs management, always focused on improving the customer experience and quality of service.

→ In October, Santander UK announced it would not go ahead with the agreement to acquire 316 Royal Bank of Scotland corporate banking branches in England, Wales and Scotland.

PRE-PROVISION PROFIT (NET OPERATING INCOME)
Million euros



(*) In local currency: -30.4%.

Contribution to the Group's profit

13%

Branches: **1,189**
Customers (million): **26.2**
Lending: **250,527**(*)
Deposits: **194,452**(*)
Attributable profit: **1,175**(*)

(*) million euros

BRAZIL

Santander Brazil is the country's third largest private sector bank by assets and the leader among foreign banks. It posted attributable profit of EUR 2,212 million in 2012, an annual drop of 8.8% in local currency, partly due to a perimeter effect.

Santander's headquarters in Sao Paulo.

2012 highlights

→ Santander operates in Brazil's main regions and has a network of 3,788 branches and points of attention, 17,793 ATMs and 27.3 million customers. It has a market share of 9.7% in loans and 7.7% in deposits.

→ Revenues rose by 12.4% in local currency in 2012. Costs rose by 5.5%, due to investments in expanding the business and wage agreements. Net margin increased by 16.6%.

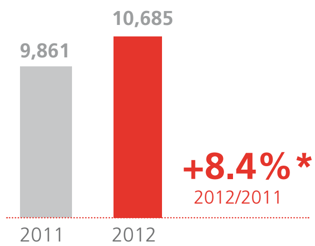
→ The 8.8% decline in attributable profit was due to a 46.2% increase in loan-loss provisions, driven by growth in lending and the moderate rise in non-performing loans, higher taxes and minority interests. If the latter is not taken into account, net consolidaet profit fell by 3.8%.

→ The Bank's strategy focused on strengthening business in five key segments:

- Loans grew 6%, in local currency, with the focus on real estate and consumer credit.
- Loans to SMEs rose 14% on the year before.
- The balances of credit cards increased 14%, giving a market share of 12.8%. The Bank has 48 million credit and debit cards.
- In the point-of-sale terminals business, Santander held its leadership position and became the first bank to provide this service to SMEs. In 2012, the number of businesses using them reached 416,000.
- In auto finance for individuals, various agreements were made with international producers and market share reached 16.3%.

→ Santander Brazil also continued to advance in its objective of fostering relations with customers and improving service quality, based on the strength of its IT platform, the improvement in infrastructure with the opening of new branches and reinforcing the Santander brand in Brazil.

PRE-PROVISION PROFIT (NET OPERATING INCOME)
Million euros



(*) In local currency: +16.6%.

Contribution to the Group's profit

26%

Branches: **3,788**
Customers (million): **27.3**
Lending: **74,511**(*)
Deposits: **69,849**(*)
Attributable profit: **2,212**(*)

(*) million euros

MEXICO

Santander is the country's third largest financial group by business volume.
Attributable profit in 2012 amounted to EUR 1,015 million, an increase of 6.2% in local currency.

Santander's corporate headquarters in Mexico.

2012 highlights

→ Santander Mexico has 1,170 branches and 10 million customers. It has a market share of 13.9% in loans and of 13.7% in bank savings.

→ The results improved in quality and recurrence. Revenues grew 16.9% in local currency, due to optimum management of spreads and fee income. The default rate was 1.94%, while the efficiency ratio stood at 39.7%.

→ Solid growth in lending to strategic segments such as SMEs (+77%), home mortgages (+12%), consumer credit (+21%) and credit cards (+30%) was a noteworthy feature.

→ In the medium- and long-term, the Bank aims to consolidate its strategy of developing commercial banking in strategic segments, taking advantage of the growth potential in banking activity expected for the Mexican economy.

Flotation of Santander Mexico

In 2012, Banco Santander deepened its strategy of listing its main subsidiaries with the flotation of 24.9% of Santander Mexico:

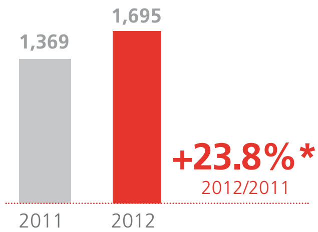
- This transaction, the third largest in the world in 2012 and the largest in Latin America, raised EUR 3,178 million, and valued Santander Mexico at EUR 12,730 million at the time of the placement.

- Demand outstripped supply by a factor of five and Santander Mexico's shares ended the year up 33.8%, underscoring investor interest.

- The listing of Santander Mexico will strengthen Santander's growth plans in the country. The Bank will open 200 new branches over the next three years.

PRE-PROVISION PROFIT (NET OPERATING INCOME)

Million euros



(*) In local currency: +21.2%.

Contribution to Group profit

12%

Branches: **1,170**
Customers (million): **10.0**
Lending: **20,384**(*)
Deposits: **24,743**(*)
Attributable profit: **1,015**(*)

(*) million euros

CHILE

Santander Chile is the country's largest bank in terms of assets and customers. Attributable profit in 2012 amounted to EUR 498 million, down 24.2% in local currency.

Santander branch in Chile.

2012 highlights

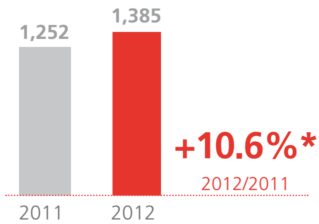
→ Santander's business in Chile focuses on commercial and retail banking. Some 504 branches serve 3.5 million customers and market shares amount to 19.2% in lending and 17.4% in deposits.

→ The strategy in 2012 concentrated on boosting the commercial franchise, maintaining a comfortable liquidity position and strengthening the capital base.

→ Revenues grew 4.1% and costs 6.1%, resulting in net margin increasing 2.8%. The fall in attributable profit was due to the impact on net interest income of lower inflation and higher loan-loss provisions, in line with the sector's trend.

→ *Global Finance* magazine recognised Santander Chile as the Best Bank in Chile. In order to consolidate this position, the bank launched the Commercial Transformation Plan which aims to boost productivity and management efficiency by better segmenting the customer base, streamlining the range of products and active risk management in all the phases of the cycle (admission, monitoring and recoveries).

PRE-PROVISION PROFIT (NET OPERATING INCOME)
Million euros



(*) In local currency: +2.8%.

Contribution to Group profit

Branches: **504**
Customers (million): **3.5**
Lending: **29,677**(*)
Deposits: **22,411**(*)
Attributable profit: **498**(*)

(*) million euros

ARGENTINA

Santander Río is the country's leading private bank by assets and earnings. Attributable profit was EUR 329 million in 2012, an increase of 16.1% in local currency.

Santander Río's headquarters in Buenos Aires.

2012 highlights

→ The Bank has a market share of 8.6% in loans and 9.3% in savings.

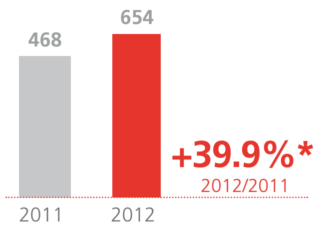
→ In an environment of lower economic growth, gross income in pesos rose 34.8%, driven mainly by a 46.1% increase in net interest income and a 22.9% rise fee income.

→ The strategy in 2012 centred on attracting and linking customers, particularly medium and high income ones, through a multi-channel network focused on quality of service and customer satisfaction. The number of branches increased 3% and new Select spaces were created to provide services to the most profitable clients.

→ Santander Río was recognised as the *Best Company to Work For* by the Great Place to Work Institute consultancy.

→ In the medium and long term, Santander Río will focus on improving its efficiency, with new investments in technology and management of costs, and maintain high levels of profitability, based on its leadership position in transaction banking and in growth in lending and savings.

PRE-PROVISION PROFIT (NET OPERATING INCOME)
Million euros



(*) In local currency: +42.0%.

Contribution to Group profit

Branches: **370**
Customers (million): **2.4**
Lending: **5,200**(*)
Deposits: **6,256**(*)
Attributable profit: **329**(*)

(*) million euros

UNITED STATES

Santander US generated attributable profit of EUR 811 million, down 25.8% in dollars for the year. The Bank conducts commercial and retail banking through Sovereign Bank, and consumer finance via Santander Consumer USA.

Sovereign branch in the US.

Sovereign has 722 branches, 2,268 ATMs and more than 1.7 million customers. The Bank's business model focuses on retail customers and companies in the US north-east, where it has significant market share. Santander Consumer USA signs, acquires and securitises loans for the purchase of new and used vehicles, and it has an online platform of direct loans to customers through the Internet.

2012 highlights

→ Profit fell by 19.7% because of the reduced stake (from 91.5% to 65%) in Santander Consumer USA (SCUSA) and an extraordinary charge by Sovereign Bank in the framework of an agreement in a contentious issue in relation to an issue of the Bank (Trust Piers) before its acquisition by Santander.

→ In 2012, Sovereign obtained a banking licence to operate nationally. This enables the Bank to offer a wider range of products and services to meet its customers' needs better. The Bank also completed the integration of the Santander IT Core corporate technology platform, giving it new capacities, improving its efficiency and securing a more solid base for future growth.

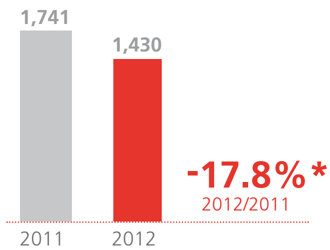
→ Key drivers of growth within retail banking included growth in mortgage production gaining market share against competitors as well as an increase in loan production from small businesses in line with the Bank's strategy to support economic development. Deposit growth continued to be a priority for the Bank and the repositioning of the premier banking package provided favorable results. The year concluded with the full certification of over 50% of the banking branches in the STARR program (Steps to Achieve Remarkable Results), the transformational sales culture program in the branch network.

→ Sovereign continued to improve its credit quality. The NPL ratio declined to 2.29% and coverage increased to 105.9%.

→ The Bank made progress in developing new businesses and products. The integration of new teams at Santander Global Banking & Markets (SGBM) strengthened this activity, doubling lending and revenue volumes.

→ Sovereign will adopt the Santander brand in 2013.

PRE-PROVISION PROFIT (NET OPERATING INCOME)
Million euros



(*) In local currency: -24.1%.

Contribution to Group profit

10%

Branches: **722**
Customers (million): **1.7**
Lending: **41,331(*)**
Deposits: **38,116(*)**
Attributable profit: **811(*)**

(*) million euros

GLOBAL BANKING & MARKETS

Global Banking & Markets attributable profit was EUR 1,827 million, almost unchanged from 2011.

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

Santander Global Banking & Markets (SGBM) is the global business unit for corporate clients and institutions that, because of their size, complexity or sophistication, require tailored services or value-added wholesale products. It operates in 22 countries and has 2,597 employees in its local and global teams.

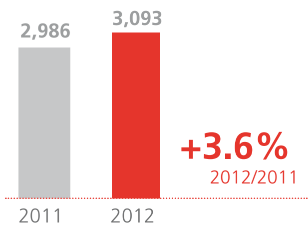
2012 highlights

- In a volatile year in European sovereign debt markets, SGBM generated strong results in contrast to the weak performance of most euro zone competitors.
- Recurrent revenues and strict cost management kept the efficiency ratio at 34.2%, a benchmark for its competitors. These results are backed by the soundness and diversification of customer business, which accounts for 87% of gross income, which rose by 1%.
- SGBM's business model rests on three pillars: customer-focused, strong global product scope and interconnection with local units.
- In 2012, Santander Global Banking & Markets followed the Group's steps in its international expansion in Poland and the US north-east. At the same time, it continued to invest in operational capacities and in distribution of treasury products, paying particular attention to exchange rate and fixed income businesses.
- SGBM's medium and long term objectives are to adapt the business model to new market conditions and to the new regulatory framework, and boost market share in low capital consumption and liquidity products.

Large transactions

- SGBM participated in the flotation of Cemex in Colombia, the largest construction sector listing in Latin America. SGBM was the global coordinator and joint bookrunner of the international tranche of Cemex Latam Holdings.
- $756 million debt financing for LS Power's Centinela solar farm. Santander was the global coordinator and bookrunner.
- Bain Capital's acquisition of 100% of Atento, Grupo Telefónica's CRM business unit in Latin America. SGBM was Bain Capital's advisor.

PRE-PROVISION PROFIT (NET OPERATING INCOME)
Million euros



Customer loans: **69,133**(*)
Customer deposits: **66,511**(*)
Attributable profit: **1,827**(*)
Efficiency ratio (%): **34.2**

(*) million euros

ASSET MANAGEMENT

Santander has a wide range of savings and investment products which cover various customer needs and are globally distributed by all commercial networks.

Santander branch in Madrid, Spain.

This activity revolves around three business areas: Santander Asset Management, for mutual and pension funds, companies and discretional portfolios; Santander Real Estate, specialised in managing property investments, and; Santander Private Equity for venture capital. Santander Asset Management continued in 2012 to develop a global business model supported by local fund managers' market strength and knowledge.

2012 highlights

- Profits grew 2.9% and assets under management 11%.
- The volume managed in global and local institutional mandates in different types of assets increased in 2012, such as Brazilian fixed income, Spanish covered bonds and Latin American fixed income, including mandates on behalf of other Group units.
- A new Santander Asset Management branch was created in Germany. Progress was made in integrating local fund managers into a holding company, which has already brought together the businesses of Spain, the UK, Argentina and Luxembourg.
- Santander Asset Management took advantage of the synergies between countries to promote the range of profiled funds, already established in Spain and the UK. These funds were established in Germany via the Luxembourg range, and during 2013 they will be marketed in Mexico, Brazil, Portugal and Poland.

Assets under management: **153,690(*)**
Gross income: **311(*)**
Attributable profit: **69(*)**
Efficiency ratio (%): **58.4**

(*) million euros

GLOBAL PRIVATE BANKING

Global private banking includes institutions specialised in advice and integral management of the assets of the Group's high income customers.

Private banking office in Mexico.

Santander Private Banking International conducts business in the United States and Switzerland, as well as Santander Private Banking in Italy. There are also local private banking units in Portugal, Italy, Mexico, Brazil and Chile, which are managed together with the local retail banks. In Spain, during 2013 Banif will be integrated into Banco Santander.

2012 highlights

- Assets under management rose 15%, thanks to the capture of new business and the rise in the number of customers. Attributable profit was EUR 209 million.
- Global Private Banking deepened the implementation and adapting of a corporate business model and a common IT platform in the countries where it operates. This enables it to enhance the quality of customer service, ensure portfolios are adjusted to their objectives and align the value offer of all units.
- Santander's goal is to become the reference private sector bank in the core markets where it operates, with a sustained increase in managed assets.

Assets under management: **104,062(*)**
Gross income: **726(*)**
Attributable profit: **209(*)**
Efficiency ratio (%): **48.7**

(*) million euros

INSURANCE

Santander Insurance develops products for household protection and savings, which are distributed in branches, by telephone and online. It provides service to more than 15 million customers in 20 countries.

2012 highlights

→ Insurance generated total revenues for the Group (the area's gross income plus fee income received by commercial networks) of EUR 2,784 million. At constant perimeter revenues rose 2.3%.

→ Activity was focused on completing and segmenting the range of products; creating specific products for SMEs; promoting the strategy for long-term savings insurance and strengthening the range of products through selective agreements with suppliers.

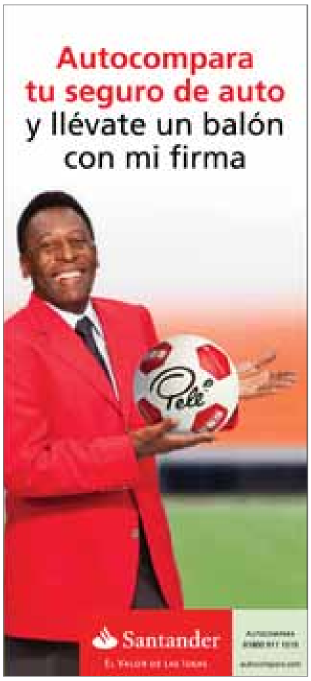
→ In Europe, Santander Insurance shared best practices between different markets, such as the launch of Spain's *50x2%* in Portugal or Poland's *Key Man* insurance in Spain.

→ In Latin America, progress was made in consolidating the alliance with the insurer Zurich to carry out bancassurance in Brazil, Chile, Mexico, Argentina and Uruguay.

In addition, in Mexico Santander promoted its in-house auto insurance distribution model, based on aggregators.

→ Santander signed with Abbey Life Assurance Company Limited, a subsidiary of Deutsche Bank, a reinsurance agreement for its life assurance in Spain and Portugal. This agreement contributed a one time gain of EUR 435 million.

→ Santander and the insurer Aegon agreed to form a strategic alliance to boost *bancassurance* business in Spain through the Santander and OpenBank networks. This transaction is expected to generate a capital gain of EUR 410 million. Savings, health and auto insurance will continue to be managed by Santander.



Total revenues: **2,784**(*)
Gross income: **556**(*)
Attributable profit: **314**(*)
(*) million euros

MEANS OF PAYMENT

Santander Cards offers credit and debit cards, as well as services for capturing and processing payments in shops. It manages 106 million cards. In 2012, it contributed 10% of the Group's total gross income.

This unit uses a global methodology in 16 countries, which share a common technology platform, a standardised risks model and global management and training tools.

2012 highlights

→ The Santander Innova programe created to foster vanguard technologies for products and services was developed. This innovative platform includes the world's first pilot programme of multi brand mobile payments (Visa and MasterCard) with NFC technology developed at Grupo Santander City.

→ In 2012, continued the strong business drive, promoting the signing of corporate agreements such as the alliance with Iberia in Spain and with JetBlue in Puerto Rico. More than 500,000 Ferrari cards were also issued in Spain, Portugal, Germany, Mexico, Brazil, Chile and Uruguay. New loyalty programmes were also created, such as *Esfera* in Brazil and *Twist* in Mexico, and new products launched, such as the *321* card in Chile and *Unlimited* in Mexico.

→ Santander Cards continued to make progress in implementing its model in new countries such as Poland and the United States where a platform was created for the next launch of the in house credit business.

Total number of credit cards (million): **33**
Total number of debit cards (million): : **73**
Lending: **16,092**(*)
Gross income: **4,795**(*)
(*) million euros
Not including Banesto, Santander Consumer Finance or Openbank.

3

CORPORATE GOVERNANCE REPORT

“Banco Santander has a board of directors and balanced well-versed in the business”

Emilio Botín,
Chairman
5th International Banking Conference, 15 November 2012

Balanced and committed board.

- Of 16 directors, 11 are non-executive and 5 are executive.

Equality of rights of shareholders.

- Principle of one share, one vote, one dividend.
- No defensive mechanisms in By-laws.
- Encouragement of informed participation at meetings.

Maximum transparency, particularly as regards remuneration.

A corporate governance model recognised by socially responsible investment indexes.

- Santander has been included in the FTSE4Good and DJSI index.

MAIN ACTIVITIES OF THE BOARD ON MATTERS RESERVED THERETO

Board activities

- The board held 11 meetings during 2012.
- The chief executive officer submitted to the board 10 management reports in 2012 and the third vice-chairman and head of the risk division submitted another 10 risk reports.
- Each of the heads of internal and external audit reported to the board through their participation in meetings of the audit and compliance committee and of the full board.
- The shareholders at the general shareholders' meeting approved the corporate management of the Bank in 2011 with a 98% favourable vote.

Changes in the composition and size of the board

- In January 2012, Mr Francisco Luzón resigned as director and executive vice-president of the Bank in charge of the Americas division. On occasion of the general shareholders' meeting held on 30 March 2012, Mr Antonio Basagoiti, Mr Antonio Escámez, and Mr Luis Alberto Salazar-Simpson left the board, Ms Esther Giménez-Salinas was appointed as a director, and Mr Vittorio Corbo, named in July 2011 to fill the vacancy left upon the death of Mr Luis Ángel Rojo, was ratified and re-elected as a director.
  With these changes the board is currently composed of 16 members, of which 3 are women.

Shareholder remuneration

- As regards dividends, in 2012 the board maintained the same compensation per share as in the previous three financial years, i.e., 0.60 euro.

Director remuneration policy

- In 2012, the board submitted the report regarding the director remuneration policy to the shareholders at the general shareholders' meeting held on 30 March, as a separate item on the agenda and as a consultative matter; 88.4% of the votes were in favour of the report.

Director remuneration

- The total remuneration of directors for 2012 is 35% less than for 2011.

By-law-mandated payments

- The board agreed during the year to reduce the annual allocation to which the board members are entitled, for the performance of supervisory and collective decision-making duties, by 15% vis-à-vis the amounts received the prior year, which in turn had been 6% lower than those paid for the results in 2010. It has also been resolved that, as of 1 January 2013, the amounts paid as attendance fees, which have been the same since 2008, shall remain unchanged.

Remuneration of executive directors

- The board decided to maintain the fixed remuneration payable for 2013 and to make a make an average 38% reduction in the variable remuneration paid for 2012.

Financial information periodically published by the Bank

- The board approved the quarterly financial information, the annual accounts, and the management report for 2012, in addition to other documents such as the annual report, the sustainability report, the prudently significant information (Pillar III), the annual corporate governance report, and the reports of the audit and compliance and appointments and remuneration committees.

1. OWNERSHIP STRUCTURE

Number of shares and significant interests

Number of shares

In 2012, the Bank carried out nine capital increases, for a total of 1,412,136,547 shares, representing 13.68% of the share capital at year-end 2012.

The first two increases, as well as those of 31 July and 2 November, were carried out within the framework of the Santander Scrip Dividend *(Santander Dividendo Elección)* programme, involving an 8.65% increase in share capital at year-end 2012, with the remainder carried out in order to accommodate the conversion of *Valores Santander*.

	Number of shares	% of s.c.(*)
31 January	167,810,197	1.626
2 May	284,326,000	2.755
7 June	73,927,779	0.716
5 July	193,095,393	1.871
31 July	218,391,102	2.116
7 August	37,833,193	0.367
6 September	14,333,873	0.139
9 October	200,311,513	1.941
2 November	222,107,497	2.152
Total	**1,412.136.547**	**13.682**

(*) Share capital at year-end.

The Bank's share capital at 31 December 2012 was represented by 10,321,179,750 shares, whose value per the listing price on Spain's Electronic Trading System (continuous market) of the Spanish stock exchanges at such date was 62,959 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 2012.

The interests held by State Street Bank & Trust (8.31%), Chase Nominees (7.74%), The Bank of New York Mellon (5.34%), EC Nominees Ltd. (5.27%), and Caceis Bank (3.10%), which were the only ones in excess of 3%, were held by them on behalf of their customers. 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 (16), the percentage of capital needed to exercise the right to appoint a director, in accordance with article 243 of the Spanish Companies Act *(Ley de Sociedades de Capital)* on proportional representation, is 6.25%

(*) Limit set by Royal Decree 1362/2007, of 19 October, for purposes of the annual corporate governance report.

Shareholder agreements and other significant agreements

Section A.6 of the annual corporate governance report, which forms part of the management report, contains a description of the shareholder 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)* (CNMV) as a significant event and is described in the public records thereof.

On 3 August and 19 November 2012, Banco Santander reported to the CNMV as material fact notices that it had been formally notified of amendments to this shareholder agreement with regard to the signatories thereto, as described below:

Shares included in the syndication

The syndication includes a total of 79,282,334 shares of the Bank (0.768% of its share capital) broken down as follows:

Signatories to the shareholder agreement	Number of shares
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	6,365,296
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea(1)	13,207,720
Mr Emilio Botín-Sanz de Sautuola y O'Shea(2)	13,567,504
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea(3)	16,279,089
Ms Paloma Botín-Sanz de Sautuola y O'Shea(4)	7,811,706
Ms Carmen Botín-Sanz de Sautuola y O'Shea	8,622,491
Puente San Miguel, S.A.	3,275,605
Latimer Inversiones, S.L.(5)	553,508
Cronje, S.L., Unipersonal	4,024,136
Nueva Azil, S.L.	5,575,279
Total	**79,282,334**

(1) 7,971,625 shares indirectly through Bafimar, S.L.
(2) 3,024,727 shares indirectly through Leugim Bridge, S.L. and 1,500,000 shares through Jardín Histórico Puente San Miguel, S.A. which is wholly-owned by the former.
(3) 4,652,747 shares indirectly through Inversiones Zulú, S.L. and 6,794,391 shares through Apecaño, S.L.
(4) 6,628,291 shares indirectly through Bright Sky 2012, S.L.
(5) Bare ownership of 553,508 shares corresponds to the Marcelino Botín Foundation *(Fundación Marcelino Botín),* but voting rights are assigned to Latimer Inversiones, S.L. as beneficial owner thereof.

In all other respects the shareholder agreement executed in February 2008 remains unchanged.

The aforementioned significant events may be viewed on the Group's corporate website (www.santander.com).

Treasury shares

Key data

At 31 December 2012, the Bank held 48,893,603 treasury shares, representing 0,474% of its share capital at year-end 2012; at 31 December 2011, there were 42,192,066 treasury shares, representing 0.474% of the Bank's share capital at such date.

The following table sets out the monthly average percentages of treasury shares in 2012 and 2011.

MONTHLY AVERAGE PERCENTAGES OF TREASURY SHARES[(1)]
% of the Bank's share capital[(2)]

	2012	2011
January	**0.365**	0.289
February	**0.184**	0.126
March	**0.362**	0.324
April	**0.588**	0.701
May	**1.372**	0.630
June	**1.211**	0.404
July	**1.228**	0.271
August	**1.822**	0.253
September	**1.470**	0.382
October	**0.912**	0.621
November	**1.999**	0.643
December	**1.180**	0.446

(1) Further information in this regard is included in section A.8 of the annual corporate governance report, which forms part of the management report, and in the capital and treasury share section of this latter report.

(2) Monthly average of daily positions of treasury stock.

The transactions in treasury shares carried out by companies belonging to the consolidated Group in the interest thereof during financial year 2012 entailed the acquisition of 1,267,816,686 shares, equal to a nominal amount of 633.9 million euros (actual amount of 6,956.7 million euros), and the sale of 1,261,115,148 shares in the nominal amount of 630.6 million euros (actual amount of 7,034.0 million euros).

The average purchase price of shares of the Bank in financial year 2012 was 5.49 euros per share, and the average sale price of shares of the Bank in such financial year was 5.58 euros per share. The effect on equity (net of taxes) generated by transactions carried out during the financial year with shares issued by the Bank was equal to a profit of 85 million euros, which was recorded in the Group's equity section under Shareholders' equity – Reserves.

Authorisation

The current authorisation for transactions in treasury shares arises from resolution no. 5, adopted by the shareholders acting at the general shareholders' meeting held on 11 June 2010, 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 10 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 five years of 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 share policy

At its meeting of 11 June 2010, the board of directors adopted the current resolution on treasury share 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 share transactions, general guidelines, prices, time limits, and reporting obligations.

The aforementioned policy excludes the use of treasury shares as a defensive mechanism.

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

The additional authorised capital amounts to 2,269,213,350 euros, pursuant to the authorisation of the shareholders acting at the annual general meeting held on 30 March 2012. The period available to the directors of the Bank to carry out and make capital increases up to such limit expires on 30 March 2015. The resolution gives the board the power to exclude pre-emptive rights in whole or in part, pursuant to the provisions of article 506 of the Companies Act *(Ley de Sociedades de Capital),* though such power is limited to capital increases carried out pursuant to this delegation up to 907,685,340 euros.

In addition, the shareholders acting at the annual general meeting held on 30 March 2012 approved the following resolutions in connection with the content of this section:

1. Four share capital increases in the maximum market amounts of 2,230 million, 1,630 million, 1,690 million and 1,750 million euros, respectively, within the shareholder compensation scheme *(Santander Scrip Dividend)* whereby the Bank offers the shareholders the possibility of receiving shares under a scrip issue for an amount equal to the dividends on the quarterly dates on which they are customarily paid.

   For such purposes, at 31 December 2012, the first three authorisations described in the previous section had been implemented, with capital increases with a charge to reserves taking place on 2 May, 31 July and 2 November 2012. The number of shares having a nominal value of 0.5 euro each which were issued in each case under the three capital increases by means of a scrip issue was 284,326,000, 218,391,102 and 222,107,497, accounting for a total of 7.023% of the Bank's share capital at year-end 2012.

2. Delegation to the board of directors, in accordance with the general rules on issuance of obligations and pursuant to the provisions of article 319 of the Regulations of the Commercial Register *(Reglamento del Registro Mercantil),* of the power to issue, on one or more occasions, debentures, bonds, preferred shares and other fixed-income securities or debt instruments of a similar nature in any of the forms allowed by law and convertible into and/or exchangeable for shares of the Bank. Such delegation also includes warrants or similar securities that may directly or indirectly carry the right to subscribe for or acquire shares of the Bank, whether newly-issued or already outstanding, payable by physical delivery or through set-off.

   The issuance or issuances of securities carried out pursuant to this delegation come to the aggregate maximum amount of 8,000 million euros or the equivalent thereof in another currency, and the period available to the directors of the Bank within which to implement this resolution expires on 30 March 2017.

3. Delegation to the board of directors, pursuant to the provisions of article 297.1.a) of the Companies Act, of the broadest powers such that, within one year of the date on which the aforementioned shareholders' meeting is held, it may set the date and the terms and conditions, as to all matters not provided for by the shareholders themselves, of a capital increase in the amount of 500 million euros. If the board does not exercise the powers delegated thereto within the period established by the shareholders for implementation of this resolution, such powers shall be rescinded.

* * *

Following year-end, the fourth authorisation, described in the first paragraph, were used via capital increases with a charge to reserves on 30 January 2013. The number of shares issued, having a nominal value of 0.5 euro each, was 217,503,395.

On 31 January 2013, Banco Santander communicated as relevant fact the timetable foreseen for the application of the Santander Scrip Dividend programme, to take place on the date on which the 2012 annual complementary dividend is usually paid, in April/May 2013. This application is subject to the general shareholders' meeting of 22 March approving the corresponding agreement to increase the amount of freed capital increase, which will in this respect be submitted to the board of directors.

2. BANCO SANTANDER BOARD OF DIRECTORS*

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 Economics and Law.

Committees of the board of which he is a member
Executive (chairman)
International (chairman)
Technology, productivity and quality (chairman)

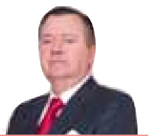
Mr Fernando de Asúa Álvarez

FIRST VICE-CHAIRMAN
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.

Committees of the board of which he is a member
Executive
Risk (vice-chairman)
Audit and compliance
Appointments and remuneration (chairman)
Technology, productivity and quality



Mr Alfredo Sáenz Abad

SECOND VICE-CHAIRMAN AND CHIEF EXECUTIVE OFFICER
Executive director

Born in Getxo (Biscay) 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).

Committees of the board of which he is a member
Executive
International
Technology, productivity and quality

Mr Matías Rodríguez Inciarte

THIRD VICE-CHAIRMAN
Executive director

Born in Oviedo (Spain) in 1948.
Joined the board in 1988.
Graduate in Economics, and Government 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, non-executive chairman of Banco Santander Totta and a non-executive director of Banesto, of Sanitas, S.A. de Seguros and of Financiera Ponferrada, S.A., SICAV.

Committees of the board of which he is a member
Executive
Risk (chairman)

* 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 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 director of Cartera Industrial REA, S.A. He was formerly non-executive vice-chairman of Indra Sistemas, S.A., chairman of Arthur Andersen's Global Board and a manager for Europe, Middle East, India and Africa (EMEIA) for the same firm.

Committees of the board of which he is a member

Risk
Audit and compliance (chairman)
Appointments and remuneration
Technology, productivity and quality

Mr Guillermo de la Dehesa Romero

Non-executive (independent) director

Born in Madrid (Spain) in 1941.
Joined the board in 2002.
Government Economist and head of office 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 non-executive vice-chairman of Amadeus IT Holding, S.A., a non-executive director of Campofrío Food Group, S.A. and of Grupo Empresarial San José, S.A., chairman of the Centre for Economic Policy Research (CEPR) 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. and of Aviva Vida y Pensiones, S.A. de Seguros y Reaseguros.

Committees of the board of which he is a member

Executive
Appointments and remuneration
International

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: chief executive officer of Santander UK plc. She Joined the Bank after a period at JP Morgan (1981-1988). She has been executive vice president of Banco Santander, S.A. since 1992, and was executive chairwoman of Banesto from 2002 to 2010.

Other significant positions: she is a non-executive director of Alliance & Leicester plc. and a member of the International Advisory Board of the New York Stock Exchange and of the board of Georgetown University.

Committees of the board of which she is a member

Executive
International
Technology, productivity and quality

Mr Rodrigo Echenique Gordillo

Non-executive (independent) director

Born in Madrid (Spain) in 1946.
Joined the board in 1988.
Graduate in Law and Government Attorney.

Other significant positions: former chief executive officer of Banco Santander, S.A. (1988-1994). He is also currently non-executive chairman of NH Hoteles, S.A. and non-executive director of Vocento, S.A.

Committees of the board of which he is a member

Executive
Audit and compliance
Appointments and remuneration
International

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.

Other significant positions: he is non-executive chairman of Channel Four Television Corporation and non-executive member of the Office for Budget Responsibility. 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 chairman of Marks and Spencer Group plc and of Glas Cymru Ltd (Welsh Water), and non-executive director of British Land plc, of Legal & General Group plc and of Pearson Group plc.

Mr Vittorio Corbo Lioi

Non-executive director

Born in Iquique (Chile) in 1943.
Joined the board in July 2011.
Degree in Commercial Engineering from the University of Chile and a Ph.D. in Economics from MIT.

Main activity: associated senior researcher for the Centre of Public Studies in Santiago.

Other significant positions: He is the non-executive chairman of Compañía de Seguros SURA-Chile S.A., non-executive director of Banco Santander – Chile, Banco Santander (México), S.A., CCU, S.A. and Endesa Chile, and an economic advisor to various international institutions and chilean companies. He was previously chairman of the Central Bank of Chile (2003-2007), a professor of Economics at the Pontificia Catholic University of Chile (1981-1984 and 1991-2003) and at Concordia University in Montreal, Canada (1972-1981) and professorial lecturer at Georgetown University, Washington, DC (1985-1991), and held management positions at the World Bank in Washington, D.C. (1984-1991).

Ms Esther Giménez-Salinas i Colomer

Non-executive (independent) director

Born in Barcelona (Spain) in 1949.
Appointed director at the annual general meeting of the Bank on 30 March 2012.
Doctor in Law.

Main activity: Professor of Criminal Law at ESADE-URL Faculty of Law.

Other significant positions: has been a rector of the Ramon Llull University, a member of the Spanish Supreme Judicial Council, a member of the standing committee of the Conference of Rectors of Spanish Universities and an executive vice-president of the Centre for Legal Studies of the Department of Justice of the Generalitat de Catalunya.

Mr Ángel Jado Becerro de Bengoa

Non-executive (independent) director

Born in Santander (Spain) in 1945.
Joined the board in 2010.
Graduate in Law.

Other significant positions: director of Banco Santander from 1972 to 1999. He has been a director of Banco Banif, S.A. since 2001.

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).

Committees of the board of which he is a member
Audit and compliance
International

Mr Juan Rodríguez Inciarte

Executive director and executive vice-president

Born in Oviedo (Spain) in 1952.
Joined the board in 2008.
Graduate in Economics.

Joined the Group 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 of Santander Consumer Finance, S.A.

Committees of the board of which he is a member
Risk

Ms Isabel Tocino Biscarolasaga

Non-executive (independent) director

Born in Santander (Spain) in 1949.
Joined the board in 2007.
Doctor in Law. She has undertaken Graduate studies in business administration at IESE and the Harvard Business School.

Main activity: full professor at the Complutense University of Madrid.

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 and a member of the Royal Academy of Doctors.

Committees of the board of which she is a member
Risk
Appointments and remuneration

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 Government Attorney.

Other significant positions: he is executive vice president of Banco Santander, S.A., 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.

Secretary of committees of the board
Executive
Risk
Audit and compliance
Appointments and remuneration
International
Technology, productivity and quality

Re-election of directors at 2013 annual general shareholders' meeting

Pursuant to article 55 of the By-laws* and article 22 of the Rules and Regulations of the Board*, directors are appointed to three-year terms (the maximum term being six years under Spanish law), such that one-third of the board is renewed each year.

It is expected that the following directors will be proposed for re-election at the 2013 annual general shareholders' meeting, scheduled for 21 and 22 March 2013 on first and second call: Mr Guillermo de la Dehesa Romero, Mr Abel Matutes Juan, Mr Ángel Jado Becerro de Bengoa, Mr Javier Botín-Sanz de Sautuola y O'Shea, and Ms Isabel Tocino Biscarolasaga, and Mr Fernando de Asúa Álvarez, the fourth as non-executive (proprietary) director and the rest as independent non-executive directors. Their professional profiles, together with a description of their activities, appear on the preceding pages.

The re-elections will be submitted separately to a vote of the shareholders at the general shareholders' meeting (article 21.2 of the rules and regulations for the General Shareholders' Meeting). In view of the fact that this election practice has been followed 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.

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

COMPOSITION AND STRUCTURE OF THE BOARD OF DIRECTORS

Board of directors				Committees					
		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	Mr Emilio Botín-Sanz de Sautuola y García de los Ríos(1)	■		C				C	C
First vice-chairman	Mr Fernando de Asúa Álvarez		I	■	V	■	C		■
Second vice-chairman and chief executive officer	Mr Alfredo Sáenz Abad	■		■				■	■
Third vice-chairman	Mr Matías Rodríguez Inciarte(2)	■		■	C				
Fourth vice-chairman	Mr Manuel Soto Serrano		I		■	C	■		■
Members	Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea(1)	■		■				■	■
	Mr Javier Botín-Sanz de Sautuola y O'Shea(1) (3)		P						
	Lord Burns (Terence)		N						
	Mr Vittorio Corbo Lioi		N						
	Mr Guillermo de la Dehesa Romero		I	■			■	■	
	Mr Rodrigo Echenique Gordillo		I	■		■	■	■	
	Ms Esther Giménez-Salinas i Colomer		I						
	Mr Ángel Jado Becerro de Bengoa		I						
	Mr Abel Matutes Juan		I			■		■	
	Mr Juan Rodríguez Inciarte	■			■				
	Ms Isabel Tocino Biscarolasaga		I		■		■		
General secretary and secretary of the board	Mr Ignacio Benjumea Cabeza de Vaca			■	■	■	■	■	■

(1) Mr Emilio Botín-Sanz de Sautuola y García de los Ríos has the right to vote, at the general shareholders' meeting, 93,026,412 shares owned by Fundación Marcelino Botín (0.901% of the share capital), 9,440,093 shares owned by Mr Jaime Botín-Sanz de Sautuola y García de los Ríos (0.091% of the share capital), 9,404,392 shares owned by Puente de San Miguel, S.A., Nueva Azil, S.L. and Latimer Inversiones, S.L. (0.091% of the share capital); 8,622,491 shares owned by Ms Carmen Botín-Sanz de Sautuola y O'Shea (0.084% of the share capital); 7,811,706 shares owned by Ms Paloma Botín-Sanz de Sautuola y O'Shea (0.076% of the share capital); and 13,567,504 shares owned by Mr Emilio Botín-Sanz de Sautuola y O'Shea (0.131% of the share capital). Additionally, Mr Emilio Botín-Sanz de Sautuola y García de los Ríos has the right to vote 17,231,856 shares owned by Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea (0.167% of the share capital) and 16,279,089 shares owned by Mr Javier Botín-Sanz de Sautuola y O'Shea (0.158% of the share capital).

(2) Mr Matías Rodríguez Inciarte has the right to vote 83,452 shares owned by two of his children.

(3) Mr Javier Botín-Sanz de Sautuola y O'Shea is a proprietary non-executive director because on the board of directors he represents the aggregate interests owned by Fundación Marcelino Botín, Bafimar, S.L., Cronje, S.L., Puente de San Miguel, S.A., Inversiones Zulú, S.L., Latimer Inversiones, S.L., Jardín Histórico Puente San Miguel, S.A., Nueva Azil, S.L., Leugim Bridge, S.L., Apecaño, S.L., Bright

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 of the Board (article 3) reserve thereto 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 share 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, the following matters, among others: decisions regarding the acquisition and disposition of substantial assets (except when the decisions come 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 discharge 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 any appropriate decisions, by delegation of the board and whenever justified by reasons of urgency.

The By-laws (article 40) as well as the aforementioned 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 abides by 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. Eleven of its 16 members are members of at least one of the three board committees with powers in the area of risks: the executive committee, the risk committee and the audit and compliance committee. Of these 11 directors, one is the first vice-chairman of the Bank, who is a member of all three committees, and another three directors, one of whom is the fourth vice-chairman, sit on two of the committees with powers in the area of risks.

Shareholding at 31 December 2012

Direct	Indirect	Shares represented	**Total**	% of share capital	Date of first appointment	Date of last appointment	Expiration date[5]	Date of last proposal of the appointments and remuneration committee
6,365,296	-	141,872,598	**148,237,894**	1.436%	04.07.1960[4]	30.03.2012	First six months of 2015	17.02.2012
74,924	59,102	-	**134,026**	0.001%	17.04.1999	11.06.2010	First six months of 2013	21.04.2010
243,096	2,404,950	-	**2,648,026**	0.026%	11.07.1994[4]	11.06.2010	First six months of 2014	21.04.2010
1,154,719	97,543	83,452	**1,335,714**	0.013%	07.10.1988[4]	30.03.2012	First six months of 2015	17.02.2012
71,781	511,938	-	**583,719**	0.006%	17.04.1999	30.03.2012	First six months of 2015	17.02.2012
5,236,095	11,995,761	-	**17,231,856**	0.167%	04.02.1989[4]	17.06.2011	First six months of 2014	11.04.2011
4,793,481	11,485,608	-	**16,279,089**	0.158%	25.07.2004	11.06.2010	First six months of 2013	21.04.2010
30,117	27,001	-	**57,118**	0.001%	20.12.2004	17.06.2011	First six months of 2014	11.04.2011
1	-	-	**1**	0.000%	22.07.2011	30.03.2012	First six months of 2014	17.02.2012
117	-	-	**117**	0.000%	24.06.2002	19.06.2009	First six months of 2013	27.04.2009
658,758	10,965	-	**669,723**	0.006%	07.10.1988	17.06.2011	First six months of 2014	11.04.2011
2,100	-	-	**2,100**	0.000%	30.03.2012	30.03.2012	First six months of 2014	17.02.2012
2,000,000	4,950,000	-	**6,950,000**	0.067%	11.06.2010	11.06.2010	First six months of 2013	21.04.2010
177,799	2,500,012	-	**2,677,811**	0.026%	24.06.2002	19.06.2009	First six months of 2013	27.04.2009
1,467,947	-	-	**1,467,947**	0.014%	28.01.2008[4]	30.03.2012	First six months of 2015	17.02.2012
57,455	-	-	**57,455**	0.001%	26.03.2007	11.06.2010	First six months of 2013	21.04.2010
22,333,666	**34,042,880**	**141,956,050**	**198,332,596**	**1.922%**				**Total**

Sky 2012, S.L., 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, Ms Carmen Botín-Sanz de Sautuola y O'Shea, Ms Paloma Botín-Sanz de Sautuola y O'Shea, Mr Jaime Botín-Sanz de Sautuola y García de los Ríos, Mr Jorge Botín-Sanz de Sautuola Ríos, Mr Francisco Javier Botín-Sanz de Sautuola Ríos, Ms Marta Botín-Sanz de Sautuola Ríos and his own interest.

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

(5) However, and pursuant to the provisions of article 55 of the By-laws, as amended by resolution adopted at the annual general shareholders' meeting of 17 June 2011, one-third of the board will be renewed each year, based on length of service and according to the date and order of the respective appointment.

C Chairman of the committee
V Vice-chairman of the committee
P Proprietary
I Independent
N Non-executive, neither proprietary nor independent

Commitment of the board

BOARD STAKE IN BANK'S CAPITAL
Data at year-end 2012

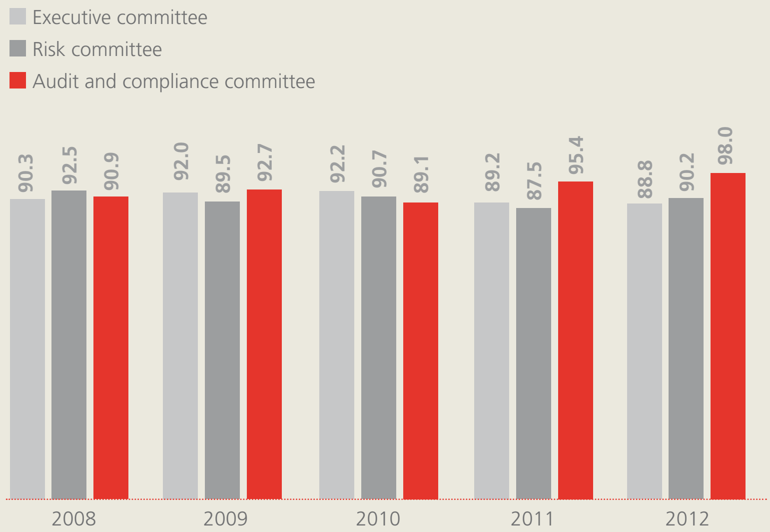
Number of shares of the board
198,332,596
equal to 1.922% of share capital

Stock exchange value
1,210
million euros

Share price
6.10
euros

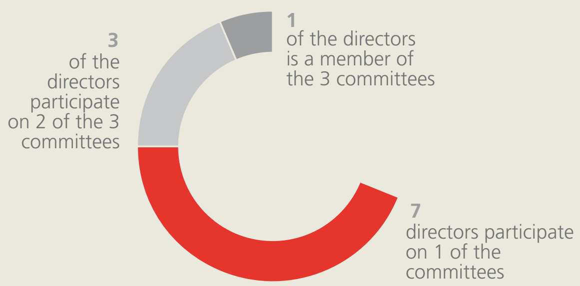
Corporate governance in risk management

AVERAGE ATTENDANCE RATE AT MEETINGS OF THE COMMITTEES OF THE BOARD (%)



- Mr Matías Rodríguez Inciarte, third vice-chairman of Banco Santander and chairman of the risk committee, reports directly to the executive committee and to the board, which guarantees the independence of the risk function.
- The risk committee held 98 meetings in 2012, each of which lasted approximately 3 hours.
- The executive committee held 59 meetings in 2012 and devoted a significant amount of time to discussions on risks.

CROSS-PARTICIPATION ON EXECUTIVE, RISK AND AUDIT AND COMPLIANCE COMMITTEES



NUMBER OF MEETINGS OF THE EXECUTIVE COMMITTEE, THE RISK COMMITTEE AND THE AUDIT AND COMPLIANCE COMMITTEE

Committees	2008	2009	2010	2011	2012
Executive	59	56	55	59	59
Risk	102	99	99	99	98
Audit and compliance	11	11	11	12	11
Total meetings	**172**	**166**	**165**	**170**	**168**

Size and composition of the board

Since the end of 2010, the size of the board has been reduced by 20%, from 20 to 16 members.

The composition of the board of directors is balanced between executive and non-executive directors.
All members are distinguished by their professional ability, integrity and independence of opinion.

Pursuant to article 6.3 of the Rules and Regulations of the Board, the appointments and remuneration committee verified the status of each director at its meeting of 13 February 2013. Its proposal was submitted to the board, which approved it at its meeting of 18 February 2013 and established the composition of the board upon the terms set forth below.

Of the 16 members currently sitting on the board of directors, 5 are executive and 11 are non-executive. Of the 11 non-executive directors, 8 are independent, 1 is proprietary and 2 are, in the opinion of the board, neither proprietary nor independent.

The following changes to the board occurred during financial year 2012. On 23 January Mr Francisco Luzón resigned his position of director and executive vice-president of the Bank with responsibility for the America division. At the general shareholders' meeting held on 30 March 2012, Mr Antonio Basagoiti, Mr Antonio Escámez and Mr Luis Alberto Salazar-Simpson were removed from the board, Ms Esther Giménez-Salinas was appointed as a director, and Mr Vittorio Corbo, named in July 2011 to fill the vacancy left upon the death of Mr Luis Ángel Rojo, was ratified and re-elected as a director.

Executive directors

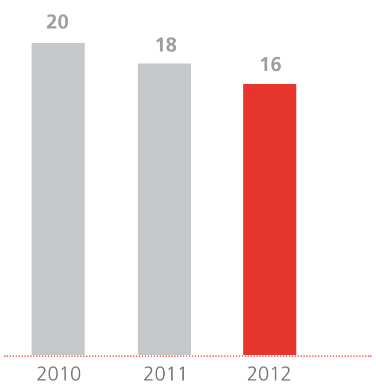
Pursuant to the Rules and Regulations of the Board (article 6.2.a), the following are executive directors: Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, Mr Alfredo Sáenz Abad, Mr Matías Rodríguez Inciarte, Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea and Mr Juan Rodríguez Inciarte.

Proprietary non-executive directors

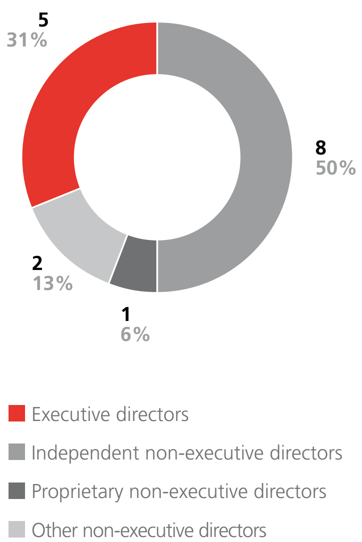
Since 2002, the standard used by the appointments and remuneration committee and the board of directors as a necessary but insufficient condition to designate or consider a director as a proprietary non-executive director (as expressly set forth in article 6.2.b) of the Rules and Regulations of the Board 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 the case, and upon the prior report of the appointments and remuneration committee, the board believes that Mr Javier Botín-Sanz de Sautuola y O'Shea is a proprietary non-executive director.

CHANGE IN SIZE OF THE BOARD
Year-end data



COMPOSITION OF THE BOARD



Independent non-executive directors

Independent non-executive directors account for 50% of the Board.

The Rules and Regulations of the Board (article 6.2.c) include the definition of independent director established in the Unified Code, according to which those non-executive directors that have been appointed based on their personal or professional status, and who perform unconditioned by relationships with the Bank, its shareholders or its officers, will be considered independent directors.

In the light thereof, taking into account the circumstances of each case, and upon a 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 Guillermo de la Dehesa Romero, Mr Rodrigo Echenique Gordillo, Ms Esther Giménez-Salinas i Colomer, Mr Ángel Jado Becerro de Bengoa, Mr Abel Matutes Juan and Ms Isabel Tocino Biscarolasaga.

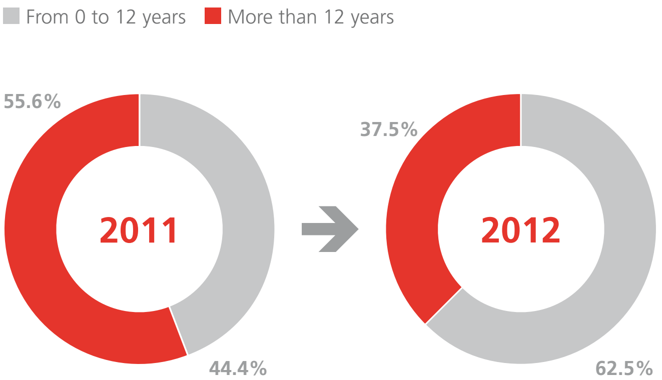
At 31 December 2012, the average length of service of independent non-executive directors in the position of board member was 10.2 years.

Other non-executive directors

Lord Burns is a non-proprietary, non-executive director. Since he currently receives remuneration in his capacity as non-executive chairman of the Group's subsidiary, Santander UK plc, in the opinion of the board of directors and upon a prior report of the appointments and remuneration committee, he cannot be classified as an independent director.

Mr Vittorio Corbo Lioi is also a non-proprietary, non-executive director. As he provides remunerated professional services to the Group other than the collective management and supervision services inherent in his position as director (receiving remuneration as a director of Grupo Financiero Santander México and of Banco Santander Chile, and as an advisor of the latter), Mr Corbo, in the opinion of the board of directors and upon a prior report of the appointments and remuneration committee, cannot be classified as independent.

YEARS OF SERVICE OF INDEPENDENT DIRECTORS



Gender diversity on the board

Banco Santander's selection process for directors suffers no implicit discriminatory biases preventing the inclusion of women on its board.

As established in article 17.4.a) of the Rules and Regulations of the Board, the appointments and remuneration committee is responsible for preparing and reviewing the standards that must be followed for the composition of the board and for determining who is to be proposed for the position of director.

Among such standards, and in line with the commitment of the Bank to foster equality of opportunity between men and women, both the appointments and remuneration committee and the board of directors are aware of the appropriateness of appointing to the board women who fulfil the requirements of ability, suitability and effective dedication to the position of director.

In this regard, it should be noted that, of the last five appointments to the board, two of such appointments have been the directors Ms Isabel Tocino Biscarolasaga (26 March 2007) and Ms Esther Giménez-Salinas (30 March 2012).

Additionally, the Banco Santander board has since 1989 enjoyed the presence of the executive director Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea.

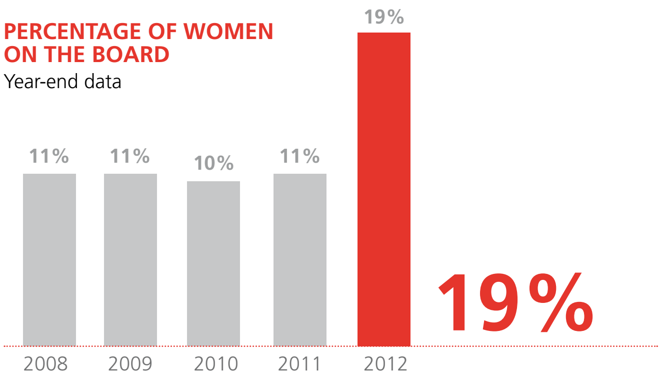
The percentage of women on the Banco Santander board (18.8%) compares favourably with that of the main European listed companies. According to a study carried out by the European Commission with data from January 2012, this percentage was 13.7% for the group of 27 countries forming the European Union and 11.5% for Spain.

One may observe the percentage of women on the board and on each of the committees thereof in the table below.

	Number of members	% of women
Board	16	19
Executive committee	7	14
Risk committee	5	20
Audit and compliance committee	4	-
Appointments and remuneration committee	5	20
Technology, productivity and quality committee	5	20
International committee	6	17

PERCENTAGE OF WOMEN ON THE BOARD

Year-end data



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 By-laws and article 8.1 of the Rules and Regulations of the Board) and accordingly, all the powers that may be delegated under Law, the By-laws 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-ranking officer of the Bank, is charged with the conduct of the business and highest executive duties.

There is a clear separation of duties between the executive chairman, the chief executive officer, the board and the committees thereof, as well as various checks and balances that assure proper equilibrium in the corporate governance structure of the Bank, including the following:

- 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, those reserved by the board to itself.

Succession plans for the chairman and 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, disability 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 managing director or directors, 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 at the following meeting scheduled to be held by the board's annual calendar of meetings or at such extraordinary meeting as may be called if deemed necessary."

Article 44.2 of the By-laws 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 each year based on the directors' seniority. In this regard, at its meeting of 30 March 2012, the board unanimously resolved to assign to the current directors 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 Guillermo de la Dehesa Romero
4. Mr Abel Matutes Juan
5. Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea
6. Lord Burns
7. Ms Isabel Tocino Biscarolasaga
8. Mr Juan Rodríguez Inciarte
9. Mr Ángel Jado Becerro de Bengoa
10. Mr Vittorio Corbo Lioi
11. Ms Esther Giménez-Salinas i Colomer

Secretary of the board

The By-laws (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.

The Rules and Regulations of the Board (article 17.4d) provide 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.

Proceedings of the board

There were eleven meetings during financial year 2012.

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 By-laws).

When directors cannot attend a meeting personally, they may give a proxy to any other director, in writing and specifically for each meeting, to represent them for all purposes at the meeting.

Any member of the board may request the inclusion of any other item not included in the draft agenda that the chairman proposes to the board (article 46.2 of the By-laws).

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 greater majority is specifically required pursuant to legal provisions, the By-laws 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.

Conduct of meetings

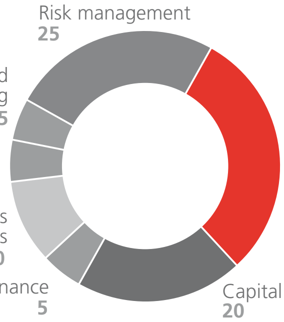
In 2012, the board was kept continuously and fully informed of the running of the various business areas of the Group through the ten management reports and the ten risk reports presented by the chief executive officer and the third vice-chairman in charge of the risk division, respectively, at the ten meetings held during the financial year. Furthermore, in addition to reviewing the various units and businesses of the Group, the board analysed the liquidity and capital situations, among other matters.

During the year, the board of directors also addressed other matters that come within its area of supervision, in addition to being informed of the conclusions of the external and internal audits.

The chart below shows a breakdown of the approximate time dedicated to each duty at the meetings held by the board in financial year 2012.

APPROXIMATE TIME DEDICATED TO EACH DUTY

%



Dedication to board business

The firm Spencer Stuart, in a study undertaken on the dedication of boards of directors, concludes that the estimated average time spent by each director of the Bank on board and committee business amounted to 318.7 hours, as opposed to an average of 88.4 hours for boards of directors of the main competing banks in the United Kingdom, 116.4 hours in the United States and Canada, and 99.5 hours for a group of international banks from Europe, Japan and Brazil.

COMPARISON OF NUMBER OF MEETINGS HELD(*)

	Santander	USA and Canada average	UK average	Continental Europe average
Board of directors	**14**	14.8	10	12.9
Executive committee	**59**	–	–	18
Risk committee	**99**	7.8	6.8	15.6
Audit committee	**12**	12.4	9.6	9.2
Appointments committee	**11**	4.8	4	8.1
Remuneration committee	**11**	7.8	8.6	10.6

(*) 2011 information. Last year with comparable data.

Training of directors and information programme

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

Five meetings were held in 2012 with the attendance of an average of ten directors, who devoted approximately one hour and a half to each session. Various issues were reviewed in depth at such meetings in connection with Basel III, living wills, audits, and the sale and marketing of products and new forms of payment.

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

Self-evaluation by the board

The ongoing self-evaluation exercise undertaken by the board with the support of the consulting firm Spencer Stuart was based on a questionnaire and personal interviews with directors. In line with the recommendations of the Unified Code and as stated in the Rules and Regulations of the Board, a special section was included for the individual evaluation of the chairman, the CEO and the other directors. The exercise focused on the organisation, operation and content of the meetings of the board and its committees, a comparison versus other international banks and open questions on future-related issues (strategy and internal and external factors which could affect the Group's performance) and other matters of interest.

Directors highlighted the following as strong points of the Group's corporate governance: the directors' knowledge of and experience in banking business; the balance between executive and external directors; the dedication of board members and their involvement in risk control. Attention was also drawn to the role of the board in managing the crisis, the advantage taken of business opportunities, and risk control, as well as strategic support to management.

The committee structure, which in the opinion of the directors operates very well, has also helped to bring the board closer to the functioning of the Group's day-to-day activities, emphasising the dedication and involvement of directors.

Directors considered that these strengths have enabled the Group to become a management benchmark in the present crisis, thanks to the board's involvement in controlling credit risk and others, including reputational and operational risks.

Likewise, with respect to the organisation, operation and content of the board meetings, the following aspects were highlighted: the high level of strategic debates; the training programme and the high level of commitment of directors (possibility of attending meetings of the executive committee and the other committees by directors who are not members of the same).

In short, the self-evaluation expressed a highly positive opinion of the organisation and operation of the board and its committees.

Appointment, re-election and ratification 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 the 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.

Decision-making process

- A board of directors that is well-versed in the business, balanced and with long experience.
- Collective decision-making and a long-term vision.

Remuneration

Remuneration system

Article 58 of the By-laws 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 financial year, remuneration equal to 1% of the Bank's net profits for the respective financial year, although a director may agree to reduce this percentage.

In exercising its powers, the board set the amount for the 2012 financial year at 0.321% 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 financial year, as provided for in 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 paid under other remuneration systems established by reference to the value of the shares of the Bank, the approval of which, by law and the By-laws, 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.

Remuneration of the board in 2012

In 2012, the board resolved to reduce the total remuneration of the directors, for all items, by 35%.

The annual allocation to which the board members are entitled for the performance of supervisory and collective decision-making duties was reduced by 15% vis-á-vis the amounts paid the previous year, which in turn were 6% lower than those paid in 2010.

As regards executive directors, the board decided generally to maintain the fixed remuneration payable for 2013 and to make an average 38% reduction in the variable remuneration paid for 2012.

All details regarding the director remuneration policy in 2012 may be consulted in the report of the appointments and remuneration committee forming part of the corporate documentation of Banco Santander.

Anticipation and adjustment to the regulatory framework

The board of directors, at the proposal of the appointments and remuneration committee, promotes and encourages a remuneration system that fosters a rigorous management of risks, and implements ongoing monitoring of the recommendations issued by the principal national and international bodies with authority in this field.

Report on director remuneration policy

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

In 2012, such report was submitted to the shareholders at the general shareholders' meeting held on 30 March, as a separate item on the agenda and as a consultative matter; 88.4% of the votes were in favour of the report.

Transparency

Pursuant to the By-laws (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.

Some of the measures promoted by the board

- **2010: Report on remuneration policy**

  The report on the director remuneration policy has been submitted to the shareholders at the general shareholders' meeting since 2010 as a separate item on the agenda and as a consultative matter.

- **2011: Re-election to position of board member for three years**

  As from the 2011 general meeting, re-election to the position of board member is for three years, having previously been for five years, while Spanish law permits a maximum of six years.

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, 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 progress of the Bank and to dedicate to the position the time and effort needed to carry it out effectively. The directors must 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

To the best of the Bank's knowledge, 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 made any unusual or significant transaction with the Bank during financial year 2012 and through the date of publication of this report.

Control mechanisms

As provided in the Rules and Regulations of the Board (article 30), directors must inform the board of any direct or indirect conflict of interest with the interests of the Bank in which they may be involved. 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 financial year 2012 there were 74 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 74 cases is as follows: on 18 occasions, the abstention was due to proposals to appoint or re-elect directors; on 38 occasions, the matter under consideration was the approval of terms of remuneration and other terms of the contracts with the directors; on 9 occasions, proposals were discussed regarding the financing of companies or entities related to various directors or to those abstaining; 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 February 2012 pursuant to article 6.3 of the Rules and Regulations of the Board; on 2 occasions, the matter concerned the evaluation entrusted by article 17.4.k) of the Rules and Regulations of the Board to the appointments and remuneration committee regarding the professional obligations of directors to assess whether such obligations may interfere with the dedication required of directors in order that they effectively perform their work; on one occasion, the matter at hand was the approval of a contribution in favour of a foundation chaired by a director; and on another occasion the matter was placing on record the gratitude of the board for the work carried out by a director.

• 2012: Upper limit for capital increases without pre-emptive rights

On the proposal of the board, an upper limit has been established on the power to exclude pre-emptive rights for increases carried out during the next three years covered by the additional share capital authorised at the 2012 general meeting.

Board committees

General information

The board has constituted, as decision-making committees, an executive committee, with delegated general decision-making powers, and a risk committee with delegated powers specifically in the area of risks.

The board also has other committees at its disposal with supervisory, information, advisory and proposal powers (the audit and compliance, appointments and remuneration, technology, productivity and quality, and international committees).

Executive committee

The executive committee is a basic instrument for the corporate governance of the Bank and its group. It exercises by delegation all the powers of the board (except those which cannot be legally delegated or which cannot be delegated pursuant to the provisions of the By-laws or the Rules and Regulations of the Board), assuming the day-to-day management of the business. It reports to the board on the matters dealt with and the resolutions adopted by making the minutes of its meetings available to the directors. It normally meets once per week.

There are currently seven directors sitting on the committee, of whom four are executive and three are independent non-executive directors.

Its duties and composition are established in the By-laws (article 51) and in the Rules and Regulations of the Board (article 14).

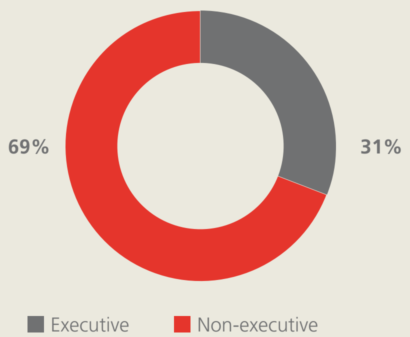
Risk committee

This is also an executive committee, with powers delegated thereto by the board in matters regarding risks. It normally meets twice per week.

It is governed by the By-laws (article 52) and the Rules and Regulations of the Board (article 15), which define the composition and duties of this committee.

Board committees

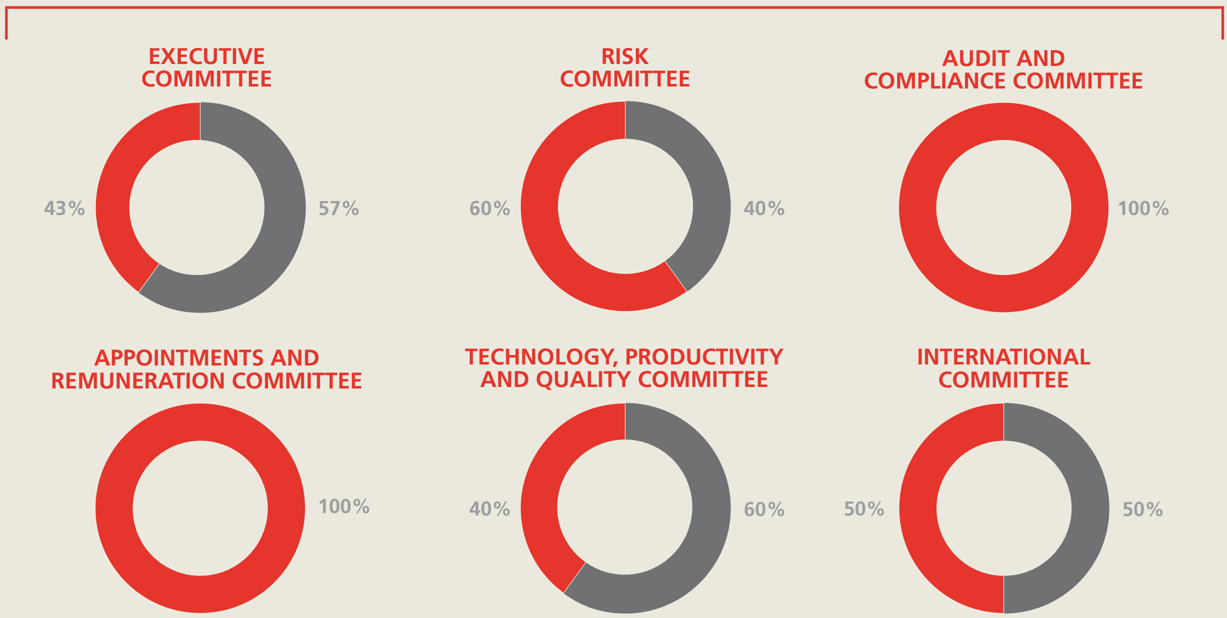
BOARD OF DIRECTORS



NUMBER OF MEETINGS AND DURATION OF COMMITTEES

Committees	Number of meetings	Hours(*)
Executive committee	59	295
Risk committee	98	294
Audit and compliance committee	11	55
Appointments and remuneration committee	11	33
Technology, productivity and quality committee	2	4
International committee	1	2

(*) Estimated hours of average dedication per director.



The appointments and remuneration committee proposed the appointments of Ms Isabel Tocino Biscarolasaga and Mr Manuel Soto Serrano as members of the risk committee at its meeting on 15 March 2012. Such proposals were approved by the board of directors at its meeting on 30 March 2012.

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

Pages 160 and onwards 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

The audit and compliance committee, among other duties, reviews the Group's financial information and its internal control and risk management systems, serves as a communication channel between the board and the auditor, ensuring the independent exercise of the latter's duty, supervises work regarding the internal audit function, and is informed of the reports published both by Spanish supervisory authorities and by those of other countries in which the Group has business. It normally meets on a monthly basis (it met 11 times in 2012).

As provided in the By-laws (article 53) and the Rules and Regulations of the Board (article 16), this 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.

The audit and compliance committee prepared a report regarding its activities in 2012, which is available to the shareholders as part of the annual documentation.

Appointments and remuneration committee

The appointments and remuneration committee, among other duties, proposes the director remuneration policy to the board, producing the corresponding report, and the appointments and remuneration of its members including the executives and other members of senior management and key Group personnel.

The By-laws (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. All its current members are independent non-executive directors.

During financial year 2012, 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.

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

Technology, productivity and quality committee

The technology, productivity and quality committee (article 13 of the Rules and Regulations of the Board) has the duty to review and report on plans and activities regarding information systems and programming of applications, investments in computer equipment, design of operating processes in order to increase productivity, and programmes for the improvement of service quality and measuring procedures, as well as those relating to means and costs.

It is made up of five directors, three of whom are executive and two are independent non-executive.

International committee

The international committee (article 13 of the Rules and Regulations of the Board) has the duty to monitor the development of the Group's strategy and of the activities, markets and countries in which the Group desires to have a presence through direct investments or specific transactions. It is kept informed of the initiatives and commercial strategies of the various units within the Group and of the new projects arising for it.

It is made up of six directors, of which three are executive and three are independent non-executive.

* * *

In line with the board regulations, every director can attend, with a voice but no vote, meetings of board committees of which he or she is not a member, at the invitation of the chairman of the board and that of the committee concerned, following a request to the chairman of the board.

Likewise, any board member who is not on the executive committee can attend its sessions when invited to by the chairman. 2012 saw seven directors from outside the committee each attend an average of 16 of its meetings.

International advisory board

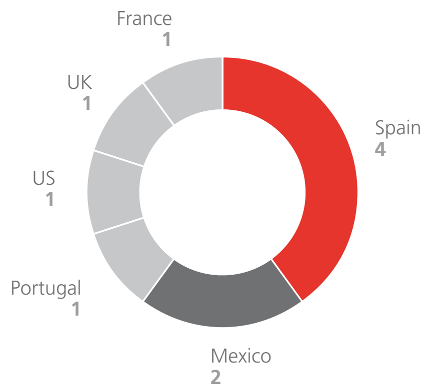
Since 1997, the board of directors has had an international advisory board made up of members of various nationalities and from various areas of activity, all of whom come from outside the Bank and none of whom serve as directors. This international advisory board cooperates with the board of directors in the design, development and, if applicable, implementation of the overall business strategy by contributing ideas and suggesting business opportunities.

During 2012, the international advisory board held two meetings, at which the following matters, among others, were discussed; the performance of the Group´s results; the situation of the European Union and its prospects; the results of the U.S. elections and their impact on the economy; and the performance of the Spanish economy and progress in the reform of the financial system.

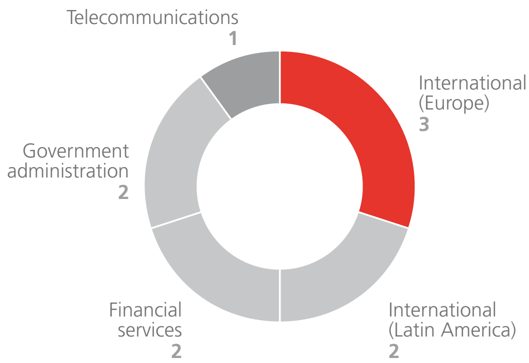
It is currently composed of the following 10 members, representing 6 nationalities:

Chairman	Mr Antonino Fernández, *former chairman of Grupo Modelo in Mexico*
Members	Mr Bernard de Combret, *chairman of Total Trading, Geneva*
	Mr Antonio Escámez Torres, *chairman of Banco Santander Foundation*
	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*
	Sir George Mathewson, *former chairman of the Royal Bank of Scotland*
	Mr Fernando Masaveu, *chairman of Grupo Masaveu*
	Mr Francisco Pinto Balsemâo, *former prime minister of Portugal*
	Mr Luis Alberto Salazar-Simpson Bos, *chairman of France Telecom España, S.A.*
Secretary	Mr Ignacio Benjumea Cabeza de Vaca

COMPOSITION OF THE INTERNATIONAL ADVISORY BOARD BY NATIONALITY



PRINCIPAL AREAS OF PROFESSIONAL EXPERIENCE OF THE MEMBERS OF THE INTERNATIONAL ADVISORY BOARD

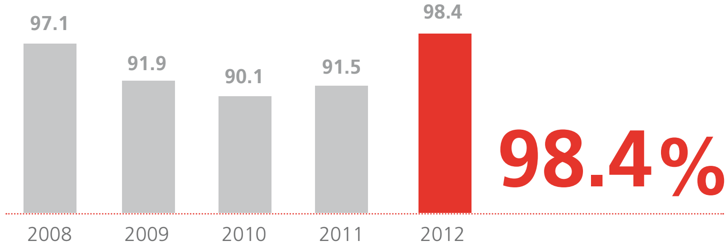


Attendance at meetings of the board of directors and its committees in 2012

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 the board of directors' meetings in the financial year 2012 was 98.36%.

An indication of the commitment and dedication of the directors is their rate of attendance at meetings of the board, which has exceeded 90% in recent years.

RATE OF ATTENDANCE AT MEETINGS OF THE BOARD
(%)



ATTENDANCE AT MEETINGS OF THE BOARD AND ITS COMMITTEES IN 2012

		COMMITTEES					
		Decision-making		Reporting			
Directors	Board	Executive	Risk	Audit and compliance	Appointments and remuneration	Technology, productivity and quality	International
Average attendance	**98.36%**	**88.81%**	**90.2%**	**97.98%**	**100%**	**100%**	**100%**
Individual attendance							
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	11/11	53/59				2/2	1/1
Mr Fernando de Asúa Álvarez	11/11	59/59	97/98	11/11	11/11	2/2	
Mr Alfredo Sáenz Abad	11/11	56/59				2/2	1/1
Mr Matías Rodríguez Inciarte	11/11	56/59	97/98				
Mr Manuel Soto Serrano (1)	11/11		70/72	11/11	11/11	2/2	
Mr Antonio Basagoiti García-Tuñón (2)	3/3	15/15	26/26			1/1	
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	10/11	39/59				2/2	1/1
Mr Javier Botín-Sanz de Sautuola y O'Shea	10/11						
Lord Burns (Terence)	11/11						
Mr Vittorio Corbo Lioi	11/11						
Mr Guillermo de la Dehesa Romero	11/11	56/59			11/11		1/1
Mr Rodrigo Echenique Gordillo	11/11	46/59		10/11	11/11		1/1
Ms Esther Giménez-Salinas i Colomer (3)	7/8						
Mr Antonio Escámez Torres (2)	3/3	15/15	26/26			1/1	1/1
Mr Francisco Luzón López (4)	1/1	2/4					
Mr Ángel Jado Becerro de Bengoa	11/11						
Mr Abel Matutes Juan	11/11			11/11			1/1
Mr Juan Rodríguez Inciarte	11/11		60/98				
Mr Luis Alberto Salazar-Simpson Bos (2)	3/3			3/3		1/1	
Ms Isabel Tocino Biscarolasaga (1)	11/11		66/72		11/11		

Note: the denominator refers to the number of meetings held during the year in which he or she was a director or member of the respective committee.

(1) Member of the risk committee since 30 March 2012.

(2) Withdrew as member of the board on 30 March 2012.

(3) Member of the board since 30 March 2012.

(4) Withdrew as member of the board on 23 January 2012.

3. SHAREHOLDER RIGHTS AND THE GENERAL SHAREHOLDERS' MEETING

One share, one vote, one dividend. No defensive mechanisms contemplated in the By-laws

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

The By-laws 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.

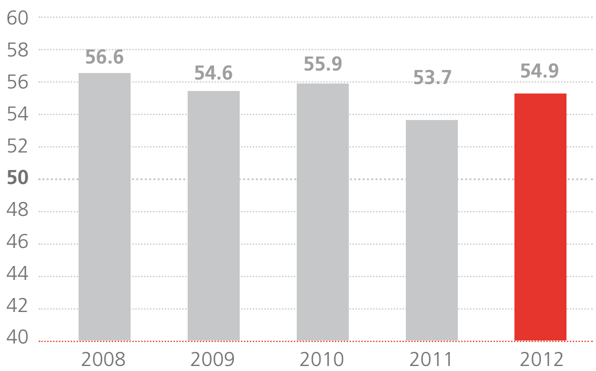
Quorum at the annual general shareholders' meeting held in 2012

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 2012 annual general shareholders' meeting was 54.874%, above 50% for another year.

QUORUM AT ANNUAL GENERAL SHAREHOLDERS' MEETINGS

Percentage of capital present in person and by proxy



Encouragement of informed participation of shareholders at shareholders' meetings

The Bank continues to implement measures designed to encourage the informed participation of shareholders at shareholders' meetings. Thus, at the annual general meeting held in 2012, the shareholders had access to the electronic shareholders' forum, in compliance with the provisions of the Companies Act.

This forum, which the Bank made available on the corporate website (www.santander.com), enables the shareholders to post proposed supplements to the agenda announced in the call to meeting, requests for adherence to such proposals, initiatives aimed at reaching the percentage required to exercise a minority right contemplated by Law, as well as voluntary proxy offers or solicitations.

Information provided to the shareholders and communication with them

During 2012, the Bank held 565 meetings with investors and maintained an ongoing relationship with analysts and rating agencies, which entailed personal contact with 1,190 investors/analysts.

The investor and analyst relations department achieved recognition in 2012 from various sources, including its selection by *IR Magazine* as the best *IR Team* in the financial industry in Europe in the sell side category and second place in the same category according to the survey conducted by *Institutional Investor* magazine.

Santander has continued to strengthen the channels for shareholder information and service through the eight shareholders' offices it has in significant markets in which it is present (Spain, United Kingdom, United States, Brazil, Mexico, Portugal, Chile and Argentina), and adding a new shareholders' office in Mexico to serve the new shareholders resulting from its Mexican subsidiary's listing on the stock exchange.

CHANNELS FOR SHAREHOLDER INFORMATION AND SERVICE

Telephone service lines	215,278	Questions
Shareholder's mailbox	22,710	E-mails answered
	212,806	Subscriptions
Economic Forums	12,505	Participants
	161	held
SMS alerts	963,401	Alerts sent
	70,261	Subscriptions
Letters	612,500	Letters answered

Finally, in compliance with recommendations of the National Securities Market Commission on meetings with analysts and investors, both notices of meetings and the documentation to be used thereat are being published sufficiently in advance.

Annual general shareholders' meeting held on 30 March 2012

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

A total of 343,801 shareholders attended in person or by proxy, with 4,980,852,134 shares. The quorum was thus 54.874% of the share capital of the Bank.

The shareholders at the general shareholders' meeting approved the corporate management of the Bank in 2011 with a 97.981% favourable vote.

The average percentage of affirmative votes upon which the proposals submitted by the board were approved was 93.120%.

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

Physically present	0.404% (1)
By proxy	39.016% (2)
Absentee votes	15.454% (3)
Total	54.874%

(1) Of this, 0.002% of share capital attended by remote means via Internet.
(2) The percentage of share capital that granted proxies via Internet was 0.06%.
(3) Of this, 15.443% of votes were cast by postal mail, the rest being electronic votes.

Resolutions adopted at the general shareholders' meeting held in 2012

The full text of the resolutions adopted at the 2012 annual general shareholders' meeting is available on the websites of both the Group (www.santander.com) and the CNMV (www.cnmv.es).

4. SANTANDER GROUP MANAGEMENT TEAM

COMPOSITION

Chairman	Mr Emilio Botín-Sanz de Sautuola y García de los Ríos
Chief executive officer	Mr Alfredo Sáenz Abad
Executive vice presidents	
Americas	Mr Jesús Mª Zabalza Lotina
Internal Audit	Mr Juan Guitard Marín
Retail Banking Spain	Mr Enrique García Candelas
Global Wholesale Banking	Mr José García Cantera Mr Adolfo Lagos Espinosa Mr Jorge Maortua Ruiz-López
Global Private Banking, Asset Management and Insurance	Mr Javier Marín Romano
Banesto	Mr Francisco Javier San Félix García
Brazil	Mr Marcial Portela Álvarez
Communications, Corporate Marketing and Research	Mr Juan Manuel Cendoya Méndez de Vigo
United States	Mr Jorge Morán Sánchez Mr Juan Andrés Yanes Luciani
Strategy and Asia	Mr Juan Rodríguez Inciarte
Consumer Finance	Ms Magda Salarich Fernández de Valderrama
Financial Management and Investor Relations	Mr José Antonio Álvarez Álvarez
Financial Accounting and Control	Mr José Manuel Tejón Borrajo
Human Resources	Mr José Luis Gómez Alciturri
Risk	Mr Matías Rodríguez Inciarte Mr Javier Peralta de las Heras Mr José María Espí Martínez
Santander UK	Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea Mr José María Nus Badía
Santander Universities	Mr José Antonio Villasante Cerro
General Secretariat	Mr Ignacio Benjumea Cabeza de Vaca Mr César Ortega Gómez
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 Means of Payment division.

Country heads	
Argentina	Mr Enrique Cristofani
Brazil	Mr Marcial Portela Álvarez
Chile	Mr Claudio Melandri Hinojosa
United States	Mr Jorge Morán Sánchez
Mexico	Mr Marcos Martínez Gavica
Poland	Mr Gerry Byrne Mr Mateusz Morawiecki
Portugal	Mr Antonio Vieira Monteiro
United Kingdom	Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea

Remuneration

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

Related-party transactions and conflicts of interest

Related-party transactions

To the knowledge of the Bank, 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 therewith during financial year 2012 and through the date of publication of this report.

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

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 accounts. To such end, the aforementioned information is reviewed by the audit and compliance committee prior to the release thereof.

As regards the annual accounts, 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 area is responsible for communicating to the CNMV the significant 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 financial year 2012, the Bank published 107 significant events, which are available on the websites of the Group and the CNMV.

Relationship with the auditor

Independence of the auditor

The shareholders acting at the general shareholders' meeting of 30 March 2012 approved the re-election of Deloitte, S.L. as auditor for one year, with the affirmative vote of 97.682% 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 more than two per cent of the total income thereof during the last financial 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 and 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 financial year 2012 is contained in note 48 to the Group's legal report.

The Rules and Regulations determine mechanisms to be used to prepare the accounts so there is no room for qualifications in the auditor's report. Nevertheless, the By-laws 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 issue a report in this regard. The annual accounts of the Bank and of the consolidated Group for financial year 2012 are submitted without qualifications.

At its meeting of 13 February 2013, the audit and compliance committee received from the auditor written confirmation of its independence in respect of the Bank and the entities directly or indirectly related thereto, and information regarding additional services of any kind provided
to them by the auditors or by entities related thereto, pursuant to the provisions of Royal Legislative Decree 1/2011, of 1 July, restated text of the Audit of Accounts Act.

Such committee, at the aforementioned meeting of 13 February 2013, issued a report setting forth a favourable opinion regarding the independence of the auditors and passing, among other matters, upon the provision of the additional services mentioned in the preceding paragraph.

The aforementioned report, issued prior to the audit report, has the content provided by the Securities Market Act *(Ley del Mercado de Valores).*

Intra-group transactions

There were no intra-group transactions in financial year 2012 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.

Website

Since 2004, the Group's website (www.santander.com) has disclosed in the *Shareholders and Investor Relations* section of the main menu all information required under the Companies Act *(Ley de Sociedades de Capital)* and under Order ECO/3722/2003.

The contents of the Group's website, which are presented with specific sections for institutional investors and shareholders and are accessible in Spanish, English and Portuguese, received approximately 124,000 visits per week.

The information available on such website includes:

- The By-laws.
- 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, in line with 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 announcement of the call to the 2013 annual general shareholders' meeting will be viewable as from the date of publication thereof, 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 and the rules applicable to the electronic shareholders' forum that the Bank will make available on its website (www.santander.com).

Unified Good Governance Code

Banco Santander follows practically all of the recommendations concerning corporate governance in the special working group report of 19 May 2006 on the good governance of listed companies (the Unified Code), and does not follow (i.e., does not adopt in full) a small number of them (3 out of 58).

The annual corporate governance report, which is a part of the management report, explains the position of the board

4

CONSOLIDATED FINANCIAL REPORT

CONSOLIDATED FINANCIAL REPORT

General background

The global economy remained weak in 2012, due to Europe's sovereign debt crisis and the slow recovery of the US economy. Emerging economies continued to be more positive, although some of them were also affected by the international environment. The euro zone's crisis reached a turning point at the European Council in June and the financial aid mechanisms presented by the European Central Bank (ECB) in September, which reduced significantly the probability of a break-up of the zone accorded by the market.

In the **US**, the fourth quarter preliminary GDP figure showed a annualized decline of 0.1% because of the sharp cut in public spending in the face of the threat of the "fiscal cliff" and the negative contribution of stocks. Consumption and investment were positive and confirmed the continued expansion, albeit a moderate one. Growth for the whole of 2012 is estimated at 2.2% and the underlying inflation rate was within the Fed's target range (close to 1.5%).

The lack of inflationary pressures suggested that a rise in interest rates was unlikely until the middle of 2015. Democrats and republicans reached a temporary agreement to avoid the "fiscal cliff", which had it happened would have pushed the economy back into recession. The agreement gives two months to negotiate a new debt ceiling and agree specific structural spending cuts.

Latin America's growth eased in 2012, with a varied performance by country. Growth was stronger than expected in Chile and less so in Brazil. Inflation remained controlled in the short term, interest rates softened and currencies tended to appreciate, except for the Brazilian real, in the last part of 2012.

Brazil's GDP is expected to rise 1% in 2012, with a weaker than expected recovery in the second half. Despite the strengthening of consumption (thanks to job creation), the fall in investment is eroding economic growth. The central bank, with growth as one of the priorities of its strategy, continued to cut interest rates. The Selic reached a record low of 7.25%. Inflation was 5.8% at the end of 2012 (6.5% in 2011). The real traded against the dollar at below BRL 2 in the first half of the year, though lower than expected growth in the last part of the year modified the trend so that the currency ended 2012 at BRL 2.05/US$.

Mexico is expected to grow by almost 4%, backed by industrial exports, the residential sector and a greater participation of the services sector. Inflation remained within the Central Bank of Mexico's target range (3% ± 1%) in the first half of the year and rose in the second half to 3.6% in December. Underlying inflation remained at around 3.5%, a comfortable level for the Central Bank of Mexico, which kept its key rate at 4.5% for the third year running. The peso was relatively stable at around MXN 13/US$ (MXN 13.02/US$ at the end of the year).

The growth of the **Chilean** economy is estimated at 5.6%, driven by buoyant domestic demand, mainly consumption (benefiting from growth in wages and lending) and investment. Inflation, which deteriorated at the end of 2011 and the beginning of 2012, improved in the second half and ended the year at 1.5% (4.4% in 2011). The benchmark interest rate remained stable at 5% after a cut of 25 b.p. in January. The peso traded at CLP 479/US$ (after remaining for almost all the year below CLP 500/US$).

The **euro zone** economy is expected to shrink 0.4% in 2012. The region returned to recession in the second half, reflecting public sector austerity measures and deleveraging of the private sector, and for a while a deterioration in the financial conditions related to the sovereign debt crisis and doubts on the future of Monetary Union (only dispelled after the summit in June and the European Central Bank's measures).

Inflation remained above the ECB's target of 2% throughout the year, with an average rate of 2.5%, due to higher oil prices at the start of the year and higher indirect taxes in some countries. Even so, inflation was lower than in 2011 and remains on a downward path that could see it at around the target in 2013.

The ECB again played a key role in seeking to resolve the crisis. It began 2012 with two long-term financing operations to guarantee the financial system's liquidity. In July, greater uncertainty led the ECB to cut its refinancing rate by 25 b.p. to 0.75% and the deposit rate (the reference rate for current money markets) to 0%.

In September the ECB unveiled Outright Monetary Transactions (OMT). The objective is to restore the transmission mechanism of monetary policy, affected by the financial fragmentation of the area associated with the perception of the risk of break-up of the euro zone. With them, the ECB can buy sovereign bonds with maturities of between one and three years provided the government requests a bail-out by the European Financial Stability Facility or the European Stability Mechanism. Although the triggering of the OMTs is in the hands of national governments, the announcement helped to ease financial tensions.

As regards the exchange rate, tensions in the euro zone caused the single currency to depreciate against the dollar since August and end the year at EUR 1/US$1.32.

The economic situation and prospects varied from country to country. The peripheral European economies suffered the impact of a tougher fiscal adjustment and deleveraging in the private sector, coupled with higher funding costs. The core countries, on the other hand, continued to be more resilient. Germany continued lowering its unemployment rate to 5.4%. GDP growth was 0.7%.

The **Spanish economy** shrank by around 1.4% in 2012, due to the strong adjustments in both the public (fiscal consolidation) and private sectors (deleveraging).

Domestic demand reflected the sharp fall in household consumption (higher VAT, rise in withholding income tax, wage reductions and uncertainty); the significant effort to contain spending and public investment (chiefly in the last part of the year) and the adjustment in the real estate sector. The positive feature was higher than expected exports, which contributed to a current account surplus in the last part of the year.

Inflation was 2.9%, affected by higher VAT, medical products and the rise in administered prices. The underlying inflation rate ended the year at 2.1%, in line with the evolution of prices in the Eurozone.

The **UK** economy remained unchanged (0.0%) in 2012. Excluding the third quarter, very influenced by the Olympic Games, activity was weak underlying. The factors were weaker external demand and the impact of the euro zone's sovereign debt crisis, on the one hand, and weak domestic demand, on the other, affected by the fiscal adjustment, the need for households to reduce their debts and tighter borrowing conditions to the private sector.

Inflation was still high compared to other European economies and clearly above the Bank of England's target, though it dropped in 2012 to 2.8% on average from 4.5% in 2011 and will probably continue to do so in 2013. The Bank of England held its base rate at 0.5%, increased its quantitative easing programme to a total of £375,000 million and introduced a Funding for Lending Scheme to foster credit to households and companies through providing long-term liquidity at interest rates below the market's. Sterling appreciated to EUR 1 / £0.82.

Poland economy grew at a slower pace in 2012 (+2.0% estimated), although above the European average, due to Europe's lower growth, less buoyant domestic consumption and measures to control the budget deficit. Inflation was more moderate (2.2% in December) and in the fourth quarter the central bank cut its key rate 50 b.p. to 4.25%, a trend that continued in 2013 (-50 b.p. in February to 3.75%). The zloty appreciated to EUR 1 / PLN 4.07.

EXCHANGE RATES: 1 EURO / CURRENCY PARITY

	2012		2011	
	Year end	**Average**	**Year end**	**Average**
US$	1.3194	1.2842	1.2939	1.3903
Sterling	0.8161	0.8106	0.8353	0.8675
Brazilian real	2.7036	2.5012	2.4159	2.3244
New Mexican peso	17.1845	16.8940	18.0512	17.2523
Chilean peso	631.7287	624.4675	671.3400	672.0923
Argentine peso	6.4865	5.8295	5.5686	5.7445
Uruguayan peso	25.3061	25.9755	25.8133	26.7630
Polish zloty	4.0740	4.1820	4.4580	4.1105

Provisioning and recapitalizing the Spanish banking sector

Spain deepened in 2012 the provisioning and recapitalization of its banking sector, begun in 2009. This process is part of the measures adopted to reduce tensions in financial markets stemming from the intensification of the sovereign debt crisis and doubts on the health of the Spanish banking system.

Five main steps have been taken to strengthen the credibility of and confidence in the Spanish banking system.

1. More provisions required for loans to the construction and real estate sectors, differentiated by the type of asset and situation, including those up to date with payments.

2. Expert and independent assessment of banks' balance sheets to determine the system's capital needs and those of each bank.

3. Request for financial assistance from European institutions to recapitalize those banks which require it.

4. Creation of the company for the management of assets from the reconstruction of the banking system (known as Sareb).

5. Recapitalisation and restructuring of banks that needed state aid.

1. Requirement for additional provisions for the real estate sector

Two royal decree laws (2/2012 February and 18/2012 May) required the banking sector to set aside EUR 84,000 million of extra provisions to cover possible losses from real estate loans in the coming years.

These requirements, which had to be covered by the end of 2012, raised the average coverage of loans to the real estate sector from 18% at the end of 2011 to 45%. The higher levels of coverage were applied to those assets with a reduced capacity to be sold. Specifically, developments underway and land, both foreclosed and in doubtful situation, increased their coverage levels to 65% and 80%, respectively.

Also of note was that the part of the real estate portfolio up to date with payment increased its average coverage level to 30%.

In the case of Grupo Santander in Spain, implementing the requirements set in both royal decree laws amounted to EUR 6,800 million of provisions.

At the end of 2012, the Group had fully covered all the required provisions.

2. Expert and independent assessment of the banking system

This was an exercise of maximum transparency, which extended the analysis of the real estate exposure by incorporating the total credit portfolio to the resident private sector, both loans to homes (including mortgages) as well as to SMEs and the rest of non-financial companies.

The assessment of the 14 largest banks and groups (90% of the sector) was carried out in two phases.

- First phase, a top-down analysis by the consultancies Oliver Wyman and Roland Berger to assess the sector's resistance as a whole in two scenarios during 2012-2014 and determine the system's global capitalization needs, under two scenarios (standard and adverse). It was completed in June, with the following results:

	Oliver Wyman		Roland Berger	
EUR billion	Base	Adverse	Base	Adverse
Total stress losses*	170-190	250-270	119.1	169.8
Required capital	16-25	51-62	25.6	51.8

*The analysis of Roland Berger, unlike that of Oliver Wyman, takes into account the previously established provisions.

- Second phase. A bottom-up analysis consisting of a detailed analysis of banks' credit portfolios, which assessed their systems for classifying, provisioning and measuring their credit risks. A wider exercise was then carried out where, on the basis of the specific figures of each bank and applying a stress test, the banks' individual capital needs were calculated under both scenarios.

  In this second phase, conducted by Oliver Wyman, the four leading auditing firms in Spain (Deloitte, PwC, Ernst & Young and KPMG), six Spanish and foreign real estate appraisal companies and a project director (The Boston Consulting Group) to support the Bank of Spain in coordination participated.

The exercise was very rigorous, both in the amount of information analysed as well as the toughness of the data used in the adverse scenario and the process's model of international monitoring and governance, supervised by the ECB, EC and IMF.

The adverse scenario (probability of less than 1%) includes sharp falls in GDP (-6.5% between 2012-2014), a rise in unemployment (to 27.2% in 2014) and a big fall in real estate prices. The scenario was the toughest of those applied so far in Europe in the conducted stress tests.

The severity of the exercise is reflected in the levels used for the probability of default and in the adjustments applied to estimate the banks' capacity to absorb losses. The default probability was multiplied by three in the portfolios of companies and real estate developers (to 27% and 87%, respectively). In mortgages to individuals it was multiplied by five (to 15%) and in foreclosed properties the expected loss was increased to 64%.

As for the absorption capacity, revenues from trading gains and from the investment portfolio were limited, dividend income reduced by 30% and business decisions not executed at the time of the analysis were not taken into account.

The results of the bottom-up analysis for 2012-2014 showed that:

– Total losses in the credit portfolio (loans in Spain) would be EUR 270,000 million in the adverse scenario and EUR 183,300 million in the baseline scenario.

– In the adverse scenario, the system's capital needs to attain the required core capital ratio of 6% (CT1) were estimated at EUR 59,300 million (EUR 53,700 million considering the fiscal impact). This figure is based on the difference between the estimated losses and the total capacity of absorption (provisions and protection frameworks already established, pre-provision profit and the initial surplus of capital).

– These capital needs in the baseline scenario (CT1 of 9%) were estimated at EUR 24,000 million (EUR 25,900 million considering the fiscal impact).

The results for individual banks were as follows:

– Seven banks that represent 62% of the credit portfolio analysed do not need any more capital (Group 0).

– The four banks taken over by Fund for the Orderly Bank Restructuring (FROB) form Group 1 and account for 86% of the sector's capital needs.

– The rest of banks with capital needs, after presenting their recapitalization plans, form Group 2 if they need state aid and Group 3 if they obtained the funds by themselves.

In the case of Banco Santander, the results of the adverse scenario were as follows:

- The only bank to increase its CT1: from 9.7% to 10.8%.
- Large capital surplus in 2014 of EUR 25,300 million.
- The largest capacity to generate profits in the system .
- Expected loss for SAN 15.6%, below that of the sector (17.4%).

3. Request for European financial assistance

This was approved in July by the Eurogroup. Its basic features and conditionality are set out in the Memorandum of Understanding. They are:

- Financial: credit line to the FROB of up to EUR 100,000 million with the guarantee of the Spanish state; average maturity of 12.5 years, in better conditions than the market and without seniority status over other debts.

- Conditionality for the financial sector:

  – Individual for banks that require recapitalization with public funds: restructuring plan needed within the state's rules of scope and aid; segregating problematic assets.

  – For each single entity: minimum core capital ratio of 9% and tracking of the evolution of balance sheets, particularly liquidity and deposits.

In addition, the Memorandum of Understanding sets out the need to improve the restructuring and resolution processes for banks in Spain, specified in Royal Decree Law 24/2012 of August and subsequent developments. The main aspects are:

- New restructuring and resolution framework with clear definition of functions between the FROB and the Deposit Guarantee Fund.

- Holders of preference shares and subordinated debt in banks with state aid to assume losses.

- Transfer of impaired assets from banks with state aid to an asset management company.

The restructuring plans of the banks that required state aid for their recapitalisation (Groups 1 and 2) have had to adapt to this new framework as well as receive the approval of the EU competition authorities in order to receive European financial assistance.

4. Creation of the company for the management of assets from the reconstruction of the banking system (known as Sareb)

The creation of Sareb, also known as "bad bank", is a decisive step toward recovering confidence in the Spanish banking system, which should be reflected in a lower cost of funding and better ratings.

Its objective is to manage and sell in an orderly fashion the loans and real estate assets placed in it from banks in Groups 1 and 2 over no more than 15 years.

Sareb's basic features are:

- The total volume of assets under management is around EUR 50,000 million net of provisions, of which EUR 36,700 correspond to Group 1 banks and the rest to Group 2.

- The assets transferred must be over EUR 100,000 for foreclosed properties and EUR 250,000 for loans to developers.

- Conservative transfer price: average discount of 54%, higher than the average expected loss in Oliver Wyman's adverse scenario.

- Financial structure: medium-term debt (1 to 3 years) with state guarantees as payment for net assets transferred, and equity of 8% of said assets (2% capital and 6% subordinated debt – remunerated at 8%).

- Shareholders: 55% private (participation of the main Spanish banks and insurers and also subsidiaries of foreign banks) and 45% public (FROB).

The initial 15-year business plan envisages a return on equity of close to 15% on average a year, aided by:

– A conservative transfer price.

– Annual sales lower than international references.

– A price scenario that sees a rise as of the fourth year and

– A significant part of the credit portfolio up to date with payments as a revenue generator.

Grupo Santander has committed an investment of EUR 840 million in Sareb (25% capital and 75% subordinated debt).

The Group's stake is around 17% with two representatives on the board of directors.

5. Recapitalisation and restructuring of banks that needed state aid

Following the review and approval of the recapitalisation and restructuring plans of banks in need of capital (according to Oliver Wyman report) by the Spanish and European authorities, the state aid for each bank was determined.

The capital to be injected by FROB into Group 1 banks amounted to EUR 36,968 million. In December 2012, this amount was transferred from the European Stability Mechanism to FROB, together with EUR 2,500 million for FROB's contribution to Sareb, which recapitalised these banks before the end of the year.

In the case of the four banks that made up Group 2, FROB will inject EUR 1,865 million of capital. Two banks (in Group 3) in need of capital but which showed a capacity to cover their needs themselves will not receive state aid.

The total state aid for banks in need is EUR 38,833 million, significantly below the EUR 54,000 million identified by Oliver Wyman for these banks. This lower amount is due to the losses assumed by hybrid instruments, the transfer of assets to Sareb and capital gains realised by banks.

The sector is in the final phases of its recapitalisation, which will enable those banks to meet the maximum quality capital ratio requirement of 9%.

In addition, and according to the aforementioned Memorandum of Understanding, a profound restructuring was underway in the eight banks receiving state aid, which must reduce their balance sheets before 2017:

- The Group 1 banks will cut their balance sheets by 60% and focus their business model on retail lending and to SMEs in their home regions.

- The Group 2 banks will reduce their balance sheets by between 25% and 40%.

- A bank that was not viable on its own has been sold.

The European Commission believes that these business reduction plans, which involve big closures of branches and shedding of employees, guarantee the long-term viability of all these banks.

2012 Summary of Grupo Santander

Grupo Santander posted an attributable profit of EUR 2,205 million in 2012, 58.8% less than in 2011.

The result would have been EUR 5,251 million (-25.2%) but for the special provisions set aside for soured property loans in Spain (EUR 6,140 million gross and EUR 4,110 million net of tax). After these provisions, Santander has exceeded the amounts required by royal decree laws 2/2012 and 18/2012.

Of the net provisions, EUR 1,064 million came from capital gains, mainly from the sale of the subsidiary in Colombia and the insurance operation in Spain and Portugal, and EUR 3,047 million was charged to the year's ordinary earnings.

In a still complex environment in many of the markets in which we operate, Santander showed the resistance of its business model and the Group's capacity to keep on generating high recurring results. This was underscored by the pre-provision profit (net operating income), which continued to absorb the higher provisions required by the phase of the cycle and the regulatory requirements.

The pillars of Santander's model are:

- Focus on the customer and on retail business.
- Geographic diversification and the model of subsidiaries.
- Discipline in risks, liquidity and capital. Strengthening the three variables was a priority in the Group's management during 2012.
- The continuous effort in improving operational and commercial efficiency.
- The Santander brand, recognized as one of the main ones in the banking world: fourth financial brand according to Top Banking Brands 2012, fifth by leadership according to the Hay Group published by Forbes and the world's best global bank according to Euromoney.
- Santander staff. The Group's 186,763 professionals are a key element in its business model.
- Sustainable business development.

In this environment, and with these strengths, the main features of management in 2012 were:

1. **Solid generation of recurring results**. Over the last few years, Grupo Santander has continuously increased its revenues which, as well as setting us apart from the banking sector's performance as whole, enabled us to keep on boosting net operating income (pre-provision profit), which in 2012 amounted to EUR 23,559 million.

   This figure makes Santander one of the best banks in the world in profit generation, and for the 10th year running was higher than the preceding year (on a like-for-like basis) and shows the excellent evolution during the crisis. Pre-provision profit amounted to almost EUR 110,000 million for the last five years.

   This capacity to generate results, which is backed by the geographic diversification and the basic focuses of management adapted to each market, endows the income statement with extraordinary strength and provides substantial leeway to absorb provisions in the most demanding scenarios.

   – Gross income increased 2.2%. Net interest income (NII) and fee income rose in a growth scenario in emerging markets and reduced activity, very low interest rates and upward pressure on funding costs in developed markets. On the other hand, income by the equity accounted method declined because of the reduced size of equity stakes in some units and the negative impact of larger contributions required by the deposit guarantee funds.

   – Operating expenses grew 2.9%, with very differentiated management on the basis of markets and businesses. The larger rise corresponded to emerging countries or where we are investing in the franchise, such as in the United States. Spain's and Portugal's costs declined.

   – The efficiency ratio was 46.1%, the best figure among our European and North American peers.

2. As part of the strategy to prioritise in **strengthening the balance sheet**, the first point to make is the effort to boost provisions. The Group set aside a total of EUR 18,806 million during 2012.

Of these provisions, the figure for Spain of around EUR 9,000 million was particularly significant, partly due to the rise in NPLs throughout the banking system because of the recession and partly because of the provisions for real estate loans.

These provisions were combined with a strategy of sharply reducing the net real estate exposure in Spain, which was reduced by EUR 12,400 million in 2012 and EUR 28,500 million (-69%) since the end of 2008 and the onset of the crisis.

The provisions and the reduction in the exposure resulted in a notable rise in coverage ratios in 2012. Coverage of problematic real estate balances (doubtful, sub-standard and foreclosures) was 50% (37% at the end of 2011) and the total exposure (including outstanding balances) increased its coverage ratio from 22% in 2011 to 47%.

This produced a rise of 25.1 percentage points in total coverage of credit risk in Spain to 70.6%, and of 11.2 percentage points in the Group's total coverage (from 61.4% in December 2011 to 72.6% at the end of 2012).

As for the NPL ratio, and although the Group is not immune to the market's trends, Santander's risk management model means that, generally, we compare well with the system's average in the main markets where we operate. The Group's ratio at the end of 2012 was 4.54%, with most of the rise due to units in Spain and Brazil.

3. Solid funding structure and improvement in the Group's liquidity ratios. In a year of substantial tensions in markets caused by the sovereign debt crisis and doubts on the euro's survival, the improvement in the liquidity position was a priority in the Group's strategy.

The capacity to capture funds in the retail market through the extensive branch network, the wide and diversified access to wholesale markets via Santander's model of subsidiaries and the current context of reduced funding needs in some markets because of deleveraging enabled the Group to bolster in 2012 its liquidity situation and that of its subsidiaries, particularly in the euro zone. Some of the measures that reflect this improvement were:

– At the Group level, the loan-to-deposit ratio ended the year at 113% (down from 117% in 2011 and 150% in 2008). The structural liquidity surplus was more than EUR 157,000 million and the liquidity reserve amounted to EUR 217,000 million.

– The gap between loans and deposits in Spain and Portugal was reduced by EUR 42,000 million in 2012. In the specific case of Spain, the year ended with a loan-to-deposit ratio of 96% (118% in 2011).

– Management of liquidity by stand-alone subsidiaries enabled the Group to maintain a conservative strategy and issue EUR 43,000 million of medium- and long-term issuances and securitisations (EUR 16,000 million issued in Spain).

4. High Group solvency, with the core capital ratio ratio rising for the sixth straight year. This ratio rose from 10.02% in 2011 to 10.33% in 2012, in accordance with the BIS II international standard.

Furthermore, the publication of stress test results for individual Spanish banks confirmed the Group's strength, solvency and capacity to face a further slide in the economic environment.

5. High shareholder remuneration. Santander maintained in 2012 a total remuneration of EUR 0.60 per share, through its Santander Dividendo Elección (scrip dividend) programme, which meant maintaining the remuneration per share of the three previous years.

6. Santander developed in 2012 a wide range of **measures** in order to keep on advancing in **improving the Group's global positioning** since the onset of the crisis. The following steps, among others, were part of this strategy:

– Organic growth in countries such as Mexico, Brazil and the US where we are increasing our installed capacity and enhancing our commercial capacity.

– As part of the strategy to deepen the model of listed subsidiaries, 24.9% of Banco Santander Mexico was floated.

This IPO, which drew a big demand, was the largest offering of shares in Mexico and the third largest in the world in 2012. After it, Santander Mexico's market capitalization ended 2012 at EUR 16,639 million and among the 70 largest banks in the world.

– Organic and inorganic rise of the presence in Poland, where 2012 was the first full year for the consolidation of BZ WBK and where we reached a merger agreement with Kredyt Bank, which went ahead at the beginning of 2013.

  This operation, together with the Group's strong position in Poland's consumer credit business, consolidated Santander as one of the main players in a key country for the Group.

– Adjustment to the competitive environment in Spain. Within the restructuring framework of the financial sector in Spain, the Group will strengthen the Santander brand by integrating Banesto and Banif into Banco Santander.

  The single brand and new structure, with 4,000 branches under the same corporate identity, will enable Santander to better take advantage of the opportunities to gain market share in Spain, by providing a wider range of products and a better quality of service.

  The operation also offers significant synergies of integration, is a low risk one and will have a positive impact of around 3% on earnings per share over consensus by the third year.

  The legal merger is expected to be completed in May 2013 and the operational and brand integration is expected to be accomplished before the end of 2013.

– Lastly, agreements were signed in 2012 to improve the revenue-generating capacity of global businesses, with corporate operations in insurance and cards.

All these operations enabled the Group to end 2012 in a position of great growth potential in the coming years.

The main developments in the principal (or geographic) segments were:

- **Continental Europe**: attributable profit of EUR 2,305 million (+0.8%), largely determined by the rise in gross income in the second half of the year in the retail networks in Spain and the higher profit at Santander Consumer Finance (+9.0%) and BZ WBK (Poland), which increased 43.9% partly due to the perimeter effect (without it: +21%). These advances were offset to some extent by the higher provisions made in Spain and Portugal.

- **UK**: attributable profit of £952 million (-10.2%). Gross income was affected by the higher cost of funding and the impact of low interest rates, costs that dropped and provisions up 22.8%, though they declined in the second half of the year over the first half (-14%).

- **Latin America**: attributable profit of EUR 4,305 million. In constant currency, gross income rose 11.7% and net operating income 15.7%. This did not feed through to attributable profit because of higher provisions, taxes and the perimeter effect. Without the latter, profit was 3.7% higher.

- **US**: attributable profit of $1,042 million, 25.8% less because of the perimeter effect on Santander Consumer USA and a negative impact of $127 million from the charge made as a result of the judicial recommendation in the third quarter to remunerate the Trust PIERS issue at 13.61%.

A more detailed analysis of the results and of the main balance sheet items now follows.

Grupo Santander. Results

- Gross income of EUR 43,675 million, 2.2% more in the year, reaching an all-time high due to the resistance to the cycle in developed markets and the increase in emerging ones.
- Costs under control (+2.9%), with differentiated management by units.
- Solid generation of recurring profits: EUR 23,559 million of pre-provision profit (net operating income) for the Group, improving for the 10th year running.
- The strength of the income statement allowed the exceptional provisions (EUR 18,806 million, of which EUR 6,140 million were for real estate in Spain) to be absorbed.
- At the end of 2012, the provisions made exceeded the amounts required by the royal decree laws and represented a significant increase in the coverage ratios in Spain and in the Group.
- The attributable profit for the Group amounted to EUR 2,205 million, 58.8% less than in 2011. Before real estate provisions the attributable profit was EUR 5,251 million.

In 2012, the Group posted an **attributable profit** of **EUR 2,205 million**, 58.8% less than in 2011.

This was due to several factors that negatively affected year-on-year comparisons.

- The most important one was provisions for real estate risk in Spain of EUR 4,110 million net of tax, EUR 1,064 million of which came from the capital gains generated mainly from the sale of the subsidiary in Colombia and the insurance operation in Spain and Portugal, and EUR 3,047 million were charged to the year's earnings.

- A negative perimeter effect on attributable profit of 11 p.p. resulting from the difference between:

  – a positive effect from the entry in April 2011 of Poland's Bank Zachodni WBK and to a lesser extent the business acquired from SEB in Germany as of February 2011, and

  – a negative effect from the sale of the subsidiary in Colombia; the reduced contribution of income by the equity accounted method (due to the entry of new partners in Santander Consumer USA and the partial

INCOME STATEMENT (EUR Million)

	2012	2011	Variation amount	%	2010
Net interest income	**30,147**	**29,110**	**1,037**	**3.6**	**27,728**
Dividends	423	394	29	7.3	362
Income from equity-accounted method	427	775	(348)	(44.9)	470
Net fees	10,307	10,208	100	1.0	9,551
Gains (losses) on financial transactions	2,698	2,499	199	8.0	2,585
Other operating income/expenses	(327)	(232)	(94)	40.5	(110)
Gross income	**43,675**	**42,754**	**921**	**2.2**	**40,586**
Operating expenses	(20,116)	(19,559)	(557)	2.9	(17,905)
General administrative expenses	(17,928)	(17,468)	(460)	2.6	(15,986)
Personnel	*(10,323)*	*(10,157)*	*(167)*	*1.6*	*(9,196)*
Other general administrative expenses	*(7,604)*	*(7,311)*	*(293)*	*4.0*	*(6,790)*
Depreciation and amortisation	(2,189)	(2,091)	(98)	4.7	(1,919)
Net operating income	**23,559**	**23,195**	**364**	**1.6**	**22,682**
Net loan-loss provisions	(12,666)	(9,900)	(2,766)	27.9	(9,400)
Impairment losses on other assets	(853)	(173)	(680)	394.3	(471)
Other income	(1,593)	(2,811)	1,218	(43.3)	(1,048)
Ordinary profit before taxes	**8,447**	**10,311**	**(1,864)**	**(18.1)**	**11,762**
Tax on profit	(2,299)	(2,500)	201	(8.0)	(2,686)
Ordinary profit from continuing operations	**6,148**	**7,812**	**(1,663)**	**(21.3)**	**9,077**
Net profit from discontinued operations	(7)	(24)	17	(71.6)	(27)
Ordinary consolidated profit	**6,141**	**7,787**	**(1,646)**	**(21.1)**	**9,050**
Minority interests	890	766	124	16.2	869
Ordinary attributable profit to the Group	**5,251**	**7,021**	**(1,769)**	**(25.2)**	**8,181**
Net capital gains and provisions	(3,047)	(1,670)	(1,377)	82.4	—
Attributable profit to the Group	**2,205**	**5,351**	**(3,146)**	**(58.8)**	**8,181**
EPS (euros)	**0.23**	**0.60**	**(0.38)**	**(62.5)**	**0.94**
Diluted EPS (euros)	**0.22**	**0.60**	**(0.37)**	**(62.5)**	**0.94**
Pro memoria:					
Average total assets	1,287,086	1,228,382	58,704	4.8	1,190,361
Average shareholders' equity	78,806	74,901	3,904	5.2	69,334

Note: In order to make a homogeneous comparison the P&L accounts of 2010 and 2011 have been restated, including the contribution from Santander Consumer USA's and the insurance business in Latin America (included in the transaction with Zurich Seguros) in the "income from the equity accounted method" line.

sale of insurance business in Latin America; the reinsurance of the portfolio of individual life risk of Santander's insurers in Spain and Portugal, and the rise in minority interests in Brazil, Mexico and Chile.

- The impact of exchange rates on various currencies against the euro was one percentage point negative for the whole Group in year-on-year comparisons for revenues and costs. The impact on the UK and the US income statements was 6 p.p. and 8 p.p. positive, respectively, and 4 p.p. negative on Latin America (-8 p.p. on Brazil and +5 p.p. on the rest of Latin America).

All these effects absorbed the good evolution of pre-provision profit, which amounted to EUR 23,559 million, a rise of 1.6% or +4.4% after eliminating the perimeter and exchange rate effects.

The performance of the income statement and comparisons with 2011 is as follows:

Gross income was EUR 43,675 million, 2.2% higher (+3.7% excluding the perimeter and exchange rate impacts).

- **Net interest income (NII)** rose 3.6% to EUR 30,147 million. This is the net of different impacts.

  – The positive effect of improved spreads on loans for the whole Group, from 3.69% in 2011 to 3.95% in 2012. This was due on the one hand to the growth in volumes and the adequate management of prices in emerging markets, and on the other hand to improved profitability in new lending in countries such as Spain, Portugal and the UK, in a scenario of lower volumes and low interest rates.

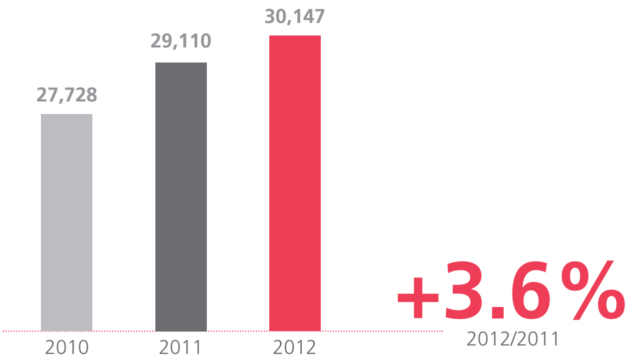
  – Negative effect from the higher cost of funding caused by the greater cost of credit and a conservative strategy in liquidity.

  – Reduction in the spreads of deposits, from 0.31% in 2011 to 0.10% in 2012. This drop was due to the higher cost of funding in countries with strong competition for deposits during part of the year. The improved liquidity situation of the markets, together with the lower wholesale funding costs in recent months, should allow a gradual reduction in the cost of deposits.

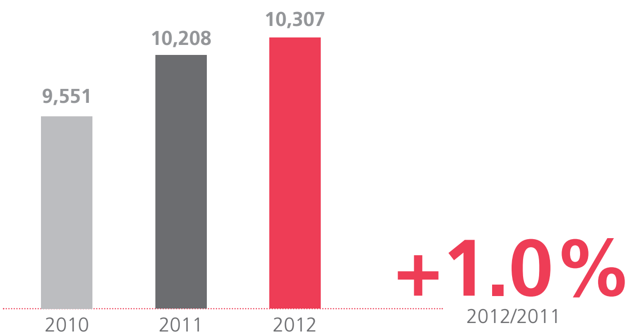
QUARTERLY (EUR Million)

	2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net interest income	**7,075**	**7,225**	**7,275**	**7,536**	**7,821**	**7,678**	**7,495**	**7,153**
Dividends	40	193	60	101	61	216	66	80
Income from equity-accounted method	225	204	169	176	136	120	84	87
Net fees	2,518	2,667	2,636	2,387	2,622	2,568	2,576	2,541
Gains (losses) on financial transactions	664	722	639	474	797	675	643	583
Other operating income/expenses	(40)	(90)	(57)	(45)	(83)	(67)	(84)	(93)
Gross income	**10,482**	**10,921**	**10,722**	**10,629**	**11,354**	**11,190**	**10,780**	**10,351**
Operating expenses	(4,731)	(4,826)	(4,909)	(5,093)	(5,074)	(4,967)	(5,100)	(4,976)
General administrative expenses	(4,227)	(4,303)	(4,376)	(4,563)	(4,549)	(4,454)	(4,495)	(4,431)
Personnel	*(2,474)*	*(2,511)*	*(2,569)*	*(2,601)*	*(2,637)*	*(2,592)*	*(2,612)*	*(2,482)*
Other general administrative expenses	*(1,752)*	*(1,791)*	*(1,807)*	*(1,961)*	*(1,911)*	*(1,862)*	*(1,883)*	*(1,948)*
Depreciation and amortisation	(505)	(523)	(533)	(530)	(525)	(514)	(605)	(545)
Net operating income	**5,750**	**6,095**	**5,813**	**5,536**	**6,280**	**6,223**	**5,681**	**5,375**
Net loan-loss provisions	(2,065)	(2,546)	(2,711)	(2,577)	(3,127)	(3,413)	(2,994)	(3,132)
Impairment losses on other assets	(48)	(52)	(84)	11	(83)	(97)	(81)	(592)
Other income	(546)	(1,378)	(357)	(531)	(526)	(418)	(510)	(139)
Ordinary profit before taxes	**3,092**	**2,119**	**2,661**	**2,439**	**2,545**	**2,294**	**2,097**	**1,511**
Tax on profit	(759)	(512)	(683)	(545)	(716)	(651)	(659)	(273)
Ordinary profit from continuing operations	**2,332**	**1,607**	**1,978**	**1,894**	**1,829**	**1,644**	**1,438**	**1,238**
Net profit from discontinued operations	(6)	(0)	(15)	(3)	1	(4)	1	(5)
Ordinary consolidated profit	**2,327**	**1,607**	**1,963**	**1,890**	**1,829**	**1,640**	**1,439**	**1,234**
Minority interests	218	214	161	173	226	236	197	232
Ordinary attributable profit to the Group	**2,108**	**1,393**	**1,803**	**1,717**	**1,604**	**1,404**	**1,242**	**1,002**
Net capital gains and provisions	—	—	—	(1,670)	—	(1,304)	(1,142)	(601)
Attributable profit to the Group	**2,108**	**1,393**	**1,803**	**47**	**1,604**	**100**	**100**	**401**
EPS (euros)	**0.24**	**0.16**	**0.20**	**0.00**	**0.17**	**0.01**	**0.01**	**0.04**
Diluted EPS (euros)	**0.24**	**0.16**	**0.20**	**0.00**	**0.17**	**0.01**	**0.01**	**0.04**

NET INTEREST INCOME
EUR Million



NET FEES
EUR Million



NII by geographic areas was as follows:

– Increase of 8.5% in Spain, within an environment of lower balances of loans due to deleveraging, and with appropriate management of prices and higher volumes of deposits.

– Latin America also did well (+14.7% excluding the perimeter and the exchange rate impact), with Brazil and Mexico up 14.5% and 18.1%, respectively. This growth reflected strong activity, with sustained rises in loans and deposits (in all countries), and defence of spreads in a framework of maintained / lower interest rates.

– Santander UK and Santander US registered falls of 23.6% and 8.0%, respectively, in their currencies, affected by interest rates at their lowest. Another factor at Santander UK was the higher cost of funding (deposits and wholesale), and in Santander US the impact of the reduction in Sovereign Bank's non-strategic portfolio.

- **Net fee** income increased a little (+1.0%), with a varied performance. That from services increased 3.1%, with most items doing well, and from securities 5.1%, while from mutual funds the decline was 5.0%, affected by the greater shift into deposits, and from insurance dropped 2.2% at constant perimeter.

  Spain and Portugal reflected the lower activity of the environment and the US significant regulatory impacts. Poland, the UK, Brazil, Mexico and Argentina increased their net fee income. The quarterly performance improved in the last part of the year and was better than the fourth quarter of 2011 and the first of 2012.

- **Gains on financial transactions** increased 8.0%. The decline in those from the UK and Corporate Activities was offset by Continental Europe, Latin America and the US.

- **Income by the equity accounted method** was 44.9% lower at EUR 427 million (EUR 775 million in 2011), largely due to the perimeter impact from the Group's reduced stake in Santander Consumer USA and insurance operation in Latin America.

- Lastly, **other operating income**, including the contribution to the deposit guarantee funds, was EUR 327 million negative (EUR 232 million also negative in 2011), partly due to the higher contribution in Spain to the Deposit Guarantee Fund (from 0.6‰ to 2‰ of eligible funds).

Operating expenses rose 2.9% and 2.8% excluding the perimeter and exchange rate effects. The year-on-year performance varied throughout the Group.

In Europe, both large retail units (Spain and Portugal) as well as the UK registered negative growth in costs in real terms, continuing the trend begun in 2011. Of note was Portugal (-4.8%).

The increase in costs was due to Latin America and the US. In the first case, this was linked to the increase in business capacity and the revision of wage agreements in an environment of higher inflation. In the US, the increase reflects greater investment in IT and business structures.

NET FEES (EUR Million)

	2012	2011	Variation amount	%	2010
Fees from services	6,089	5,908	180	3.1	5,450
Mutual & pension funds	1,178	1,236	(59)	(4.7)	1,267
Securities and custody	702	668	34	5.1	784
Insurance	2,339	2,396	(56)	(2.4)	2,051
Net fee income	**10,307**	**10,208**	**100**	**1.0**	**9,551**

The **efficiency ratio** remained stable at 46%, which compares well with the sector. In September (latest comparative data available), Santander was in second place among its peers (only surpassed by a South American bank) and compared to ratios of 60% on average for the euro zone's main banks and UK and US banks.

As a result, **net operating income** (pre-provision profit) was EUR 23,559 million, 1.6% more (+4.4% excluding the perimeter and forex effects).

This figure was a new record (on a like-for-like basis) for the tenth year running, allowing the Group to remain among the best banks in the world for its capacity to generate results. Moreover, seven of the Group's principal units registered double-digit growth in their local currencies.

This again underscored the Group's capacity to continue to generate recurring revenues and absorb the higher provisions required by the phase of the cycle and new regulatory requirements.

Provisions for loan losses were EUR 12,666 million (+27.9%). This was due to higher specific provisions because of the growth in lending in emerging countries, combined with the worsening credit quality in some financial systems (Spain, Brazil and Chile).

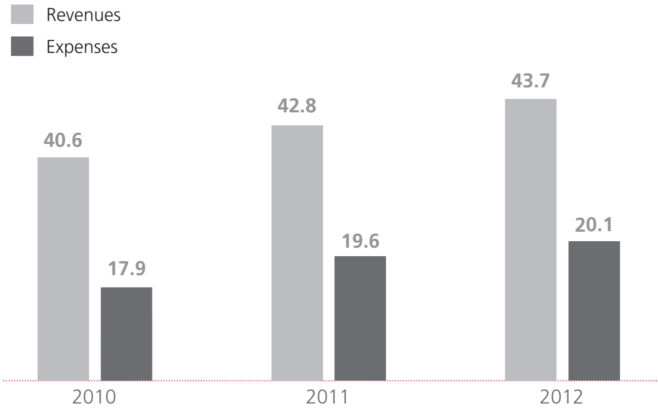
Moreover, EUR 520 million of generic provisions were released in 2011 in this line of the P&L, compared to a provision of EUR 94 million in 2012.

Net operating income after provisions was EUR 10,893 million, 18.1% lower (-15.6% excluding the perimeter and forex effects).

Other asset impairment losses and other results were EUR 2,446 million negative, compared to EUR 2,984 million also negative in 2011, of which EUR 842 million corresponded to the charge to cover eventual claims related to payment protection insurance (PPI) in the UK.

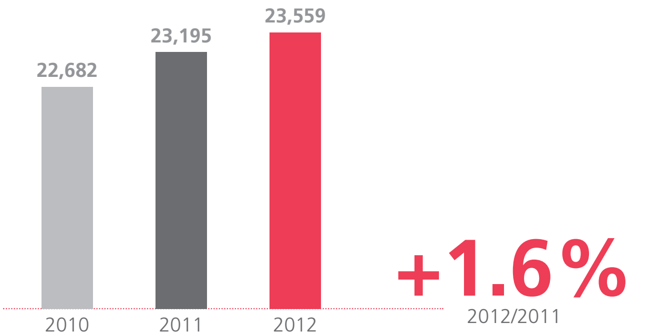
REVENUES AND EXPENSES

EUR Billion



NET OPERATING INCOME

EUR Million



Ordinary profit before tax was 18.1% lower at EUR 8,447 million (-15.2% excluding the perimeter and forex effects).

Ordinary profit from continuing operations amounted to EUR 6,148 million (-21.3%) after the tax charge of EUR 2,299 million (EUR 201 million lower than the EUR 2,500 million in 2011).

OPERATING EXPENSES (EUR Million)

	2012	2011	Variation amount	%	2010
Personnel expenses	10,323	10,157	167	1.6	9,196
General expenses	7,604	7,311	293	4.0	6,790
Information technology	938	869	70	8.0	793
Communications	642	638	4	0.7	654
Advertising	665	691	(26)	(3.8)	632
Buildings and premises	1,750	1,660	91	5.5	1,544
Printed and office material	168	176	(9)	(4.9)	176
Taxes (other than profit tax)	417	391	26	6.6	369
Other expenses	3,024	2,887	137	4.8	2,622
Personnel and general expenses	**17,928**	**17,468**	**460**	**2.6**	**15,986**
Depreciation and amortisation	2,189	2,091	98	4.7	1,919
Total operating expenses	**20,116**	**19,559**	**557**	**2.9**	**17,905**

NET LOAN-LOSS PROVISIONS (EUR Million)

	2012	2011	Variation amount	%	2010
Non performing loans	13,988	11,324	2,664	23.5	10,339
Country-risk	(2)	(7)	5	(75.8)	2
Recovery of written-off assets	(1,321)	(1,418)	97	(6.8)	(941)
Total	**12,666**	**9,900**	**2,766**	**27.9**	**9,400**

The impact of higher minority interests (placement of shares in Brazil, Mexico and Chile) made **ordinary attributable profit** 25.2% lower at EUR 5,251 million (-17.6% excluding the exchange rate and perimeter effects).

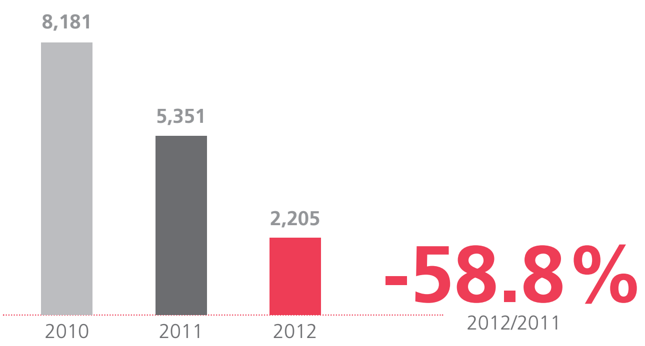
After taking into account the net impact of capital gains and provisions (-EUR 3,047 million), **attributable profit** was EUR 2,205 million, 58.8% less compared to EUR 5,351 million in 2011.

Earnings per share were EUR 0.23, 62.5% less than in 2011. Ordinary earnings per share were EUR 0.54 (-31.9%). Both of them were affected by the capital increases in 2011 and 2012 for the repurchase of preference shares and to meet the scrip dividend for those shareholders who chose to receive Santander shares.

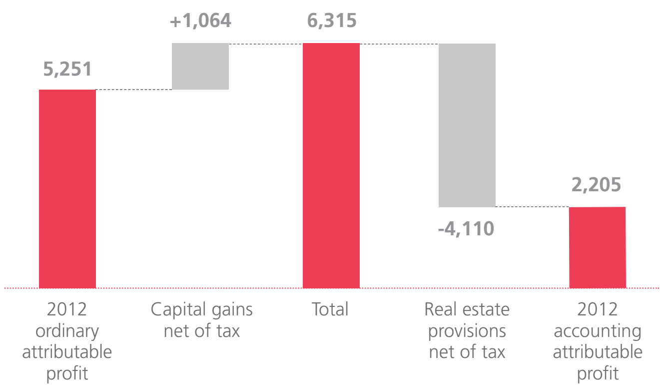
The capital increases to meet the conversion of *Valores Santander* did not affect this evolution because, as securities to be mandatorily converted into shares, and in line with the accounting rule for calculating earnings per share, they computed as shares issued right from their commercialisation in October 2007.

The Group's **ROE** was 2.8% and return on tangible equity (**ROTE**) (attributable profit/shareholders' equity less goodwill) was 4.1%. On the basis of ordinary profit, ROE was 6.7% and ROTE 9.8%.

ATTRIBUTABLE PROFIT
EUR Million



IMPACT ON ATTRIBUTABLE PROFIT IN 2012
EUR Million



BALANCE SHEET (EUR Million)

ASSETS	2012	2011	Variation amount	%	2010
Cash on hand and deposits at central banks	118,488	96,524	21,965	22.8	77,785
Trading portfolio	177,917	172,637	5,281	3.1	156,762
Debt securities	*43,101*	*52,704*	*(9,602)*	*(18.2)*	*57,871*
Customer loans	*9,162*	*8,056*	*1,107*	*13.7*	*755*
Equities	*5,492*	*4,744*	*748*	*15.8*	*8,850*
Trading derivatives	*110,319*	*102,498*	*7,820*	*7.6*	*73,069*
Deposits from credit institutions	*9,843*	*4,636*	*5,208*	*112.3*	*16,216*
Other financial assets at fair value	28,356	19,563	8,793	44.9	39,480
Customer loans	*13,936*	*11,748*	*2,188*	*18.6*	*7,777*
Other (deposits at credit institutions, debt securities and equities)	*14,420*	*7,815*	*6,605*	*84.5*	*31,703*
Available-for-sale financial assets	92,267	86,612	5,654	6.5	86,235
Debt securities	*87,724*	*81,589*	*6,136*	*7.5*	*79,689*
Equities	*4,542*	*5,024*	*(481)*	*(9.6)*	*6,546*
Loans	758,228	779,525	(21,298)	(2.7)	768,858
Deposits at credit institutions	*53,785*	*42,389*	*11,396*	*26.9*	*44,808*
Customer loans	*697,384*	*730,296*	*(32,912)*	*(4.5)*	*715,621*
Debt securities	*7,059*	*6,840*	*219*	*3.2*	*8,429*
Investments	4,453	4,154	299	7.2	273
Intangible assets and property and equipment	17,296	16,840	455	2.7	14,584
Goodwill	24,626	25,089	(463)	(1.8)	24,622
Other	47,997	50,580	(2,583)	(5.1)	48,901
Total assets	**1,269,628**	**1,251,525**	**18,103**	**1.4**	**1,217,501**

LIABILITIES AND SHAREHOLDERS' EQUITY	2012	2011	Variation amount	%	2010
Trading portfolio	143,241	146,949	(3,708)	(2.5)	136,772
Customer deposits	*8,897*	*16,574*	*(7,677)*	*(46.3)*	*7,849*
Marketable debt securities	*1*	*77*	*(77)*	*(99.0)*	*365*
Trading derivatives	*109,743*	*103,083*	*6,659*	*6.5*	*75,279*
Other	*24,600*	*27,214*	*(2,614)*	*(9.6)*	*53,279*
Other financial liabilities at fair value	45,418	44,908	510	1.1	51,020
Customer deposits	*28,638*	*26,982*	*1,656*	*6.1*	*27,142*
Marketable debt securities	*4,904*	*8,185*	*(3,281)*	*(40.1)*	*4,278*
Due to central banks and credit institutions	*11,876*	*9,741*	*2,134*	*21.9*	*19,600*
Financial liabilities at amortized cost	959,321	935,669	23,652	2.5	898,969
Due to central banks and credit institutions	*131,670*	*116,368*	*15,302*	*13.1*	*79,537*
Customer deposits	*589,104*	*588,977*	*126*	*0.0*	*581,385*
Marketable debt securities	*201,064*	*189,110*	*11,954*	*6.3*	*188,229*
Subordinated debt	*18,238*	*22,992*	*(4,754)*	*(20.7)*	*30,475*
Other financial liabilities	*19,245*	*18,221*	*1,024*	*5.6*	*19,343*
Insurance liabilities	1,425	517	908	175.6	10,449
Provisions	12,872	15,571	(2,699)	(17.3)	15,660
Other liability accounts	23,026	25,052	(2,026)	(8.1)	23,717
Total liabilities	**1,185,302**	**1,168,666**	**16,636**	**1.4**	**1,136,586**
Shareholders' equity	81,243	80,895	348	0.4	77,334
Capital stock	*5,161*	*4,455*	*706*	*15.9*	*4,165*
Reserves	*74,528*	*72,660*	*1,868*	*2.6*	*66,258*
Attributable profit to the Group	*2,205*	*5,351*	*(3,146)*	*(58.8)*	*8,181*
Less: dividends	*(650)*	*(1,570)*	*920*	*(58.6)*	*(1,270)*
Equity adjustments by valuation	(6,590)	(4,482)	(2,108)	47.0	(2,315)
Minority interests	9,672	6,445	3,227	50.1	5,896
Total equity	**84,326**	**82,859**	**1,467**	**1.8**	**80,914**
Total liabilities and equity	**1,269,628**	**1,251,525**	**18,103**	**1.4**	**1,217,501**

Grupo Santander. Balance sheet

▶ The Group's priority was to strengthen the balance sheet in three key areas: liquidity, capital and provisions.

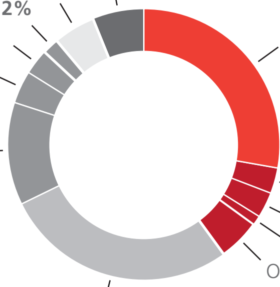
- In capturing of funds, preference for deposits (of note was Spain: +EUR 22,000 million) and a conservative issuance policy.
- In loans, lower demand in Europe, especially in Spain and Portugal, and growth in Latin America, the US and Poland.
- Improved loan-to-deposit ratio
  - Group: 113% (150% at the onset of the crisis)
  - Spain: 96% (178% at the onset of the crisis).

▶ Core capital ratio (BIS II) of 10.33%, after rising for the sixth straight year.

▶ The Group's coverage ratio increased 11.2 p.p. to 72.6%. In Spain it rose 25.1 p.p. to 70.6%.

DISTRIBUTION OF TOTAL ASSETS BY GEOGRAPHIC SEGMENTS

December 2012



Total managed funds at the end of 2012 amounted to EUR 1,387,769 million, of which EUR 1,269,628 million (91%) were on-balance sheet and the rest mutual and pension funds and managed portfolios.

Two factors need to be taken into account in the year-on-year comparisons:

- A negative perimeter impact from the sale of the subsidiary in Colombia, and from the impact of the change of units that consolidated by the proportional method, mainly in Spain, and now do so by the equity accounted method.
- The almost null effect from the evolution of non-euro currencies (end of period rates). On the one hand, the appreciation of sterling (2%), the Mexican peso (5%), the Chilean peso (6%) and the Polish zloty (9%) and, on the other, the depreciation of the dollar (2%), the Brazilian real (11%) and the Argentine peso (14%).

The impact of these factors was one percentage point negative on changes in customer balances, both in lending and customer funds.

Customer loans

The Group's gross customer loans amounted to EUR 745,987 million, 3% lower than in 2011. Eliminating the exchange rate and perimeter effects lending was 2% lower.

The geographic distribution (principal segments) was very different by markets.

In **Continental Europe**, Spain's and Portugal's net customer lending continued to be affected by low demand (-8% and -9%, respectively), while Santander Consumer Finance's balances remained stable (-1%) and Bank Zachodni WBK increased its lending by 5% in local currency.

CUSTOMER LOANS (EUR Million)

	2012	2011	Variation amount	%	2010
Spanish public sector	16,884	12,147	4,737	39.0	12,137
Other residents	183,130	202,411	(19,281)	(9.5)	217,497
Commercial bills	8,699	9,679	(980)	(10.1)	11,146
Secured loans	103,890	117,946	(14,056)	(11.9)	127,472
Other loans	70,540	74,785	(4,245)	(5.7)	78,879
Non-resident sector	545,972	554,478	(8,506)	(1.5)	514,217
Secured loans	339,519	342,676	(3,156)	(0.9)	311,048
Other loans	206,453	211,802	(5,349)	(2.5)	203,168
Gross customer loans	**745,987**	**769,036**	**(23,050)**	**(3.0)**	**743,851**
Loan-loss allowances	25,504	18,936	6,568	34.7	19,697
Net customer loans	**720,483**	**750,100**	**(29,618)**	**(3.9)**	**724,154**
Pro memoria: Doubtful loans	35,340	31,287	4,054	13.0	27,908
Public sector	121	102	19	18.4	42
Other residents	16,025	14,745	1,279	8.7	12,106
Non-resident sector	19,195	16,439	2,755	16.8	15,759

- Gross customer loans in *Spain* stood at EUR 205,520 million, 6% lower. Most of the drop was due to the reduction in real estate exposure (-32%) coupled with the necessary process of deleveraging of households. On the other hand, total financing to companies, direct and indirect, remained stable, with the following structure:

  – Gross loans with real estate purpose stood at EUR 15,867 million. These loans decreased in all quarters of 2012, maintaining the strategy of previous years. They dropped 32% (-EUR 7,575 million) over 2011.

  – Loans to individuals amounted to EUR 73,019 million, of which EUR 55,423 million were mortgages for homes. These have the least risk of further deterioration of the portfolio in Spain because of the different features of this product compared to similar ones in other countries. For example, the principle is amortised as of the first day and almost all loans are for residences in ownership, with a very low expected loss.

  In the specific case of Grupo Santander, the portfolio is mostly composed of mortgages that are for the first residence, with a large concentration of loans in the lowest tranches of loan-to-value (89% with an LTV lower than 80%) and a very low NPL ratio (2.6%).

  – Loans to SMEs and companies without real estate purpose amounted to EUR 99,750 million and accounted for the largest share of lending (49%). Moreover, indirect lending to companies was provided via payment to suppliers (EUR 4,160 million) launched by the public sector. The combination of both is virtually the same as that of loans granted to companies without real estate purpose in 2011.

  – Lastly, loans to Spain's public sector, excluding financing to suppliers, stood at EUR 12,724 million (+5% more than in 2011).

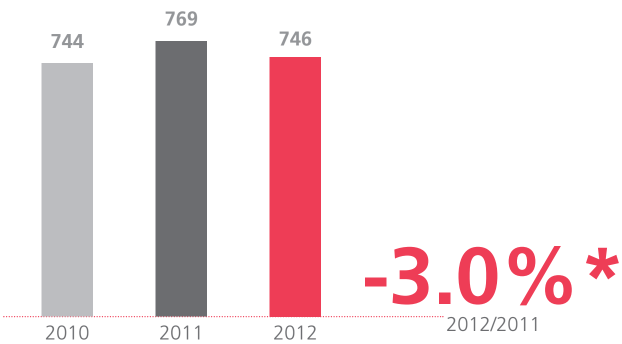
- In *Portugal*, lending dropped 9%, and came from all segments. In addition, balances in construction and real estate, which represent only 2.9% of lending, declined 22% in 2012.

- *Santander Consumer Finance's* balances remained virtually unchanged (-1%). Germany, which accounts for 52% of the area's credit, increased its lending 1% and Nordic countries 10% in local currency, while that of other countries more affected by the environment and deleveraging declined.

  New loans in 2012 rose 1%, notably those for used cars and durable goods. Financing of new cars rose more quickly than car sales in Europe.

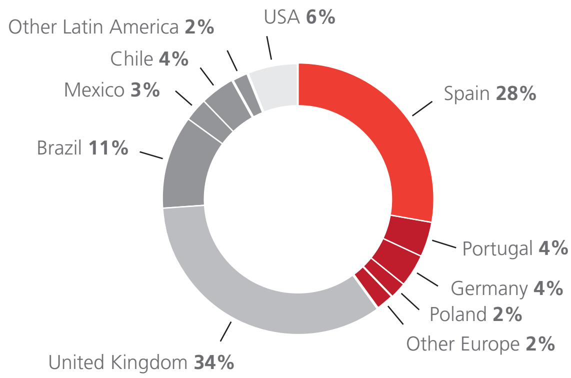
- In *Poland*, Bank Zachodni WBK's lending rose 5% (+9% to individuals and +3% to companies).

GROSS CUSTOMER LOANS
EUR Billion

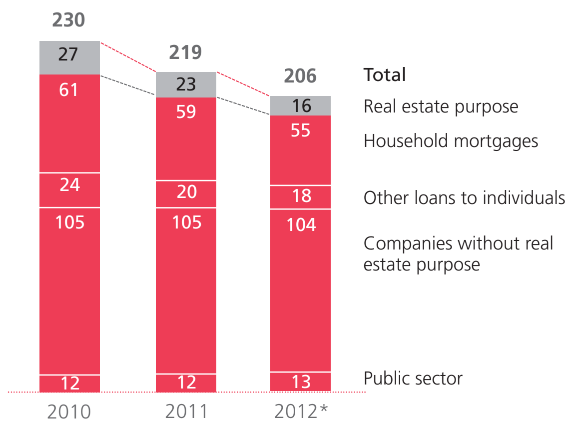


* Excluding exchange rate impact: -2.9%

GROSS CUSTOMER LOANS
% o/ operating areas. December 2012



CUSTOMER LOANS IN SPAIN
EUR Billion



* In Companies without real estate purpose, including financing to suppliers (Public sector): EUR 4 bn.

CREDIT RISK MANAGEMENT* (EUR Million)

	2012	2011	Variation amount	%	2010
Non-performing loans	36,100	32,036	4,063	12.7	28,522
NPL ratio (%)	4.54	3.89	0.65 p.		3.55
Loan-loss allowances	26,194	19,661	6,533	33.2	20,748
Specific	21,858	15,474	6,384	41.3	14,901
Generic	4,336	4,187	149	3.5	5,846
NPL coverage (%)	72.6	61.4	11.2 p.		72.7
Credit cost (%) **	2.21	1.41	0.80 p.		1.56
Ordinary non-performing and doubtful loans ***	20,949	18,318	2,631	14.4	18,061
NPL ratio (%) ***	2.69	2.26	0.43 p.		2.28
NPL coverage (%) ***	125.0	107.3	17.7 p.		114.9

* Excluding country-risk
** Net specific allowance / computable assets
*** Excluding mortgage guarantees

Note: NPL ratio: Non-performing loans / computable assets

In the **United Kingdom**, the balance of customer loans was 4% lower. In local criteria, the balance of residential mortgages dropped 5% due to the strategy followed to improve the risk profile, while personal loans declined 19%, due to the continuation of the reduction policy. Loans to SMEs increased 18%, gaining further market share.

Lending in **Latin America**, (excluding the New York branch, more volatile and excluding the exchange rate and perimeter effects), rose 8%. Brazil's increased 6%, Mexico's 7% and Chile's 9%, in local currency.

Lastly, lending in the **US** increased 5% in dollars.

At the end of 2012, Continental Europe accounted for 40% of the Group's lending (28% Spain), the UK 34%, Latin America 20% (11% Brazil) and the US 6%. These shares in 2011 were: Continental Europe 42% (Spain 29%), the UK 34%, 19% Latin America (11% Brazil) and 5% the US.

Risks

The still weak situation in some markets, however, continues to push up NPLs due to the rise in bad and doubtful loans as well as slower growth in lending, or reductions in lending volumes in some cases.

The Group's NPL ratio was 4.54%, 65 b.p. more in 2012.

Total loan-loss provisions were EUR 26,194 million (+33% over 2011). NPL coverage at the end of the year was 72.6%, after rising 11.2 percentage points in 2012, mainly due to the strong rise in provisions in Spain to increase coverage ratios.

Detailed information on risk evolution, (specially on real estate risk in Spain), control and monitoring systems and internal risk models to calculate provisions, is included in the risk management section of this annual report.

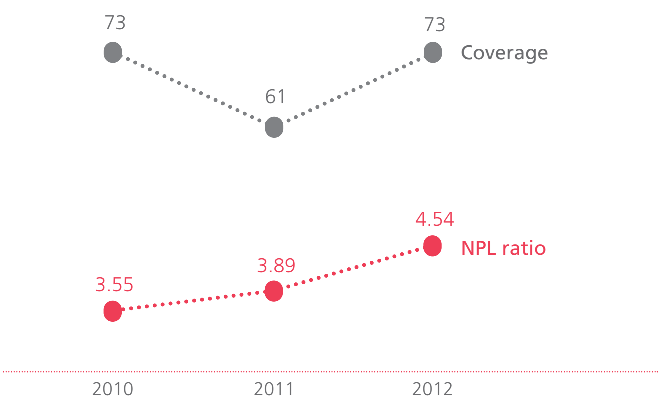
Customer funds under management

Total managed funds amounted to EUR 968,987 million, slightly lower than in 2011 (-2%). Deducting the perimeter and forex effects they were 1% lower.

Customer deposits (including retail commercial paper in Spain and Brazil's "letras financieras") rose less than 1%, conditioned by lower repos, as if these are excluded, they increased 4%.

SANTANDER GROUP. NPL RATIO AND COVERAGE

%



CUSTOMER FUNDS UNDER MANAGEMENT (EUR Million)

	2012	2011	Variation amount	%	2010
Resident public sector	8,487	6,528	1,959	30.0	9,655
Other residents	157,011	144,131	12,881	8.9	161,096
Demand deposits	71,526	68,389	3,137	4.6	67,077
Time deposits	75,414	61,185	14,229	23.3	81,145
Other	10,071	14,557	(4,486)	(30.8)	12,873
Non-resident sector	461,141	481,875	(20,734)	(4.3)	445,625
Demand deposits	228,698	220,299	8,399	3.8	210,490
Time deposits	179,503	197,249	(17,746)	(9.0)	197,590
Other	52,940	64,328	(11,388)	(17.7)	37,545
Customer deposits	**626,639**	**632,533**	**(5,895)**	**(0.9)**	**616,376**
Debt securities*	205,969	197,372	8,597	4.4	192,872
Subordinated debt	18,238	22,992	(4,754)	(20.7)	30,475
On-balance-sheet customer funds	**850,846**	**852,898**	**(2,052)**	**(0.2)**	**839,723**
Mutual funds	89,176	102,611	(13,435)	(13.1)	113,510
Pension funds	10,076	9,645	431	4.5	10,965
Managed portfolios	18,889	19,199	(310)	(1.6)	20,314
Savings-insurance policies	—	—	—	—	758
Other customer funds under management	**118,141**	**131,456**	**(13,314)**	**(10.1)**	**145,547**
Customer funds under management	**968,987**	**984,353**	**(15,366)**	**(1.6)**	**985,269**

* Including retail commercial paper in Spain. EUR 11,536 million in December 2012 and EUR 6,052 million in December 2011

Customer deposits and retail commercial paper in **Continental Europe** were as follows:

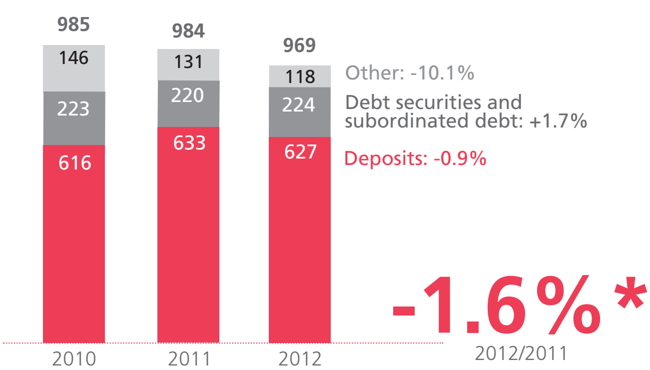
- Spain's grew 12% (+17% excluding repos). The increase in demand and time deposits and retail commercial paper was EUR 27,172 million, while repos fell by EUR 5,643 million. This evolution, without a significant impact on costs, improved notably the liquidity ratios. The loan-to-deposit ratio ended 2012 at 96% (118% in 2011).
- Portugal increased its customer deposits 2% and further improved its liquidity position.
- Santander Consumer Finance's deposits dropped 4% due to Germany (93% of the area's total) and because of the policy of reducing higher cost balances.
- Bank Zachodni WBK's deposits remained almost stable (-1%) due to lower time deposits and increased current account balances (+13%).

In the **UK**, customer deposits declined 2% in sterling, and mutual funds 14%. As in other units, the drop was due to the reduction of the most expensive and volatile balances, as retail deposits increased 5%.

In **Latin America** (excluding the sale of Colombia and in local currency) customer deposits without repos increased 9%. Mexico's rose 19%, Brazil's and Chile's 6%. Good performance in all three countries in demand and time deposits. Mutual funds dropped 8% in the region (-11% in Brazil and Chile, and +4% in Mexico).

CUSTOMER FUNDS UNDER MANAGEMENT

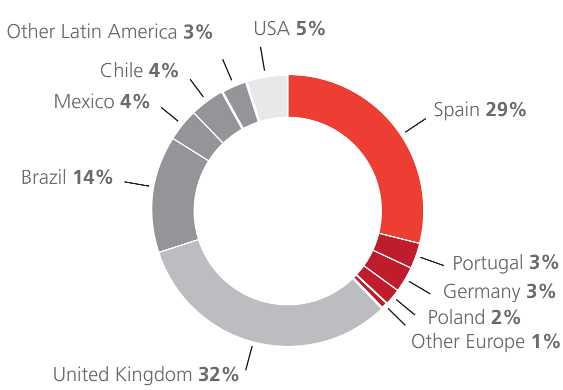
EUR Billion



* Excluding exchange rate impact: -1.1%

CUSTOMER FUNDS UNDER MANAGEMENT

% o/ operating areas. December 2012



Lastly, **US** customer deposits increased 5% in dollars, due to time deposits.

As for mutual funds, they decreased 13% with falls in almost all countries, except in Poland, Mexico and Argentina, affected by the greater focus on capturing on-balance sheet funds. However, pension funds grew 4% in Portugal and 5% in Spain, the only two countries where Santander offers this product. In Spain, the growth was both in individual plans and in associate and employment plans.

Continental Europe accounted for 38% of managed customer funds (29% Spain), the UK 32%, Latin America 25% (Brazil 14%) and the US 5%. The respective percentages in 2011 were almost the same (Continental Europe: 37%; the UK: 32%, Latin America: 26% and the US 5%).

As well as capturing deposits, the Group, for strategic reasons, maintained an active policy of issuing in the international fixed income markets.

The Group issued in the second half of 2012 medium- and long-term issues in Brazil, Chile and the US and reopened the Spanish market with an issue of EUR 4.500 million of Santander senior bonds and EUR 500 million of Banesto covered bonds

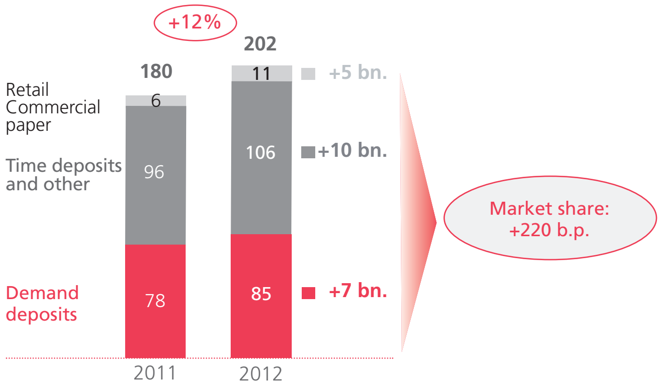
In 2012 EUR 31,123 million of medium- and long-term issues were made, EUR 23,281 million of it senior debt and EUR 7,842 million covered bonds.

This issuing activity underscores the Group's capacity to access the different segments of institutional investors via more than 10 issuance units, including the parent bank, Banco Santander, and the main subsidiaries of the countries where it operates. In all cases, issues were at higher prices than in 2011 because of the greater tensions and volatility in the markets.

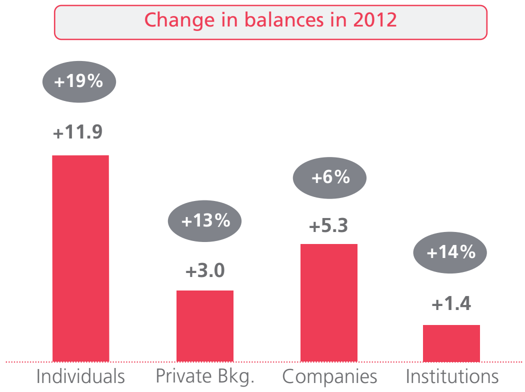
As regards securitisations, the Group's subsidiaries placed in the market in 2012 a total of EUR 11,827 million, mainly in the UK.

Maturities of medium and long-term debt amounted to EUR 36,641 million, of which EUR 26,273 million was senior debt, EUR 7,721 million covered bonds, EUR 2,153 million subordinated debt and EUR 493 million preferred shares.

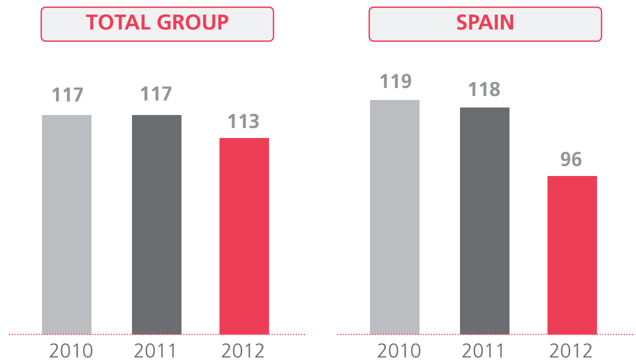
CUSTOMER DEPOSITS IN SPAIN
EUR Billion



CUSTOMER DEPOSITS IN SPAIN. BREAKDOWN BY SEGMENTS
EUR Billion and %



NET LOANS / DEPOSITS*
%



* Including retail commercial paper

MUTUAL FUNDS (EUR Million)

	2012	2011	Variation amount	%	2010
Spain	23,093	27,425	(4,332)	(15.8)	34,310
Portugal	1,544	1,866	(322)	(17.3)	3,209
Poland	2,443	1,747	696	39.8	—
United Kingdom	13,919	15,744	(1,826)	(11.6)	14,369
Latin America	48,178	55,829	(7,651)	(13.7)	61,621
Total	**89,176**	**102,611**	**(13,435)**	**(13.1)**	**113,510**

PENSION FUNDS (EUR Million)

	2012	2011	Variation amount	%	2010
Spain	9,289	8,884	405	4.6	9,650
Individuals	8,002	7,670	332	4.3	8,161
Collective plans	258	249	9	3.6	262
Group employee plans	1,029	965	64	6.6	1,227
Portugal	787	760	27	3.5	1,315
Total	**10,076**	**9,645**	**431**	**4.5**	**10,965**

The capturing of stable funds, via deposits and retail commercial paper, combined with the trend of moderate growth in lending, brought the loan-to-deposit ratio to 113%. Of note were the improvements in Spain to 96% (118% in 2011) and Portugal (108% vs. 121% in 2011).

The ratio of deposits plus medium and long-term funding to the Group's loans was 118%, underscoring the appropriate funding structure of the Group's lending.

More information of the management of funding in the markets, the framework for managing liquidity and the Group's structural liquidity position can be found in the risk management section of this annual report, under management of funding and liquidity risk.

Other items of the balance sheet

Total goodwill was EUR 24,626 million, EUR 463 million less than in 2011, entirely due to the evolution of exchange rates in various countries and goodwill amortisation in Italy.

At the end of 2011 the European Central Bank put into effect extraordinary monetary policy measures, including increasing collateral and 3-year auctions in order to inject liquidity into the market.

The Group continued to follow the practice of recourse to these auctions and deposit part of the funds captured in the ECB, as a liquidity insurance. All of this, together with the strategy of replacing repos in the clearing houses with discounted assets in the ECB, is reflected in the evolution of balances with central banks.

In January 2013, the Group repaid EUR 24,000 million corresponding to the total amount borrowed by Banco Santander and Banesto at the December 2011 auction.

The balance of financial assets available for sale amounted to EUR 92,267 million, EUR 5,654 million more in twelve months. The rise was mainly in the US and the UK, while Spain, Portugal and Brazil declined slightly.

TOTAL EQUITY AND CAPITAL WITH THE NATURE OF FINANCIAL LIABILITIES (EUR Million)

	2012	2011	Variation amount	%	2010
Capital stock	5,161	4,455	706	15.9	4,165
Additional paid-in surplus	37,302	31,223	6,080	19.5	29,457
Reserves	37,513	41,688	(4,175)	(10.0)	36,993
Treasury stock	(287)	(251)	(37)	14.6	(192)
Shareholders' equity (before profit and dividends)	**79,689**	**77,115**	**2,574**	**3.3**	**70,423**
Attributable profit	2,205	5,351	(3,146)	(58.8)	8,181
Interim dividend distributed	(650)	(1,429)	779	(54.5)	(1,270)
Interim dividend not distributed (1)	(423)	(637)	214	(33.6)	(2,060)
Shareholders' equity (after retained profit)	**80,821**	**80,400**	**421**	**0.5**	**75,273**
Valuation adjustments	(6,590)	(4,482)	(2,108)	47.0	(2,315)
Minority interests	9,672	6,445	3,227	50.1	5,896
Total equity (after retained profit)	**83,903**	**82,363**	**1,540**	**1.9**	**78,854**
Preferred shares and securities in subordinated debt	4,740	5,896	(1,156)	(19.6)	7,352
Total equity and capital with the nature of financial liabilities	**88,643**	**88,259**	**384**	**0.4**	**86,207**

(1) In 2012, estimated data of May 2013 scrip dividend

Shareholders' equity and solvency ratios

Total shareholders' equity, after retained profits, amounted to EUR 80,821 million, slightly down on 2011 (EUR 80,400 million).

Various issues of ordinary shares were made during 2012 in order to tend to shareholders who chose to receive their dividends in shares under the Santander Dividendo Elección programmes, and for the conversion of Valores Santander.

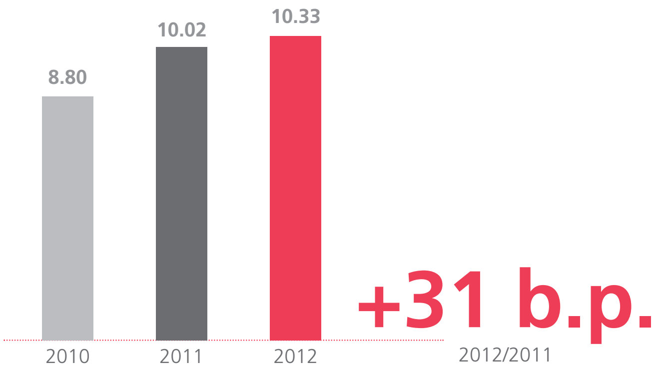
The four scrip dividends in 2012, two for the third and fourth 2011 dividends and two for the first and second 2012 interim dividends, led to the issue of a total of 892,634,796 shares (79.47% overall acceptance).

Moreover, in order to tend to the conversion of Valores Santander, the Annual General Meeting (AGM) on March 30, 2012 agreed to grant the holders of Valores Santander the option of requesting the voluntary conversion of their securities in four occasions before October 4, 2012, the date of conversion of those Valores Santander in circulation. The holders were able to request the conversion during the 15 calendar days before each of the dates (June 4, July 4, August 4 and September 4).

Conversion requests for a total of 842,944 Valores Santander were received in the four periods, which meant the issue of 319,190,238 new shares.

On October 4, the 519,300 Valores Santander in circulation had to be converted and led to the issue of 200,311,513 shares which, together with those issued during the voluntary conversion periods, resulted in the issue of a total of 519,501,751 shares for the conversion of Valores Santander.

CORE CAPITAL RATIO
%



This issue of shares for the conversion of Valores Santander did not increase shareholders' funds in 2012 as they computed as reserves right from the date of their issuance in October 2007. It also does not affect the evolution of earnings per share and shareholders' funds per share as, in line with accounting rules, the Valores Santander computed as shares issued from the time of their issuance.

At the end of the year, the equity value was EUR 83,903 million (+EUR 1,540 million and +2% in 12 months), after incorporating minority interests, which increased by EUR 3,227 million, mainly from the IPO in Mexico and

COMPUTABLE CAPITAL AND BIS II RATIO (EUR Million)

	2012	2011	Variation amount	%	2010
Core capital	57,558	56,694	864	1.5	53,205
Basic capital	62,234	62,294	(60)	(0.1)	60,617
Supplementary capital	11,981	15,568	(3,587)	(23.0)	20,670
Deductions	(1,279)	(1,090)	(189)	17.4	(2,011)
Computable capital	**72,936**	**76,772**	**(3,836)**	**(5.0)**	**79,276**
Risk-weighted assets	557,030	565,958	(8,928)	(1.6)	604,885
BIS II ratio	**13.09**	**13.56**	**(0.47 p.)**		**13.11**
Tier I (before deductions)	**11.17**	**11.01**	**0.16 p.**		**10.02**
Core capital	**10.33**	**10.02**	**0.31 p.**		**8.80**
Shareholders' equity surplus (BIS II ratio)	28,374	31,495	(3,122)	(9.9)	30,885

valuation adjustments, which declined by EUR 2,108 million. There was a notable negative impact of exchange rates (partly hedged) on the value of stakes in foreign subsidiaries.

There is also the negative impact of exchange rates on goodwill, but with a neutral impact on capital ratios, as the same occurs in their recording in assets.

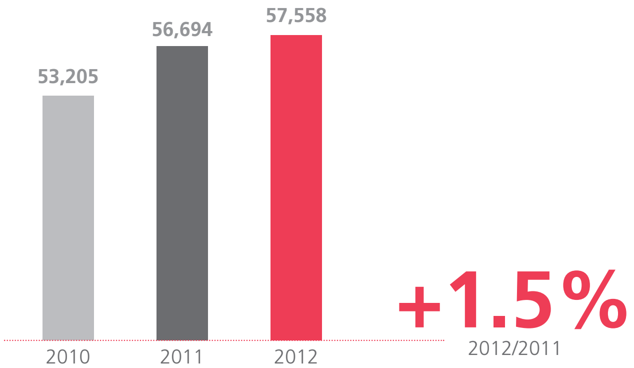
The Group's eligible equity on the basis of BIS II criteria amounted to EUR 72,936 million at the end of 2012 (EUR 28,374 million above the minimum required, +64%).

The BIS II core capital ratio ratio was 10.33% (+31 b.p.), with a positive impact from the ordinary organic generation of capital and the sale of minority interests in Mexico, and negative from the provisions made for real estate loans and the exchange rate effect.

The core capital ratio is of very high quality, very solid and adjusted to the business model, the balance sheet structure and the Group's risk profile.

The publication of the stress tests results conducted on Spanish banks confirmed the strength of Grupo Santander, its solvency and capacity to face a further deterioration in the economic environment.

CORE CAPITAL
EUR Million



Rating agencies

The Group's access to wholesale funding markets, as well as the cost of issues, depend to some extent on the ratings accorded by rating agencies.

Rating agencies regularly review the Group's ratings. Classification of long-term debt depends on a series of internal factors (solvency, business model, capacity to generate profits, etc) and external ones related to the general economic environment, the sector's situation and the sovereign risk of the countries in which we operate.

Since October 2011 the rating of the Kingdom of Spain has been cut by all agencies and is now at: BBB- from Standard & Poor's, BBB Fitch, Baa3 Moody's and A (low) DBRS, with all of them maintaining the negative outlook.

These downgradings led to a revision of Banco Santander's ratings, as the methodology used by the agencies means that the rating of banks is linked to and limited by the sovereign debt rating of the country in which it is based. Downgradings of sovereign debt are always accompanied by downgradings of banks. As a result, although the agencies recognise Santander's financial strength and diversification, its methodology prevents the Group's rating from being more than one notch above that of the sovereign debt rating.

Santander is the only bank in Spain with a rating higher than that for the Kingdom of Spain by all four main agencies. Moreover, it is the only one in the world with a rating above that of sovereign debt by S&P and the only one among the 20 largest banks worldwide with Moody's.

RATING AGENCIES

	Long term	Short term	Outlook
Standard & Poor's	BBB	A-2	Negative
Fitch Ratings	BBB+	F2	Negative
Moody's	Baa2	P-2	Negative
DBRS	A	R1(low)	Negative

Description of the segments

Grupo Santander maintained in 2012 the general criteria used in 2011, with the following exceptions:

- The geographic areas of Continental Europe, the UK and Latin America are maintained and one for the US is created which includes Sovereign Bank and Santander Consumer USA, which exits Continental Europe and, within it, SCF in which it was integrated.

  Furthermore, and given that Santander Consumer USA began to consolidate by the equity accounted method in December 2011, the income statement for the whole year has been incorporated on this basis, and a pro-forma balance sheet restated, also using this criteria.

- The consumer business in the UK has been incorporated into Santander UK and exits Continental Europe (and within it, SCF in which it was integrated). The figures for 2011 have been restated.
- Following the operation with Zurich Seguros, the insurance business in Latin America included in this deal now consolidates by the equity accounted method. In order to facilitate like-for-like comparisons, the income statement for 2011 has been reformulated for the whole of Latin America and the countries affected, as well as the area of Asset Management and Insurance.
- In order to facilitate like-for-like comparisons, a pro-forma balance sheet has been reformulated for 2011 in Spain, in order to consolidate by the equity accounted method companies that consolidated on a proportional basis.
- The annual adjustment was made to the Global Customer Relationship Model and resulted in a net increase of 36 new clients. 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 as a whole.

The basic operating units have been drawn up by aggregating the financial statements of each business segment. 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 geographical 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 this region. Given the importance of some of these units, detailed financial information of the Santander Branch Network, Banesto, Santander Consumer Finance, Portugal and Bank Zachodni BWK is also provided.
- **United Kingdom**. This includes retail and wholesale banking, asset management and insurance conducted by the various units and branches of the Group in the country.
- **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.
- **United States**. Includes the businesses of Sovereign Bank and Santander Consumer USA (consolidated by the equity accounted method).

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, including private banking (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, Latin America and the US) and 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 that 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, the Group continues to maintain the area of **Corporate Activities**. This area incorporates the centralised activities relating to equity stakes in 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 (charged to the areas) except for corporate and institutional expenses related to the Group's functioning.

The figures of the various units of the Group listed below have been prepared in accordance with these management criteria and therefore do not match those published by each institution individually.

INCOME STATEMENT (EUR Million)

	Net operating income			Attributable profit			Efficiency ratio (%)		ROE (%)	
	2012	2011	(%)	2012	2011	(%)	2012	2011	2012	2011
Continental Europe	**7,555**	**7,018**	**7.6**	**2,305**	**2,287**	**0.8**	**45.5**	**47.1**	**7.36**	**7.66**
o/w: Santander Branch Network	2,582	2,353	9.7	709	660	7.4	44.2	46.5	10.99	9.63
Banesto	1,267	1,112	14.0	94	130	(28.1)	44.1	47.4	1.96	2.78
Portugal	533	443	20.4	124	174	(28.7)	48.6	54.4	4.92	7.00
Santander Consumer Finance	1,763	1,887	(6.6)	727	666	9.0	43.9	41.3	6.70	7.02
Retail Poland (BZ WBK)	543	366	48.4	330	232	42.0	43.9	47.0	18.97	17.93
United Kingdom*	**2,434**	**3,270**	**(25.5)**	**1,094**	**1,223**	**(10.5)**	**53.0**	**44.3**	**8.23**	**9.60**
Latin America	**14,872**	**13,397**	**11.0**	**4,305**	**4,664**	**(7.7)**	**37.9**	**39.8**	**19.44**	**21.78**
o/w: Brazil	10,685	9,861	8.4	2,212	2,610	(15.2)	35.3	37.6	17.85	23.26
Mexico	1,695	1,369	23.8	1,015	936	8.5	39.7	41.9	25.07	21.16
Chile	1,385	1,252	10.6	498	611	(18.5)	40.0	39.2	22.09	25.43
USA	**1,430**	**1,741**	**(17.8)**	**811**	**1,010**	**(19.7)**	**45.1**	**36.4**	**15.53**	**24.76**
Operating areas*	**26,291**	**25,425**	**3.4**	**8,515**	**9,184**	**(7.3)**	**42.3**	**42.4**	**11.83**	**13.49**
Corporate Activities*	(2,733)	(2,230)	22.5	(3,263)	(2,163)	50.9				
Total Group*	**23,559**	**23,195**	**1.6**	**5,251**	**7,021**	**(25.2)**	**46.1**	**45.7**	**6.66**	**9.37**
Net capital gains and provisions				(3,047)	(1,670)	82.4				
Total Group				**2,205**	**5,351**	**(58.8)**	**46.1**	**45.7**	**2.80**	**7.14**

(*).- Excluding net capital gains and provisions.

ACTIVITY (EUR Million)

	Net customer loans			Customer deposits			NPL ratio (%)		Coverage (%)	
	2012	2011	(%)	2012	2011	(%)	2012	2011	2012	2011
Continental Europe	**285,147**	**305,391**	**(6.6)**	**258,691**	**247,582**	**4.5**	**6.25**	**5.18**	**72.5**	**55.8**
o/w: Santander Branch Network*	95,134	102,643	(7.3)	95,986	78,864	21.7	9.65	8.47	67.5	39.9
Banesto	61,665	68,850	(10.4)	48,257	50,755	(4.9)	6.28	5.01	71.3	53.1
Portugal	25,960	28,403	(8.6)	23,971	23,465	2.2	6.56	4.06	53.1	54.9
Santander Consumer Finance	56,683	56,731	(0.1)	31,892	33,198	(3.9)	3.90	3.97	109.5	109.3
Retail Poland (BZ WBK)	9,732	8,479	14.8	11,217	10,359	8.3	4.72	4.89	68.3	65.2
United Kingdom	**250,527**	**255,699**	**(2.0)**	**194,452**	**194,318**	**0.1**	**2.05**	**1.84**	**45.4**	**40.2**
Latin America	**140,090**	**139,867**	**0.2**	**134,765**	**134,078**	**0.5**	**5.42**	**4.32**	**87.5**	**97.0**
o/w: Brazil	74,511	78,408	(5.0)	69,849	72,405	(3.5)	6.86	5.38	90.2	95.2
Mexico	20,384	18,185	12.1	24,743	21,459	15.3	1.94	1.82	157.3	175.7
Chile	29,677	25,709	15.4	22,411	20,175	11.1	5.17	3.85	57.7	73.4
USA	**41,331**	**40,194**	**2.8**	**38,116**	**36,884**	**3.3**	**2.29**	**2.85**	**105.9**	**96.2**
Operating areas	**717,095**	**741,152**	**(3.2)**	**626,024**	**612,861**	**2.1**	**4.51**	**3.83**	**73.1**	**64.1**
Total Group	**720,483**	**750,100**	**(3.9)**	**626,639**	**632,533**	**(0.9)**	**4.54**	**3.89**	**72.6**	**61.4**

(*),- 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 2012 stood at 7.29% (5.99% in December 2011) and NPL coverage was 69,7% (39,2% in December 2011).

OPERATING MEANS

	Employees		Branches	
	2012	2011	2012	2011
Continental Europe	**58,074**	**58,864**	**6,437**	**6,608**
o/w: Santander Branch Network	17,880	17,967	2,894	2,915
Banesto	9,136	9,450	1,647	1,714
Portugal	5,709	5,854	667	716
Santander Consumer Finance	12,279	11,896	629	647
Retail Poland (BZ WBK)	8,849	9,383	519	526
United Kingdom	**26,186**	**27,505**	**1,189**	**1,379**
Latin America	**90,576**	**91,913**	**6,044**	**6,046**
o/w: Brazil	53,707	54,368	3,788	3,775
Mexico	13,954	13,062	1,170	1,125
Chile	12,355	12,193	504	499
USA	**9,525**	**9,187**	**722**	**723**
Operating areas	**184,361**	**187,469**	**14,392**	**14,756**
Corporate Activities	2,402	2,297		
Total Group	**186,763**	**189,766**	**14,392**	**14,756**

Note: The businesses included in each of our geographic segments and the accounting principles under which their results are presented here may differ from the included businesses and local applicable accounting principles of our public subsidiaries in such geographies. Accordingly, the results of operations and trends shown for our geographic segments my differ materially from those of such subsidiaries.

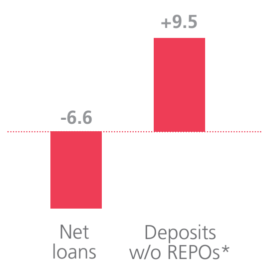
CONTINENTAL EUROPE (EUR Million)

INCOME STATEMENT	2012	2011	Variation amount	%
Net interest income	**9,469**	**8,876**	**593**	**6.7**
Net fees	3,626	3,774	(148)	(3.9)
Gains (losses) on financial transactions	460	232	229	98.6
Other operating income (1)	301	397	(97)	(24.3)
Gross income	**13,855**	**13,278**	**577**	**4.3**
Operating expenses	(6,301)	(6,260)	(40)	0.6
General administrative expenses	(5,638)	(5,661)	22	(0.4)
Personnel	*(3,496)*	*(3,531)*	*36*	*(1.0)*
Other general administrative expenses	*(2,143)*	*(2,129)*	*(13)*	*0.6*
Depreciation and amortisation	(662)	(600)	(63)	10.5
Net operating income	**7,555**	**7,018**	**537**	**7.6**
Net loan-loss provisions	(4,122)	(3,414)	(709)	20.8
Other income	(328)	(507)	180	(35.4)
Profit before taxes	**3,105**	**3,097**	**8**	**0.2**
Tax on profit	(735)	(717)	(18)	2.6
Profit from continuing operations	**2,370**	**2,380**	**(11)**	**(0.5)**
Net profit from discontinued operations	(7)	(24)	17	(71.6)
Consolidated profit	**2,363**	**2,356**	**7**	**0.3**
Minority interests	58	69	(11)	(16.2)
Attributable profit to the Group	**2,305**	**2,287**	**18**	**0.8**

BALANCE SHEET				
Customer loans (2)	285,147	305,391	(20,244)	(6.6)
Trading portfolio (w/o loans)	87,451	78,802	8,649	11.0
Available-for-sale financial assets	21,595	24,640	(3,045)	(12.4)
Due from credit institutions (2)	54,889	48,491	6,398	13.2
Intangible assets and property and equipment	5,856	5,029	827	16.4
Other assets	51,735	26,480	25,255	95.4
Total assets/liabilities & shareholders' equity	**506,673**	**488,833**	**17,840**	**3.6**
Customer deposits (2)	258,691	247,582	11,109	4.5
Marketable debt securities (2)	37,049	38,053	(1,004)	(2.6)
Subordinated debt (2)	293	964	(671)	(69.6)
Insurance liabilities	1,425	517	908	175.6
Due to credit institutions (2)	85,297	83,490	1,806	2.2
Other liabilities	92,636	87,822	4,814	5.5
Shareholders' equity (3)	31,282	30,404	878	2.9
Other customer funds under management	**43,391**	**45,809**	**(2,417)**	**(5.3)**
Mutual funds	27,080	31,038	(3,959)	(12.8)
Pension funds	10,076	9,645	431	4.5
Managed portfolios	6,236	5,126	1,110	21.6
Savings-insurance policies	—	—	—	—
Customer funds under management	**339,424**	**332,409**	**7,016**	**2.1**

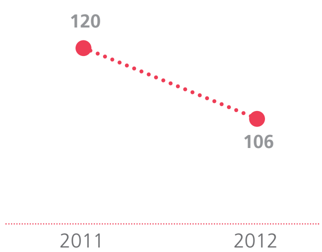
(1).- Including dividends, income from equity-accounted method and other operating income/expenses
(2).- Including all on-balance sheet balances for this item
(3).- Not including profit of the year

ACTIVITY
% variation 2012 / 2011



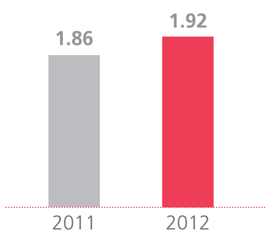
(*) Including retail commercial paper

NET LOANS / DEPOSITS*
%

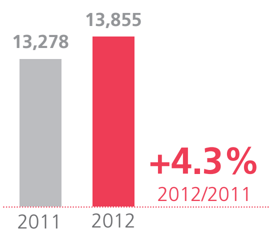


(*) Including retail commercial paper

NET INTEREST INCOME / ATAs
%



GROSS INCOME
EUR Million



Continental Europe

- ▶ Attributable profit up 0.8% at EUR 2,305 million:
  - Basic revenues (+3.8%) maintained their growth trend, spurred by net interest income (+6.7%).
  - Operating expenses dropped 1.5% on a like-for-like basis.
  - Net operating income increased 7.6%.
  - Profit evolution conditioned by larger provisions.
- ▶ Growth strategy: preference for liquidity against a background of low demand for loans.

Attributable profit was **EUR 2,305 million**, 0.8% more than in 2011 and determined to a large degree by higher provisions.

The results reflect the positive perimeter effect of incorporating Bank Zachodni WBK in Poland and SEB's branches in Germany and a small negative impact from the insurance operation in Spain and Portugal. Overall, there was a positive impact of one percentage point in attributable profit.

Continental Europe includes all activities carried out in this geographic area: retail banking, global wholesale banking, asset management and insurance.

Strategy

In a weak environment and with low interest rates, the Group's strategy over the last two years focused on:

- Defending spreads on the assets side (those on new ones are improving) and on the liabilities side.
- Control of expenses.
- Active risk management.
- Capturing of deposits in a context of low demand for loans.

Activity

Net customer loans was 7% lower, with reductions in all commercial units in Spain and Portugal, growth at Bank Zachodni WBK and stability at Santander Consumer Finance.

Customer deposits, including retail commercial paper, increased 7%, with those from retail networks in Spain performing well (balances of demand and time deposits: +17%), which was offset by lower wholesale balances and reduction in repos. Excluding repos, deposits grew 10%.

By units, Spain's increased 12%, Portugal's 2% while Bank Zachodni WBK's dropped 1% (in local currency) and Santander Consumer Finance's dropped 4%. Mutual funds declined 13%, affected by the market trend and the preference for deposits, while pension plans increased 4%.

Results

Basic revenues (net interest income, fee income and insurance activity) increased 3.8% and gross income 4.3%. The networks in Spain and Portugal registered growth.

Net interest income rose 6.7%, partly benefiting from the perimeter. Excluding their impact, growth was 5.0%, with good performance in the Santander Branch Network and Banesto. Fee income was 3.9% lower because of reduced business activity.

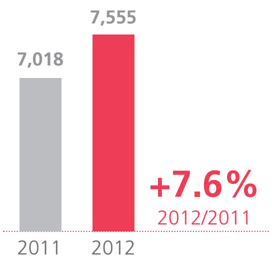
Operating expenses were higher due to the perimeter effect, as on a like-for-like basis they continued to declined (-1.5%). All units registered flat growth or their costs declined. Of note was the drop in Portugal (-4.8%).

Solid revenues and containment of costs improved the efficiency ratio by 1.6 p.p. to 45.5%. Net operating income grew 7.6% (+6.9% on a like-for-like basis).

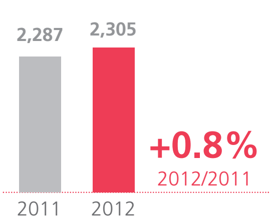
Net provisions for loan losses were 20.8% higher than in 2011, which included EUR 416 million of generic provisions released.

After absorbing the larger provisions, attributable profit increased 0.8% to EUR 2,305 million.

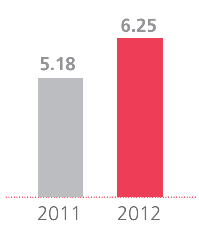
NET OPERATING INCOME
EUR Million



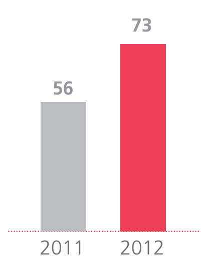
ATTRIBUTABLE PROFIT
EUR Million



NPL RATIO
%



NPL COVERAGE
%



CONTINENTAL EUROPE. MAIN UNITS (EUR Million)

	Santander Branch Network			Banesto			Portugal		
INCOME STATEMENT	2012	2011	Var (%)	2012	2011	Var (%)	2012	2011	Var (%)
Net interest income	**3,564**	**3,235**	**10.2**	**1,454**	**1,351**	**7.6**	**570**	**592**	**(3.8)**
Net fees	1,116	1,099	1.5	596	616	(3.3)	328	345	(4.8)
Gains (losses) on financial transactions	100	108	(7.4)	228	98	132.4	109	14	662.6
Other operating income (1)	(148)	(41)	258.1	(12)	47	—	30	21	43.5
Gross income	**4,631**	**4,400**	**5.2**	**2,266**	**2,113**	**7.3**	**1,037**	**972**	**6.7**
Operating expenses	(2,049)	(2,047)	0.1	(999)	(1,001)	(0.2)	(504)	(529)	(4.8)
General administrative expenses	(1,900)	(1,895)	0.3	(871)	(878)	(0.8)	(433)	(460)	(5.8)
Personnel	*(1,212)*	*(1,233)*	*(1.7)*	*(630)*	*(636)*	*(0.9)*	*(301)*	*(317)*	*(4.8)*
Other general administrative expenses	*(688)*	*(662)*	*3.9*	*(241)*	*(242)*	*(0.6)*	*(132)*	*(143)*	*(8.0)*
Depreciation and amortisation	(149)	(153)	(2.3)	(128)	(123)	4.3	(71)	(69)	1.7
Net operating income	**2,582**	**2,353**	**9.7**	**1,267**	**1,112**	**14.0**	**533**	**443**	**20.4**
Net loan-loss provisions	(1,549)	(1,437)	7.8	(943)	(661)	42.7	(393)	(206)	90.5
Other income	(62)	(11)	444.0	(175)	(251)	(30.0)	(11)	(50)	(78.4)
Profit before taxes	**972**	**905**	**7.4**	**148**	**200**	**(25.8)**	**130**	**187**	**(30.5)**
Tax on profit	(262)	(244)	7.4	(45)	(46)	(3.4)	(6)	(13)	(56.1)
Profit from continuing operations	**709**	**660**	**7.4**	**104**	**154**	**(32.5)**	**124**	**174**	**(28.7)**
Net profit from discontinued operations	—	—	—	—	—	—	—	—	—
Consolidated profit	**709**	**660**	**7.4**	**104**	**154**	**(32.5)**	**124**	**174**	**(28.7)**
Minority interests	0	1	(39.1)	10	24	(56.5)	0	0	—
Attributable profit to the Group	**709**	**660**	**7.4**	**94**	**130**	**(28.1)**	**124**	**174**	**(28.7)**
BALANCE SHEET									
Customer loans (2)	95,134	102,643	(7.3)	61,665	68,850	(10.4)	25,960	28,403	(8.6)
Trading portfolio (w/o loans)	—	—	—	8,432	7,869	7.1	1,947	1,617	20.4
Available-for-sale financial assets	—	—	—	6,172	8,333	(25.9)	4,023	4,496	(10.5)
Due from credit institutions (2)	15	104	(86.0)	14,971	9,637	55.4	3,527	2,467	43.0
Intangible assets and property and equipment	1,201	1,201	(0.0)	1,131	1,328	(14.8)	382	452	(15.4)
Other assets	17,072	1,829	833.6	9,838	10,215	(3.7)	6,400	7,120	(10.1)
Total assets/liabilities & shareholders' equity	**113,422**	**105,776**	**7.2**	**102,209**	**106,232**	**(3.8)**	**42,240**	**44,555**	**(5.2)**
Customer deposits (2)	95,986	78,864	21.7	48,257	50,755	(4.9)	23,971	23,465	2.2
Marketable debt securities (2)	7,893	4,965	59.0	19,698	22,531	(12.6)	3,492	5,037	(30.7)
Subordinated debt (2)	—	—	—	175	784	(77.7)	—	—	—
Insurance liabilities	—	—	—	—	—	—	87	70	23.7
Due to credit institutions (2)	593	543	9.3	18,605	16,591	12.1	11,719	13,395	(12.5)
Other liabilities	2,515	14,780	(83.0)	10,728	10,870	(1.3)	549	31	—
Shareholders' equity (3)	6,435	6,625	(2.9)	4,747	4,702	1.0	2,421	2,557	(5.3)
Other customer funds under management	**23,334**	**23,640**	**(1.3)**	**8,102**	**8,375**	**(3.3)**	**2,421**	**2,686**	**(9.9)**
Mutual funds	14,346	16,158	(11.2)	4,129	4,440	(7.0)	1,544	1,866	(17.3)
Pension funds	6,151	5,918	3.9	1,258	1,237	1.6	787	760	3.5
Managed portfolios	—	—	—	91	109	(16.3)	90	59	52.6
Savings-insurance policies	2,837	1,564	81.3	2,624	2,588	1.4	—	—	—
Customer funds under management	**127,212**	**107,469**	**18.4**	**76,231**	**82,444**	**(7.5)**	**29,884**	**31,188**	**(4.2)**

(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

CONTINENTAL EUROPE. MAIN UNITS (EUR Million)

	Santander Consumer Finance			Retail Poland (BZ WBK)		
INCOME STATEMENT	2012	2011	Var (%)	2012	2011	Var (%)
Net interest income	**2,389**	**2,372**	**0.7**	**541**	**371**	**45.8**
Net fees	777	851	(8.6)	331	248	33.7
Gains (losses) on financial transactions	(15)	(13)	13.3	79	58	36.7
Other operating income [1]	(10)	3	—	16	13	20.2
Gross income	**3,141**	**3,213**	**(2.2)**	**967**	**690**	**40.2**
Operating expenses	(1,378)	(1,326)	4.0	(424)	(324)	30.9
General administrative expenses	(1,213)	(1,204)	0.7	(390)	(298)	30.9
Personnel	*(622)*	*(590)*	*5.6*	*(233)*	*(179)*	*29.9*
Other general administrative expenses	*(590)*	*(615)*	*(4.0)*	*(157)*	*(119)*	*32.5*
Depreciation and amortisation	(165)	(121)	36.6	(34)	(26)	30.3
Net operating income	**1,763**	**1,887**	**(6.6)**	**543**	**366**	**48.4**
Net loan-loss provisions	(753)	(853)	(11.7)	(112)	(60)	87.5
Other income	(40)	(139)	(71.0)	(1)	(3)	(72.1)
Profit before taxes	**970**	**895**	**8.3**	**430**	**303**	**41.9**
Tax on profit	(202)	(173)	16.9	(87)	(63)	39.3
Profit from continuing operations	**768**	**722**	**6.3**	**342**	**240**	**42.5**
Net profit from discontinued operations	(7)	(24)	(71.6)	—	—	—
Consolidated profit	**761**	**698**	**9.0**	**342**	**240**	**42.5**
Minority interests	34	32	8.0	13	8	59.4
Attributable profit to the Group	**727**	**666**	**9.0**	**330**	**232**	**42.0**
BALANCE SHEET						
Customer loans [2]	56,683	56,731	(0.1)	9,732	8,479	14.8
Trading portfolio (w/o loans)	1,339	1,335	0.3	175	1,304	(86.6)
Available-for-sale financial assets	228	205	11.0	2,876	2,617	9.9
Due from credit institutions [2]	11,502	10,876	5.7	394	309	27.7
Intangible assets and property and equipment	999	784	27.4	146	183	(20.1)
Other assets	3,295	2,899	13.6	1,527	645	136.7
Total assets/liabilities & shareholders' equity	**74,045**	**72,831**	**1.7**	**14,850**	**13,536**	**9.7**
Customer deposits [2]	31,892	33,198	(3.9)	11,217	10,359	8.3
Marketable debt securities [2]	6,083	5,410	12.4	—	—	—
Subordinated debt [2]	10	75	(86.4)	100	99	1.5
Insurance liabilities	—	—	—	—	—	—
Due to credit institutions [2]	20,504	18,912	8.4	478	1,163	(58.9)
Other liabilities	4,506	5,395	(16.5)	1,259	703	79.1
Shareholders' equity [3]	11,050	9,840	12.3	1,796	1,213	48.1
Other customer funds under management	**6**	**6**	**(4.3)**	**2,594**	**1,926**	**34.7**
Mutual funds	2	2	(6.4)	2,443	1,747	39.8
Pension funds	4	4	(3.1)	—	—	—
Managed portfolios	—	—	—	150	179	(15.9)
Savings-insurance policies	—	—	—	—	—	—
Customer funds under management	**37,991**	**38,689**	**(1.8)**	**13,911**	**12,383**	**12.3**

(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

- Attributable profit increased 7.4% to EUR 709 million:
  - Gross income was 5.2% higher, backed by net interest income.
  - Operating expenses remained flat (+0.1%) for the fourth year running.
  - Net operating income rose 9.7%.
  - Loan-loss provisions rose 7.8% due to the non-release of generic provisions in 2012 and the rise in the system's NPLs.
- Fast pace in capturing customer funds (+EUR 20,000 million) and scant demand for loans. The commercial gap improved by EUR 28,000 million.

The Santander Branch Network posted an **attributable profit** of **EUR 709 million**, 7.4% more than in the 2011. Net operating income before provisions increased 9.7%, a better growth rate than in previous quarters.

These results were obtained in a still difficult environment, characterised by shrinkage in GDP, domestic demand and consumption, rising unemployment and downward interest rates, at historic lows, with their impact on spreads.

Strategy

The priorities were: risk quality and management of NPLs; the focus on customer funds in order to gain market share and narrow the commercial gap; support for SMEs and exporters through specific programmes to grant credit; management of spreads and control of costs.

All of this while maintaining the target of capturing and linking customer under the *Queremos ser tu Banco* strategic plan, launched seven years ago.

In 2012, the plan captured 700,000 new customers. This dynamism was also seen in customer linkage, strengthened by the line *Queremos ser tu primer banco*, whose objectives are to increase transaction banking and loyalty to the brand.

Within this line, the programme *Ahorra con Queremos ser tu Banco* was launched, which provides new advantages to those benefiting from the plan in the form of offers and discounts on the products and services of the main brands in the Spanish market.

In 2012 Santander launched the Contactless card, which enables the card to be used without contact with the point of sale terminal, providing greater convenience and speed both to the shops and the clients. Also, the new customer service via Twitter and chat was developed.

Activity

As a result of this strategy, on-balance sheet customer funds, which registered a favourable evolution, grew 24% to EUR 103,879 million (+EUR 20,000 million) at the end of 2012.

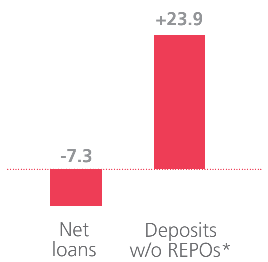
This growth came from various products (increased in demand and time deposits and in retail commercial paper) and business segments (all of them registered growth), enabling the cost of funds to be maintained at very acceptable levels (1.49%) and below that of the sector's average.

This evolution enabled to gain market share in deposits + retail commercial paper in Spain rose above 200 b.p. in 2012.

Net customer loans in a weak market dropped 7% (-4% in gross customer loans). Nevertheless, 214,000 loans for a total amount of EUR 29,000 million were granted in the year (over 16% more than in 2011).

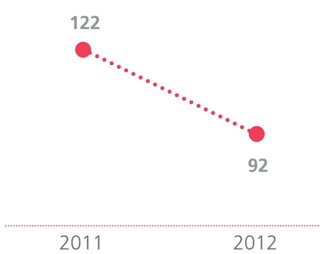
The Santander Branch Network is maintaining its active policy of tending to the financing needs of its customers and boosting the most dynamic economic sectors. The *Programa*

ACTIVITY
% variation 2012 / 2011



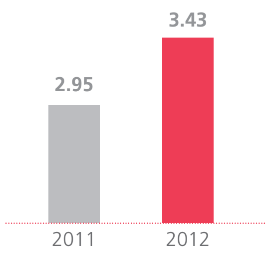
(*) Including retail commercial paper

NET LOANS / DEPOSITS*
%

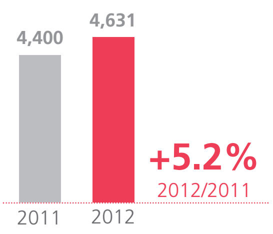


(*) Including retail commercial paper

NET INTEREST INCOME / ATAs
%



GROSS INCOME
EUR Million



4.000 was launched in the first part of the year, so called because this is the initial amount in millions of euros made available to SMEs and exporters, through two lines of action, the *Crédito Activación* and the *Plan Exporta*.

In this context, 7,952 SMEs have benefited from this programme with EUR 944 million and 4,851 exporters (EUR 4,263 million).

The ICO and BEI programmes granted 23,600 new loans in 2012 (EUR 1,675 million combined in the two programmes).

As regards individual customers, the Network continued to support the mortgage moratorium programme that came into effect in the middle of 2011, which anticipated some of the measures later introduced by the government in royal decree law 27/2012 to help borrowers unable to meet their mortgage payments. 21,000 customers benefited from this programme.

As regards liquidity, the commercial gap was reduced by EUR 28,000 million in 2012 which coupled with declines of previous years brought the total gap reduction since 2009 to EUR 51,600. The relation between loans and customer deposits improved significantly to 92% (122% in 2011 and 159% in 2009).

Results

The two main strengths of the 2012 income statement were the increase in revenues for the second year running and strict control of costs. Loan-loss provisions, meanwhile, increased in an environment of rising NPLs.

Net interest income rose 10.2% to EUR 3,564 million, due to growth in deposits and active management of spreads, particularly on loans.

Fee income and trading gains were similar to 2011 (+0.7%). Factors at play here were those from mutual funds (-18.0%), in line with the market, and fee income from guarantees (-6.1%), while income from the purchase and sale of securities, means of payment and insurance rose.

The fall in the rest of revenues was due to the higher cost of the contribution to the Deposit Guarantee Fund (from 0.6‰ to 2‰ of eligible funds). This increased the charge from EUR 47 million in 2011 to EUR 144 million in 2012.

Gross income was EUR 4,631 million, 5.2% more than in 2011, and that generated in each quarter was higher than in the same period of 2011.

Operating expenses remained flat for the fourth year running (+0.1%), and this was achieved without any significant closures of branches, unlike the trend in the sector. Inflation was 10% over the last four years.

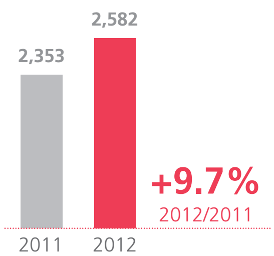
Net operating income rose 9.7% to EUR 2,582 million and the efficiency ratio improved significantly, to 44.2% (46.5% in 2011).

Net loan-loss provisions were 7.8% higher than in 2011 at EUR 1,549 million, because of the release of EUR 298 million of generic provisions in 2011. In line with the Group’s policy, these provisions do not include those derived from implementing royal decree laws 2 and 18 of 2012 to lift coverage of real estate exposure, which were recorded by the area of Corporate Activities.

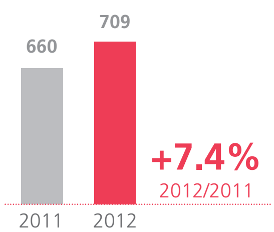
The NPL ratio was 9.65% in the retail network (excluding wholesale activity) and 7.29% at the parent bank, more suited to be compared with the sector's and well below it. Coverage was 68% for Santander Branch Network and 70% for the parent bank.

Net operating income after provisions was 12.8% higher at EUR 1,033 million. Attributable profit was EUR 709 million (+7.4%).

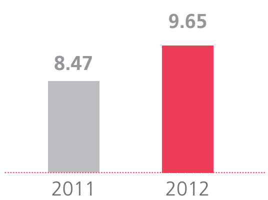
NET OPERATING INCOME
EUR Million



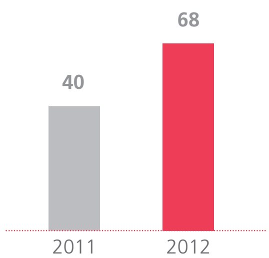
ATTRIBUTABLE PROFIT
EUR Million



NPL RATIO
%



NPL COVERAGE
%



Banesto

- Attributable profit down 28.1% at EUR 94 million:
  - Gross income was 7.3% higher (+7.6% net interest income).
  - Operating expenses remained flat (-0.2%).
  - Net operating income increased 14.0%.
  - Loan-loss provisions increased 42.7% because of the non-release of generic provisions in 2012 and the rise in NPLs in the system.
- Better NPL ratios than the sector.
- Lending reflected the lower demand and funds the focus on profitability. The commercial gap improved by EUR 6,200 million.

Banesto generated **attributable profit** of **EUR 94 million**, 28.1% less than 2011 and conditioned by the release of EUR 118 million of generic provisions in 2011 and the higher provisions in 2012. Net operating income (pre-provision profit) increased 14.0%.

These results were produced in a very complicated scenario of recession, low business volumes and interest rates and the system's NPLs reaching historic highs.

During 2012, significant progress was made in the major restructuring of the Spanish banking system.

Strategy

Within this restructuring framework, the boards of Banco Santander and Banesto approved the Common Draft Terms of Merger between Santander and Banesto (detailed in some other parts of this report). The legal merger is expected to be completed in May 2013, while operational and brand integration will take place before the end of year.

Banesto surpassed its strategic objectives for 2012, which were focused on solvency, liquidity, credit risk quality, reducing exposure to the real estate sector and improving cost efficiency.

The main achievements included in 2012:

– Solvency was strengthened. The core capital ratio reached 9.2% (9.0% in December 2011).

– The commercial gap was narrowed by EUR 6,200 million and was the main source of liquidity generation. This resulted in reduced recourse to the markets and a comfortable liquidity position, as shown by the fact that Banesto has returned the EUR 4,000 million borrowed in the first LTROs auction, the maximum amount allowed.

– In credit risk quality, the NPL ratio was 6.28%, one of the best in the sector, while real estate exposure was reduced by EUR 2,300 million.

– Strict control of costs kept Banesto's efficiency ratio as one of the sector's best (44.1% and 3.3 p.p. better than in 2011).

These results were achieved thanks to aligning the whole bank with the priorities, which, from the business standpoint, centred on capturing and improving customer linkage in order to be the reference bank for individuals and companies.

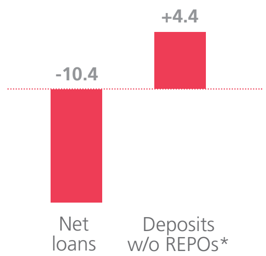
Activity

The dynamics are similar to those for the whole of Spain and are reflected in the narrowing of the commercial gap and the 11 point improvement in the loan-to-deposit ratio.

Customer loans, with stability in retail (-2% in mortgages) and in the combined SMEs, companies and public sector (including payments to suppliers) almost flat. The fall was in loans to large companies and real estate (-34%).

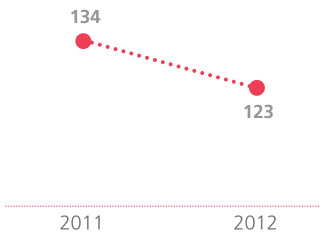
Something similar happened in deposits + retail commercial paper (excluding repos), which increased 4%

ACTIVITY
% variation 2012 / 2011



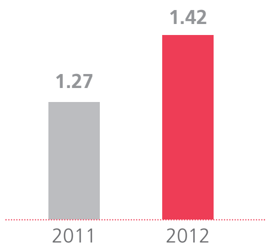
(*) Including retail commercial paper

NET LOANS / DEPOSITS*
%

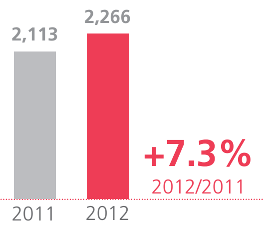


(*) Including retail commercial paper

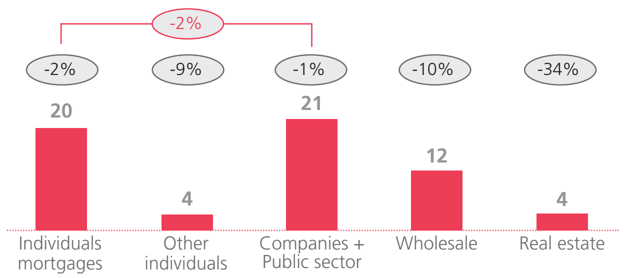
NET INTEREST INCOME / ATAs
%



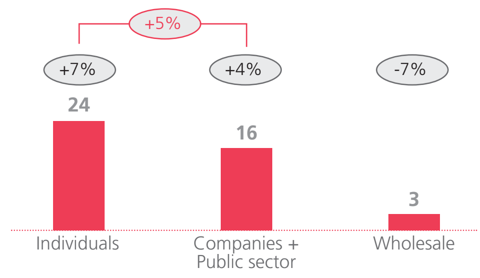
GROSS INCOME
EUR Million



LOANS. BREAKDOWN
EUR Billion and % var. 2012 / 2011



DEPOSITS. BREAKDOWN
EUR Billion and % var. 2012 / 2011



over 2011, of which to individuals and companies plus the public sector rose 7% and 4%, respectively.

Spain's recession is pushing up NPL entries, largely in the real estate sector, although the recoveries and sale of portfolios is containing the rise in the balance of bad loans. At the end of 2012 the NPL ratio was 6.28% and coverage ratio 71%.

Results

Net interest income was EUR 1,454 million, 7.6% more than in 2011. Balance sheet management and the improvement in the customer spreads largely offset the impact of lower activity and low interest rates.

Net fee income amounted to EUR 596 million, 3.3% lower than in 2011. Revenues from services remained virtually unchanged (-0.5%), as commercial management, customer linkage and the focus on areas with the strongest growth potential, offset the lower volumes. Fee income from mutual and pension funds declined 23.7%, basically due to customers' preference for other savings instruments.

Gains on financial transactions surged 132.4% to EUR 228 million. Most of this growth came from the results generated in the repurchase of preferred shares. Of the remaining growth, the main component was operations with customers which were 2.0% higher than in 2011.

Other operating income and the results of non-financial companies reflect the impact of the higher cost (EUR 47 million) of the contribution to the Deposit Guarantee Fund.

Gross income was EUR 2,266 million, 7.3% more than in 2011 and improved the growth trend of previous quarters.

The strict control of efficiency continues to be one of Banesto's main priorities. Operating expenses dropped a little (0.2%), which combined with the rise in gross income improved the efficiency ratio by 3.3 p.p. to 44.1%, among the best of Spanish banks according to the latest figures.

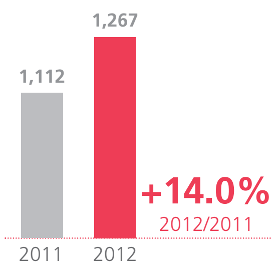
Net operating income was EUR 1,267 million (+14.0% and a higher year-on-year increase than at the end of third quarter).

Loan-loss provisions were EUR 943 million (EUR 661 million in 2011). The 2011 figure included a EUR 118 million release of generic provisions and EUR 778 million of specific provisions, while in 2012 almost all the provisions were specific.

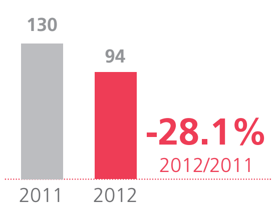
In line with the Group's policy, these provisions do not include those derived from implementing royal decree laws 2 and 18 of 2012 to lift coverage of real estate exposure, which were recorded by the area of Corporate Activities.

Attributable profit was EUR 94 million, 28.1% less than in 2011.

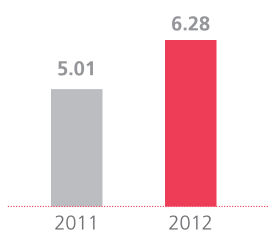
NET OPERATING INCOME
EUR Million



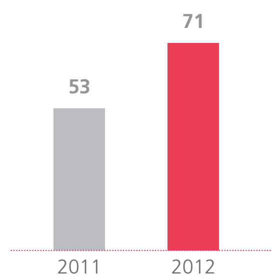
ATTRIBUTABLE PROFIT
EUR Million



NPL RATIO
%



NPL COVERAGE
%



Portugal

- Business still affected by the adjustment plan and the restructuring of the Portuguese banking system agreed with international institutions.

- The strategy is to give priority to balance sheet strengthening:
  - Better credit quality ratios than its competitors.
  - The deleveraging target for the year was met: lending declined 9% and deposits increased 2%.
  - Core capital ratio of 12.3%, clearly above the minimum required.
  - The best rating among banks and above the sovereign rating by Fitch Ratings, Moody's and DBRS.

- In results:
  - Sharp drop in profit: -28.7% due to weak basic revenues (-3.6%) and effort in provisions (+90.5%).
  - On the positive side, management of spreads and reduced costs (-4.8%)

Santander Totta's **attributable profit** was **EUR 124 million**, 28.7% lower, mainly affected by the country's recession and higher loan-loss provisions and, to a lesser extent, by the negative perimeter effect from the insurance operation.

The business carried out by Santander in Portugal is mainly focused in retail banking, with a network of 667 branches, providing service to nearly two million customers and a market share of 10%.

Environment
The economy shrank by an estimated 3% in 2012, less than initial estimates as the larger than expected fall in domestic demand was offset by export growth.

Households cut their spending more sharply, due to lower available income and in anticipation of further austerity measures. Exports remained strong despite the deterioration in the external environment. Nominal growth was 7.7% in the first nine months, and those to emerging markets grew more.

The goods and services balance remained positive in the second half of the year and the current account balance continued to improve at a faster rate than anticipated in the Memorandum of Understanding.

The fall in domestic demand had a negative impact on the fiscal budget, as it produced a sharp fall in VAT receipts, which wiped out the spending improvement, particularly that on personnel, while the rise in unemployment increased the bill for social benefits.

The fiscal budget deficit reduction targets were revised to 5.0% of GDP for 2012 from 4.5% and 4.5% in 2013 from 3.0%.

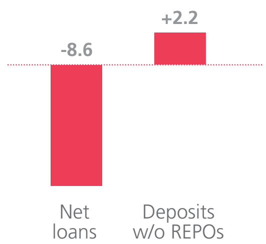
Deleveraging continued in the financial sector, due more to the natural fall in lending as a result of weak demand, which eased the pressure on capturing deposits and hence on their cost. The banking sector also recapitalised in order to meet the required core capital ratio levels.

The troika (EU, IMF and ECB) assessed the government's adjustment programme for the sixth time and concluded that it was on line to meet the targets, although it faced greater difficulties.

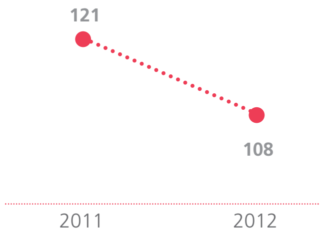
Strategy
In this macroeconomic and competitive framework, Santander Totta's strategy was based on the following lines of action:

- Further deleveraging of the balance sheet. Continued focus on capturing deposits and reducing loans, which further narrowed the commercial gap and enhanced the balance sheet structure.

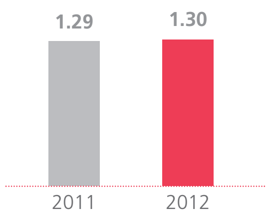
ACTIVITY
% variation 2012 / 2011



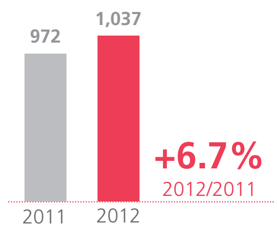
NET LOANS / DEPOSITS
%



NET INTEREST INCOME / ATAs
%



GROSS INCOME
EUR Million



- Protecting net interest income. The bank managed its policy for capturing deposits prudently, mainly at the beginning of the year, when competitors were still aggressively attracting deposits. The bank also pursued a repricing strategy of assets, especially in loans to companies and businesses.

- NPL management: preventative policy.

- Strengthening the bank's business with companies. In this scope are included the *Plan Exportación* and the launch in the second half of the year of *Plan Activaçao*, a EUR 1,500 million credit line for companies. Continued support for the *PME Investe* and *PME Crecimiento* programmes, in which it maintains a significant market share.

- Strict control of costs, in line with previous years.

Activity
Deposits maintained their growing trend and increased 2% to EUR 23,971 million and customer loans dropped 9% to EUR 25,960 million and affected all segments.

The loan-to-deposit ratio, as a result, improved from 121% at the end of 2011 to 108% in December 2012.

In terms of liquidity, the bank maintained a comfortable position thanks to the reduction in the liquidity gap, its capacity to generate profits and a pool of available assets, sufficient if needed to finance itself in the repo market or in the ECB.

Results
Net interest income fell 3.8% to EUR 570 million. Despite the gradual decline in lending and the still high cost of deposits, the bank managed to maintain a policy of defending spreads.

Net fee income dropped 4.8%, mainly because of reduced business activity.

Gains on financial transactions amounted to EUR 109 million, with a significant increase from the repurchase of debt in the first quarter that enabled loan-loss provisions to be strengthened.

As a result, gross income rose 6.7% to EUR 1,037 million.

This, coupled with the 4.8% fall in operating expenses, enabled net operating income to rose 20.4% and the efficiency ratio to improve by 5.8 p.p. to 48.6%.

In an unfavourable scenario, loan-loss provisions rose 90.5%, partly due to the increase in NPLs as a result of the economic cycle and to their strengthening in 2012 by trading gains.

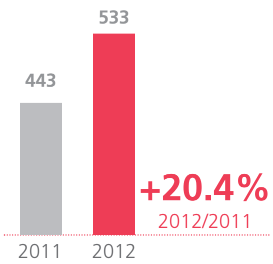
The NPL ratio was 6.56% and coverage ratio 53% (4.06% and 55%, respectively, in 2011).

Profit before tax was EUR 130 million, 30.5% lower. Attributable profit was EUR 124 million (-28.7%).

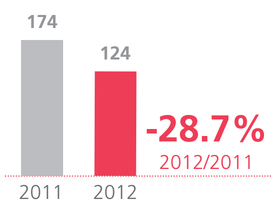
Santander Totta was again recognised by the main financial publications: The Banker named it "Bank of the Year in Portugal" and Euromoney and Global Finance "Best Bank in Portugal." The Portuguese magazine Exame awarded it the accolade of "The Most Solid Bank."

Moreover, the rating by Fitch Ratings, Moody's and DBRS is higher than that of the sovereign debt. It also has the best rating among Portuguese banks.

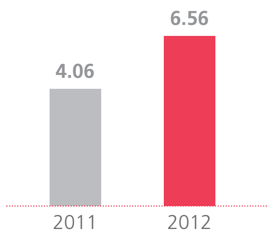
NET OPERATING INCOME
EUR Million



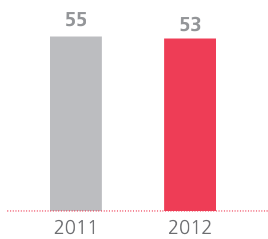
ATTRIBUTABLE PROFIT
EUR Million



NPL RATIO
%



NPL COVERAGE
%

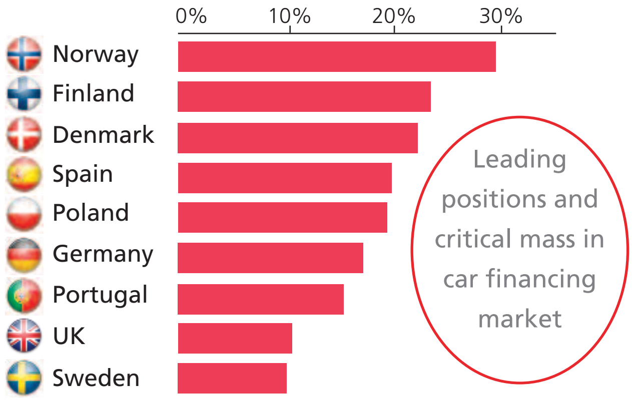


Santander Consumer Finance

- Attributable profit was 9.0% higher at EUR 727 million.
  - Gross income declined 2.2%, with stable net interest income and lower fee income (-8.6%) because of the weak environment.
  - Higher operating expenses (+4.0%) due to the business development of Santander Retail in Germany.
- Improved credit quality (lower NPLs and higher coverage), which resulted in lower loan-loss provisions (-11.7%).
- New loans up 1%, well above the sector due to Poland, Germany and the Nordic countries

CAR FINANCING MARKET

Market share new business - new and used car



Source: Local Consumer Finance Assosiations or internal estimates based on the publics statistics

The **attributable profit** of Santander Consumer Finance in Continental Europe was **EUR 727 million** (+9.0%).

Of note compared to 2011 were sound results in an environment of weaker consumption. The small fall in revenues and higher costs related to franchise development were offset by lower provisions.

Strategy

Santander Consumer Finance (SCF) is specialised in auto finance through dealers, and also provides personal loans, loans for the purchase of durable goods and credit cards and also deposits.

In 2012, SCF continued to strengthen the pillars of its business model: diversification, leadership in core markets, efficiency, risk control and recoveries, as well as a single pan-European platform. The main management focus was on:

- Organic growth and cross-selling, backed by brand agreements and greater penetration in the used car segment to offset the fall in new car sales.
- Consolidation of the business model in Germany, through implementation of the new Partenón IT platform.
- Consolidating SC Poland, reinforced in the third quarter with the acquisition of the consumer credit company Zagiel, a specialist in consumer credit.

Activity

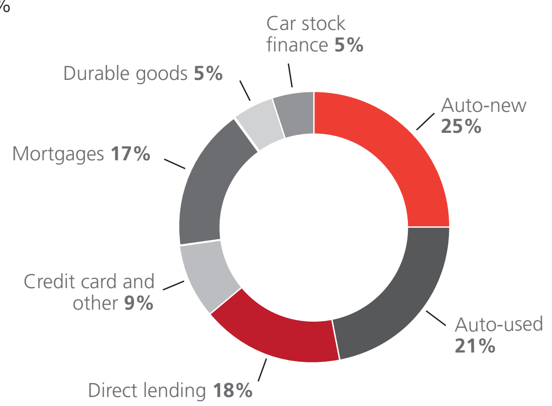
SCF's gross customer loans amounted to EUR 59,212 million, virtually unchanged from 2011 (EUR 59,308 million). Better evolution in the markets of central and northern Europe (Nordic countries: +16%; Germany was stable). The rest of markets were affected by the economic situation and deleveraging (Spain: -3%; Portugal: -21% and Italy: -12%).

New lending amounted to EUR 21,720 million at December 2012 (+1%), mainly backed by used car sales (+6%) and durable goods (+10%). Also of note was the growth in new car sales (+2%), which contrasts with the 8% drop in car sales in the EU. On the other hand, direct lending was 5% lower and other products dropped 11%.

Of note was the double-digit growth from the agreements with car manufacturers, which had a positive impact in all countries. Its above average performance for this business increased its relative share in the area, and now accounts for 12% of the total lending portfolio, while offering a better risk profile.

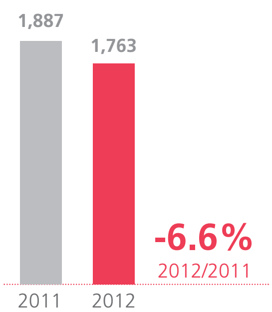
PORTFOLIO DISTRIBUTION BY PRODUCTS

%



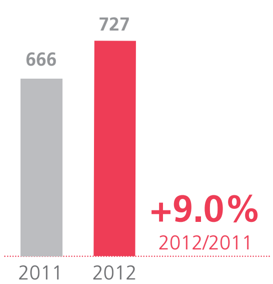
NET OPERATING INCOME

EUR Million



ATTRIBUTABLE PROFIT

EUR Million



By units, new lending increased in Poland (+9%), the Nordic countries (+14%), and Germany (+5%) and declined in Spain (-4%), Italy (-29%) and Portugal (-37%), impacted by the sharp fall in new car sales.

Customer deposits in this area remained high at EUR 31,892 million, an aspect differentiating Santander from its competitors and which conferred stability on its funding.

Wholesale funding also evolved well. More than EUR 2,100 million were issued during 2012. Of note was the securitisation activity of SCF (EUR 1,600 million captured in the markets). It is the first entity to securitise loans to finance cars in Finland and Sweden. There was also a senior debt issue of EUR 500 million in the fourth quarter made by the parent of SCF.

Deposits and medium- and long-term issues, including securitisations, accounted for 69% of the area's net lending.

The funding plan for 2013 is based on a continuation of these trends, with a high level of deposits and wholesale funding through securitisations and issuances.

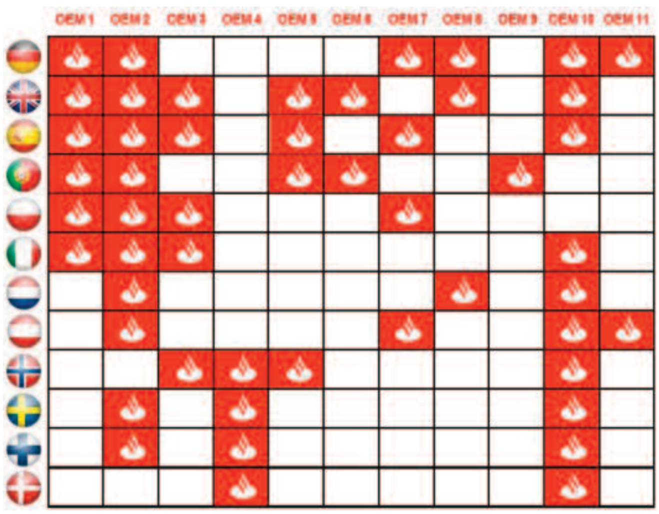
Results

The income statement reflects management of business in a complex environment of growth, financing and risk. Net interest income remained stable (+0.7%) due to management of spreads on loans, which produced a higher return on new lending, and funding costs. Gross income declined 2.2% because of weak fee income (-8.6%).

Operating expenses (+4.0%) reflect the impact of the development of Santander Retail in Germany, as well as its restructuring costs, and the incorporation of Zagiel in Poland. The efficiency ratio was 43.9%.

Loan-loss provisions (-11.7%) reflect the improvement in credit quality. The NPL ratio improved for the third year running and ended 2012 at 3.90% (3.97% in 2011). Coverage ratio remained virtually unchanged (110%).

PAN-EUROPEAN PLATAFORM: 51 AGREEMENTS WITH 11 CAR MANUFACTURERS IN 12 COUNTRIES



There was also a favourable impact from the lower other income and provisions due to the effort made in provisions in the previous year.

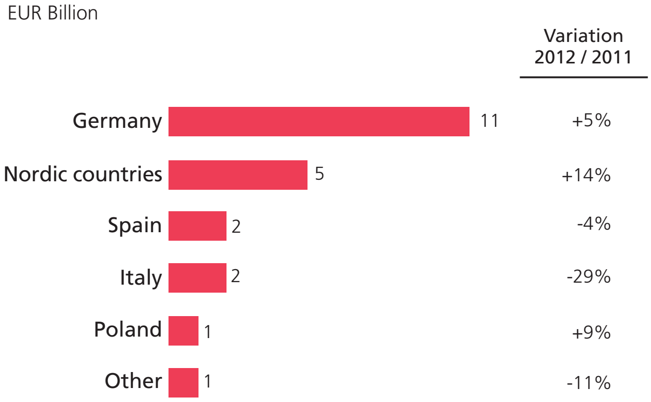
The performance of revenues, costs and provisions pushed up profits.

The Nordic countries, Poland and Spain registered profit growth and Portugal and Italy were weaker. Germany continued to contribute the largest share of profits (52% of the area's total). IT and operational integration of Santander Retail (former SEB) was completed. This will support business development in the coming years.

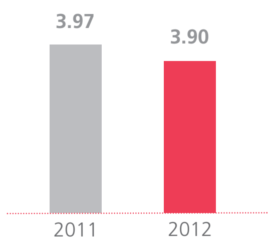
As regards the SCF UK, which for accounting purposes is part of Santander UK, the trend was very good. Profit rose 20.1% in sterling, driven by 19% growth in new lending, well above the sector.

Considering the SCF UK profit, the attributable profit for the area was EUR 827 million, 11.1% more.

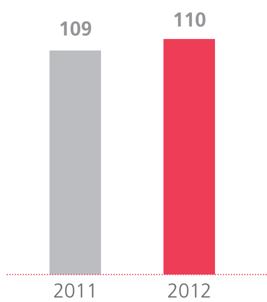
NEW LENDING
EUR Billion



NPL RATIO
%



NPL COVERAGE
%



Poland (BZ WBK)

- Consolidated as of April 1, 2011.
- Attributable profit of EUR 330 million, 42.0% more than its contribution to the Group in 2011.
- Solid funding structure: loan-to-deposit ratio of 87%.
- Better NPL ratios and coverage in 2012.
- Positive GDP growth potential, enhanced market presence and management capacity.
- Merger of BZ WBK and Kredyt Bank completed in January 2013.

BZ WBK posted an **attributable profit** in its first consolidated year of **EUR 330 million**, 44.4% (in local currency) more than in 2011 (when it consolidated three quarters). In local criteria and on a like-for-like basis (considering four quarters in both 2011 and 2012) growth was 21.1% due to higher revenues and lower costs which comfortably absorb the increase in provisions.

Economic environment

The economy slowed down in 2012 (2%), while inflation was 2.2% in December. This was due to the weaker performance of the European economy, particularly Germany (exports to the EU account for 79% of the total, and 25% go to Germany), as well as reduced domestic demand and the measures in force to reduce the public budget deficit.

Expansive monetary policy measures began to be developed, beginning with a cut of 0.5% in the key rate in the fourth quarter to 4.25%. This trend continued in the beginning of 2013 (an additional 0.5% cut to 3.75%). The zloty appreciated against the euro, from PLN 4.46 at the end of 2011 to PLN 4.07 in 2012, while the Polish bond yield dropped notably.

Strategy

BZ WBK's business model is retail banking, including individuals, SMEs and corporations and with a notable presence in asset management, intermediation of securities and leasing. All of this fits well with Santander model and provides a significant growth potential in results in the next few years, both via business as well as synergies from the merger underway.

In February 2012, Banco Santander, S.A. and KBC Bank NV (KBC) announced they had entered into an investment agreement to merge their Polish banking subsidiaries, Bank Zachodni WBK, S.A. and Kredyt Bank,S.A., which materialised in early 2013 after receiving authorisation from Poland's financial supervision authority (KNF) in December.

Grupo Santander stake in the resulting entity will be at around 75.2%.

This operation considers several stages: the legal merger of the banks, migration of Kredyt Bank brand, migration of customers and products to the IT systems, total operational merger program, and implementation of systems and solutions in a "Golden Platform". The legal merger of the banks has already been done and the more immediate synergies obtained. The subsequent phases are now being developed.

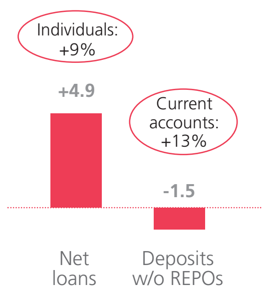
This operation increases the Group's importance in the Polish financial system where it is the third largest bank by branches, volumes, revenues and profits, and improves its position in a country with significant potential for banking business: 38.5 million inhabitants, a stable economy (the only EU country not to have suffered a recession in the last decade), which needs to complete its infrastructure and has a low level of "bankarisation" (lending represents around 50% of GDP).

The European Bank for Reconstruction and Development took a minority stake in BZ WBK in August 2012.

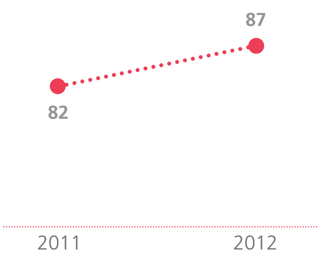
Activity

At the end of 2012 BZ WBK had EUR 9,732 million of loans and EUR 11,217 million of customer deposits. It has a very solid funding structure underscored by its loan-to-deposit ratio of 87%.

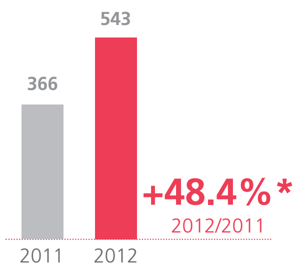
ACTIVITY
% variation 2012 / 2011 (zlotys)



NET LOANS / DEPOSITS
%

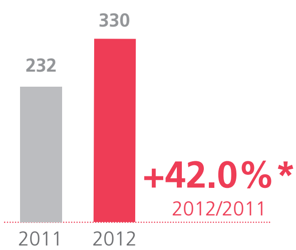


NET OPERATING INCOME
EUR Million



(*) Excluding exchange rate impact: +51.0%

ATTRIBUTABLE PROFIT
EUR Million



(*) Excluding exchange rate impact: +44.4%

Loans grew 5% in local currency, higher than the increase of the banking system. BZ WBK's growth came from all segments: that to individuals, the most dynamic, rose 9%.

Deposits decreased 1%, largely due to the reduction in customers' time deposits, as a result of the financial cost reduction strategy. Current accounts, on the other hand, increased 13%.

In September 2012 the European Investment Bank made a loan of EUR 50 million to BZ WBK, the third granted by this bank. The funds are being used to develop the SMEs sector in Poland.

Results

Attributable profit was EUR 330 million, fuelled by growth in gross income and an efficiency ratio of 43.9%, which enabled profits to grow against a backdrop of higher provisions, originated by the slowdown of the economy in the third and fourth quarters of the year and some one-off case recorded in the second quarter.

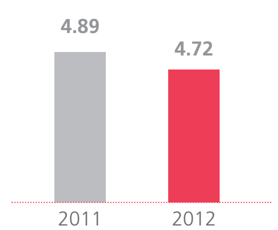
Compared with 2011, where BZ WBK only consolidated three quarters, net operating income was 51.0% higher (+42.6% in revenues and +33.2% in expenses) and attributable profit rose 44.4%.

In local criteria (for like-for-like comparisons in the period, i.e. the four quarters in the two years), profit rose 21.1%. Gross income increased 8.2%, due to net interest income (+11.2%) which, in turn, benefited from greater lending in all segments.

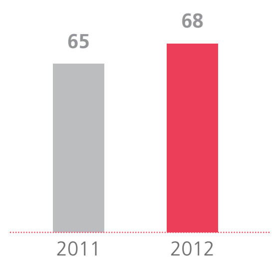
Operating expenses declined 5.6% and net operating income increased 22.1%. Loan-loss provisions were 36.7% higher.

The NPL ratio has declined since the bank became part of the Group and was 4.72% at the end of 2012 (6.43% in June 2011). Coverage ratio also improved to 68%.

NPL RATIO
%



NPL COVERAGE
%



Rest of Continental Europe

Attributable profit dropped 24.2% to **EUR 321 million**, as global businesses were hit by the economic environment and by a degree of perimeter impact from the insurance operations.

GBM Europe's profit was 14.2% lower. Net interest income performed the best (+6.2%) as a result of the repricing of credit operations. Operating expenses performed well and were 4.3% lower than in 2011.

Net fee income declined 20.5% due to lower revenues from advisory services for fewer M&A operations and the reduced volume in equities. Trading gains remained virtually unchanged.

Provisions were higher because of the increase in provisions in Spain.

Revenues from Asset Management was down 4.4%, affected by reduced activity and partly offset by the small decline in costs. Attributable profit fell 21.7%.

Insurance offered the best P&L profile. Its gross income rose 73.4%, backed by the merger of Santander's and Banesto's insurance companies, which produced an increase of 118.2% in net operating income. Profit tripled to EUR 109 million from EUR 35 million in 2011.

Lastly, Banif's performance reflected the environment in which it conducts business in Spain: higher gross income, which rose 4.8% because of net interest income (+12.3%), and a 228.0% increase in provisions. Sharp drop of 28.0% in costs (personnel, general and amortizations).

UNITED KINGDOM (EUR Million)

INCOME STATEMENT	2012	2011	Variation amount	%
Net interest income	**3,560**	**4,356**	**(796)**	**(18.3)**
Net fees	1,238	1,079	159	14.7
Gains (losses) on financial transactions	361	405	(45)	(11.0)
Other operating income (1)	17	26	(9)	(32.9)
Gross income	**5,176**	**5,866**	**(690)**	**(11.8)**
Operating expenses	(2,741)	(2,596)	(145)	5.6
General administrative expenses	(2,357)	(2,243)	(114)	5.1
Personnel	*(1,476)*	*(1,415)*	*(61)*	*4.3*
Other general administrative expenses	*(881)*	*(828)*	*(53)*	*6.4*
Depreciation and amortisation	(385)	(353)	(32)	9.0
Net operating income	**2,434**	**3,270**	**(835)**	**(25.5)**
Net loan-loss provisions	(832)	(633)	(199)	31.5
Other income	(173)	(966)	793	(82.1)
Ordinary profit before taxes	**1,429**	**1,671**	**(241)**	**(14.4)**
Tax on profit	(335)	(448)	113	(25.1)
Ordinary profit from continuing operations	**1,094**	**1,223**	**(129)**	**(10.5)**
Net profit from discontinued operations	—	—	—	—
Ordinary consolidated profit	**1,094**	**1,223**	**(129)**	**(10.5)**
Minority interests	—	—	—	—
Ordinary attributable profit to the Group	**1,094**	**1,223**	**(129)**	**(10.5)**
Net capital gains and provisions	81	—	81	—
Attributable profit to the Group	**1,175**	**1,223**	**(48)**	**(3.9)**

BALANCE SHEET				
Customer loans (2)	250,527	255,699	(5,172)	(2.0)
Trading portfolio (w/o loans)	38,177	41,440	(3,263)	(7.9)
Available-for-sale financial assets	6,718	55	6,663	—
Due from credit institutions (2)	18,124	16,808	1,315	7.8
Intangible assets and property and equipment	2,561	2,290	272	11.9
Other assets	43,618	39,855	3,764	9.4
Total assets/liabilities & shareholders' equity	**359,726**	**356,147**	**3,579**	**1.0**
Customer deposits (2)	194,452	194,318	134	0.1
Marketable debt securities (2)	73,919	70,823	3,096	4.4
Subordinated debt (2)	5,534	8,260	(2,726)	(33.0)
Insurance liabilities	—	—	—	—
Due to credit institutions (2)	29,253	31,203	(1,950)	(6.2)
Other liabilities	43,416	38,511	4,904	12.7
Shareholders' equity (3)	13,152	13,032	120	0.9
Other customer funds under management	**13,919**	**15,744**	**(1,826)**	**(11.6)**
Mutual funds	13,919	15,744	(1,826)	(11.6)
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Savings-insurance policies	—	—	—	—
Customer funds under management	**287,823**	**289,145**	**(1,321)**	**(0.5)**

(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 (all changes in sterling)

- Attributable profit of £952 million (-10.2%).
  - Gross income 17.5% lower, due to low interest rates and higher funding costs.
  - Lower operating expenses (-1.3%), despite the impact of inflation and continued investment in business.
  - Loan-loss provisions increased 22.8% (slowing down in recent quarters). Coverage ratio increased in 5 p.p.
- Customer lending down 5% but with an improved risk profile.
- Santander UK remains focused on growing SME lending (+18%).
- Retail deposits up 5% as result of the success of the ISA campaign and 1|2|3 World.
- Enhanced funding structure, including £14,000 million of medium-term funding issuance and reduced short-term borrowing.

In an environment of weak economic growth, low interest rates and higher funding costs, Santander UK posted an **attributable profit** of **£952 million**, 10.2% lower than in 2011.

The profit includes a net gain of £65 million resulting from the repurchase of debt capital instruments made in the third quarter. Most of this gain was offset by provisions related to the non-core corporate and potential conduct remediation.

Economic environment

Growth in the UK remained weak in 2012 (0% for the year as a whole). On a quarterly basis, GDP fell in the fourth quarter (-0.3%). Inflation was 2.8% in 2012, and average earnings continued to decline in real terms. The annual growth of lending to individuals remained below 1% in 2012, while the corporate lending market continued to contract (-2% at December).

The Bank of England held the base rate at a record low of 0.5% and extended its quantitative easing programme further in February and July 2012 to a total of £375,000 million. In addition, the Bank of England, jointly with the Treasury, launched the new Funding for Lending Scheme ('FLS') in July, which aimed to boost lending to the real economy. The economic environment remains uncertain, in part due to the downturn in the euro zone and its impact on UK exporters.

Strategy

The Santander UK market share of residential mortgage stock was slightly lower at 13.1% while the retail deposits stock market share was maintained at 9.4%. Santander UK continued to widen its range of products and services for retail and business customers. An important strategic focus in 2012 was to enhance balance sheet strength in terms of capital, credit risk, funding and liquidity.

Santander UK's goal is to become a full service, diversified, customer-centred commercial banking franchise. The strategy has three basic principles: delivering value to our primary banking customers, more balanced business mix and becoming SME bank of choice, and leading efficiency and customer service and satisfaction underpinned by IT systems.

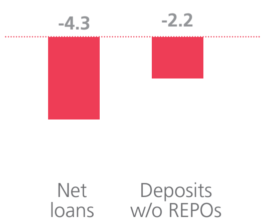
Santander UK launched a number of innovative and value-added products to strengthen its business. In particular, the 1|2|3 World product range has attracted 1.3 million customers and has created a new transactional primary customer base, driving current account deposits, an increase in switchers and a higher average credit card spend.

In 2012, Santander UK further developed its offering to corporate customers with a range of initiatives and new products to support and finance business growth. Of note was the innovative Breakthrough programme.

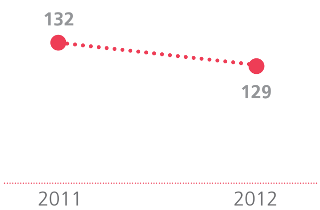
Activity

Santander UK remained firmly focused on the UK. Around 85% of customer assets consisting of prime UK residential mortgages. The mortgage portfolio of is of a good quality, with no exposure to self-certified or subprime mortgages and buy to let loans around 1% of assets. The loan-to-deposit ratio was 129%.

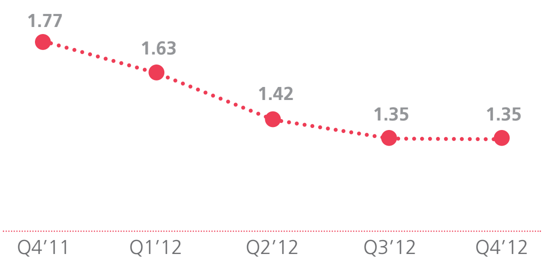
ACTIVITY
% variation 2012 / 2011 (sterling)

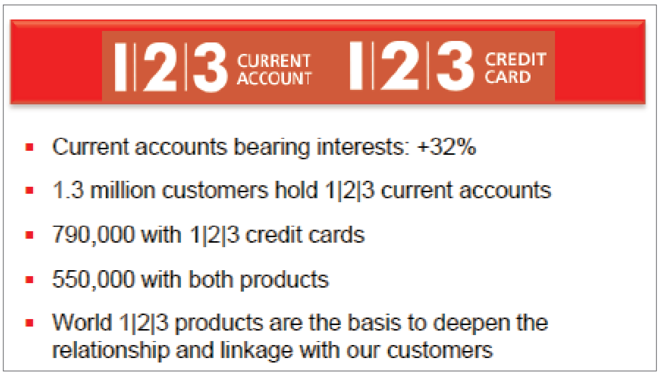


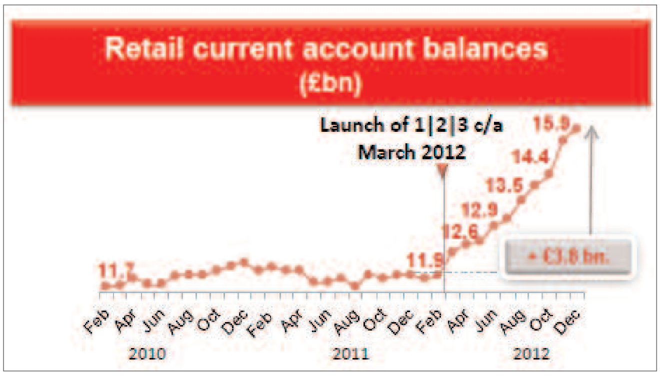
NET LOANS / DEPOSITS
%



NET INTEREST INCOME / ASSETS
%







In local criteria, customer loans amounted to £195,950 million, 5% less than in 2011, due to a reduction in mortgage loans (-5%) and UPLs (-19%), which was partly offset by the strong increase in loans to SMEs.

Gross mortgage lending amounted to £14,605 million; £9,100 million lower than in 2011. The gross lending market share in 2012 was 10.2%, well below the 16.8% recorded in 2011, as management tightened lending criteria on higher loan-to-value (LTV) and interest only mortgages. This was part of a range of actions to further improve the credit quality and profitability of the mortgage portfolio. New business spreads improved, with the new lending LTV of 63%.

Lending to companies amounted to £30,606 million, with lending to SMEs up 18% compared to 2011, underpinned by the opening of new Regional Business Centres from 28 in 2011 to 35 at the end of 2012.

UPL balances were 19% lower at £2,345 million, reflecting a management decision to selectively market loans to low risk customer segments and, in particular, those with an existing relationship with the bank.

Customer deposits were broadly unchanged at £148,572 million. The mix of the book changed as a result of a management decision to reduce rate sensitive deposits from private banking and from certain corporate clients (mainly Type A deposits). Retail deposits increased 5%, mainly current accounts and ISAs.

Medium-term funding issuance of £14,000 million was raised across a mix of sources and geographies in 2012, with a reduction in short-term borrowing.

Results

Attributable profit was £952 million, including the extraordinary net profit of £65 million.

Gross income declined from £5,088 million in 2011 to £4,196 million in 2012. Net interest income fell 23.6%, largely due to the impacts of higher funding (retail deposits and wholesale funding), low interest rates and the lower yield of the structure hedge, partly offset by higher volumes and margins on new lending to SMEs, Large Corporates and mortgages.

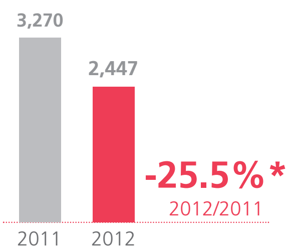
Net fee income rose 7.2%, due to increased fees and ancillary income from SME and Large Corporates. Gains on financial transactions declined 16.8%, due to the impact of lower market activity.

As a result, gross income stopped the fall of previous quarters and has started to stabilise in the second half of the year.

Operating expenses fell 1.3%, despite inflation and the continued investment in the business. The efficiency ratio was 53.0%, slightly higher than in 2011, largely due to weaker income.

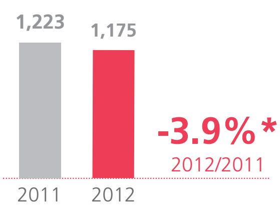
Loan-loss provisions rose 22.8%, and on a downward growth trend. Both the stock of residential properties in possession (0.06%) as well as the NPL ratio of residential mortgages (1.74%) remained low with underlying performance stable and both were better than the sector average, according to the Council of Mortgage Lenders (CML).

NET OPERATING INCOME
EUR Million



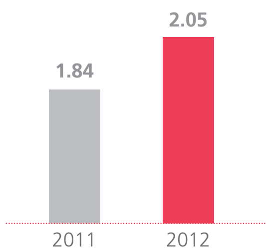
(*) In sterling: -30.4%

ATTRIBUTABLE PROFIT
EUR Million

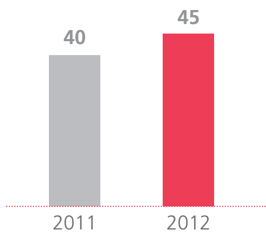


(*) In sterling: -10.2%

NPL RATIO
%



NPL COVERAGE
%



LATIN AMERICA (EUR Million)

INCOME STATEMENT	2012	2011	Variation amount	%
Net interest income	**17,881**	**16,349**	**1,532**	**9.4**
Net fees	5,097	4,992	105	2.1
Gains (losses) on financial transactions	1,071	1,067	4	0.4
Other operating income (1)	(115)	(144)	29	(20.2)
Gross income	**23,934**	**22,265**	**1,670**	**7.5**
Operating expenses	(9,063)	(8,868)	(195)	2.2
General administrative expenses	(8,198)	(7,948)	(250)	3.1
Personnel	*(4,617)*	*(4,448)*	*(168)*	*3.8*
Other general administrative expenses	*(3,581)*	*(3,500)*	*(81)*	*2.3*
Depreciation and amortisation	(865)	(920)	55	(6.0)
Net operating income	**14,872**	**13,397**	**1,475**	**11.0**
Net loan-loss provisions	(7,380)	(5,447)	(1,933)	35.5
Other income	(818)	(1,020)	201	(19.7)
Profit before taxes	**6,673**	**6,930**	**(257)**	**(3.7)**
Tax on profit	(1,502)	(1,549)	47	(3.0)
Profit from continuing operations	**5,171**	**5,381**	**(210)**	**(3.9)**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**5,171**	**5,381**	**(210)**	**(3.9)**
Minority interests	866	717	149	20.9
Attributable profit to the Group	**4,305**	**4,664**	**(359)**	**(7.7)**

BALANCE SHEET				
Customer loans (2)	140,090	139,867	222	0.2
Trading portfolio (w/o loans)	28,403	31,705	(3,302)	(10.4)
Available-for-sale financial assets	23,499	26,186	(2,687)	(10.3)
Due from credit institutions (2)	25,799	19,181	6,618	34.5
Intangible assets and property and equipment	4,490	4,312	178	4.1
Other assets	46,753	53,594	(6,841)	(12.8)
Total assets/liabilities & shareholders' equity	**269,034**	**274,845**	**(5,812)**	**(2.1)**
Customer deposits (2)	134,765	134,078	687	0.5
Marketable debt securities (2)	28,107	23,253	4,854	20.9
Subordinated debt (2)	5,734	6,015	(282)	(4.7)
Insurance liabilities	—	—	—	—
Due to credit institutions (2)	32,089	46,813	(14,724)	(31.5)
Other liabilities	47,931	45,170	2,760	6.1
Shareholders' equity (3)	20,409	19,516	893	4.6
Other customer funds under management	**60,831**	**69,902**	**(9,071)**	**(13.0)**
Mutual funds	48,178	55,829	(7,651)	(13.7)
Pension funds	—	—	—	—
Managed portfolios	12,653	14,073	(1,420)	(10.1)
Savings-insurance policies	—	—	—	—
Customer funds under management	**229,437**	**233,248**	**(3,811)**	**(1.6)**

(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 (all changes in constant currency)

- Attributable profit was 5.6% lower at EUR 4,305 million (+3.7% excluding the perimeter effect).
- Basic revenues increased 11.9%. They were the main source of profit-generation and improved the profile of the income statement.
- Operating expenses rose 5.7% due to increased commercial capacity and inflationary pressures in some countries. The efficiency ratio improved further to 37.9% (39.8% in 2011).
- Pre-provision profit (net operating income) was 15.7% higher.
- Loan-loss provisions increased 42.6% because of higher lending and some deterioration of NPLs in the systems of various countries.
- Loans grew 8% and deposits 9%.

Santander generated **attributable profit** of **EUR 4,305 million** in 2012, 5.6% less. On a like-for-like basis (sale of the subsidiary in Colombia, agreement with insurers and higher minority interests in Brazil, Mexico and Chile), attributable profit increased 3.7%.

Economic environment

Against a backdrop of weak growth in developed economies, Latin America continued to grow at sustained rates of close to 3%. Domestic demand remained strong, although decelerating, while external demand's contribution was still negative. The evolution, however, varied from country to country, with some growing at close to 6% and other at less than 2%.

The expectations for 2013 are positive for all countries, with higher growth in those countries that slowed down the most in 2012 and continued dynamism in the rest.

Despite the relative stability in financial markets after the summer, the global economic outlook remains fragile and with high risks on the down side. This scenario weighed on the decisions of Latin American central banks to maintain their interest rate stance between downward and neutral. Brazil's benchmark rate was reduced to an historic low and rates remained basically stable in the rest of countries. The monetary authorities showed themselves ready at any moment to act in the event of a deterioration in the external environment while at the same time reaffirming their commitment to watch out for and control inflationary pressures.

The rise in inflation during the first three quarters of 2012, largely due to supply shocks in food and energy, was closely watched but initially assessed as being of a temporary nature. The moderation in the last quarter enabled inflation to end the year lower than in 2011 (below 5.5% on average).

The region's external accounts also performed relatively well, although trade balances deteriorated, in most countries except for Mexico and Argentina. This was due to the fall in exports, reflecting weak external demand, albeit more moderate, and the rise in imports from buoyant domestic consumption.

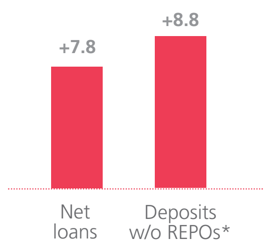
The region, however, still had a trade surplus of close to 1% of GDP. Thanks to this, the current account deficit remained low and at a similar level to 2011 (less than 2% of GDP). The region is also receiving large net capital inflows of more than 2.5% of GDP in net terms, most of it direct investment.

These capital inflows enabled the current account deficit to be comfortably financed and to continue to build up international reserves, which stood at more than $740 billion at the end of November (+$63 billion in 2012).

Public accounts continued to be prudently managed. Budget deficits were expected to be lower than in 2011, thanks to faster growth in revenues than in costs. The region continues to enjoy low and sustainable public debt balances (close to 30% of GDP on average).

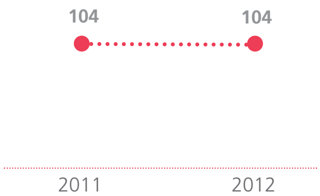
The region's financial systems have high levels of capital, liquidity and solid credit quality indicators, as well as

ACTIVITY
% var. 2012 / 2011 (excluding FX)

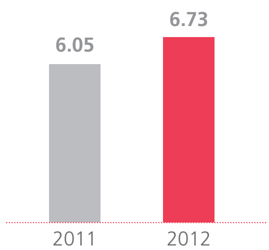


(*) Including letras financieras

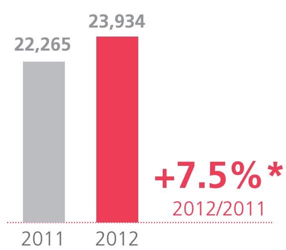
NET LOANS / DEPOSITS
%



NET INTEREST INCOME / ATAs
%



GROSS INCOME
EUR Million



(*) Excluding exchange rate impact: +11.7%

maintaining double-digit growth in lending and deposits and reflected a dynamic economy.

In the countries where Santander operates (Brazil, Mexico, Chile, Argentina, Uruguay, Peru and Puerto Rico), banking business (loans + deposits) grew 12%.

Lending rose 15%. Loans to individuals increased 16%; (consumer credit + cards: +12%; mortgages: +23%), while credit to companies and institutions rose 15%.

Deposits grew 7%, with demand deposits up 14% and time deposits 2%.

Because of their impact on business and on converting figures into euros, the evolution of interest rates and exchange rates is commented on:

– Short-term interest rates, based on the region's average weighted rate, were 130 b.p. lower than the 2011 average at 7.5%. This was mainly due to cuts in Brazil's rates.

– The evolution of results in euros is affected by average exchange rates. The average annual exchange rate for the region's currencies depreciated by 10% against the dollar in 2012. The dollar, the reference currency in Latin America, appreciated 8% on average against the euro. In average terms, the Brazilian real fell against the euro from BRL 2.32 to BRL 2.50, while the Mexican peso appreciated (from MXN 17.3 to MXN 16.9) and the Chilean peso (from CLP 672 to CLP 624).

Strategy
The Bank's strategy is centred on consolidating the commercial franchise. Activity focuses on deepening the customer-oriented retail banking model and forging closer relations with customers. The priorities are growth in the most attractive businesses, more emphasis on fee-generating activities, capturing retail deposits and strengthening the balance sheet in terms of capital, liquidity and active and prudent management of the whole risk cycle (admission, monitoring, recoveries), while achieving further gains in efficiency and optimising the installed capacity.

Main focuses in 2012

1. Emphasis on generating revenues with dynamic retail banking and management of spreads.
2. Balanced growth of the balance sheet, focusing on deposits, particularly those from retail banking.
3. Efficient use of capital and comfortable ratios in relation to regulatory requirements.
4. Prudent focus on business risks with intense management of early NPLs and their recovery.
5. Optimisation of the installed capacity and enhanced efficiency.

At the end of 2012, Grupo Santander had 6,044 branches and points of attention in Latin America and 27,694 ATMs.

The total number of customers was 44.0 million (2.3 million more than in 2011). Grupo Santander has the largest financial franchise in the region. Its business volume is almost double that of its nearest competitor.

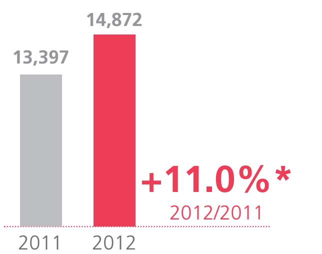
The main developments and results are set out below. All year-on-year percentage changes exclude the exchange rate impact.

Activity
- Total loans increased 8%, affected by the deleveraging of GBM (retail banking grew 10%). By products: cards increased 19%, mortgages 10%, commercial credit (companies in all their range and institutions) 9%, and consumer credit grew 5%.

- Deposits excluding repos increased 9% (including Brazil's "letras financieras"), with demand deposits up 13% and time 4%. Mutual funds declined 8% because of the greater focus on on-balance sheet funds.

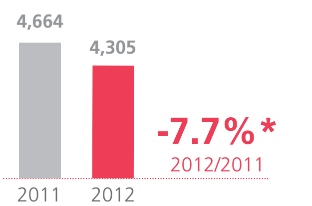
- The above variations corresponded to all countries in Latin America, after eliminating the perimeter impact from the

NET OPERATING INCOME
EUR Million



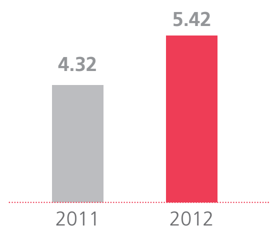
(*) Excluding exchange rate impact: +15.7%

ATTRIBUTABLE PROFIT
EUR Million

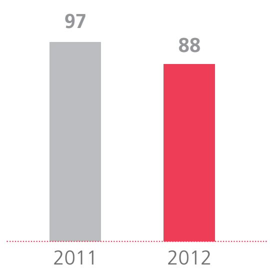


(*) Excluding exchange rate impact: -5.6%

NPL RATIO
%



NPL COVERAGE
%



sale of the subsidiary in Colombia and the balances from the New York branch.

- The Group's market share in the countries where it operates is 11.1% in lending, 9.8% in deposits and 10.5% in overall business.

Results

- Net interest income rose 13.9%, due to higher volumes and optimum management of spreads in a context of stable or declining interest rates, varying by country.

- Fee income increased 5.5%, affected by regulatory pressures. Of note was the growth in cards (+18.7%), transactional banking (+9.8%), administration of accounts (+6.8%) and insurance (+2.5%). Mutual funds dropped 15.4% because of the shift into deposits.

- Basic revenues increased 11.9%.

- Gains on financial transactions rose 4.4%, due to the revenue generated in treasury operations with customers. This growth, coupled with the rise in basic revenues, produced a 11.7% increase in gross income.

- Operating expenses grew 5.7%, due to the opening of branches (some traditional and others focused on priority customer segments), new business projects and inflationary pressures on wage agreements and outsourcing of services.

- The efficiency ratio improved by 1.9 points to 37.9% from 39.8% in 2011 and pre-provision profit (net operating income) was 15.7% higher.

- Loan-loss provisions increased 42.6%, as a result of growth in lending, some deterioration in NPLs in some markets and a rigorous and prudent policy in provisions. Coverage ratio was 88%.

- Profit before tax was 1% lower over 2011, at EUR 6,673 million (+1.2% on a like-for-like basis).

- Higher minority interests in Brazil, Mexico and Chile, as well as higher taxes, left attributable profit 5.6% lower at EUR 4,305 million.

- Retail Banking's net profit increased 0.8%, driven by gross income (+13.9%). Global Wholesale Banking's net profit was 1.2% lower.

LATIN AMERICA. INCOME STATEMENT (EUR Million)

	Gross income			Net operating income			Attributable profit		
	2012	**2011**	**Var (%)**	**2012**	**2011**	**Var (%)**	**2012**	**2011**	**Var (%)**
Brazil	16,520	15,813	4.5	10,685	9,861	8.4	2,212	2,610	(15.2)
Mexico	2,814	2,357	19.4	1,695	1,369	23.8	1,015	936	8.5
Chile	2,307	2,060	12.0	1,385	1,252	10.6	498	611	(18.5)
Argentina	1,219	918	32.8	654	468	39.9	329	287	14.5
Uruguay	235	172	36.9	82	40	102.6	47	20	134.8
Puerto Rico	368	344	7.0	178	169	5.2	57	34	69.4
Rest	142	312	(54.3)	6	75	(92.3)	(7)	34	—
Subtotal	**23,605**	**21,975**	**7.4**	**14,686**	**13,235**	**11.0**	**4,152**	**4,531**	**(8.4)**
Santander Private Banking	330	289	13.9	186	162	15.1	153	133	14.9
Total	**23,934**	**22,265**	**7.5**	**14,872**	**13,397**	**11.0**	**4,305**	**4,664**	**(7.7)**

LATIN AMERICA. MAIN UNITS (EUR Million)

	Brazil			Mexico			Chile		
INCOME STATEMENT	2012	2011	Var (%)	2012	2011	Var (%)	2012	2011	Var (%)
Net interest income	**12,746**	**11,980**	**6.4**	**2,007**	**1,664**	**20.6**	**1,727**	**1,518**	**13.8**
Net fees	3,137	3,253	(3.6)	750	603	24.4	447	422	6.0
Gains (losses) on financial transactions	716	757	(5.4)	105	98	7.0	124	79	56.4
Other operating income (1)	(79)	(177)	(55.2)	(48)	(8)	512.4	9	41	(78.1)
Gross income	**16,520**	**15,813**	**4.5**	**2,814**	**2,357**	**19.4**	**2,307**	**2,060**	**12.0**
Operating expenses	(5,834)	(5,952)	(2.0)	(1,118)	(988)	13.2	(922)	(808)	14.2
General administrative expenses	(5,264)	(5,307)	(0.8)	(1,005)	(880)	14.3	(825)	(718)	14.9
Personnel	*(2,929)*	*(2,924)*	*0.2*	*(531)*	*(466)*	*14.0*	*(519)*	*(456)*	*13.8*
Other general administrative expenses	*(2,335)*	*(2,384)*	*(2.0)*	*(475)*	*(414)*	*14.6*	*(306)*	*(262)*	*16.8*
Depreciation and amortisation	(571)	(645)	(11.5)	(113)	(108)	4.5	(97)	(89)	8.7
Net operating income	**10,685**	**9,861**	**8.4**	**1,695**	**1,369**	**23.8**	**1,385**	**1,252**	**10.6**
Net loan-loss provisions	(6,124)	(4,508)	35.9	(466)	(337)	38.2	(573)	(380)	50.9
Other income	(811)	(1,093)	(25.8)	55	33	65.9	5	40	(86.6)
Profit before taxes	**3,750**	**4,260**	**(12.0)**	**1,285**	**1,065**	**20.6**	**817**	**913**	**(10.5)**
Tax on profit	(947)	(1,126)	(15.9)	(210)	(128)	64.2	(105)	(114)	(8.5)
Profit from continuing operations	**2,803**	**3,134**	**(10.6)**	**1,075**	**938**	**14.6**	**712**	**798**	**(10.8)**
Net profit from discontinued operations	—	—	—	—	—	—	—	—	—
Consolidated profit	**2,803**	**3,134**	**(10.6)**	**1,075**	**938**	**14.6**	**712**	**798**	**(10.8)**
Minority interests	591	525	12.6	59	2	—	214	187	14.3
Attributable profit to the Group	**2,212**	**2,610**	**(15.2)**	**1,015**	**936**	**8.5**	**498**	**611**	**(18.5)**

BALANCE SHEET									
Customer loans (2)	74,511	78,408	(5.0)	20,384	18,185	12.1	29,677	25,709	15.4
Trading portfolio (w/o loans)	12,648	12,994	(2.7)	10,470	12,171	(14.0)	1,725	3,019	(42.9)
Available-for-sale financial assets	16,284	18,422	(11.6)	2,772	3,410	(18.7)	2,949	2,572	14.7
Due from credit institutions (2)	11,341	8,490	33.6	7,672	4,463	71.9	3,151	2,049	53.8
Intangible assets and property and equipment	3,357	3,228	4.0	380	369	2.9	373	350	6.5
Other assets	30,563	36,612	(16.5)	5,182	4,253	21.9	2,799	5,208	(46.3)
Total assets/liabilities & shareholders' equity	**148,704**	**158,157**	**(6.0)**	**46,859**	**42,852**	**9.4**	**40,674**	**38,906**	**4.5**
Customer deposits (2)	69,849	72,405	(3.5)	24,743	21,459	15.3	22,411	20,175	11.1
Marketable debt securities (2)	19,974	16,154	23.6	2,021	1,324	52.6	6,082	5,601	8.6
Subordinated debt (2)	4,409	4,515	(2.4)	—	—	—	1,151	1,285	(10.5)
Insurance liabilities	—	—	—	—	—	—	—	—	—
Due to credit institutions (2)	17,376	28,847	(39.8)	3,750	7,591	(50.6)	4,666	4,851	(3.8)
Other liabilities	25,267	25,795	(2.0)	13,005	8,715	49.2	4,294	5,112	(16.0)
Shareholders' equity (3)	11,830	10,440	13.3	3,340	3,763	(11.2)	2,071	1,882	10.0
Other customer funds under management	**34,813**	**42,785**	**(18.6)**	**10,328**	**9,432**	**9.5**	**4,563**	**4,846**	**(5.9)**
Mutual funds	31,339	39,414	(20.5)	10,328	9,432	9.5	4,563	4,846	(5.9)
Pension funds	—	—	—	—	—	—	—	—	—
Managed portfolios	3,474	3,371	3.1	—	—	—	—	—	—
Savings-insurance policies	—	—	—	—	—	—	—	—	—
Customer funds under management	**129,045**	**135,859**	**(5.0)**	**37,091**	**32,214**	**15.1**	**34,206**	**31,908**	**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

Brazil (all changes in local currency)

- Attributable profit 8.8% lower at EUR 2,212 million.
  - Greater activity and management of spreads produced growth of 12.2% in basic revenues.
  - Expenses rose 5.5% because of the signing of the wage agreement and business investment.
  - Net operating income rose 16.6%.
  - Larger provisions (+46.2%) due to the growth in lending and the rise in NPLs, although in the second half the trend improved (-2.8% over the first half).

- Loans and deposits slowed down in the year, following the trend of private banks. Both,loans and deposits, grew 6% over 2011.

Santander Brazil posted **attributable profit** of **EUR 2,212 million**, 15.2% less than in 2011 (-8.8% in local currency).

The upper part of the income statement is very solid. Gross income increased 12.4% which, combined with an improvement in the efficiency ratio to 35.3% enabled net operating income to rise 16.6%.

Santander Brazil is one of the third largest private sector banks and the largest foreign bank, with a market share in lending of 10%. It operates in the main regions of the country, with 3,788 branches and points of banking attention, 17,793 ATMs and 27.3 million customers, 20.8 million of which hold demand deposits in the bank.

Economic environment
Brazil is the world's seventh largest economy by GDP, according to the IMF estimates.

GDP growth in 2012 was around 1%, with rise in consumption and the jobless rate at historic low levels. The economy is forecast to expand between 3%-4% in the coming years.

The unemployment rate reached a historic low of 4.6%. Close to 900,000 new jobs were created and real incomes rose 3% in twelve months.

Brazil is still undergoing an accelerated process of social mobility. Spending on investments is scheduled to be close to BRL 1 trillion between 2011 and 2016 (mainly infrastructure). Inflation was 5.8% in December 2012, a slightly lower rate than in 2011 (6.5%).

In order to improve the distribution of liquidity and simplify the structure of the legal reserve requirement for banks' deposits, the central bank announced on September a reduction in the remunerated part (to the Selic rate) for demand deposits (from 6% to 0%) and from 12% to 11% for time deposits.

The central bank also continued to cut interest rates, to 7.25% as of October (an historic low).

Lending rose 16%, and has been slowing down in recent months. Loans by private Brazilian banks grew 7%, foreign banks 10% and state banks 27%. Savings increased 10%.

Strategy
The strategy is based on the following objectives:

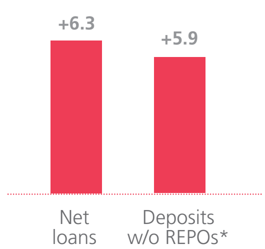
- Be the best bank in quality of service, backed by the strength of the IT platform.
- Intensify customer relations and improve the infrastructure.
- Strengthen business in key segments and products such as SMEs, acquiring business, cards and real estate loans.
- Continue to strengthen the Santander brand.
- All of this accompanied by prudent risk management.

Santander Brazil advanced in 2012 in the execution of its strategic plan, as mentioned above.

It improved its quality of service, according to the latest central bank ranking.

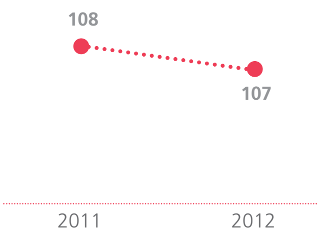
In cards, the bank has 48.4 million credit and debit cards and the volume of credits increased 14% over 2011, reaching a market share of 12.8%.

ACTIVITY
% var. 2012 / 2011 (excluding FX)

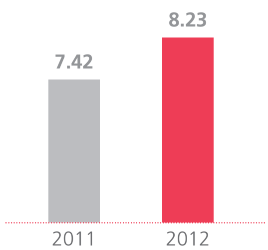


(*) Including letras financieras

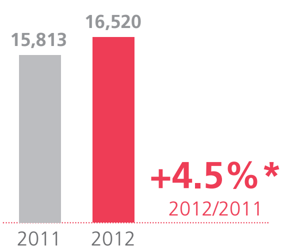
NET LOANS / DEPOSITS
%



NET INTEREST INCOME / ATAs
%



GROSS INCOME
EUR Million



(*) Excluding exchange rate impact: +12.4%

During 2012, the bank reached commercial agreements with Sodexo and Embratec, in order to increase business activity in the SMEs segment.

In the acquiring business, Santander Brazil was the first bank to combine these services with banking ones, offering a very attractive product for SMEs. The results continued to be positive (416,000 shops). In 2012, a Unified Attention service was launched (the SME and its owner) which enables greater linkage between the customer and risk management.

In auto finance, volumes continued to raise, backed by various commercial agreements (Hyundai, Renault, Nissan, etc), bringing the market share to 16.3%.

Activity

Total loans rose 6%, mainly backed by growth in the retail segment, with the following evolution:

- Financing for individuals rose 12%, mainly mortgages and cards.
- Consumer financing declined 3%.
- Loans to SMEs and companies increased 14%.
- Large companies balances remained unchanged.

Customer funds increased 10%, as follows:

- Deposits excluding repos rose 3%, with demand deposits performing well.
- "Letras financieras", an instrument that gives greater stability to the capturing of funds, increased 27%. Total deposits and "letras" combined were 6% higher.
- Lastly, funding via credit notes (real estate notes and agribusiness notes) rose 22%.

Santander Brazil's market shares in 2012 were 9.7% in loans (12.0% in unrestricted lending) and 7.7% in deposits.

Results

Gross income (all changes in results in local currency) rose 12.4% to EUR 16,520 million.

The main components of growth were net interest income (+14.5%) and fee income (+3.8%), backed by cards (rates of 27.3%).

Gains on financial transactions, which accounted for 4% of total revenues from Brazil, amounted to EUR 716 million (+1.8%).

Operating expenses grew 5.5%, due to investments in commercial capacity (opening of 52 branches), and the signing of the agreement for a 7.5% increase in wages in the third quarter of 2012.

Net operating income rose 16.6% to EUR 10,685 million, while the efficiency ratio was 35.3%, an improvement of 2.3 percentage points over 2011.

Provisions for loan losses were 46.2% higher, due to worsening of credit quality in the system, given the environment of low economic growth. However, they started to decline in the third and fourth quarters.

The NPL ratio was 6.86% (5.38% in 2011) and coverage ratio 90%.

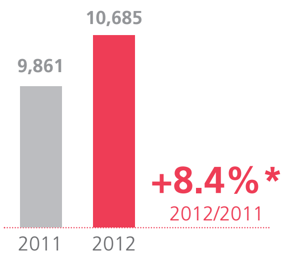
Net profit before minority interests and after provisions and taxes, was EUR 2,803 million, 3.8% lower than in 2011.

The higher minority interests reduced attributable profit by 8.8% to EUR 2,212 million.

Retail Banking's attributable profit was 5.0% lower, Asset Management and Insurance was down 22.8% and Global Wholesale Banking's declined 12.8%.

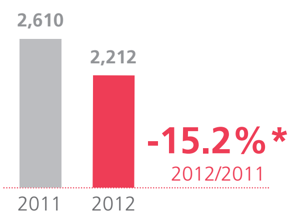
Profit before tax and minority interests dropped 0.5% in Retail Banking, 16.9% in Asset Management and Insurance and 12.1% in Global Wholesale Banking.

NET OPERATING INCOME
EUR Million



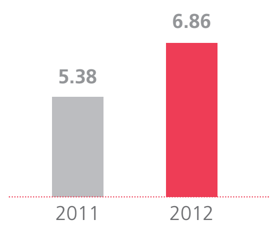
(*) Excluding exchange rate impact: +16.6%

ATTRIBUTABLE PROFIT
EUR Million

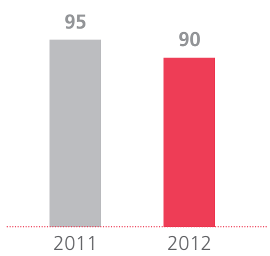


(*) Excluding exchange rate impact: -8.8%

NPL RATIO
%



NPL COVERAGE
%



Mexico (all changes in local currency)

- Attributable profit rose 6.2%, impacted by the listing of a 24.9% stake in the bank last September. Excluding minority interests, net profit was 12.2% higher.
    - Basic revenues increased 19.1%.
    - Efficiency improved by 2.2 p.p. in 2012, thanks to stronger revenues. Operating expenses rose 10.8%.
    - Provisions rose 35.3% due to the growth in lending. The NPL ratio remained below the sector's average.
- Commercial dynamism continues. Loans increased 7% and deposits 19%.

Attributable profit was 8.5% higher at **EUR 1,015 million** (+6.2% in local currency). Excluding minority interests, affected by the sale of a 24.9% stake in the bank last September, net profit rose 12.2% in local currency. The results were better in terms of quality and recurrence (basic revenues grew 19.1%), based on optimum management of spreads and commissions as a result of intensified customer relations.

Santander is the third largest banking group in Mexico by business volume, with a market share in loans of 13.9% and 13.7% in deposits. It has 1,170 branches and 10 million customers.

In September, the Group made a successful public offering of 24.9% of Banco Santander Mexico, which valued the bank at EUR 12,730 million. This operation was the largest offering in Mexico and Latin America and one of the biggest in the world in 2012.

Economic environment

GDP growth remained virtually stable in 2012 at an estimated 3.8% compared to 3.9% in 2011. Growth was due to both domestic as well as external demand. The first was sustained by job creation and the second by a gain in market share of exports to the US.

Inflation rose in the first nine months to 4.8%, above the central bank's target range, and dropped to 3.6% in December. Medium- and long-term inflation expectations remained anchored at around 3.5%. In this context, the Central Bank of Mexico held its benchmark rate at 4.5%.

The peso appreciated 7% against the dollar, sustained by significant inflows of direct and portfolio investment and a very contained current account deficit.

The presidential elections in July saw a change in the ruling party in an orderly fashion. In the last part of 2012 there was an environment of cooperation among the main parties and a common vision on the agenda for structural reforms.

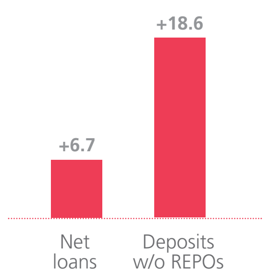
The financial system remained solid, liquid and with good risk quality indicators. Demand for loans remained strong (+11%), spurred by consumption. Deposits rose 5%.

Strategy

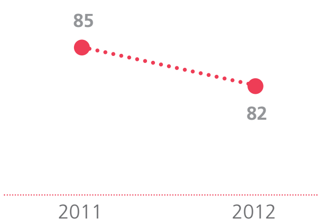
Santander Mexico continued to consolidate its franchise through greater relations with customers and improved service quality. The strategy focused on greater development of commercial banking, particularly retail segments. Transaction banking was strengthened and development of key segments such as high income and SMEs with tailored value offers speeded up.

This strategy includes a strong focus on efficiency and integral risk management in order to create value for customers and shareholders.

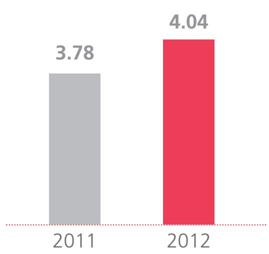
ACTIVITY
% var. 2012 / 2011 (excluding FX)



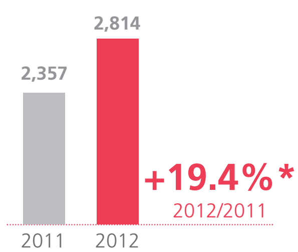
NET LOANS / DEPOSITS
%



NET INTEREST INCOME / ATAs
%



GROSS INCOME
EUR Million



(*) Excluding exchange rate impact: +16.9%

The range of value-added products was increased. Of note among them is the family of Elite Funds, which enable the investor to access from the same fund the world's most recognised funds, the "Hipoteca Santander Premier", as part of an offer focused on high income customers with exclusive attention in branches and telephone banking, and the "Hipoteca Inteligente", which for the first time offered a variable interest rate of 9%, with a ceiling of 12% set in the contract.

Santander Mexico has consolidated itself as the leading bank for SMEs. It has a clear and differentiated attention and credit model. In the high-income segment, the Select segment was launched in order to intensify the customer attention model through specialised business centres, a dedicated call centre and tailored products.

Banco Santander Mexico went to the international markets in November for the first time with a $1 billion senior bond issue, the largest, with the longest maturity (10 years) and the lowest funding cost of a Mexican bank in the country's history.

During 2012, a plan to open 200 more branches over the next three years was announced in order to strengthen the distribution network and take advantage of the expected growth in the market. The number of offices for Select clients was also doubled to more than 70 in order to better tend to the high-income segment.

The first international campaign under the slogan *Acciones que rinden frutos* was launched in 2012, which boosted the renown of the Santander brand. Lastly, Euromoney and The Banker magazines named Santander Mexico the best bank in Mexico.

Activity

Total loans grew 7% (+16% in retail banking). Consumer credit rose 21%, cards 30% and mortgages 12%. SMEs registered double digit growth, while corporate banking declined 20%.

Savings increased 14%. Deposits excluding Repos were up 19%, with both demand and time deposits performing well. Mutual funds rose 4%.

Results

Gross income increased 16.9%, spurred by net interest income (+18.1%) and fee income (+21.8%), with revenue from insurance up 32.4%, administration of accounts 14.7% and cards 11.3%. That from mutual funds, however, declined 2.7%.

Operating expenses increased 10.8%, reflecting the new commercial projects and greater installed capacity (net increase of 45 branches in the year). Net operating income increased 21.2%.

Loan-loss provisions increased 35.3% due to the growth in lending and maintaining risk premiums at low levels.

Profit before tax was EUR 1,285 million (+18.1%).

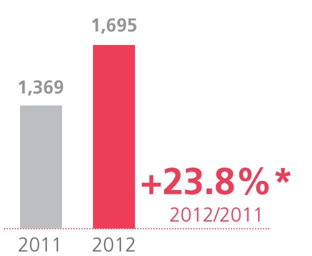
Attributable profit was 6.2% higher at EUR 1,015 million.

Retail Banking's net profit increased 7.5%, largely thanks to net interest income. Global Wholesale Banking's profit rose 61.4%, due to good results from markets and clients treasury.

The efficiency ratio was 39.7% (2.2 p.p. better), the recurrence ratio 74.6% (an improvement of 6 p.p.) and ROE 25.1%.

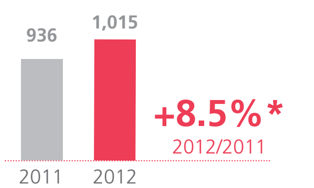
The NPL ratio (1.94%) and coverage ratio (157%) underscored the good credit quality.

NET OPERATING INCOME
EUR Million



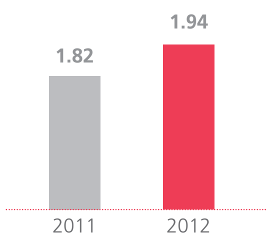
(*) Excluding exchange rate impact: +21.2%

ATTRIBUTABLE PROFIT
EUR Million

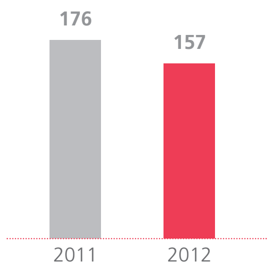


(*) Excluding exchange rate impact: +6.2%

NPL RATIO
%



NPL COVERAGE
%



Chile (all changes in local currency)

- Attributable profit of EUR 498 million (-24.2%).
  - Basic revenues rose 4.2%, affected by low inflation. Net interest income was 19.7% higher in the fourth quarter than in the third.
  - Operating expenses grew 6.1%, down from 10.1% in 2011. The efficiency ratio was 40.0%.
  - Loan loss provisions rose 40.2%, in line with the market and after applying very rigorous and prudent risk policies.
- Loans and deposits rose 9% and 6% respectively.

Attributable profit was **EUR 498 million**, 18.5% less (in local currency -24.2%). On a like-for-like basis, excluding the perimeter impact, the decline in local currency was 9.9%, impacted by provisions, as net operating income was 4.9% higher.

Santander is the largest financial group in Chile in terms of assets. It has 504 branches and more than 3.5 million customers and market shares of 19.1% in loans and 16.5% in deposits.

Economic environment

The economy remained strong. GDP growth was estimated at 5.6%. Domestic demand continued to be buoyant, increasing by more than 6%, albeit less so than in 2011. Double-digit growth in investment. External demand's contribution to growth continued to be negative, the result of lower exports which declined more sharply than imports.

Inflation dropped sharply from 4.4% in 2011 to 1.5%. The central bank, after a cut of 25 b.p. in January in its benchmark rate to 5%, held the rate for the rest of the year. The peso appreciated 8% against the dollar.

Strategy

The strategy in 2012 focused on strengthening the commercial franchise, improving customer management, boosting capital and liquidity and implementing very prudent risk policies.

The financial system was characterised by squeezed spreads, greater regulation and a rose in NPLs which also impacted the bank, given its strong presence in medium and mass segments.

As well as ordinary management of business, the bank embarked on various projects to secure its leading position, both in terms of profitability and efficiency. These ranged from commercial projects focusing on attention and distribution models to improvements in channels and products and operational excellence.

Activity

Savings rose 3%, with deposits excluding repos growing 6% (demand deposits: +10% and time deposits: +4%), while mutual funds declined 11%.

Customer loans increased 9%, with credit cards up 12%, commercial credit 11%, consumer credit 4% and mortgages 3%.

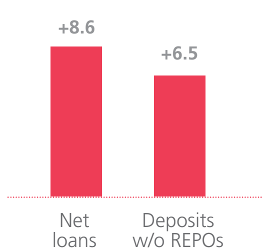
Results

Gross income, impacted by inflation and limits on lending, rose 4.1% and net interest income 5.7%.

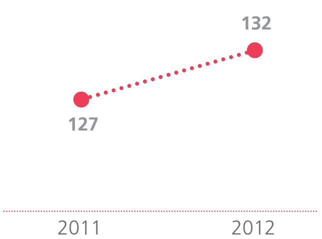
Net fee income decreased 1.5%. That from foreign trade increased 12.9% and from transaction banking 10.3%, but did not offset the 11.1% drop from insurance, affected by regulatory changes, from cards (-10.3%) and from mutual funds (-10.5%).

Gains on financial transactions rose 45.3%, due to the sale of an ALCO portfolio and the results of exchange rate hedging.

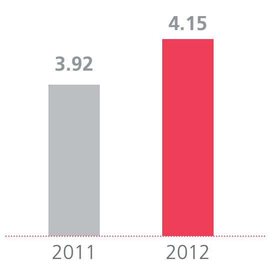
ACTIVITY
% var. 2012 / 2011 (excluding FX)



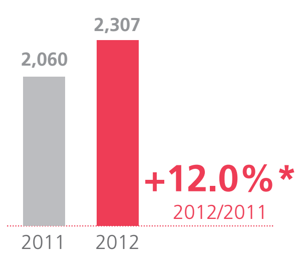
NET LOANS / DEPOSITS
%



NET INTEREST INCOME / ATAs
%



GROSS INCOME
EUR Million



(*) Excluding exchange rate impact: +4.1%

Operating expenses rose 6.1% and net operating income (pre-provision profit) 2.8% (+4.9% excluding the perimeter impact).

Loan-loss provisions increased 40.2%. NPLs and provisions rose throughout the sector.

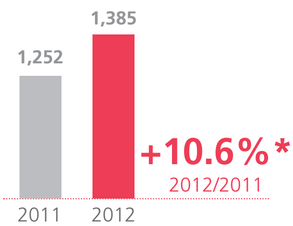
Profit before tax was 16.8% lower at EUR 817 million.

Attributable profit, after deducting taxes and minority interests (higher due to the share placement at the end of 2011), dropped 24.2% to EUR 498 million.

Retail Banking's net profit was 18.2% lower, while Global Wholesale Banking's rose 3.2%.

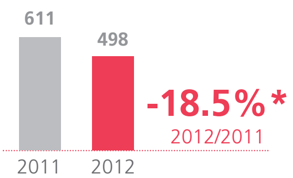
The efficiency ratio was 40.0%, the recurrence ratio 54.2% and ROE 22.1%. The NPL ratio was 5.17% and coverage ratio 58%.

NET OPERATING INCOME
EUR Million



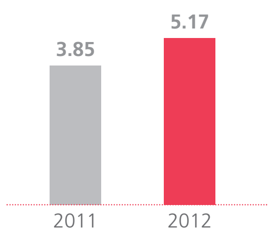
(*) Excluding exchange rate impact: +2.8%

ATTRIBUTABLE PROFIT
EUR Million

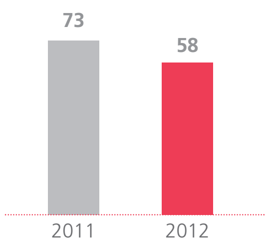


(*) Excluding exchange rate impact: -24.2%

NPL RATIO
%

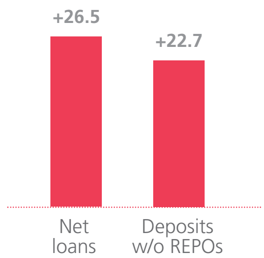


NPL COVERAGE
%

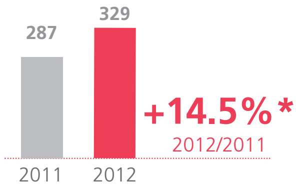


Argentina

ACTIVITY
% var. 2012 / 2011 (excluding FX)



ATTRIBUTABLE PROFIT
EUR Million



(*) Excluding exchange rate impact: +16.1%

Attributable profit was **EUR 329 million**, 14.5% higher (+16.1% in local currency).

Santander Río is one of the country's leading banks, with market shares of 8.6% in lending and 9.3% in deposits. It has 370 branches and 2.4 million customers.

Economic environment

The economy slowed down in 2012, after strong growth in previous years. GDP is expected to grow around 2%, due to weaker domestic demand. Net external demand made a slightly positive contribution to growth.

Inflation was more than 10% and interest rates remained around 14% and higher in the last months of the year but less so than in the last part of 2011. The peso depreciated 12% against the dollar and international reserves fell by $3 billion to $43.3 billion (9.2% of GDP).

The banking system is strong (NPL ratio of 1.7% and coverage ratio of 127%) and has high levels of liquidity and a capital ratio of 16.6%. Savings rose 33% and lending 29%.

Strategy

The retail banking focus and customer activity were intensified in 2012. Of note were significant improvements in innovation in customer attention models, with a strong emphasis on quality and customer satisfaction. All of this enhanced the linkage and loyalty indicators.

In response to the business evolution, the bank launched a business transformation project through a structural programme in the sphere of efficiency, profitability and quality. This involved creating a new customer relation model, optimising business and operational processes, centralisation of activities, streamlining back office tasks with computerisation and strengthening automatic channels to foster self-management of customers. As regards the branch network the project was implemented in three pilot branches and will be extended to the rest of branches during 2013.

In order to provide a differentiating service to high income customers, the bank created the Select segment which involved not only a new proposal to design a product, but also the creation of Select spaces in branches for preferential attention.

In SMEs, a high value segment, the bank focused its strategy in offering the best solutions in the market and in improving Online Banking. One of the key elements was to have highly qualified employees to tend the needs of the companies with the largest business. This resulted in a 16% increase on linked SMEs.

Activity
Loans increased 27%, with strong growth in cards (+43%), consumer credit (+36%) and commercial credit (+16%), while mortgages dropped 5%.

Savings rose 21% (+19% in demand deposits; +30% time deposits and +7% in mutual funds).

Results
Gross income increased 34.8%, driven by net interest income (+46.1%) and fee income (+22.9%).

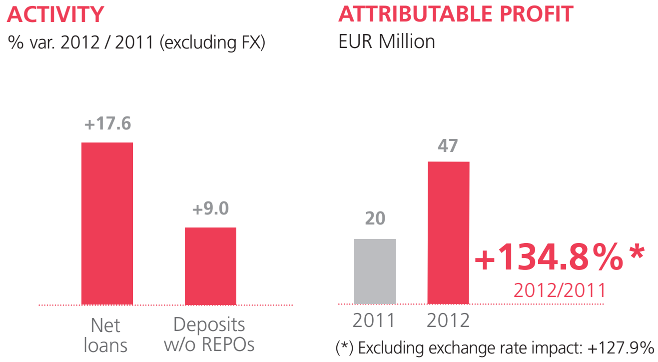
Operating expenses increased 27.3% due to inflation. Net operating income was 42.0% higher and the efficiency ratio improved 2.7 p.p., from 49.0% in 2011 to 46.3%.

The 71.3% rise in loan-loss provisions, due to extraordinary allocations for a company, lowered the growth in pre-tax profit to 29.9%.

Attributable profit was 16.1% higher, impacted by higher taxes.

The recurrence ratio was 87.2%, ROE 45.4% the NPL ratio 1.71% and coverage ratio 143%.

Uruguay



Attributable profit was **EUR 47 million**, 134.8% higher (+127.9% in local currency), partly due to a change in the perimeter following the purchase of Creditel. Gross income rose 32.9%, driven by net interest income and fee income. Operating expenses increased 13.3% and provisions 48.6%.

Santander is the largest private sector bank in the country in terms of branches (84) and business (market shares of 18.2% in lending and 15.6% in deposits) and has 266,000 customers.

The economy grew by an estimated 3.8% in 2012. Domestic demand continued to expand by around 6%. Both private consumption and investment were strong. The contribution of net external demand to GDP growth, however, was 2 p.p. negative.

Inflation remained high, at 7.5% in December 2012. The central bank raised its key rate by 50 b.p. to 9.25% and increased the legal reserve requirements for deposits in order to control liquidity. Nevertheless, the peso appreciated 4% against the dollar. International reserves stood at $13.5 billion (+$3 billion). In local currency, the banking system's lending rose 14% and deposits 9%.

The Group's strategy focused on a greater drive in retail banking, with a particular emphasis on linkage with individual customers and SMEs, through specialised models. Likewise, it maintained its significant presence in the corporate banking sector.

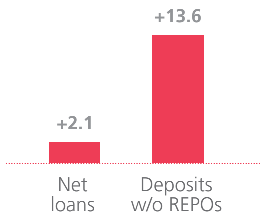
Creditel, the consumer finance entity acquired in August 2011, continued to develop its commercial strategy. Its business volume rose 28% and it provided financial solutions to its more than 150,000 customers via its 39 branches. Creditel stands out from its competitors because of its excellence in customer service and for leading product innovation for the medium and high-income segments.

The Group's customer loans rose 18% and deposits 9%.

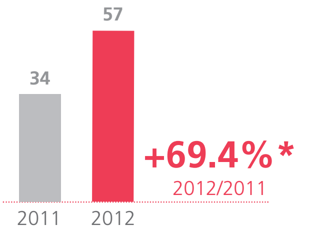
The efficiency ratio was 65.1% (11.3 p.p. better) and the recurrence ratio 33.8% (+3.9 p.p.). The NPL ratio is very low at only 0.88% and coverage ratio is very high at 329%.

Puerto Rico

ACTIVITY
% var. 2012 / 2011 (excluding FX)



ATTRIBUTABLE PROFIT
EUR Million



(*) Excluding exchange rate impact: +56.4%

Attributable profit was 69.4% higher at **EUR 57 million** (+56.4% in dollars), due to the good evolution of loan-loss provisions (-18.0%) and taxes, as revenues and costs remained almost flat.

Santander Puerto Rico has 118 branches, 526,000 customers and market shares of 10.2% in loans, 13.1% in deposits and 21.7% in mutual funds.

After six years in recession, the economy started to recover and was expected to grow by around 1% in 2012.

The business performance was very positive, particularly given the economic environment and that of the financial system. In this context, the Group stands out for its profitability, good credit quality and capital ratios.

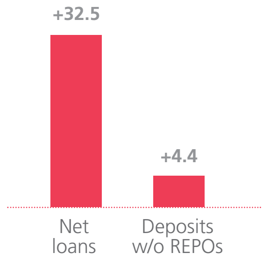
Loans rose 2%, with commercial credit up 11%, offset by the 7% drop in mortgages. Customer deposits (without repos) rose 14%, leveraged by current accounts, while mutual funds grew by only 2%. Deposits and mutual funds increased 10%.

Island Finance, Santander's consumer finance unit in Puerto Rico, strengthened its position in the market thanks to an appropriate pricing policy, prudent risk management and strict control of costs, all of which increased revenue recurrence. Key factors in this were the expansion of the distribution channels, the creation of customer retention units and the integration of dual functions of selling and collection.

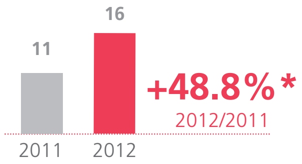
The efficiency ratio was 51.7% and the recurrence ratio 41.9%. The NPL ratio was 7.14% and coverage ratio 62%.

Peru

ACTIVITY
% var. 2012 / 2011 (excluding FX)



ATTRIBUTABLE PROFIT
EUR Million



(*) Excluding exchange rate impact: +31.7%

Attributable profit was **EUR 16 million**, 48.8% more than in 2011 (+31.7% in local currency). Net interest income rose 21.0% and fee income 64.5%, comfortably offsetting the 21.2% increase in costs.

The activity of Grupo Santander's single office in the country is focused on companies and tending to the Group's global customers. Customer loans rose 33% and deposits 4%, largely due to time deposits.

At the end of 2012, and together with a front rank international partner with wide experience in Latin America, a new entity specialised in auto finance began to operate within Banco Santander Peru. This company has a specialised business model focused on service and with lending terms that facilitate buying a new car. Santander will operate with all producers and dealers in the country. The reasons for entering this new segment are to do with the good situation in the country, the Group's knowledge of this business and the positive evolution of the car sector.

The economy is forecasted to grow by more than 6% in 2012. Domestic demand rose by more than 7% and net external demand reduced growth by 1.5 p.p. Inflation ended the year at below 3%. The central bank held its key rate at 4.25%, but increased the legal reserve requirements for banks four times in order to control liquidity.

The sol appreciated to PEN 2.55/US$, a rate not seen in the last 15 years, despite the central bank intervention in the currency market. Peru received US$8.2 billion of foreign investment in the first nine months and its international reserves rose by more than US$15.4 billion to US$64.0 billion.

The efficiency ratio was 34.9% and the recurrence ratio 58.4%. The NPL ratio was 0.18% and coverage remained very high.

UNITED STATES (EUR Million)

INCOME STATEMENT	2012	2011	Variation amount	%
Net interest income	**1,695**	**1,702**	**(7)**	**(0.4)**
Net fees	378	379	(1)	(0.3)
Gains (losses) on financial transactions	244	190	54	28.5
Other operating income (1)	287	466	(179)	(38.4)
Gross income	**2,605**	**2,737**	**(133)**	**(4.8)**
Operating expenses	(1,174)	(997)	(178)	17.8
General administrative expenses	(1,029)	(883)	(146)	16.6
Personnel	*(566)*	*(478)*	*(89)*	*18.6*
Other general administrative expenses	*(463)*	*(405)*	*(58)*	*14.2*
Depreciation and amortisation	(145)	(114)	(31)	27.4
Net operating income	**1,430**	**1,741**	**(310)**	**(17.8)**
Net loan-loss provisions	(265)	(443)	178	(40.2)
Other income	(187)	(61)	(125)	204.4
Profit before taxes	**979**	**1,237**	**(258)**	**(20.8)**
Tax on profit	(168)	(226)	59	(25.9)
Profit from continuing operations	**811**	**1,010**	**(199)**	**(19.7)**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**811**	**1,010**	**(199)**	**(19.7)**
Minority interests	—	—	—	—
Attributable profit to the Group	**811**	**1,010**	**(199)**	**(19.7)**

BALANCE SHEET				
Customer loans (2)	41,331	40,194	1,137	2.8
Trading portfolio (w/o loans)	275	271	3	1.3
Available-for-sale financial assets	14,791	12,435	2,357	19.0
Due from credit institutions (2)	714	677	38	5.6
Intangible assets and property and equipment	560	493	67	13.6
Other assets	5,265	5,705	(441)	(7.7)
Total assets/liabilities & shareholders' equity	**62,937**	**59,776**	**3,161**	**5.3**
Customer deposits (2)	38,116	36,884	1,233	3.3
Marketable debt securities (2)	820	1,653	(833)	(50.4)
Subordinated debt (2)	1,986	2,275	(289)	(12.7)
Insurance liabilities	—	—	—	—
Due to credit institutions (2)	14,215	11,564	2,651	22.9
Other liabilities	2,621	2,859	(238)	(8.3)
Shareholders' equity (3)	5,179	4,542	637	14.0
Other customer funds under management	**—**	**1**	**(1)**	**(100.0)**
Mutual funds	—	—	—	—
Pension funds	—	—	—	—
Managed portfolios	—	1	(1)	(100.0)
Savings-insurance policies	—	—	—	—
Customer funds under management	**40,922**	**40,812**	**110**	**0.3**

(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

SOVEREIGN BANK (US$ Million)

	2012	2011	Variation amount	%
Gross income	2,907	3,042	(135)	(4.4)
Net operating income	1,402	1,685	(283)	(16.8)
Attributable profit to the Group	606	732	(125)	(17.1)

United States

- Santander US includes retail banking, via Sovereign Bank, and consumer finance business through its stake in Santander Consumer USA (SCUSA).
- Attributable profit was $1,042 million, 25.8% lower year-on-year because of :
  - The reduced stake in SCUSA.
  - The impact on Sovereign's results from the charge to remunerate the Trust Piers issue.
  - Greater regulatory pressure, which reduced fee income and increased costs for compliance.
- Sovereign Bank's commercial focus is reflected in its growth in lending and deposits (+5%).
- The NPL ratio (2.29%) and coverage (106%) of Sovereign Bank improved in 2012.

The perimeter of Santander US corresponds to Santander Holdings USA (SHUSA), a bank holding company with two distinct lines of business: retail banking, via its subsidiary Sovereign Bank, and consumer finance business through its stake in Santander Consumer USA Inc. (SCUSA).

On December 31, 2011, SCUSA increased its capital to allow in new shareholders. This reduced Grupo Santander's stake from 91.5% to around 65%. This, together with the fact that SCUSA is subject to the joint control of all of them, led the Group to stop consolidating this company by the global integration method and to record its stake in it by the equity accounted method.

In order to be able to make proper comparisons, the 2011 results of Santander US have been restated by incorporating on the basis of the equity accounted method (with a stake of 91.5%) SCUSA's results. In 2011, these results were integrated into Santander Consumer Finance in Continental Europe.

Santander US posted an **attributable profit** of **$1,042 million**, 25.8% less than in 2011.

The results were affected by the impact in the third quarter of a $127 million charge payable to Trust Piers, following an expert report recommending the court entrusted with the process to remunerate Trust Piers at a higher rate than that being accrued. On 23 November 2012, agreement was reached to resolve all disputes in respect to the claim filed. On 26 December 2012, by mutual agreement, the parties filed a notification of discontinuance, thereby concluding this process.

Economic environment
Its activity was conducted in an environment of moderate growth in which the Federal Reserve held its interest rates at minimum levels and implemented other non-conventional stimulus measures.

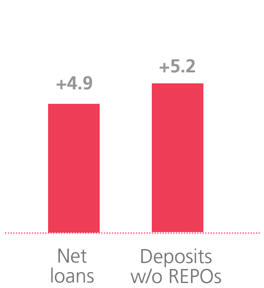
Bank lending to companies in the third quarter grew moderately (+1.3% over the second quarter including real estate). Consumer credit increased 0.4% over the second quarter. The most liquid deposits rose 2.8% over the second quarter, as they were switched away from time deposits, which dropped 0.5%.

Auto finance for new and used vehicles continued to strengthen following the 2008 crisis and competition intensified, especially in 2012, exerting pressure on prices and risk profiles, particularly in the non-prime market.

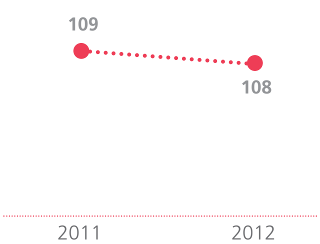
Strategy
Sovereign Bank, with 722 branches, 2,268 ATMs and more than 1.7 million customer-households, is developing a business model focused on retail customers and companies. It does business in the northeast of the US, one of the country's most prosperous areas, where it has significant market shares.

Sovereign Bank became a national bank in 2012 and deposits, consumer loans, payments and internal transfers migrated to the Group's IT system (Santander IT Core). The strengthening of customer capturing and the sales and service culture are the key priorities. This progress is enabling a mainly single product bank to transform itself into a more universal franchise that provides a full range of products, enhancing its offer capacity and penetration of customer segments.

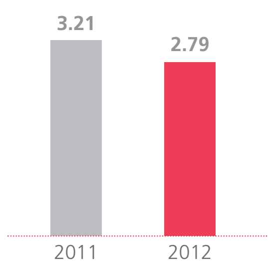
ACTIVITY
% variation 2012 / 2011 (US$)



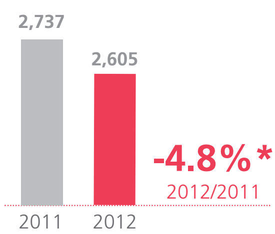
NET LOANS / DEPOSITS
%



NET INTEREST INCOME / ATAs
%



GROSS INCOME
EUR Million



(*) Excluding exchange rate impact: -12.1%

The strategy of SCUSA is to continue the origination, purchase and securitisation of credits for new and used cars and work vehicles generated by brand dealers for customers with non-prime and near-prime risk profiles. This activity was recently extended to the prime segment.

The strengths of SCUSA in origination, risk assessment and collections are those needed for entering new businesses and a wider spectrum of retail clients. SCUSA has also developed a platform of direct credits to clients via Internet (Roadloans.com) and a very efficient instant approval operation of portfolio (servicing) to other companies.

Activity

Sovereign Bank progressed in 2012 in developing new businesses and products. Among them, the integration of new GBM teams strengthened this activity, which almost doubled its lending volumes and revenues.

In companies, the creation in the fourth quarter of 2011 of two new sectors (energy and technology), together with the experience in real estate, enabled the number of customers to keep on growing in 2012. Of note was the growth in commercial and industrial loans.

In the retail segment further steps were taken to improve the branch network, combining the capturing of new staff with improving, via the STARR programme, the skills of current employees. All branches are in the programme. There has also been further development of alternative channels such as ATMs, online banking and call centres.

Of note in cards was the launch in 2012 of *Sphere*, the first under the Sovereign Santander brand, which was the last step in the transition to our own cards business. Sales of cards were three times higher than in 2011.

This greater activity produced rises in Sovereign Bank's assets and liabilities. In dollars, loans rose 5% over 2011.

Customer deposits rose 5%. The focus on capturing deposits, coupled with management of issues and wholesale funding, reduced the cost of funding (excluding the Trust Piers impact).

SCUSA continued to notch up records in new lending and stability in spreads. This evolution coupled with the incorporation of a new portfolio at the end of 2011, produced 15% growth in average lending balances.

Results

The 6.7% fall in the net interest income of Sovereign Bank (local currency) reflects the decline in long-term interest rates and the reduction in the non-strategic portfolio.

Fee income dropped 6.8%. The increased regulatory pressure resulted in a significant reduction in revenues linked to interchanges and overdrafts. This was partly offset by the business effort, which raised the quality of revenues associated with current accounts.

Trading gains were better, as a result of greater origination and sales of mortgages and stronger activity with wholesale clients.

Operating expenses grew 10.9%, reflecting the investments in technology and in the sales and regulatory compliance teams needed to take advantage of the new status of a national bank.

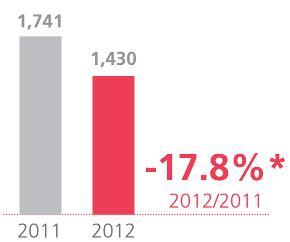
Loan-loss provisions dropped by 34.7%, further lowering the NPL ratio to 2.29%, and coverage rose to 106%, due to the improved composition of the portfolio and strict management of risk.

After the extraordinary charge related to Trust Piers, attributable profit was $606 million, 17.1% less than in 2011.

In local criteria, SCUSA offered solid trends: higher revenues from larger volumes, as well as expenses and provisions in line with the greater activity and the economic slowdown.

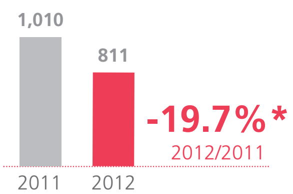
At the consolidated level, the contribution to the Group was $436 million, lower than in 2011 for two reasons: the reduction in the stake to 65%, around $50 million each quarter, and the use of provisions in the first quarter of 2011, due to a better than expected evolution of the portfolios acquired at the time of the purchase. Excluding these factors, the contribution was the same as in 2011.

NET OPERATING INCOME
EUR Million



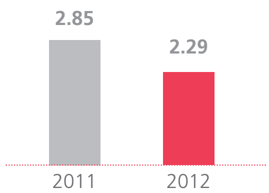
(*) Excluding exchange rate impact: -24.1%

ATTRIBUTABLE PROFIT
EUR Million

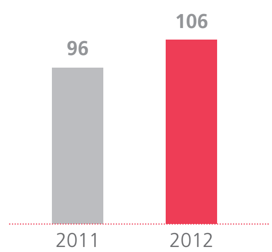


(*) Excluding exchange rate impact: -25.8%

NPL RATIO
%



NPL COVERAGE
%



CORPORATE ACTIVITIES (EUR Million)

INCOME STATEMENT	2012	2011	Variation amount	%
Net interest income	**(2,458)**	**(2,172)**	**(286)**	**13.1**
Net fees	(31)	(16)	(15)	96.5
Gains (losses) on financial transactions	561	605	(43)	(7.2)
Dividends	53	57	(4)	(6.5)
Income from equity-accounted method	(119)	5	(125)	—
Other operating income/expenses (net)	99	129	(30)	(23.6)
Gross income	**(1,895)**	**(1,392)**	**(503)**	**36.1**
Operating expenses	(837)	(838)	1	(0.1)
General administrative expenses	(705)	(733)	28	(3.8)
Personnel	*(169)*	*(285)*	*116*	*(40.7)*
Other general administrative expenses	*(536)*	*(448)*	*(88)*	*19.7*
Depreciation and amortisation	(132)	(105)	(27)	25.7
Net operating income	**(2,733)**	**(2,230)**	**(502)**	**22.5**
Net loan-loss provisions	(66)	37	(104)	—
Other income	(940)	(429)	(511)	119.0
Ordinary profit before taxes	**(3,739)**	**(2,623)**	**(1,117)**	**42.6**
Tax on profit	442	440	2	0.4
Ordinary profit from continuing operations	**(3,297)**	**(2,183)**	**(1,115)**	**51.1**
Net profit from discontinued operations	0	—	0	—
Ordinary consolidated profit	**(3,297)**	**(2,183)**	**(1,115)**	**51.1**
Minority interests	(34)	(20)	(14)	73.8
Ordinary attributable profit to the Group	**(3,263)**	**(2,163)**	**(1,100)**	**50.9**
Net capital gains and provisions	(3,127)	(1,670)	(1,457)	87.3
Attributable profit to the Group	**(6,391)**	**(3,833)**	**(2,558)**	**66.7**

BALANCE SHEET				
Trading portfolio (w/o loans)	5,263	7,727	(2,464)	(31.9)
Available-for-sale financial assets	25,663	23,297	2,366	10.2
Investments	751	908	(157)	(17.3)
Goodwill	24,626	25,089	(463)	(1.8)
Liquidity lent to the Group	—	10,440	(10,440)	(100.0)
Capital assigned to Group areas	70,022	67,699	2,323	3.4
Other assets	111,225	101,749	9,476	9.3
Total assets/liabilities & shareholders' equity	**237,549**	**236,908**	**641**	**0.3**
Customer deposits (1)	615	19,672	(19,057)	(96.9)
Marketable debt securities (1)	66,074	62,253	3,821	6.1
Subordinated debt (1)	4,692	5,477	(785)	(14.3)
Other liabilities	86,480	72,391	14,088	19.5
Group capital and reserves (2)	79,689	77,115	2,574	3.3
Other customer funds under management	**—**	**—**	**—**	**—**
Mutual funds	—	—	—	—
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Savings-insurance policies	—	—	—	—
Customer funds under management	**71,381**	**87,402**	**(16,022)**	**(18.3)**

(1).- Including all on-balance sheet balances for this item
(2).- Not including profit of the year

Corporate Activities

- Corporate Activities registered a loss of EUR 6,391 million (EUR 3,833 million loss in 2011).

- This included EUR 6,140 million gross for real estate provisions in Spain, (EUR 4,110 million net of tax), and EUR 983 million net of capital gains.

- Excluding these impacts, the area recorded losses of EUR 3,263 million, higher than those of 2011, mainly due to:
  - the liquidity buffer and higher cost of funding,
  - larger provisions.

Corporate Activities covers, on the one hand, a series of centralised activities to manage the structural risks of the Group and of the parent bank. It executes the necessary activities for managing the interest rates risk, exposure to exchange-rate movements and measures to obtain the required levels of liquidity in the parent bank.

On the other hand, it acts as the Group's holding, managing global capital as well as that of each of the units.

The interest rate management activity is conducted on a coordinated basis by all the units, but only registers the part relative to the balance sheet of the parent bank, via the ALCO portfolios (at the volume levels and duration considered optimum at each moment).

These portfolios, which normally take the form of sovereign bonds of European countries, aim to mitigate the impact of interest rate movements on the balance sheet of retail banking, structurally sensitive by maturities to these movements and managing to maintain recurring results accounted as net interest income.

In order to achieve these goals, and in so far as market interest rate movements are envisaged, the Group's financial management area can decide to immunise the net interest income of these portfolios from possible adverse movements in results by hedging interest rates.

Management of the exposure to **exchange-rate** movements, both from investments in the capital of units in currencies other than the euro, as well as that regarding the results generated for the Group by each of the units, also in various currencies, is also conducted on a centralised basis at the parent bank.

This management (dynamic) is carried out by exchange-rate derivative instruments, optimising at each moment the financial cost of hedging.

The Group manages the impact which the sharp movements in exchange rates would have on these exposures of a permanent nature. The investments which are currently covered are those of the UK, Poland, Brazil, the US, Mexico and Chile, and the instruments used are spot contracts, FX forwards or tunnel options.

Meanwhile, exposures regarding the results which the Group's units will contribute over the next 12 months, when they are in currencies other than the euro, are also hedged on centralised basis via exchange rate derivatives

The impact of the hedging is in gains/losses on financial transactions, and the hedging of results compensates, in the opposite way, the greater or lesser value in euros from the contribution of businesses.

Management of structural liquidity is also recorded in Corporate Activities. This aims to finance the Group's recurrent activity in optimum conditions of maturity and cost, via recourse to the wholesale markets. The overriding objective of this activity is to maintain an appropriate liquidity profile by diversifying the sources of financing and controlling short-term financing.

The financial cost of the various financing sources recorded in the books of the parent bank are registered in corporate activities and can be issues of commercial paper, senior debt, covered bonds, capital hybrids (subordinated debt and preference shares) and securitisation of assets.

The financial management unit usually covers in new issues the interest rate and exchange rate risks from the start of the operation. It uses financial derivatives instruments (of interest and exchange rates) for this. The net impact of this hedging is recorded in the gains/losses on financial transactions in corporate activities.

The financial management area also analyses the strategies for **structural management of credit risk** where the aim is to reduce concentrations by sectors, which naturally occur as a result of commercial activity. Derivative operations here achieve an effect similar to that of the sale of assets and their compensation through the acquisition of other assets enables us to diversify the credit portfolio as a whole.

Lastly, and separately from the financial management described here, corporate activities acts as the **Group's holding**. It manages all capital and reserves and allocations of capital to each of the units as well as providing the liquidity that some of the business units might need or generate (mainly the Santander Branch Network and corporate in Spain). The price at which these operations are carried out is the market rate (euribor or swap) for each of the maturities of repricing operations, increased by a liquidity premium that varies on the basis of the duration of operations.

Finally, and more marginally, the equity stakes that the Group takes within its policy of optimising investments is reflected in corporate activities.

In 2012 the area made a loss of EUR 6,391 million compared to a loss of EUR 3,833 million in 2011.

In 2012, this result includes provisions net of taxes of EUR 4,110 million, of which EUR 983 million were drawn from capital gains and EUR 3,127 million from ordinary profit.

The net capital gains of EUR 983 million generated in 2012 (EUR 619 million arising from the sale of the business in Colombia, EUR 308 million from the reinsurance operation of the portfolios in Spain and Portugal and EUR 60 million from the sale of Canalejas building in Madrid) were assigned to provisions for real estate in Spain. With this, the coverage required by the royal decree laws was exceeded.

In 2011, includes provisions net of taxes of EUR 3,183 million, and net capital gains of EUR 1,513 million.

After eliminating the effects already commented in both years, the losses from the area's ordinary activity were EUR 3,263 million compared to EUR 2,163 million also negative in 2011.

The main developments were:

- Net interest income was EUR 2,458 million negative compared to EUR 2,172 million also negative in 2011. The increase was largely due to the keeping of a liquidity buffer in the ECB and the greater cost of wholesale funding, partly offset by reduced recourse to wholesale markets as the need for financing the commercial gaps was lower.

  This higher cost also impacted on financing the goodwill of the Group's investments, which by definition have a negative nature, and which increased the cost of their financing proportionately.

  The net interest income of the ALCO portfolios registered here shows no substantial changes due to the higher average volumes in 2012.

- Gains on financial transactions, which are mainly those from the centralised management of interest rates and currency risk of the parent bank and, to a lesser extent, from equities, were EUR 561 million positive compared to EUR 605 million also positive in 2011.

  Of note were the results from liabilities management, the sale of small financial stakes and those arising from financial assets available for sale. The impact of hedging the results of subsidiaries was negative (it was positive in 2011) balancing the higher value in euros of the business units results.

- Operating expenses were almost flat (-0.1%). Growth in general costs, partly from higher indirect taxes, and amortisations, was offset by lower personnel expenses.

- Net loan-loss provisions include an allowance of EUR 66 million compared to a release of EUR 37 million in 2011. These movements corresponded to the portfolios that configure the ALCO strategies, and to others that constitute positions of centralised management, which also recorded asymmetries produced in the internal consolidation among the various business areas included in the parent bank.

- Other income, which includes various provisions, was EUR 940 million negative compared to EUR 429 million negative in 2011.

  This item includes provisions derived from the management and sale of real estate assets, the losses in the value of equity stakes and the goodwill.

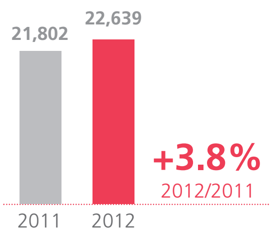
- Lastly, the tax line reflects a lower rate arising from the recovery of losses as a result of the different impact that certain one-off items had in both years.

Retail Banking

- Attributable profit of EUR 6,385 million (-7.6%).
  - Net interest income (+4.4%), net fee income and gains on financial transactions grew, lower contribution by the equity accounted method (SCUSA perimeter).
  - Lower growth in operating expenses (+3.5%), still reflecting new business projects and the increase in installed capacity.
  - Loan-loss provisions rose 26.0%, because of the rise in the NPLs in some financial systems.
- Lending declined 2% and deposits (in the widest scope) up 5%.

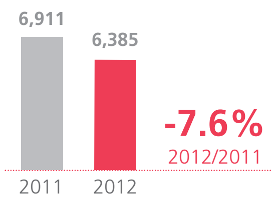
NET OPERATING INCOME

EUR Million



ATTRIBUTABLE PROFIT

EUR Million



Attributable profit was **EUR 6,385 million**, 7.6% lower than in 2011, including the extraordinary positive impact of EUR 81 million in the UK.

Excluding this, ordinary attributable profit was EUR 6,304 million (-8.8% lower) because of higher loan-loss provisions and the impact of higher minority interests on Latin American units. Net operating income (pre-provision profit) increased 3.8%.

This business accounts for 88% of the Group's operating areas gross income and 74% of the ordinary attributable profit.

Compared to 2011, profits were 6 p.p. negatively affected by the perimeter effect (equity accounted method for SCUSA and minority interests). The exchange rate evolution had little impact.

Gross income increased 3.7% to EUR 40,000 million, due to the rise in net interest income (+4.4%), fee income (+1.6%) and gains on financial transactions (+22.1%).

Other revenues reflected the lower results from income by the equity accounted method in the US and the higher contribution to the Deposit Guarantee Fund in Spain.

Operating expenses rose at a slower pace (+3.5%) and net operating income grew 3.8%.

INCOME STATEMENT AND BUSINESS VOLUMES SECONDARY SEGMENTS (EUR Million)

	Operating business areas		Retail Banking		Global Wholesale Banking		Asset Management and Insurance	
INCOME STATEMENT	2012	Var (%)	2012	Var (%)	2012	Var (%)	2012	Var (%)
Net interest income	**32,604**	**4.2**	**29,986**	**4.4**	**2,501**	**3.5**	**118**	**(11.6)**
Net fees	10,339	1.1	8,804	1.6	1,162	1.1	373	(8.9)
Gains (losses) on financial transactions	2,137	12.8	1,345	22.1	785	(0.4)	7	41.1
Other operating income (1)	491	(34.2)	(135)	—	256	0.6	369	(9.9)
Gross income	**45,571**	**3.2**	**40,000**	**3.7**	**4,704**	**2.1**	**867**	**(9.5)**
Operating expenses	(19,279)	3.0	(17,361)	3.5	(1,611)	(0.7)	(308)	(4.1)
General administrative expenses	(17,222)	2.9	(15,494)	3.5	(1,456)	(2.2)	(273)	(3.8)
Personnel	*(10,154)*	*2.9*	*(9,055)*	*3.9*	*(943)*	*(4.4)*	*(156)*	*(8.6)*
Other general administrative expenses	*(7,068)*	*3.0*	*(6,438)*	*3.0*	*(512)*	*2.2*	*(117)*	*3.4*
Depreciation and amortisation	(2,057)	3.6	(1,867)	2.9	(155)	15.7	(35)	(6.3)
Net operating income	**26,291**	**3.4**	**22,639**	**3.8**	**3,093**	**3.6**	**559**	**(12.2)**
Net loan-loss provisions	(12,600)	26.8	(12,337)	26.0	(261)	81.7	(2)	—
Other income	(1,506)	(41.1)	(1,450)	(41.3)	(48)	35.4	(8)	(84.0)
Ordinary profit before taxes	**12,186**	**(5.8)**	**8,852**	**(7.2)**	**2,784**	**(0.8)**	**550**	**(6.7)**
Tax on profit	(2,740)	(6.8)	(1,843)	(10.5)	(750)	(0.4)	(147)	15.9
Ordinary profit from continuing operations	**9,446**	**(5.5)**	**7,009**	**(6.3)**	**2,034**	**(1.0)**	**403**	**(12.9)**
Net profit from discontinued operations	(7)	(71.6)	(7)	(71.6)	—	—	—	—
Ordinary consolidated profit	**9,439**	**(5.3)**	**7,002**	**(6.1)**	**2,034**	**(1.0)**	**403**	**(12.9)**
Minority interests	924	17.6	698	28.6	207	(3.3)	19	(34.1)
Ordinary attributable profit to the Group	**8,515**	**(7.3)**	**6,304**	**(8.8)**	**1,827**	**(0.7)**	**383**	**(11.5)**
Net capital gains and provisions	81	—	81	—	—	—	—	—
Attributable profit to the Group	**8,595**	**(6.4)**	**6,385**	**(7.6)**	**1,827**	**(0.7)**	**383**	**(11.5)**
BUSINESS VOLUMES								
Total assets	1,198,369	1.6	883,849	1.3	287,780	2.5	26,740	2.0
Customer loans	717,095	(3.2)	647,676	(1.8)	69,133	(14.8)	286	(33.7)
Customer deposits	626,024	2.1	552,316	3.8	66,511	(11.4)	7,196	25.7

(1).- Including dividends, income from equity-accounted method and other operating income/expenses

RETAIL BANKING. INCOME STATEMENT (EUR Million)

	Gross income		Net operating income		Attributable profit	
	2012	**Var (%)**	**2012**	**Var (%)**	**2012**	**Var (%)**
Continental Europe	**11,996**	**5.1**	**6,536**	**8.3**	**1,754**	**1.7**
o/w: Spain	7,471	5.3	4,169	11.9	844	16.6
Portugal	843	7.6	375	28.9	35	(62.4)
United Kingdom (1)	**4,518**	**(14.9)**	**2,038**	**(31.1)**	**781**	**(19.2)**
Latin America	**21,042**	**9.6**	**12,761**	**14.7**	**3,050**	**(5.9)**
o/w: Brazil	14,739	7.5	9,315	13.8	1,424	(11.7)
Mexico	2,344	16.9	1,337	18.5	779	4.0
Chile	2,005	13.4	1,175	12.5	358	(19.8)
USA	**2,444**	**(8.2)**	**1,304**	**(22.2)**	**719**	**(26.5)**
Total Retail Banking (1)	**40,000**	**3.7**	**22,639**	**3.8**	**6,304**	**(8.8)**

(1).- Excluding net capital gains and provisions

Net loan-loss provisions increased 26.0% because of higher specific provisions and the release of generic provisions in 2011, which was not repeated in 2012. The impact was partly offset by the lower level of other provisions.

Customer loans decreased 2% and deposits without repos, including retail commercial paper in Spain and "letras financieras" in Brazil, rose 5%.

By areas:

- The attributable profit of **Retail Banking in Continental Europe** rose (+1.7%). Net operating income increased 8.3%, thanks to the resilience of revenues in the current phase of the cycle (favoured by the incorporation of Bank Zachodni WBK in Poland and SEB's business in Germany) and control of costs.

- Attributable profit in **Retail Banking in UK** was 16.7% lower in sterling, largely due to lower net interest income (higher cost of funding and low interest rates).

- **Retail Banking in Latin America** (constant currency) provided the best performance in the upper part of the income statement: growth in gross income (+13.9%) and more stabilised costs, reflected in a rise of 19.4% in net operating income.

  After considering higher provisions, profit before tax increased 0.7%. The higher impact of minority interests following the sale of shares in the banks in Brazil, Mexico and Chile reduced attributable profit by 4.5%.

- **Retail Banking** earnings **in the US** were 32.2% lower in dollars, determined by the lower amount recorded by the equity accounted method, reflecting the reduced stake in SCUSA and the one-off at Sovereign Bank.

Global Private Banking, included in retail banking, incorporates institutions that specialise in financial advice and asset management for high net worth clients (Banco Banif in Spain, 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. This division, enhanced by Santander's international presence, increases the value of the relationship of each customer.

The drivers are: more than 1,700 qualified professionals, which enables customers to have their own account manager to cover all their needs; more than 80 offices in seven countries in two continents, a full range of products and services and business intelligence systems that facilitate anticipation of customers' demands.

2012 was the year of consolidation of the Santander Private Banking Model, the commercial sales and customer relationship processes, the training of professionals, homogenizing investment strategies, discretionary management and the range of products. The IT platforms for managing customers are already operating in Spain, Italy, Mexico, and in International Private Banking, and in the process of being implemented in Brazil and Chile. The platforms will cover all units eventually.

Despite the instability in the euro zone, particularly in Spain, Italy and Portugal, total assets under management increased. Of note was the growth in Brazil and International Private Banking, the result of more efficient management. The volume managed at the end of 2012 stood at EUR 104,000 million.

Attributable profit was EUR 209 million, very similar to that registered in 2011 (+0.7%). Gross income was 11.1% higher, with net interest income up 8.9%, despite the higher cost of funding.

Santander received the 2012 Euromoney award for the best private banking units in Spain, Portugal and Latin America.

Global Wholesale Banking

- Attributable profit of EUR 1,827 million (-0.7%).
- Solid revenues backed by recurring customer revenues (87% of the total).
- Strict management of costs to maintain an efficiency ratio (34%) that is a benchmark for the sector.
- Active management of risks, liquidity and capital, which impacted the fourth quarter's gross income and profits.
- In 2012, stable profits, setting us apart from competitors in an environment of maximum requirements.

Santander Global Banking & Markets (SGB&M) posted an **attributable profit** of **EUR 1,827 million**, 0.7% less than in 2011. This area contributed 10% of gross income and 21% of attributable profit to the Group's operating areas.

Strategy

Santander Global Banking & Markets maintained the main drivers of its business model: client-focused, global reach of the division and interconnection with local units.

At the strategic level, the area focused on strengthening the results of its client franchise and maintaining active management of risk, capital and liquidity. This management intensified in the second part of the year, with an adjustment of exposures and limits by sectors and clients.

SGB&M continued to accompany the Group in its international development in Poland and the northeast of the US in order to capture the revenues synergies derived from the new units and manage the commercial flows of current and potential clients where the Group has strong retail units.

It also continued to invest in operational capacities and distribution of basic treasury products, with a particular focus on forex and fixed income businesses. The generation of recurring revenues and strict management of costs enabled the area to absorb these investments and produce an efficiency ratio (34%) that remains a reference for Santander's peers.

The medium and long-term objectives are to adapt the business model to the new market conditions and the new regulatory framework and increase the market share in products of low consumption of capital and liquidity.

Results and activity

After a good start, the year experienced significant levels of volatility and uncertainty in the face of the worsening euro zone crisis. This conditioned business activity to a large extent.

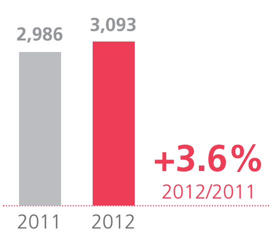
In this context, SGB&M maintained revenue generation, which, combined with strict control of costs, enabled the larger provisions to be absorbed and kept results strong, unlike the weak evolution of most of our euro zone competitors.

Gross income rose 2.1% over 2011, driven by solid net interest income (+3.5%) and stable fee income (+1.1%) amid an environment of reduced activity in markets and issues in Europe, while trading gains remained virtually unchanged (-0.4%).

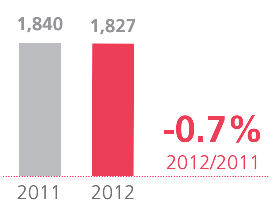
Operating expenses continued to adapt to the new environment and dropped 0.7% after absorbing higher amortizations of former projects. Net operating income increased 3.6% to EUR 3,093 million.

Loan-loss provisions rose to EUR 261 million (EUR 144 million in 2011), as a result of the increased provisions in Spain. Profit before tax dropped 0.8% and attributable profit 0.7%.

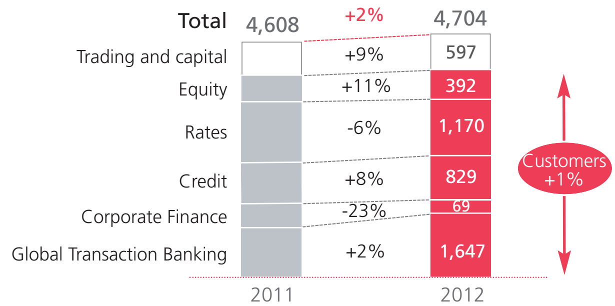
NET OPERATING INCOME
EUR Million



ATTRIBUTABLE PROFIT
EUR Million



GROSS INCOME. BREAKDOWN
EUR Million



From a management standpoint, the results continued to be supported by solid and diversified client revenues (87% of total gross income). Client revenues continued to rise (+1.1%), spurred by those generated within the Global Customer Relationship model (+5.8%), which give the area a considerable degree of stability.

The growth in client revenues was underpinned by the stability in Continental Europe (0%), and the better evolution in the UK (+16%) and the US (+114%), where Sovereign Bank continued to advance toward its natural share in wholesale business. On the other hand, Latin America's contribution was lower (-6%), following the discontinuation of some businesses in Brazil (-18%), which was not offset by the rest of countries (Mexico: +33% and Chile: +17%).

The performance of the business sub-areas and their contribution to revenue generation was as follows:

Global Transaction Banking
This area, which includes Cash Management, Trade Finance, Basic Financing and Custody, increased its client revenues by 2%.

Of note were Cash Management revenues (+16%), due to the efforts made to capture transaction volumes as well as the increase in commercial finance. Spain, Chile and Argentina grew by more than 15%.

Trade Finance's revenues increased over 2011. The fall in Brazil after the strong results in 2011 was offset by the good performance of Spain, the UK, Mexico and the US.

Basic financing maintained the trends of higher disintermediation and containment of risk-weighted assets, compensated in part by active management of spreads, particularly in Europe.

Lastly, client revenues generated by Custody and Settlement declined 6%. The stagnation in Europe, due to the evolution of the stock market and a slower than expected recovery in mutual funds, was only partly offset by the robustness of Mexico and Chile.

Corporate Finance
Corporate Finance (including Mergers and Acquisitions –M&A– and Equity Capital Markets –ECM–) reduced its client revenues by 23% in a very complex environment, but notched up several achievements.

In M&A, Santander advised significant cross-border operations: the French group Casino in taking control of its subsidiary GPA in Brazil, the UK group BG in the sale of 40% of the GNL plant Quintero in Chile and the board of Portugal's Cimpor in the sphere of the takeover launched by the Brazilian Camargo Correa.

In Equity Capital Markets, Santander played a significant role in the listing of Manchester United.

Credit Markets
Credit Markets, which include origination and distribution of corporate loans or structured finance, bond origination and securitisation teams and Asset and Capital Structuring (AC&S), maintained strong generation of client revenues (+8%). Of note was the growth in the UK, Sovereign Bank, Mexico and Chile.

In syndicated corporate loans, global activity fell 23% but Santander still held a position of reference in Europe and Latin America and participated in the main transactions. Noteworthy was the participation in the $14,000 million financing of AMBEV so it could buy the 50% of the Mexican brewery Modelo it did not control. In Europe, it participated in the financing of GDF Suez's acquisition of 100% of International Power for EUR 6,000 million. Of note in Latin America was the acquisition of Air Products in Chile for $800 million, as well as participation in Ternium's purchase of 27.7% of Usiminas, and the acquisitions made by Cencosud in Brazil and Colombia.

In Project Finance, Santander remains one of the leading banks. In 2012, it continued to foster transformation of the market to adjust it to the new regulatory and funding reality. Of note was completion of the first Latin American project bond ($299 million) for Acciona's wind power plant in Mexico and the four operations closed in the US where Santander, together with Prudential, led and executed an innovative funding structure with two debt tranches (one subscribed by banks and the other by Prudential and other institutional investor), which met the objectives of clients, banks and institutional investors.

In the primary bond market, as a result of the instability in the banking market in 2012, there was a large volume of issues, particularly in the corporate client segment. Worth mentioning was the significant improvement in Germany, where Santander led eight benchmark operations, enabling it to climb in the league tables to seventh position from 15th in 2011.

Santander also improved its relative position in the segment for financial institutions. Of note was the UK, a key country for the Group where Santander rose to third position in the sterling market, after a covered bonds operation for Clydesdale Bank, a subsidiary of National Australia Bank.

Santander was also one of the main players in the Latin American bond market. Particularly noteworthy was its participation in the largest issue in Latin America's history ($7,000 million for Petrobras).

Lastly, Asset and Capital Structuring continued to increase its portfolio of clients in Europe, Latin America and the US, which led to strong growth in revenues and a positive contribution from all countries. Noteworthy was Santander's first operation as structurer and investor in the competitive US tax equity financing market, where it funded the subsidiary of EDF in launching a 102.5MW wind power plant. In Latin America, of note was greater capital structuring activity in renewable energy in Uruguay where we supported the French group Akuo in developing two wind power plants.

Rates

This area, which covers Fixed Income and FX, reduced its client revenues by 6% in a very complex environment in the financial markets, which required larger provisions.

In Fixed Income (trading activity and hedging of interest rates and inflation for wholesale clients and clients of commercial banks) sales grew in Europe, due to Spain and the UK. In Latin America, sales increased sharply in Mexico and Chile and declined in Brazil.

Good performance of sales to institutional clients, particularly in Spain, which more than offset the decrease in other segments.

In FX (trading activities and hedging of exchange rates and short-term money markets for the Group's wholesale and retail clients) revenues fell due to the lower contribution from books. Sales increased in Spain and the UK.

Also of note was the good evolution of short-term money markets in Europe, the performance of the corporate and retail segments in Europe and Mexico, and the solid progress in management of books in Latin America in an environment of reduced volatility in local currencies.

Equities

The client revenues of Global Equities (activities related to the equity markets) rose 11%, due to a small recovery in the equity markets in the last months of 2012, compared to 2011, which was the weakest of the last few years.

Of note, despite the lack of operations in the primary market, was the listing of part of Banco Santander in Mexico (IFR prize for the largest issue of shares in Latin America) and Banco Popular's capital increase in Spain (the largest in 2012 of a European bank).

Double-digit growth in revenues generated from the sale of investment and hedging solutions, compared to a very weak 2011 in the management of books due to the high levels of volatility.

RANKING IN 2012

	Activity	Area	Country / region	Source
Award	Best Initial Public Offering: Santander Mexico	Equity	Latin America	Latin Finance
N1*	Equity Research en Iberia	Equity	Iberia	Institutional Investors
Award	Latin America Equity Issue: Grupo Financiero Santander Mexico	Equity	Latin America	IFR Awards
Award	Europe power Deal of the Year: Carrington CCGT	CM	Europa / UK	Project Finance International
Award	Latin American Project Bond Deal of the Year : Oaxaca	CM	Latin America /Mexico	Project Finance Magazine
Award	North American Single Asset Deal of the Year : Arlington Valley	CM	N,America / USA	Project Finance Magazine
Award	Latin America Loan: Ternium's US$700m loan	CM	Brazil	IFR Awards
Award	Best Structured Products distributor	Rates	Spain	Euromoney
N1*	Futuros de IPC	Rates	Mexico	MexDer
N5**	Foreign Exchange	Rates	Brazil	Banco do Brazil
Award	Best Trade Bank Iin Latin America	GTB	Latin America	Trade Finance Magazine
Award	Best Trade Bank in Latin America	GTB	Latin America	Trade & Forfaiting Review
Award	Best Sub-Custodian Spain	GTB	Spain	Global Finance

(*).- Ranking depending on the criterion (**).- Ranking by volume

GTB: Global Transaction Banking	CM: Credits and Markets	RT: Rates	EQ: Equity

Asset Management and Insurance

- Attributable profit of EUR 383 million (-11.5%), impacted by the sales completed in the fourth quarter of 2011 and the reinsurance operation in 2012.
- On a like-for-like basis, solid gross income (including that paid to the networks), which accounted for 9% of the operating areas' total.
- Asset management: high contribution in an environment of market instability and greater competition for savings.
- Insurance: value of business in Europe recognised (after the reinsurance of life assurance business in Spain and Portugal and the strategic alliance in bancassurance in Spain).

Attributable profit was 11.5% lower at **EUR 383 million** (4% of the operating areas' total).

In July an agreement was reached with Abbey Life Insurance Ltd., a subsidiary of Deustche Bank AG, to reinsure all of the individual life risk portfolio of the insurance companies in Spain and Portugal. This transaction generated estimated extraordinary gross results of EUR 435 million.

In December, Santander agreed a strategic alliance with the insurer Aegon to boost its bancassurance business in Spain through commercial networks. The operation valued Santander's insurance business in the transaction at EUR 431 million. The agreement does not affect savings, auto and health insurance, which Santander continues to manage.

Excluding the impact of the reinsurance agreement, as well as the sale of 51% of the Latin American insurers to Zurich, under the global agreement reached during the fourth quarter of 2011 which meant recording the contribution of these companies by the equity accounted method, attributable profit was 16.5% higher.

Results

Gross income declined 9.5% and operating expenses 4.1%, which fed through to profits. This includes the impact on income accounted for by the equity method of the reduced stake in the Latin American insurers and the reinsurance agreement for Spain and Portugal. Eliminating this effect, gross income increased 4.2% and net operating income 8.4%, while attributable profit rose 16.5%.

The area's total revenues including those recorded by the distribution networks amounted to EUR 4,013 million, 4.0% less than in 2011. Discounting the perimeter effect of the sales operations, revenue increased 7.9% (9% of the operating areas' total).

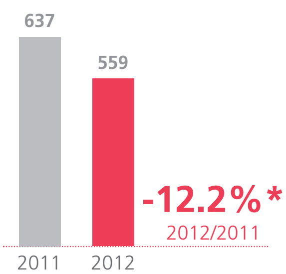
The total results for the Group (profit before tax plus fees paid to the networks) were 3.1% lower at EUR 3,696 million.

Asset Management

Santander Asset Management continued to develop its global business model based on management capacities at the Group level and on the strength and knowledge of the market by local managers.

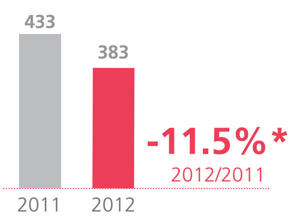
Progress was made in reorganising the business around a holding company that will comprise all the fund management entities, as well as establishing a branch in

NET OPERATING INCOME
EUR Million



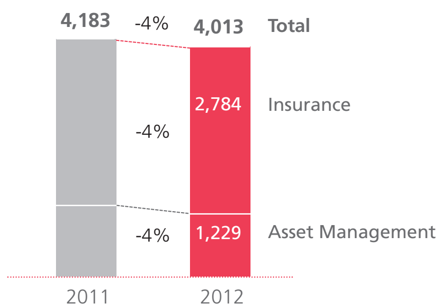
(*) w/o perimeter: +8.4%

ATTRIBUTABLE PROFIT
EUR Million



(*) w/o perimeter: +16.5%

TOTAL GROUP REVENUES
EUR Million



Germany. So far, integration has been successfully achieved in Spain, Argentina, the UK and Luxembourg and the rest of the fund management entities are expected to be incorporated in the coming months.

The structures of the management teams for Latin American mandates and for global European mandates were completed, and that for global teams. This is a necessary condition for entering the institutional market.

Attributable profit was EUR 69 million (+2.9%), due to a decline in gross income of 7.4%, reduced costs (-5.5%) and lower needs for provisions.

The total result for the Group (profit before tax plus fees paid to the networks) was EUR 1,043 million (-1.6%).

The total volume of managed funds was EUR 153,700 million, 11% more than at the end of 2011. This includes the incorporation of the Insurance mandate of the Group in Spain in the fourth quarter (-1% without it). Of this, around EUR 99,000 million were mutual and pension funds, EUR 8,000 million in client portfolios other than mutual funds included institutional mandates and EUR 46,000 million of management mandates on behalf of other Group units.

The main developments by units and countries were as follows:

- In traditional management of assets, the Group managed EUR 150,600 million, of which EUR 98,000 are funds, investment companies and clients' pension plans. Of the total, 88% is concentrated in the four large markets of Brazil, the UK, Spain and Mexico.

  Brazil's managed assets (in local currency) increased 4% to EUR 43,200 million. The drop in mutual funds was offset by growth in institutional mandates, both from third parties and as well as the Group.

  The UK's managed funds increased 9% (in local currency) to EUR 25,900 million, after capturing the mandates of collective management. Mutual funds declined 14%, as the good acceptance of the multimanager funds did not offset the guaranteed funds evolution.

  In Spain, the industry continued to record net reimbursements. In this context, Santander Asset Management, maintains leadership positions in the market (15.2% market share according to Inverco) focused on profiled funds after exiting money market funds of scant value added. Funds under traditional management, including pension funds and mandates, stood at EUR 50,700 million (33% higher than in 2011), because of the Insurance mandated (-6% excluding it).

  Mexico continued to launch new funds aimed to customers with a different risk profile and guaranteed funds, which helped to improve the mix of the EUR 10,400 million under management (+5% in pesos).

  In the rest of markets, of note was the growth for Argentina (+6%) and Poland (+28%). Portugal was the exception, where the shift of liquidity into deposits was added to the impact of the markets, producing a fall of 11% in mutual and pension funds.

- In non-traditional management (real estate, alternative management and private equity funds), Santander Asset Management continued to adjust its activity to the scant demand for these products. Managed funds remained at more than EUR 3,000 million.

  Greater stability in alternative funds (after the restructuring in previous years), and in private equity funds, aimed at institutional clients who invest long term in unlisted companies.

Insurance

Santander Insurance continued to build its global business model by launching units and businesses that respond to the needs of local networks and their clients. The model has a low risk profile and is highly efficient in its operations.

Santander Insurance posted an attributable profit of EUR 314 million, 14.1% less than in 2011. Results were impacted by the sale of 51% of the insurers in Latin America and by the reinsurance agreement of its life portfolio in Spain and Portugal, which reduced their contribution by EUR 131 million. Eliminating these effects, profit was 19.0% higher.

Insurance business generated for the Group total revenues (including fee income paid to the commercial networks) of EUR 2,784 million (-4.1%). On a like-for-like basis, revenues were 2.3% higher. The total results for the Group (income before taxes of insurers and brokers plus fee income received by the networks) amounted to EUR 2,653 million (-3.7%), although on a like-for-like basis they increased 3.0%.

In Europa, Santander Insurance shared best practices, among the different markets, with the launching of the Spain's 50x2% insurance in Portugal and Poland's Key Man insurance in Spain.

Continental Europe's total results were 4.5% higher. On a like-for-like basis, they were 11.3% higher mainly due to the better contribution of Spain and Portugal, which offset the decline at Santander Consumer Finance.

Excluding consumer business, the total result for Spain rose 15% (+28.5% excluding the reinsurance operation). Portugal's increased 3.5% (+38.1% on a like-for-like basis), largely due to savings-investment products. Poland's (BZ WBK) was much higher compared to the average for 2011 (+98.9% in local currency), focused on protection products.

Santander Consumer Finance's evolution was weaker, partly due to lower car sales (-8% in the EU). Its total result was down 4.9%.

The UK's total result declined 9.4% in sterling while adjusting its range of products to clients' needs.

Latin America reduced its total results 5.6% in constant currency, largely due to the impact of the sale of the insurers. Eliminating this effect, the results were slightly higher (+1.7%). The productivity of the banking networks in placing protection products and intensive use of alternative channels and segmentation of the products offer were the drivers of the region's business and results.

Excluding the impact of the sales and in local currency, Mexico offered a solid performance (+24.5% in total results). The own distribution model of car insurance based on the aggregator was sucessfully strengthened .

Brazil's results were 2.6% lower and Chile's dropped 11.9%, due to reduced placement of protection products and regulatory impacts.

The US recorded a decline of 27.5% in dollars in gross fee income due to lower distribution of third party insurance products.

ASSET MANAGEMENT AND INSURANCE. INCOME STATEMENT (EUR Million)

	Gross income		Net operating income		Attributable profit	
	2012	**Var (%)**	**2012**	**Var (%)**	**2012**	**Var (%)**
Mutual funds	289	(7.7)	115	(10.7)	59	3.9
Pension funds	22	(3.4)	14	(3.5)	10	(3.1)
Insurance	556	(10.6)	430	(12.8)	314	(14.1)
Total Asset Management and Insurance	**867**	**(9.5)**	**559**	**(12.2)**	**383**	**(11.5)**

5

RISK MANAGEMENT REPORT

EXECUTIVE SUMMARY

GRUPO SANTANDER RISK MANAGEMENT PRINCIPLES

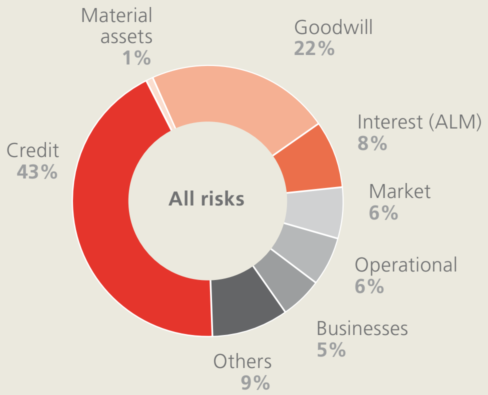
Pages 166 to 171

- Independence of the risk function from the business.
- Involvement of senior management in decision-taking.
- Collegiate decisions that ensure opinions are contrasted.
- Clear definition of attributions.
- Integrated control and management of risks via a corporate structure with a scope of "all risk, all businesses and all countries".

ECONOMIC CAPITAL

Pages 250 to 253

DISTRIBUTION OF ECONOMIC CAPITAL



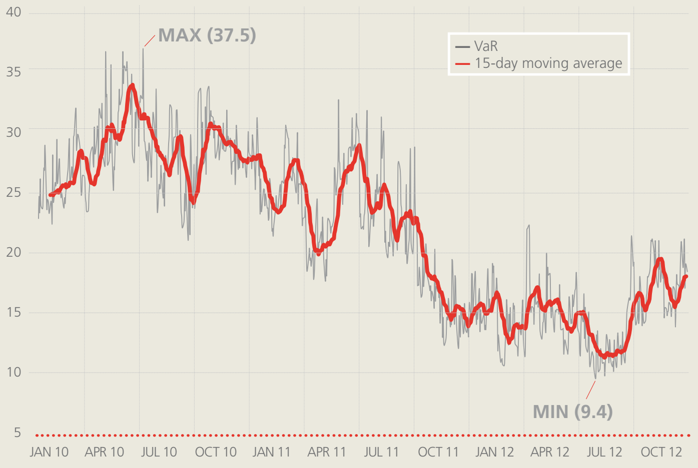
- The Group's consumption of economic capital at the end of 2012 was EUR 64,384 million compared to an internal capital base of EUR 80,940 million.
- Continental Europe accounted for 27%, Brazil 15% and the UK 9%. The corporate centre, which includes goodwill, accounted for 34%.
- The Group's diversification enables economic capital savings to be obtained.

MARKET RISK

Pages 206 to 225

VaR PERFORMANCE 2010-2012

Million euros. VaR at 99%, with a time frame of one day.

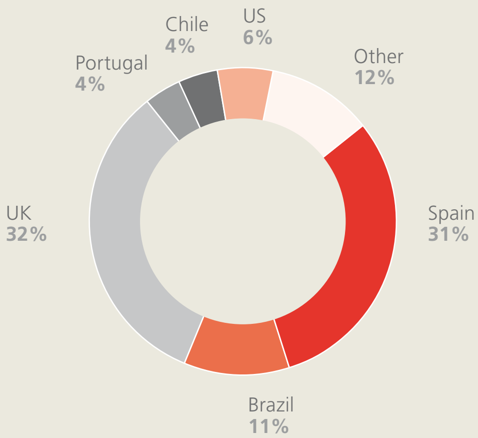


- Santander maintains a moderate exposure to market risk.
- The average exposure in trading activity was lower than in 2011 and 2010, despite higher volatility in the financial markets.
- The Group continued to reduce in 2012 its already low level of exposure to complex structured assets.

GEOGRAPHICALLY DIVERSIFIED CREDIT RISK

Pages 176 to 205

CREDIT RISK EXPOSURE BY COUNTRIES
%

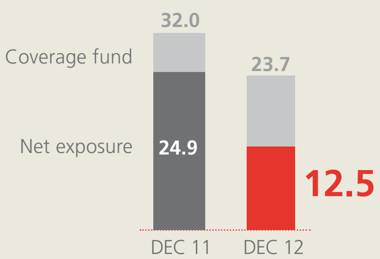


- Retail banking profile, more than 80% of total risk is generated by the retail banking business.
- Below industry average NPL ratio in almost all countries where the Group operates.
- Group NPL ratio stood at 4.54% in 2012. In Spain, it was 6.74%, more than three and a half points below the sector average.
- Strong provisions in 2012 increased the Group's coverage rate by 11 points in 2012, to 73%. Spain's coverage rate rose by 25 points, to 71%.

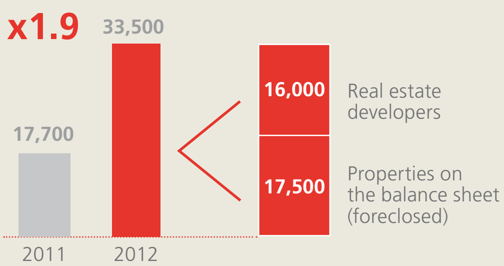
FOLLOWING THE PROVISIONS SET ASIDE IN 2012, THE REAL ESTATE CLEAN-UP IN SPAIN WAS COMPLETED

Pages 190 to 191

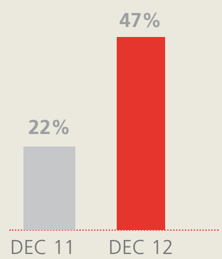
NET REAL ESTATE EXPOSURE IN SPAIN CUT BY HALF
(Billion euros)



REAL ESTATE SALES IN SPAIN
(Number of transactions)



REAL ESTATE EXPOSURE COVERAGE IN SPAIN
%

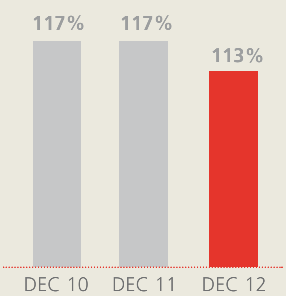


LIQUIDITY RISK AND FUNDING

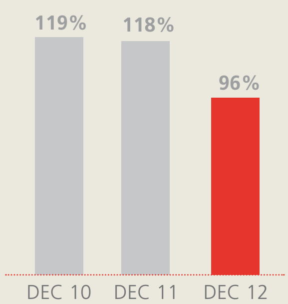
Pages 226 to 236

NET LOANS-TO-DEPOSIT RATIO

GROUP TOTAL



SPAIN



- Model of subsidiaries which are autonomous in liquidity.
- In 2012, the focus was mainly on attracting customer deposits, especially in Spain (EUR +22,000 million).
- High issuance capacity: EUR 43,000 million in 2012.
- As a result, all the Group's ratios and the liquidity position improved …
- … and, in January 2013, Santander and Banesto returned all the funds (EUR 24,000 million) taken in the first auction of LTROs.

1. INTRODUCTION

This section deals with what senior management regards as the main current and emerging risks that could affect the business. It also includes, in line with the best market practices, guidelines that allow the reader to track the main issues discussed in this risk management report through various documents published by the Group (Management Report, Auditors' Report, Annual Financial Statements and Information of Prudential Relevance).

Main current and emerging risks

Regardless of the risks treated in the various sections of this risk management report, Santander's senior management believes there are focal points affecting business development and consequently the risks derived from them. These focal points, and the corresponding mitigation measures being adopted, are:

- **Macroeconomic environment.** In times of crisis, it is particularly important to pay attention to the volatility of the macroeconomic environment. On the one hand, Santander uses stress test tools that allow senior management to assess and manage the impact of the different possible scenarios. On the other, geographic diversification protects the Group's results, as it minimises the impact of volatility on the macroeconomic environment, and enables a medium-low risk profile to be maintained.

- **Regulatory environment.** In response to the financial crisis of the last few years, bank regulators and authorities are designing a series of measures to avoid future crises. Compliance with these measures by banks, especially those designated as systemic, is affecting various spheres: capital and liquidity needs, transparency, etc. Grupo Santander's solid balance sheet structure and its structure of subsidiaries which are autonomous in capital and liquidity enables it to face with solvency the current and future regulatory requirements. Meanwhile, the traditional focus of Santander's business model toward retail banking provides greater protection in the face of changes being considered internationally regarding the creation of separated structures for retail and investment banking.

- **Reputational and conduct risk.** Strict management of these risks is increasingly important, because of the impact they have from the financial supervision standpoint as well as that of public opinion in general. In order to mitigate the impact of these risks, in the last few years the bank has notably strengthened control of all aspects related to the marketing of products, customer relations, deep knowledge of customers and compliance with all applicable regulations (including, among others, those regarding money laundering and financing of terrorism).

Of these risks, reputational and conduct are the main emerging risks in the sense that their realization, in the medium and long term, entails significant degrees of uncertainty, even though recurring results and capital surpluses above regulatory minimums would enable potential impacts to be absorbed.

This report provides ample information about the risks facing the Group, the way they are managed and how they are affecting the Group's activity and results. It also sets out the measures being taken to minimise the risks and to mitigate their severity.

A glossary of terms is also included in the IPR Pillar III document (Information of Prudential Relevance), which sets out the basic terminology of risks expressed in this section, as well as in the IPR.

The table below sets out the issues dealt with in this report and other Group annual reports that contain information on risks:

MAP FOR NAVIGATING GRUPO SANTANDER'S DOCUMENTS WITH RISK MANAGEMENT INFORMATION

THEME	DETAIL	ANNUAL REPORT	AUDIT REPORT & ANNUAL ACCOUNTS	IPR
Introduction	Main current and emerging risks	Page 164		
Management principles and corporate governance	Corporate principles of risk management, control and appetite	Page 166	Note 54 (54.1, 54.2, 54.3) and other notes and related information	Section 6
	Corporate governance of the risk function	Page 172		
	Integral control and internal validation of risk	Page 174		
Credit risk	Introduction to the treatment of credit risk	Page 176	Note 54.4 and other notes and related information	Sections 8 & 9
	Main magnitudes and evolution (risk map, evolution, conciliation, geographic distribution, management metrics)	Page 176		
	Detail by countries with the largest concentration: UK, Spain, Brazil	Page 185		
	Other credit risk views (credit risk by activities in financial markets, concentration risk, country risk, sovereign risk and environmental risk)	Page 192		
	Credit risk cycle (pre-sale, sale and after-sale)	Page 199		
	Study of risk and credit rating process, planning and setting limits (analysis of scenarios)	Page 200		
	Decisions on operations (credit risk mitigation techniques)	Page 202		
	Monitoring, measurement and control	Page 204		
	Recovery management	Page 205		
Market risk	Activities subject to market risk (market risk factors)	Page 206	Note 54.5 and other notes and related information	Section 10
	Market risks in 2012	Page 208		
	Trading activity (VaR, stress testing, backtesting, etc)	Page 208		
	Structural market risk	Page 216		
	Methodologies	Page 220		
	Management framework (organisational and governance structure, policy of limits)	Page 223		
	Internal model	Page 225		
Liquidity risk and funding	Introduction and general focus	Page 226	Note 54.6 and other notes and related information	Section 12
	Liquidity management framework. Monitoring and control of liquidity risk (organisational and governance model, analysis of the balance sheet and liquidity risk management, management adapted to business needs)	Page 227		
	Funding strategy and 2012 liquidity evolution	Page 230		
	2013 financing perspectives	Page 236		
Operational risk	Definition and objectives. Corporate governance and organisational model	Page 237	Note 54.7 and other notes and related information	Section 13
	Risk management model. Measurement model and risk assessment	Page 238		
	Evolution of the main metrics. Mitigation measures	Page 240		
	Other aspects of control and monitoring of operational risk	Page 243		
Compliance and reputational risk	Definition and objectives	Page 244	Note 54.8 and other notes and related information	Section 14
	Corporate governance and organisational model	Page 244		
	Risk management model (prevention of money laundering and financing of terrorism, marketing of products and services, compliance with rules)	Page 245		
Capital	Adjustment to the new regulatory framework	Page 250	Notes 54.9 and other notes and related information	Sections 1,3,4 & 5
	Economic capital: analysis of the global risk profile	Page 251		
	RORAC and value creation	Page 253		

2. CORPORATE PRINCIPLES OF RISK MANAGEMENT, CONTROL AND APPETITE

2.1. Corporate principles

High quality management of risk is one of Grupo Santander's 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.

Grupo Santander's risk policy focuses on maintaining a medium-low and predictable profile for all its risks. Its risk management model is a key factor for achieving the Group's strategic objectives.

The economic downturn in 2012 severely affected some of the main markets in which the Group operates. This situation particularly tested all its risk admission, monitoring and recovery models. In this context, management of different risks was positive when compared to the performance of the banking sector in these markets, which, combined with the high international diversification of the Group's businesses, enabled it to produce globally satisfactory results. The experience of confronting this adverse economic environment served to reaffirm the principles on which the Group's risk management model is based, as well as improve those aspects of the risk management systems which are necessary to ensure their adequate contribution to the Group's global results.

Grupo Santander's banking business model from the risk standpoint

The Group's risk management and control systems are adapted to the risk appetite framework approved by its top governance bodies and to its banking business model:

- Santander focuses on retail banking, ensuring an internationally diversified presence characterised by high market shares (more than 10%) in the main markets where it operates. Wholesale banking is carried out particularly in core markets.

- Santander operates through subsidiaries which are autonomous in terms of capital and liquidity, with corporate control. The corporate structure has to be simple, minimising the use of instrumental companies.

- The business model enables a high degree of recurrence in results and its development is backed by a strong capital and liquidity base.

- Santander develops its operational and technological integration model via corporate platforms and tools. This allows information to be steadily aggregated.

- All the Group's activity is conducted within its social and reputational commitment, in accordance with its strategic objectives.

The economic capital distribution among the Group's businesses reflects the diversified nature of Santander's activity. The risk of corporate activities mainly emanates from the capital assigned to goodwill and, to a lesser extent, market risk (structural exchange rate and non-trading portfolio of equities). The operating areas account for most of the credit risk, as befits the nature of the Group's retail banking.

Section 10 has more details on everything to do with capital.

DISTRIBUTION OF RISKS BY BUSINESSES (DIVERSIFIED ECONOMIC CAPITAL)

GRUPO SANTANDER

CORPORATE ACTIVITIES	CONTINENTAL EUROPE	UK	LATIN AMERICA	US
All risks Goodwill 64% Market 12% Interest 10% Other 14%	**All risks** Credit 69% Business 6% Operational 6% Interest 4% Other 15%	**All risks** Credit 63% Pensions 14% Business 7% Operational 6% Other 10%	**All risks** Credit 58% Operational 12% Business 9% Interest 7% Other 14%	**All risks** Credit 63% Interest 12% Operational 7% Market 7% Business 6% Other 5%
Only Pillar 1 risks Market 80% Credit 12% Material assets 7% Operational 1%	**Only Pillar 1 risks** Credit 85% Operational 8% Market 5% Material assets 2%	**Only Pillar 1 risks** Credit 87% Operational 9% Material assets 2% Market 2%	**Only Pillar 1 risks** Credit 78% Operational 16% Market 5% Material assets 1%	**Only Pillar 1 risks** Credit 82% Operational 9% Market 9%

Santander's risk management model, underpinning the business model, is based on the following principles:

- **Independence of the risk function from the business areas.** The Group's 3rd vice-chairman and chairman of the board's risk committee, heads the risk division and reports directly to the executive committee and to the board. The establishment of separate functions between the business areas and the risk areas, responsible for admission, measurement, analysis, control and information, provides sufficient independence and autonomy to control risks appropriately.

- **Direct involvement of senior management** in all decisions taken.

- **Collegiate decision-making**, ensuring a variety of opinions without results becoming dependent on decisions solely taken by individuals, including at the branch level. Joint responsibility for decisions on credit operations between risk and business areas, with the former having the last word in the event of disagreement.

- **Delegated authorities.** Each risk acceptance and management unit has clearly defined the types of activities, segments and risks it can face and decisions it might make in the sphere of risks, in accordance with delegated powers. Contracting and management procedures, and where operations are recorded, are also defined.

- **Centralised control.** Risk control and management are conducted on an integrated basis through a corporate structure, with global scope responsibilities (all risk, all businesses, all countries).

Risk management and control is done the following way:

- **Set risk appetite.** The purpose is to delimit, synthetically and explicitly, the levels and types of risk that the bank is ready to assume in the course of business.

- **Establish risk policies and procedures.** They constitute the basic framework for regulating risk activities and processes. At the local level, the risk units, through "mirror" structures they have established, incorporate the corporate risk rules to their internal policies.

- **Building, independent validation and approval of the risk models** developed in accordance with the corporate methodological guidelines. These models systemise the risk origination processes as well as their monitoring and recovery processes, calculate the expected loss, the capital needed and evaluate the products in the trading portfolio.

- **Execute a system to monitor and control risks**, which verifies, on a daily basis and with the corresponding reports, the extent to which Santander's risks profile is in line with the risk policies approved and the limits established.

2.2. Risk culture

The importance and attention attached by senior management to risk management is deeply rooted in Santander's DNA. This risk culture is based on the principles of Santander's risk management model and is transmitted to all business and management units and is supported, among other things, by the following drivers:

- **Santander's risk function is independent of the business units.** This enables their criteria and opinions to be taken into account in the various instances where businesses are developed.

- **Santander's structure for delegating powers** requires a large number of operations to be submitted to the risk committees of the bank's central services, be it the global committee of the risk division, the board's risk committee or the Group's executive committee. The high frequency with which these approval and risk monitoring bodies meet (twice a week in the case of the board's risk committee; once a week for the executive committee) guarantees great agility in resolving proposals while ensuring senior management's intense participation in the daily management of risks.

- Santander has detailed **risk management manuals and policies.** Risk and business teams hold regular meetings about the business, which produce actions in accordance with the Group's risk culture. In addition, the risk and business executives participate in the different bodies for resolving operations of the Group's central services, and this facilitates transmission of criteria and focuses that emanate from senior management, both to the teams of executives as well as the rest of the risk committees. The lack of powers in any one individual means that all the decisions are resolved by collegiate bodies. This confers greater rigour and transparency on decisions.

- Risk limits plan. Santander has established a full system of risk limits which is updated at least annually and covers both credit risk as well as the different market risk exposures, including trading, liquidity and structural (for each business unit and risk factor). Credit risk management is supported by credit management programmes (individuals and small businesses), rating systems (exposures to medium and large companies) and pre-classification (large corporate clients and financial counterparties).

- Santander's information systems and aggregation of exposures' systems enable daily monitoring of exposures, verifying systematic compliance with the limits approved, as well as adopting, where necessary, the pertinent corrective measures.

- Main risks are not only analysed at the time of their origination or when irregular situations arise in the process of ordinary recovery. They are overseen permanently for all clients. In addition, the Group's main portfolios are monitored systematically during the month of August.

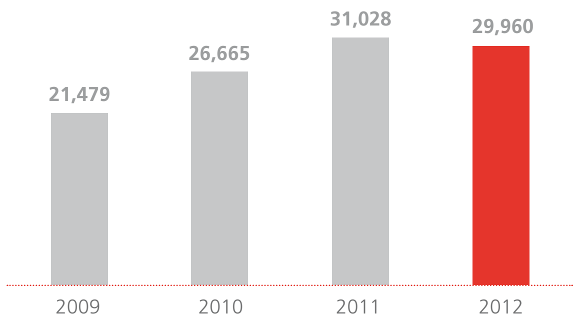
- Other procedures supporting the dissemination of Santander's risk culture are the training sessions carried out by the risks corporate school, the remuneration and incentives policy, which includes performance variables that take into account the quality of risk and the bank's results over the long term, strict compliance by staff with the general codes of conduct and systematic and independent action by the internal auditing services.

Risk training activities

Santander's corporate school of risk management aim is to help consolidate the risk management culture and ensure that all employees in the risks area are trained under the same criteria.

The school, which gave a total of 29,960 hours of training to 4,078 employees in 2012 in 100 activities, is considered a key element to enhance Santander's leadership in this sphere and strengthen the skills of our staff.

TRAINING HOURS



Furthermore, the risks corporate school trains professionals from other business areas, particularly retail banking, so as to align the demanding risk management criteria to business goals.

2.3. Grupo Santander's risk appetite

Santander defines risk appetite as the amount and type of risks considered reasonable to assume for implementing its business strategy, so that the Group can maintain its ordinary activity in the event of unexpected circumstances that could have a negative impact on its levels of capital, profitability and/or share price.

The board is responsible for annually setting and updating the risk appetite, monitoring the Bank's risk profile and ensuring the consistency between both of them. Risk appetite is set for the whole of the Group as well as for each of the main business units in accordance with a corporate methodology adapted to the circumstances of each unit/ market. At the local level, the boards of the subsidiaries are responsible for approving the respective risk appetite proposals once they have been validated by the Group's executive committee.

Senior management is responsible for achieving the desired risk profile —which is reflected in the annual budget and in the medium-term strategic plan— as well as for daily risk management, so that the usual limit structures set for each risk are adequately connected to the metrics established for the risk appetite.

These structures of limits for each risk are in addition to the risk appetite and essential for articulating effective risk management in the daily course of business. In the event that risk appetite levels set are met and once the board is informed, the necessary management measures have to be adopted for effectively adjusting the risk profile.

The board's risk committee and the Group's executive committee verify compliance with the risk appetite at Group and business units on a quarterly basis.

Effective implementation of the risk appetite framework was deepened in 2012 through the corresponding quarterly reviews as well as their development in some of the Group's main units.

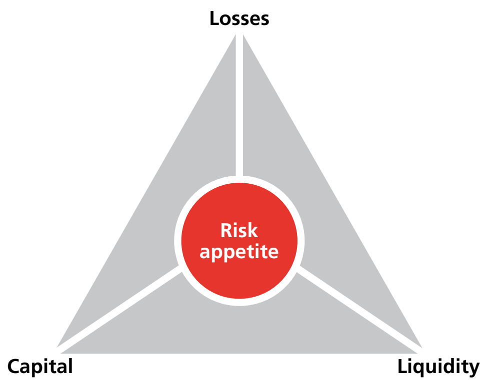
Risk appetite framework

Santander's risk appetite framework contains quantitative and qualitative elements integrated into series of primary and other metrics.

Quantitative elements of risk appetite

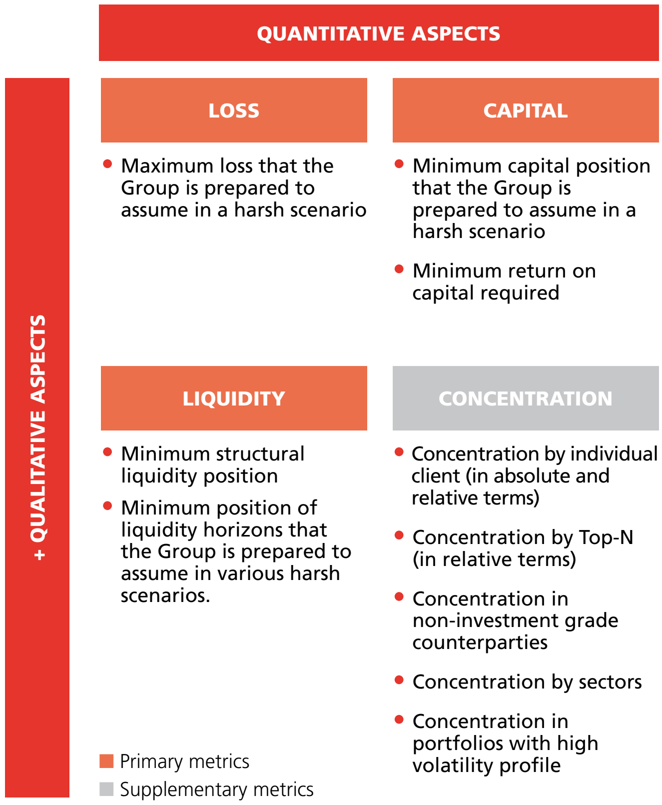
The primary quantitative metrics of the risk appetite are:

- The maximum **losses** that the institution is willing to assume.
- The minimum **capital** position that the institution wants to have.
- The minimum **liquidity** position that the institution wants to keep.



These metrics are calculated using severe stress scenarios, unlikely to occur, but possible.

In addition, the Group has a series of transversal metrics to limit the excessive concentration of the risk profile, both by risk factors as well as in terms of clients, businesses, countries and products.



Losses

One of the three primary metrics used to formulate Santander's risk appetite is the maximum unexpected impact on results the institution is prepared to assume in unfavourable scenarios, with a low, but possible, probability of occurring.

These scenarios mainly affect both losses resulting from the exposure to retail and wholesale credit risk (both the direct credit loss as well as the reduced revenue), as well as the potential unfavourable impact resulting from the exposure to market risk. After applying these credit and market impacts to budgeted results, in the context of monitoring risk appetite, senior management ensures that the resulting spread is sufficient to absorb the unexpected impacts from technological and operational risk, and from compliance and reputational risk.

The time frame in which the negative impacts for all risks considered materialise is normally 12 months, except in the case of credit risk where an additional impact analysis is conducted using a three-year time frame. The time frame for formulating risk appetite is annual.

As regards the metric of losses, according to Santander's risk appetite the combined impact in all risks resulting from these scenarios must be less than net operating income after ordinary provisions (i.e. ordinary profit before tax).

Capital position

Santander operates with a comfortable capital base which enables it not only to fulfil regulatory requirements but also have a reasonable surplus of capital. The bank has set a core capital ratio target of more than 9% (Basel II) and has also set minimum goals for the Group's return on risk-adjusted capital (RORAC).

In addition and in the face of the aforementioned unfavourable scenarios, Santander's risk appetite establishes that its risk profile must be such that the unexpected impact of these scenarios does not involve a deterioration of more than 100 basis points in the core capital ratio.

This capital focus included in the risk appetite is consistent with the Group's capital objective approved within the capital planning process (Pillar II) implemented in the Group and covering a three-year period.

Liquidity position

The Group's liquidity management model is based on the following principles:

- Decentralised liquidity model.
- Needs derived from medium and long term activity must be funded by medium and long term instruments.
- High contribution of customer deposits in an essentially retail banking balance sheet.
- Diversification of wholesale funding sources by: instruments/investors; markets/currencies and maturities.
- Limited recourse to short-term funding.
- Availability of a sufficient liquidity reserve, including discounting capacity in central banks to be used in adverse situations.

Bearing in mind the Group's decision to structure on the basis of autonomous subsidiaries, liquidity management is executed at the level of each subsidiary, while supervised by a corporate control. All the subsidiaries must be self-sufficient as regards availability of liquidity.

Santander's risk appetite establishes, as regards the liquidity metric, a structural funding ratio of more than 100% (customer deposits, equity and medium and long term issues have to be higher than the structural funding needs defined as lending and stakes in Group companies), as well as demanding objectives of liquidity position and time frames in the face of short term, systemic and idiosyncratic stress scenarios.

Additional quantitative metrics of risk appetite concentration

Santander wants to maintain a widely diversified risk profile from the standpoint of its exposure to large risks, certain markets and specific products. In the first instance, this is achieved by virtue of Santander's retail banking focus with a high degree of international diversification.

Concentration risk: this is measured by the following metrics upon which set risk appetite thresholds as a proportion of equity or of lending (in general terms):

- **Client** (as a proportion of equity): a) net individual maximum exposure to corporate clients (additionally, clients with internal ratings below investment grade and exceeding a certain exposure are also monitored); b) net maximum aggregate exposure to the Bank's 20 largest corporate clients (Top 20); c) net maximum aggregate exposure of the exposures considered as large risks (corporate and financial clients); d) maximum impact on profit before tax of a simultaneous failure of the five largest corporate exposures (jump to default Top 5).
- **Sector:** maximum percentages of exposure of the portfolio of companies in an economic sector, in relation to lending (at both the total level as well as for the segment of companies).
- **Portfolios with high risk profile** (defined as those retail portfolios with a percentage of risk premium that exceed an established threshold): maximum percentages of exposure to this type of portfolio in proportion to lending (at both the total and retail levels) and for different business units.

Qualitative elements of risk appetite

The qualitative elements of the risk appetite framework define, in general and for the main risk factors, the positioning that Santander's senior management wishes to adopt or maintain in the course of its business model. Generally speaking, the framework is based on maintaining the following qualitative objectives:

- A medium-low and predictable risk profile based on a diversified business model, focused on retail banking and with an internationally diversified presence and significant market shares, and a wholesale banking model centred on relations with clients in the Group's main markets.
- A rating objective in the range of between AA- and A-,

both at Group level and in local units (in local scale), on the basis of both the environment as well as the sovereign risk performance.

- A stable and recurring policy to generate earnings and remunerate shareholders, on a strong capital and liquidity base and a strategy of diversification by funding sources and maturities.

- An organisational structure based on subsidiaries which are autonomous and self-sufficient in capital and liquidity, minimising the use of instrumental companies, and ensuring that no subsidiary has a risk profile that jeopardises the Group's solvency.

- An independent risk function with very active involvement of senior management which guarantees a strong risk culture focused on protecting and ensuring an adequate return on capital.

- A management model that ensures a global and inter-related view of all risks, through an environment of control and robust monitoring of risks, with global responsibilities: all risk, all businesses, all countries.

- Focus in the business model on those products that the Group knows sufficiently well and has the management capacity (systems, processes and equity).

- The confidence of clients, shareholders, employees and professional counterparties, ensuring that activity is carried out in line with Santander's social and reputational commitment, in accordance with the Group's strategic objectives.

- Adequate and sufficient availability of staff, systems and tools that guarantee maintaining a risk profile compatible with the established risk appetite, both at the global and local levels.

- A remuneration policy that has the necessary incentives to ensure that the individual interests of employees and executives are aligned with the corporate framework of risk appetite and that these are consistent with the Bank's long-term results.

The Group's risk appetite framework also covers other specific qualitative objectives for the various types of risk.

Risk appetite and living will

The Group has an organisational structure based on subsidiaries which are autonomous and self-sufficient in terms of capital and liquidity, ensuring that no subsidiary reaches a risk profile that could jeopardise the Group's solvency.

Grupo Santander was the first of the international financial institutions considered globally systemic by the Financial Stability Board to present (in 2010) to its consolidated supervisor (the Bank of Spain) its corporate living will including, as required, a viability plan and all the information needed to plan a possible liquidation (resolution plan). Furthermore, and even though not required, more summarised individual plans were drawn up for the main geographic units, including Brazil, Mexico, Chile, Portugal and the UK.

A third version of the corporate plan in this respect was drawn up in 2012. As with the first two versions in 2010 and 2011, the Group presented the third version of its recovery plan to its crisis management group (CMG) in July 2012. This plan consists of the corporate plan (for Banco Santander) and individual plans for many of its most important local units (UK, Brazil, Mexico and Sovereign). It is important to point out in the UK case that the plan was also prepared, in parallel to its in-house development, with respect to local regulatory initiatives.

The significant contribution of the living will exercise to the conceptual delimitation of the risk appetite, and the Group's risk profile, should also be noted.

3. CORPORATE GOVERNANCE OF THE RISK FUNCTION

The board's risk committee is responsible for proposing to the board the Group's risk policy. Its approval 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 3rd vice-chairman of Grupo Santander and four other board members are also members of the committee.

The committee met 98 times during 2012, underscoring the importance that Grupo Santander attaches to appropriate management of its risks.

The main responsibilities of the board's risk committee are to:

- Propose to the board the Group's risk policy, which must particularly identify:
  - The different types of risk (operational, technological, financial, legal and reputational, among others) facing the Group.
  - The information and internal control systems used to control and manage these risks.
  - Set the level of risk considered acceptable.
  - Identify the measures envisaged to mitigate the impact of identified risks, in the event that they materialise.
- Systematically review exposures to the main customers, economic sectors, geographic areas and types of risk.
- Authorise management tools and risk models and be familiar with the results of the internal validation.
- Ensure that the Group's actions are consistent with the previously decided risk appetite 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 risk committee delegates some of its powers in risk committees which are structured by geographic area, business and types of risk, all of them defined in the corporate governance risk model.

Both the executive committee and the Bank's board also pay particular attention to management of the Group's risks.

The Group's 3rd vice-chairman is the maximum executive in risk management. He is a member of the board and chairman of the risk committee. Two directorates-general of risks, which are independent of the business areas, both from the hierarchical and functional standpoint, report to the 3rd vice-chairman. The organisational and functional framework is as follows:

- **The general directorate of risk** (GDR) is responsible for the executive functions of credit and financial risk management and is adapted to the business structure, both by customer type as well as by activity and country (global/local vision).

  The GDR is configured in two blocks:

  - **A corporate structure** with global scope responsibilities ("every risk, every country"), entrusted with establishing the policies, methodologies and control. In this block, also denominated inteligence and global control, are the areas/functions of solvency risks, market risk and methodology.

  - **A business structure,** focused on executing and integrating management of the risk functions in the Group's local and global commercial businesses. In this block, also denominated execution and integration in management, the following areas/functions are grouped: management of standardised risks, management of segmented company risks, global recoveries, management of wholesale banking risk, management of Santander Consumer Finance risks and management of global business risks.

    Between these two blocks is the corporate area of integration in management whose purpose is to intensify and systemise the use of corporate risk management models (credit, market and structural risk), speed up its establishment and ensure integration in the management of all the Group's units.

    Complementing this structure is a local government and systematics area, which supports and advises the GDR, responsible for implementation of the organisational model, and for ensuring effective execution of internal control (including the quality processes), and a development and corporate management area which leads the initiatives and projects of the GDR involving various areas and/or local units, such as a common information model and a global corporate platform.

  These functions have a global action sphere, i.e. they intervene in all the units where the risk division acts and the same structure is reflected in the local units. The main elements through which the global functions are replicated in each of the units are corporate frameworks. These are central elements to communicate and transfer global practices, reflect the criteria and policies for each of the areas and set the Group's compliance standards to be applied in all local units.

  Generally speaking it is possible to distinguish the main functions developed respectively by the GDR's global areas and by the units:

  - The GDR establishes risk policies and criteria, the global limits and the decision-making and control processes; it generates management frameworks, systems and tools; and manages the best practices within and outside the Group.

  - The local units apply the policies and systems to the local market: they adapt the organisation and the management frameworks to the corporate frameworks; they contribute critical and best practices and lead the local sphere projects.

- **General directorate of integral control and internal validation of risks.** This is of corporate nature, supporting the Group's governance bodies, with the following global reach responsibilities:

  - Internal validation of credit, market and economic capital risk models in order to assess their suitability for management and regulatory purposes. Validation involves reviewing the model's theoretical foundations, the quality of the data used to build and calibrate it, the use to which it is put and the process of governance associated.

  - Integral control of risks, the mission of which is to supervise the quality of the Group's risk management, guaranteeing that the management and control systems of the various risks inherent in its activity comply with the most demanding criteria and best practices observed in the banking industry and/or required by regulators, and verifying that the profile of effective risk assumed is adjusted to what senior management has established.

4. INTEGRAL CONTROL AND INTERNAL VALIDATION OF RISKS

The functions of integral control and internal validation of risks are located at the corporate level in the general directorate of integral control and internal validation of risks, which reports directly to the Group's 3rd vice-chairman and chairman of the risk committee, and is configured as a support for the Group's governance bodies in the sphere of control and risk management.

4.1 Function of integral control of risks

Grupo Santander launched in 2008 the function of integral control of risks in order to provide a fully rounded view for top management of all risks that affect development of the Group's ordinary activity. These risks are: credit risk (including those of concentration and counterparty); market risk (including liquidity as well as the structural risks of interest rates and exchange rates); operational and technological risks and compliance and reputational risks.

Integral control of risks is based on three complementary activities:

1. Guaranteeing 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;

2. Ensuring 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 risk appetite, and;

3. Supervising appropriate 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.

The function has global and corporate scope and covers all risks, all businesses and all countries and is configured as a third layer, of control after that carried out in the first instance by the executive responsible for control and management of each risk in the sphere of each business or functional unit (first layer) as well as by each executive responsible at the corporate level for the control of each risk (second layer). This ensures the vision and thus the integral supervision of all the risks that Santander incurs during the year.

Methodology and tools

This function is backed by an internally developed methodology and a series of tools that support it, in order to systemise the exercise of it and adjust it to Santander's specific needs. This enables application of the methodology to be formalised and traceable. The methodology and the tools of the three activities are articulated through the following modules:

Module 1

A set of tests or reviews exists for each risk, 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 in the process is assessed and enables the parameters of control of the various risks to be homogenised, is done every 12 months. New tests are incorporated on the basis of the best practices most recently observed in the industry and/or required by regulators. The support tool is a repository of the results of each test and of its work papers. A review of the situation of each risk is also conducted every six months, with monitoring of the recommendations that emanate from the annual report of integral control.

Module 2

Senior management is able to monitor the integral vision of the various risks assumed and their adjustment to the previously formulated risk appetites.

Module 3

There is a tool to monitor proactively the recommendations made by internal auditing and by the supervisors regarding risk control and management. This also enables the recommendations arising from integral control to be registered.

The Bank of Spain can access these tools if it so wishes and thus also the work papers used to develop the function of integral control of risks.

Activity during 2012

(a) The fourth 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 risk areas – along with half-yearly monitoring of the progress achieved in the recommendations made in 2011.

(b) The board and executive committee were regularly informed with an integral vision of all risks. The risk committee and the audit and compliance committee were also kept in the picture.

(c) Work continued on extending the integral control of risks model to the Group's main units, also coordinating the initiatives in this sphere in the various countries.

(d) There was also participation, in coordination with the public policy area and other areas, in representing the Group in forums such as the Financial Stability Board (FSB), IIF, Eurofi and the Enhanced Disclosure Task Force (EDTF, sponsored by the FSB) in matters such as transparency in information on risks.

4.2. Internal independent validation of risk models

As well as being a regulatory requirement, the function of internal validation of risk models constitutes a fundamental support for the risk committee, and for local and corporate risk committees, in their responsibilities of authorisation of the use (management and regulatory) of models and their regular review.

Internal validation of models consists of a specialised unit, with sufficient independence, obtaining a technical opinion on the adequacy of the internal models for the purposes used, whether they be internal management and/or of a regulatory nature (calculation of the regulatory capital, levels of provisions, etc), concluding on their robustness, use and effectiveness.

Santander's internal validation of models covers credit risk models, market risk models and those for setting the price 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 technological systems and the quality of the data that enable and support their effective functioning and, in general, all relevant aspects (controls, reporting, uses, involvement of senior management, etc.).

The function is global and corporate, in order to ensure homogeneous application, and is conducted via four regional centres in Madrid, London, Sao Paulo and New York. These centres have full functional and hierarchical dependence on the corporate centre, which ensures uniformity in the development of its activities. This facilitates implementation of a corporate methodology that is supported by a series of tools developed internally in Santander, which provide a robust corporate framework for all the Group's units, computerising certain verifications in order to ensure that the reviews are carried out efficiently.

This corporate framework of internal validation is fully aligned with the criteria on internal validation of the advanced models issued by the Bank of Spain and by the rest of supervisors to whom the Group is subjected. In this respect, the criterion is maintained of separating functions between the units of internal validation and internal auditing, which is the last layer of control in the Group charged with reviewing the methodology, tools and work conducted by internal validation and expressing its opinion on its degree of effective independence.

* * *

The Group's main types of risk —credit, market, liquidity and funding, operational, and compliance and reputational— are now set out.

5. CREDIT RISK

5.0 Organisation of the section

After introducing the concept of credit risk and the segmentation that the Group uses for its treatment, the main metrics of 2012 and their evolution are presented (pages 176-184).

This is followed by a look at the countries with the largest concentration, setting out the main features from the credit risk standpoint (pages 185-191).

The qualitative and quantitative aspects of other credit risk matters are then presented, including information on financial markets, concentration risk, country risk, sovereign risk and environmental risk (pages 192-199).

Lastly, there is a description of the Group's credit risk cycle, with a detailed explanation of the various stages that form part of the phases of pre-sale, sale and after-sale, as well as the main credit risk management metrics (pages 199-205).

5.1. Introduction to the treatment of credit risk

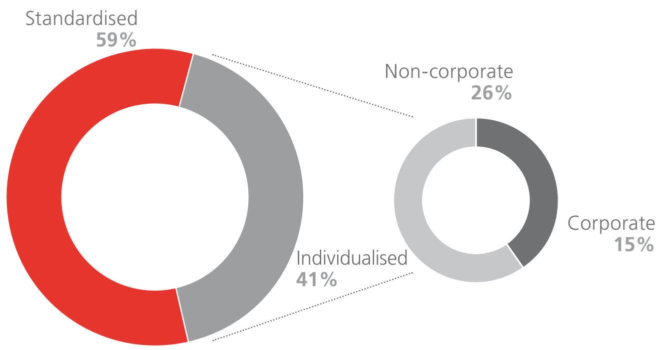
Credit risk is the possibility of losses stemming from the failure of clients or counterparties to meet their financial obligations with the Group.

The Group's risks function is organised on the basis of two types of customers:

- Those under **individualised** management are assigned a risk analyst. This category includes the global wholesale banking customers (corporations, financial institutions and sovereigns), companies within the retail banking scope with a risk level which is above the exposure threshold set by each unit. Risk management is conducted through expert analysis backed up by tools that support decision-making;

- The segment of **standardised** risks covers those clients who have not been assigned a risk analyst. This category includes individuals, the self-employed and retail banking companies that are not under individualised management. Management of these risks is based on internal models of assessment and automatic decisions, complemented when necessary by expert teams of analysts.

The following chart shows the distribution of credit risk on the basis of the management model.



The Group's risk profile is mainly retail, accounting for over 80% of total risk generated by the retail banking business.

5.2 Main magnitudes and performance

5.2.1. Global credit risk map 2012

Credit exposure in 2012 was EUR 1,231,398 million, most of it with customers and credit entities (87% of the total).

Risk is diversified among the main regions where the Group operates: Europe (72%), Latin America (22%) and the US (6%).

Credit risk exposure increased 1.3% in 2012, largely due to the growth in outstanding loans with credit entities, mainly because of the growth in deposits in central banks.

Excluding the exchange-rate impact of the main currencies against the euro, the increase was 2%.

The table opposite sets out the global credit risk exposure in nominal amounts (except for derivatives and repos exposure, which is expressed in equivalent credit) at 31 December 2012.

GRUPO SANTANDER - GROSS EXPOSURE TO CREDIT RISK CLASSIFIED IN ACCORDANCE WITH LEGAL COMPANY CRITERIA

Million euros. Data at 31 December 2012

	Customers		Entities[2]		Fixed income[3]		Derivatives and repos	
	Outstanding[1]	Commitments	Outstanding	Commitments	Sovereign	Private	(ECR)[4]	Total
Spain	**228,332**	**45,281**	**61,669**	**3,851**	**31,634**	**9,082**	**31,661**	**411,510**
Parent bank	140,875	34,352	52,220	3,582	22,095	6,221	26,627	**285,972**
Banesto	68,119	6,519	8,018	157	4,899	1,285	4,924	**93,921**
Others	19,338	4,410	1,431	111	4,641	1,576	110	**31,617**
Rest of Europe	**334,697**	**64,587**	**42,279**	**192**	**12,019**	**5,288**	**14,276**	**473,337**
Germany	30,640	8,349	1,628	0	0	41	2	**40,659**
Portugal	23,910	5,851	1,718	131	3,545	1,675	2,414	**39,243**
UK	242,736	45,262	36,394	-	5,819	3,114	11,088	**344,413**
Others	37,412	5,125	2,539	61	2,655	458	772	**49,023**
Latin America	**152,933**	**55,879**	**24,610**	**-**	**16,945**	**6,568**	**9,369**	**266,304**
Brazil	86,684	39,476	16,613	-	11,282	4,796	5,064	**163,915**
Chile	32,288	7,910	1,654	-	1,618	1,273	1,979	**46,722**
Mexico	21,378	7,604	3,610	-	2,738	348	2,157	**37,836**
Others	12,582	889	2,734	-	1,308	150	169	**17,832**
United States	**44,429**	**17,581**	**2,755**	**-**	**1,594**	**12,564**	**785**	**79,707**
Rest of world	**382**	**35**	**120**	**-**	**-**	**2**	**-**	**539**
Total Group	**760,772**	**183,362**	**131,433**	**4,043**	**62,192**	**33,504**	**56,091**	**1,231,398**
% Total	61.8%	14.9%	10.7%	0.3%	5.1%	2.7%	4.6%	**100%**
% Change/Dec 11	(3.2%)	3.0%	31.2%	16.7%	3.4%	14.9%	(4.7%)	**1.3%**

EVOLUTION OF GROSS EXPOSURE TO CREDIT RISK

Million euros. Data at 31 December 2012

	2012	2011	2010	Change /2011	Change /2010
Spain	**411,510**	**421,142**	**427,092**	**(2.3%)**	**(3.6%)**
Parent bank	**285,972**	278,663	276,105	2.6%	3.6%
Banesto	**93,921**	101,264	108,556	(7.3%)	(13.5%)
Others	**31,617**	41,215	42,430	(23.3%)	(25.5%)
Rest of Europe	**473,337**	**447,754**	**428,525**	**5.7%**	**10.5%**
Germany	**40,659**	33,541	22,984	21.2%	76.9%
Portugal	**39,243**	41,241	43,272	(4.8%)	(9.3%)
UK	**344,413**	327,321	325,624	5.2%	5.8%
Others	**49,023**	45,651	36,645	7.4%	33.8%
Latin America	**266,304**	**272,297**	**271,106**	**(2.2%)**	**(1.8%)**
Brazil	**163,915**	176,317	174,263	(7.0%)	(5.9%)
Chile	**46,722**	43,406	43,296	7.6%	7.9%
Mexico	**37,836**	32,777	35,361	15.4%	7.0%
Others	**17,832**	19,797	18,186	(9.9%)	(2.0%)
United States	**79,707**	**73,717**	**78,590**	**8.1%**	**1.4%**
Rest of world	**539**	**964**	**1,009**	**(44.1%)**	**(46.6%)**
Total Group	**1,231,398**	**1,215,874**	**1,206,322**	**1.3%**	**2.1%**

(1) Balances with customers include contingent risks (see the auditor's report and annual consolidates statements, note 35) and exclude repos (EUR 4,707 million) and other customer financial assets (EUR 23,686 million).
(2) Balances with credit entities and central banks include contingent risks and exclude repos, the trading portfolio and other financial assets. Of the total, EUR 104,454 million are deposits in central banks.
(3) Total fixed income excludes the trading and investment portfolio of third party takers of insurers.
(4) ECR (equivalent credit risk: net value of replacement plus the maximum potential value. Includes mitigants).

5.2.2. Performance of magnitudes in 2012

The table below sets out the main items related to credit risk derived from our activity with customers.

GRUPO SANTANDER - RISK, NPLS, COVERAGE, PROVISIONS AND COST OF CREDIT*

	Credit Risk with customers[1] (million euros)			Non-performing loans (million euros)			NPL ratio %		
	2012	2011	2010	**2012**	2011	2010	**2012**	2011	2010
Continental Europe	**334,028**	**354,666**	**370,673**	**20,869**	**18,378**	**16,075**	**6.25**	**5.18**	**4.34**
Santander Branch Network	**111,756**	118,060	126,705	**10,787**	10,002	6,994	**9.65**	8.47	5.52
Banesto	**71,976**	78,860	86,213	**4,520**	3,950	3,548	**6.28**	5.01	4.11
Santander Consumer Finance	**59,387**	59,442	67,820	**2,315**	2,361	3,359	**3.90**	3.97	4.95
Portugal	**28,188**	30,607	32,265	**1,849**	1,244	937	**6.56**	4.06	2.90
Poland	**10,601**	9,120	—	**500**	446	—	**4.72**	4.89	—
UK	**255,519**	**259,386**	**244,707**	**5,241**	**4,763**	**4,308**	**2.05**	**1.84**	**1.76**
Latin America	**160,413**	**159,445**	**149,333**	**8,695**	**6,881**	**6,141**	**5.42**	**4.32**	**4.11**
Brazil	**89,142**	91,035	84,440	**6,113**	4,902	4,149	**6.86**	5.38	4.91
Mexico	**22,038**	19,446	16,432	**428**	354	303	**1.94**	1.82	1.84
Chile	**32,697**	28,462	28,858	**1,691**	1,096	1,079	**5.17**	3.85	3.74
Puerto Rico	**4,567**	4,559	4,360	**326**	394	462	**7.14**	8.64	10.59
Argentina	**5,378**	4,957	4,097	**92**	57	69	**1.71**	1.15	1.69
Sovereign	**44,678**	**43,052**	**40,604**	**1,025**	**1,229**	**1,872**	**2.29**	**2.85**	**4.61**
Total Group	**794,901**	**822,657**	**804,036**	**36,100**	**32,036**	**28,522**	**4.54**	**3.89**	**3.55**
Memo item:									
Spain	**249,477**	**271,180**	**283,424**	**16,809**	**14,900**	**12,007**	**6.74**	**5.49**	**4.24**

	Coverage (%)			Spec. provs. net of recovered write- offs[2] (million euros)			Credit cost (% of risk)[3]		
	2012	2011	2010	**2012**	2011	2010	**2012**	2011[(4)]	2010[(5)]
Continental Europe	**72.5**	**55.8**	**71.4**	**4.106**	**3.828**	**6.190**	**1.19**	**1.10**	**1.62**
Santander Branch Network	**67.5**	39.9	51.8	**1.545**	1.735	2.454	**1.33**	1.42	1.89
Banesto	**71.3**	53.1	54.4	**948**	778	1.272	**1.28**	0.96	1.52
Santander Consumer Finance	**109.5**	109.3	128.4	**797**	762	1.884	**1.34**	1.43	2.85
Portugal	**53.1**	54.9	60.0	**344**	283	105	**1.17**	0.90	0.30
Poland	**68.3**	65.2	—	**117**	59	—	**1.17**	—	—
UK	**45.4**	**40.2**	**45.8**	**982**	**811**	**826**	**0.36**	**0.32**	**0.34**
Latin America	**87.5**	**97.0**	**103.6**	**7.215**	**5.379**	**4.758**	**4.48**	**3.57**	**3.53**
Brazil	**90.2**	95.2	100.5	**5.939**	4.554	3.703	**6.47**	5.28	4.93
Mexico	**157.3**	175.7	214.9	**459**	293	469	**2.11**	1.63	3.12
Chile	**57.7**	73.4	88.7	**601**	395	390	**1.86**	1.40	1.57
Puerto Rico	**62.0**	51.4	57.5	**86**	95	143	**1.90**	2.25	3.22
Argentina	**143.3**	206.9	149.1	**106**	29	26	**1.99**	0.67	0.72
Sovereign	**105.9**	**96.2**	**75.4**	**284**	**416**	**479**	**0.62**	**1.04**	**1.16**
Total Group	**72.6**	**61.4**	**72.7**	**12.574**	**10.426**	**12.342**	**2.21**	**1.41**	**1.56**
Memo item:									
Spain	**70.6**	**45.5**	**57.9**	**2.993**	**2.821**	**4.352**	**1.23**	**1.04**	**1.53**

* So that like-for-like comparisons can be made between 2012 and 2011, the data for 2011 has been restated.
1. Includes gross loans to customers, guarantees, documentary credits and clients' mark to market (MtM) derivatives (EUR 5,735 million).
2. Bad debts recovered (EUR 1,321 million).
3. (Specific provisions-bad debts recovered)/Total average credit risk.
4. Excludes the incorporation of Bank Zachodni WBK.
5. Excludes AIG from Santander Consumer Finance in Poland.

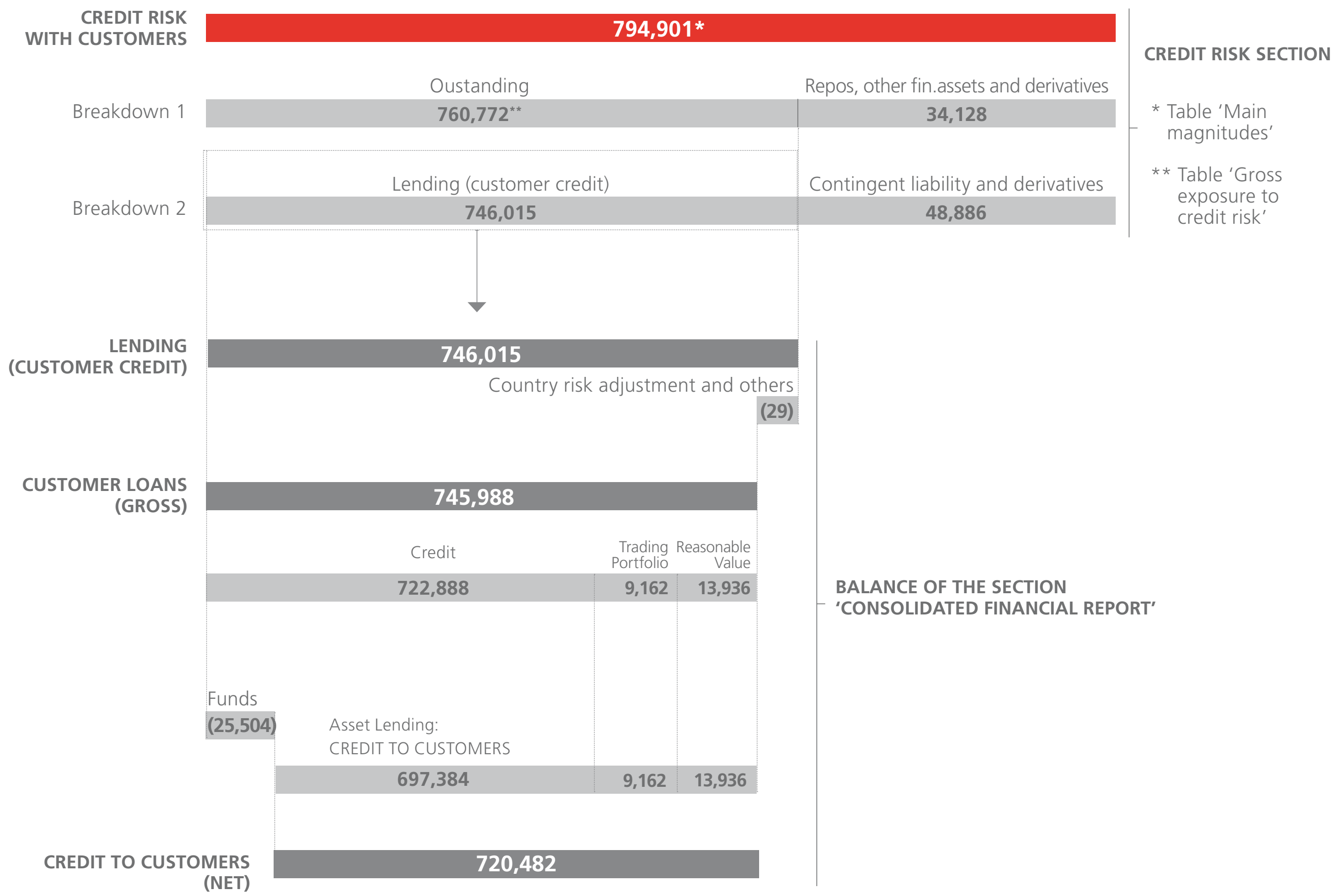
At the end of 2012, non-performing loans amounted to EUR 36,100 million and the Group's NPL ratio stood at 4.54% (+65 b.p.), mainly due to the situation in Spain. It is important to point out that this ratio is below the sector's average in almost all the countries in which the Group operates.

These NPLs are covered by EUR 12,574 million of specific loan-loss provisions net of insolvencies. Total loan-loss provisions were EUR 26,194 million.

The Group's coverage ratio was 72.6%, up from 61.4% in 2011. It is important to bear in mind that this ratio is affected by the weight of mortgages (particularly in the UK and Spain), which require fewer provisions as they have collateral.

Conciliation of the main magnitudes

The consolidated financial report details the portfolio of customer loans, both gross and net of funds. Credit risk also includes guarantees and derivatives. The following chart shows the relation between the concepts that comprise these magnitudes.

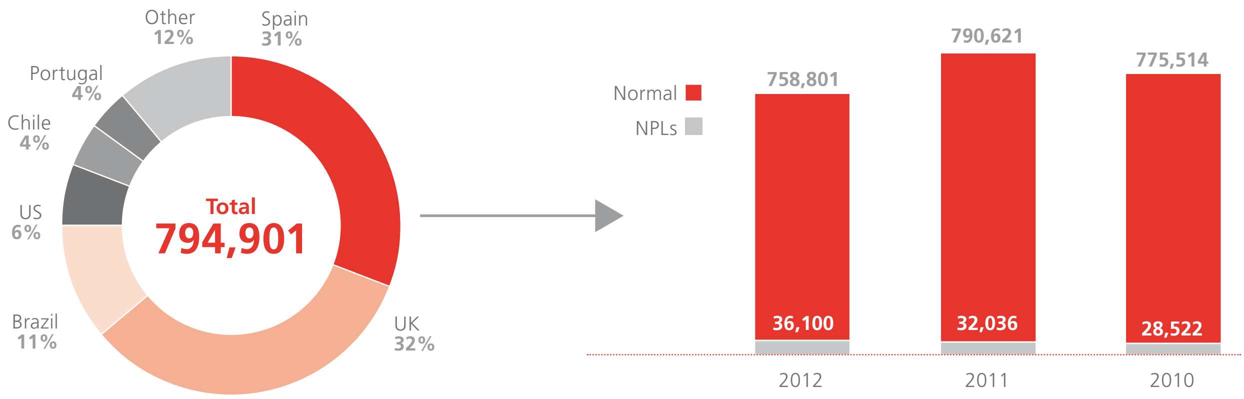


Figures in million euros.

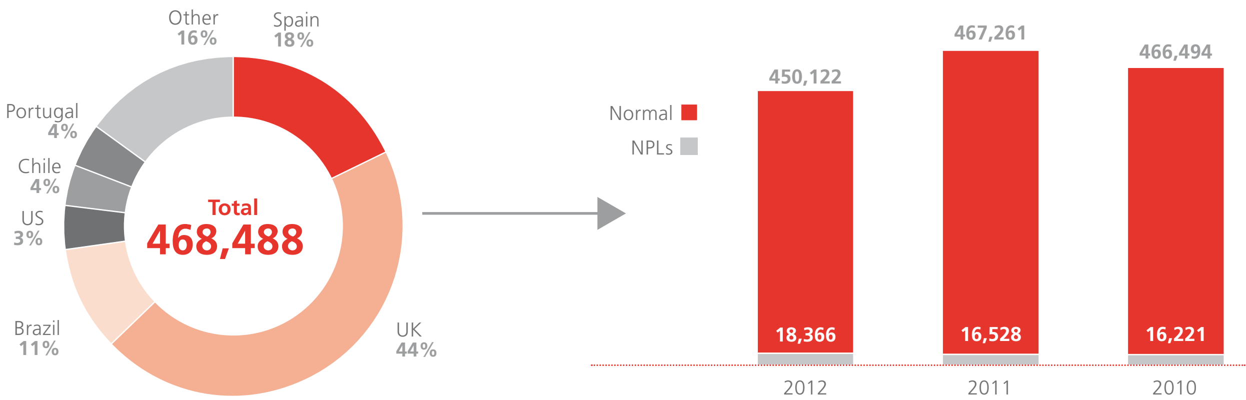
Geographic distribution and segmentation
On the basis of the aforementioned segmentation, the geographic distribution and situation of the portfolio is shown in the following charts.

Million euros

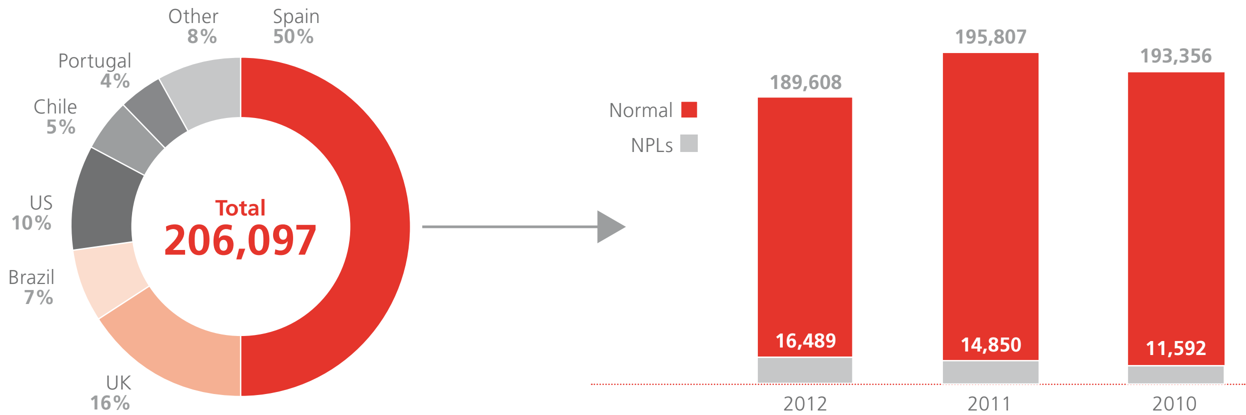
TOTAL



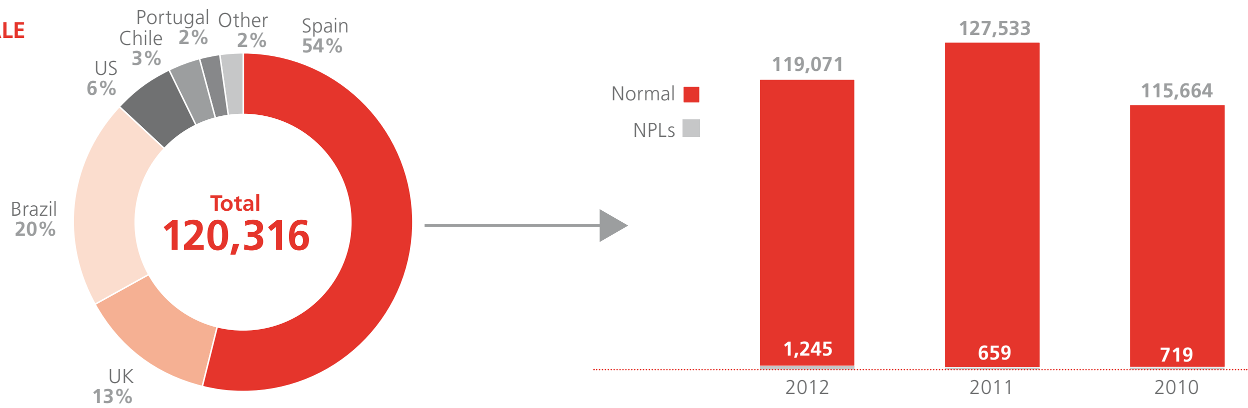
STANDARDISED



INDIVIDUALISED NON WHOLESALE



WHOLESALE



The structure of the main magnitudes by geographic area:

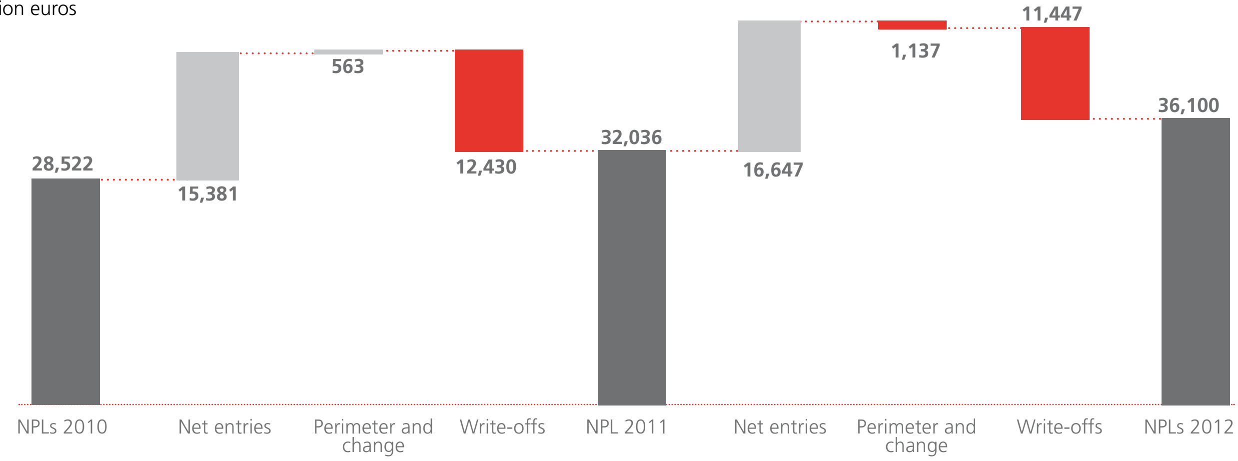
- **Continental Europe**
  - **Spain's**[1] NPL ratio was 6.74% (+125 b.p.). The ratio for the whole banking system was 10.58%, widening the spread by 143 b.p. over that in 2011. The efforts made in provisions for the real estate sector brought the coverage level to 70.6%.
  - **Portugal's** NPL ratio was 6.56% and coverage 53.1%. Santander Totta was positively viewed in the programme of special inspections by the Bank of Portugal and the troika. It was the only bank that did not require additional provisions.
  - **Poland's** NPL ratio was 4.72% (-17 b.p.) and coverage 68.3%.
- **The UK**[2] recorded a NPL ratio of 2.05% (+21 b.p.) and a coverage ratio of 45.4%.
- **Brazil's** NPL ratio[3] was 6.86% (+148 b.p.) and coverage 90.2%.
- **Latin America excluding Brazil**

  The overall NPL ratio was 3.62% and coverage 81.2%.
  - Lending in **Chile** accounted for 4.1% of the Group's total, with a mix of diversified portfolio and balanced between individual borrowers and companies. The NPL ratio was 5.17% and coverage 57.7%.
  - **Mexico's** lending grew 13.3% in 2012, driven by the macroeconomic scenario. This growth went hand in hand with good credit quality indicators. The NPL ratio was 1.94%, one of the lowest in the country, and coverage 157.3%, also well above the banking system's average.
- **Sovereign's** NPL ratio was 2.29% (-56 b.p.). Coverage rose by 9.7 p.p. to 105.9%.

Structure of NPLs and provisions

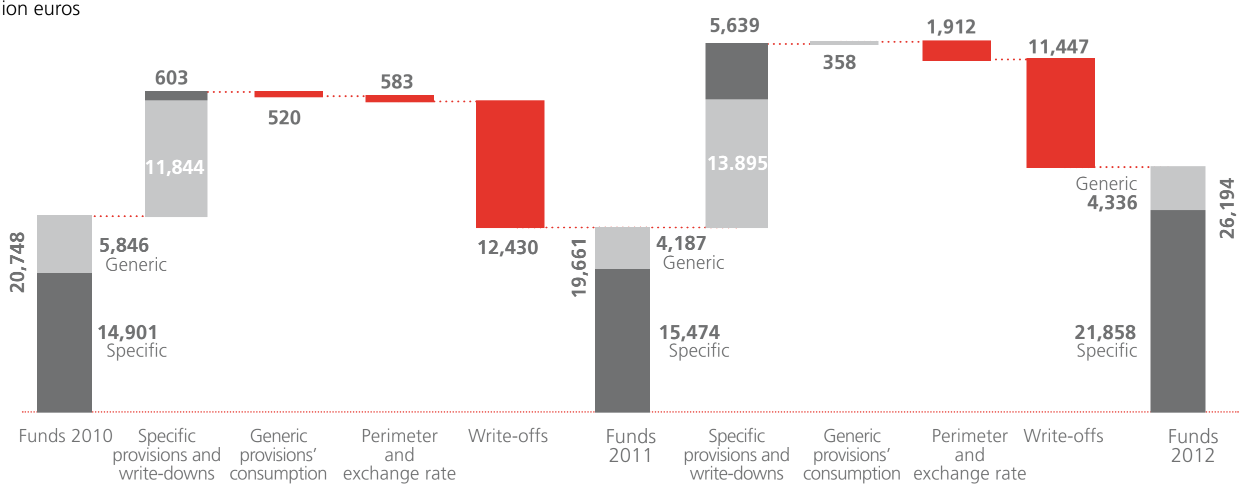
EVOLUTION OF NPLs BY THE CONCEPTS THAT COMPRISE THEM

Million euros



EVOLUTION OF FUNDS BY THE CONCEPTS THAT COMPRISE THEM

Million euros



1. More detail at 5.3.2. Spain.
2. More detail at 5.3.1. United Kingdom.
3. More detail at 5.3.3. Brazil.

Restructured/refinanced portfolio

The general term restructured/refinanced portfolio, in accordance with Bank of Spain circular 6/2012, refers to those operations in which the client has presented, or it is envisaged might present, financial difficulties in meeting their payment obligations in the prevailing contractual terms and, for this reason, it could be advisable to modify, cancel or even formalise a new transaction.

The restructuring/refinancing of debts is part of the usual risk management with clients, although it is at times of economic weakening that it assumes greater importance.

Grupo Santander follows very rigorous definitions and policies in this management process, which is conducted in accordance with the best practices and within the strictest compliance with regulatory requirements.

Grupo Santander has a detailed corporate policy for restructuring/refinancing, which meets the Bank of Spain's rules via circulars 4/2004 and 6/2012 and which is applied to all countries and clients[4]. This policy establishes rigorous criteria that underscore Santander's prudence in assessing these risks, noteworthy among which are those regarding its restricted use and the classification of this type of operation:

- There must be restrictive use of restructurings, which must be accompanied by guarantees or additional efforts by the client, avoiding actions that only postpone recognition of the non-performing loan.
- The aim is to recover all the amounts owed, which entails recognising as soon as possible the amounts that it is estimated cannot be recovered. Delaying immediate recognition of losses would be contrary to good management practices.
- The restructuring must always envisage maintaining the existing guarantees and, wherever possible, improving them and/or increasing the coverage. Effective guarantees not only serve to mitigate the severity, but also can reduce the probability of default.
- This practice should not mean granting additional financing to the client, nor serve to refinance the of debt other banks, nor be used as an instrument of cross-selling.
- It is necessary to assess all the refinancing alternatives and their effects, ensuring that the results would be better than those likely to be achieved in the event of not doing it.
- The new operation cannot mean an improvement in the classification as long as a satisfactory experience with the client does not exist.

All Grupo Santander's institutions apply these principles, adapting them to local needs and rules and always subordinated to complying with any stricter local rule that has to be implemented.

From the management standpoint, taking into account the client's different situation of irregularity at the time of the restructuring/refinancing, there are two types of operation:

- Those that arise from a non-doubtful loan situation. These operations refer to clients who, due to a change in their economic circumstances, are envisaged could experience an eventual reduction in their payment capacity, although at the time they are up to date with payments or have not failed to make payments for more than three months. This contingency can be resolved by adapting the debt conditions to the client's new payment capacity, which facilitates compliance with their obligations. Of the total restructured/refinanced portfolio, 77% corresponds to this type of operation.
- Operations that arise from a doubtful situation whether for subjective or objective reasons, when at least three months have passed since the first non-payment. These operations do not signify a release of provisions, as the doubtful risk classification remains, unless the criteria set out in the regulatory rules based on Bank of Spain circulars are fulfilled (payment of ordinary interest pending and, in all cases, contribution of new effective guarantees or a reasonable certainty of payment capacity), as well as the cautions which, under a criterion of prudence, are set out in the Group's corporate policy (sustained payment during a period on the basis of the features of the operation and the type of guarantees existing).

These operations are classified in accordance with their features in the following way:

- Doubtful: those restructurings in a process of normalisation or which, being classified as normal or sub standard, during the life of the operation, present new payment difficulties. In the event of this deterioration intensifying, in accordance with the criterion of corporate prudence, the loan will be considered as a write-off.
- Substandard: those restructurings emanating from doubtful loans which have met sustained payment for a certain period on the basis of the features of the operation and the type of guarantees existing.

  In the particular case of those operations with a grace period on capital payments, the restructuring will be classified as sub standard risk, if it is not already classified as doubtful risk, and must be maintained as such until the grace period ends
- Normal: those restructurings emanating from doubtful or substandard loans which have exceeded a period of observation which shows the re-establishment of the payment capacity in accordance with the periods established in the corporate policy.

[4] The main principles of restructuring are rigorously applied to standardised clients, while tending to one-off exceptional circumstances. In the case of individualised clients these principles can be used as a reference element, but individualised analysis of each case is particularly important, both for their correct identification as well as their subsequent classification, monitoring and adequate provisioning.

According to this policy, the operations in normal situation must be kept under this special watch for a minimum, precautionary period of two years and have amortised 20% of the principal of the loan, except for those articulated via some type of hair cut which will be maintained until its extinction.

The total portfolio stood at EUR 55,714 million at the end of 2012 and was distributed as follows:

RESTRUCTURED/REFINANCED PORTFOLIO
MIllion euros

	Normal	Substandard		Doubtful		Total	
	Portfolio	Portfolio	Specific coverage	Portfolio	Specific coverage	**% of total portfolio**	Specific coverage
Operations arising from non-doubtful situation	18,638	13,179	10%	11,117	41%	**77%**	14%
Operations arising from doubtful situation	3,601	2,079	23%	7,100	48%	**23%**	30%
Total	**22,239**	**15,258**	**12%**	**18,217**	**43%**	**100%**	**17%**

A more detailed breakdown of this portfolio can be found in the Auditor's Report and Annual Consolidated Accounts (Note 54).

From the credit classification standpoint, 67% of the total is classified in a non-doubtful status, while the other 33% which was in a doubtful situation, had a specific coverage of 43%.

Preventative risk management in this portfolio shows that **77% comes from a non-doubtful origin**, while that from doubtful situations only accounts for 1.5% of the Group's total credit risk with clients.

From the standpoint of its guarantees, more than 70% of the total portfolio has real guarantees (more than 92% in the case of the portfolio of companies with real estate purpose).

Of the Group's total portfolio, Spain's accounts for 59% (EUR 32,867 million) with the following features:

- The amount corresponding to **companies with a real estate purpose was EUR 11,256 million,** 72% of which is classified as doubtful or sub standard with specific coverage of 46%. Total coverage of this portfolio including the provisions set aside for the normal portfolio which correspond to it is 44%. **Following the provisions made in 2012, the real estate provisioning is effectively completed.**

- Of the total portfolio in Spain, **34% was in a doubtful situation with coverage of 42%.**

- From a management standpoint, it is important to highlight the **preventative management of risk together with the high level of existing guarantees:**
  - 89% (EUR 29,380 million) emanates from operations that come from a non-doubtful situation and 82% have real guarantees.
  - Only the remaining 11% (EUR 3,487 million) emanates from doubtful situation operations and 84% have real guarantees.

In the rest of the countries where the Group operates the restructured/refinanced portfolio does not account in any of them, for more than 1% of the Group's total credit risk with clients.

Management metrics[5]
Credit risk management uses other metrics to those already mentioned, particularly management of non-performing loans variation plus net write-offs (known in Spanish as VMG) and expected loss. Both enable risk managers to form a complete idea of the evolution and future prospects of the portfolio.

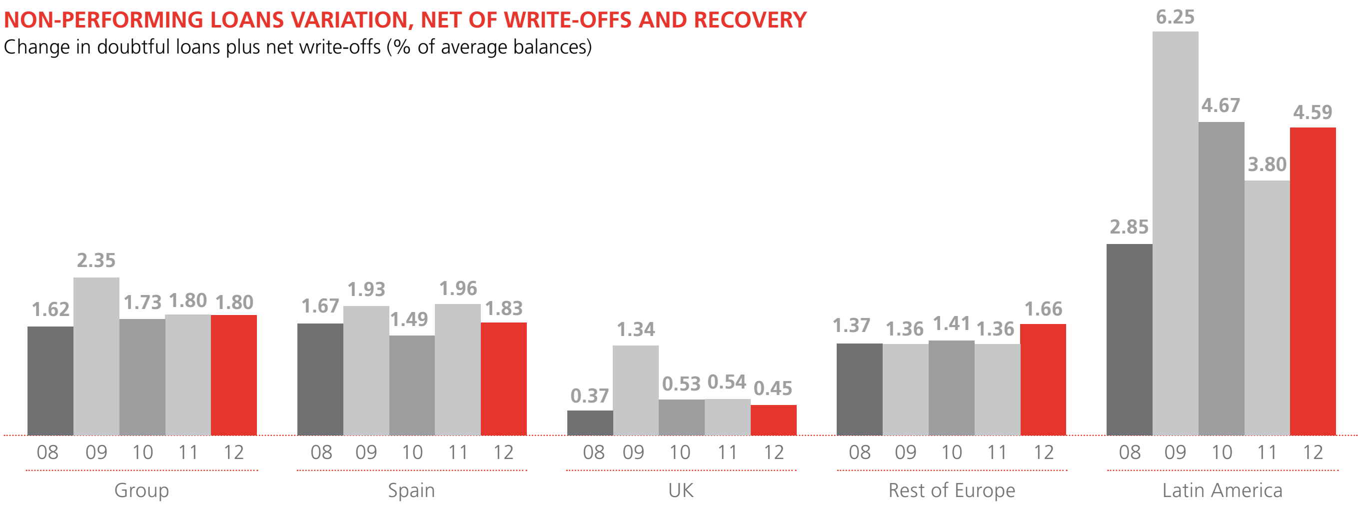
Unlike non-performing loans, the VMG refers to the total portfolio deteriorated over a period of time, regardless of the situation in which it finds itself (doubtful loans and write-offs). This makes the metric a main driver when it comes to establishing measures to manage the portfolio.

[5] For more detail on these metrics see 5.5.5. measurement and control in this section.

The **VMG** is frequently considered in relation to the average loan that generated it, giving rise to what is known as the risk premium, whose evolution can be seen below.

NON-PERFORMING LOANS VARIATION, NET OF WRITE-OFFS AND RECOVERY

Change in doubtful loans plus net write-offs (% of average balances)



2008: Includes ABN, but not Alliance & Leicester. 2009: Does not include either Sovereign or Venezuela. 2011: Does not include Bank Zachodni WBK. 2012: Does not include Colombia or UCI.

Despite the unfavourable economic environment, the Group's risk premium was virtually unchanged over 2011, due to the geographic distribution.

The **expected loss** is the estimate of the economic loss during the following year of the portfolio existing at a given moment. Its forward-looking component complements the view provided by the VMG when analysing the portfolio and its evolution.

The expected loss reflects the portfolio's features as regards the exposure at default (EaD), the probability of default (PD) and the severity or recovery once the default of occurs (loss given default, LGD).

The table below sets out the distribution by segments in terms of EaD, PD and LGD. For example, it can be seen how the consideration of the LGD in the metrics makes the portfolios with mortgage guarantee generally produce a lower expected loss, the result of the recovery that occurs in the event of a default via the mortgaged property.

The expected loss of the exposure with clients is 1.27% (1.30% in 2011) and 0.99% for the whole of the Group's credit exposure (1.05% in 2011), which underscores the medium-low risk profile assumed.

SEGMENTATION OF THE CREDIT RISK EXPOSURE

Segment	EaD[1, 2]	%	Average PD	Average LGD	Expected loss
Sovereign debt	179.588	17.2%	0.10%	9.62%	0.01%
Banks and other fin. inst.	62.363	6.0%	0.35%	54.41%	0.19%
Public sector	14.853	1.4%	2.87%	7.91%	0.23%
Corporate	135.640	13.0%	0.64%	33.88%	0.22%
SMEs	162.733	15.6%	5.20%	36.70%	1.91%
Individual mortages	318.947	30.6%	2.97%	8.65%	0.26%
Consumer credit (individuals)	115.577	11.1%	6.94%	55.25%	3.83%
Credit cards (individuals)	37.209	3.6%	5.05%	68.18%	3.44%
Other assets	14.643	1.4%	4.07%	29.44%	1.20%
Memorandum item[3]	*784.959*	*75.4%*	*3.71%*	*34.20%*	*1.27%*
Total	**1.041.553**	**100.0%**	**2.89%**	**34.10%**	**0.99%**

Data at December 2012.
1. Excludes doubtful loans.
2. Million euros.
3. Excludes sovereign debt, banks and other financial institutions and other assets.

5.3. Geographic areas with the largest concentration of risk

The portfolios with the largest concentration of risk are set out below, based on the figures in "5.2.2. Performance of magnitudes in 2012."

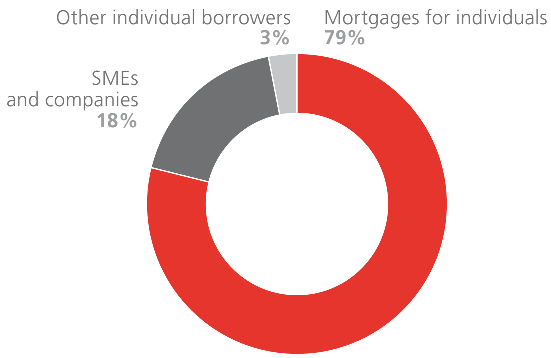
5.3.1. United Kingdom

5.3.1.1. General view of the portfolio

Santander UK's loans amounted to EUR 255,519 million at the end of 2012 (32.1% of the Group's total), with the following distribution by segments:

SEGMENTATION OF THE PORTFOLIO

Million euros

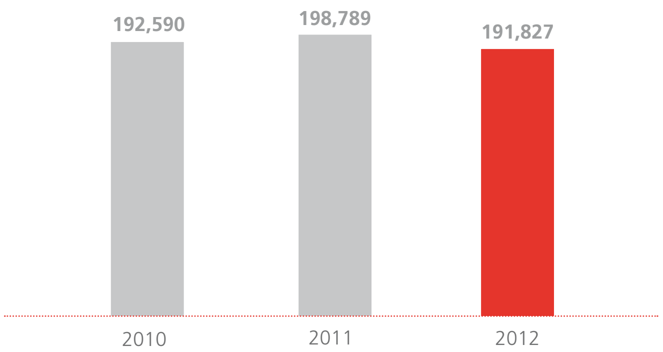


5.3.1.2. Mortgage portfolio

Santander UK's mortgage portfolio at the end of 2012 was EUR 191,827 million and its evolution over the last three years is set out in the chart below:

EVOLUTION OF THE MORTGAGE PORTFOLIO

Million euros



This portfolio consists of first mortgages for buying or reforming homes, granted to new as well as existing clients. There are no operations that entail second or successive charges on mortgaged properties.

The mortgaged property must always be located within UK territory, regardless of the destiny of the financing. Mortgages can be granted for properties outside the UK, but the collateral for such mortgages must consists of a property in the UK.

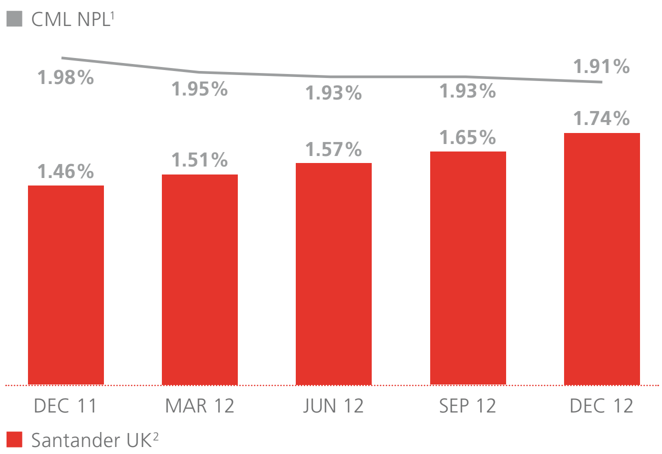
Most of the mortgages are in Greater London, where housing prices are more stable even during a period of economic slowdown.

All the properties are assessed independently before each new operation is approved, in accordance with the principles established by the Group for risk management.

Mortgages that have already been granted are subject to a quarterly updating of the value of the property in guarantee, by an independent agency, using an automatic valuation system in accordance with the market's usual practices and in compliance with prevailing legislation.

In 2012, the NPL ratio of this portfolio rose to 1.74% from 1.46% at the end of 2011, although always below the ratio for the whole of the banking sector, according to the data published by the Council of Mortgage Lenders.

EVOLUTION OF THE NPL RATIO OF THE MORTGAGE PORTFOLIO



[1] CML figures in accordance with the volume of cases.
[2] Santander UK figures in accordance with the balance of cases.

This growth is due to the following reasons: fall in lending as a result of stricter credit and pricing policies implemented in previous years, lower balances of non-performing loans during 2012 and local changes to the definition of what constitutes a NPL.

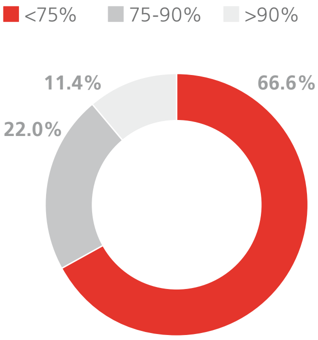
As regards the reduction in NPL exits during the year, this was mainly due to implementing new collection procedures, within the framework of the regulatory initiative known as treating customers fairly, which generated an increase in administrative tasks that must be carried out when managing non-payments, which implies that clients remain in a NPL situation for a longer time.

The adoption of a more conservative focus in the definition of a non-performing loan meant an extraordinary impact of EUR 99 million, corresponding to clients with payment delays of between 30 and 90 days and which were in a process of bankruptcy in the last two years.

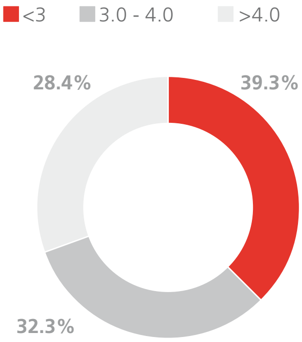
As for the portfolio's profile, applying strict credit policies enabled NPL entries to remain at levels very similar to those in 2011. The maximum loan-to-value (LTV) requirement was reduced to 75% for those loans that amortized capital and interest and to 50% for those that amortized interest regularly and the capital on maturity. The average simple value of this metric for the whole of the portfolio was 52.2%, while the average weighted loan-to-value was 49%. The proportion of the portfolio with a loan-to-value of more than 90% remained at 12%, well below the UK market's average of more than 17% (CACI mortgage market data).

The following charts show the LTV structure for the stock of residential mortgages and the distribution in terms of the income multiple of new loans in 2012:

LOAN TO VALUE [1]
(AVERAGE 52.2%)



INCOME MULTIPLE [2]
(AVERAGE 3.0)



1. Loan to value: relation between the amount of the loan and the appraised value of the property.
2. Income multiple: relation between the total original amount of the mortgage and the customer's annual gross income declared in the loan request.

The credit risk policies explicitly forbid loans regarded as high risk (subprime mortgages) and establish demanding requirements for credit quality, both for operations and for clients. For example, in 2009 mortgages with a loan-to-value of more than 100% were banned. As of then and until 2012 less than 0.1% of new loans had a loan-to-value of more than 90%. A maximum limit was set in that year of 75% for this indicator.

There are varies types of products with different risk profiles, all of them subject to the limits inherent in the policies of a prime lender such as Santander UK. The features of some of them (in brackets the percentage of the portfolio of UK mortgages they represent):

- *Interest only loans* (35.0%)*: The customer amortizes every month the interest and capital at maturity. An appropriate repayment vehicles such as a pension plan, mutual funds, etc is needed. This is a regular product in the UK market for which Santander UK applies restrictive policies in order to mitigate the risks inherent in it. For example, maximum LTV of 50%, higher cut-off in the admission score or the evolution of the payment capacity simulating the amortisation of capital and interest payments instead of just interest. New loans of this type were reduced by 60% in 2012.

- *Flexible Loans* (11.4%): This type of loan contractually enables the customer to modify the monthly payments or make additional provision of funds up to a pre-established limit, as well as having disbursements from previously paid amounts above that limit.

- *Buy to Let* (1.31%): Buy to let mortgages (purchase of a property to then rent it out) account for a small percentage of the total portfolio. Admission was halted between 2009 and 2012. In 2012, after the improvement in market conditions, only EUR 18 million a month was approved (around 2% of the total monthly admission) and under strict risk policies.

The following table shows the distribution by type of loan:

SANTANDER UK: DISTRIBUTION BY TYPE OF LOAN
Million euros

	December 2012		December 2011		December 2010	
	Portfolio	**% of total**	**Portfolio**	**% of total**	**Portfolio**	**% of total**
Residential mortgages[1]	191,827	75.1%	198,789	82.1%	192,590	78.6%
First-time buyer[2]	32,838	12.9%	33,010	13.6%	34,666	14.2%
Mover[3]	75,920	29.7%	71,295	29.4%	75,110	30.7%
Remortgage[4]	83,069	32.5%	94,484	39.0%	82,814	33.8%

1. Percentage of residential mortgages calculated on the total portfolio, while the percentage by type of borrower is on the basis of the total number of mortgages.
2. First-time buyer: customers who buy a home for the first time.
3. Mover: customers who change home with or without changing the bank that granted the mortgage.
4. Remortgage: customers who transfer their mortgage from another bank.

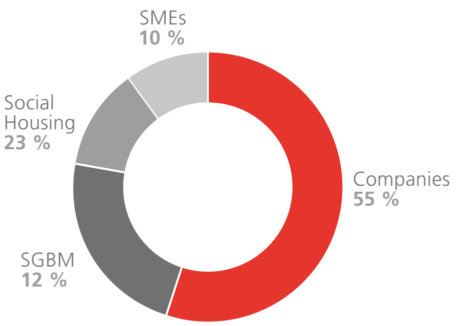
* Percentage calculated for interest only loans. If we include loans with some component of interest only the percentange of the portfolio increases to 46%.

An additional indicator of the portfolio's good performance is the small volume of foreclosed homes (EUR 157 million at the end of 2012, only 0.1% of the total mortgage exposure). Efficient management of these cases and the existence of a dynamic market for this type of property, which enables sales to take place in a short period, contributed to the good results.

5.3.1.3. SMEs and companies

As shown in the chart on the segmentation of the portfolio at the beginning of this section, lending to SMEs and companies (EUR 42,176 million) represented 18% of the total at Santander UK.

SME AND COMPANY PORTFOLIO SEGMENTS



SMEs: This segment includes those small firms which, from the risk management standpoint, are in the standardised model. Specifically, those belonging to the business lines of small business banking and regional business centres. Total lending at the end of 2012 amounted to EUR 4,248 million, with a NPL ratio of 7.1% (7.4% at the start of the year).

Companies: This includes those under individualised risk management (i.e. have a risk analyst assigned). Also included are portfolios considered as not strategic (legacy and non-core). Lending at the end of 2012 amounted to EUR 23,389 million, with a NPL ratio of 5.8% (6.2% at the beginning of the year).

SGBM: This includes companies under the risk management model of Global Wholesale Banking. Lending was EUR 4,865 million at the end of 2012 and there were virtually no NPLs.

Social housing: This includes lending to companies that build, sell and rent social housing. This segment is supported by local governments and the central government and has no NPLs. Lending stood at EUR 9,674 million at the end of 2012.

In line with the objective of becoming the reference bank for SMEs and companies, the most representative portfolios of this segment grew by around 18% in 2012 (excluding legacy and non-core portfolios).

5.3.2. Spain

5.3.2.1. General view of the portfolio

The total credit risk (including guarantees and documentary credits) of Santander's businesses in Spain amounted to EUR 249,477 million at the end of 2012 (31% of the Group's total), with an adequate level of diversification, by both product and customer segment.

Lending declined as a result of the fall in demand for credit, the economic situation and, as regards real estate balances, the active policy of reducing these exposures.

CREDIT RISK DISTRIBUTION, SPAIN
Million euros

	2012	2011	2010	cha. 12/11	cha. 11/10
Total credit risk*	**249,477**	**271,180**	**283,424**	**(8%)**	**(4%)**
Home mortgages	**55,423**	58,535	61,387	(5%)	(5%)
Rest of loans to individuals	**24,645**	24,963	28,377	(1%)	(12%)
Companies without real estate purpose**	**139,851**	151,157	152,900	(7%)	(1%)
Real estate purpose	**15,867**	23,442	27,334	(32%)	(14%)
Public administrations	**13,692**	13,083	13,426	5%	(3%)

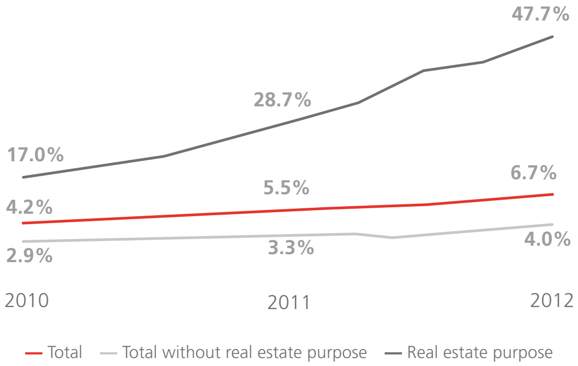
* Including guarantees and documentary credits.
** Including financing for public sector suppliers (4bn).

The NPL ratio for the total portfolio increased during the year, as a result of the deterioration of the real estate portfolio, to 6.74%, 384 b.p. below the ratio for the whole of the banking system. The differential with the banking system widened in 2012, reflecting Santander's hallmark criterion of prudence in risk management.

Excluding the portfolio with real estate purpose, the NPL ratio was 4.0% (+65 b.p.) and mainly due to the reduction in lending.

NPL RATIO SPAIN

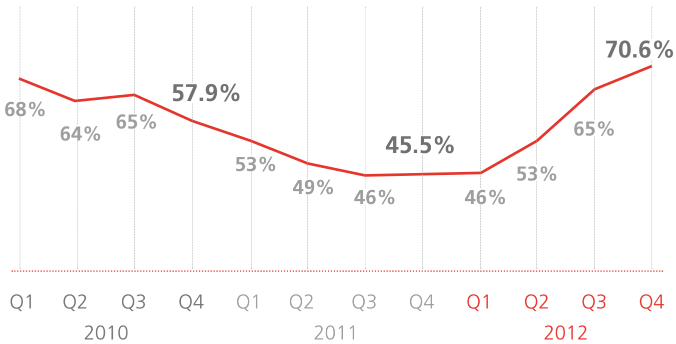
%



A significant effort was made in 2012 in provisions, which produced a notable rise in coverage levels. At the end of 2012, provisions covered 70.6% of doubtful loan balances, up from 45,5% at the end of 2011. This effort was particularly intense in the real estate portfolio, as shown below, and covers all the requirements of the Royal Decree Laws 2/2010 and 18/2010 on coverage of problematic real estate loans.

COVERAGE RATIO, SPAIN

%



Below are the main portfolios.

5.3.2.2. Home mortgages

Lending to households to buy a home by the main businesses in Spain amounted to EUR 55,997 million at the end of 2012 (22.4% of total credit), of which 98.9% had mortgage guarantee.

LENDING TO HOUSEHOLDS TO ACQUIRE HOMES

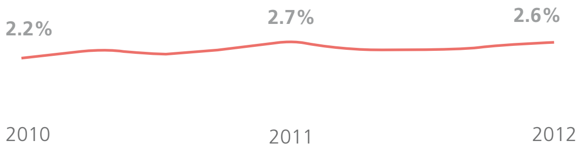
Million euros

	2012	2011	2010
Gross amount	**55,997**	59,453	61,936
Without mortgage guarantee	**574**	918	549
With mortgage guarantee	**55,423**	58,535	61,387
of which doubtful	**1,425**	1,607	1,388
Without mortgage guarantee	**8**	28	30
With mortgage guarantee	**1,417**	1,579	1,358

The NPL ratio of the portfolio with mortgage guarantee was slightly lower than in 2011 and ended 2012 at 2.6%, well below that for the rest of businesses in Spain.

NPL RATIO OF HOME MORTGAGES IN SPAIN

%



The portfolio of mortgages for homes in Spain kept its medium-low profile and with limited expectations of a further deterioration:

- All mortgages pay principle right from the start.
- Early amortization is usual and so the average life of the operation is well below that in the contract.
- The borrower responds with all his assets and not just the home.
- High quality of collateral concentrated almost exclusively in financing the first home.
- 89% of the portfolio has a loan-to-value of less than 80% (total risk/latest available value of the home).
- Average affordability rate of close to 29%.

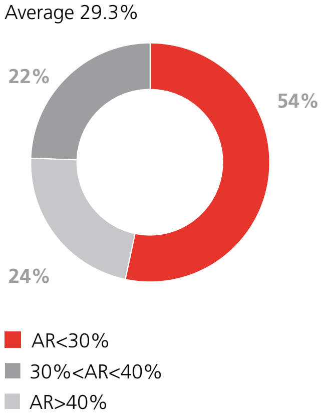
RANGES OF TOTAL LTV

Million euros

	2012	2011
Gross amount with mortgage guarantee	**55,423**	58,535
LTV < 40%	**12,774**	13,020
LTV between 40% y 60%	**16,443**	16,503
LTV between 60% y 80%	**19,915**	21,940
LTV between 80% y 100%	**5,702**	6,474
LTV > 100%	**589**	597
of which doubtful	**1,417**	1,579
LTV < 40%	**155**	177
LTV between 40% y 60%	**198**	271
LTV between 60% y 80%	**359**	598
LTV between 80% y 100%	**547**	425
LTV > 100%	**158**	107

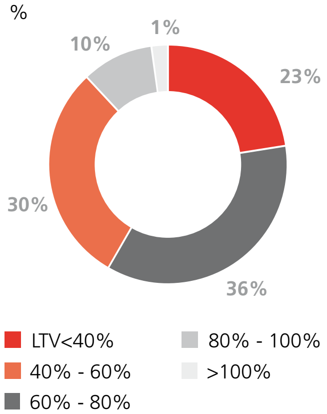
AFFORDABILITY RATE

Average 29.3%



LOAN TO VALUE

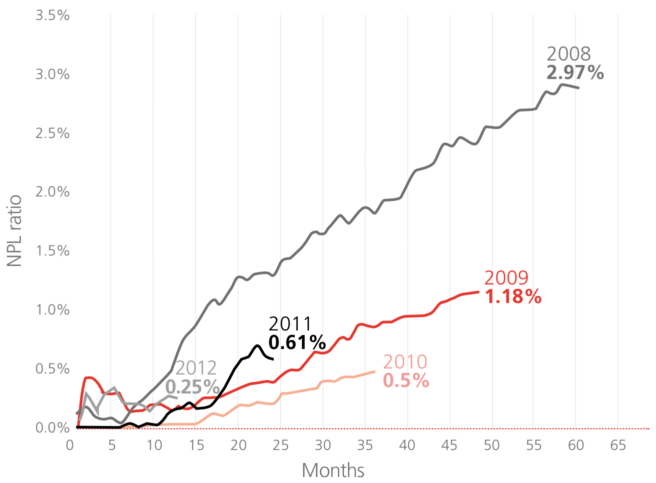
%



Note: Affordability rates for Santander's and Banesto's retail networks.
Loan-to-value: Percentage total risk/amount of the latest value appraisal. With management criteria, the average LTV of the portfolio of residential mortgages is 56.6%.
Affordability rate: relation between the annual quotas and the customer's net income.

Despite the economic situation and the gradual deterioration over the last few years, the loan admission measures produced a good evolution of vintages. For example, for the years 2008-2012 in the Santander branch network in Spain, the maturity of mortgage vintages was as follows:

MATURITY OF MORTGAGE VINTAGES, SANTANDER BRANCH NETWORK SPAIN



Note: mortgage vintages of the Santander Branch Network in Spain.

Grupo Santander in Spain offered as of August 1, 2011 a three-year moratorium on capital to alleviate the situation of clients, including the self-employed, for those presenting objective causes of economic problems, such as being unemployed or having suffered a fall in income of more than 25%, and thus facing temporary difficulties in paying the mortgage on their usual home. Customers who take advantage of this measure have the possibility of extending the maturity of their loan in order to compensate for the grace period, but without changing the loan's financial conditions either during the grace period or at the end of it.

This measure served to mitigate the social impact of the economic crisis, while preserving the good culture of payment, one of the elements that distinguishes the Spanish mortgage market. At the end of 2012, more than 21,000 clients had taken advantage of this measure.

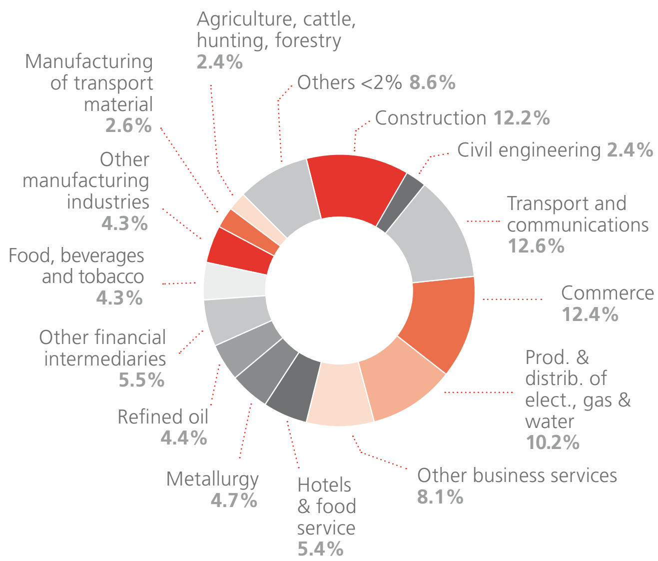
5.3.2.3. Portfolio of companies without real estate purpose

Lending to companies without a real estate purpose by Santander's businesses in Spain amounted to EUR 139,851 million at the end of 2012.

More than 90% of the lending in this segment was to clients under individualised management who, for reasons of the risk assumed, have a risk analyst assigned who continuously monitors the client during all phases of the risk cycle.

The portfolio is well diversified, with more than 250,000 active clients and no significant concentrations by sector.

DISTRIBUTION OF COMPANIES PORTFOLIO WITHOUT REAL ESTATE PURPOSE



The NPL ratio of this portfolio remained at levels lower than the total of businesses in Spain and at the end of 2012 was 4.4%.

5.3.2.4. Portfolio with real estate purpose

The exposure net of provisions dropped by EUR 12,383 million in 2012 to EUR 12,509 million and represented 1.7% of the Group's total credit portfolio. This decline was due to the effort made to reduce the portfolio with real estate purpose and to the increase in coverage provisions.

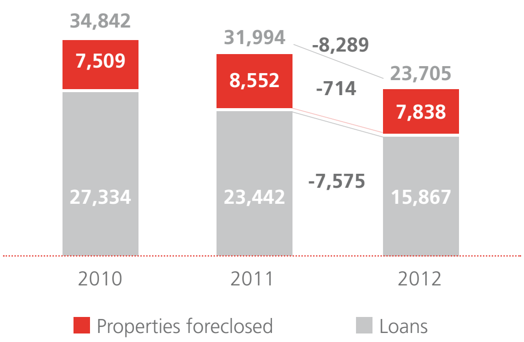
EXPOSURE OF REAL ESTATE PURPOSE PORTFOLIO
Million de euros

	2012			2011		
	Gross balance	% Coverage	Net balance	Gross balance	% Coverage	Net balance
1. Loans	15,867	44%	8,835	23,442	12%	20,618
a. Normal	6,142	39%	3,722	12,804	0%	12,804
b. Sub-standard	2,149	39%	1,316	3,916	16%	3,303
c. Doubtful	7,576	50%	3,797	6,722	33%	4,511
2. Foreclosed	7,838	53%	3,674	8,552	50%	4,274
Total real estate loans (1+2)	**23,705**	**47%**	**12,509**	**31,994**	**22%**	**24,892**

-12,383

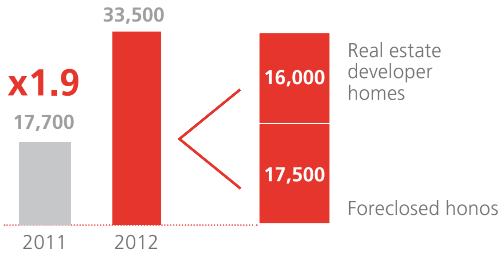
As for the reduction of the portfolio, at the end of 2012 the gross exposure with real estate purpose in Spain was EUR 23,705 million, of which EUR 15,867 million were loans and EUR 7,838 million foreclosures. This was a decline of EUR 8,289 million (EUR 714 million foreclosures and EUR 7,575 million loans) over 2011 (-25.9%) and 44.2% since the onset of the crisis in 2008.

REAL ESTATE EXPOSURE IN SPAIN
Million euros



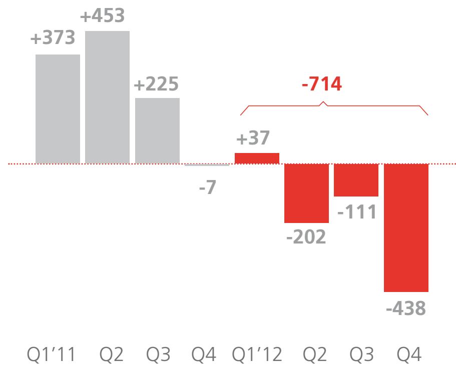
The Group assigned dedicated teams to reduce the real estate risk, which resulted in 33,500 operations, double the number in 2011. Of this number, 31,000 were homes and 2,500 other properties. A total of 17,500 foreclosed homes were sold and 16,000 sales of financed real estate developers.

REAL ESTATE SALES IN SPAIN
(Number operations)



As a result of this, 2012 was the first year when there was a fall in foreclosures, as seen in the chart below:

QUARTERLY EVOLUTION OF FORECLOSURES 2011 AND 2012
Million euros



As regards **coverage**, the Group set aside EUR 6,140 million of provisions for real estate loans in Spain, more than that required by the Spanish government's two real decree laws. Following provisions made in 2012, the real estate provisioning is effectively completed. Coverage of the real estate exposure in Spain was 47%, up from 22% at the end of 2011.

Coverage increased in all tranches including in portfolios in normal and sub-standard situation, which significantly lifted their levels of provisions.

Coverage by the type of real estate that guarantees the loans (regardless of their classification by credit quality as doubtful, sub-standard or normal) or by foreclosed properties is as follows:

EXPOSURE AND COVERAGE
Million euros

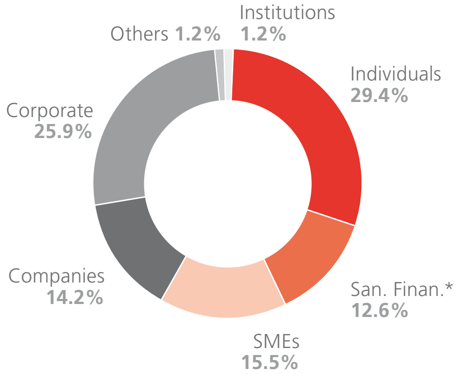
	Real estate loans		Foreclosed properties		Total	
	Exposure	**Coverage**	**Exposure**	**Coverage**	**Exposure**	**Coverage**
Total	**15,867**	**44%**	**7,838**	**53%**	**23,705**	**47%**
Finished buildings	7,025	21%	2,440	39%	9,465	25%
Developers	1,494	42%	668	50%	2,162	45%
Land	5,126	60%	4,730	61%	9,856	60%
Rest of guarantees	2,222	86%			2,222	86%

5.3.3. Brazil

Brazil's lending rose 9.58 % in 2012 (excluding the exchange rate impact) to EUR 89,142 million (11% of the Group's total lending). This growth was aligned with the expansion of the Brazilian economy.

The portfolio is diversified by customers and has a big volume of retail operations: 56.1% to individuals, consumer finance and SMEs.

PORTFOLIO *MIX*
%



* Santander Financiamentos: units specialised in consumer finance (mainly auto finance).

Lending to individuals grew 11%. The segment that grew the most was mortgages, though its share of the portfolio remains low (5% of the total).

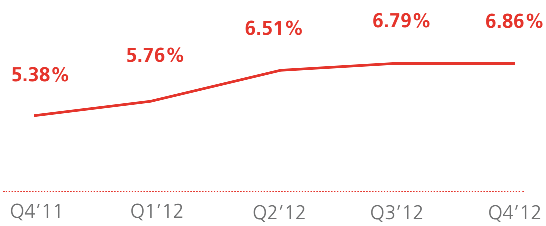
Lending by Santander Financiamentos, specialised in consumer finance, mainly auto finance, fell 3%, in line with the trend in these portfolios in the banking system. Loans to SMEs and large companies rose 13%.

LENDING: SEGMENTATION
Million euros. Constant exchange rate. December 2012

	2012	**2011**	**2010**	**12/11**	**11/10**
Individuals	**26,187**	23,514	18,890	11%	24%
Mortgages	**4,651**	3,755	2,504	24%	50%
Consumer	**14,395**	13,344	11,142	8%	20%
Cards	**5,983**	5,232	3,980	14%	31%
Others	**1,159**	1,184	1,264	(2%)	(6%)
Santander Financiamentos	**11,208**	11,518	10,036	(3%)	15%
SMEs and large companies	**49,599**	44,023	38,814	13%	13%
SMEs	**13,829**	11,489	9,064	20%	27%
Companies	**12,647**	12,115	9,893	4%	22%
Corporate	**23,123**	20,419	19,857	13%	3%

The NPL ratio was 6.86% at the end of 2012, up from 5.38% a year earlier, against a backdrop of a slowdown in the Brazilian economy which produced a rise in NPLs throughout the banking system.

NPL RATIOS



Coverage was 90.2% (95% in 2011).

5.4. Other credit risk optics

5.4.1. Credit risk by activity in the financial markets

This section covers credit risk generated in treasury activities with clients, mainly with credit institutions. This is developed through financing products in the money market with different financial institutions, as well as derivatives to provide service to the Group's clients.

Risk is controlled through an integrated system and in real time, enabling 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).

Exposure in derivatives

The total exposure to credit risk from activities in the financial markets amounted to EUR 52,184 million and is concentrated in high quality counterparties (76.6% of the risk with counterparties has a rating equal to or more than A-).

OTC DERIVATIVES DISTRIBUTION BY EQUIVALENT CREDIT RISK AND MARKET VALUE INCLUDING THE MITIGATION IMPACT*

Million euros

	End 2012		End 2011		End 2010	
	Gross Exposure	Gross MtM	Gross Exposure	Gross MtM	Gross Exposure	Gross MtM
CDS Protection Acquired	699	610	2,269	2,316	1,324	1,144
CDS protection sold	478	467	231	228	131	622
Total credit derivatives	1,177	1,077	2,500	2,544	1,455	1,766
Equity forwards	616	339	437	147	369	(146)
Equity options	2,582	1,203	2,635	1,516	3,028	1,834
Equity spot	0	0	0	4	1	21
Equity swaps	1,347	176	914	385	677	237
Total equity derivatives	4,544	1,719	3,986	2,053	4,076	1,947
Fixed-income forwards	143	5	59	0	121	30
Fixed-income spot	0	0	0	0	1	0
Total fixed income derivatives	143	5	136	0	135	31
Forward and spot rates	4,409	1,235	6,340	1,648	5,271	1,812
Exchange-rate options	1,744	662	2,058	604	1,319	466
Other exchange rate derivatives	6	1	5	0	13	2
Exchange-rate swaps	27,230	9,422	28,837	10,599	24,957	10,545
Total exchange rate derivatives	33,389	11,321	37,241	12,851	31,560	12,825
Asset Swaps	928	870	904	850	342	692
Call Money Swaps	1,141	673	1,544	573	951	324
Interest rate structures	2,487	2,137	2,364	1,866	2,029	1,709
Forward interest rates - FRAs	104	40	174	69	17	16
IRS	117,127	89,278	106,414	72,048	52,810	46,731
Other interest-rate derivatives	5,827	4,415	5,471	3,608	3,174	3,069
Total interest-rate derivatives	127,614	97,412	116,871	79,014	59,324	52,540
Commodities	459	286	877	402	580	313
Total commodity derivatives	459	286	877	402	580	313
Total gross derivatives	167,326	111,821	161,611	96,864	97,131	69,422
Total net derivatives (without collateral)**	62,738	6,922	64,866	7,381	53,766	3,002
Collateral	(10,555)	-	(11,508)	-	(6,873)	-
Total net	**52,184**	**6,922**	**53,358**	**7,381**	**46,893**	**3,002**

* Opening of the exposure by products in gross risk as it is methodologically not possible to separate out net risk by product.
** Market value used to include the effects of mitigant agreements to calculate the exposure by counterparty risk.

NOTIONAL OTC DERIVATIVE PRODUCTS BY MATURITY*

Millones de euros

	Until 1 year	1-5 years	5-10 years	Over 10 years	Total
CDS protection acquired	27	324	92	278	**699**
CDS protection sold	77	354	25	1	**478**
Total credit derivatives	104	678	117	279	**1,177**
Equity forwards	408	208	0	0	**616**
Equity options	978	1,361	176	67	**2,582**
Equity spot	0	0	0	0	**0**
Equity swaps	1,156	190	0	0	**1,347**
Total equity derivatives	2,542	1,759	176	67	**4,545**
Fixed-income forwards	133	10	0	0	**143**
Fixed-income spot	0	0	0	0	**0**
Total fixed income derivatives	133	10	0	0	**143**
Forward and spot rates	3,590	793	26	0	**4,409**
Exchange-rate options	1,344	400	0	0	**1,744**
Other exchange rate derivatives	6	1	0	0	**6**
Exchange-rate swaps	7,521	12,139	5,082	2,487	**27,230**
Total exchange rate derivatives	12,461	13,333	5,108	2,487	**33,389**
Asset Swaps	18	119	204	588	**928**
Call Money Swaps	545	504	44	49	**1,141**
Interest rate structures	19	63	53	2,352	**2,487**
Forward interest rates - FRAs	103	1	0	0	**104**
IRS	4,384	27,151	34,586	51,006	**117,127**
Other interest-rate derivatives	270	1,103	3,002	1,452	**5,827**
Total interest-rate derivatives	5,339	28,940	37,888	55,447	**127,614**
Commodities	85	373	0	0	**459**
Total commodity derivatives	85	373	0	0	**459**
Total gross derivatives	20,664	45,093	43,290	58,280	**167,326****
Collateral	(10,555)	-	-	-	**-**

* Opening of the exposure by products in gross risk as it is methodologically not possible to separate out net risk by product.
** After mitigants are applied (netting and colateral), total net risk is EUR 52,184 million.

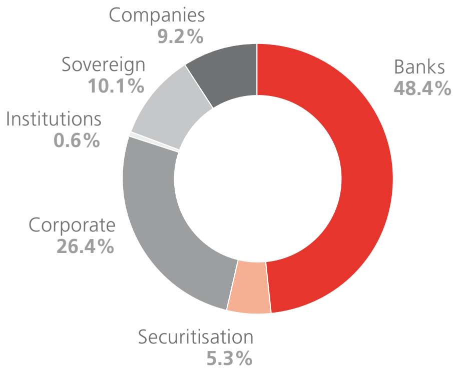
Around 50% of the exposure with derivatives is with banks with whom we operate almost entirely under netting and collateral agreements. The rest of operations with customers who are not financial institutions are, in general, operations whose purpose is hedging. Occasionally, operations are conducted for purposes other than hedging, always with specialised clients.

DISTRIBUTION OF RISK IN OTC DERIVATIVES BY RATING OF COUNTERPARTY

RATING	%
AAA	7.71%
AA	3.95%
A	64.91%
BBB	20.14%
BB	2.95%
B	0.30%
Other	0.05%

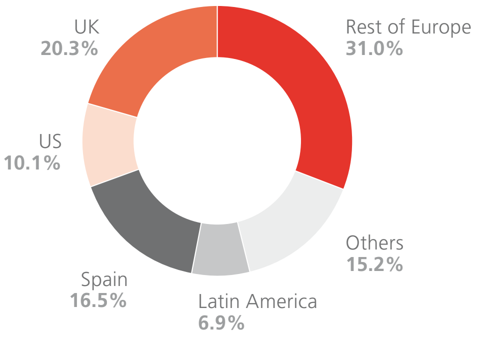
The distribution of risk in derivatives by type of counterparty was 48.4% with banks, 26.4% with large companies and 9.2% with SMEs.

DISTRIBUTION OF RISK IN OTC DERIVATIVES BY TYPE OF COUNTERPARTY



As regards the geographic distribution of risk, 16.5% is with Spanish counterparties, 20% with UK counterparties (mainly Santander UK's operations), 31% the rest of Europe, 10% the US and 7% Latin America.

GEOGRAPHIC DISTRIBUTION OF RISK IN DERIVATIVES



OTC derivatives, organised markets and clearing houses
The Group's policies seek to anticipate wherever possible the implementation of measures resulting from new regulations regarding operations of OTC derivatives, both if settled by clearing house or if remaining bilateral. Since 2011, there has been a gradual standardisation of OTC operations in order to conduct clearing and settlement via houses of all new trading operations required by the new rules, as well as foster internal use of the electronic execution systems.

As regards the operations of organised markets, credit risk is not considered as incurred as this risk is eliminated by the organised markets acting as counterparty in the operations, given that they have mechanisms that enable them to protect their financial position via systems of deposits and improved guarantees and processes that ensure the liquidity and transparency of transactions. The following table show the relative share in total derivatives of new operations settled by clearing house at the end of 2012 and the significant evolution of operations settled by clearing house since 2011.

RISK DISTRIBUTION WITH OTC DERIVATIVES ON THE BASIS OF MARKET TRADING AND TYPE OF DERIVATIVE

Nominal in million euros

	Bilateral		CCP*		
	Nominal	%	Nominal	%	Total
Credit derivatives	95,030	100%	-	0%	**95,030**
Equity derivatives	72,141	100%	138	0%	**72,279**
Fixed-income derivatives	6,530	99%	33	1%	**6,563**
Exchange rate derivatives	586,232	100%	988	0%	**587,220**
Interest rate derivatives	2,164,197	76%	669,750	24%	**2,833,947**
Commodities derivatives	1,871	100%	-	0%	**1,871**
Total	**2,926,002**	**81%**	**670,908**	**19%**	**3,596,610**

* Central Counterparties.

RISK DISTRIBUTION ON THE BASIS OF SETTLEMENT IN CCPS AND BY TYPE OF DERIVATIVE AND EVOLUTION

Gross exposure. Million euros

	2012	2011	2010
Equity derivatives	**4**	2	61
Exchange rate derivatives	**11**	13	12
Interest rate derivatives	**17,711**	12,770	23
Total	**17,726**	12,785	96

The Group actively manages operations not settled by clearing house and seeks to optimise their volume, given the requirements of spreads and capital that the new regulations impose on them.

In general, the operations with financial institutions are done under netting and collateral agreements, and a continued effort is being made to ensure that the rest of operations are covered under this type of agreement.

RISK DISTRIBUTION ON THE BASIS OF THE COLLATERAL TYPE BY OTCS NOT SETTLED IN CCPS

Million euros

	Gross exposure	MtM
With collateral	103,016	(1,810)
Without collateral	46,584	13,344

In general, the collateral contracts that the Group signs are bilateral. There are some exceptions mainly with multilateral entities and securitisation funds.

Activity in credit derivatives
Grupo Santander uses credit derivatives to cover loans, customer business in financial markets and 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.

In notional terms, the CDS position incorporates EUR 47,105 million of acquired protection and EUR 42,529 million of sold protection.

At 31 December 2012, for the Group's trading activity, the sensitivity of lending to increases in spreads of one basis point was minus EUR 0.3 million, similar to 2011, and the average VaR during the year was EUR 2.9 million, significantly lower than in 2011 (average VaR of EUR 10.6 million).

5.4.2. Concentration risk

Control of concentration risk 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 risk committee establishes the policies and reviews the appropriate exposure limits for appropriate management of the degree of concentration of credit risk portfolios[6].

The Group is subject to the Bank of Spain regulation on large risks. In accordance with Circular 3/2008 (on determining and control of minimum equity) and subsequent changes, the value of all the risks that a credit institution contracts with the same person, entity or economic group, including that in the part which is non-consolidatable, cannot exceed 25% of its equity. The risks maintained with the same person, whether an individual or a company or an economic group, are considered large risks when their values exceeds 10% of the equity of the credit institution. The exception from this treatment are exposures to OECD governments and central banks.

At 31 December 2012, there were several financial groups initially exceeded 10% of shareholders' funds: three EU financial institutions, two US financial entities, an oil company and a EU central counterparty entity. After applying risk mitigation techniques and the rules for large risks, all of them were below 5.5% of eligible equity.

At 31 December 2012, the 20 largest economic and financial groups, excluding AAA governments and sovereign securities denominated in local currency, represented 5.0% of the outstanding credit risk of the Group's clients (lending plus guarantees), the same level as in 2011. The distribution of the portfolio of companies by sectors is adequately diversified.

The Group has no exposure with any international financial institution which is more than 5% of equity. A EU bank has the largest exposure. The Top 10 of IFIs account for EUR 15,713 million.

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.

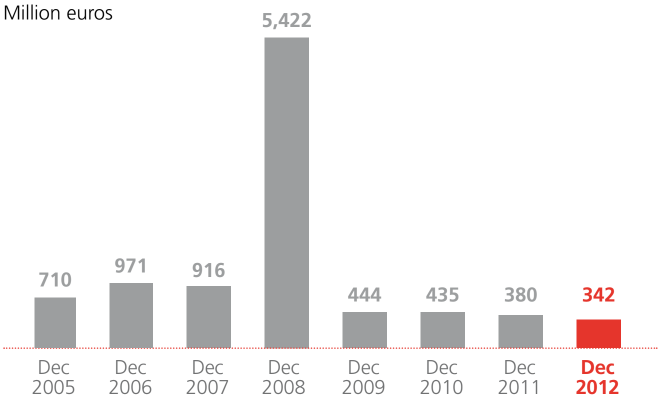
5.4.3. Country risk

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 2012 was EUR 342 million. At the end of 2011, the total country risk in need of provisions was EUR 380 million. Total provisions in 2012 stood at EUR 45 million compared with EUR 55 million in 2011. Of note in 2012 was that three countries improved their classification according to Bank of Spain criteria: Uruguay and Colombia (from Group 4 to Group 3, with provisions passing from 22.8% to 10.1%) and Peru (from Group 3 to Group 2, with provisions no longer needed).

EVOLUTION OF COUNTRY-RISK SUBJECT TO PROVISIONS

Million euros



The exposure is moderate and has been on a downward path in recent years. The only exception was in 2008 when there was a significant increase due to the incorporation of transactions with Brazilian clients resulting from the purchase of ABN/Banco Real. This increase was reduced in 2009, with the reclassification of Brazil to Group 2.

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.

[6] For more detail, see "Supplementary quantitative metrics of risk appetite of concentration" in Section 2, "Corporate management principles, control and risk appetite".

5.4.4. 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 public debt) and that arising from operations with public institutions with the following features: their funds only come from the state's budgeted income and the activities are of a non-commercial nature.

This criterion, historically used by Grupo Santander, is different from that of the European Banking Authority (EBA) for its regular stress exercises. The main differences are that the EBA's criterion does not include risk with central banks, the exposures with insurance companies, indirect exposures via guarantees and other instruments. On the other hand, it includes public administrations in general and not only the central government.

In general the exposure to sovereign risk mainly emanates from the obligations to which our subsidiary banks are subject regarding the establishment of certain deposits in central banks as well as fixed-income portfolios maintained as part of the risk management strategy for structural interest. Most of these exposures are in local currencies and are financed with deposits captured locally, also in local currencies. The exposures in the local sovereign but in currencies different to the official one of the country of issuance is not very significant (EUR 4,872 million, 2.8% of the total sovereign risk), and less so the exposure in non-local sovereign issuers, which means cross-border risk[7] (EUR 2,907 million, 1.7% of the total sovereign risk).

The investment strategy for sovereign risk also takes into account the credit quality of each country when setting the maximum exposure limits. The following table shows the percentage of exposure by rating levels[8].

EXPOSURE BY LEVEL OF RATING
%

	2012	2011	2010
AAA	**34%**	29%	61%
AA	**3%**	26%	0%
A	**29%**	6%	3%
BBB	**31%**	38%	34%
Under BBB	**4%**	1%	2%

As expected, the distribution of sovereign risk by level of rating was affected by many rating revisions of sovereign issuers in the last few years, mainly Spain, Portugal, the US and Chile.

The exposure at the end of each of the last three years is show below, in millions of euros in terms of equivalent credit risk, ERC[9] (net value of replacement plus the maximum potential value, including mitigants).

	Liquidity	**Risk by portfolio**			**Rest of sovereign risk**			
31 Dec 2012	**Deposits in central banks**	**Trading portfolio bonds**	**Portfolio available for sale**	**Total risk portfolio**	**Derivatives lending (direct risk)**	**Loan investment**	**Contingent risk and others**	**Total other**
Spain	**1,407**	4,596	29,814	**34,410**	348	4,380	1,311	**6,038**
Portugal	**1,041**	0	2,105	**2,105**	0	0	480	**480**
Italy	**0**	95	185	**280**	0	0	216	**216**
Greece	**0**	0	0	**0**	0	0	0	**0**
Ireland	**0**	0	0	**0**	39	0	0	**39**
Rest of euro zone	**766**	2,010	1,014	**3,024**	2,349	3	2,021	**4,373**
UK	**34,053**	(2,628)	4,419	**1,792**	12	0	3,969	**3,981**
Poland	**728**	669	2,898	**3,566**	17	0	(11)	**6**
Rest of Europe	**189**	580	3	**583**	2	0	258	**260**
US	**6,148**	(161)	5,931	**5,770**	0	0	403	**403**
Brazil	**13,050**	8,356	11,745	**20,102**	29	124	7,743	**7,896**
Mexico	**1,828**	5,787	2,810	**8,597**	28	0	778	**806**
Chile	**1,483**	484	871	**1,356**	0	74	1	**75**
Rest of Latam	**2,107**	199	916	**1,114**	0	245	17	**263**
Rest of world	**0**	1,177	645	**1,821**	0	1	282	**283**

Million euros.

[7] Countries classified as low risk by the Bank of Spain (Group 1, according to the terminology) are not considered.
[8] Internal ratings used.
[9] The extraordinary liquidity deposited in the Bank of Spain after ECB long term liquidity auctions (3 years) are not included.

	Liquidity	Risk by portfolio			Rest of sovereign risk			
31 Dec 2011	Deposits in central banks	Trading portfolio bonds	Portfolio available for sale	Total risk portfolio	Derivatives lending (direct risk)	Loan investment	Contingent risk and others	Total other
Spain	**1,574**	5,814	31,362	**37,176**	267	200	1,588	**2,055**
Portugal	**1,150**	590	1,771	**2,360**	0	0	249	**249**
Italy	**0**	179	208	**387**	0	0	176	**176**
Greece	**0**	0	84	**84**	0	0	0	**0**
Ireland	**0**	0	0	**0**	32	0	0	**32**
Rest of euro zone	**0**	1,374	345	**1,720**	2,137	22	2,042	**4,201**
UK	**21,499**	6,889	0	**6,889**	633	0	1,219	**1,852**
Poland	**0**	1,136	2,449	**3,585**	0	0	0	**0**
Rest of Europe	**260**	1,354	3	**1,357**	1	1	219	**220**
US	**10,755**	(218)	3,522	**3,304**	0	0	531	**531**
Brazil	**18,943**	7,567	12,589	**20,156**	164	86	8,479	**8,729**
Mexico	**1,740**	7,125	3,463	**10,588**	24	251	483	**758**
Chile	**3,713**	(249)	1,942	**1,693**	0	61	2	**62**
Rest of Latam	**1,355**	130	1,341	**1,470**	0	89	614	**703**
Rest of world	**0**	837	516	**1,353**	0	4	416	**421**

Million euros.

	Liquidity	Risk by portfolio			Rest of sovereign risk			
31 Dec 2010	Deposits in central banks	Trading portfolio bonds	Portfolio available for sale	Total risk portfolio	Derivatives lending (direct risk)	Loan investment	Contingent risk and others	Total other
Spain	**5,495**	3,035	26,262	**29,315**	218	221	2,415	**2,853**
Portugal	**500**	359	2,731	**3,089**	0	400	301	**701**
Italy	**0**	361	0	**361**	0	0	206	**206**
Greece	**0**	251	0	**251**	0	0	0	**0**
Ireland	**0**	18	0	**18**	395	0	0	**395**
Rest of euro zone	**0**	(2,118)	0	**(2,118)**	2,914	0	3,286	**6,200**
UK	**23,800**	2,833	0	**2,833**	6,595	0	15,198	**21,794**
Poland	**0**	0	1	**1**	0	0	0	**0**
Rest of Europe	**0**	3,352	120	**3,472**	0	2	12	**14**
US	**7,719**	73	423	**496**	72	0	773	**845**
Brazil	**19,026**	2,833	19,823	**22,656**	0	102	6,451	**6,553**
Mexico	**1,898**	4,300	4,444	**8,744**	8	0	113	**121**
Chile	**2,640**	480	1,541	**2,021**	0	86	4	**89**
Rest of Latam	**1,497**	144	1,338	**1,481**	1	13	418	**432**
Rest of world	**0**	0	1,078	**1,079**	424	0	316	**741**

Million euros.

In general, the total exposure to sovereign risk remained relatively stable in the last few years, with a slight downward trend, which seems reasonable if we bear in mind the strategic factors behind it, which have been commented on.

As regards the exposure in Spain (sovereign of the country of origin of the Group), compared with our peers it is not high in terms of total assets or equity. However, in 2012 the exposure in Spanish public fixed income was reduced, both in the trading portfolio (-21%) as well as in the portfolio available for sale, where the exposure to Spain sovereign risk declined by 5%, despite the rise in the first quarter.

Total exposure to Spanish sovereign risk at the end of 2012 was EUR 41,855 million (EUR 40,805 million in 2011). Santander included in 2012 the contribution to the Fund for Paying Suppliers (EUR 3,943 million), which was offset by the reduction during the year of the exposure to sovereign bonds.

According to the criteria of the European Banking Authority, the evolution is similar. The total exposure remained stable (EUR 45,586 million, compared to EUR 45,695 million at the end of 2011), with the same dynamics as commented on.

The sovereign exposure in Latin America is almost all in local currency, recorded in local books, and with a concentration in short maturities of lower interest rate risk and greater liquidity.

5.4.5. 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:

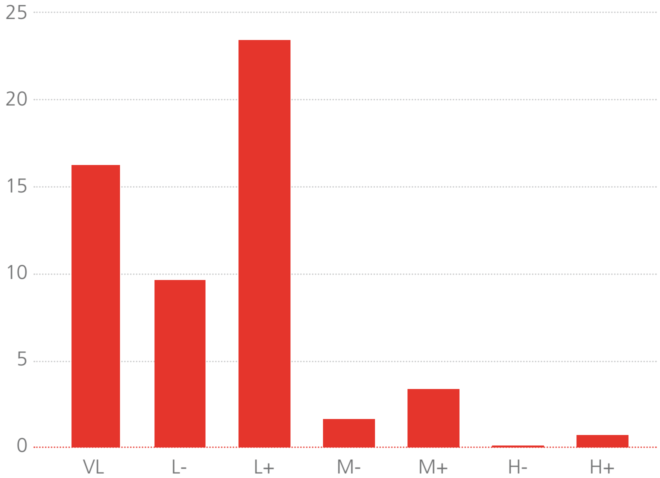
- **Equator principles:** this is an initiative of the World Bank's International Financial Corporation. It is an international standard for analysing the social and environmental impact of project finance operations. The assumption of these principles represents a commitment to assess the operation, taking into account the social and environmental risks, and to only finance those projects that can accredit adequate management of the social and environmental impacts. The methodology used is set out below:
  - For operations with an amount equal to or more than $10 million, an initial questionnaire is filled out, of a generic nature, designed to establish the project's risk in the socio-environmental sphere (according to categories A, B and C, from greater to lower risk, respectively) and the operation's degree of compliance with the Equator Principles.
  - For those projects classified within the categories of greater risk (categories A and B and non-high income OECD), a more detailed questionnaire has to be filled out, adapted according to the sector of activity.
  - According to the category and location of the projects, a social and environmental audit is carried out (by independent external auditors). Specific questionnaires have been developed for those sectors where the bank is most active. The bank also gives training courses in social and environmental matters to risk teams as well as to those responsible for business.

In 2012, 22 projects were analysed under the Equator principles for a total amount of EUR 9,280 million.

- **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 2012, 37,020 clients were assessed by this tool in Spain (total risk of EUR 55,559 million).

ENVIRONMENTAL RISK CLASSIFICATION

Million euros



VL: very low; L: low; M: medium and H: high.
VIDA companies assessed in the retail banking network in Spain.

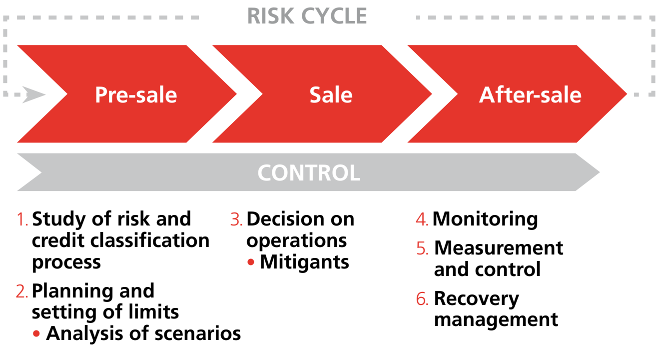
Low or very low environmental risk accounts for 89% of total risk. In 2012, there was a sharp fall in average environmental risk (50% less than in 2011).

5.5 Credit risk cycle

The process of credit risk management consists of identifying, analysing, controlling and deciding on the risks incurred by the Group's operations. The business areas, senior management and the risk areas are all involved.

The board and the executive committee participate in the process, as well as the risk committee, which sets the risk policies and procedures, the limits and delegation of powers, and approves and supervises the framework of the risk function.

The risk cycle has three phases: pre-sale, sale and after-sale. The process is constantly revised, incorporating the results and conclusions of the after-sale phase to the study of risk and pre-sale planning.



5.5.1. Study of risk and credit rating process

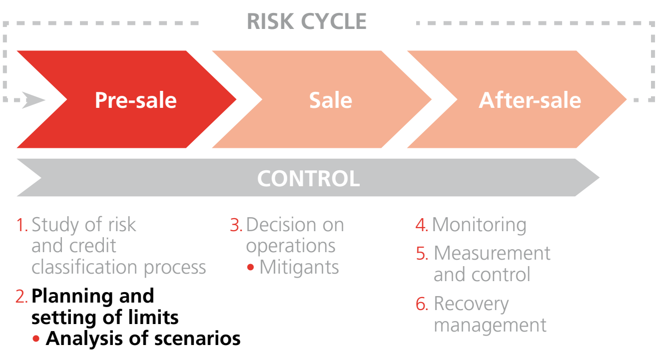
Risk study consists of analysing a customer's capacity to meet his contractual commitments with the bank. This entails analysing the customer's credit quality, risk operations, solvency and profitability to be obtained on the basis of the risk assumed.

With this objective, the Group has used since 1993 models for assigning solvency ratings. These mechanisms are used in all individualised management segments, both wholesale (sovereign, financial institutions and corporate banking), as well as the rest of companies and institutions in this category.

The rating is the result of a quantitative model based on balance sheet ratios or macroeconomic variables, which is supplemented by the expert advice of the analyst.

The ratings given to customers are regularly reviewed, incorporating the latest available financial information and experience in the development of banking relations. The regularity of the reviews increases in the case of customers who reach certain levels in the automatic warning systems and in those classified as special watch. The rating tools are also revised in order to adjust the accuracy of the rating granted.

While ratings are used for companies under individualised management, scoring techniques are used for the standardised segment, which automatically assign a score to operations, as set out in the section "decisions on operations."



5.5.2. Planning and setting limits

The purpose of this phase is to limit efficiently and comprehensively the risk levels assumed by the Group.

The credit risk planning process serves to set the budgets and limits at portfolio or customer level on the basis of the segment.

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 risk 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.

The most basic level in the individualised management sphere 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. The result of pre-classification is the maximum risk level that a client or group can assume in terms of amount of maturity. A more streamlined version is used for those companies who meet certain requirements (high knowledge, rating, etc).

Analysis of scenarios

An important part of planning is to consider the volatility of macroeconomic variables that help to support the budgetary process,

The Group conducts simulations of its portfolio using various adverse scenarios and stress tests 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) to 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.

The scenarios take into account the vision of each unit as well as the global vision. The macroeconomic variables in these scenarios 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.

Definition of suppositions and scenarios (baseline/acid)

The projections of the risk and loss parameters, usually with a time frame of three years are executed under different economic scenarios.

The scenarios defined are supported in different levels of stress, from the central (baseline) one or the most likely to the most acid scenarios which although are unlikely are possible.

These scenarios are set by the Group's research department in coordination with the research service of each unit and use as their reference the figures published by the main international institutions.

A global acid (stress) scenario is always defined which describes a world crisis situation and the way in which it would affect each of the countries where Grupo Santander operates. A local stress scenario is also defined which would only affect some of the Group's main units and with a greater degree of stress than the global stress one.

In the capital coordination committee, senior management studies the situation, proposes the changes and formally approves the set of definitive scenarios to be used in the Group's stress test.

Stress test uses and integration in the management of scenario analysis

Analysis of scenarios is a useful tool throughout the credit risk cycle. Grupo Santander has different uses for the stress test and analysis of scenarios:

- **Internal uses,** for example to do with risk appetite and the drawing up of risk and business plans and budgets. It integrates the corporate stress test methodology into the management of the Group's different areas and informs senior management of the results from the following angles:
  - Impact on the income statement and on capital.
  - Evolution envisaged for the next three years of the cost of credit with the strategy of business planned.
  - Sufficiency of funds and provisions.
  - Measures the level of sensitivity of each portfolio to the economic environment.
  - Diversification of the portfolio in acid scenarios.
  - Contrast with other estimates made locally.
- **External uses,** such as, for example, the European Banking Authority's stress tests, annual ICCAP, bottom up and top down stress tests of the Spanish system, etc. With these uses, an external agent or regulatory would request the results of the stress test after execution of the Group's corporate methodology. In other cases, details of the performance of the portfolio can be requested so that the risk parameters can be exercised under defined scenarios.

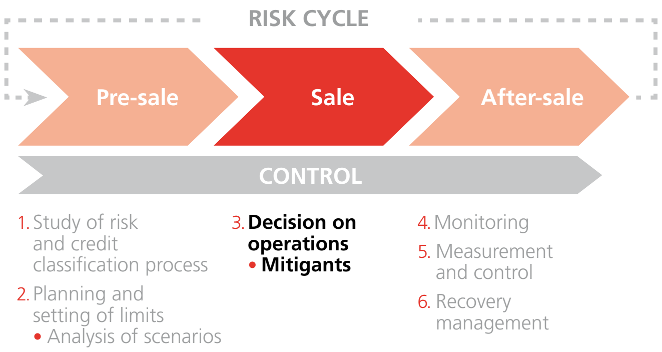
Results obtained and impact on capital

The various stress test exercises, from both an internal and external standpoint, underlined the strength and validity of Grupo Santander's business model, as can be seen in the results published by the Bank of Spain of the bottom up test conducted in September 2012 led by Oliver Wyman.

The analyses conducted, in both baseline and acid scenarios, for the whole Group and for each of its units, with a time frame of three years, shows the strength of the balance sheet to different market and macroeconomic situations.

As well as these results, after the latest updating of risk appetite[10] presented to the board, it was concluded that Grupo Santander would maintain positive results and solvency even in the most adverse scenarios, with conservative assumptions.

[10] More details on risk appetite in section 2 of this report.



5.5.3. Decisions on operations

The sales phase comprises decision-taking, giving support to the business units that need analysis and approval of risks in order to be able to conduct an operation.

The decision-taking process involves analysing and resolving operations. Approval by the risks areas is a prior requirement before contracting any risk operation. This process must take into account the policies defined for approving operations and take into consideration both the risk appetite as well as those elements of the operation that are relevant in the search for the right balance between risk and profitability.

In the sphere of clients under **standardized management,** the administration of large volumes of credit operations with the use of automatic decision models is facilitated, which classifies the client/operation binomial. Investment is classified into homogeneous risk groups, on the basis of the information on the features of the operation and of its owner. These models are used in banking with individuals, businesses and standardised SMEs.

As already indicated, the prior phase of setting limits can follow two different paths, giving rise to different types of decision in the sphere of clients under **individualised management:**

- Automatic and verifying if there is capacity for the proposed operation (in amount, product, maturity and other conditions) within the limits authorised under the framework of pre-classification. This process is generally applied to corporate pre-classifications.

- Always requiring the authorisation of the analyst although the operation meets the amount, maturity and other conditions set in the pre-classified limit. This process applies to the pre-classification of companies under individualised management of retail banking.

Credit risk mitigation techniques

Although they are relevant in all phases of the credit risk cycle, mitigation techniques play a particularly important role in taking decisions on operations.

Grupo Santander applies various forms of credit risk reduction on the basis, among other factors, of the type of client and product. As we will later see, some are inherent in specific operations (for example, real estate guarantees) while others apply to a series of operations (for example, netting and collateral).

The various mitigation techniques can be grouped into the following categories:

Settlement of positions

The concept of netting is the possibility of settling operations of the same type, under the umbrella of a framework agreement such as ISDA or similar.

It consists of settling the positive and negative market values of derivative transactions that we have with a certain counterparty, so that in the event of its default it owes us (or we owe it, if the net is negative) a single net figure and not a series of positive or negative values corresponding to each operation we have closed with the counterparty.

An important aspect of the framework contracts is that they represent a single legal obligation that covers all operations. This is fundamental when it comes to being able to settle the risks of all operations covered by said contract with a same counterparty.

Real guarantees

These are those goods that are subject to compliance with the guaranteed obligation and which can be provided not only by the client but also by a third party. The real goods or rights that are the object of the guarantee can be:

- Financial: Cash, deposit of securities, gold, etc.

- Non-financial: real estate (both properties as well as commercial premises, etc), other property goods.

From the standpoint of risk admission, the highest level of real guarantees is required. From the position of the regulatory capital calculation, not all can be considered as reduction factors, only those which meet the minimum qualitative requirements set out in the Basel agreements.

A very important case of a real financial guarantee are **collateral** agreements. These are a series of instruments with economic value that are deposited by a counterparty in favour of another in order to guarantee/reduce the credit risk of the counterparty that could result from portfolios of transactions with risk existing between them.

The nature of these agreements is diverse, but whatever the specific form of collateralisation, the final purpose, as in the netting technique, is to reduce the counterparty risk through recovering part or all of the profits/benefits (credit granted to the counterparty) generated over a period of time by the operation (valued at market prices).

The operation subject to the collateral agreement is regularly valued (normally day to day) and, on this valuation, the parameters defined in the contract are applied so that a collateral amount is obtained (normally cash) which is to be paid to or received from the counterparty.

As regards **real estate guarantees**, there are regular re-appraisal processes, based on the real market values which for the different types of property are provided by valuation agencies, which meet all the requirements set by the regulator.

Implementation of the mitigation techniques follows the minimum requirements established in the manual of credit risk management policies, and which consists of ensuring:

- Legal certainty. The possibility of legally requiring the settlement of guarantees must be examined and ensured at all times.

- The non-existence of substantial positive correlation between the counterparty and the value of the collateral.

- The correct documentation of all guarantees.

- The availability of documentation of the methodologies used for each mitigation technique.

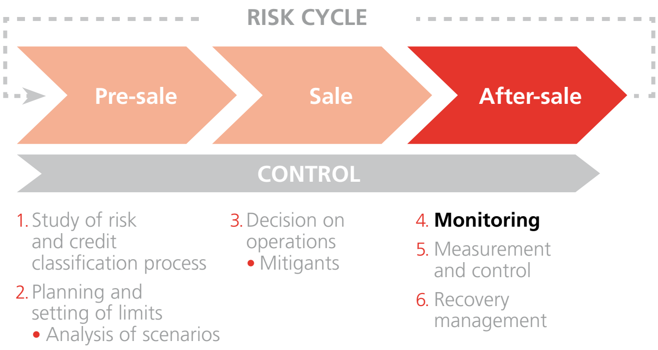
- Adequate monitoring and regular control.

Personal guarantees and credit derivatives

This type of guarantees corresponds to those that place a third party in a position of having to respond to obligations acquired by another to the Group. It includes, for example, sureties, guarantees, stand-by letters of credit, etc. The only ones that can be recognised, for the purposes of calculating capital, are those provided by third parties that meet the minimum requirements set by the supervisor.

Credit derivatives are financial instruments whose main objective is to cover the credit risk by acquiring protection from a third party, through which the bank transfers the issuer risk of the underlying asset. Credit derivatives are over the counter (OTC) instruments that are traded on non-organised markets. The coverage with credit derivatives, mainly through credit default swaps, is contracted with front line banks.

The information on mitigation techniques is in section "8.6. Credit risk reduction techniques of the Prudential Relevance Report (Pillar III)". There is also more information on credit derivatives in the section "Activity in credit derivatives" in item "5.4.1. Credit risk by activities in financial markets" of this report.



5.5.4. Monitoring

Monitoring is a continuous process, of constant observation, which allows changes that could affect the credit quality of clients to be detected early on, in order to take measures to correct the deviations that impact negatively.

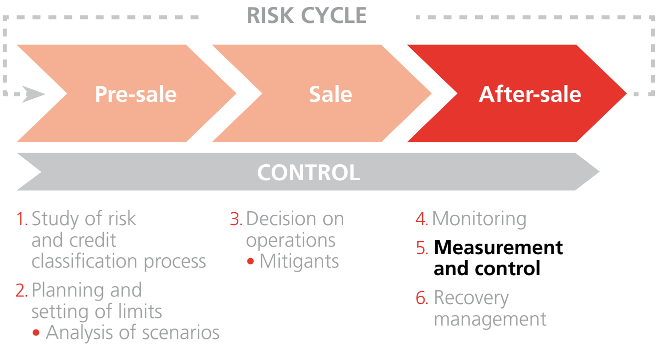
Monitoring is based on the segmentation of customers, and is carried out by local and global risk dedicated teams, backed by internal auditing.

The function consists, among other things, of identifying and tracking clients under **special watch**, reviewing ratings and continuous monitoring of indicators of standardised clients.

The system called companies in special watch (FEVE) 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 person and time frame 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 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.



5.5.5. Measurement and control

As well as monitoring of clients' credit quality, Grupo Santander establishes the control procedures needed to analyse the current credit risk profile and its evolution, through different credit risk phases.

The function is developed by assessing the risks from various perspectives that complement one another, establishing as the main elements control by countries, business areas, management models, products, etc, facilitating early detection of points of specific attention, as well as drawing up action plans to correct any deteriorations.

Each element of control admits two types of analysis:

1. Quantitative and qualitative analysis of the portfolio
Analysis of the portfolio controls, permanently and systematically, the evolution of risk with respect to budgets, limits and standards of reference, assessing the impacts of future situations, exogenous as well as resulting from strategic decisions, in order to establish measures that put the profile and volume of the risks portfolio within the parameters set by the Group.

The credit risk control phase uses, among others and in addition to traditional metrics, the following metrics:

- **Management of non-performing loans variation plus net write-offs (VMG)**
  The VMG measures how NPLs change during a period, discounting write-offs and taking loan loss recoveries into account.

  It is an aggregate measure at portfolio level which allows a response to deteriorations observed in the evolution of NPLs.

  It is the result of the final balance less the initial balance of non-performing loans of the period under consideration, plus the write-offs of this period less loan loss recoveries of this same period.

  The VMG and its components play a key role as variables of monitoring.

- **Expected loss (EL) and regulatory capital**
  The expected loss is the estimate of the economic loss that would occur during the next year of the portfolio existing at that time.

  It is one more cost of activity, which must have a repercussion on the price of operations. Its calculation is mainly based on three parameters:

  - Probability of default (PD): maximum amount that could be lost as a result of a default.

  - Exposure at default (EaD): the probability of a client's default during the next year.

- Loss Given Default (LGD): this reflects the percentage of exposure that could not be recovered in the event of a default. It is calculated by discounting at the time of the default the amounts recovered during the whole recovery process and this figure is compared in percentage terms with the amount owed by the client at that moment.

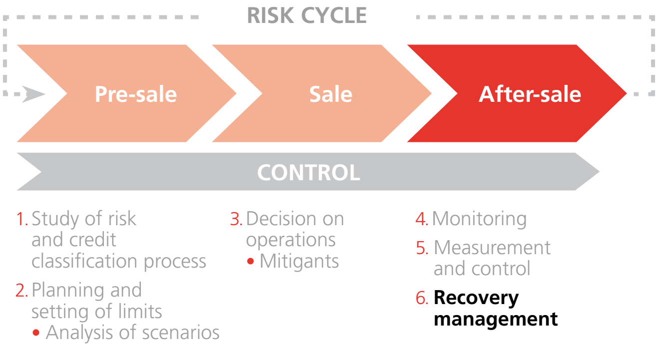
Other relevant aspects regarding the risk of operations are covered, such as quantification of off-balance sheet exposures or the expected percentage of recoveries, related to the guarantees associated with the operation as well as other issues such as the type of product, maturity, etc.

The risk parameters also enable economic and regulatory capital to be calculated. The integration in management of the metrics of capital is vital for rationalising its use. More detail is available in section 10 on capital.

2. Evaluation of the control processes
Evaluation of the control processes includes systematic and regular revision of the procedures and methodology, developed throughout the credit risk cycle, in order to guarantees their effectiveness and validity.

In 2006, within the corporate framework established in the Group for compliance with the Sarbanes Oxley law, a corporate tool was established in the Group's intranet to document and certificate all the sub processes, operational risks and controls that mitigate them. The risks division assesses every year the efficiency of internal control of its activities.

The directorate general of integral control and internal validation of risks, within its mission of supervising the quality of the Group's risk management guarantees that the management and control systems of the different risks inherent in its activity fulfil the most demanding requirements and the best practices observed in industry and/or required by regulators. In addition, internal auditing is responsible for ensuring that the policies, methods and procedures are adequate, are effectively implemented and regularly reviewed.



5.5.6. Recovery management

Recovery management is a strategic element in the Bank's risk management.

In order to conduct recovery management adequately, it is done in four main phases: irregularity or early non-payment, recovery of non-performing loans, recovery of write-offs and management of foreclosed assets. Indeed, the recovery function begins before the first non-payment when the client shows signs of deterioration and ends when the debt has been paid or regularised. The function aims to anticipate non-compliance and is focused on preventative management.

The current macroeconomic environment directly impacts the non-payment index and customers' bad loans. The quality of portfolios is thus fundamental for the development and growth of our businesses in different countries where great importance is attached to debt recovery in order to ensure that this quality always remains within the expected levels.

The Group has a corporate management model that sets the guidelines and general pattern of actions applied to the various countries, always taking into account the local features that recovery activity requires, be it the economic environment, the business model or a mixture of both. This model is constantly reviewed and the processes and management methodology that sustains it improved. Recovery management for Santander directly involves all the management areas (commercial staff, technology, operations, human resources and risks) has helped to incorporate solutions that improve the model's effectiveness and efficiency.

The diverse features of our customers makes segmentation necessary in order to manage recoveries adequately. Massive management for large collectives of clients with similar profiles and products is done through processes with a high technological component, while personalised management focuses on customers that because of their profile require more individualised analysis.

Recovery activity has been aligned with the socio-economic reality of various countries and different risk management mechanisms have been used on the basis of their age, guarantees and conditions, always ensuring, as a minimum, the required classification and provision.

Particular emphasis in the recovery function is placed on management of the aforementioned mechanisms for early management, in line with corporate policies, taking account of the various local realities and closely tracking vintages, stock and performance. These policies are reviewed and regularly adopted in order to reflect both the better management practices as well as the regulatory changes that are applied.

As well as measures focused on adapting operations to the client's payment capacity, recovery management is also noteworthy in seeking solutions other than judicial ones for the payment in advance of debts.

One of the ways to recover debt from clients who have suffered a severe deterioration in their repayment capacity is repossession (judicial or in lieu of payment) of the real estate assets that guarantee the loans. In countries with a high exposure to real estate risk, such as Spain, there are strong mechanisms for the evacuation of properties which, with their sale, enable the capital to be returned to the bank and reduce the worrying stock in the balance sheet at a much faster speed than those of its competitors.

6. MARKET RISK

6.0. Structure of this section

We will first describe the activities subject to market risk, setting out the different risk types and factors (pages 206-207).

Then we will look at the evolution of market risks and results in 2012, distinguishing trading activity from structural risks (pages 208-219).

The methodologies and various metrics used in Santander are analysed, again making a distinction between trading activity and structural risks (pages 220-222).

The market risk management framework is described, the organisational and governance structure and the system of controlling limits (pages 223-225).

Lastly, the current perimeter of trading activity is examined, the regulatory capital of which is calculated by internal advanced models (pages 225).

6.1. Activities subject to market risk and types of market risk

The market risk area has a perimeter for measuring, controlling and monitoring that covers those operations where equity risk is assumed as a result of changes in market factors. This risk comes from the change in **risk factors** - interest rates, inflation rates, exchange rates, share prices, the spread on loans commodities prices and the volatility of each of these elements - as well as the liquidity risk of the various products and markets in which the Group operates.

- **Interest rate risk** is the possibility that changes in interest rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects, among others, loans, deposits, debt securities, most assets and liabilities of trading portfolios as well as derivatives.

- The **inflation rate risk** is the possibility that changes in inflation rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects, among others, loans, debt securities and derivatives, whose yield is linked to inflation or to a real rate of variation.

- The **exchange rate risk** is the sensitivity of the value of a position in a currency different to the base currency to a potential change in exchange rates. A long position or one bought in a foreign currency would produce a loss in the event that the currency depreciated against the base currency. Among the positions affected by this risk are non-euro investments in subsidiaries, as well as loans, securities and derivatives denominated in foreign currencies.

- The **equity risk** is the sensitivity of the value of positions opened in equity markets to adverse movements in the market prices or in expectations of future dividends. Among other instruments, this affects positions in shares, stock market indices, convertible bonds and derivatives using shares as the underlying asset (put, call, and equity swaps).

- The **credit spread risk** is the risk or sensitivity of the value of positions opened in fixed income securities or in credit derivatives to movements in the credit spread curves or in recovery rates associated with issuers and specific types of debt. The spread is a differential between financial instruments that trade with a spread over other reference instruments, mainly the yield on government securities and interbank rates.

- The **commodities price risk** is the risk derived from the effect of potential change in prices. The Group's exposure to this risk is not significant and is concentrated in derivative operations on commodities with clients.

- **Volatility risk** is the risk or sensitivity of the value of a portfolio to changes in the volatility of risk factors: volatility of interest rates, exchange rates, shares, credit spreads and of commodities. This risk is incurred by financial instruments which have volatility as a variable in their valuation model. The most significant case is portfolios of financial options

All these market risks can be partly or fully mitigated by using options, futures, forwards and swaps.

There are **other types of market risk,** whose coverage is more complex. They are the following:

- **Correlation risk** is the sensitivity of the value of a portfolio to changes in the relation between risk factors, be they of the same type (for example, between two exchange rates) or of a different nature (for example, between an interest rate and the price of a commodity).

- **Market liquidity risk** is that of a Group entity or the Group as a whole finding itself unable to get out of or close a position in time without impacting on the market price or on the cost of the transaction. This risk can be caused by a fall in the number of market makers or institutional investors, the execution of large volumes of operations, market instability and increases with the concentration existing in certain products and currencies.

- **Risk of prepayment or cancellation.** When in certain operations the contract allows, explicitly or implicitly, cancellation before the maturity without negotiation there is a risk that the cash flows have to be reinvested at a potentially lower interest rate. This mainly affects loans or mortgage securities.

- **Underwriting risk.** This occurs as a result of an entity's participation in underwriting a placement of securities or another type of debt, assuming the risk of partially owning the issue or the loan due to non-placement of all of it among potential buyers.

On the basis of the origin of the risk, activities are segmented in the following way:

(a) **Trading**. This includes financial services to customers and purchase-sale and positioning mainly in fixed-income, equity and currency products.

(b) **Structural risks**. Constituted by market risks inherent in the balance sheet excluding the trading portfolio. They are:

  - **Structural interest rate risk**. This arises from mismatches in the maturities and repricing of all assets and liabilities.

  - **Structural exchange rate risk/hedging of results**. Exchange rate risk occurs when the currency in which the investment is made is different from the euro in companies that consolidate and those that do not (structural exchange rate). In addition, exchange rate hedging of future results generated in currencies other than the euro (hedging of results).

  - **Structural equity risk**. This involves investments via stakes in financial or non-financial companies that are not consolidated, as well as portfolios available for sale formed by equity positions.

The Global Banking and Markets division is mainly responsible for managing the taking of trading activity positions, in order to develop the activity of clients in financial markets and to a much lesser extent take its own positions.

The financial management area is responsible for implementing the management strategy for structural risks, applying standardized methodologies adapted to each market where the Group operates, either directly in the case of the parent bank or in coordination with the rest of units. The management decisions for these risks are taken by each country's ALCO (ALM) committee in coordination with the Group's markets' committee. The aim is to inject stability and recurrence into the net interest margin of commercial activity and the Group's economic value, while maintaining adequate levels of liquidity and solvency.

Each of these activities is measured and analysed with different metrics in order to show their risk profile in the most precise way.

6.2. Market risks in 2012

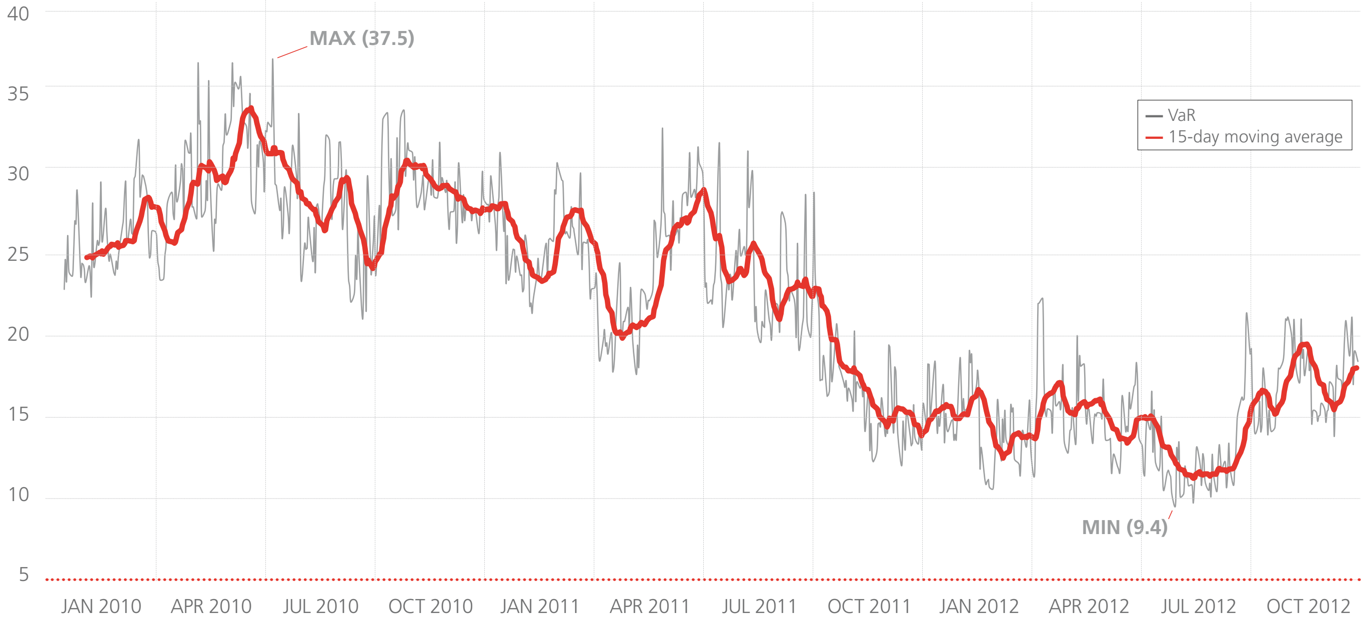
6.2.1. Trading activity

6.2.1.1. Value at Risk (VaR) analysis[11]

Grupo Santander stepped up its strategy of concentrating its trading activity in customer business, minimising where possible exposures of directional risk opened in net terms. This was reflected in the VaR[12] evolution, which declined over previous years.

EVOLUTION OF VaR 2010-2012

Million euros. VaR at 99%, with a time frame of one day



VaR during 2012 fluctuated between EUR 9.4 million (the lowest in the last few years) and EUR 22.4 million. It rose a little during the fourth quarter, because of the rise of risk in Brazil's treasuries (in interest rates and exchange rates) and Madrid (in interest rate and credit spread).

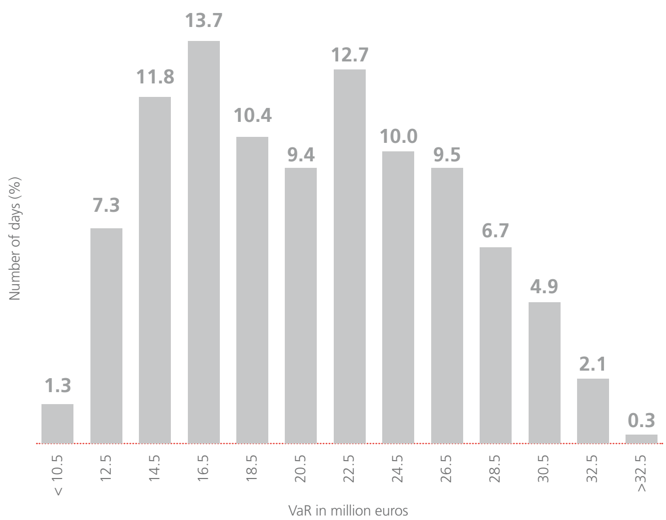
The VaR reported as of 15 November 2011 excludes the risk from changes in the credit spreads of securitisations and portfolios affected by credit correlation. For regulatory reasons (BIS 2.5), these exposures are considered as banking book for capital purposes. This change caused a decline in risk in VaR terms, both at the total level as well as by credit spread.

The average VaR of the Group's trading portfolio in 2012 (EUR 14.9 million) was lower than in 2011 (EUR 22.4 million) and 2010 (EUR 28.7 million), for the reason already mentioned of the greater concentration of activity in customers and, to a lesser degree, the reduction in volatility in the markets, despite the continued sovereign debt crisis in Europe. In relation to other comparable financial groups, the Group can be said to have a low risk trading profile.

The histogram below shows the distribution of average risk in terms of VaR between 2010 and 2012 where the accumulation of days with levels between EUR 12.5 million and EUR 28.5 million can be seen (91.5%). The higher values of EUR 28.5 million (7.2%) were concentrated in periods mainly caused by one-off rises of volatility in the Brazilian currency and by the euro zone's sovereign debt crisis.

VaR RISK HISTOGRAM

VaR at 99%, with a time frame of one day



[11] Trading activity in financial markets.

[12] The definition and methodology for calculating VaR is in Section 6.3.1.1.

Risk by factor

The minimum, average, maximum and year-end 2012 values in VaR terms are shown below:

VaR STATISTICS BY RISK FACTOR[1 2]

Million euros. VaR at 99%, with a time frame of one day

		2012				2011		2010	
		Minimum	Average	Maximum	Year-end	Average	Year-end	Average	Year-end
Total trading	**Total VaR**	**9.4**	**14.9**	**22.4**	**18.5**	**22.4**	**15.9**	**28.7**	**29.6**
	Diversification effect	(9.1)	(15.2)	(25.8)	(13.5)	(21.8)	(16.7)	(29.1)	(27.8)
	Interest rate VaR	7.4	11.8	23.3	12.0	14.8	14.6	16.4	19.0
	Equity VaR	4.1	7.0	11.2	7.1	4.8	3.7	8.0	8.8
	FX VaR	1.9	5.0	12.2	3.5	9.0	4.2	11.4	13.9
	Credit spread VaR	2.2	6.1	13.0	9.1	15.0	9.6	20.9	14.7
	Commodities VaR	0.2	0.4	0.7	0.3	0.6	0.4	1.3	1.0
Latin America	**Total VaR**	**5.0**	**10.1**	**20.5**	**8.9**	**11.7**	**10.7**	**18.2**	**13.9**
	Diversification effect	(3.1)	(6.4)	(12.5)	(3.8)	(6.4)	(8.7)	(8.3)	(12.6)
	Interest rate VaR	5.2	8.8	20.0	8.8	11.2	10.5	14.5	14.8
	Equity VaR	0.7	3.1	9.7	1.6	3.5	2.2	5.8	5.3
	FX VaR	0.5	3.1	9.8	1.3	3.7	1.2	7.1	6.5
US and Asia	**Total VaR**	**0.5**	**0.9**	**2.0**	**0.8**	**1.2**	**0.9**	**1.3**	**0.9**
	Diversification effect	(0.2)	(0.5)	(1.1)	(0.3)	(0.5)	(0.4)	(0.7)	(0.3)
	Interest rate VaR	0.4	0.7	1.3	0.6	0.9	0.9	1.2	0.9
	Equity VaR	0.0	0.2	0.8	0.1	0.1	0.1	0.2	0.0
	FX VaR	0.1	0.6	1.7	0.4	0.6	0.4	0.6	0.3
Europe	**Total VaR**	**7.2**	**11.0**	**16.5**	**16.4**	**15.5**	**10.1**	**14.8**	**25.1**
	Diversification effect	(7.7)	(12.9)	(20.6)	(9.9)	(15.1)	(13.0)	(18.9)	(14.6)
	Interest rate VaR	5.4	7.9	15.4	6.8	11.5	11.9	8.9	12.5
	Equity VaR	4.1	6.2	9.9	6.3	3.9	3.6	6.7	6.5
	FX VaR	1.0	4.1	13.1	4.0	8.5	3.9	9.8	9.6
	Credit spread VaR	2.1	5.4	10.0	8.9	6.0	3.3	7.0	9.0
	Commodities VaR	0.2	0.4	0.7	0.3	0.6	0.4	1.3	2.1
Global activities	**Total VaR**	**0.8**	**2.7**	**10.2**	**1.2**	**10.5**	**9.7**	**16.1**	**10.7**
	Diversification effect	(0.2)	(0.6)	(5.0)	(0.3)	(1.1)	(0.9)	(1.1)	(1.2)
	Interest rate VaR	0.2	0.3	0.6	0.2	0.4	0.5	0.6	0.5
	Credit spread VaR	0.6	2.6	10.4	1.3	10.3	8.4	16.0	10.5
	FX VaR	0.0	0.4	1.9	0.1	0.9	1.8	0.6	0.9

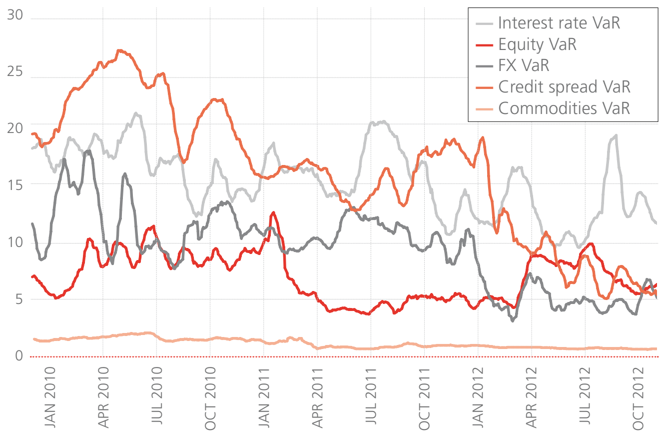
[1] The VaR of global activities includes operations that are not assigned to any particular country.

[2] In Latin America, the US and Asia, the VaR levels of the spread credit and commodity factors are not shown separately because of their scant or zero materiality.

The average VaR declined again in 2012 by EUR 7.5 million over 2011. The reduction occurred in all risk factors except for equities, which increased from EUR 4.8 million to EUR 7 million. Of note was the drop in the average VaR of interest rates and exchange rates in Europe and the credit spread in global activities.

VaR BY RISK FACTOR

Million euros. VaR at 99% with a time frame of one day (15-day moving average)



The VaR evolution by risk factor in general also declined, with peaks and troughs sharper in the case of the VaR by credit spread, partly due to the exclusion of the risk spread of securitisations and credit correlation which by BIS 2.5 is considered as banking book for the purposes of regulatory capital as of 15 November 2011. The temporary changes in the VaR of various factors was due more to the temporary rises in the volatility of market prices than to significant changes in positions.

6.2.1.2. Distribution of risks and management results[13]

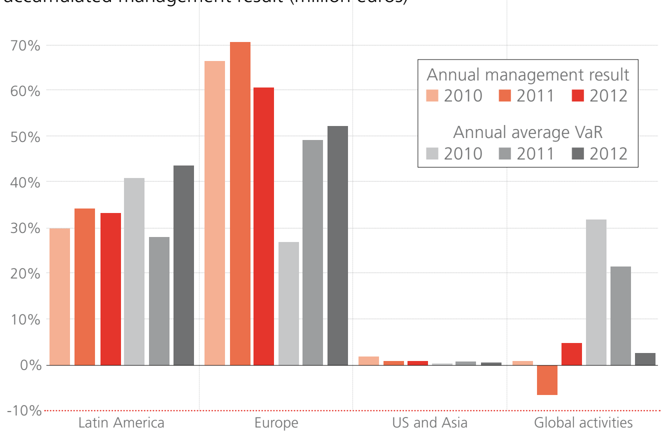
6.2.1.2.1. Geographic distribution

In trading activity. the average contribution of Latin America to the Group's total VaR in 2012 was 44% compared with a contribution of 33.3% in economic results. Europe, with 52.6% of global risk, contributed 60.6% of results, as its treasury activity was more focused on providing service to professional and institutional clients compared with that of Latin America. However, there was a gradual homogenisation in the profile of activity in the Group's different units.

Below is the geographic contribution (by percentage), both in risks, measured in VaR terms, as well as in results (economic terms).

VaR BINOMIAL-MANAGEMENT RESULTS: GEOGRAPHIC DISTRIBUTION

Average VaR (at 99%, with a time frame of one day) and annual accumulated management result (million euros)

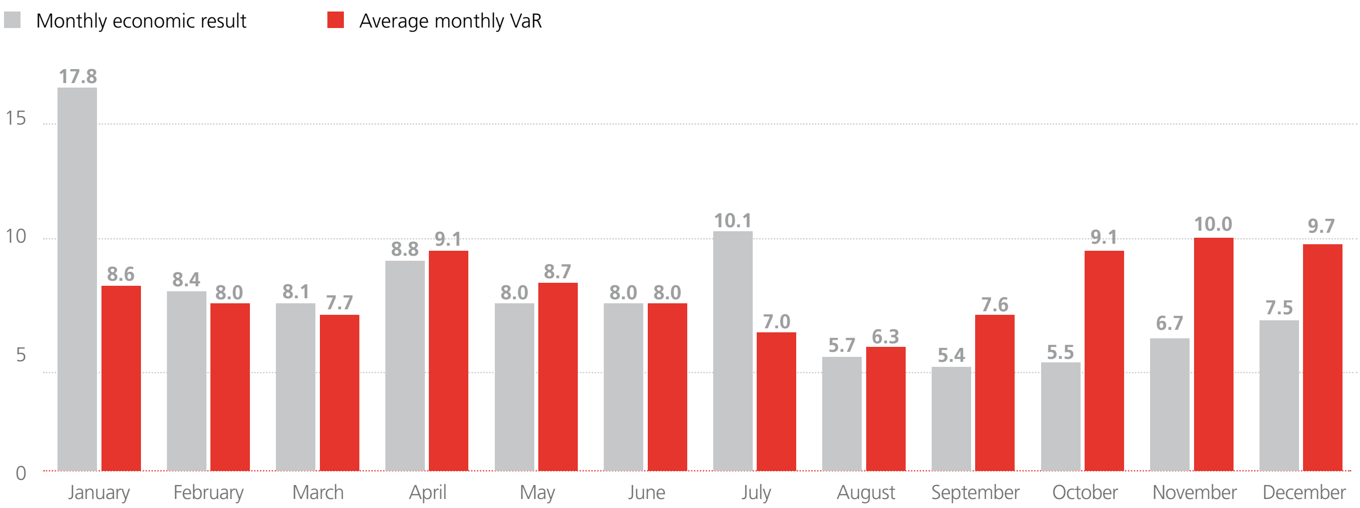


6.2.1.2.2. Monthly distribution of risks and results

The next chart shows the risk assumption profile, in terms of VaR, compared to results in 2012. The average VaR remained stable, while results evolved in a more irregular way during the year. January and July were positive months, particularly January, and August to October negative, with results below the annual average.

DISTRIBUTION OF RISK BY TIME AND RESULTS IN 2012: PERCENTAGES OF ANNUAL TOTALS

Average VaR (at 99%, with a time frame of one day) and annual accumulated management result (million euros)

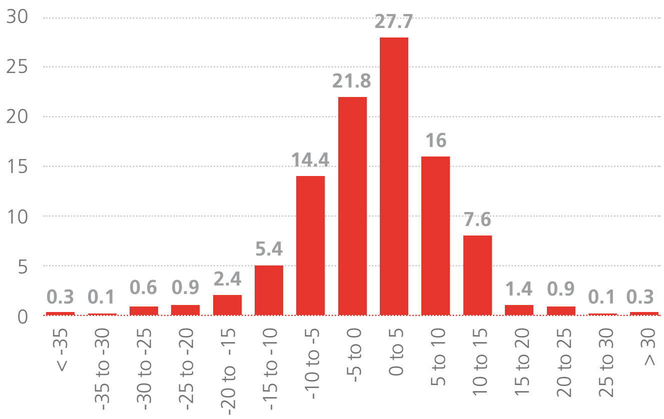


[13] Results in terms that can be assimilated to the gross margin (excluding operating costs, financial ones are the only cost)

The following histogram of frequencies shows the distribution of daily economic results on the basis of their size between 2010 and 2012. The daily yield[14] was between -EUR 10 and +EUR 15 million on 90% of days when the market was open.

HISTOGRAM OF THE FREQUENCY OF DAILY RESULTS (MTM)

Daily results of management "clean" of commissions and intraday operations (million euros). Number of days (%) in each range



6.2.1.3. Risk management of structured derivatives market

Structured derivatives activity is mainly focused on designing investment products and hedging risks for clients. Management is focused on ensuring that the net risk opened is the lowest possible.

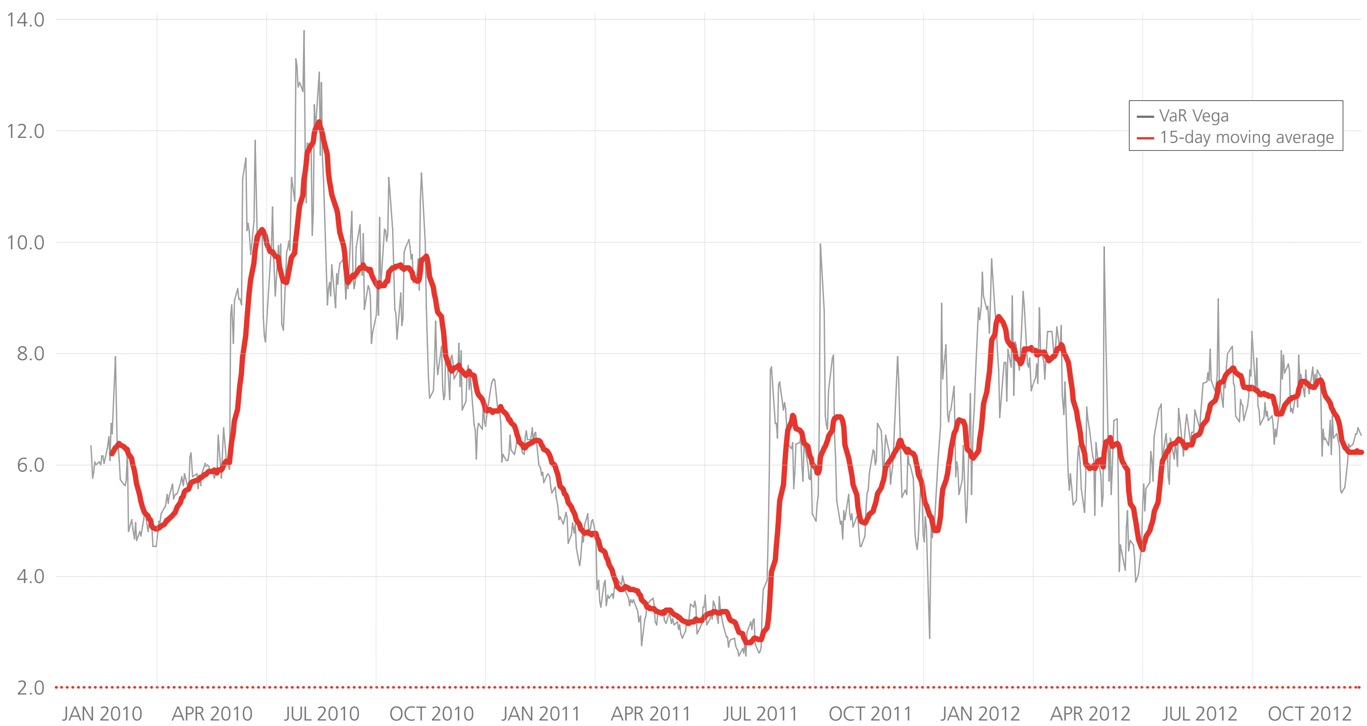
These transactions include options on equities, fixed-income and exchange rates.

The units where this activity mainly takes place are: Madrid, Banesto, Santander UK and, to a lesser extent, Brazil and Mexico.

The chart below shows the VaR Vega[15] performance of structured derivatives business over the last three years. It fluctuated at around an average of EUR 6.8 million. The periods with higher VaR levels related to episodes of significant rises in volatility in the markets (of equities in the euro zone, interest rates in Brazil, etc.).

EVOLUTION OF RISK (VaR) OF THE BUSINESS OF STRUCTURED DERIVATIVES

Million euros. VaR Vega at 99%, with a time frame of one day.



[14] Yields "clean" of commissions and results of intraday derivative operations.

[15] Vega, a Greek term, means here the sensitivity of the value of a portfolio to changes in the price of market volatility.

As regards the VaR Vega by risk factor, the exposure was concentrated, in this order, in equities, interest rates, exchange rates and commodities. This is shown in the table below:

STRUCTURED DERIVATIVES. RISK (VaR) BY RISK FACTOR
Million euros. VaR at 99%, with a time frame of one day

	2012				2011		2010	
	Minimum	Average	Maximum	Year-end	Average	Year-end	Average	Year-end
Total VaR Vega	**3.9**	**6.8**	**9.8**	**6.5**	**4.7**	**4.9**	**7.9**	**6.2**
Diversification impact	(1.4)	(3.0)	(4.4)	(3.4)	(2.9)	(3.7)	(3.8)	(3.2)
Interest rate VaR	1.5	2.3	4.5	2.8	2.0	2.0	2.4	2.1
Equity VaR	2.7	6.5	9.0	5.5	4.1	5.2	7.1	5.6
FX VaR	0.3	0.7	2.3	1.3	1.2	1.0	1.8	1.5
Commodities VaR	0.2	0.3	0.5	0.2	0.3	0.4	0.5	0.2

As regards the distributiuon by business unit, the exposure is concentrated, in this order, in the parent-holding, Banesto, Santander UK, Brazil and Mexico.

STRUCTURED DERIVATIVES. RISK (VaR) BY UNIT
Million euros. VaR at 99%, with a time frame of one day

	2012				2011		2010	
	Minimum	Average	Maximum	Year-end	Average	Year-end	Average	Year-end
Total VaR Vega	**3.9**	**6.8**	**9.8**	**6.5**	**4.7**	**4.9**	**7.9**	**6.2**
Parent-holding	1.4	4.6	7.1	4.0	2.9	2.8	4.3	2.4
Banesto	1.5	3.4	6.5	3.6	2.3	2.4	5.9	5.3
Santander UK	1.5	2.8	5.7	2.0	1.4	2.7	1.2	1.0
Brazil	0.4	1.0	4.4	2.8	0.8	0.3	0.9	0.5
Mexico	0.4	0.7	1.3	0.6	1.2	1.1	1.5	1.1

The average risk in 2012 (EUR 6.8 million) was equal to the combined average of the last three years, which underscores the stability of the exposure opened in financial instruments linked to volatility.

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 2012, the Group had:

- **CDOs and CLOs:** the position continues to be not very significant (EUR 207 million). An important part of it is the result of integrating the portfolio of Alliance & Leicester in 2008.

- **Hedge funds:** the total exposure is not significant (EUR 274 million at the end of 2012) and most of it is via the financing of these funds (EUR 169 million), with the rest direct participation in portfolio. This exposure has low loan-to-value levels of below 20% (collateral of EUR 1,480 million at the end of 2012). The risk with this type of counterparty is analysed case by case, establishing percentages of collateralisation on the basis of the features and assets of each fund.

- **Conduits:** no exposure.

- **Monolines:** Santander's exposure to bond insurance companies (monolines) was EUR 151 million[16] at the end of 2012, mainly indirect exposure, and EUR 145 million 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. The small remaining amount is direct exposure (for example, via purchase of protection from the risk of non-payment by any of these insurance companies through a credit default swap). The exposure was 23% lower than in 2011.

In short, the exposure to this type of instruments as a result of the Group's usual operations, continued to decline in 2012. Its origin was mainly due to the integration of positions of institutions 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. These positions, since their integration in the Group, have been notably reduced, with the ultimate goal of eliminating them from the balance sheet.

[16] 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 incorporated a portfolio of these bonds which amounted to EUR 1,341 million at the end of 2011.

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 observable data (inputs) needed 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, and;
- The degree of liquidity of the product or underlying asset, in order to make possible their coverage when deemed opportune.

6.2.1.4. Gauging and contrasting measures
In 2012, the Group continued to regularly conduct analysis and contrasting tests on the effectiveness of the Value at Risk (VaR) calculation model, obtaining the same conclusions that enable us to verify the model's reliability. The objective of these tests is to determine whether it is possible to accept or reject the model used to estimate the maximum loss of a portfolio for a certain level of confidence and a specific time frame.

The most important test is backtesting, analysed at the local and global levels by the market risk control units. The methodology of backtesting is implemented in the same way for all the Group's portfolios and sub-portfolios.

Backtesting consists of comparing the forecast VaR measurements, with a certain level of confidence and time frame, with the real results of losses obtained in a same time frame.

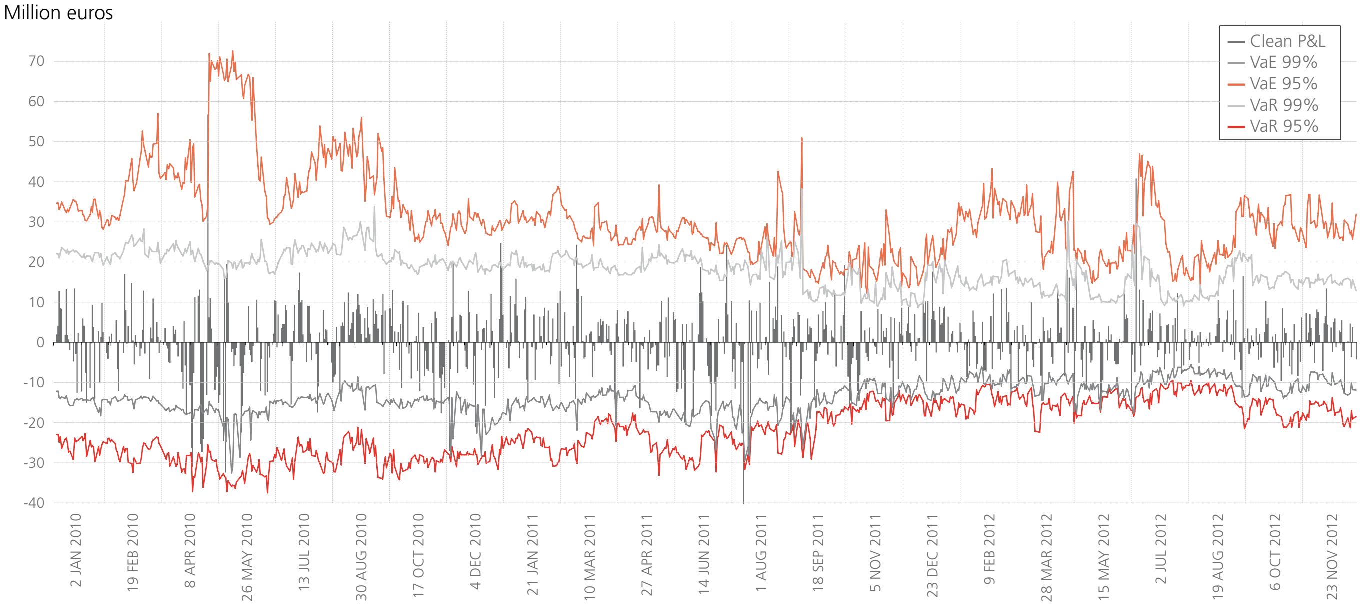
Santander calculates and evaluates three types of backtesting:

- "Clean" backtesting: the daily VaR is compared with the results obtained without taking into account the intraday results or the changes in the portfolio's positions. This method contrasts the effectiveness of the individual models used to assess and measure the risks of the different positions.
- "Dirty" backtesting: the daily VaR is compared with the day's net results, including the results of the intraday operations and those generated by commissions.
- "Dirty" backtesting without mark-ups or commissions: the daily VaR is compared with the day's net results from intraday operations but excluding those generated by mark-ups and commissions. This method aims to give an idea of the intraday risk assumed by the Group's treasuries.

For the first case and the total portfolio, there were three exceptions in 2010 of VaR at 99% (days when the daily loss was higher than the VaR): two in May - the first due to a more than usually high rise in the Brazilian currency inflation-indexed curve after the publication of a higher than expected inflation figure, and the second because of higher than normal increases in Spain's and Mexico's interest rate curves -, and one in June, due to the sudden widening of credit spreads, falls in stock markets and the depreciation of most currencies against the US dollar as a result of the deterioration of expectations on the outcome of the summit of EU heads of state (June 29).

The number of exceptions responded to the expected performance of the VaR calculation model, which works with a confidence level of 99% and an analysis period of one year (over a longer period of time, an average of two or three exceptions a year is expected).

BACKTESTING OF BUSINESS PORTFOLIOS: DAILY RESULTS VERSUS PREVIOUS DAY'S VALUE AT RISK
Million euros



The backtesting exercises are regularly conducted for each relevant portfolio or strategy of the Group, and its main objective (as in the rest of contrasting tests) is to detect anomalies in the VaR model of each portfolio (for example, shortcomings in the parametrisation of the valuation models of certain instruments, not very adequate proxies, etc.). This is a dynamic process contextualised in the framework of the procedure for reviewing and validating the model.

6.2.1.5. Analysis of scenarios

Various stress scenarios were calculated and analysed regularly in 2012 (at least every month) at the local and global levels for all the trading portfolios and using the same suppositions by risk factor.

Maximum volatility scenario (worst case)

This scenario is given particular attention as it combines historic movements of risk factors with an ad hoc analysis in order to reject very unlikely combinations of variations (for example, sharp falls in stock markets together with a decline in volatility). As regards the variations, an historic volatility equivalent to six typical deviations is applied. The scenario is defined by taking each risk factor the movements which represents the greatest potential loss in the portfolio, rejecting the most unlikely combinations in economic-financial terms. For year-end, that scenario implied, for the global portfolio, interest rate rises in Latin American markets and falls in core markets ("flight into quality"), declines in stock markets, depreciation of all currencies against the euro, greater volatility and credit spreads. The table below shows the results of this scenario at the end of 2012.

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 materialised, EUR 147.9 million, a loss that would be concentrated in Latin America (interest rates and equities) and Europe (credit spreads, exchange rate and interest rate).

Other global stress test scenarios

Various global scenarios (similar for all the Group's units) are established:

- Abrupt crisis: ad hoc scenario with very sudden movements in markets. Rise in interest rate curves, sharp falls in stock markets, large appreciation of the dollar against the rest of currencies, rise in volatility and in credit spreads.

- Crisis 11S: historic scenario of the 11 September 2001 attacks with a significant impact on the US and global markets. It is sub-divided into two scenarios: 1) maximum accumulated loss until the worst moment of the crisis, and 2) maximum loss in a day. In both cases, there are drops in stock markets and in interest rates in core markets and rises in emerging markets, and the dollar appreciates against the rest of currencies.

- Subprime crisis. Historic scenario of the US mortgage crisis. The objective of the analysis is to capture the impact on results of the reduction in liquidity in the markets. The scenarios have two time frames (one day and 10 days): in both cases there are drops in stock markets and in interest rates in core markets and rises in emerging markets, and the dollar appreciates against the rest of currencies.

- Sovereign crisis: the severest historic scenario by the Committee of European Banking Supervisors (CEBS) to measure the market's shock capacity between 15 April and 1 September 2010. Given the Group's international sphere, four geographic zones are distinguished (US, Europe, Latin America and Asia), interest rate rises, falls in stock markets and volatilities are established, rises in credit spreads and depreciation of the euro and Latin American currencies and appreciation of Asian currencies against the dollar.

Every month a consolidated stress test report is drawn up with explanations of the main changes in results for the various scenarios and units supervised by the global committee of market risks. An early warning mechanism has also been established so than when the loss of a scenario is high in historic terms and/or the capital consumed by the portfolio in question, the business executive is informed.

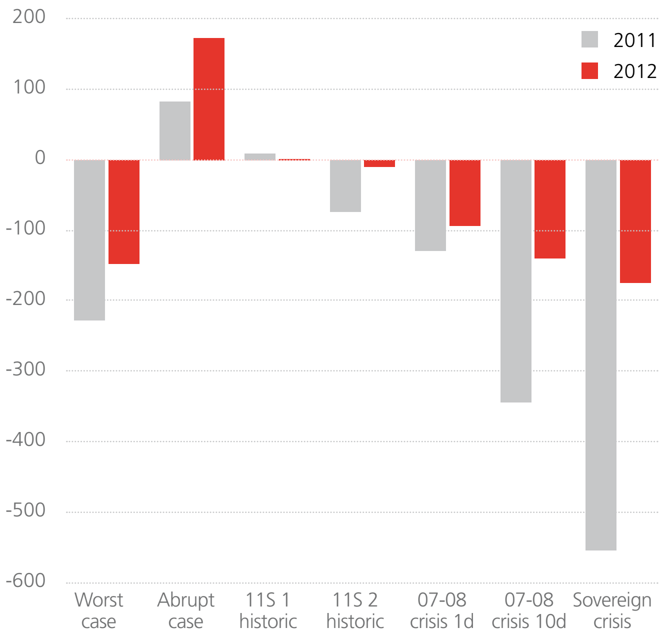
MAXIMUM VOLATILITY STRESS SCENARIO (WORST CASE)
Million euros

	Interest rates	Equities	Exchange rates	Credit spread	Commodities	Total
Total trading	**(87.8)**	**(15.5)**	**(23.1)**	**(20.9)**	**(0.7)**	**(147.9)**
Europe	(7.1)	(2.3)	(18.6)	(20.2)	(0.7)	**(48.8)**
Latin America	(77.7)	(13.0)	(2.7)	0.0	0.0	**(93.4)**
US	(2.1)	(0.2)	(1.6)	0.0	0.0	**(3.9)**
Global activities	(0.9)	0.0	(0.2)	(0.7)	0.0	**(1.8)**

Here we show the results of the global scenarios for 2011 and 2012.

STRESS TEST RESULTS: COMPARISON OF THE 2011 AND 2012 (ANNUAL AVERAGES)

Million euros



For activity managed with metrics different to the VaR, alternative measures are used, mainly: sensitivity to different risk factors (interest rates, credit spread, etc).

In the case of the trading portfolio. the securitisations and "level III" exposures (those in which not observable market data constitutes significant inputs in their corresponding internal models of valuation) are excluded from VaR measurement.

Securitisations are mainly treated as if they were credit risk portfolio (in terms of default, recovery rate, etc). For "level III" exposures, which are not very significant in Santander (basically derivatives linked to the home price index (HPI) in the activity of markets in Santander UK, and the not very significant portfolio of illiquid CDOs in the activity of markets of the parent bank), as well as in general for inputs that cannot be observed in the market (correlation, dividends, etc), a very conservative policy is followed, reflected in valuation adjustments as well as sensitivity.

6.2.1.6. Linkage with balance sheet items. Other alternative risk measures

Below are the parts of the balance sheet of the Group's consolidated position that are subject to market risk, showing the positions whose main risk metric is the VaR and where monitoring is also carried out with other metrics.

RELATION OF RISK METRICS TO BALANCE SHEET OF GROUP'S CONSOLIDATED POSITION

Million euros

		Main market risk metrics		
	Balance	**VaR**	**Others**	**Main risk factor for balance in "others"**
Assets subject to market risk	**310,929**	**204,668**	**106,261**	
Trading portfolios	177,917	176,781	1,136	Interest rate, credit spread
Other financial assets at reasonable value	28,356	27,887	469	Interest rate, credit spread
Financial assets available for sale	92,266	-	92,266	Interest rate, equities
Equities	4,454	-	4,454	Equity stakes
Hedging derivatives	7,936	-	7,936	Interest rate, exchange rate
Liabilities subject to market risk	**195,104**	**194,754**	**621**	
Trading portfolio	143,242	143,242	271	Interest rate, credit spread
Other financial liabilities at reasonable value	45,418	45,068	350	Interest rate, credit spread
Hedging derivatives	6,444	6,444	-	

6.2.2. Structural market risks[17]

6.2.2.1. Structural interest rate

6.2.2.1.1. Europe and the United States

Generally, in these mature markets and in a context of low interest rates, the general positioning has been to maintain balance sheets with positive sensitivity to interest rate rises, both for the net interest margin (NIM) as well as for the economic value (market value of equity, MVE).

In any case, the exposure level in all countries is very low in relation to the annual budget and the amount of equity.

At the end of 2012, the sensitivity of the NIM at one year to parallel rises of 100 basis points was concentrated in the euro interest rate curve, the US dollar and sterling, with the parent bank, the US subsidiary and Santander UK the units that contributed the most (EUR 183 million, $60 million and £14 million, respectively). Also important in the euro interest rate curve is the contribution of the risk of Banesto and Santander Consumer Finance. The sensitivity of the margin to the rest of convertible currencies is not significant.

At the same date, the main sensitivity of equity to parallel rises in the yield curve of 100 basis points was in the euro interest rate curve in the parent bank (EUR 527 million). As regards the dollar and sterling curves, the amounts were $297 million and £215 million, respectively).

6.2.2.1.2. Latin America

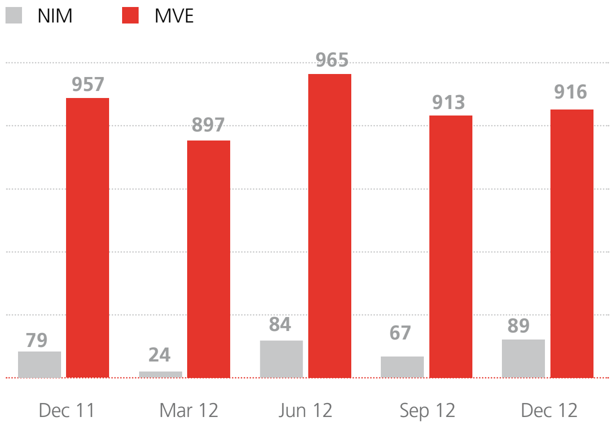
Due to differences in the macroeconomic context and the degree of maturity of these markets, the positioning with regard to the NIM was not homogeneous. There are countries with balance sheets positioned for interest rate rises and others for interest rate falls.

With regard to MVE, the general positioning of the balance sheets was such that the average duration of the asset was higher than that of the liability (negative sensitivity to interest rate rises).

In any case, the exposure level in all countries is very low in relation to the annual budget and the amount of equity.

EVOLUTION OF THE LATIN AMERICA STRUCTURAL INTEREST RISK PROFILE

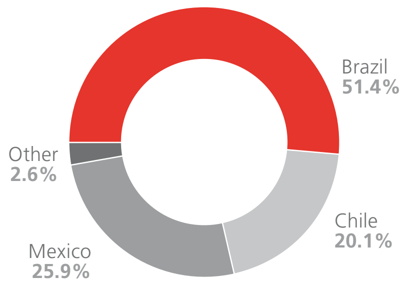
Sensitivity of NIM and MVE to 100 b.p. Million euros



For Latin America as a whole, the consumption of risk at December 2012, measured to 100 b.p. of the financial margin[18], stood at EUR 89 million (EUR 79 million at December 2011). It can be seen from the chart below that over 95% of the risk was concentrated in three countries: Brazil, Chile and Mexico.

NIM SENSITIVITY BY COUNTRIES TO 100 B.P.

% of the total



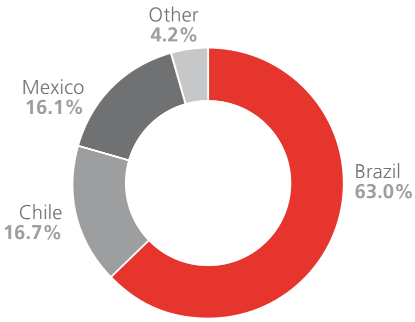
Other: Argentina, Colombia, Panama, Peru, Puerto Rico, Santander Overseas and Uruguay

[17] Includes the entire balance sheet except for the trading portfolios.
[18] Betas are used to aggregate the sensitivities of different curves.
[19] Betas are used to aggregate the sensitivities of different curves.

At the end of December 2012, risk consumption for the region, measured to 100 b.p. of asset value[19], was EUR 916 million (EUR 957 million at December 2011). Over 95% of the asset value risk was concentrated in the same three countries: Brazil, Chile y Mexico.

MVE SENSITIVITY BY COUNTRIES TO 100 B.P.

% of the total



Other: Argentina, Colombia, Panama, Peru, Puerto Rico, Santander Overseas and Uruguay

The gap tables show the risk maturity structure in Latin America at the end of 2012.

LATIN AMERICA: REPRICING GAP OF INTEREST RATES* (31 DECEMBER 2012)

Million euros

	Total	3 months	6 months	1 year	3 years	5 years	>5 years	Non sensitive
Assets	**335,544**	110,329	28,284	28,334	55,765	19,476	24,093	69,263
Local currency	**295,569**	89,498	22,386	25,453	51,589	17,566	21,242	67,836
Dollar	**39,975**	20,832	5,898	2,881	4,175	1,910	2,850	1,428
Liabilities	**335,544**	157,545	6,767	20,145	41,762	7,855	7,661	93,808
Local currency	**293,407**	139,213	3,695	15,495	37,005	2,933	3,751	91,315
Dollar	**42,137**	18,332	3,073	4,650	4,758	4,922	3,910	2,493
Off-balance sheet	**0**	5,814	1,025	758	(3,482)	(3,447)	(1,524)	856
Gap	**0**	**(41,402)**	**22,542**	**8,948**	**10,520**	**8,174**	**14,908**	**(23,689)**

* Aggregate gap of all currencies in the balance sheets of Latin American units, expressed in euros.

6.2.1.1.3. Structural interest rate VaR of the balance sheet

As well as sensitivity to interest rate movements, Santander uses other methods to monitor the structural interest rate risk of the balance sheet including analysis of scenarios and calculation of the VaR, using methodology similar to that used for the trading portfolios.

The table below shows the average, minimum, maximum and year-end values of the VaR of structural interest rate risk.

BALANCE SHEET STRUCTURAL INTEREST RATE RISK (VaR)

VaR at 99%, with a time frame of one day. Million euros

	2012			
	Minimum	**Average**	**Maximum**	**Year-end**
Structural interest rate risk (VaR)*	**361.7**	**446.4**	**525.7**	**517.5**
Diversification impact	(78.1)	(124.4)	(168.1)	(144.9)
Europe and US	334.4	451.4	560.8	552.0
Latin America	105.5	119.5	133.0	110.3
	2011			
	Minimum	**Average**	**Maximum**	**Year-end**
Structural interest rate risk (VaR)*	**256.0**	**273.1**	**328.1**	**328.1**
Diversification impact	(97.9)	(116.8)	(109.6)	(99.3)
Europe and US	231.8	258.2	295.3	295.3
Latin America	122.1	131.7	142.4	132.1
	2010			
	Minimum	**Average**	**Maximum**	**Year-end**
Structural interest rate risk (VaR)*	**240.5**	**301.5**	**334.6**	**309.1**
Diversification impact	(90.0)	(140.2)	(190.5)	(151.6)
Europe and US	217.8	279.9	329.3	308.6
Latin America	112.7	161.8	195.8	152.1

* Includes VaR by credit spread in the ALCO portfolios.

The structural interest rate risk, measured in VaR terms at one day and at 99%, was an average of EUR 446.4 million in 2012. The contribution to it of the balances of Europe and the US was greater than that of Latin America. Of note was the high diversification between both areas.

6.2.2.2. 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 hedging of these investments.

This management is dynamic and seeks to limit the impact on equity of currency depreciations 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 2012, the largest exposures of a permanent nature (with potential impact on equity value) were concentrated in Brazilian reales, followed by sterling, US dollars, Mexican pesos, Chilean pesos and Polish zlotys. 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.

6.2.2.3. Structural equity risk

Santander maintains equity positions in its banking book in addition to those of the trading portfolio. These positions are maintained as portfolios available for sale (capital instruments) or as equity stakes, depending on their envisaged time in the portfolio.

These positions are exposed to market risk. VaR calculations are made for these positions, using market price series for listed shares and proxies for those that do not. At the end of 2012, the VaR at 99% with a one day time frame was EUR 281.4 million (EUR 305.7 million and EUR 218.5 million at the end of 2011 and 2012, respectively).

6.2.2.4. Balance sheet market risk

With a homogeneous metric such as the VaR, the total market risk in the banking book can be monitored, distinguishing between fixed income (both interest rate as well the credit spread for the ALCO portfolios), exchange rate and equities.

The total VaR is not high in terms of the Group's volume of assets or equity. It has declined over the last few years due to the reduction in exchange rate risk and structural equity risk.

VaR OF THE BALANCE SHEET EXCLUDING TRADING ACTIVITY

VaR at 99%, with a time frame of one day. Million euros

	2012				2011		2010	
	Minimum	Average	Maximum	Year-end	Average	Year-end	Average	Year-end
Non-trading VaR	**454.8**	**593.1**	**659**	**659**	**460.4**	**534.4**	**812.2**	**582.1**
Diversification effect	(355.5)	(390.7)	(561.9)	(347.1)	(419.4)	(446.2)	(325.2)	(337.0)
Interest rate VaR*	361.7	446.4	525.7	517.5	273.1	328.1	301.5	309.2
Exchange rate VaR	182.8	237.0	340.1	207.3	372.7	346.8	481.2	391.3
Equity VaR	265.7	300.4	355.0	281.4	234.0	305.7	354.7	218.5

* Includes VaR by credit spread in the ALCO portfolios.

6.3. Methodologies

6.3.1. Trading activity

6.3.1.1. VaR

The standard methodology that Grupo Santander applied to trading activities during 2012 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 by historic simulation has many advantages as a risk metric (it sums up in a single number the market risk of a portfolio, is based on market movements that really occurred without the need to make suppositions of formal functions nor of correlations between market factors, etc.), but also has limitations. The most important ones are the high sensitivity to the historic window used, the incapacity to capture large impact possible events if they do not occur in the window used, the existence of valuation parameters which do not have market input (such as correlations, dividends and recovery rate) and the slow adjustment to new volatilities and correlations, if the most recent data receives the same weight as the oldest data.

Part of these limitations are corrected by using the stressed VaR (see later) and calculating the VaR with exponential decay and applying conservative valuation adjustments.

6.3.1.2. Analysis of scenarios

The VaR is not the only measurement. It is used because of its calculation facility and for being a good benchmark of the Group's risk level, but other measures are also employed which allow for greater control of risks in all the markets where the Group operates.

Among these measures is analysis of scenarios, which consists of defining alternatives for the performance of different financial variables and obtain the impact on results by applying them to activities. These scenarios can replicate events that happened in the past (crisis) or determine possible alternatives that do not correspond to past events.

The potential impact on results of applying different stress scenarios to all the trading portfolios and considering the same suppositions by risk factor is calculated and analysed at least monthly. Three types of scenario are defined: possible, severe and extreme, obtaining along with the VaR a fuller spectrum of the risk profile.

In addition, levels of warning (triggers) are set for global scenarios, on the basis of the historic results of these scenarios and of the capital associated with the portfolio in question. In the event of surpassing these levels, those responsible for management of the portfolio are informed so they can take the necessary measures. At the same time, the results of the stress exercises at the global level, as well as the possible breaching of the levels set, are regularly reviewed by the global committee of market risks so that, if required, senior management is informed.

6.3.1.3. Analysis of positions. sensitivities and results

The market risk area, in line with the principle of independence of the business units, monitors the positions daily, both those of each unit as well as globally, and conducts an exhaustive control of the changes in the portfolios in order to detect possible incidents so that they can be corrected immediately.

The positions are traditionally used to quantify the net volume of the market values of the transactions in portfolio, grouped by main risk factor, and considering the delta value of the futures and options that could exist. All the risk positions can be expressed in the base currency of the unit and in the currency of homogenising information.

The market risk sensitivity measures are those that gauge the change (sensitivity) of the market value of an instrument or portfolio to changes in each of the risk factors. The sensitivity of the value of an instrument to changes in market factors can be obtained through analytical approximations by partial derivatives or through a full revaluation of the portfolio.

The daily drawing up of the income statement is also an excellent indicator of risks, as it enables the impact that changes in financial variables have on portfolios to be identified.

6.3.1.4. Credit management activity

Control of derivative activities and credit management should also be mentioned. This control, because of its atypical nature, is conducted daily according to specific measures. In the case of derivative activities, sensitivity to the price movements of the underlying asset (delta and gamma), volatility (vega) and time (theta) is controlled. In the case of credit management, 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 risk charge, IRC), in order to cover the risk of default and rating migration that is not adequately captured in the VaR, via changes in credit 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 IRC 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.

6.3.1.5. Other measures: stressed VaR (sVaR) and expected shortfall

As well as the usual VaR, Santander began to calculate stressed VaR every day, as of October 2011, for the main portfolios. The methodology for calculation is the same as that used for the VaR, with the following two exceptions:

- Historic period of observation of factors: the stressed VaR uses a window of 250 figures, instead of one of 520 for the VaR.

- In order to obtain the stressed VaR, unlike when calculating the VaR the maximum between the percentile uniformly weighted and the one exponentially weighted is not applied. Instead, the percentile uniformly weighted is used directly.

All the other aspects regarding the methodology and the inputs for calculating the stressed VaR are the same as those for the VaR. As regards determining the period of observation, for each relevant portfolio, the methodology area has analysed the history of a subseries of market risk factors that were chosen on the basis of expert criteria taking into account the most relevant positions of the books.

Moreover. the expected shortfall (ES) has begun to be calculated in order to estimate the expected value of the potential loss when this is higher than the level set by the VaR[20]. The ES, unlike the VaR, has the advantage of capturing better the tail risk and of being a sub-additive metric.

6.3.2. Structural market risks

6.3.2.1. Structural interest rate risk

The Group analyses the sensitivity of net interest margin and of equity value 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 metrics used by the Group to control interest rate risk in these activities are: the interest rate gap, the sensitivity of net interest margin and of equity value to changes in interest rate levels, Value at Risk (VaR), for the purposes of calculating economic capital.

6.3.2.1.1. *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 value.

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.

6.3.2.1.2. 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.

[20] The Basel Committee published in May 2012 a consultative document, "Fundamental review of the trading book", which, among other things, recommends the use of the expected shortfall as the main metric for measuring the market risk of trading activity.

6.3.2.1.3. Market value of equity sensitivity (MVE)
The sensitivity of equity value is an additional measure to the sensitivity of the net interest margin.

It measures the interest risk implicit in the equity value on the basis of the impact of a change in interest rates on the current values of financial assets and liabilities.

6.3.2.1.4. Treatment of liabilities without defined maturity
In the corporate model, the total volume of the balances of accounts without maturity is divided between stable and unstable balances.

The separation between the stable and unstable balances is obtained from a model that is based on the relation between balances and their own moving averages.

From this simplified model the monthly cash flows are obtained and used to calculate the NIM and MVE sensitivities.

The model requires a variety of inputs:

- Parameters inherent in the product.

- Performance parameters of the customer (in this case analysis of historic data is combined with the expert business view).

- Market data.

- Historic data of the portfolio.

6.3.2.1.5. Pre-payment treatment for certain assets
The pre-payment issue mainly affects fixed-rate mortgages in units where the relevant interest rate curves for the balance sheet (specifically for the portfolio of investment in fixed rate mortgages) are at low levels. In these units the risk is modelised and some changes can also be made to assets without defined maturity (credit card businesses and similar).

The usual techniques used to value options cannot be applied directly because of the complexity of the factors that determine the pre-payment of borrowers. As a result, the models for assessing options must be combined with empirical statistical models which seek to capture the pre-payment performance. Some of the factors are:

- Interest rate: the differential between the fixed rate of the mortgage and the market rate at which it could be refinanced, net of cancellation and opening costs;

- Seasoning: pre-payment trend downward at the start of the instrument's life cycle (signing of the contract) and upward and stabilising as time passes;

- Seasonality: the amortisations or early cancellations tend to take place at specific dates.

- Burnout: decreasing trend in the speed of pre-payment as the instrument's maturity approaches, which includes:

  a) Age: defines low rates of pre-payment.

  b) Cash pooling: defines as more stable those loans that have already overcome various waves of interest rate falls. In other words, when a portfolio of loans has passed one or more cycles of downward rates and thus high levels of pre-payment, the "surviving" loans have a significantly lower pre-payment probability.

  c) Others: geographic mobility, demographic, social, available income factors, etc.

The series of econometric relations that seek to capture the impact of all these factors is the probability of pre-payment of a loan or pool of loans and is denominated the pre-payment model.

6.3.2.1.6. Value at Risk (VaR)
The Value at Risk for balance sheet activity and investment portfolios is calculated with the same standard as for trading: maximum expected loss under historic simulation with a confidence level of 99% and a time frame of one day. As for the trading portfolios, a time frame of two years, or 520 daily figures, is used, obtained from the reference date of the VaR calculation back in time.

6.3.2.2. Structural exchange rate risk/hedging of results
These activities are monitored via position measurements, VaR and results, on a daily basis.

6.3.2.3. Structural equity risk
These activities are monitored via position measurements, VaR and results, on a monthly basis.

6.4. Management framework

6.4.1. Organisational and governance structure

The market and structural risks area is integrated into one of the Group's two general risk directorates. The missions of the market risk function are:

- To define and supervise the market risk management model, which includes corporate policies, defining the risks map and segmentation criteria.
- Control and manage the consolidation, reporting and centralised admission process of market risks.

These missions rest on five basic pillars, vital for correct management of market risks:

- Measurement, analysis and control of market and liquidity risks.
- Calculation, analysis, explanation and conciliation of results.
- Defining, capturing, validating and distributing market data.
- Admission of limits, products and underlying assets.
- Consolidation of information.

In turn, market risks management is guided by the following basic principles:

- Involvement of senior management.
- Independence of the risk function from business.
- Clear definition of powers.
- Risk measurement.
- Limiting risks.
- Analysis and control of risk positions.
- Establishing risk policies and procedures.
- Assessing risk methodologies.

In the same way that the market risks function is structured at the corporate or global level, each local market risk unit has and arranges its functions, with the adjustments that arise in accordance with its specific business, operational and legal requirement features, etc.

For the correct functioning of global policies and local execution, the global area of market risks and local units carry out different functions:

- Global market risk:
  - Establish, propose and document risk policies and criteria, the global limits and the decision-making and control processes.
  - Generate management frameworks, systems and tools.
  - Promote and support their implementation and ensure they function effectively in all units.
  - Know, assimilate and adapt the best practices inside and outside the Group.
  - Promote activity for obtaining results.
  - Consolidate, analyse and control the market risk incurred by all units of the perimeter.
- Local market risk units:
  - Manage risks.
  - Transfer, adapt and assume internally the corporate policies and procedures through local approval.
  - Define and document policies and lead local sphere projects.
  - Apply policies and decision-making systems to each market.
  - Adapt the organisation and management frameworks and corporate rules.
  - Contribute critical and best practices, as well as local knowledge and proximity to customers/markets.
  - Assume greater responsibilities in decisions, control and management of risks.
  - Measure, analyse and control market risk within the sphere of responsibility.

COMMITTEES WITH RESPONSIBILITIES IN MARKET RISK

Sphere	Hierarchical level	Name
Centralised sphere	Executive	Executive Committee Markets Committee
		Risk Committee
	Risk division	Risk Management Committee
		Global Committee of the General Directorate of Risk
		Permanent Risk Committee
		Corporate Risk Committee, Brazil
	Areas and departaments dependent on the Risk Division	Global Market Risk Committee
		Underwriting and Structured Products Committee
		Models Committee
Decentralised sphere	Units	Risk Committees in the Banks of the Group/Countries
		Risk Committees of Branches Abroad
		Risk Committees in Business Units
		Local ALCOs
		Other committees

The committees, by hierarchical order, which have powers in decision-making, control and monitoring of market risks are set out above.

The collegiate organ of the market risks area is the global market risk committee (GMRC). This committee is responsible for the functioning of market risk in Grupo Santander, both at the centralised level (global areas) and local level (local units). It gets its powers directly from the risk committee, the maximum organ responsible for the risks function in Grupo Santander.

6.4.2. System for controlling limits

Setting market risk and liquidity limits is designed as a dynamic process which responds to the Group's risk appetite level (described in Section 2.3 of this report). This process is part of the annual limits plan, which is drawn up by the Group's senior management and administered by the general directorate of risks in a way that involves all the Group's institutions.

6.4.2.1. Definition of limits

The market risk limits used in Grupo Santander are established on different metrics and try to cover all activity subject to market risk from many perspectives, applying a conservative criterion. The main ones are:

Trading limits:

- VaR limits.
- Limits of equivalent positions and/or nominal.
- Sensitivity limits to interest rates.
- Vega limits.
- Risk limits of delivery by short positions in securities (fixed income and equities).
- Limits aimed at reducing the volume of effective losses or protecting results already generated during the period:
  - Loss trigger.
  - Stop loss.
- Credit limits:
  - Limit on the total exposure.
  - Limit to the jump to default by issuer.
  - Others.
- Limits for origination operations.

Structural interest rate risk of the balance sheet:

- Sensitivity limit of net interest margin at 1 year.
- Sensitivity limit of equity value.

Structural exchange rate risk:

- Net position in each currency (for positions of hedging results).

These general limits are complemented by sub-limits. In this way, the market risk area has a structure of limits sufficiently granular to conduct an effective control of the various types of market risk factors on which an exposure is maintained. Positions are tracked daily, both of each unit as well as globally. An exhaustive control is made of the changes in the portfolios, in order to detect possible incidents for their immediate correction. Meanwhile, the daily drawing up of the income statement by the market risks area is an excellent indicator of risks, as it allows the impact that changes in financial variables have had on portfolios to be identified.

6.4.2.2. Structure of limits

The table below shows the levels of applying limits, the categories and the sphere of control in which they are classified and their levels of approval.

STRUCTURE OF LIMITS

Levels	Category/Control	Approval
Activity / Unity	Global/Global control	Risk Committee
	Global/Local control	Global Market Risk Committee
	Local/Local control	Local market risks

- Global limits of global control: The Risks Committee approves the limits at the activity/unit level in the annual process of setting limits. Changes that are subsequently made can be approved by the Global Market Risk Committee, in accordance with the powers delegated in it.

  These limits are requested by the relevant business executive in each country/entity on the basis of the nature of the business and the budget established, seeking consistency between limits and the return/risk ratio.

- Global limits of local control: On the basis of the local features of products, and of the internal organisation of business, sub-limits are set for the aforementioned activities in order to exercise greater control of the positions maintained in each business. Sub-limits are set by risk factor, currency positions. equity positions, sensitivity by currencies and maturities, vega by maturities, etc.

6.4.2.3. Compliance and control of limits

Business units must comply with the approved limits. The possible excesses trigger a series of actions by the local and global market risk areas, risk management committees or the Risks Committee in order to reduce the risk levels and control them more strictly or executive actions, which can make the risk takers reduce the risks levels assumed.

The local executives for market risk notify the excesses to the business executives. These have to explain the reasons for the excess and, where appropriate, provide the plan of action to correct the situation. The business executive must respond, in writing and on the day, to the requirement made. The alternatives are to reduce the position to the prevailing limits or set out the strategy that justifies an increase in the limits.

If the excess situation continues without a response by the business unit for three days, the market risks area contacts the relevant global business executives and informs them of this, and requests adjustment measures be taken. If this situation persists 10 days after the first excess, the market risks area will contact senior risk management so that a decision can be taken.

6.5. Internal model

Grupo Santander had, at the end of 2011, approval from the Bank of Spain for its internal market risk model for calculating regulatory capital in the trading portfolios of units in Spain, Chile, Mexico and Portugal. The Group's objective is to gradually increase approval to the rest of units.

The regulatory capital consolidated by the internal model of market risks for Grupo Santander is obtained by adding the regulatory capital of each of the units for which there is the corresponding Bank of Spain approval. A conservative criterion is used for consolidating the Group's capital, as it does not take into account the savings in capital derived from the diversification impact among various countries.

As a result of this approval, the regulatory capital of trading activity for the commented perimeter is calculated via advanced methods, using VaR as the fundamental metric, the stressed VaR and the incremental risk charge (IRC), in line with the new capital requirements demanded by the Basel agreements.

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 in analysis of the impact of new requirements, in line with the documents published by the Basel Committee to strengthen the capital of banks.

7. LIQUIDITY RISK AND FUNDING

7.0. Structure of this section

After an introduction to the liquidity risk concept and funding in Grupo Santander (pages 226-227), we present the liquidity management framework set by the Group, including monitoring and control of liquidity risk (pages 227-230).

We then look at the funding strategy for the Group and its subsidiaries over the last three years (pages 231-233), with particular attention to the liquidity evolution in 2012. The evolution of the liquidity management ratios in 2012 and business and market trends that gave rise to it are shown on pages 233-236.

The section ends with a qualitative description of the prospects for funding in 2013 for the Group and its main countries (page 236).

7.1. Introduction to the treatment of liquidity risk and funding

- Santander developed a funding model based on autonomous subsidiaries responsible for covering their own liquidity needs.
- This structure makes it possible for Santander to take advantage of its solid business model in order to maintain comfortable liquidity positions at Group level.
- In the last few years, it has been necessary to adapt the funding strategies to the new commercial business trends and the markets' conditions.
- In 2012, and in a very demanding environment, the Group strengthened its liquidity situation and that of its subsidiaries, enabling it to tackle 2013 from a good starting point.

Liquidity management and funding have always been basic elements in Banco Santander's business strategy and a fundamental pillar, together with capital, in supporting its balance sheet strength.

Relegated during the expansion period to a second level importance, liquidity has recovered its importance in the last few years because of the rising tensions in financial markets against the backdrop of a global economic crisis. This scenario has enhanced the importance for banks of having appropriate funding structures and strategies to ensure its intermediation activity,

During this period of stress, Santander has enjoyed an appropriate liquidity position, higher than that of its peers, which has given it a competitive advantage to develop and expand its activity in an increasingly demanding environment.

This better position for the whole Group has been supported by a decentralised funding model consisting of autonomous subsidiaries and self-sufficient in liquidity. Each subsidiary is responsible for covering the liquidity needs of its current and future activity, either through deposits captured from its customers in its area of influence or through recourse to the wholesale markets in which it operates, within a framework of management and supervision coordinated at the Group level.

The funding structure is one that shows its greatest effectiveness in situations of high levels of market stress as it prevents the difficulties of one area from affecting the funding capacity of the Group and of other areas, as could happen in the case of a centralised funding model.

This funding structure also benefits from the opportunities of a solid retail banking model: with a significant presence (market shares of around 10% or more) in 10 high potential markets, focused on retail clients and high efficiency.
All of this gives our subsidiaries a big capacity to attract stable deposits, as well as a strong issuance capacity in the wholesale markets of these countries, generally in their own currency, and backed by the strength of their franchise and belonging to a leading group.

At the end of 2012, the Group's large management units, from the standpoint of funding, were self-financing except for Santander Consumer Finance because of the nature of its business. The main balance sheet items were as follows:

MAIN UNITS AND BALANCE SHEET ITEMS
December 2012. EUR billion

	Total assets	Net loans	Customer deposits*	M/LT funding**
Spain	356.1	194.2	201.9	84.9
SCF	74.0	56.7	31.9	7.4
Portugal	42.2	26.0	24.0	3.2
Poland- BZ WBK	14.9	9.7	11.2	0.1
UK	359.7	250.5	194.5	76.0
Brazil	148.7	74.5	69.8	21.2
Mexico	46.9	20.4	24.7	2.1
Chile	40.7	29.7	22.4	6.8
Argentina	8.3	5.2	6.3	0.0
US	62.9	41.3	38.1	11.7
Total Group	**1,269.6**	**720.5**	**638.2**	**213.6**

* Includes retail commercial paper in Spain.
** M/L term issues in the market, securitizations and other secured financing in markets, and funds borrowed from FHLB lines. All of them for their nominal value.

Santander's management of funding and liquidity risk, both theoretical and practical, is set out in the following sections:

- Liquidity management framework – monitoring and control of liquidity risk.
- Funding strategy and evolution of liquidity in 2012.
- Outlook for 2013.

7.2. Liquidity management framework- monitoring and control of liquidity risk

Management of structural liquidity aims to fund the Group's recurring activity in optimum conditions of term and cost, avoiding the assumption of undesired liquidity risks.

Santander's liquidity management is based on the following **principles:**

- **Decentralised liquidity model.**
- **Needs derived from medium and long term activity must be financed by medium and long term instruments.**
- **High contribution from customer deposits,** derived from the retail nature of the balance sheet.
- **Diversification of wholesale funding sources** by instruments/investors, markets/currencies and terms.
- **Limited recourse to short-term funding.**
- **Availability of a sufficient liquidity reserve**, which includes the discount capacity in central banks to be used in adverse situations.

The effective application of these principles by all the entities that comprise the Group required development of a **unique management framework** built around three essential pillars:

- A solid organisational and governance model that ensures the involvement of the senior management of subsidiaries in decision-taking and its integration into the Group's global strategy.
- Deep balance sheet analysis and measurement of liquidity risk, which supports decision-taking and its control.
- Management adapted in practice to the liquidity needs of each business.

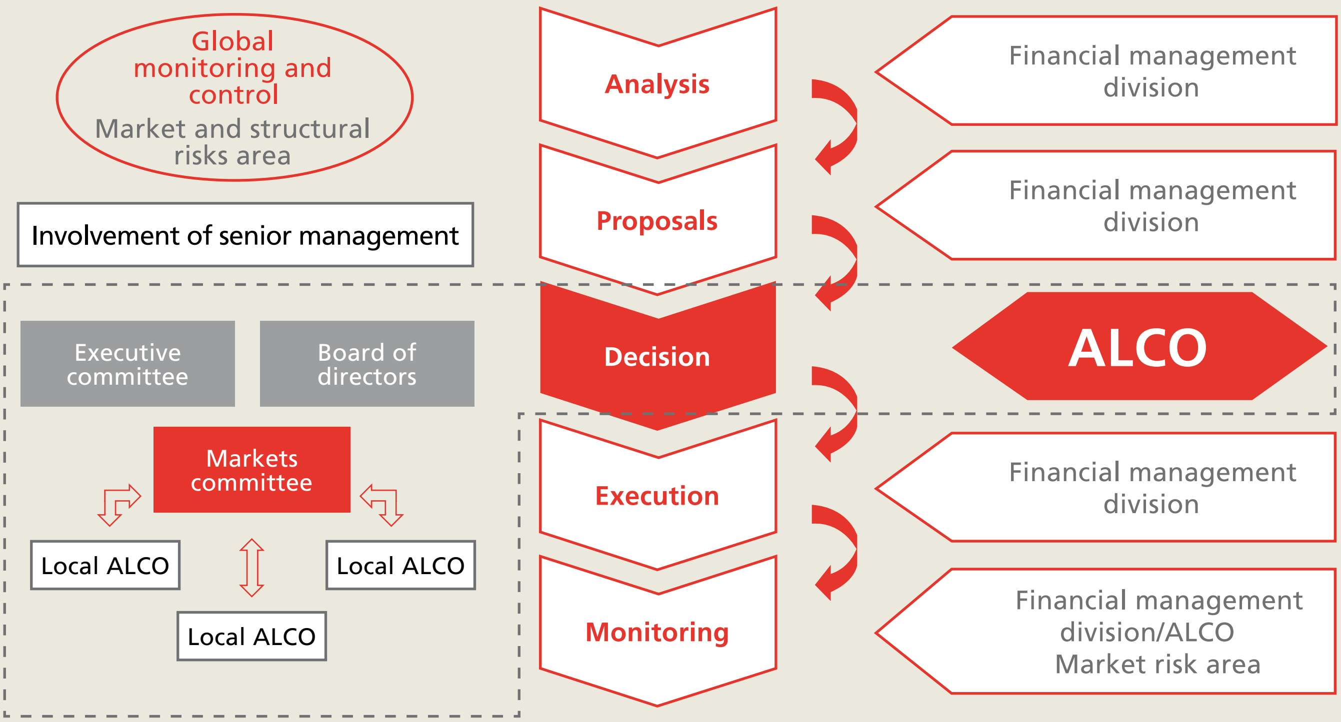
7.2.1. Organisational model and governance

Decision-taking process regarding structural risks, including liquidity risk, is carried out by local asset and liability committees (ALCOs) in coordination with the markets committee.

The markets committee is the main body at Group levels, which coordinates and supervises all the global decisions that influence measurement, management and control of liquidity risk. It is headed by the chairman of the bank and comprises the 2nd vice-chairman and chief executive officer, the 3rd vice-chairman (who is, in turn, the chairman of the delegated risk committee), the chief financial officer and the senior vice-chairman for risk and those responsible for the business and analysis units.

GRUPO SANTANDER GOVERNANCE: LIQUIDITY RISK AND FUNDING

Structure of decision-taking and functions



ALCO is the decision-making body in charge of managing the structural risk.

In line with these principles, the local ALCO set the strategies that ensure and/or anticipate the funding needs of their business. They are supported by the financial management and market risk areas, which present analysis and proposals for a correct management and control compliance with the limits set.

In line with best governance practices, 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).

7.2.2. Balance sheet analysis and measurement of liquidity risk

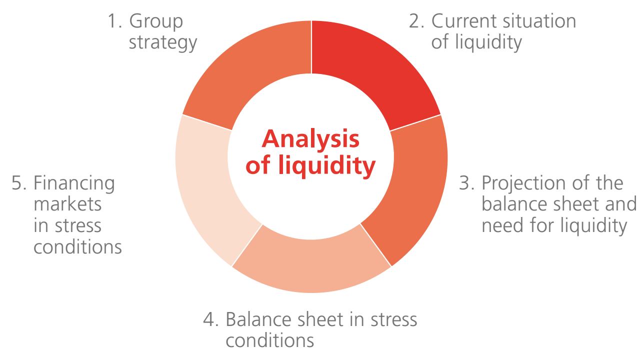
Taking decisions on funding and liquidity is based on a deep understanding of the Group's current situation (environment, strategy, balance sheet and liquidity position), of future liquidity needs generated from businesses (projection of liquidity), as well as from expected access to and current situation of funding 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 with stable sources of funding, 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.

At the same time, various stress tests are 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.

ANALYSIS OF THE BALANCE SHEET AND MEASUREMENT OF LIQUIDITY RISK



The inputs for drawing up the various contingency plans for the Group are obtained from the results of the analysis of balance sheets, forecasts and scenarios which, in turn, enable a whole spectrum of potentially adverse circumstances to be anticipated.

All these actions are in line with the practices being fostered by 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 under observation.

Greater detail on the measures, metrics and analysis used by the Group and its subsidiaries to manage and control liquidity risk is set out below:

Methodology for monitoring and controlling liquidity risk

The objectives of the Group's liquidity risk measures are:

- **To achieve greater efficiency** in measuring and controlling liquidity risk.
- **To support financial management**, for which the measures are adapted to the form of managing the Group's liquidity.
- **Alignment with BIS III** to avoid "conflicts" between different limits and facilitate their management.
- **Be an early warning system**, anticipating potential risk situations by monitoring certain indicators.
- **Attain the involvement of countries**. The metrics are developed on the basis of common and homogeneous concepts that affect liquidity, but the analysis and adaptation of each unit is needed.

There are two types of basic metrics used to control liquidity risk: dynamic and static ones. The first category basically includes the liquidity gap and the second one the balance sheet's net structural position. As an additional element, the Group develops various stress scenarios. These three metrics are as follows:

a) *Liquidity gap*

The liquidity gap provides information on the contractual and estimated (by hypothesis) cash inflows and outflows for a certain period of time, for each of the main currencies in which the Group operates.

The gap provides information on the sources and uses of funds expected in specific time periods, in relation to the total on- and off-balance sheet items. This analysis tool is obtained from the net of the structure of maturities and flows for each period established. The liquidity available is contrasted with the needs arising from maturities.

In practice, and given the different performances of a same item in the Group's subsidiaries, there are common standards and methodologies to homogenise the building of liquidity risk profiles for each unit as well as be presented in a comparable way to the bank's senior management.

In the Group's case, a consolidated look at the liquidity gaps is of very limited use for managing and understanding liquidity risk. This use is even more reduced if the gaps result from the use of contractual maturities.

Of note in the various analysis made using the liquidity gap is that for **wholesale funding**. On the basis of this analysis a **metric** has been defined whose objective is to guarantee that sufficient liquid assets are maintained in order to attain a minimum **liquidity horizon**, in a scenario in which wholesale funding is not renewed at its maturity.

The minimum liquidity horizons are determined in a corporate and homogeneous way for all units/countries, which must calculate their wholesale liquidity metric in the main currencies in which they operate.

Bearing in mind the market tensions in 2012, this wholesale liquidity gap is closely monitored in the parent bank and in the euro zone units.

At the end of 2012, all units were in a comfortable position in the horizons established for this scenario.

b) Net structural position

The objective of this metric is to determine the reasonability of the financing structure of the balance sheet. The Group's criterion is to ensure that the structural needs (customer loans, fixed assets, etc.) are covered by an adequate combination of wholesale funding sources and a stable base of retail deposits.

Each unit draws up its liquidity balance sheet in accordance with the features of their businesses and compare them with the various funding sources they have. The main factors taken into account when determining this metric are the recurrence of the businesses to be financed, the stability of funding sources and the capacity of assets to become liquid.

In practice, each subsidiary draws up its liquidity balance sheet (different from the accounting one) by classifying the various asset and liability items and off-balance sheet ones on the basis of their nature for the purposes of liquidity. This determines the financing structure that must comply at all times with a key premise: basic businesses must be financed with stable funds and medium and long term funding.
All of this guarantees a sound financial structure and the sustainability of business plans.

At the end of 2012, the Group had a structural liquidity surplus of EUR 157,000 million following improvements in the main units.

c) Analysis of scenarios

As an additional element to the metrics, the Group develops various stress scenarios. The main objective is to identify the critical aspects in each potential crisis and define the most appropriate management measures to tackle each of these situations.

Generally speaking the units take into account three scenarios in their liquidity analysis: systemic, idiosyncratic and hybrid. These represent the minimum standard analysis established for all the Group's units and which are provided to senior management. Each of the units also develops ad hoc scenarios that replicate significant historic crises or specific liquidity risks of their environment.

The main features of the three basic scenarios are:

- An idiosyncratic crisis only affects a bank but not its environment. This is basically reflected in wholesale funds and in retail deposits, with various percentages of outflows depending on the severity defined.

  Within this category a specific crisis scenario that a local unit could suffer as a result of a crisis in the parent bank (Banco Santander) is studied. This scenario was particularly relevant in 2012 because of tensions suffered by countries on the periphery of the euro zone.

- A systemic crisis is an attack by the international financial markets on the country where the local unit is located. Each unit would be affected to varying degrees, depending on its relative position in the local market and the image of soundness it has. Among other factors which would be affected in this scenario are, for example, the wholesale funding lines from the closure of markets or the liquid assets linked to the country whose market value would be significantly reduced.

- Hybrid crisis. In this scenario, some of the factors mentioned in the scenarios above are stressed. Particular attention is paid to the most sensitive aspects from the standpoint of the unit's liquidity risk.

These metrics and scenarios are directly linked to the process of drawing up and executing the liquidity contingency plan by the financial management area.

At the end of 2012, and in a scenario of a potential systemic crisis affecting the wholesale funding of units in Spain, Grupo Santander had an appropriate liquidity position. The wholesale liquidity metric horizon in Spain (included within the liquidity gap measures) showed levels of more than 90 days during which the liquidity reserve would cover all the maturities of wholesale financing.

As well as these three metrics, a series of internal and market variables was defined as **early warning indicators of possible crises**, which can also state their nature and severity. Their integration in daily liquidity management enables situations that could affect the Group's liquidity risk to be anticipated. Although these alerts vary from country to country and from bank to bank on the basis of specific determinants, some of the parameters used are common in the Group such as Banco Santander's level of CDS, the evolution of deposits from customers and the interest rate trend of central banks.

7.2.3. Management adapted to business needs

In practice, and in line with the financing principles set out, Grupo Santander's liquidity management consists of:

- Drawing up every year a liquidity plan based on the funding needs derived from the budgets of each business and the methodology already described. On the basis of these liquidity needs and taking into account prudent limits of recourse to short-term markets, an issuance and securitisation plan for the year for each subsidiary/global business is established by the financial management area.

- Monitor during the year the evolution of the balance sheet and of the financing needs of the subsidiaries/businesses, which gives rise to updating the plan.

- Maintain an active presence in a large number of wholesale funding markets that enables an appropriate structure of issues to be sustained, diversified by products and with an average conservative maturity.

The effectiveness of this management is based on implementation in all subsidiaries. Each subsidiary budgets the liquidity needs based on its activity of intermediation and assesses its capacity of recourse to wholesale markets in order to establish an issuance and securitisation plan, in coordination with the Group.

The Group's main subsidiaries are self-sufficient as regards their structural financing. The exception is Santander Consumer Finance which needs the support of other Group units, particularly that of the parent bank, given its nature as a consumer finance specialist operating mainly via dealers. This financing is always done at market prices on the basis of the maturity term and the internal rating of the borrower.

In any case, the parent bank's support for Santander Consumer Finance has been reduced to less than a third in the last three years (from EUR 15,000 million in 2009 to around EUR 4,500 million). The developments underway to attain self-financing levels similar to those of the rest of the subsidiaries, through recourse to retail clients as well as wholesale funding, are successfully covering their phases and will be completed in the short term.

7.3. Financing strategy and evolution of liquidity in 2012

7.3.1. Funding strategy

Santander's financing activity over the last few years has achieved its objective of adequately funding the Group's recurring activity in a very demanding environment characterised by a greater perception of risk, scarce liquidity in certain maturity terms and their higher cost.

This good performance was supported by extending the management model to all the Group's subsidiaries, including new ones, and, on top of that, adapting the subsidiaries' strategy to the increasing requirements of markets. These requirements have not been the same for all markets and have attained much higher levels of difficulty and pressure in some areas such as on the periphery of Europe.

It is possible, however, to extract a series of **general trends** implemented by Santander's subsidiaries in their funding and liquidity management strategies **in the last three years**. They are the following:

- **Lower growth in lending because of the environment**, particularly in countries such as Spain and Portugal undergoing adjustments. On the other hand, growth in emerging markets (Latin America) and in units and businesses under development (US, Germany, Poland and UK SMEs).

Group loans excluding repos increased by around EUR 40,000 million since the end of 2009 (+6%), including those by new units incorporated to the Group (Poland and Germany).

- **Priority focus on capturing customer funds**. Group deposits excluding repos but including retail paper rose by EUR 122,000 million (+26%), a growth three times more than that of lending.

  All countries increased deposits, particularly those units that grew the most in lending and those under higher stress from the markets. Among the first group are Brazil, Mexico and Chile with a combined rise in deposits of 31% in local currency, and among the second Spain and Portugal whose deposits grew by 33% in the last three years.

- **Maintain adequate and stable levels of medium and long term wholesale funding** at the Group level (22% of balance sheet for liquidity management purpose at the end of 2012 vs. 23% in 2009). The decentralised model for subsidiaries helped to maintain a high level of activity in wholesale markets in a more demanding period.

  Of note was the greater activity in the UK resulting from the change in regulatory conditions, and of the main Latin American countries (Brazil, Mexico and Chile) because of their strong growth in lending.

  In Europe, the securitisation activity of Santander Consumer Finance was extended to new markets such as Finland, Sweden and Norway, converting their units into pioneers in securitisation of auto finance. Also noteworthy was the incorporation in 2012 of SHUSA, Santander Group's holding in the US, to the pool of the Group's significant issuers.

  Lastly, in Spain, where business required reduced liquidity needs in the last three years, the Group maintained a conservative issuance policy (EUR 54,000 million of medium and long term debt in 2010-2012, close to 80% of maturities and amortisations), taking advantage of the strength of the Santander brand and credit quality.

- **Ensure a sufficient volume of assets eligible for discount in central banks and other public institutions** as part of the liquidity reserve (as set out in page 235 of this report) to meet stress situations in wholesale markets.

  The Group increased its total discounting capacity in 2012 to around EUR 130,000 million (close to EUR 100,000 million in 2010 and 2011). This required from the subsidiaries a continuous strategy to generate assets eligible for discount in order to compensate for the reduction in the value of guarantees as a result of downgrading of ratings in the period, particularly of sovereign debt and related assets.

  A large part of this total discounting capacity was generated by the units in the euro zone. These benefited from the quality of their assets and from the extraordinary monetary policy measures implemented by the European Central Bank (ECB) at the end of 2011 and the beginning of 2012 (basically, widening of collateral and three-year liquidity auctions) in order to boost its liquidity buffer notably.

  At the end of 2012, Santander had a total volume eligible for discounting that comfortably exceeded the commercial gap (i.e. the difference between net loans and deposits) at Group level. It represents more than 160% of the gap after the dynamics of the aforementioned volumes, which were developed more intensely in 2012.

  During 2012, and faced with the situation in the euro markets, Santander followed a prudent policy of depositing in the same central banks included in the Eurosystem most of the funds raised from them, as an immediate liquidity reserve, making its global net position virtually zero.

  In January 2013, the improvement in the Group's liquidity position and that of the units in Spain, combined with an easing in the wholesale funding markets, led Santander to return all of the funds taken by Banco Santander and

Banesto in the first auction of Long Term Refinancing Operations (LTROs) conducted by the ECB in December 2011. Santander returned EUR 24,000 million deposited in the Eurosystem central banks, the maximum allowed in the first repayment window offered by the ECB.

All these developments made on the foundations of a solid liquidity management model made it possible for **Santander to enjoy a very robust financing structure** that sets it apart from most of its international peers. **The basic features of this structure are:**

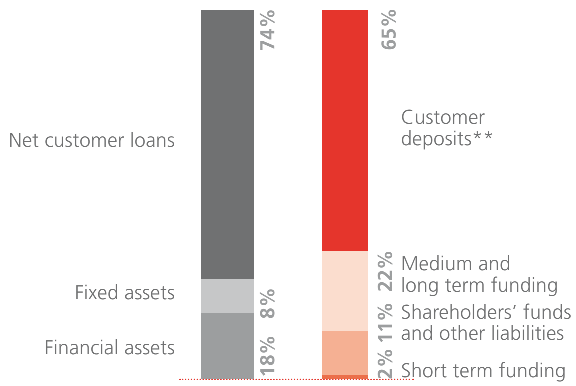
- **High relative share of customer deposits in an essentially retail banking balance sheet.**

  Customer deposits are the main source of the Group's financing. Including retail commercial paper (given its role as replacing time deposits in Spain), they accounted for around two-thirds of the Group's funding and 89% of net loans at the end of 2012.

  They are also very stable funds given their retail origin (more than 85% of the deposits come from retail banking).

GRUPO SANTANDER LIQUIDITY BALANCE SHEET, END 2012*

%



* Balance sheet for the purposes of liquidity management: total balance sheet net of trading derivatives and interbank balances.
** Including retail commercial paper in Spain.

- **Diversified wholesale funding focused on the medium and long term and with a very small relative share of short term.**

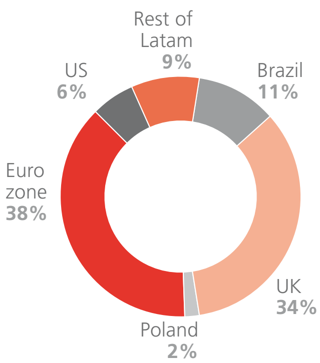
  Medium and long term funding accounts for less than one quarter of the Group's funding and comfortably covers the rest of net loans not financed by customer deposits (commercial gap).

  This funding is well balanced by instruments (approximately 1/3 senior debt, 1/3 covered bonds, 1/3 securitisations and the rest) and also by markets so that those with the highest shares in issues are those where investor activity is the strongest.

  The charts showing the geographic distribution of gross loans and of medium and long term funding are shown below so that their similarity can be appreciated.

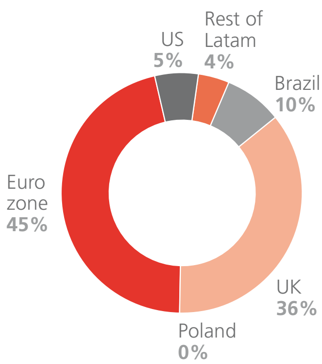
GROSS LOANS

December 2012



M/LT WHOLESALE FUNDING

December 2012



The bulk of medium and long term wholesale funding consists of debt issues. Their outstanding balance at the end of 2012 was EUR 153,000 million nominal, with an average maturity of 3.8 years and an appropriate distribution profile.

The distribution by instruments, the evolution over the last three years and their maturity profile were as follows:

MEDIUM AND LONG TERM DEBT ISSUES, GRUPO SANTANDER
Million euros

	Evolution of outstanding balances in nominal value		
	December 2012	**December 2011**	**December 2010**
Preferred shares	4,765	5,657	7,525
Subordinated debt	11,004	14,184	20,633
Senior debt	69,916	73,693	63,519
Covered bonds	67,468	68,240	62,974
Total*	**153,152**	**161,774**	**154,651**

Distribution by maturity, December 2012*

	0-1 month	**1-3 months**	**3-6 months**	**6-9 months**	**9-12 months**	**12-24 months**	**2-5 years**	**Over 5 years**	**Total**
Preferred shares	0	0	0	0	0	0	0	4,765	4,765
Subordinated debt	0	194	0	0	0	227	4,824	5,759	11,004
Senior debt	4,533	6,436	6,840	4,297	4,389	15,438	23,368	4,615	69,916
Covered bonds	0	2,808	3,551	4,696	300	11,267	29,811	15,035	67,468
Total*	4,533	9,437	10,391	8,993	4,689	26,932	58,003	30,174	153,152

* In the case of issues with put option in favour of the holder, the maturity of the put option will be considered instead of the contractual maturity.
Note: the entire senior debt issued by the Group's subsidiaries does not have additional guarantees.

As well as debt issues, the medium and long term wholesale funding is completed by lines from the Federal Home Loan Banks in the US (EUR 10,000 million at the end of 2012) and by funds obtained from securitisation activities. The latter includes securitisation bonds placed in the market, other collateralised financing and other special ones for a total amount of EUR 50,000 million and an average maturity of around 2.5 years, which compares well with market standards.

The **wholesale funding of short term issuance programmes** is a marginal part of the structure as it accounts for less than 2% of financing (excluding the aforementioned retail commercial paper) and is well covered by liquid financial assets.

The outstanding balance at the end of 2012 was EUR 17,000 million, mainly raised by the UK unit and the parent bank through existing issuance programmes: various programmes of CDs and commercial paper of the UK (60%), European commercial paper and US commercial paper of the parent bank (25%), and from other units (15%).

In short, Santander enjoys **a very solid and robust financing structure** based on an essentially retail banking balance sheet that enables the Group to cover comfortably its structural liquidity needs (loans and fixed assets) with permanent structural funds (deposits, medium and long term funding and equity), which generates a large surplus of structural liquidity.

This robustness at the Group level is also distinctive of the balance sheets of the countries in which we operate and of the main subsidiaries, except for Santander Consumer Finance. The commercial gap of these subsidiaries is amply covered by issues and medium and long term financing, the recourse to short-term funds is very small and, as a result, there is a structural liquidity surplus.

7.3.2. Evolution of liquidity in 2012

- **Further improvement in liquidity ratios (Group LTD: 113%),** backed by deleveraging in key markets and by issuance of the main subsidiaries (EUR 43,000 million of medium and long term issues and securitisations).

- **Strengthened position with a high liquidity reserve (EUR 217,000 million).**

- **Facing 2013 from a comfortable position enabled the repayment of the EUR 24,000 million borrowed from the ECB** (100% of funds borrowed by Banco Santander and Banesto in the first LTROs auction).

From the funding standpoint, 2012 was the most demanding of the last few years. The intensified Greek crisis and doubts on the euro's survival sharply pushed up the risk premiums of the sovereign debt of many European countries to their highest levels since the creation of the single currency. This tension led to the narrowing of wholesale markets for most of the year, particularly in countries on the periphery, with reduced issueing "windows" at the start and the end of the year only for the best credit quality companies. This issuance difficulty increased the appetite for retail deposits even further; they had already been the object of strong competition in most European markets.

In this context **Santander managed to improve its liquidity position as reflected in two basic aspects:**

1. Improvement in basic liquidity ratios
The table shows the evolution in the last few years of the basic metrics for monitoring liquidity at the Group level:

GRUPO SANTANDER MONITORING METRICS

	2012	2011	2010	2009	2008
Net loans/net assets*	**74%**	77%	75%	79%	79%
Net loan-to-deposit ratio	**113%**	117%	117%	135%	150%
Customer deposits and medium and long term funding/net loans	**118%**	113%	115%	106%	104%
Short term wholesale funding/ net liabilities	**2%**	2%	3%	5%	7%
Structural liquidity surplus (%/net liabilities*)	**16%**	13%	14%	8%	4%

* Balance sheet for liquidity management purposes.
Note: in 2011 and 2012, customer deposits include retail commercial paper in Spain (excluding short term wholesale funding).

At the end of 2012, and compared to 2011, Grupo Santander registered:

- A fall in the ratio of loans/net assets (total assets less trading derivatives and interbank balances) to 74% due to the decline in lending in the environment of deleveraging. The ratio reflects the retail nature of Santander's balance sheet.

- An improvement in the net loan-to-deposit ratio to 113% (including retail commercial paper) from 117% in 2011. This continued the downward trend started in 2008 (150%), the result of the effort made to capture retail deposits throughout the Group.

- The ratio customer deposits and medium and long term financing/lending also improved, combining the improvement in liquidity from business management with the Group's issuance capacity. The ratio was 118% (113% in 2011), well above 104% in 2008.

- Recourse to short-term wholesale funding was also reduced (below 2%), in line with that in 2011.

- Lastly, the Group's structural surplus (i.e., the excess of structural financing funds -deposits, medium and long term funding and capital- over structural liquidity needs -net loans and fixed assets-) rose significantly in 2012 to EUR 157,000 million, basically due to the reduction in the commercial gap.

This improvement in the Group's liquidity position is the result of the evolution of several subsidiaries. Of note were Spain and Portugal with a combined loan-to-deposit ratio (including retail commercial paper) of 97% at the end of 2012 (118% in 2011), which improved the Group's average ratio.

The table below sets out the most frequently used liquidity ratios for Santander's main units at the end of 2012.

LIQUIDITY RATIOS FOR THE MAIN UNITS
December 2012. (%)

	Net loan-to-deposit ratio	Deposits+M & LT funding/net loans
Spain	96	148
Portugal	108	105
Santander Consumer Finance	178	69
Poland-BZ WBK	87	116
UK	129	108
Brazil	107	122
Mexico	82	132
Chile	132	98
Argentina	83	120
US	108	121
Total Group	**113**	**118**

Note. In Spain, including retail commercial paper in deposits.

The **drivers** behind the improvements in the liquidity ratios in 2012, at Group level and in the subsidiaries, were:

- A generalised reduction in the commercial gap, taking advantage of the capacity to capture customer funds and the deleveraging trends in some countries, and;

- A high issuance capacity in wholesale markets.

As regards the first factor, many units in 2012 focused on increasing their customer deposits as the basis for financing growth in lending.

The greater growth was concentrated in Spain (+EUR 22,000 million) where Santander took advantage of customers searching for quality to gain market share (via deposits and retail commercial paper) in a market undergoing restructuring. The combination of this trend with the decline in lending because of deleveraging explains the significant improvement in liquidity ratios. Portugal shows similar, but not so strong, trends.

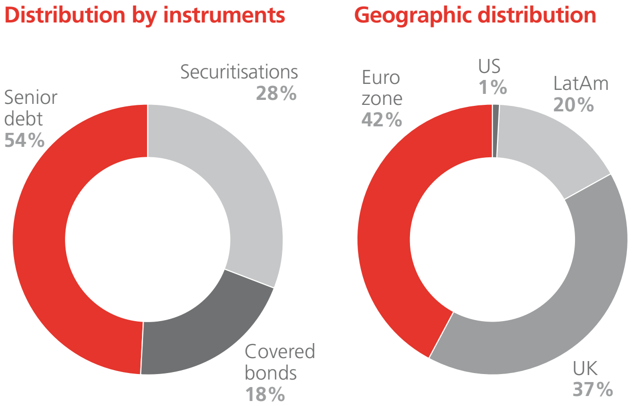
Overall, these trends enabled the units in Spain and Portugal to reduce by more than EUR 42,000 million their commercial gap, a volume almost double that of the maturities in their issues of medium and long term debt during the year.

In the UK, the US and Latin America, where there is increasing access to more normalised medium and long term wholesale markets, the evolution of deposits in the various units was limited to accompanying growth in lending. In the case of Santander Consumer Finance and Poland's BZ WBK (the latter with a surplus of deposits over loans) management was more centred on optimising the cost of funds.

As regards issuance, the Group was supported by market and currency diversity, and by the "windows" offered by euro markets, to maintain high levels of fund raising even in unfavourable scenarios.

The Group captured EUR 43,000 million in medium and long term issues of fixed income and securitisations in 2012. The chart below sets out their distribution by instruments and geographic areas.

MEDIUM AND LONG TERM ISSUES AND SECURITISATIONS PLACED IN THE MARKET
January-December 2012



Note: other collateralised financing is included in securitisations.

Issues were made in 10 currencies, involving 13 issuers in 10 countries, with an average maturity of around 4.3 years.

Medium and long term issues (senior debt and covered bonds) raised EUR 31,000 million. Two points are worth mentioning:

- The parent bank's issuance capacity (almost EUR 16,000 million with Banesto) in a scenario as adverse as that in 2012, which underscored Santander's financial strength for international investors.
- The jump made by Latin American units both in quantitative (more than EUR 8,000 million issued) and qualitative terms: the four main countries (Brazil, Mexico, Chile and Argentina) made issues. Furthermore, Mexico and Chile made benchmark issues in the region (10-year senior debt in dollars with a high quality international demand).

In securitisations, the Group's subsidiaries placed in the market close to EUR 12,000 million of securitisation bonds and medium and long term structured funding collateralised by securitisation bonds or covered bonds.

Along with the UK market which took 84% of the Group's placements, also noteworthy was the securitisation activity of Santander Consumer Finance backed by investors' appetite for its assets. This demand enabled two new units of Santander Consumer to access new wholesale markets (Finland and Sweden). In both cases, the Group made the first securitisation of loans for auto finance.

Regulatory ratios

Lastly, and in relation to regulatory ratios, the Basel Committee in 2013 approved the definitive implementation of the liquidity coverage ratio (LCR), both as regards defining the eligible assets to include in the liquidity buffer, as well as the period for their gradual introduction. Implementation will begin on 1 January 2015, with 60% coverage which will be gradually raised by 10 points a year to 100% in 2019.

At the end of 2012, Grupo Santander comfortably met the full requirements of the new LCR ratio as regards its complete application.

2. Increase in the liquidity reserve

This is the second main aspect which reflects the improvement in the Group's liquidity position during 2012.

The liquidity reserve is the total of the highly liquid assets of the Group and its subsidiaries. It serves as a last resort recourse at times of maximum stress in markets, when it is impossible to obtain funding with adequate maturity terms and prices.

As a result, this reserve includes deposits in central banks and cash, unencumbered sovereign debt, undrawn credit lines granted by central banks, as well as other assets eligible as collateral and other undrawn credit lines in official institutions (FHLB, etc.), all of which reinforce the solid liquidity position of the Group and its subsidiaries.

At the end of 2012, Grupo Santander's liquidity reserve amounted to more than EUR 217,000 million (over 20% of the total Group's external financing). The structure of this volume by type of asset, according to the effective value (net of haircuts), was as follows:

LIQUIDITY RESERVE AT 31/12/2012
Effective value (net of haircuts) in million euros

Cash and holdings at central banks	83,909
Uncumbered sovereign debt	41,930
Undrawn credit lines granted by central banks	79,116
Assets eligible as collateral and undrawn credit lines	12,120
Liquidity reserve	**217,075**

Note: the reserve excludes other assets of high liquidity such as listed fixed income and equity portfolios.

In 2012, the Group was particularly active in generating eligible assets linked in general to development of business with customers. This enabled both the maturities of existing assets as well as cuts in credit ratings and in the value of guarantees to be offset when obtaining liquidity from central banks.

At the same time, the extraordinary liquidity measures put into effect by central banks have increased the discounting capacity of the banking sector as a whole. In the case of Grupo Santander, and backed by the quality of its assets, this capacity rose from around EUR 100,000 million in 2010 and 2011 to around EUR 133,000 million at the end of 2012.

Encumbered assets-funding

Lastly, it is worth mentioning the moderate weight of secured funding in the Group's liquidity position, either in raising medium and long term wholesale funds, or in the central bank funding via discounts of eligible assets, as well as by capturing customer deposits via fixed income repos.

- As regards wholesale funding, of note are issues of covered bonds (mortgage and public sector), as well as the placement of securitisations and other secured funding (structured, FHLB lines). At the end of 2012, the Group had placed in the market more than EUR 67,000 million of covered bonds in nominal value (EUR 3,500 million public sector and the rest mortgage-backed), as well as EUR 57,000 million of securitisations and other collateralised funding.

- With respect to the generation of eligible assets, the various subsidiaries issue central bank eligible covered bonds and securitisations that they retain in portfolio to be used as collateral in the financing facilities of central banks with whom they operate. The Group also has loans eligible for direct discounting in central banks, part of which are pledged in various facilities. At the end of 2012, the Group had obtained EUR 49,000 million of financing through central bank discounting. Most of these funds are deposited back in central banks, increasing the liquidity reserve, and so they barely contributed to net financing.

- Lastly, around EUR 48,000 million of the total customer deposits relate to repos, secured by fixed income portfolios. The rest of repos related to market activities did not contribute to financing the Group's commercial activity so that they are netting off the fixed-income portfolios in the balance sheet for liquidity management purposes.

At the end of 2012, the Group had in net terms EUR 174,000 million of financing of its activity (18% of its net liabilities, i.e. of the liquidity balance sheet) collateralised via the aforementioned items.

7.4. Funding outlook for 2013

Grupo Santander began 2013 with a comfortable liquidity position and lower issuance needs in the medium and long term due to the deleveraging process, which allowed the Group to return EUR 24,000 million, borrowed in 2011, to the ECB at the end of January 2013, as already commented upon on page 232.

It does not have any relevant concentration of maturities in the coming years and, furthermore, the various dynamics of the business areas and markets make it unnecessary to cover all the maturities. This will lead the Group to develop differentiated strategies in each of them.

In Spain and Portugal, as in 2012, the units are expected to generate sufficient liquidity in commercial businesses to cover medium and long term maturities, whose total volume will not be very different to the maturities in 2012. Of note among the rest of European units is the ongoing Santander Consumer Finance strategy of securitisations to achieve its self-financing in the short term.

In the UK, part of the liquidity surplus accumulated in 2012 was used to finance the growth of the unit and part of the maturities of issues while reinforcing and optimising its deposits base. Deposits in the US will continue to accompany lending growth.

In Latin America, where activity is more dynamic, the emphasis will be maintained on growth in deposits in order to finance commercial activities, while strengthening issuance in wholesale markets opened to the Group's large units.

In any case, while the current uncertainty persists, Santander will continue its conservative issuance policy in order to strengthen its solid position.

The issues made by the parent bank in Spain in January 2013 are a good example of this strategy. Taking advantage of the reduced tensions in markets and the lower risk premium of Spanish sovereign debt, Banco Santander made two issues of senior debt and covered bonds and captured EUR 3,000 million at a maturity term well above the previous year (7 and 5 years, respectively, compared to an average of 4.3 years in 2012) and significantly lower costs (in the case of the senior debt, 20% less than the average cost in 2012 despite more than doubling the average maturity of the previous year).

8. OPERATIONAL RISK

8.1 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/evaluate, 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, from the beginning, 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 be incorporated into the standard model (already achieved in the case of Grupo Santander's operational risk management model).

The report on Prudential Significance/Pillar III in section 11 includes information on calculating the equity requirements by operational risk.

8.2 Corporate governance and organisational model

The organisational model for controlling and managing risks is in line with the Basel guidelines and establishes three levels of control:

- **First level:** control functions conducted by the Group's units. It seeks to ensure that business and the institution as a whole does not incur this type of risks.

- **Second level:** functions carried out by the corporate areas. It establishes rules and controls compliance by the first layer of control.

- **Third level:** integral control functions by the risks division-integral control area and internal validation of risk (CIVIR).

This model is constantly reviewed by the internal auditing division.

In the technology and operations division, the corporate area of technological and operational risk (CATOR) defines the policies and methodology, as well as managing and controlling the technological and operational risks.

The Group believes it is convenient for the first and second layer of control functions to be developed within this division, where operational risk is managed more directly and which has the most appropriate resources and staff to identify, measure, assess and mitigate this risk. All of this is conducted within a recurring supervision of the Group's organs of control, in accordance with its strong risk management culture.

All local areas are responsible for the implementation, integration and local adjustment of the policies and guidelines established by the corporate area, carried out by the operational risk executives in each of the units.

This operation risk management structure is based on the knowledge and experience of the executives of the Group's various areas. Particular importance is given to the role of local executives.

The two committees for managing and controlling technological and operational risk (TOR) are:

- Corporate Committee of TOR, which comprises executives from the various divisions related to management and control of this risk: its objectives are to supply a broad view of operational risk in the Group and establish effective measures and corporate criteria in the spheres of management, measurement, monitoring and mitigation of this risk.

- Corporate Committee of CATOR: it meets twice a month. This committee monitors CATOR's projects and the Group's risk exposure. Local executives and those from integral control of risks also form part of the committee.

The Group monitors and controls technological and operational risk through its governance bodies. The board, the executive committee and the Group's management committee regularly include treatment of relevant aspects in management and mitigation of operational risk.

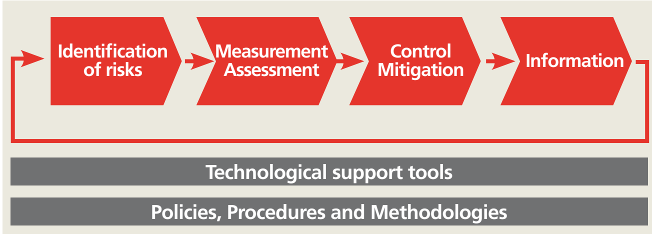
The Group, through approval in the risk committee, also establishes every year operational risk limits. A risk appetite is set which must be situated in low and medium-low profiles, which are defined on the basis of the level of the various ratios. Limits are set by country and for the Group on the basis of the gross loss/gross income ratio.

Lastly, the corporate governance structure was increased in 2012, by incorporating:

- Monthly committees between CATOR and CIVIR. The contents of this committee are diverse, although focused on aspects such as organisation and governance, review of the tools and management methodologies of TOR and of the evolution of exposure to this risk.
- Committee of Local Information Security Officers (LISOs), which guarantees implementation of the corporate model of security in each country/unit and identifies and drives the measures for continuous improvement in the Group's security.
- Monthly committee of review and continuous monitoring of issues related to management of TOR in the sphere of production and management of infrastructure, fostering global actions to mitigate risk. It is held with executives of the Group's technology areas.

8.3 Risk management model

The Group's operational risk management incorporates the following elements:



The various phases of the technological and operational risk management model are:

- 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, 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.

- Facilitates the establishment of operational risk appetite limits.

Implementing the model: global initiatives and results

The main functions, activities and global initiatives adopted seek to ensure effective management of operational and technological risk are:

- Define and implement the framework for corporate management of technological and operational risk management.

- Designate coordinators and create operational risk departments.

- Training and interchange of experiences: communication of best practices within the Group.

- Foster mitigation plans: ensure control of implementation of corrective measures as well as ongoing projects.

- Define policies and structures to minimise the impact on the Group of big disasters.

- Maintain adequate control on activities carried out by third parties in order to meet potential critical situations.

- Supply adequate information on this type of risk.

The corporate function enhances management of technological risk (TR), strengthening the following aspects among others:

- 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).

Almost all the Group's units are incorporated into the model and with a high degree of uniformity. However, due to the different pace of implementation, phases, schedules and the historical depth of the respective databases, the degree of progress varies from country to country.

In general, all the Group's units continue to improve all aspects related to operational risk management. This can be seen in the annual review by the internal auditing unit.

8.4. Measurement model and risk assessment

A series of quantitative and qualitative corporate techniques/tools have been defined to measure and assess technological and operational risk, which are combined to make a diagnosis (on the basis of the risks identified) and obtain an assessment (through measurement/evaluation) of the area/unit.

The quantitative analysis of this risk is carried out with tools that register and quantify the level of losses associated with TOR events. These include:

- An internal database of events, whose objective is to capture all the Group's losses from operational risk. The capturing of events related to operational risk is not restricted by setting thresholds (i.e. there are no exclusions for reasons of amount) and there are both events with accounting impact (including positive effects) as well as non-accounting ones.

  - Accounting conciliation processes have been established that guarantee the quality of the information gathered in the databases.

  - The main events of the Group and of each operational risk unit are particularly documented and reviewed.

- An external database of events, as the Group participates in international consortiums, such as the Operational Risk Exchange (ORX).

- Capital calculation by the standard method (see the corresponding section in the report on Prudential Relevance Report/Pillar II).

The tools defined for quantitative analysis seek to assess aspects (coverage/exposure) linked to risk profile. These tools are mainly:

- A map of processes and risks and self-assessment questions. An adequate evaluation of the risks, on the basis of the expert criterion of the managers, enables a qualitative view of the Group's main focuses of risk to be obtained, regardless of having materialized before.

- Corporate system of operational risk indicators, in continuous evolution and coordination with the internal control area. They are various types of statistics or parameters that provide information on an institution's exposure to risk. These indicators are regularly reviewed in order to alert them to changes that could reveal problems with risk.

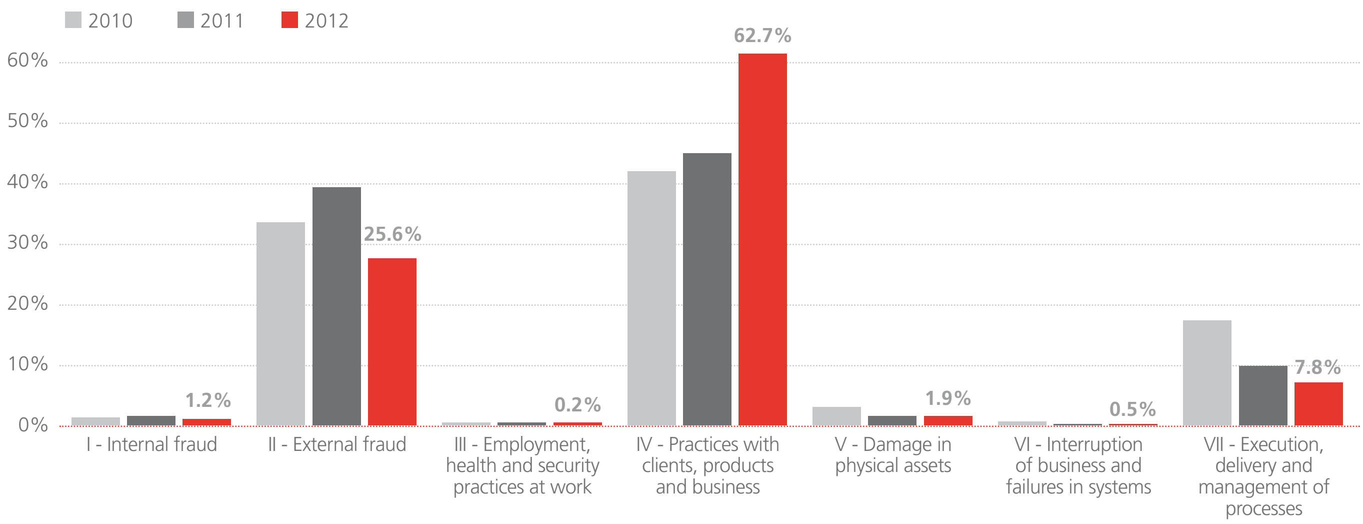
The Group's units in 2012 continued to make progress in exercises of risk self-evaluation. This evolution focused on the bases of risks to be evaluated, with a substantial enriching, as well as on incorporating to the methodology the estimated inherent and residual loss and the qualitative VaR according to the map of processes and risks. The experts from the various business and support areas assessed the risks associated with their processes and activities, estimating the average frequency of occurrence of the materialisation of risks as well as the average severity. The exercise also incorporated evaluating the greatest risk, the environment of control and linkage to compliance and reputational risk.

8.5. Evolution of the main metrics

As regards the databases of events, and consolidating the total information received, the evolution of net losses by Basel risk category in the last three years is set out below:

DISTRIBUTION OF NET LOSSES BY OPERATIONAL RISK CATEGORY

% of total

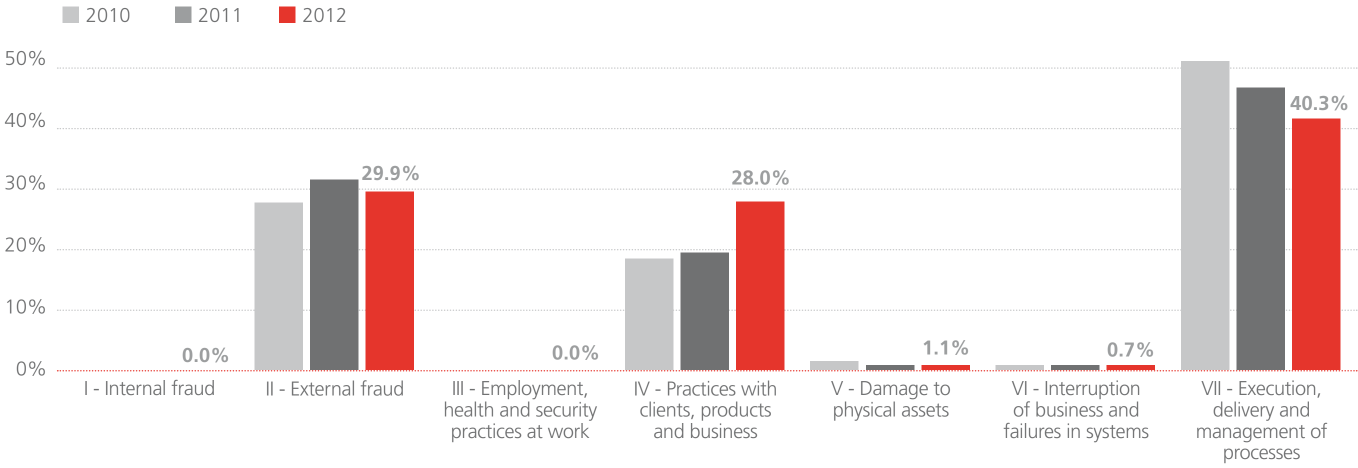


The evolution of losses by category shows a reduction in relative terms of external fraud and execution, delivery and management of processes thanks to the measures taken for their mitigation.

The category of practices with clients, products and business – which includes customer complaints on erroneous marketing, incomplete information and inexact products – increased. Of note was the contribution of payment protection insurance for clients in the UK. It should be pointed out that the complaints raised with the Group relate to a general problem in the UK banking sector, and the volume of complaints against the bank is considered proportionate to its market share. Although these events were sufficiently provisioned in 2011 by the Group, the settlements for these clients increased in 2012, in accordance with the planning by the unit.

The chart below sets out the evolution of the number of operational risk events by Basel category over the last three years.

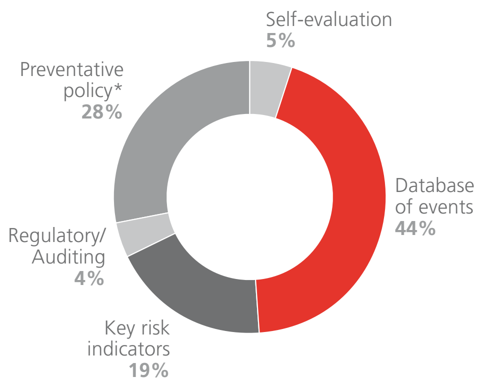
DISTRIBUTION OF NUMBER OF EVENTS BY OPERATIONAL RISK CATEGORY
% of total



8.6 Mitigation measures

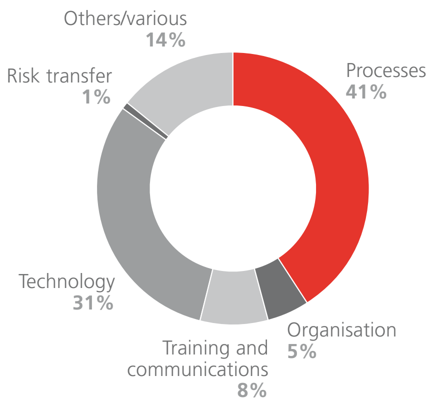
The Group has a stock of mitigation measures (more than 900 active ones, of which more than 400 started in 2012), established in response to the main risk sources. They have been identified by analysing the tools used to manage operational risk, as well as the organisational and development model and by implementing preventative policies and procedures for managing and controlling risk.

The percentage of measures on the basis of the source and management tool, which identified the risk necessary to mitigate, was as follows:



* The preventative policy concept includes measures from the corporate and local committees, the business continuation plan, training for employees and continuous improvement in the controls established.

The measures referred to are turned into action plans which are distributed in the following spheres:



The main mitigation measures centred on improving the security of customers in their usual operations, as well as continued improvements in processes and technology. Regarding the reduction of fraud, the main specific measures were:

- **Electronic fraud**. Measures were established at the corporate and local levels, such as:
  - Improvements in the tracking of customer operations conducted by electronic banking, mobile phones and telephone banking (teams with specialised staff and intelligence software). These expert systems of scoring enable anomalies to be detected in the movements of customers and to warn them of suspicious operations.
  - Increased security in confirming customers' operations using strong procedures for the signature of operations.

These measures are locally implemented in the Group's various countries such as the OTP-SMS passwords or physical devices that generate access codes (physical token).

- Strengthening mechanisms to identify operations. Validation processes for activating telematics.
- Technical measures for detecting and warning of the theft of customers' credentials (phishing).

- **Fraud in the use of cards**:
  - Migration to card technologies with chip (EMV).
  - Improvements in ATM security, including mechanisms to detect the falsification of cards (anti-skimming). These mechanisms are specifically orientated to prevent the cloaning of cards or the capturing of PINs.

The Group finished installing a new corporate system (SANSIRO) that supports all operational risk management tools and facilitates functions and information needs and reporting at both the local and corporate levels. The main features are:

- It has the following modules: registry of events, map of risks and evaluation, indicators and reporting systems.
- An application tool for all the Group's institutions.
- All operational risk management processes are automated.
- In 2013, we will continue to invest in the platform and add elements that contribute to continuous improvement, incorporating the continuous evolution of methodologies related to management and control of this risk.

The different areas that cover this platform are:

In addition, a corporate methodology of operational risk scenarios is being developed in 2013, following various pilot experiences in 2012 such as that developed in the UK unit and the participation in the exercise led by the ORX consortium.

8.7. Other aspects of control and monitoring of operational risk

Analysis and monitoring of controls in market operations

Due to the specific nature and complexity of financial markets, the Group considers it necessary to strengthen continuously operational control of this activity, thereby enhancing the very demanding and conservative risk and operating principles that Grupo Santander already regularly applied.

Regardless of the monitoring of all aspects related to operational control, attention in all the Group's units to the following aspects is reinforced:

- Review of the valuation models and in general the valuation of portfolios.
- Processes to capture and independently validate prices.
- Adequate confirmation of operations with counterparties.
- Review of cancellations/modifications of operations.
- Review and monitoring of the effectiveness of guarantees, collateral and risk mitigants.

Corporate information

The corporate area of technology and operational risk control has an integral management information system for operational risk, which consolidates every quarter the information available in each country/unit in the sphere of operational risk, so that it has a global view with the following features:

- Two levels of information: corporate with consolidated information and the other individualized for each country/unit.
- Dissemination of the best practices between Grupo Santander's countries/units, obtained through a combined study of the results of qualitative and quantitative analysis of operational risk.

Information on the following points is also drawn up:

- Operational risk management model in Grupo Santander.
- Human resources and perimeter of activity.
- Analysis of the database of errors and incidents.
- Operational risk cost and accounting conciliation.
- Self-assessment questionnaire.
- Indicators.
- Mitigating/active management measures.
- Business continuity and contingency plans.
- Regulatory framework: BIS II.
- Insurance.

This information is the basis for complying with the reporting needs to the risk 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 to 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 databases 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 the unit for global sourcing of insurance, the Group's maximum technical body for defining coverage strategies and contracting insurance.

9. COMPLIANCE AND REPUTATIONAL RISK

9.1 Definitions and objective

The compliance risk is the risk of receiving economic or other sanctions, or other types of disciplinary measures by supervisory bodies for not complying with laws, regulations, rules, standards of self-regulation or codes of conduct applicable to the activity developed.

The reputational risk is that linked to the perception of the Group 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 Group's objective in the sphere of compliance risk is: (i) to minimise the probability that irregularities occur; (ii) that the irregularities that could eventually occur are identified, reported and quickly resolved. As for reputational risk, bearing in mind the diversity of sources from which it can arise, the objective of management is to identify them and ensure that they are duly tended to so that their probability is reduced and the eventual impact is mitigated.

9.2. Corporate governance and the organisational model

In the exercise of its general function of supervision, the Bank's board is responsible for approving the general policy of risks. In the sphere of compliance and reputational risk, the board is the owner of the Group's General Code of Conduct, the global policy for the prevention of money laundering and the financing of terrorism and the marketing policy for products and services.

The delegated risks committee proposes to the board the Group's risk policy. Furthermore, as the organ responsible for global risk management, it assesses the reputational risk of its sphere of action and decisions.

The audit and compliance committee is entrusted with, among others, the functions of supervising compliance with legal requirements, watching over the effectiveness of internal control systems and risk management, supervising compliance with the Group's code of conduct in the securities markets, with the manuals and procedures for the prevention of money-laundering and, in general, with the bank's rules of governance and compliance, and make the necessary proposals for their improvement, as well as review compliance with the actions and measures resulting from reports or actions of the administrative authorities responsible for supervision and control.

The compliance function reports constantly to the board and mainly via the audit and compliance committee, The head of the Group's compliance informed this committee at the 11 meetings it held in 2012 and also once at a meeting of the delegated risks committee, without detriment to attending other sessions of this committee when submitting to it operations which might have an impact from the standpoint of reputational risk.

The last stage of governance consists of corporate committees of compliance with rules, of analysis and resolving and marketing (the latter two specialised in their respective matters: prevention of money laundering and marketing of products and services), with a global scope (every country, every business) and which are replicated at the local level.

From the risks division, the area of integral control and internal validation of risks (CIVIR) in the exercise of its functions of supporting the risks committee supervises the control framework applied for risk and reputational compliance, facilitating, in turn, information to the Group's organs of control.

The organisational model revolves around the corporate area of compliance and reputational risk, integrated into the division of the general secretariat, which is entrusted with managing the Group's compliance and reputational risks. Within the area, led by the head of the Group's compliance, is the corporate office of reputational risk and the central department of prevention of money laundering and financing of terrorism. This structure is replicated at the local level and also in global businesses, having established the opportune functional reports for the corporate area.

9.3. Risk management model

The main responsibility of compliance and reputational risk management is shared between the compliance area and the different business and support units, which conduct the activities that give rise to risk. The responsibility for developing policies and implementing the corresponding controls lies with the compliance area, which is also responsible for advising senior management on these matters and fostering a culture of compliance, all of this in a framework of an annual programme whose effectiveness is regularly evaluated.

The area directly manages some of these basic risks (money-laundering, codes of conduct, marketing of products, etc) and ensures that the rest is duly tended to by the corresponding unit of the Group (responsible financing, data protection, customers' complaints, etc), having established the opportune control and verification systems.

One of the functions of internal auditing is to carry out the tests and reviews required to ensure that the rules and procedures established in the Group are fulfilled.

The area of integral control and internal validation of risk supervises the correct execution of the risk management model. Internal auditing, within its functions, conducts the necessary tests and reviews in order to check compliance with the rules and procedures established in the Group.

Policies

The general code of conduct is the central plank of the Group's compliance programme, This code, which enshrines the ethical principles and rules of conduct that must govern the actions of all Grupo Santander's employees, is complemented in certain matters by the rules that are in the codes and manuals of the various sectors[21].

The code also establishes: i) the functions and responsibilities in matters of compliance of the governance organs and of the Group's management areas affected; ii) the rules that regulate the consequences of non-compliance; and iii) a channel for formulating and handling communications for presumably illicit activity.

Governance and organization

The corporate office of compliance is responsible, under the supervision of the audit and compliance committee and the committee for compliance with rules, for supervising the effective implementation and monitoring of the general code of conduct.

The rule compliance committee, chaired by the Group's secretary general, has powers in all matters inherent in the compliance function, without detriment to those assigned to the two existing specialised organs in the area (the corporate marketing committee for the marketing of products and services and the analysis and resolution committee for prevention of money laundering and financing of terrorism). It is made up of representatives of internal auditing, the general secretariat, financial management, human resources and the most directly affected business units.

This committee held five meetings in 2012.

The Group's compliance management has the following functions as regards management of compliance and reputational risks:

1. Implement the Group's general code of conduct and other codes and manuals for sectors.

2. Supervise the training activity of the compliance programme conducted by the human resources area.

3. Direct the investigations into the possible committing of acts of non-compliance. Help can be sought from internal auditing and the sanctions that might arise be proposed to the committee.

4. Cooperate with internal auditing in the regular reviews carried out on compliance with the general code and with the codes and manuals of sectors, without detriment to the regular reviews which, on matters of rule compliance, are conducted by compliance management directly.

[21] The following form part of the codes and manuals of sectors: the Manual for the Prevention of Money-laundering and Financing of Terrorism, the Code of Conduct in the Securities Markets, the Manual of Procedures for the Sale of Financial Products, the Code of Conduct for Analysis Activity, the Research Policy Manual, the Manual of Conduct in the Management of Foreclosed Properties, the Manual of Conduct in the Management of Purchases, etc, as well as the notes and circulars that develop specific points of these codes and manuals.

5. Receive and handle the accusations made by employees or third parties via the relevant channel.

6. Advise on resolving doubts that arise from implementing codes and manuals.

7. Draw up an annual report on implementing the compliance programme for the audit and compliance committee.

8. Regularly inform the general secretary, the audit and compliance committee and the board on implementation of the compliance policy and the compliance programme.

9. Assess every year the changes that need to be introduced into the compliance programme, particularly in the event of detecting unregulated business areas and procedures susceptible to improvement, and propose the changes to the audit and compliance committee.

The Group's compliance management also manages the prevention of penal risks model, which came into effect with the entry into force of Organic Law 5/2010, which introduced penal responsibility for institutions that commit crimes on their own behalf and for their benefit by administrators or representatives and by employees as a result of the lack of control. This model was fully installed into Grupo Santander in Spain during 2012, including the design and implementation of a risks map with its corresponding controls, the drawing up of a prevention manual and a protocol to be applied in the event of a penal procedure beginning, as well as various training aspects and staff awareness of the penal risk.

As regards the codes and manuals of the sectors, the focus of the compliance programme is on the following operational spheres, among others:

- Prevention of money laundering and financing of terrorism.
- Marketing of products and services.
- Conduct in the securities markets.
- Relations with regulators and supervisors.
- Drawing up and disseminating the Group's institutional information.

Prevention of money laundering and financing of terrorism

Policies

As a socially responsible organisation, it is a strategic objective for Grupo Santander to have an advanced and effective system for the prevention of money laundering and the financing of terrorism, constantly adapted to the latest international regulations and with the capacity to tackle the appearance of new techniques by criminal organisations.

The function of the prevention of money laundering and of financing of terrorism revolves around policies that set minimum standards that Grupo Santander's units must observe, and is formulated in accordance with the principles contained in the 40 recommendations of the Group of International Financial Action and the obligations and assumptions of directive 2005/60/EC of the European Parliament and of the Council, of October 26, 2005, on the prevention of using the financial system to launder money and finance terrorism.

The corporate policy and rules that develop it have to be complied with in all the Group's units in the world. By units we mean all those banks, subsidiaries, departments or branches of Banco Santander, both in Spain and abroad which, in accordance with their legal statute, must submit to the regulations regarding the prevention of money laundering and the financing of terrorism.

Governance and organisation

The organisation of the function of the prevention of money-laundering and of the financing of terrorism rests on three areas: the analysis and resolution committee (ARC), the central department for the prevention of money-laundering (CDPML) and prevention executives at various levels.

The analysis and resolution committee is a collegiate body of corporate scope chaired by the Group's general secretary and comprising representatives of internal auditing, the general secretariat, human resources and the business units most directly affected. The ARC held four meetings in 2012.

The CDPML establishes, coordinates and supervises the systems and procedures for the prevention of money laundering and of the financing of terrorism in all the Group's units.

There are also prevention executives at four different levels: area, unit, branch and account. In each case their mission is to support the CDPML from a position of proximity to clients and operations.

At the consolidated level, a total of 714 people (three-quarters of them full time) work in prevention activities and tend to 182 units in 38 countries.

Grupo Santander has established in all its units and business areas corporate systems based on decentralised IT applications. These enable operations and customers, who because of their risk need to be analysed, to be directly presented to the branches of the account or customer relation managers. The tools are complemented by others of centralised use which are operated by teams of analysis from prevention units who, on the basis of certain risk profiles and changes in certain patterns of customer behaviour, enable operations susceptible of being linked to money laundering and/or the financing of terrorism to be analysed, identified early on and monitored.

Banco Santander is a founder member of the Wolfsberg Group, and forms part of it along with 10 other large international banks. The Wolfsberg Group's objective 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 which have treated issues such the prevention of money laundering in private banking, correspondent banking and the financing of terrorism, among others. Regulatory authorities and experts in this area believe that the principles and guidelines set by the Wolfsberg Group represent an important step in the fight against money-laundering, corruption, terrorism and other serious crimes.

Main actions

The Group analysed a total of 21.1 million operations in 2012 (24.8 million in 2011) both by the commercial networks as well as money laundering prevention teams, of which more than one million were by the units in Spain.

The CDPML and the local departments of prevention conduct annual reviews of all the Group's units throughout the world. In 2012, 162 units were reviewed (172 in 2011), 26 of them in Spain and the rest abroad, and reports were issued, where for every case identified the corresponding recommendations and measures to be taken to improve and strengthen systems were registered. In 2012, 242 measures to be adopted were established (268 in 2011), which are being monitored until their full and effective implementation.

Training courses were given in 2012 for the prevention of money laundering to a total of 105,664 employees (119,976 in 2011) and for 146,911 hours.

Lastly, many units are submitted to regular reviews by external auditors. Deloitte carried out in 2012 a review of the monitoring of measures in the 2011 report on the global system of prevention of money laundering in the parent bank and in the rest of the units in Spain. This review also took into consideration aspects of coordination and global supervision of the rest of the Group's units in the world. The report issued on 18 April, 2012 did not find any evidence of material weakening of the system, limiting itself to formulating an eventual recommendation of the rectification suggested.

MAIN INDICATORS OF ACTIVITY

2012	Subsidiaries reviewed*	Cases investigated	Communications to authorities	Employees trained
Total	**162**	**65,727**	**19,219**	**105,664**

* By the CDPML and local money laundering prevention units.

Marketing of products and services

Policies

At Grupo Santander management of the reputational risk that could arise from an inadequate sale of products or from an incorrect provision of services by the Group is conducted in accordance with the corporate policies of reputational risk management derived from the marketing of products and services.

These corporate policies aim to set a single corporate framework for all countries, businesses and institutions: (i) strengthening organisational structures; (ii) ensuring that the decision-making committees oversee not only the approval of products or services, but also the monitoring of them during their whole life and (iii) set the guidelines for defining uniform criteria and procedures for the whole Group for the marketing of products and services, covering all phases (admission, pre-sale, sale and post-sale).

The developments and specific adjustment of these policies to the local reality and to local regulatory requirements is carried out through local internal rules in the Group's various units, following authorisation by the corporate area of compliance and reputational risk.

Governance and organisation

The corporate and local marketing committees, the global consultative committee, the corporate committee of monitoring and the corporate and local branches comprise the organisational structure for handling the risk that could arise from an inappropriate marketing of products and services.

The corporate committee of marketing (CCM) is the Group's maximum decision-making body for approving products and services and is chaired by the Group's secretary general. It is made up of representatives of the divisions of risks, financial management, technology and operations, the general secretariat, general audit and control, internal auditing, retail banking, global wholesale banking, private banking, asset management and insurance.

The CCM analyses, in particular, the adequacy of the product or service to the framework where it is going to be marketed. Special attention is paid to ensuring that:

- Each product or service is sold by suitable staff.

- Customers are provided with the necessary and adequate information.

- The product or service is adjusted to the customer's risk profile.

- Each product of service is assigned to the right market, not only for legal or tax reasons, but also to meet the market's financial culture.

- The products and services fulfil the requirements of the corporate marketing policies and, in general, the applicable internal and external rules.

At the local level, local marketing committees (LCM) are established, which channel toward the CCM proposals to approve new products - after a favourable opinion has been issued as initially they do not have powers delegated in them – and approve products that are not new and marketing campaigns of them.

The marketing committees, in the respective approval processes, take a risk-focused stance from the double perspective of bank/client.

The global consultative committee (GCC) is the advisory body of the corporate marketing committee and consists of representatives of the areas that provide a view of regulatory and market risk. The GCC, which meets around every three months, can recommend a review of products that are affected by changes in markets, deterioration of solvency (country, sectors or companies) or by changes in the Group's view of the markets in the medium- and long-term.

The corporate monitoring committee (CMC) is the Group's decision-making body for the monitoring of products and services. It is chaired by the secretary general and has representatives from internal auditing, legal advice, compliance, customer attention and the business areas affected (permanent representation of the retail network). It meets every week to raise and resolve specific issues related to the marketing of products and services at the local level as well as by the Group's units abroad.

The corporate office of reputational risk management (CORRM) provides the governance bodies with the information needed for: (i) adequate analysis of risk in approvals, from the standpoint of the bank and the impact on the client; and (ii) monitoring of products throughout their life cycle.

At the local level there are reputational risk management offices, which are responsible for promoting the risk culture and ensuring that approval and monitoring of products is developed in their respective local sphere in line with the corporate guidelines.

Main actions

During 2012, the committee met 14 times (19 times during 2011, and 21 times during 2010) and analysed 140 new products/services. The corporate office of reputational risk was presented with 61 products/services considered not new for approval and resolved 171 consultations from areas and countries. The products approved by the corporate office of reputational risk management were successive issues of products that had been previously approved by the CCM or the LCM, after being given this power. The GCC held three meetings in 2012 (3 in 2011, and 3 in 2010).

Monitoring of products and services approved is done locally (local committee of monitoring of products or equivalent local body, such as the LCM). The conclusions are set out in reports every four months for the CORRM, which prepares integrated reports on all the Group's monitoring for the CMC.

The CMC held 44 meetings in 2012 (42 in 2011 and 46 in 2010) at which incidents were resolved and information analysed on the monitoring of products and services, at both the local level as well as the Group's units abroad.

Both the audit and compliance committee and the rule compliance committee were informed during 2012 of the control and monitoring framework of the markets in financial instruments directive (MiFID), as well as various aspects related with the directive.

Code of conduct in the securities markets

Policy

This is set by the code of conduct in the securities markets (CCSM), complemented, among others, by the code of conduct for analysis activity, the research policy manual and the procedure for detecting, analysing and communicating operations suspected of market abuse.

Governance and organisation

The organisation revolves around the corporate office of compliance together with local compliance management and that of subsidiaries.

The functions of compliance management with regard to the code of conduct in the securities markets are as follows:

1. Register and control sensitive information known and/or generated by the Group.
2. Maintain the lists of securities affected and related personnel, and watch the transactions conducted 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 relevant personnel.
6. Manage failures to comply.
7. Resolve doubts on the CCSM.
8. Register and resolve, 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 the regulators.
12. Organise the training and, in general, conduct the actions needed to apply the code.
13. Analyse activities suspicious of constituting abuse of the market and, where appropriate, report them to the supervisory authorities.

Main actions

The compliance management of the parent bank together with the compliance executives of the subsidiaries ensure that the obligations contained in the CCSM are observed by around 8,500 Group employees throughout the world.

The market abuse investigation unit continued to review many transactions that gave rise to the opportune communications to the National Securities Market Commission. Training actions were also taken, in accordance with the training plan approved by the rule compliance committee.

Relations with the supervisory authorities and dissemination of information to the markets

Compliance management is responsible for tending to the information requirements of the regulatory and supervisory bodies, both those in Spain as well as in other countries where the Group operates, monitoring implementation of the measures resulting from the reports or inspections of these bodies and supervising the way in which the Group disseminates institutional information in the markets, transparently and in accordance with the requirements of the regulators. The audit and compliance committee is informed of the main issues at each of its meetings.

Banco Santander made public in Spain 107 relevant facts in 2012, which are available on the Group's web site and that of the National Securities Market Commission.

Other actions

Compliance management continued to carry out other activities in 2012 inherent to its sphere (reviewing the bank's internal rules before their publication, ensuring treasury stock operations 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 consultancies in this area, sending periodic regulatory information to the supervisory bodies, etc). It also co-operated in new corporate projects such as the Group's adjustment to the US laws FATCA and Dodd-Frank.

The losses incurred by the Group derived from compliance and reputational risk are included in the database of events managed by the Group's corporate area of technological and operational risk.

10. CAPITAL

10.1. Adjusting to the new regulatory framework

Grupo Santander participated during 2012 in the impact studies promoted by the Basel Committee and the European Banking Authority (EBA), and coordinated at the local level by the Bank of Spain, to gauge the new rules known as Basel III, the implementation of which means the establishment of new capital and liquidity standards with stricter criteria and homogeneous at the international level.

The new regulatory framework raised by Basel III will increase significantly the capital requirements, both from a quantitative standpoint (gradual rise in the basic minimum capital and Tier 1 capital requirements as well as qualitative (greater quality of the capital required). Santander currently has solid capital ratios, as befits its business model and risk profile which, together with the Group's considerable capacity to generate capital organically and the gradual schedule of implementation for the new requirements (until 2019), put it in a good position to comply with Basel III. The analysis of the impact of the future new regulations does not show significant effects on the Group's solvency ratios. The date of entry in force of the new Basel III rules in Europe is subject to completing the European legislative process and the corresponding transfer to national law, but is expected to come into force in 2014.

As regards credit risk, Grupo Santander has proposed to adopt, over the next few years, Basel's advanced internal rating-based (AIRB) approach for almost all the Group's banks (up to covering more than 90% of net exposure of the credit portfolio under these models). Meeting this objective in the short term will also be conditioned by the acquisition of new entities as well as by the need of coordination between supervisors of the validation processes of internal models. The Group operates in countries where the legal framework among supervisors is the same as in Europe via the capital directive. However, in other jurisdictions, the same process is subject to the collaboration framework between the supervisor in the home country and that in the host country with different legislations, This means, in practice, adapting to different criteria and calendars in order to attain authorisation for the use of advanced models on a consolidated basis.

With this objective, Santander continued during 2012 to gradually install the necessary technology platforms and methodological developments which will make it possible to progressively apply advanced internal models for calculating regulatory capital in the rest of the Group's units. At the moment, Grupo Santander has the supervisory authorisation to use advanced focuses for calculating the regulatory capital requirements by credit risk for the parent bank and the main subsidiaries in Spain, the UK and Portugal, and certain portfolios in Mexico, Brazil, Chile and Santander Consumer Finance Spain. The strategy of implementing Basel in the Group is focused on achieving use of advanced models in the main institutions in the Americas and Europe.

As regards the rest of risks explicitly envisaged in Pillar 1 of Basel, in market risk we have authorisation to use its internal model for the trading activity of treasuries in Spain, Chile, Portugal and Mexico, continuing the plan of gradual implementation for the rest of units presented to the Bank of Spain.

In operational risk, the Group believes that development of the internal model should be largely based on the accumulated experience of management of the entity via the corporate guidelines and criteria established after assuming control and which are very much hallmarks of Santander. The Group currently uses the standard focus for calculating regulatory capital and is considering the possibility of adopting the advanced management approach (AMA) once it has gathered sufficient information on the basis of its own management model.

As regards Pillar II, Grupo Santander uses an economic capital approach to quantify its global risk profile and its solvency position within the process of self-evaluation conducted at the consolidated level (ICAAP). This process, which is supplemented by the qualitative description of the risk management and internal control systems, is revised by the internal audit and internal validation teams, and is subject to a corporate governance framework that culminates with its approval by the board. Furthermore, the board establishes every year the strategic elements regarding risk appetite and solvency objectives. The economic capital model considers risks not included in Pillar 1 (concentration, interest rate risk, business risk, pensions risk, goodwill risk and business risks, risk of other intangible assets and risk of deferred tax assets). The Group's diversification compensates the additional capital required for these risks.

Grupo Santander, in accordance with the capital requirements set out in the European Directive and the regulations of the Bank of Spain, publishes every year the Report with Prudential Relevance. This report clearly shows the transparency requirements requested regarding Pillar III. Grupo Santander regards the requirements of providing the market with information as vital for complementing the minimum capital requirements demanded by Pillar 1, and the supervisory exam process conducted via Pillar II. It is incorporating to its Pillar III report the recommendations of the Committee of European Banking Supervisors (CEBS) in order to become an international benchmark in matters of transparency to the market, as is already the case in its Annual Report.

As well as the process of implementing the advanced models in various of the Group's units, Santander is carrying out an ambitious training process on Basel at all level. This is reaching a large number of employees in all areas and divisions, with a particular impact on those most affected by the changes resulting from adopting the new international standards in matters of capital.

10.2. 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 Basel capital framework clearly brings both concepts together. While Pillar 1 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 enables the consolidated risk profile taking into account all the significant risks of activity (not just those contemplated in Pillar 1) to be quantified, as well as the consubstantial diversification effect on a multinational and multi-business group such as Santander. In addition, our model includes a definition of capital different to the regulatory one and which, in our view, allows for a better separation between the capital available for stress situations and the risks that must be assessed. This model serves as the Group's base for preparing its self-assessment of capital report in accordance with Bank of Spain regulations under the Basel II Pillar 2 framework.

The internal definition of available capital, unlike the base of regulatory capital, does not deduct certain assets from the balance sheet (such as goodwill and others) to which the regulator does not accord value from a prudential standpoint, as in our model a risk and a capital requirement are also calculated for these assets.

In the case of goodwill, for example, even though a hypothetical stress situation could leave at zero the value of the goodwill corresponding to an investment in some of the Group's subsidiaries, it is highly unlikely that this situation would occur at the same time in all the countries in which the Group operates. The Group would retain, even in a stress situation, part of the value of these assets, which justifies that the capital needed is less than the book value of this goodwill and which, for management purposes, is not deducted from the capital base. This situation is possible due to the features of the Santander model, based on subsidiaries autonomous in capital and very diversified geographically.

The concept of diversification is fundamental for measuring and understanding adequately the risk profile of a global activity group such as Santander. The fact that the Group's business is developed in various countries via a structure of differentiated legal entities, with a variety of customer segments and products, and also incurring different types of risk, makes the Group's results less vulnerable to adverse situations in some of the markets, portfolios, clients or particular risks. Economic cycles, despite the high current degree of globalization of economies, are not the same and nor do they have the same intensity in different countries. Consequently, those groups with a global presence have a greater degree of stability in their results and a greater capacity of resistance to eventual crisis in markets or in specific portfolios, which means a lower risk profile. In other words, the risk and economic capital associated with the Group as a whole is less than the risk and capital of the sum of the parts considered separately.

Lastly, 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.

Economic capital is a key tool for the internal management and development of the Group's strategy, from the standpoint of assessing solvency as well as risk management of portfolios and businesses.

From the solvency standpoint, the Group uses, in the context of Basel Pillar II, its economic model for the capital self-evaluation process, including all the risks of activity, beyond those contemplated in the regulatory focus, and taking into account essential elements, not captured by the regulatory capital, such as concentration of portfolios or diversification between risks and countries. For this, the business evolution and the capital needs are planned under a central scenario and alternative stress scenarios. The Group is assured in this planning of maintaining its solvency objectives even in the most adverse scenarios.

The metrics of economic capital also enable return-risk objectives to be assessed, even for compensation purposes, setting prices of operations on the basis of the risk, evaluating the economic viability of projects, units or business lines, with the overriding objective of maximising the generation of shareholder value.

Global risk profile analysis

The Group's risk profile at 31 December 2012, measured in terms of economic capital, is distributed by types of risk and the main business units, is reflected below:

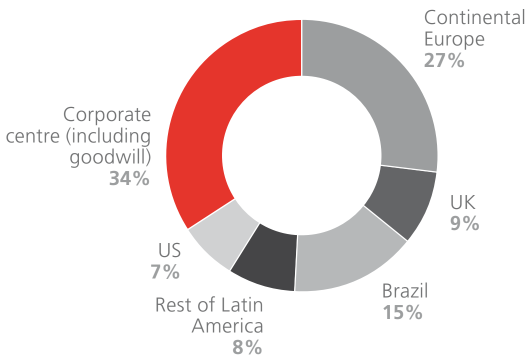
DISTRIBUTION BY TYPES OF RISK
Million euros

Economic capital model	Amount	%
Credit	27,541	43%
Market	4,219	7%
Non-trading equity	2,113	3%
Structural FX	1,715	3%
Trading	390	1%
Operational	3,631	6%
Material assets	858	1%
Sub-total Pillar I risks	**36,248**	**56%**
Goodwill	13,937	22%
Interest (ALM)	4,968	8%
Business	3,261	5%
Others	5,970	9%
Sub-total Pillar II risks	**28,136**	**44%**
Total economic capital	**64,384**	**100%**

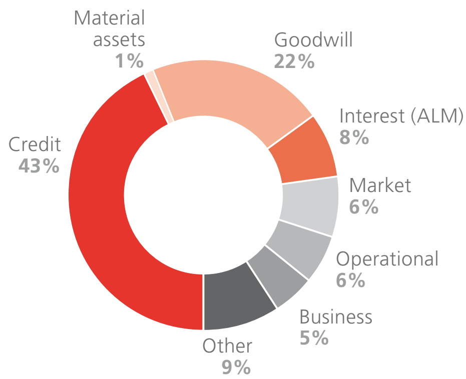
BY GEOGRAPHIC AREAS

Main segments	Contribution
Continental Europe	27%
UK	9%
Brazil	15%
Rest of Latin America	8%
US	7%
Sub-total operating areas	**66%**
Corporate centre	34%
Total	**100%**

BY GEOGRAPHIC AREAS

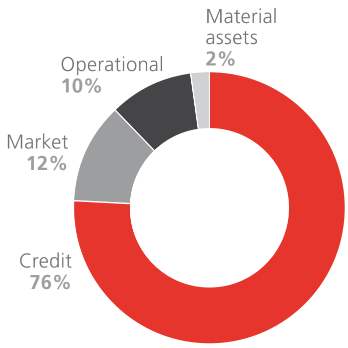


ALL RISKS



Excluding risks which, in regulatory capital, are deducted from the capital base

ONLY PILLAR I RISKS



The distribution of economic capital among the main business units reflects the diversification of the Group's activity and risk. The weight of the corporate centre is mainly due to the risk of goodwill.

Continental Europe accounts for 27% of the Group's capital, Latin America including Brazil 23%, the UK 9%, and the US 7%, while the corporate centre, which as well as the risk from goodwill also assumes that from the exposure to structural exchange rate risk (derived from stakes in subsidiaries abroad denominated in non-euro currencies) and most of the equity stakes, accounts for 34%.

At 31 December 2012, the Group's total economic capital requirements amounted to EUR 64,384 million, while available capital was more than EUR 80,940 million (corresponding to the amount of capital and reserves plus adjustments, without deducting the value of goodwill).

The benefit of diversification envisaged in the economic capital model, including both the intra-risks (assimilated to geographic) as well as inter-risks, amounted to around 25% at the end of 2012.

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.
- Analyse and set prices in 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 risk and business management with the intention of maximising the creation of value, the ultimate aim of the Group's 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 profit used is obtained by making the necessary adjustments to the accounting 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 free return of risk the premium that shareholders demand to invest in our Group. This premium depends essentially on the degree of volatility in the price of the Banco Santander share in relation to the market's performance. The cost of capital in 2012 applied to the Group's various units was 11.237%.

A positive return from an operation or portfolio means it is contributing to the Group's profits, but it is only creating shareholder value when that return exceeds the cost of capital.

The performance of the business units in 2012 in value creation varied, declining in Europe and increasing in the Americas. The Group's results, and thus the RORAC figures and value creation, are conditioned by the weakness of the economic cycle in various Group units in Europe and, particularly, in Spain.

The creation of value and the RORAC for the Group's main business areas are shown below:

RORAC AND BUSINESSES VALUE CREATION

Million euros

Main segments	RORAC	Value creation
Continental Europe	14.2%	526
UK	16.6%	321
Latin America	33.4%	3,414
US	19.6%	347
Total business units	**21.9%**	**4,609**

These figures do not include the losses of the corporate activities area, in which are recorded the extraordinary provisions set aside in 2012, as well as the results of equity stakes, the liquidity buffers and the coverage, among others. The return on risk-adjusted capital (RORAC) of the corporate centre is -15.5%, and the Group's RORAC is 9.6%, a final result that is EUR 1,078 million below the cost of capital.

These figures are clearly determined by the phase of the cycle that some of the Group's units are undergoing, resulting in particular, in higher loan-loss provisions and a final result below the cost of capital used. In order to exclude from these results the impact of the current phase of the cycle, the expected average credit loss of the cycle is considered, instead of the current level of loan-loss provisions. If so, the Group's RORAC would improve to 12.8%, above the cost of capital of 11.34%, with a value creation of EUR 1,033 million, which better reflects the recurrent capacity of the Group's businesses to generate value.

ANNEX

HISTORICAL DATA[(1)] 2002 - 2012

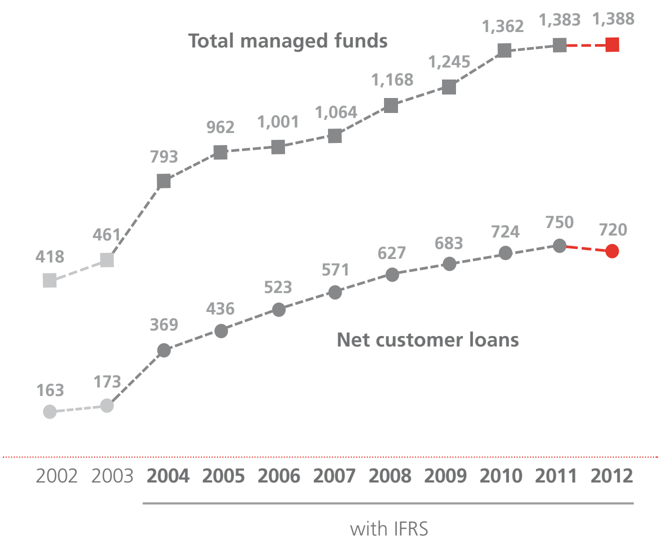
BALANCE SHEET	US$ Mill.	2012 EUR Mill.	2011 EUR Mill.	2010 EUR Mill.	2009 EUR Mill.	2008 EUR Mill.
Total assets	1,675,147	1,269,628	1,251,525	1,217,501	1,110,529	1,049,632
Net customer loans	950,605	720,483	750,100	724,154	682,551	626,888
Customer deposits	826,787	626,639	632,533	616,376	506,976	420,229
Customer funds under management	1,278,482	968,987	984,353	985,269	900,057	826,567
Shareholders' equity [(2)]	106,635	80,821	80,400	75,273	70,006	63,768
Total managed funds	1,831,023	1,387,769	1,382,980	1,362,289	1,245,420	1,168,355

INCOME STATEMENT	US$ Mill.	2012 EUR Mill.	2011 EUR Mill.	2010 EUR Mill.	2009 EUR Mill.	2008 EUR Mill.
Net interest income	38,714	30,147	29,110	27,728	25,140	20,019
Gross income	56,087	43,675	42,754	40,586	38,238	32,624
Net operating income	30,254	23,559	23,195	22,682	22,029	17,807
Profit before taxes	4,557	3,549	7,939	12,052	10,588	10,849
Attributable profit to the Group	2,831	2,205	5,351	8,181	8,943	8,876

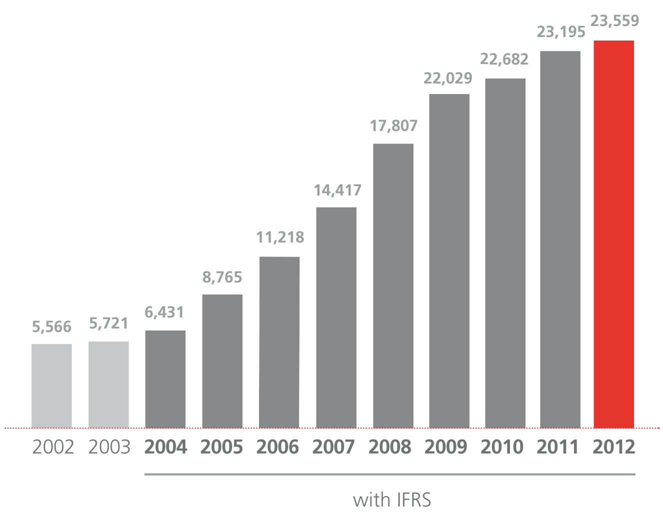
PER SHARE DATA[(3)]	US$	2012 Euros	2011 Euros	2010 Euros	2009 Euros	2008 Euros
Attributable profit to the Group	0.29	0.23	0.60	0.94	1.05	1.22
Dividend	0.79	0.60	0.60	0.60	0.60	0.63
Share price	8.048	6.100	5.870	7.928	11.550	6.750
Market capitalisation (million)	83,068	62,959	50,290	66,033	95,043	53,960

Euro / US$ = 1.3194 (balance sheet) and 1.2842 (income statement)
(1) Figures from 2004 on according to IFRS. In order to make a homogeneous comparison the P&L accounts of previous years have been restated, including the contribution from Santander Consumer USA's and the insurance business in Latin America (included in the transaction with Zurich Seguros) in the "income from the equity accounted method" line
(2) In 2012, estimated data of May 2013 scrip dividend
(3) Figures adjusted to capital increases
(4) Compound Annual Growth Rate

NET CUSTOMER LOANS AND TOTAL MANAGED FUNDS
EUR Billion



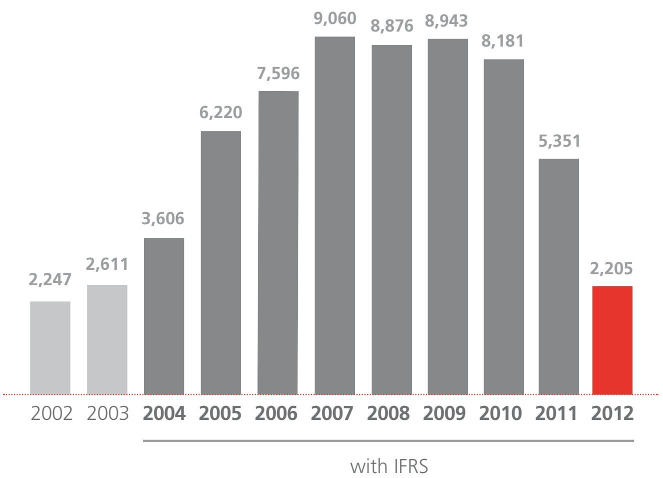
PRE-PROVISION PROFIT (NET OPERATING INCOME)
EUR Million



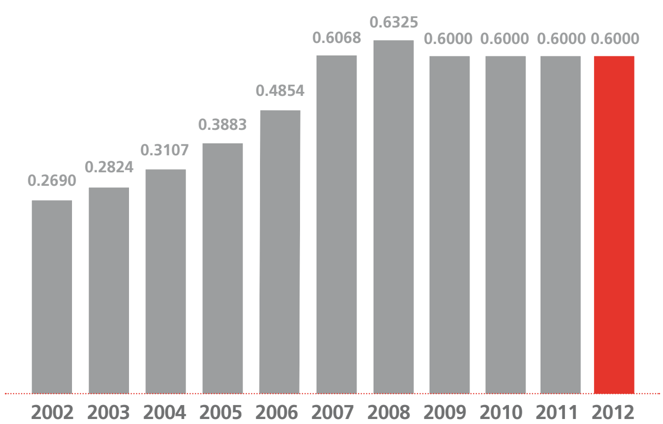
2007	2006	2005	2004	2003	2002	CAGR[4]
EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.	EUR Mill.	(%)
912,915	833,873	809,107	664,486	351,791	324,208	14.6
571,099	523,346	435,829	369,350	172,504	162,973	16.0
355,407	331,223	305,765	283,212	159,336	167,816	14.1
784,872	739,223	651,360	595,380	323,901	304,893	12.3
51,945	40,062	35,841	32,111	18,364	17,594	16.5
1,063,892	1,000,996	961,953	793,001	460,693	417,546	12.8
14,443	12,480	10,659	7,562	7,958	9,359	12.4
26,441	22,333	19,076	13,999	13,128	14,004	12.0
14,417	11,218	8,765	6,431	5,721	5,566	15.5
10,970	8,995	7,661	4,387	4,101	3,509	0.1
9,060	7,596	6,220	3,606	2,611	2,247	(0.2)

2007	2006	2005	2004	2003	2002	CAGR[4]
Euros	Euros	Euros	Euros	Euros	Euros	(%)
1.33	1.13	0.93	0.68	0.51	0.44	(6.5)
0.61	0.49	0.39	0.31	0.28	0.27	8.4
13.790	13.183	10.396	8.512	8.755	6.098	0.0
92,501	88,436	69,735	57,102	44,775	31,185	7.3

ATTRIBUTABLE PROFIT TO THE GROUP
EUR Million



REMUNERATION PER SHARE*
Euros



(*).- Figures adjusted to capital increases.

GENERAL INFORMATION

Banco Santander, S.A.

The parent group of Grupo Santander was established on 21 March 1857 and incorporated in its present form by a public deed executed in Santander, Spain, on 14 January 1875, recorded in the Mercantile Registry of the 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 8 June 1992 and entered into 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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